INTERNATIONAL LABOUR OFFICE

Governing Body

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Programme, Financial and Administrative Section
Programme, Financial and Administrative Segment

PFA

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THIRD ITEM ON THE AGENDA

Update on the headquarters building renovation project

Purpose of the document

This paper provides information on the current status of, and developments with regard to the renovation of the ILO headquarters building since the 331st Session (October–November 2017) of the Governing Body. It also provides a comprehensive update on the estimated cost and potential financing for the unfunded phase 2 of the project, including through the development of vacant ILO land (see draft decision in paragraphs 40–42).

Relevant strategic objective: None.

Main relevant outcome/cross-cutting policy driver: None.

Policy implications: None.

Legal implications: None.

Financial implications: No immediate implications; subject to decisions of the Governing Body.

Follow-up action required: Further progress report in November 2018.

Author unit: Office of the Deputy Director-General for Management and Reform.

Related documents: GB.309/PFA/BS/2(&Corr.); GB.309/PFA/11/1; GB.310/PFA/BS/1; GB.312/PFA/5(&Corr.); GB.313/PFA/INF/2; GB.313/PFA/INF/2(Add.); GB.313/PFA/3/2; GB.315/INS/6/1; GB.316/PFA/3; GB.170/FA/BS/D1/2; GB.317/PFA/2; GB.319/PFA/4; GB.320/PFA/5(Rev.); GB.322/PFA/3; GB.323/PFA/3; GB.325/PFA/1; GB.326/PFA/3; GB.328/PFA/3; GB.329/PFA/3; and GB.331/PFA/1.

Key developments

1. This document continues the regular reporting to the Governing Body on the progress of the renovation of the headquarters building. It also responds to the request for further information on the second phase of the renovation covering the conference centre and lower floors, and provides information on options to finance this phase including the outcome of a study undertaken for the development of vacant ILO land.

2. The Governing Body will recall that the first phase of the renovation project, covering floors 1–11, is being undertaken in the three stages of the southern, middle and northern sections of the building. The renovation of the southern section (stage 1) was completed in 2017 and the work on the middle section (stage 2) is progressing well. A number of office floors are reaching architectural completion and the heating and cooling systems are being tested. It is expected that staff will be able to move back into the middle section during April and May 2018. The ongoing works are on schedule and the deadline for the full completion of floors 1–11 by the end of 2019 is still on target.

3. Site safety has remained high, with only one incident reported in 2017 out of a workforce of over 220 on site. The good relations with the local worksite inspectors have been maintained. The number of complaints from staff relating to disruptions due to the works remains low.

Upcoming works

4. Preparatory works for renovating the northern section of the building (stage 3) will begin shortly with the installation of temporary heating and cooling systems, and scaffolding in and around the northern third of the building. The renovation works will start as soon as the current occupants have been relocated to the renovated offices in the middle section. The LEAN construction management system has proved to be very effective and will be continued in this next stage.

Project budget

5. The total budget for the initial works remains within the limits of the financial plan previously endorsed by the Governing Body, namely some 205 million Swiss francs (CHF). As announced at the 326th Session (March 2016) of the Governing Body, savings being generated by the value engineering will be reallocated to the provision for any unforeseen costs that may arise and to the works on the lower floors that are included in phase 1 of the project to address immediate safety and security issues.

Financial update as at 31 December 2017

	CHF('000)
Approved budget	205 549
Contracts issued	199 441
Expenditure to date	116 236

Renovation of lower floors (phase 2)

6. The initial objective of the renovation project was to address the issue of the ageing installations, for some of which spare parts are no longer available. The full realization of the projected benefits, particularly in respect of reduced energy consumption and improved environmental performance, will depend on the completion of all aspects of the renovation of the entire building as covered by phases 1 and 2 of the project.

7. The Governing Body will recall that phase 2 of the project, the full renovation of the lower floors of the building, including the Conference Centre, is not part of the currently funded scope of works. These currently unfunded works were estimated to cost some CHF120 million [1] and, pending competitive bidding, a margin of estimation error of 15 per cent should be foreseen.

