



FIRST ITEM ON THE AGENDA

Financing the renovation and modernization of the ILO headquarters building

1. The Subcommittee was advised in November 2006¹ of the estimated cost of the renovation needs of the headquarters building following a technical study requested by the Governing Body. The study concluded that, although the building was structurally sound and well maintained, some of the technical installations, equipment and materials had deteriorated, come to the end of their useful lives or would require replacement for reasons of safety and energy efficiency. The proposed renovation would apply the most recent environmental and safety standards to the headquarters building, which was constructed in the early 1970s.
2. The estimate provided by the independent consultant as a result of the study conducted almost two years ago was 119.45 million Swiss francs. This estimate made no provision for inflation, nor did it provide for an Office support and management team, a fundamental part of any such project. The project was foreseen to last for a period of ten years and would avoid the need to temporarily close the ILO building and relocate staff to temporary premises. There could, however, be a need to conduct certain ILO meetings at alternative locations for periods of the renovation work. No provision has been made for these costs as, until the master plan is developed, it will not be possible to identify the exact need.
3. In order to obtain confirmation of the estimate, the Office requested a review of the Techdata SA proposal and estimate by a firm of architects experienced in projects of a similar nature. The review concluded that the analysis, proposals and cost estimate with its various assumptions were sound. The firm considered that there could be possibilities to reduce the duration of the project. However, this too could only be determined once the master plan was further developed. The master plan would develop options on the use of “swing space” that could shorten the duration of the project. The firm did propose a number of additional environmentally friendly and energy efficient options for consideration by the Office. These additional proposals were estimated to cost 21 million Swiss francs, including provisions for project and contract management.
4. The Office also undertook consultations with representatives from the United Nations Capital Master Plan in New York as well as with staff from UNESCO in order to benefit

¹ GB.297/PFA/BS/3(& Corr.).

from their experience with recent and ongoing major renovation projects. The UNESCO project is more comparable to the scale and nature of the proposed ILO renovations. One important lesson stressed by both the UN and UNESCO is the cost of delaying key decisions in preparing for, and carrying out, building works in view of the fact that any delayed decision inevitably increased the total cost.

5. As is common with any large-scale construction project, inflationary pressures will increase costs throughout the life of the project. Between 1999 and October 2007, the Geneva construction index has increased by an average of 3.6 per cent per annum; since 2005, by 6 per cent per annum; and in 2007 by 6.4 per cent. For the purposes of this estimate an inflation rate of 4 per cent per annum has been assumed which results in a provision of 35.2 million Swiss francs.
6. There will be a need for an internal team to interface between the external project management and the Office. A small internal project management team has been provided for, consisting of three Professional officials and one support official. This team will include legal, procurement and engineering expertise. The staff cost of such a team is estimated at 6.1 million Swiss francs. Non-staff costs will be absorbed by the regular budget.
7. The total cost of the project, including the enhanced environmental proposals now totals 181.7 million Swiss francs.
8. The Governing Body has already approved an amount of 7.7 million Swiss francs from the Building and Accommodation Fund to finance the Phase I of the renovation project ² leaving a balance of 174.0 million Swiss francs to be financed.
9. The following elements are proposed as initial contributions to the overall strategy for financing the renovation of the headquarters building.

	Swiss francs (million)
Net premium earned during 2006–07 ³	32.0
50 per cent of the income surplus from the 2006–07 financial period ⁴	18.0
Sale of the leasehold on the land owned by the Swiss authorities – estimated range of sale value	40.0–60.0

10. Subject to the Governing Body and the International Labour Conference agreeing to these proposals, the unfunded balance of 84.0 million Swiss francs, less estimated interest earned on temporarily surplus project funds of 3.9 million Swiss francs, i.e. 80.1 million Swiss francs, would be required. ⁵ These funds would be needed by the sixth year of the renovation project, i.e. the 2012–13 biennium, should the project be approved in 2008. Additional funding would be required from either member States or through a commercial loan.

² GB.297/11/1.

³ See GB.301/PFA/1/2.

⁴ See GB.301/PFA/1/3.

⁵ These amounts, and all subsequent calculations in this paper, are based on an estimated sale value of 40.0 million Swiss francs which is at the lower end of the range referred to in paragraph 9 above.

11. The options for funding this shortfall are:

- (a) Temporary additional assessments on member States in accordance with the scale of assessments as the funding need arises.

The current estimated schedule for such temporary additional assessments is:

Biennium	Amount (million Swiss francs)	Percentage of total current assessments
2012–13	4,864	0.6
2014–15	48,590	6.2
2016–17	25,789	3.3
2018-19	<u>904</u>	0.1
	<u>80,147</u>	

- (b) An annual temporary additional assessment on member States commencing in 2010 of 8.9 million Swiss francs per year, thus spreading the additional assessment over an extended period of nine years; or
- (c) A commercial loan.

Assuming a 30-year term and based on current interest rates, the annual cost of interest and principal repayments for a loan of 80.1 million Swiss francs, would be 5.3 million Swiss francs ⁶ (a 15-year loan would require annual repayments of 7.4 million Swiss francs). A competitive process would be undertaken to ensure the most favourable terms were obtained for any commercial loan. Provision would have to be made in future budgets for these repayments.

The amount and terms of all three options could be adapted in the light of consultations being conducted with authorities of the host country, Switzerland, on any assistance that may be provided towards the renovation of the building. In view of these ongoing consultations, it is premature to anticipate their outcome.

- (d) Voluntary public or private contributions or not-for-profit partnerships and contributions in kind through public–private partnerships: The Governing Body could review the principle of such contributions while the precise modalities need to be further explored.

