



## Governing Body

334th Session, Geneva, 25 October–8 November 2018

GB.334/PFA/2

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

**PFA**

**Date:** 9 October 2018

**Original:** English

### SECOND ITEM ON THE AGENDA

## Update on the headquarters building renovation project

#### Purpose of the document

This paper provides information on the current status of phase 1 of the renovation of the ILO headquarters. It also provides an update on developments related to the vacant ILO land previously recommended for sale or lease and renews a proposal for financing phase 2 of the renovation.

**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 March 2019.

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

**Related documents:** GB.332/PFA/3; GB.331/PFA/1; GB.329/PFA/3(Add.).



1. Following a further discussion on financing options and the possible development of vacant ILO owned property during its 332nd (March 2018) Session, the Governing Body decided to defer further decisions on the financing of phase 2 of the renovation to its current session. This document provides a brief update on the ongoing renovation (phase 1) and on the potential development and/or sale of ILO land.

## Key developments (phase 1)

2. The renovation of the middle third of the building was completed on schedule and the relocation of staff into the renovated area was undertaken during March and April 2018. The demolition and asbestos removal in the northern third have also been completed and the refurbishment works have accelerated since September 2018. The ongoing works are on schedule and the planned completion of floors 1–11 by the end of 2019 is still on target.
3. Site safety has remained high, with only three minor accidents reported this year. The good relations with the local worksite inspectors have also been maintained. At the request of one union, the Office is discussing limiting the number of agency hire personnel on the worksite with the various stakeholders.
4. Avoiding disruption to normal Office activities due to the works continues to be a priority, and the number of complaints from staff remains low.

## Project budget

5. The total budget for phase 1 remains within the limits of the financial plan previously endorsed by the Governing Body, namely, some 205 million Swiss francs (CHF). Any savings generated during this phase will be reallocated to the provision for unforeseen costs and to the partial renovation of the lower floors:

### Financial update, as at 31 August 2018

	CHF('000)
Approved budget	205 549
Contracts issued	199 086
Expenditure to date	143 932

## Renovation of the lower floors (phase 2)

6. The Governing Body will recall that the full renovation of the lower floors of the building (phase 2), including the Conference Centre, is not within the currently funded scope of works.<sup>1</sup> The renovation of the lower floors would address the non-compliance of the conference area with current fire safety standards as well as environmental and other health and safety requirements. It would also enable obsolete equipment and infrastructure to be renewed in order to provide another 40 years of service. As has previously been reported to the Governing Body, these unfunded works have an estimated cost of between CHF125 million and CHF132 million. The final cost will depend on the commencement date and sequencing of the works with any loss of project continuity increasing costs and

<sup>1</sup> A more complete description of the scope of phase 2 was provided in [GB.332/PFA/3](#).

project risk significantly. Pending competitive bidding, a margin of error of 15 per cent should be foreseen in cost estimations.

7. At the request of the Governing Body an informal consultation with members of the Governing Body was organized on 15 May 2018 to review the background and scope of phase 2 of the renovation project. A visit to areas of the building included in this phase was also provided as part of the consultative process.

## Financing (phase 2)

8. The documentation presented to the Governing Body in March 2018<sup>2</sup> provided inter alia results of independent studies and valuations relating to the development potential of vacant land adjacent to the headquarters building (plot 4057). Options were presented relating to the development and sale, with the Governing Body concluding that further studies should be undertaken. Financing was approved to fund the next round of studies that would clarify development options and lead to the issuance of zoning approval through a local development plan (PLQ).
9. Since the Governing Body discussion, further consultations have taken place with the representatives of the host country to clarify the concerns expressed by its representatives. The Office has been informed that zoning approval for the ILO land would take some five years and that no fast tracking of this process should be anticipated, in particular due to the land's current classification as being principally for international purposes. The Office has also been advised that the cantonal authorities consider it premature to launch a zoning approval (PLQ) process at this time. The Office's earlier proposals had been based on independent advice from industry experts as well as observations relating to similar land previously disposed of by the Office. This recent advice has introduced uncertainty as to the opportunities for the Office to generate the required financing within an appropriate time frame.
10. The estimated valuations for plot 4057 provided to the Governing Body in March 2018 included scenarios for the sale of bare land and a sale at various stages of the zoning approval. It also included estimates reflecting the most recent sale of other ILO land (plot 5632 – ex-3924) which was informed by a valuation jointly commissioned by the ILO and the cantonal authorities in 2014. The Office has received unsolicited approaches from private investors interested in the development options for the land, indicating that, in their view, the options and the estimated value are, subject to zoning approval, within realistic expectations.
11. Following the consultations with the representatives of the host country referred to in paragraph 9 and subsequent correspondence from the Office endeavouring to move this matter forward, on 10 July 2018, the Office received letters from the host country representative and the Geneva cantonal authorities recalling the restrictions placed on the land by the Geneva Parliament and at the same time expressing an interest in purchasing the land. An initial meeting has taken place between the Director-General and the President of the Cantonal Government at which the joint interest in exploring possible sale and purchase of the land was confirmed. A further meeting at a technical level is scheduled between the Office and the cantonal representatives to make progress on this possible solution for financing phase 2 of the renovation project. The Governing Body will be informed orally of any further developments stemming from such contacts.