8. It should be recalled that the cost of these works has not been re-estimated since its calculation in July 2014 and that, as the Governing Body was previously informed, their cost will vary depending on the eventual commencement date of this second phase. Any interruption in project activities and any revised sequencing of the works will result in higher costs. As no decision has yet been taken with regard to the funding of the second phase, it is now estimated that an additional cost of between CHF4.7 million and CHF11.1 million should be foreseen. The additional costs are attributable to:

(a) Lost potential savings: the initial estimate was based on unit prices for large renovation projects where quantity discounts could be applied. If project continuity was interrupted, it is unlikely that the quantity discounts would be available for the deferred works. The project may be able to benefit from some of the unit prices of the current project if the works were to continue directly after the completion of the current phase. For any works starting much later than the completion of the current phase, it is estimated that cost would increase by 4 per cent (incremental cost of CHF3.2 million–4.9 million).

(b) Inflation: the assumption for the original estimate was that works would be completed by the end of 2022, and therefore the estimated cost only included inflation up to that date. Inflation forecasts for 2023 and beyond are very limited but an annual rate of 1 per cent has been assumed (incremental cost of CHF0.55 million–1.17 million).

(c) Site costs: site costs were included in the 2014 estimates. They assumed that the project would retain and make use of the current site installations. With the deferral of the works some site installations will be dismantled and would have to be re-installed at a later date and others would have to be maintained for a longer period (incremental cost of CHF120,000–720,000).

(d) Project staff: staff costs were included for the works, for a period of five years, with an assumption of some overlap with the current phase of the project. If the phase 2 works were carried out over a longer period of time, staff costs would increase. In the event that the phase 2 works start much later than the end of the current phase, the project team would be disbanded and a new team would have to be recruited when required. The recruitment period has been estimated at nine months. The loss of project knowledge through the departure of key personnel would be a significant loss and risk for the project. In addition, the renewed procurement activities linked to carrying out phase 2 at a later stage would also impact staffing costs. The procurement process

[1] As reported in GB.326/PFA/3.

would take an additional 12 months from publishing to start of works (incremental cost of CHF200,000–3.3 million).

(e) Engineering: The terms of reference for the phase 2 works will require a full review and updating to take into account the value engineering work carried out in the current phase, to accommodate any revised sequencing of works and to take into account the required tendering needs in line with the new priorities. (incremental cost of CHF600,000–CHF1.1 million).

9. The Office has previously reported to the Governing Body two possible approaches to the works on the lower floors, the costs of which would depend on when the works are carried out.

10. Under the first approach, the Office would proceed with the renovation of the lower floors as initially foreseen and detailed to the Governing Body in March 2016 [2] namely for a period of five years. The works would be carried out in three main stages: the conference centre (southern end), the general services (northern end) and the parking area. The renovation of the conference centre would be further divided into three parts, each estimated to take approximately nine months. The same approach would apply to the general services, with the same time estimates. The parking renovation works could be carried out separately and in parallel with the works mentioned above, one floor at a time, each floor averaging approximately five months duration.

11. The second approach was developed at the request of the Governing Body to identify the highest priority works should full funding not be available. Under this approach the works would proceed sequentially according to the priorities outlined to the Governing Body in November 2016, [3] with the duration of the project extended by an additional four years. The prioritized works can be summarized as follows: [4]

(i) conference centre (CHF32.4 million): (1) renovation of offices around the conference centre; (2) renovation and fire safety code compliance works, in the conference rooms; and (3) renovation of the colonnade;

(ii) other areas (CHF30.1 million): (1) renovation of offices; (2) redistribution and fire compartmentalization of the archive room (R2); (3) replacement of the large bay windows in the restaurant area (R2); and (4) replacement of the glazing for the M3 offices;

(iii) parking (CHF9.4 million): installation of sprinklers, and additional fire compartmentalization and evacuation stairways;

(iv) conference centre (CHF20 million): (1) full or partial renovation of all meeting rooms, excluding furniture; (2) the interpreters' booths renovated to meet agreed ISO standards; and (3) renovation of the library infrastructure and finishes;

[2] GB.326/PFA/3.

[3] GB.328/PFA/3.

[4] The cost estimates do not include the incremental costs resulting from the delayed start date and extended duration.

(v) other areas (CHF26.3 million): (1) full renovation of the general services areas, excluding recently renovated areas; (2) works on the remaining elevators; (3) further treatment of exposed concrete; and (4) renovation of the loading bays, storage facilities and associated logistical areas; and

(vi) Parking (CHF1.8 million): (1) removal of storage areas; (2) increased signage; and (3) replacement of remaining Gerber supports.

