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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 325th Session of the Governing Body in November 2015. It also provides information on the currently out-of-scope works and financing options.

Relevant strategic objective: None.

Policy implications: None.

Legal implications: None.

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

Follow-up action required: Further report in November 2016.

Author unit: Headquarters Building Renovation Project (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.315/6/1; 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; and GB.325/PFA/1.

1. The building renovation works started in late March 2015 with the site installations and are advancing at a steady pace, on track for completion in 2019. This report summarizes progress and brings to the Governing Body's attention other related issues where the guidance provided will facilitate planning by the Office, in accordance with the Governing Body's decision at its 325th Session (November 2015).¹

Key developments

2. The dismantling work and the asbestos removal has been completed on the southern third of the main building (floors 1–11). Refitting works commenced on 4 January 2016 with fire protection being applied to the underside of the concrete slabs, and with the construction of standard office mock-ups.
3. Emphasis has been given to reviewing all the planned proposed works with the management contractor before placing orders and starting works on site. This has generated important savings and will simplify some of the work execution. The Swiss authorities have supported this process, in granting speedy approval on some of the design and material alternatives. Such reviews will continue throughout the construction design, until all contracts are awarded.
4. The worksite has been clearly and physically segregated from the operational parts of the building with sound dampening and “ninety minutes” fire proof walls. Initial interference from the worksite activities has subsided.
5. Some 150 staff participated in organized worksite visits to witness the works progress and the asbestos removal activities. Feedback received following the visits was positive.
6. As part of its continuing audit plan for the project, the Internal Audit and Oversight Office engaged an independent specialized firm to audit the project. The audit results, received in January 2016, were positive and will be included in the Chief Internal Auditor's Report to the Governing Body on his activities for 2016. The audit report noted in particular that “The chosen form of contract is well suited for large renovation projects like the ILO headquarters. The open book approach ensures transparency and control over the whole project, while the maximum guaranteed price gives security about the overall costs and reduces risk. Additionally, including a clause of shared savings encourages the management contractor to actively perform value engineering and create added value for both the ILO and the contractor through optimizing costs”.

Upcoming works

7. Mechanical, electrical and plumbing works will start shortly and will be closely followed by the renovation of the façade.
8. The renovation of the southern third of the building will be completed and staff will be relocated by the end of 2016. The Office will be actively planning to accomplish the moves into the renovated premises as quickly and as efficiently as possible, to enable the renovation of the middle third to continue without undue delay. Planning of the latter will begin in the second quarter of this year.

¹ GB.325/PV/Draft, para. 649.

Project budget

9. The total budget remains within the limits of the financial plan previously endorsed by the Governing Body, namely, some 205 million Swiss francs (CHF). Savings being generated by the design reviews will be reallocated to the provision for unforeseen costs and to the partial renovation of the lower floors.

Financial update as at 31 December 2015

	CHF('000)
Approved budget	205 549
Contracts issued	197 094
Expenditure to date	42 848

Renovation of lower floors

10. The Governing Body will recall that at its November 2014 session,² the different stages of the works were described. The first phase comprised the renovation of the main building (ongoing), while the work to be executed on the lower floors would be reassessed and then carried out, depending on the available funds. However, this would not be done until the first third of the main building had been renovated. The limited work on the lower floors currently foreseen within the CHF205.5 million budget available, is described in the paper submitted to the March 2015 session,³ namely: installation of insulated glass in the large bay windows in the conference rooms and incorporation of emergency exits to ensure that the ILO meets the requirements.
11. The design work and the terms of reference for the complete renovation of the lower floors, have been finished, together with preliminary cost estimates. The documents are ready to be dispatched for tendering, once the financing and scheduling have been defined.
12. In order to minimize the impact of the renovation works of the lower floors on the Office's operations, the work will be done in three main phases: the conference centre (southern end), the general services (northern end) and the parking area. The renovation of the conference centre will be further divided into three parts, each estimated to take approximately nine months. The same approach is planned for 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. Given the need to maximize the operational capacity during the renovation and minimize any costs of renting external facilities, the works have been provisionally planned over a five-year period.

² GB.322/PFA/3.

³ GB.323/PFA/3.