<sup>2</sup> GB.332/PFA/3, para. 18.

12. In light of the advice received from the cantonal authorities on the probable duration of any approval process, and their interest in acquiring the land, the situation presented to the Governing Body at its 332nd (March 2018) Session has evolved considerably. Although no formal offers have been received from the canton or other interested parties, it is clear that there is strong interest in the ILO land. It is, however, also apparent that the zoning approval may not be as expeditious as had previously been considered possible. It is therefore unclear whether, when and to what extent funds arising from the development of ILO land would be available to fund phase 2.
13. Given these uncertainties and the risk of losing project continuity, the Office is resubmitting to the Governing Body the proposal that a supplementary provision be included in future budgets to ensure the completion of the project without further delay and avoiding the risks of further cost escalation, loss of key project personnel and project momentum.
14. As reported in March 2018<sup>3</sup> a supplementary provision could be included in the Programme and Budgets 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 current 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.
15. While a number of member States have stated that they were not ready to fund, even partially, the renovation costs, despite this being possible with other UN renovation projects, this potential provision in the budget could be considered bridging finance with the net proceeds realized from any future land development, should that be possible, being applied to off-set future regular budget assessments by the same amount. In so doing there would be no additional financial burden over time. Should the Governing Body express its support in principle for such an initiative, a more developed proposal could be prepared for discussion together with the Director-General's Proposals for the Programme and Budget 2020–21 in March 2019. If the Governing Body were to then approve the submission of such a proposal to the 2019 Conference, planning could immediately commence on the next phase, maintaining project momentum and minimizing further cost increases.
16. The Office reiterates that once agreement in principle is obtained to finance and proceed with the completion of phase 2 of the project, a full re-costing and bidding procedure would commence in order to have confirmed and updated costing.
17. With respect to the other financing options proposed in the March 2018 document, no offers of voluntary funding have been received and the commercial loan option has not been pursued due to restrictions some member States have relating to interest payments. Should zoning approval for the development of the ILO land not be obtained or the sale value be considerably less than the estimated value, and/or member States not be in a position to contribute to the cost of the renovation, completion of the renovation of the building will not be possible.

<sup>3</sup> GB.332/PFA/3, para. 18.

## Other matters

18. Three other related matters are brought to the Governing Body's attention:

- (a) At its March 2017 session the Governing Body had approved the sale of a small portion of land to facilitate access to a neighbouring property.<sup>4</sup> This sale has now been completed and the proceeds of CHF250,000 have been credited to the Building and Accommodation Fund to fund subsequent phases of the renovation of the headquarters building.
- (b) The proposal for the design and construction of a secure perimeter for the headquarters building meeting United Nations Department of Safety and Security (UNDSS) requirements, as referred to the November 2017 Governing Body, has now been endorsed by the Swiss authorities. The estimated cost of the proposal is some CHF25 million which includes infrastructure and technical elements. The next steps for this project will be to undertake detailed project specifications and planning, identify funding and cost sharing arrangements as well as any phased implementation possibilities.
- (c) The Office has received a claim from a development consultant for payment of a commission of approximately CHF500,000 from the earlier transactions on plot 3924. The ILO has strongly rejected this claim, a position supported by independent expert legal advice. The Director-General has waived the ILO immunities and privileges to enable this matter to be dealt by the Swiss justice system.

## Draft decision

19. *The Governing Body requested the Director-General to:*

- (a) 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;*
- (b) pursue discussions with the local authorities and other interested parties on the possible sale of plot 4057;*
- (c) provide the Governing Body with a progress report on both the ongoing construction work and the possibilities for development and sale of plot 4057 at its next session.*

<sup>4</sup> GB.329/PFA/3(Add.).