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Programme budget for the biennium 2006-2007

Capital master plan

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the fourth annual progress report of the Secretary-General on the implementation of the capital master plan (A/61/549). During its consideration of the matter, the Committee also had before it the report of the Board of Auditors on the capital master plan for the biennium ended 31 December 2005 (A/61/5 (vol. V)). The Committee also met with representatives of the Secretary-General.

2. The fourth annual report on the capital master plan updates the total projected costs and provides information on various scope options, including security-related requirements. The report also provides financing options and recommends a five-year assessment plan and the use of a letter of credit as the most appropriate financing mechanism. **The Advisory Committee appreciates the quality of presentation of the fourth annual report.**

3. As indicated in the fourth annual report, the budget for the capital master plan project had increased from $1,587.8 million, as reported in the previous report (A/60/550), to $1,646.3 million as of August 2006. The cost does not include the scope options, estimated at $230.4 million. Table 2 of the report provides a summary of changes in construction cost, contingencies, professional fees and management costs, forward pricing escalation and swing space. The Advisory Committee notes that the estimate for construction has increased by $4.5 million, the renovation cost estimates have increased by $8.3 million and the forecast for swing space has increased by $50.2 million. Paragraphs 19 to 23 of the report provide supporting details on the increased cost of the project.

4. The Advisory Committee notes that the Secretary-General proposes that scope options related to additional security, redundancy and contingency ("back-up systems") and sustainability be added to the scope of the base project. The Secretary-General indicates that these items will not be readily achievable as stand-alone projects, and the capital master plan therefore offers a unique opportunity to make advances in those areas.

5. Paragraphs 26 to 30 and annex I of the report describe various elements of the scope options, including additional blast protection, additional redundancy, security, redundancy and contingency, and sustainability. The Advisory Committee was informed that the designation of scope options as tiers 1 and 2 referred to the order in which they had been identified and not to priority. The cost of scope options had increased from $161.0 million, as previously projected, to $185.5 million as at 1 August 2006. Moreover, a new blast assessment was conducted, which resulted in significant additional recommendations for structural strengthening for blast resistance; this brings the total cost of the scope options to $230.4 million. The Committee trusts that the Secretariat will be in a position to provide the General Assembly with such additional details on the scope options as are necessary and requested.

6. With regard to the request of the General Assembly in its resolution 60/282, under all the options for funding the capital master plan that are discussed in the fourth annual report, the related expenses would be apportioned among Member States pursuant to the provisions of Article 17 of the Charter of the United Nations.

7. As indicated in the report, construction industry practice in the United States of America requires the building owner to demonstrate full financial capability to complete the project. To show evidence of such financial capability, the United Nations would need to be able to demonstrate the availability of funds for the project by such evidence as cash on deposit for the total amount of the construction or letter of credit facilities for the total amount of the construction project less cash on hand. The Advisory Committee notes that if all Member States were assessed one time and all paid on time and in full, a letter of credit facility would not need to be established; in any other circumstances, such a facility, which involves additional cost, would be necessary.

8. Paragraphs 37 to 41 of the report deal with credit facility establishment, fees and charges. As indicated therein, depending on the level of credit established and market conditions, the fee for a credit facility is estimated to be between 0.05 and 0.5 per cent of the value of the credit facility at the start of each year, with estimated total fees of between $3.0 million and $21.0 million. In addition, management fees and amendment charges may be incurred. These are not included in the indicative percentage rates and are dependent on actual usage. The amount of the fee incurred would be larger in the earlier years of the project and would be reduced as construction was completed.

9. As indicated in paragraph 38 of the report, the ability to draw down from the letter of credit facility would require specific approval by the General Assembly. It would be for the Assembly to decide upon the modalities by which such approval would be sought and provided. A drawdown of the letter of credit would be considered a loan and would therefore incur charges that would be in addition to the approved capital master plan budget.