13. The remaining renovation works⁴ are described below:

(a) Conference centre

- (i) full renovation of rooms II, III, IV, V, VIII, IX and Governing Body, excluding furniture but including all lighting, air handling units and building management controls;
- (ii) the interpreters' booths in the abovementioned conference rooms will be widened and renovated to meet agreed ISO-based standards;
- (iii) renovation of the colonnade (replace single glazed windows with double glazing and update lighting);
- (iv) renovation of offices, in keeping with safety, comfort and quality standards defined for the main building;
- (v) renovation of the library infrastructure and finishes; and
- (vi) renovation and fire safety code compliance works, other than the large bay window emergency exits, in the conference rooms;

(b) General services

- (i) full renovation of the general services areas, excluding the restaurant and the recently renovated areas included in the HSU–DCOMM project (offices on R1 and M3, and the medical services on R3);
- (ii) replacement of the glazing for the M3 offices;
- (iii) replacement of the large bay windows in the restaurant area (R2);
- (iv) works on the remaining elevators;
- (v) further treatment of exposed concrete;
- (vi) redistribution and fire compartmentalization of the archive room (R2);
- (vii) renovation of offices, in keeping with safety, and quality standards defined for the main building; and
- (viii) renovation of the loading bays, storage facilities and associated logistical areas in keeping with necessary safety and quality standards;

(c) Parking

- (i) implementation of code-compliant fire safety in the car parks;

⁴ As reported in GB.320/PFA/5(Rev.), there is no design or concept for the “cinema” room on R2, which remains out of scope of the renovation project.

- (ii) removal of storage areas;
 - (iii) increased signage;
 - (iv) installation of sprinklers;
 - (v) additional fire compartmentalization;
 - (vi) additional evacuation stairways; and
 - (vii) replacement of remaining Gerber supports.
- 14.** Capacity to undertake these works will be reviewed as funding becomes available. Any urgent works will have to be financed to the extent possible from the maintenance provisions in the regular budget, as has been done recently for the replacement of the outdated electrical substations. The Governing Body will recall that it had raised concerns about the non-renovation of the latter during its 320th Session (March 2014).⁵ The Office has since addressed the issue and has changed two of the three substations, with the final one scheduled to be renovated in May 2016.
- 15.** As stated in March 2015, there would clearly be advantages and financial benefit if all renovation work could be completed without interruption and the subsequent remobilization requirements. In the event that the renovation of the lower floors were to commence much later than the end of the current works, this lack of continuity would lead to additional costs for the re-installation of the worksite infrastructure, for the creation of a new project management team and for the tendering of the renovation works.

Land sales and financing

- 16.** An agreement has been reached with the State of Geneva on the relinquishment of the leasehold land located on the Route de Ferney (Plot No. 3924). This plot was leased for 99 years to the ILO in 1975 to accommodate future needs of the Office and under the terms of the lease could not be used for other purposes. It will be recalled that the Governing Body decided at its 301st Session (March 2008)⁶ that this non-strategic plot could be disposed of in order to generate resources for the headquarters building renovation project.
- 17.** The agreement reached with the State of Geneva was that the Office would relinquish its leasehold on the property and in return would receive freehold title to one half of the property to be sold to the Hans Wilsdorf Foundation at market price. The Foundation will make the property available to the Graduate Institute of International Studies for the construction of a student residence.
- 18.** The result of this agreement will be sales proceeds of CHF28 million which will be credited to the renovation project. While this amount is lower than estimates made in 2010, it does reflect current market prices confirmed by different independent valuations and other offers received. The final value is less than that previously anticipated by the Office as the initial estimates had assumed a larger area of land would be granted as freehold property in exchange for the early relinquishment of the leasehold. Given the terms of the leasehold, the Office considers the final agreement to be a fair compensation.

⁵ GB.320/PV.

⁶ GB.301/PFA/10.

19. The disposition of Plot No. 3924 and the Avenue Appia sale (Plot No. 3844) reported to the Governing Body in November 2015, results in the following financing status for the approved budget level of CHF205.5 million:

	CHF
Building and Accommodation Fund where amounts had been reserved from previous surpluses and net premium balances	70 800 000
Transfers from the "long-term" reserve for future major renovations pertaining to the headquarters building	8 300 000
The sale or disposal of two plots of land	54 000 000
The use of rental income from additional tenable space following the renovation to service a loan	
Loan value	70 000 000
Subtotal	203 100 000
Shortfall	2 400 000
Total	205 500 000

