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Capital master plan

Thirteenth report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the third annual progress report of the Secretary-General on the implementation of the capital master plan (A/60/550 and Corr.1 and 2). The Committee also had before it the report of the Office of Internal Oversight Services on the capital master plan for the period from August 2004 to July 2005 (A/60/288) and the report of the Board of Auditors on the capital master plan for the year ended 31 December 2004.[1] During its consideration of the matter, the Committee met with representatives of the Secretary-General.

2. In the third annual progress report, submitted pursuant to General Assembly resolution 57/292, the Secretary-General outlined activities relating to the project undertaken since the issuance of the previous report (A/59/441) on the capital master plan. The Secretary-General indicated that in the past year there have been significant developments having an impact on the strategy for implementation of the capital master plan selected by the General Assembly in its resolution 57/292. The report of the Secretary-General offers alternatives for implementation of the project and recommends the adoption of a phased approach (strategy IV) as well as a revised project budget of $1,587.8 million and related financing modalities.

Background information

3. The capital master plan, a programme to refurbish United Nations Headquarters in New York, was proposed to the General Assembly as an approach to resolving unacceptable deterioration, building and fire code deficiencies, deficiencies in modern security requirements and standards and environmental problems in the seven buildings and 17-plus acres of the complex (see A/55/117).

4. The General Assembly, in its resolution 55/238, authorized the preparation of a comprehensive design plan and cost analysis to include all viable alternatives. The

preliminary phase of design was undertaken in 2001 and 2002 and the results were reported to the Assembly (see A/57/285 and Corr.1). A project scope, scope options, budget and an approach to phasing and swing space were selected subsequently and endorsed by the Assembly (resolution 57/292).

5. The approved scope of work required that areas under renovation be vacated. Two possible approaches were presented: the first involved vacating the complex to the greatest extent possible and the second was to pursue the project in a series of small phases.

6. The feasibility of the first approach was based on an offer by the City of New York of a swing space building, which would subsequently consolidate office space outside United Nations Headquarters. The building, called UNDC-5, was to be constructed by the United Nations Development Corporation (UNDC) immediately south of the United Nations Headquarters campus.

7. Design development work started on the basis of the approved scope. Major technical studies were completed and the results incorporated into the design documents. However, several developments have had a serious impact on the viability of the first approach and the project budget. The most important development was the failure of plans for the UNDC-5 building (see A/60/550, para. 6 (a)). In any case, the Advisory Committee now understands that even if the construction of the UNDC-5 building were possible, costs related to the security aspects would have been prohibitive. The Secretary-General indicates that as at September 2005, the approved swing space option was considered to be no longer available; moreover, the alternative swing space costs were estimated to be higher than initially projected and likely to go higher, and the construction cost escalation was pushing the budget upward to the new estimate of some $1,600 million. These developments had called for a re-examination of the strategy and alternatives for the capital master plan and the development of new approaches and schedules to meet the defined scope. **The Committee regrets these developments and trusts that proper planning in future will avoid the pitfalls of recent experience (see para. 26 below).**

Strategic options

8. Four main strategies have been advanced by the Secretary-General, as follows:

(a) Strategy I provides for vacating the maximum amount of space at Headquarters, moving to four or more commercial swing space sites in midtown and downtown Manhattan and, for the Dag Hammarskjöld Library, to a space in Long Island City, Queens; building temporary conference facilities on the North Lawn for servicing meetings of intergovernmental organs; and then renovating the entire Headquarters complex in one major phase. This approach represents a variation on the first approach as previously approved. The cost is estimated to be $1,552.8 million, reflecting a $503.8 million increase over the initial estimates. The projected completion date is in the last quarter of 2011;

(b) Strategy II provides for the scope of strategy I above for phasing and swing space but recommends cutting the approved renovation scope to stay within the initial $1.2 billion estimate. The projected completion date is in the last quarter of 2011. According to the Secretary-General, this strategy is considered not to be feasible;