12. The Office has analysed the estimated cost impact of the two approaches presented above with two different start dates. The estimated costs and completion dates are set out in the following table:

Commencement	Initial approach	Sequential priorities
At conclusion of phase 1 (2019)	CHF124.7 million End 2024	CHF128.0 million End 2028
Following potential disposal of land (2021)	CHF128.9 million Mid-2027	CHF131.1 million Mid-2031

13. The Office considers that it would be most advantageous to undertake the works as initially foreseen (paragraph 10 above) and commencing as soon as possible after the completion of the current works. This would minimize costs (see the table in paragraph 12), maintain the current momentum, and make the most of the experience and expertise acquired by the existing project team. The Office would re-estimate the cost of the works following guidance from the Governing Body, taking into account current market prices and any emergency works carried out by the Facilities Management Unit in the intervening period.

Financing the next phase

14. The cost of the works on the conference centre and the lower floors (phase 2) had previously been estimated at CHF120 million. As described above that estimate will increase to between CHF124.7 million and CHF131.1 million depending on decisions taken by the Governing Body. No funding currently exists for phase 2 of the project.

15. A number of member States have previously expressed a preference that the renovation project not be financed through additional assessments. As it was not possible in the years since the construction of the building to provide for a capital replacement fund within zero growth budgets, decisions were made by the Organization to dispose of land and divert surpluses towards the funding of phase 1 of the project, avoiding a direct charge on member States.

16. Options for financing phase 2 are:

(a) voluntary contributions;

(b) a supplementary provision in the Programme and Budget;

(c) a commercial loan; and

(d) the development/disposal of vacant ILO land.

(a) Voluntary contributions

17. The Office has developed proposals for seeking voluntary contributions from member States, either as general contributions or linked to the renovation of specific rooms and areas of the building. There have been no indications of interest in providing such contributions. The Office will continue to promote this option, however, experience to date does not provide any evidence that it could cover a significant proportion of the cost of phase 2.

(b) Supplementary budget provision

18. A supplementary provision could be included in the Programme and Budget for 2020–21, 2022–23 and 2024–25 in order to meet the cost of phase 2 of the renovation. Based on the current level of the budget and the cash flow associated with phase 2, the required CHF125 million (US$129 million at the budget rate of exchange) could be distributed over three biennial budgets, representing a 5.6 per cent increase in 2020–21, a 6.7 per cent increase against current levels in 2022–23 decreasing to 4.1 per cent in 2024–25. Such an approach would avoid interest charges and be administratively efficient to implement.

(c) Commercial loan

19. A commercial loan could be obtained for 30 years that would incur interest charges and require reimbursement through provisions in future programme and budgets. For a loan amount of CHF125 million at an interest rate of 2 per cent per annum, the annual repayments would be some CHF5.6 million or $5.8 million at the budget rate of exchange. Certain member States have previously advised the Governing Body of restrictions they have on contributing towards interest payments.

(d) Land development

20. At its 329th Session (March 2017), the Office sought guidance from the Governing Body on the development of a vacant plot of land (plot 4057) adjacent to the ILO headquarters building. The Governing Body was informed of interest expressed by the International School of Geneva and the possibility of commercial development and sale or lease of other parts of the land.

21. An initial study of development options for plot 4057 has now been completed by an independent property advisory firm and in close cooperation with the Swiss authorities. It has identified development options and estimated values of the land. The plot, identified in Appendix I, has an area of 40,498 square metres and currently provides access to the ILO headquarters construction zone, access to a neighbouring property and grazing for horses.

22. Taking into account market demands, local amenity requirements, town planning and construction requirements, development priorities of the local authorities, as well as other known developments in the area, the study has concluded that the optimal use of the land would be principally for residential purposes (81,700 square metres) accompanied by limited commercial services (3,200 square metres) and a single office block for an international organization (6,600 square metres). The reservation and subsequent lease of part of the land for sports use by the International School and wider community has been provisionally incorporated into the potential development.

23. The study also suggests a small change to the boundary line between the plot where the headquarters building is located (3927) and plot 4057 in order to provide a more regular shaped area. The triangle indicated by the dashed-red-line in Appendix I would be transferred from plot 3927 to plot 4057.

