United Nations A/60/550

General Assembly

Distr.: General
11 November 2005

Original: English

Sixtieth session
Agenda item 124
Proposed programme budget for the biennium 2006-2007

Third annual progress report on the implementation of the capital master plan

Report of the Secretary-General*

Summary

The third annual progress report on the capital master plan is submitted pursuant to General Assembly resolution 57/292. The report outlines the activities relating to the project undertaken since the issuance of the previous report (A/59/441). 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 present report 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.

A decision by the General Assembly on the 2006 appropriation for financing the activities emanating from strategy IV in the amount of $108,698,000 and for establishing in 2006 a project operating reserve in the amount of $45 million to ensure continuity of activities in the context of project implementation will be required.

* The issuance of the present report was delayed owing to the need to complete consultations on possible alternatives for implementation of the capital master plan in view of significant negative developments affecting the project.

05-60012 (E) 151105
0598765

Contents

I. Introduction

1. The capital master plan for United Nations Headquarters has reached a critical juncture, requiring a revision of the approach previously approved by the General Assembly in its resolution 57/292. Four alternative strategies for implementation of the capital master plan have been studied with respect to the scope, phasing, cost and schedule of the project, as well as the issue of swing space, and the one recommended, strategy IV, is presented below. The present report discusses options for financing of the capital master plan and recommends the use of a letter of credit and a five-year assessment plan as the appropriate financing mechanism.

II. Summary of the approved project scope and initial strategy

2. 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). The complex was found to include building systems that were well past their useful life as well as hazardous materials, including asbestos, and standards of building safety in key areas, notably in regard to sprinklers, were found to be unacceptable and systems were impossible to operate at an acceptable level of energy efficiency. The General Assembly authorized the preparation of a comprehensive design plan and cost analysis to include all viable alternatives (resolution 55/238). That effort, called 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). Annual reports submitted to the Assembly detailed the progress of the design, as well as the status of swing space and the funding proposals (see A/58/599, A/59/441 and Add.1).

3. The approved project scope included the refurbishment of all of the buildings of the United Nations Headquarters campus as well as the site. The refurbishment included the replacement of building systems, code compliance, the removal of hazardous materials, security upgrades, the replacement and repair of exterior facades, better use of space and the replacement of finish materials (ceilings, floor coverings and interior walls) where removal was needed in order to accomplish other work. The approved scope of work required that areas under renovation be vacated. Two possible approaches were presented after evaluation of numerous alternatives. The first approach involved vacating the complex to the greatest extent possible. It assumed that the General Assembly, Conference, Secretariat, South Annex and Dag Hammarskjöld Library buildings would be vacated during refurbishment. It further assumed that the activities located in the second and third basements and in the North Lawn extension building would be internally relocated on site in order to allow refurbishment to proceed in those areas. The second approach was to pursue the project in a series of small phases.

4. The feasibility of the first approach was made possible by an offer by the City of New York of a swing space building, called UNDC-5, to be constructed by the United Nations Development Corporation (UNDC) immediately south of the United Nations Headquarters campus. Among the advantages of this approach were that the

Headquarters would be maintained at its current central geographic location, close to the permanent missions of Member States, and that the estimated cost and rental of the UNDC-5 space was reasonable owing to the tax-advantaged status of UNDC as a New York State public benefit corporation.

III. Developments relating to the project since the issuance of the second progress report

5. Design development work started on the basis of the approved scope, assuming the first approach regarding phasing. Major technical studies were completed and the results incorporated into the design documents. By September 2005, some 60 per cent of project documentation for design development for the General Assembly, Conference, Secretariat, South Annex and North Lawn buildings and the basements and central infrastructure had been completed. Cost estimates for the project were updated on the basis of that documentation and the latest market indices.