20. In November 2010, the Governing Body approved the use of a portion of the biennial provision included in Part IV of the Programme and Budget for the Building and Accommodation Fund long-term financing reserve, as a contribution towards the headquarters building renovation.⁷ The biennial contribution relating to non-headquarters properties was fully protected, but as the provision for the headquarters building arguably need only commence once the renovations were completed, the headquarters portion of this provision was transferred to the project through 31 December 2015. The forecasted completion date for the current phase of the renovations is late 2019. Following this same methodology, the headquarters portion of the budgetary allocation to the Building and Accommodation Fund long-term financing reserve for 2016–17 and 2018–19 totalling CHF2.9 million, in current terms, could be transferred to the project with no impact on long-term needs but offsetting the shortfall due to the reduced sale proceeds.
21. At its 325th Session (November 2015), the Governing Body requested the Office to propose methods of financing that would allow the completion of the renovation including the works that had been removed from scope due to a lack of funding. These works, described in paragraphs 9 to 14 of this paper, are estimated to cost an additional CHF120 million. The appendix to this document contains a summary of the works and their estimated cost. In providing these estimates the Project Pilot has advised that pending competitive bidding a margin of estimation error of more or less 15 per cent should be foreseen.
22. The principal reasons for the increase in the cost estimate compared with that provided in November 2014⁸ is the need to extend the project infrastructure and project management to accommodate the additional work instead of doing it in the context of the current phase as already described in paragraph 15 above. The final amount would depend largely on how soon this second phase could begin so as to minimize the extension of the project.

⁷ GB.309/PFA/BS/2(&Corr.), paras 39 and 40.

⁸ GB.322/PFA/3, para. 11.

23. Options for financing the balance of the works include:

(a) A commercial loan

24. The loan finance for the initial phase of the project was limited to the amount that it was estimated could be financed from rental income which would avoid any charge on member States. It would be possible to negotiate a structured and syndicated loan on the international financial market with a term of 25 to 30 years. Such an arrangement would require incremental provisions in the regular budget in order to cover the amortization and interest payments. While it might be possible in the current economic environment to arrange short-term financing at a zero or close to zero interest rate, amortization payments would still be required and refinancing would have to be foreseen in the medium term.

25. A 30-year loan of CHF120 million at an indicative interest rate of 1 per cent per annum would require annual repayments (interest and principal) of CHF4.6 million.

(b) Voluntary contributions

26. Voluntary contributions could be sought from member States, regional groupings or foundations. Such contributions could be associated with naming rights for conference rooms or other means of recognition. While no formal solicitation of such contributions has been initiated, previous proposals of such an option have not stimulated any expressions of interest.

27. Being a renovation project as opposed to a new construction the opportunities for in-kind contributions (materials and furnishings) are less applicable. Direct contributions towards the costs of refurbishing either generally or of specific areas would be of greater assistance to the financing of the project. Any such contributions would represent savings to the Organization and it would be appropriate that they be acknowledged. The Office is preparing a range of possible donation packages relating to the refurbishment of individual meeting rooms and the surrounding public areas. These packages will be shared with member States to assess whether, as has been the case in other United Nations (UN) organizations, voluntary financial support may be considered. Should the Governing Body indicate it were to support such an option, a procedure would be established to provide for approval of the terms of any proposed donations by the Officers of the Governing Body.

(c) Assessment on member States

28. Major renovation projects within the UN community have in recent years been funded through special assessments on member States (for example the UN secretariat building and the UN Office in Geneva). This has avoided the redeployment of resources from operational programmes and also avoided the impediment that certain member States have with respect to interest payments on loans. It is administratively efficient to implement. In the case of the ILO, almost two-thirds of the total project cost has been financed without direct assessment on member States through the use of accumulated reserves and the planned rental of office space to cover interest payments.

29. A decision to finance the balance of the works in this way could be implemented by a single additional assessment based on the latest scale of assessments or through a series of assessments over a five-year period based on the provisional workplan for this phase of the project. Provisionally these assessments would amount to:

Year of contribution (with a start date of 1 January 2018)	Amount in CHF
2018	24 900 000
2019	24 700 000
2020	29 600 000
2021	28 300 000
2022	12 500 000
Total	120 000 000

30. In view of the cost of engaging expert consultants to undertake further reviews or to renew the previously provided estimated costs, the Office seeks the views of the Governing Body on the possible financing options prior to undertaking additional expenditure.

Draft decision

31. The Governing Body:

- (a) takes note of the progress report regarding the headquarters renovation project;*
- (b) approves the use by the headquarters renovation project of the provisions under Part IV of the regular budget in respect of the long-term financing reserve for the headquarters building pending completion of the renovation; and*
- (c) requests the Director-General to prepare and circulate to member States a list of potential donation packages.*

Appendix

Summary of the phase works and their estimated value (CHF '000)

Area	Construction	Site installation	Project management	Unforeseen and inflation	Total
Conference centre	43 400	1 100	3 600	4 300	52 400
General services	46 500	1 400	3 800	4 700	56 400
Parking	8 900	800	600	900	11 200
Total	98 800	3 300	8 000	9 900	120 000