24. The current zoning law requires that the development be targeted primarily for international purposes. The authorities have clarified that this does not mean exclusive occupation by international residents and in fact a diversity of occupancy would be preferred within the overall guidelines. Provisional support for the proposed development has been expressed by the local authorities which would be important for the formal zoning approval process.

25. The study identified a preference for the development being undertaken in phases separating the plot into three zones. A phased approach would facilitate the marketing and financing of the development and would also provide options between freehold or leasehold sales of different zones within the development. The areas closest to the ILO building could be left undeveloped until later in the process and would also contain a lower density construction. Appendix II identifies the three proposed development zones and the tentative attribution of space. The attribution is preliminary and only for the purposes of establishing the possible blend of usage and the volumes that could be constructed on the land.

26. The estimated value of the land varies in accordance with the stage in the planning process that a sale is completed and whether the land is sold as freehold property or disposed of under a leasehold arrangement of 99 years. As the Office does not consider that it should take on the additional risk associated with construction, and also in order to accelerate the timeline for realizing value from the property, the estimated valuations have excluded any construction margin. Appendix III illustrates the estimated potential values under the different scenarios. The maximum estimated value under the freehold sale option would be CHF136 million.

27. By way of example, if permits were approved for all three zones the values for leasehold and freehold sales would be approximately CHF67 million and CHF136 million respectively. If the land was disposed of under a leasehold arrangement with planning approval in place and an approved construction permit for zone I only, the value of that zone would be approximately CHF39 million. A leasehold development would also generate an annual rental income of some CHF2.4 million on the entire plot. If that same zone were to be sold as freehold property with planning and permit approval in place, the value would increase to some CHF83 million.

28. The stage of development has a significant impact on the value due to the removal of development risk. The further the Office can progress the project through the zoning and permit approval processes, the less risk there would be for potential investors and consequently the greater the value for the ILO. As can be seen in Appendix III under a freehold sale an approved construction permit on zone I would add a net CHF50 million to the value of the land compared with its estimated value without any planning or building approvals. However, the Office would be required to invest resources in order to progress the project through each phase, and the eventual sale and receipt of the proceeds would be deferred.

29. The next step in this process would be to prepare a local development plan (PLQ) in cooperation with the relevant authorities. A PLQ would involve detailed engineering studies, mobility studies, town planning compliance considerations and reviews of the environmental impact. The process would take some 24 months at an estimated cost of CHF600,000. As mentioned above, an approved PLQ would remove significant risk for potential investors by securing the development potential of the plot. While this cost would be ultimately recovered through the increased sale value, it would require pre-financing. Logically, the proceeds of any sale would be credited to the Building and Accommodation Fund (BAF) and the Office would propose therefore that the Governing Body authorize the pre-financing of the development from the BAF, should regular budget savings not be available. In order to maintain the momentum of the study and capitalise on the acquired knowledge, there would be an advantage in the Office continuing its association with the current consulting firm for this next phase.

30. Subsequent steps in the process would involve architectural competitions and the preparation of construction permit applications. It is estimated that the required investment for this process for the entire plot would be some CHF10 million. The resulting increase in sale value would be approximately CHF30 million under the freehold model. The equivalent investment for the zone identified in Appendix II as zone I, would be around CHF5.6 million, with a corresponding increase in the sale value under the freehold option of CHF17 million compared with the land plus PLQ value. As permits were obtained for other zones, increases in value would result.

31. Finalizing the development proposal of the full site could be expected to occur over a period of some three years. Based on market assessments at that time, decisions would then have to be made on whether a phased release of the different zones was advisable.

32. While supportive of the possible development, representatives of local government involved in such matters have identified a number of issues that would have to be resolved to facilitate the planning approval and ensure the potential value of the land could be optimized. As an international organization the Office enjoys certain exemptions from land planning and development requirements. Clarity is being sought on the applicability and transferability of these exemptions through the various stages of development, leasehold or sale. The authorities have also indicated a need to consider a number of other issues related to land and transport developments in the surrounding area as well as the preservation of historical features of the land. All of these elements would require negotiation with the authorities to ensure the estimated value of the ILO land is not materially reduced.