6. However, several developments have had a serious impact on the viability of the first approach and the project budget. They include:

(a) Failure of plans for the UNDC-5 building. As reported previously (see A/59/441/Add.1), construction of the proposed UNDC-5 building by New York City and State immediately south of United Nations Headquarters was not possible at the cost or with the schedule initially estimated. By June 2005, the legislation necessary to begin the project had not been introduced in the New York State legislature. The United States federal legislation required to allow bonds for UNDC-5 to be exempt from federal taxation, an assumption made in the costing of UNDC-5, was also not introduced in the United States Congress. UNDC-5 is no longer a realistic option for swing space for the foreseeable future;

(b) A significant increase in swing space costs. Commercial alternatives for swing space have been explored since the failure of UNDC-5. The review has indicated that local real estate markets for office space are currently strong, and lease prices continue to rise. These factors have affected the cost of commercial swing space alternatives. Furthermore, no commercial solutions were found to accommodate the activities of the General Assembly and other intergovernmental organs. For those activities, the construction of temporary buildings on site would be required. On the other hand, local security authorities have advised that they would not recommend a single rental location for swing space nor that high-profile individuals or functions be relocated off the United Nations Headquarters campus during the refurbishment. The net effect of these findings indicated that swing space costs of the first approach would increase to some $375 million, or some $279 million more than the planned $96 million cost of leasing of UNDC-5 estimated initially;

(c) Additional costs resulting from updating the project documentation. The submission of 60 per cent of the design development documentation in September 2005 made it possible for the first time to make detailed cost estimates based on actual design plans. That documentation has revealed elements that were not fully costed in earlier, less detailed general estimates and identified changes in building code requirements and in security and redundancy systems leading to additional costs. While those changes did not indicate a significant increase in construction costs, overcoming dramatic cost increases owing to the failed plans for UNDC-5 and the rapid inflation of construction costs has required a look at new approaches for the capital master plan in order to avoid the elimination of critical scope items from the plan;

(d) Significant changes in costing parameters. Construction inflation, which was almost at a zero per cent level in 2002 and 2003, accelerated to 11 per cent in 2004. Construction estimates were recosted accordingly to a start date of 2005. This factor, combined with scope evolution and future escalation in estimates projected at 8 per cent annually in 2005 and 2006, 4 per cent in 2007 and 3.5 per cent thereafter, will result in a potential increase of the project budget by some $224.9 million. Labour and material markets are tight and are expected to continue to put pressure on the cost estimates.

7. In summary, as at September 2005, the approved swing space option is no longer available, the alternative swing space costs are higher than initially projected and likely to go higher, and the construction cost escalation is pushing the budget upward to the new estimate of some $1,600 million. These developments have 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 proposals outlined below contain a re-examination of the phased strategy, including issues of how core systems and related distribution to each building could be phased; the identification of essential functions that cannot be interrupted and of programme parameters (i.e., functions) that must be phased together; and a summary of a phased sequence of project implementation that would be physically and operationally feasible.

IV. Summary of new strategic options

8. Four main strategies were examined in the new situation based on the assumption that the General Assembly would approve the new approach at the main part of its sixtieth session. For consistency with prior reports, all figures include labour and materials, general conditions, cost escalation, contingencies, professional fees and owner’s costs. The strategies are as follows:

(a) *Strategy I, one phase, full scope*. This strategy includes 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, including $224.9 million due to changes in the renovation costs and $278.9 million due to increased swing space costs as described above. The projected completion date is in the last quarter of 2011;

(b) *Strategy II, one phase, reduced scope*. This strategy includes 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 also in the last quarter of 2011. This strategy is not feasible;

(c) *Strategy III, new office building, phasing General Assembly/conference buildings, deferring renovation of the Secretariat building*. This strategy includes construction of a new permanent office building on the North Lawn; leasing of space for the Dag Hammarskjöld Library in Long Island City; and building of temporary conference facilities on the North Lawn accommodating 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. Renovation of the Secretariat building would be deferred for a future project. The cost of this alternative is estimated at $1,584.5 million, reflecting a $535.5 million increase, including an increase in swing space cost of $544.1 million for a new office tower, offset by excluding the Secretariat renovation costs. The completion date is projected for early 2013. If preparation of the exterior shell and utility core of the existing Secretariat building is included in this strategy, with a view for that building to be a future consolidation building, an additional cost of $310.0 million would be involved. Furthermore, if the interior renovation of the Secretariat is added, the cost would include an additional $220.0 million, with another year added;