10. In response to the request in General Assembly resolution 60/282 that the Secretary-General make proposals to ensure that any such charges would not be a charge on Member States that had paid their capital master plan assessments on time and in full, paragraphs 39 to 41 of the report describe a possible mechanism to achieve that result.

11. The Secretary-General proposes in his report that charges resulting from any drawdown from a credit facility be apportioned among Member States that have not paid their assessments for the capital master plan on time and in full — an exception to financial regulation 3.1, which provides, inter alia, that appropriations shall be financed by contributions from Member States. It is also proposed that assessments for the capital master plan be considered due and payable in full within 30 days of the date on which the assessment notices were issued (rather than within 30 days of the receipt of the communication of the Secretary-General, as stipulated under financial regulation 3.4) (see A/61/549, para. 39).

12. The Secretary-General indicates in paragraph 40 of his report that in order to reflect the impact of non-payment of assessed contributions on the need to draw on the letter of credit, one approach would be to calculate each Member State's share of those charges monthly, based on the charges levied in that month and on its share of the total contributions outstanding for the capital master plan. In making such calculations, the average of opening and closing balances each month could be used to reflect payments made during the month. The Secretary-General would subsequently report to the General Assembly each year on the amounts incurred through any use of a credit facility during the previous calendar year and on its apportionment among Member States that had not paid their assessed contributions for the capital master plan on time and in full.

13. The following three assessment options are discussed in paragraph 42 of the report:

(a) *One-time cash assessment.* This is a one-time, up-front assessment for each Member State's share of the capital master plan costs, based on the scale of assessments in place when the assessment is made;

(b) *Multi-year cash assessments.* There are several possible scenarios for the phasing of multi-year cash payment options that assume that Member States will pay their assessments on time and in full. The Secretary-General recommends a five-year assessment period. Upon enquiry, the Advisory Committee was informed that the Secretariat intended to issue assessments a year prior to the requirement for resources. This would mean that assessments could possibly be sent out later than January;

(c) *Mix of one-time and multi-year assessments.* Under this option, individual Member States will each be able to decide whether their capital master plan assessment will be a one-time, up-front payment or will be assessed over a multi-year period. If it is decided that Member States can select either one-time or multi-year cash assessments, for 2007 the initial assessment will be issued during the first half of the year to allow Member States time to make their selection. For all multi-year assessments other than those for 2007, the expected date of issuance of assessments would be in January of each year. If Member States selected this mix of one-time cash assessment and multi-year cash assessments, there would be issues to be resolved, namely:

(i) Member States would have 60 days to decide which option they would choose. Once a decision is made, it will be irrevocable;

(ii) Gains and losses may occur as the scale of assessments changes between Member States that select a one-time assessment and those that select a multi-year assessment.

14. **The Advisory Committee is of the view that the options of one-time assessment and multi-year assessments are straightforward. The option of a mix of one-time assessment and multi-year assessments would require a decision by the General Assembly on the issues identified in paragraph 42 (c) (ii) of the Secretary-General's report as a prerequisite for its implementation. In the light of the above, the Committee stresses that it is for the General Assembly to decide which option to approve.**

15. Paragraph 44 of the report deals with the creation of a working capital reserve for the capital master plan. The main purpose of such a reserve would be to cover temporary cash-flow deficits. Funds from the reserve would be used before drawing down from a credit facility. The amount of the estimated reserve is based on 20 per cent of the estimated average annual expenditures, totalling $45 million. The Secretary-General proposes that the reserve be financed through a separate assessment on Member States in 2007 and managed in accordance with the provisions of 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. **The Advisory Committee is of the view that the envisaged working capital reserve is an integral part of financing arrangements for the capital master plan and should be approved by the General Assembly.**

16. The Advisory Committee recalls that in its resolution 60/256, the General Assembly called upon the Secretary-General to explore the possibility of private donor funding to be used towards the implementation of the capital master plan. **The Committee expects the Secretariat to make efforts to attract such funding now that the Assembly has pronounced itself on strategy IV.**