33. Should the Governing Body decide to proceed with the development of plot 4057, the Office would propose that:

(a) the preparation of a local development plan for the entire site be commenced immediately; and

(b) that the area identified as zone I in Appendix II be considered for freehold sale.

34. Consideration would also need to be given to the financing of the investment required to obtain an approved construction permit. As development of the project planning proceeds it could be possible to negotiate with potential purchasers the pre-financing of certain development costs although this would reduce the ultimate sale value.

35. In light of the considerations described above, any inflow of funds from the sale or disposal of plot 4057 would only be achieved in some 30–36 months at the earliest. Should this be the only source of financing for the completion of the headquarters renovation, the project team and site will have to be demobilized and then re-established once funding is secured. The table in paragraph 12 sets out the estimated costs of phase 2 under different approaches should there be such a delay.

36. In view of the time frame in which funds from the disposal of the land would most likely become available and the cash flow projections for the renovation works, access to bridging finance of approximately CHF70 million would be required if activities were to commence prior to sale arrangements being completed, so as to both maintain project momentum and avoid even further additional costs. Short-term commercial financing would be available and could be reimbursed, including the associated interest costs, from the eventual sale of the land. For illustrative purposes, five-year bridging finance at current interest rates would incur interest charges of some CHF3.5 million.

37. While a number of member States have clearly stated that they were not ready to fund, even partially, the renovation costs, which had been possible with other UN renovation projects, another option for bridging finance could be for member States to pre-finance phase 2 through a special budgetary assessment on the understanding that the net proceeds realised from the land development, would be applied to off-set future regular budget assessments by the same amount so there would be no additional financial burden over time. A supplementary budget could be presented to the 2018 Conference, which if approved would allow planning for the completion of the project to commence immediately thereafter. Alternatively, the Governing Body could express its support in principle for such an initiative and a more developed proposal could be prepared for its next session. If the Governing Body were to then approve the submission of such a proposal to the 2019 Conference, planning could commence on the next phase, maintaining project momentum and minimizing further cost increases.

Considerations

38. The Governing Body's guidance is sought on the following considerations for financing the remaining works on the lower floors:

(a) Should an additional provision be foreseen in future Programmes and Budgets to finance phase 2 of the renovation project?

(b) Should the Office formally explore the possibilities of commercial loan finance?

(c) Should the Office proceed with the development of plot 4057 in order to contribute to the financing of the unfunded elements of the headquarters building renovation project?

(i) Should the development be on the basis of a leasehold or through a freehold sale, or potentially a combination of approaches on the different zones?

(ii) Should the development only be on one or two of the three zones?

(iii) Should the ILO invest resources in the zoning and permit approval stages in order to optimize the final value?

(iv) Could bridging finance be envisaged for pre-financing of the next phase of the renovation through a special assessment on member States?

39. Subject to the guidance received, the following alternative draft decision points are proposed.

Draft decision

40. ***The Governing Body requests the Director-General to include in the next three biennial budgets an additional amount to be assessed on member States to finance phase 2 of the headquarters renovation project;***

or

41. ***The Governing Body authorizes the Director-General to contract a commercial loan to finance phase 2 of the headquarters renovation project and include provisions in future programme and budgets to cover principal and interest payments;***

or

42. ***The Governing Body takes note of the conclusions of the land development study for plot 4057, and:***

(a) authorizes the Office to pursue planning approval for the entire plot as proposed in the study;

(b) approves the use of resources in the Building and Accommodation Fund up to an amount of CHF600,000, to pre-finance the next stage of the development costs;

(c) approves the sale of the plot referred to in Appendix I as plot 4057, on terms to be negotiated by the Director-General; and