(d) *Strategy IV, phased approach*. This strategy includes leasing of approximately 10 floors of office space (228,000 square feet, or 21,182 square metres) 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 phased renovation would proceed as follows: 10 floors of the Secretariat building would be vacated at each phase to allow renovation of the Secretariat building in four phases; 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.

V. Framework for evaluation of the new strategic options

9. Common assumptions for all four strategic options are as follows:

(a) A determination of the approved strategy will take place at the main part of the sixtieth session of the General Assembly;

(b) UNDC-5 is no longer an option for swing space;

(c) No functional, affordable and suitable commercial swing space exists in New York City for the activities of the General Assembly and other intergovernmental organs;

(d) All strategies except strategy I require a certain amount of redesign work;

(e) The UNITAR building has been eliminated from the capital master plan space. The building, while useful during the refurbishment process, is not a cost-effective building to operate over the long term. It is therefore not included in the refurbishment scope, and it requires a separate determination of its long-term status as a United Nations property;

(f) Scope options for additional security, sustainability and redundancy, as set out in document A/57/285 and Corr.1, are applicable to all strategies. The cost of these options is also subject to construction cost escalation, increasing the initial estimate of $144 million to today's estimate of $161 million. A contingency provision for a new multifunction hall and large conference room was also proposed. That addition, if approved for a later stage, would raise the project cost by another $63.9 million;

(g) Cost estimates do not include new furniture (except for the three new mid-sized meeting rooms) or equipment such as computers, servers, television cameras or shop machinery, except where that equipment is part of the permanent building infrastructure. In order to provide proper furniture and equipment, it will be necessary to incorporate a provision of up to $100 million in the regular budget in the years leading up to completion of the capital master plan;

(h) Conference facilities within the scope of any proposed strategies will not be sufficient to accommodate any activity in excess of the core activities of the United Nations Charter organs and their subsidiary bodies (Activities programmed in the draft calendar of conferences and meetings of the United Nations for the biennium 2006-2007 will not be affected). Accommodation of the core activities will require careful planning of the calendar of conferences and meetings and possible adjustment of the regular meeting schedule. Member States may wish to note, therefore, that there would be a limitation of the capacity for holding activities at Headquarters that involve extra space and service requirements and a large number of participants, such as international conferences and summits. These would need to be held at other United Nations locations. Furthermore, outreach activities for visitors and non-governmental organizations, retail services, exhibits, full dining facilities, many staff and delegate services, receptions and special events would not be possible during the renovation in their present scope. Those activities would need to be either significantly curtailed or temporarily discontinued;

(i) Reconfigurations will not be made for secondary office moves; that is, when occupancy of office space changes during the renovation process, the new occupants will have to adapt to existing floor configurations.

10. The evaluation also assumed that key decisions, including approval of a project strategy, project scope and associated budget and approval of a required appropriation for 2006 consistent with the approved strategy would be made by the General Assembly affirmatively during the main part of its sixtieth session, in 2005. With construction costs rising and real estate options narrowing, all the strategies are vulnerable to delays of even one month.

11. The four strategies also address the following issues:

(a) The extent of the required renovation, based on the condition and problems of the existing facility;

(b) Operational considerations, including the importance of avoiding disruption to ongoing activities to the extent possible and the practical consideration of the importance of relative geographical proximity to best support the activities of the Organization;

(c) Total project costs, including the probable escalation and required contingencies;

(d) Project schedule, including the possible start date, expected completion date and number of renovation phases involved.