(c) Strategy III provides for the construction of a new permanent office building on the North Lawn, leasing of space for the Dag Hammarskjöld Library in Long Island City and the building of temporary conference facilities on the North Lawn to accommodate a part of the meeting space requirements. The Secretariat would be relocated to the new office tower. The General Assembly building would be renovated, followed by the renovation of the Conference building in two phases. The cost of this alternative is estimated at $1,584.5 million, reflecting a $535.5 million increase. The completion date is projected for early 2013. Renovation of the Secretariat building would be deferred for a future project;

(d) Strategy IV provides for leasing of approximately 10 floors of office space in midtown Manhattan and space for the Dag Hammarskjöld Library in Long Island City and building of a temporary conference facility on the North Lawn to accommodate a part of the meeting space requirements. The strategy provides for phased renovation as follows: 10 floors of the Secretariat building would be vacated at each phase to allow renovation of the Secretariat building in four phases and the entire General Assembly building would be renovated, followed by the Conference building, which would be renovated in two phases. The costs are estimated at $1,587.8 million, including a $470.5 million increase due to phasing, construction cost escalation and redesign and $68.3 million due to increased requirements for swing space. The projected completion date is in late 2013, with some minor work to be done in 2014.

9. The Advisory Committee notes from the report (see A/60/550/Corr.2) that the estimated costs and projected schedules for each evaluated strategy as compared to the approved approach are as follows:

(Millions of United States dollars)

	Background		*New strategies*			
	First approach (one phase, UNDC-5)[a]	*First approach (if UNDC-5 is available)*[b]	*I*	*II*[c]	*III*[c]	*IV*
Construction costs	537.4	651.9	651.9	456.7	487.3	734.6
Contingencies	143.0	173.5	173.5	121.5	118.6	184.4
Professional fees, management costs	97.6	118.3	118.3	82.9	99.5	144.3
Forward pricing escalation	175.0	234.2	234.2	164.0	239.0	360.2
Subtotal, renovation	**953.0**	**1 177.9**	**1 177.9**	**825.1**	**944.4**	**1 423.5**
Swing space (combined office and conference)	96.0	250.5[d]				
Office[e] swing space	-	-	278.1	278.1	585.4[f]	109.6
Conference swing space	-		96.8	96.8	54.7	54.7
Delay for UNDC-5	-	114.0[g]	-	-	-	-
Subtotal, swing space	**96.0**	**364.5**	**374.9**	**374.9**	**640.1**	**164.3**
Total revised estimate[h]	**1 049.0**	**1 542.4**	**1 552.8**	**1 200.0**	**1 584.5**	**1 587.8**
Secretariat exterior and core costs	-	-	-	-	310.0	-
Secretariat interior costs	-	-	-	-	220.0	-
Total revised estimates	**1 049.0**	**1 542.4**	**1 552.8**	**1 200.0**	**2 114.5**	**1 587.8**
Completion date based on initiation of strategy on 1 January 2006	Late 2010	Late 2010	Late 2011	Late 2011	Early 2013[i]	Early 2014

Note: A hyphen (-) indicates that the data are not applicable.

[a] 2002 prices.

[b] January 2005 prices.

[c] These strategies are derivations of strategies I and IV.

[d] Midpoint of $248 million to $253 million, as reported in table 5, A/59/441/Add.1.

[e] Includes the Dag Hammarskjöld Library.

[f] Includes new building costs estimated at $572.3 million.

[g] As reported in table 5, A/59/441/Add.1. Costs of the delay would be slightly increased if recalculated today.

[h] Does not include scope options, estimated at $161 million.

[i] Late 2014, if adding the core and shell work for Secretariat; late 2015 if adding Secretariat interior work.

10. Of the four alternative strategies for implementation of the capital master plan that have been studied with respect to the scope, phasing, cost and schedule of the project, as well as the issue of swing space, the Secretary-General recommended strategy IV.