either

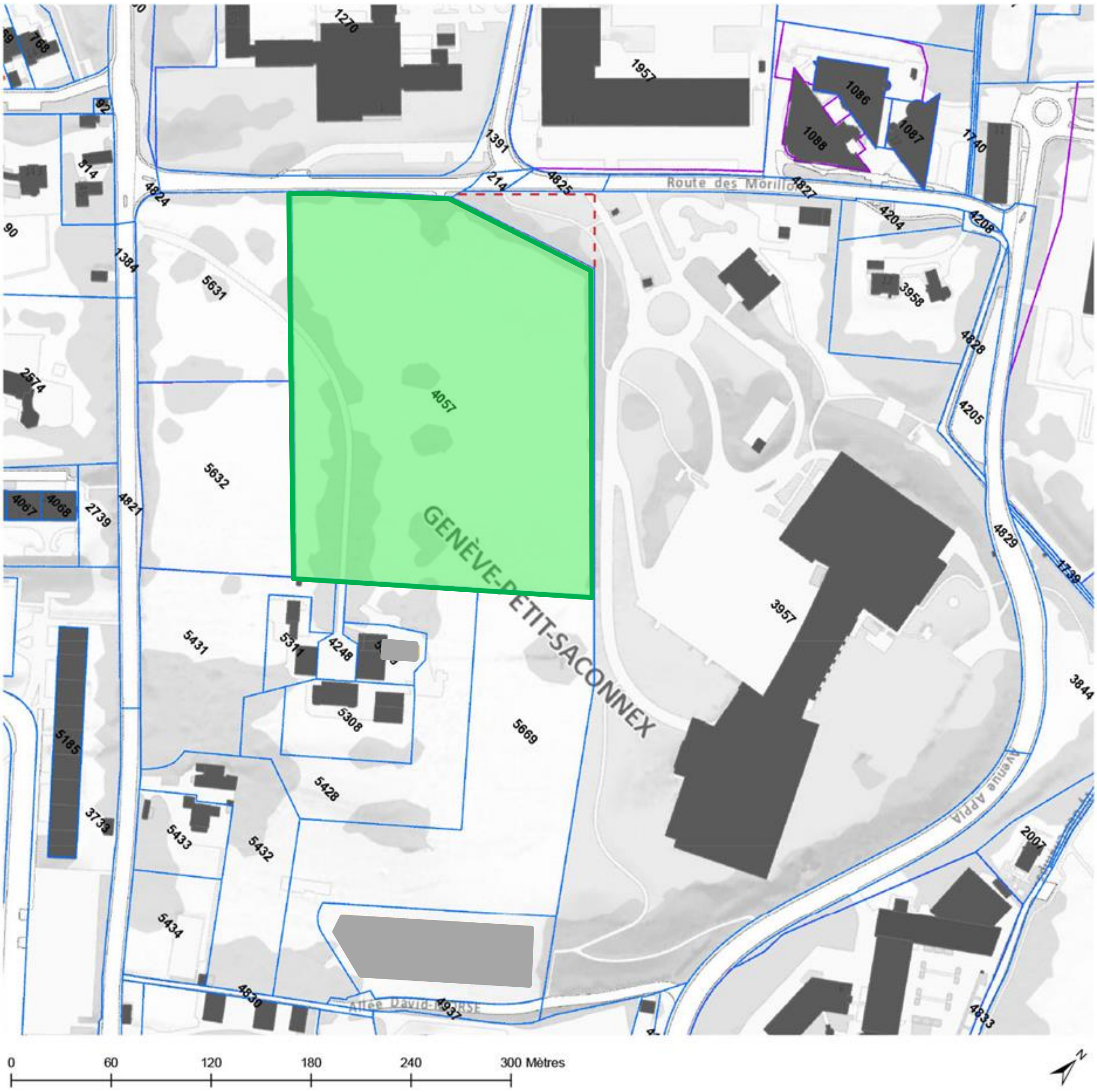
(d) requests the Director-General to submit to the Governing Body at its 334th Session a proposed supplementary budget for the pre-financing of the next phase of the headquarters renovation with the net proceeds realized from the land development used to offset future regular budget assessments by the same amount;

or

(e) decides that phase 2 of the project should be deferred until the arrangements for the sale of plot 4057 have secured sufficient income to re-commence the project.