17. Information on the status of appropriations and expenditures is contained in paragraphs 45 to 48 of the report. The Advisory Committee notes that the appropriation and expenditure figures shown in tables 5 and 6 of the report do not include the $8.0 million appropriated by the General Assembly in its resolution 55/238; however, the expenditure of $8.0 million is included in the total revised project budget of $1,876.7 million for the capital master plan. As indicated in the report, under the current schedule, the construction documents phase is expected to be completed in late 2007. The Committee was provided, upon request, with updated tables 5 and 6 from the report (see annex). As shown in the updated table 6, expenditures estimated at $115.1 million will be incurred in 2007 to complete the design phase and for the construction, fit-out and related requirements of a conference swing-space building on the North Lawn and pre-construction services, fit-out and related requirements of library and office swing space. This brings the total projected expenditures for the period 2003-2007 for the design development and construction documents phases to $193.7 million. Taking into account the total amount of appropriation for the capital master plan that has been approved so far ($152.0 million), the capital master plan appropriation required for 2007 will be $42.0 million. **The Committee recommends approval of the revised capital master plan budget of $1,876.7 million and of the appropriation of $42.0 million for 2007.**

18. In connection with the current situation related to an advisory board on financing matters and overall capital master plan issues described in paragraphs 49 and 50 of the report, the Advisory Committee draws attention to its previous observations in which it urged the Secretary-General to expedite the process so that

the Board could begin its work as soon as possible on a broad geographical basis, as provided for under the terms of General Assembly resolution 57/292 (see A/59/556, para. 12, and A/60/7/Add.12, para. 25).

19. The Advisory Committee notes that the Board of Auditors made a number of recommendations on the capital master plan for the biennium ended 31 December 2005. **The Committee stresses the recommendation that requires the Administration to ensure that amendments to contracts are in line with the United Nations Procurement Manual. In this connection, the Committee expects that contracts will stipulate that the United Nations will not be responsible for any delays on the part of the contractor.**

Annex

Updated tables from A/61/549

Table 5
Expenditures for the period 2003-2006 for the design development and construction documents phases
(Thousands of United States dollars)

	2003[a]	*2004*[a]	*2005*[a]	*January-September 2006*[a]	*October-December 2006*[b]	*Total*
Design contractual services	612.1	9 573.9	2 724.1	20 363.9	4 544.4	37 818.4
Direct staff costs	1 611.1	1 720.9	1 458.3	1 277.5	336.7	6 404.5
Support costs	180.6	574.2	593.4	324.0	323.2	1 995.4
Operating and other costs	556.0	589.3	478.1	555.3	61.2	2 239.9
Programme management and consultants	245.7	2 378.5	752.9	4 290.0	1 615.0	9 282.1
Construction manager	0.0				2 000.0	2 000.0
Swing space cost	0.0		506.3		18 349.8	18 856.1
Total	**3 205.5**	**14 836.8**	**6 513.1**	**26 810.7**	**27 230.3**	**78 596.4**

[a] Actual.
[b] Projected.

Table 6
Expenditures for the period 2003-2007 for the design development and construction documents phases
(Thousands of United States dollars)

	2003-2005[a]	*2006*[b]	*2007*[c]	*Total*
Design contractual services	12 910.1	24 908.3	5 816.6	43 635.0
Direct staff costs	4 790.3	1 614.2	2 272.9	8 677.4
Support costs	1 348.2	647.2	1 522.2	3 517.6
Operating and other costs	1 623.4	616.5	842.8	3 082.7
Programme management and consultants	3 377.1	5 905.0	3 175.6	12 457.7
Construction manager	0.0	2 000.0	0.0	2 000.0
Swing space cost	506.3	18 349.8	101 484.6	120 340.7
Total	**24 555.4**	**54 041.0**	**115 114.7**	**193 711.1**
Total approved appropriation				**152 000.0**
Appropriation required for 2007				**42 000.0**

[a] Actual.
[b] Actual and projected (see table 5).
[c] Projected.