11. **The Advisory Committee is of the view that the report of the Secretary-General does not provide a complete enough analysis of the relative merits of all options presented to enable the General Assembly to take a fully informed decision.**

12. **A more complete analysis of strategy III, which would include the possibility of constructing a new permanent building on the North Lawn together with renovation of the Secretariat building, should have been presented. The analysis should take into account the security improvements and savings that could be derived by consolidating off-campus rentals in the new building once the renovation of the Secretariat building has been completed. The Advisory Committee points out that the construction of a permanent building on the North Lawn could obviate much of the need for rental of swing space, thus resulting in savings (see para. 15 below). The Committee understands that there is no legal impediment to constructing a building on the North Lawn. Early planning for Headquarters included an option for a building on the North Lawn, and the General Assembly has never specifically rejected this option, which, however, was not pursued. A number of aesthetic concerns have been raised by the Secretary-General with regard to that option. The Committee points out that, while it has expressed concern about the aesthetic integrity and harmony of the Headquarters complex (see, for example, A/57/7/Add.4, paras. 13 and 29), with a creative design approach it may be possible to preserve the aesthetic value of the Headquarters complex. In any case, the issue of whether to avoid building on the North Lawn for architectural preservation and aesthetic reasons is a policy decision for the Assembly to take.**

13. **Furthermore, the Advisory Committee notes that building of temporary conference facilities on the North Lawn is foreseen under all four strategies. Experience shows that once constructed, temporary buildings tend to be used for a far longer period than was originally projected. The Committee recommends that, given the cost of building and removing a temporary structure, full information be presented to the General Assembly on the relative costs and merits of constructing a permanent structure instead.**

14. **The Advisory Committee observes that while strategy II is deemed not to be feasible, there is no accompanying analysis that would give the General Assembly the specifics of what has to be modified or eliminated in order to stay within the initial $1.2 billion estimate for the capital master plan.**

15. The Advisory Committee recalls that one of the most important arguments in favour of the UNDC-5 building was that it would have allowed a consolidation in it of offices from all of UNDC-1 and UNDC-2, as well as from commercially leased spaces. The Committee requested and received information on cost factors related to the construction of a permanent building on the North Lawn. The Committee notes that, depending on different rent escalation assumptions, the amortization period of the building would be from 5.4 years to 14.1 years (see annex below). **The Committee requested but was not provided with updated information on cost benefits for United Nations organizations located in New York that would result from the consolidation of office space into a permanent office building on the North Lawn. The Committee requests that such information be provided to the Fifth Committee.**

16. The Advisory Committee notes that provisions are made under strategy IV for contingencies and forward pricing escalation (34.3 per cent of the estimated cost of the project). The Secretariat informed the Committee that such provisions reflected

current industry budgetary standards. **The Committee requests that a detailed analysis and all relevant information be provided to the Fifth Committee.**

Budgetary aspects

17. Owing to the multi-year nature of this activity, the capital master plan account would be administered in the same manner as a construction-in-progress account, in line with the relevant recommendations of the Advisory Committee (see A/57/7/Add.4) as endorsed by the General Assembly in its resolution 57/292. **The Committee has no objection to the proposed construction-in-progress account.**

18. The Secretary-General proposes the establishment, effective in 2006, of a working capital reserve at the level of 20 per cent of anticipated annual expenditures to cover temporary cash-flow deficits and to facilitate advance procurement or accelerated construction activity. The reserve is proposed in the amount of $45 million, which would represent less than 3 per cent of the total project budget. The reserve would be financed through a separate assessment on Member States and managed in accordance with financial regulations 3.5, 4.2 and 4.3. The reserve would be phased out at the end of the construction phase of the project and the related contributions credited back to Member States. **While the Committee agrees in principle with the creation of a reserve fund, it recommends that the consideration of this question be revisited when the General Assembly decides on the main strategy for the capital master plan.**

19. The financing options considered in the report include a one-time assessment and a multi-year assessment. The Secretary-General indicates that while the option of a one-time cash assessment on Member States that is equal to the value of the total anticipated capital master plan project costs would meet all requirements for funding the capital master plan, it would place a significant financial burden on Member States. The application of multi-year assessments, which would be phased to meet the expenditure needs of the project and facilitate the build-up of cash reserves in the early years of construction, would meet many of the requirements for funding of the capital master plan. **The Advisory Committee is of the view that a policy decision by the General Assembly is required as to which of the options should be chosen for financing the capital master plan.**

20. Information on appropriations and expenditures is included in paragraphs 44 to 48 of the report. Table 5 of the report provides expenditures for the period from 2003 to 2006 for the design development and construction documents phases. The Secretary-General proposes that the General Assembly appropriate an amount of $108.7 million for 2006, including an additional amount of $100.5 million for financing the design and preconstruction phases, including swing space requirements, for strategy IV of the capital master plan and the conversion of the existing 2006 commitment authority in the amount of $8.2 million into an appropriation.