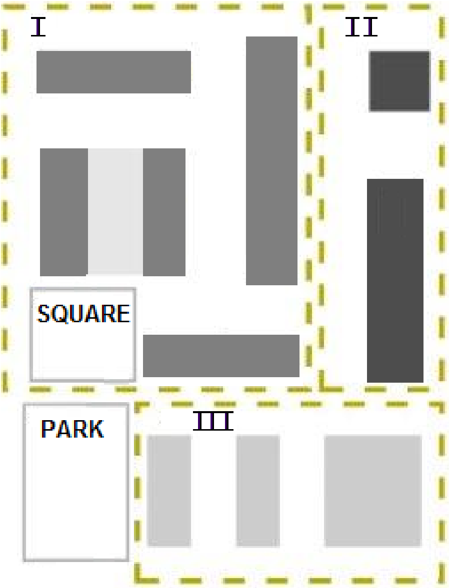
Appendix I

Overview of ILO land holdings and adjacent sites

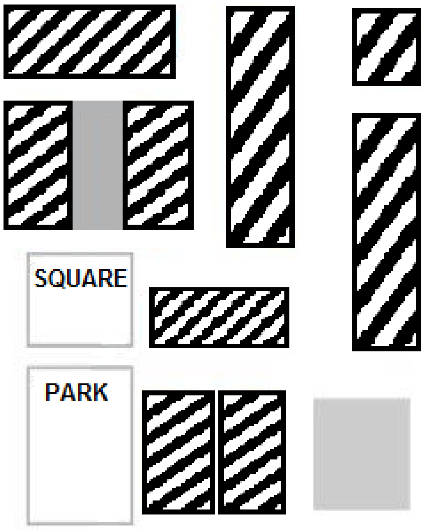


Appendix II

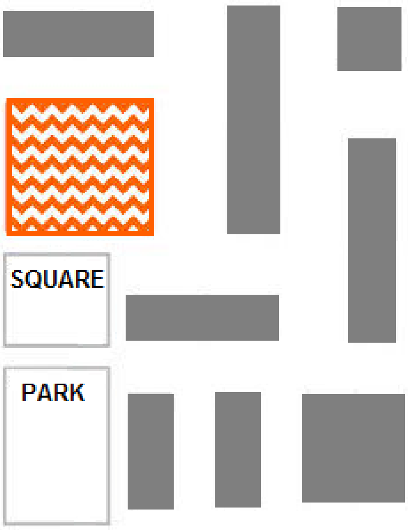
Proposed development zones and attribution



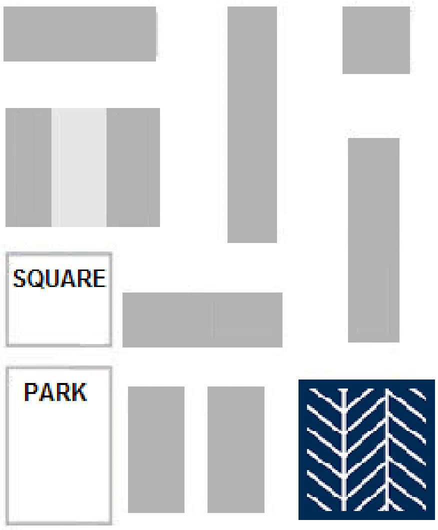
Zoning



Residential



Commercial

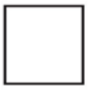
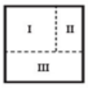


International Organization

Appendix III

Indicative sale values and investment costs

SUMMARY TABLE OPTIONS

OPTION	INVESTMENT REQUIRED	SALE VALUE (Gross)* Leasehold (with annual income)	SALE VALUE (Gross)* Freehold (sale before construction)
Land 	**175,000** *Transaction fee* *0*	**0** Annual income 0	**≤ 52,900,000*** Full price paid upon the grant of the permit
Land + PLQ 	**600,000** *Transaction fee* *810,000*	**0** Annual income *once buildings delivered*	**107,000,000**** Price depending on sales agreement.
All Zones + Permit 	**10,070,000** *Transaction fee* *860,000*	**66,800,000** Annual income 2,470,000 *once buildings delivered*	**136,100,000** *Land price included above* *52,900,000*
Zone I + Permit 	**5,570,000** *Transaction fee* *700,000*	**39,000,000** Annual income 1,490,000 *once buildings delivered*	**82,800,000***** *Land price included above* *32,300,000*
Zone II + Permit 	**2,600,000** *Transaction fee* *330,000*	**17,300,000** Annual income 580,000 *once buildings delivered*	**32,800,000***** *Land price included above* *12,200,000*
Zone III + Permit 	**1,900,000** *Transaction fee* *270,000*	**10,500,000** Annual income 400,000 *once buildings delivered*	**20,500,000***** *Land price included above* *8,400,000*

* Cantonal prescribed rates; ** Applying recent ILO sale values; *** Applying market estimates once the buildings are delivered