VI. Evaluation of strategic options and related recommendations

12. The estimated cost and projected schedules for each evaluated strategy as compared to the approved approach are summarized in table 1. Although UNDC-5 is no longer available as a swing space, the second column under “Background” provides an updated reference point for the approved first approach. It includes the updated costs of the one-phase renovation approach and the update (as at May 2005) of the costs of leasing UNDC-5, as well as the additional costs expected to have been incurred by delaying the renovation of the Headquarters buildings to accommodate the UNDC-5 schedule (see A/59/441, Add.1, table 5). Estimates in this column and all estimates for the new strategies are based on January 2005 construction prices, recosted from the prior pricing date of January 2002.

Table 1
Estimated costs and projected schedules for strategic options
(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**	**2 064.5**	**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.
[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.

13. The costs of the three feasible strategies can also be compared on the basis of cost per square foot of renovated or new area, thus clarifying the overall cost of strategy III in relation to other strategies (see table 2).

Table 2
Comparison of project costs per square foot for feasible strategies

	Strategy		
	I	*III*	*IV*
Construction cost only[a]	651.9	487.3	734.6
Headquarters renovation area[b]	2 587	1 687	2 587
Construction cost per square foot of Headquarters renovation area	**251.99**	**288.86**	**283.96**
Total revised estimate[a]	1 552.8	1 584.5	1 587.8
Headquarters renovation area, plus new building for strategy III[b]	2 587	2 587	2 587
Project cost per square foot	**600.23**	**612.49**	**613.76**
Total revised estimate including Secretariat building renovation[a]	1 552.8	2 064.5	1 587.8
Area with Secretariat building renovation[b]	2 587	3 487	2 587
Project cost per square foot, including Secretariat building renovation	**600.23**	**592.06**	**613.76**

[a] Millions of United States dollars.
[b] Millions of square feet.

14. *Strategy I, one phase, full scope*. Acceptance of this option would involve absorbing the full increased commercial cost of swing space associated with the loss of UNDC-5, as well as the costs of a temporary conference facility on the North Lawn large enough to accommodate all current meeting functions. The meeting swing space requirements (approximately 213,000 square feet/19,788 square metres) are too large for a single temporary structure and thus would consist of multiple structures. The advantages of this strategy are that it would accomplish the full required scope, minimize disruption to United Nations Headquarters activities and to the renovation work and have the shortest projected schedule. The disadvantage of this strategy is that it would disperse the Secretariat staff to multiple locations not directly adjacent to meeting facilities. This inevitably would make it more difficult for the Organization to function during the renovation period. It would also require a great deal of flexibility across the entire Organization, including a possibility for secondary moves (e.g., out of UNDC-1 or UNDC-2) in order to place offices directly involved in serving intergovernmental organs as close as possible to the existing campus. This strategy would require major involvement in the New York real estate market. Costs have been based on the average of actual available class A office space, two in midtown Manhattan and two in downtown Manhattan. If market prices rose, the spaces would have to be farther from Headquarters in order to obtain the same price. Leases are not likely to be available for the relatively short durations required, and the large office swing space requirement would create a significant

financial risk if the Organization wished to sublet the space for the excess duration of the lease and was unable to do so at the price necessary to cover its costs. The cost is significant, including $374.9 million to be utilized for temporary leased and constructed facilities. The schedule would require firm lease commitments in early 2006.

15. *Strategy II, one phase, reduced scope*. This option would require cutting the scope of the capital master plan by some 30 per cent in order to create a reduction of $352.9 million in the scope of the renovation work (from $1,177.9 million to $825.1 million) to reach a budget of $1, 200.0 million while accommodating the full swing space cost of $374.9 million. There is no safe way to accomplish this strategy, as this degree of reduction cannot be accomplished without eliminating life safety systems, leaving the complex in the same unacceptable condition that exists today. It would also require maximum reuse of existing systems and would therefore not even resolve basic system reliability problems. This strategy is not feasible.