21. The Advisory Committee sought clarification in this respect and understands that an appropriation would be required to continue the work of the capital master plan office and for design and planning irrespective of which strategy is approved by the General Assembly. If an appropriation is not approved, the work of the office will draw to a halt and there will be significant delays in the eventual implementation of the project.

22. The Advisory Committee was informed that the minimum amount that would be required for the capital master plan in 2006, irrespective of which strategy is chosen, is $102.7 million.

23. **The Advisory Committee points out that any amount that would be required for any specific capital master plan strategy over and above the $102.7 million mentioned above could be considered in the context of the review of that particular option. Accordingly, the Committee recommends appropriation of $102.7 million at this time.**

Other issues

24. Ensuring a stable cash flow is an essential precondition for uninterrupted financing of the project costs. Therefore, the Secretary-General proposes that the Committee on Contributions be requested to make a recommendation to the General Assembly at its sixty-first session on the possibility of imposing interest to be charged for late payment of the assessed contributions to the capital master plan account as an exception to the present policy. **The Advisory Committee understands that the need for uninterrupted financing of the capital master plan is extremely important. It is of the view that the question of charging interest should be addressed by the Assembly as a matter of policy.**

25. The Advisory Committee notes that the General Assembly, in its resolution 57/292, concurred with the intention of the Secretary-General to establish an advisory board on a broad geographical basis to advise him on financing matters and overall project issues. **The Committee is concerned that the board has not yet been established. The Committee requests that measures be taken to establish the board as soon as possible on a broad geographical basis.**

Conclusion and recapitulation

26. **While the Advisory Committee sees merit in strategy IV as recommended by the Secretary-General, it is of the opinion that the General Assembly should be provided with a more comprehensive analysis of all options, in particular of strategy III. The Committee is especially cognizant of the expense associated with any delay, but is equally convinced that the Assembly must be in a position to take an informed decision that will garner the most widespread support and confidence of Member States. Due to unforeseen developments, considerable time has already been lost as a consequence of the initial planning and subsequent abandonment of the UNDC-5 project. It should be noted that the Committee is not recommending another report and further delay. The necessary analysis and additional information should be provided directly to the Assembly quickly for its consideration at the earliest opportunity. In the meantime, in order to minimize further delay and provide for the smooth and continuous implementation of design and planning work, the Committee recommends an appropriation of $102.7 million, including the existing 2006 commitment authority in the amount of $8.2 million.**

Notes

[1] *Official Records of the General Assembly, Sixtieth Session, Supplement No. 5* (A/60/5), vol. V.

Annex

Estimated cost amortization period for the permanent office building on North Lawn considered under strategy III[a]

The estimated cost amortization period for a permanent office building on the North Lawn was determined on the basis of the following assumptions:

(a) A new permanent office building on the North Lawn would be completed in 2011;

(b) Secretariat building renovation would be completed in 2015;

(c) The North Lawn building would be occupied by non-Headquarters campus staff in 2016;

(d) No allowance has been made for cost of financing new building construction;

(e) No allowance has been made for depreciation.

Based on the above assumptions, the estimated cost amortization period would be as follows:

Construction costs of North Lawn building (including fees, contingencies and escalation)	$572,300,000
Size	900,000 square feet
Projected average cost per square foot	$635.90
Payback period assuming current lease rates: $45 per square foot[b]	14.1 years
Payback period assuming rental escalation of 3.5 per cent from 2005	8.5 years
Payback period assuming rental escalation of 5.0 per cent from 2005	7.1 years
Payback period assuming rental escalation of 7.5 per cent from 2005	5.4 years

[a] Based on assumption of replacement of current lease costs of the commercial office space rented by the United Nations.

[b] The highest lease rate used for commercial space in New York in the vicinity of Headquarters in 2005 is $45 per square foot. This is the rate currently paid for leasing the FF building. The approach used in selection of the rate is based on provisions of resolution 41/213.