12. The calculations used to determine the above estimates would be refined during the development of the master plan for the project. This would involve a detailed specification of the work to be achieved, its scheduling and more precise costing. As mentioned in the original Techdata SA study, the estimates, given the nature of the study, are considered to be within +/- 20 per cent. Greater precision is not possible without commencing the next phase of the project.

13. The Subcommittee may wish to note that the Director-General has received a letter (dated 21 February 2008) from His Excellency Ambassador Juan Antonio Fernandez of the Permanent Mission of Cuba, in his capacity as Chair of the Non-Aligned Movement in Geneva, expressing an interest in land held by the ILO to build diplomatic missions.

⁶ Assuming progressive drawdowns this is the estimated maximum additional payment (interest and principal) given current interest rates.

14. The Office is of the view that any arrangements agreed to relating to the renovation of the headquarters building should not deter it from progressively achieving the objective of providing 1 per cent of the value of all ILO properties in future budgets to accumulate adequate reserves to finance similar future renovation needs globally. This matter will be addressed in the forthcoming Strategic Policy Framework.⁷
15. The Techdata SA study proposed that the renovation project be undertaken in three overlapping phases over a period of ten years. Phase I (2007–09) provided for specified urgent repairs, preparation of the master plan and bidding and contract administration processes for Phase II (2009–13) and Phase III (2009–16).

Funding for the urgent works under Phase I was approved by the Governing Body in November 2006. Progress in relation to these specified repairs is reported in GB.301/PFA/BS/2. These works should commence in June 2008 and be completed by mid-2009. Preparation of the master plan is also foreseen during Phase I. Approval of the proposals contained in GB.301/PFA/1/2 and GB.301/PFA/1/3 that are before this session of the Programme, Financial and Administrative Committee would enable the Office to take the necessary measures to initiate the preparation of the master plan and the bidding and contract administration processes for Phase II to be completed by end 2009.

16. *The Subcommittee may wish to propose that the Programme, Financial and Administrative Committee recommend to the Governing Body that:*

- (a) *it support the proposed treatment of the net premium earned during the 70th financial period (2006–07) and the proposed use of resources in the Special Programme Account arising from the income surplus from the same period, as contained in documents GB.301/PFA/1/2 and GB.301/PFA/1/3;*
- (b) *it approve the renunciation and sale of the leasehold on the parcel of land identified in the appendix (parcel 3924) on terms to be negotiated by the Director-General;*
- (c) *it provide guidance in relation to the options contained in paragraph 11 above; and*
- (d) *subject to the approval of the proposals in GB.301/PFA/1/2 and GB.301/PFA/1/3, the Director-General be authorized to charge expenditure of up to 6.0 million Swiss francs to the Building and Accommodation Fund to cover the costs of an internal project management team, the development of the master plan and the bidding and contract administration processes for Phase II.*

Geneva, 4 March 2008.

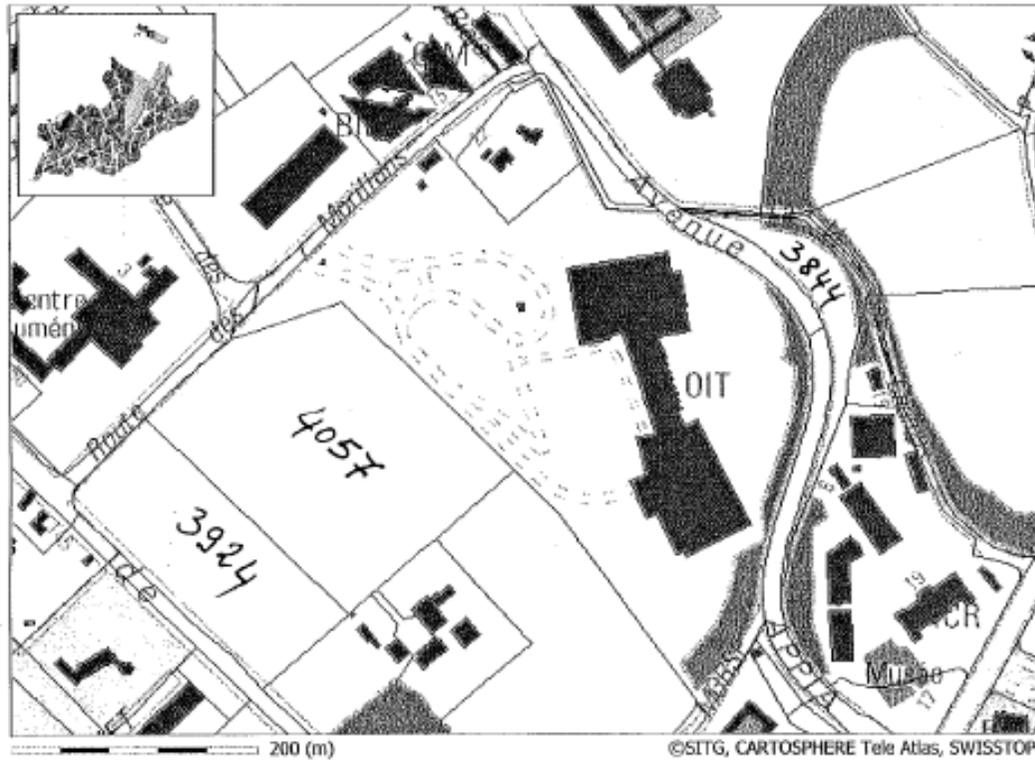
Point for decision: Paragraph 16.

⁷ GB.301/PFA/3.

Appendix

Plots 4057, 3844, 3924
Scale: 1:4771

Date: 29.09.2006



- Key:**
- Buildings above ground
 - ▣ Plots
 - ▧ City plan, general

Coordinates:
 Xmin=498856
 Xmax=499696
 Ymin=120318
 Ymax=120918