16. *Strategy III, new office building, phasing General Assembly/Conference buildings, deferring renovation of the Secretariat*. This option would require acceptance of a new permanent building on the North Lawn. The early planning for Headquarters included an option for an office building in this location, but in the intervening years the option was dropped owing to consideration that the open space of the North Lawn was a valued resource and that the Headquarters complex was considered a world monument of significant architectural value. The advantages of this approach are that the full scope would be accomplished in the same buildings, and all occupants of the site would be in safe facilities. After a single relocation, there would be no disruption in Secretariat activities. Also, it would concentrate Headquarters activities in one location. The temporary conference facilities would be kept to a reasonable size (approximately 100,000 square feet/9,290 square metres). The temporary facility could accommodate the meetings scheduled for the General Assembly building (assuming construction of a plenary hall that would consist of two large conference rooms combined allowing four rather than six seats per delegation and some limitations to other seating), or half of the meetings scheduled for the Conference building. Once the renovation of the General Assembly building was complete it would be reoccupied and the Conference building would be renovated in two phases, with noisy work done outside of normal business hours. The disadvantages of this strategy are that disruption of the meeting functions would be possible, given the phased work in the General Assembly and Conference buildings. Also, the schedule would be prolonged by the need to construct a permanent building, which by its very location would be a significant design element. However, the greatest disadvantage of this strategy is that without major additional expense or a second capital master plan, the United Nations would be left with some 900,000 square feet (83,613 square metres) of unusable and unsafe empty space in the present Secretariat building.

17. *Strategy IV, phased approach*. This option would reduce the swing space requirements. It would phase the Secretariat building from the top down, including a series of secondary moves. Curtain wall replacement is the critical and most difficult factor affecting the phasing. Its advantages are that it would accomplish the full scope of the required renovation. Headquarters activities would be largely retained at the current site during the renovation. Because it would require less leased space than strategy I, it is less vulnerable to the New York City real estate sector. The temporary conference facilities would be of reasonable size

(approximately 100,000 square feet/9,290 square metres), as described under strategy III above. The disadvantage of this strategy is that the schedule would be extended, with some risk of inconvenience. The schedule also would require firm lease commitments in 2006.

18. For all practical reasons strategy IV is recommended. Strategy IV would maintain a functional, visible United Nations Headquarters in New York at its current site. It would minimize dependency on external elements, including the New York City real estate market. The phased approach would require close attention to site control and temporary protection, but successful projects are frequently performed in New York City with these constraints and additional requirements have been included in anticipation of mitigating those impacts. Within the Secretariat building, at every phase at least one entire protective floor would be left empty between the construction and occupied areas. The General Assembly building would be emptied while being renovated. Likewise, each horizontal segment of the Conference building (first basement with the first, then second, third and fourth floors together) would be kept empty during its renovation. To avoid disruption of meetings above or below construction, nearby components of the renovation would be scheduled to occur in this building outside of normal business hours only.

19. It should also be noted that although all renovation strategies would restrict the full range of United Nations activities at the Headquarters site, the impact on functions requiring special space other than office, meeting and meeting support functions (e.g., exhibits) would be less severe in a phased approach than in an approach that entirely closed the campus.

VII. Comparative cost parameters

20. A reasonable question that could be asked in relation to the above proposals is how the cost of the renovation of Headquarters compares to the costs of other construction and renovation projects of similar magnitude. No other building complex exactly mirrors the combination of functions and building types within the United Nations complex, but current market figures for different types of projects can be examined as a reference point. It is essential in these discussions to be certain what is included in comparative figures. The actual gross area covered by the project is 2,587,000 square feet, or 242,000 square metres (without the UNITAR building). This is nearly 58 acres, or 23.5 hectares, of building area being renovated. The pure construction cost, including labour, materials and general conditions for strategy IV, totals $734.6 million, or $284 per gross square foot. The average “loaded” cost of strategy IV in today’s prices, which excludes escalation and includes contingencies, fees and management costs, is $411 per gross square foot. This average value includes all types of spaces, from the infrastructure-intensive technology centre to the functional spaces of the parking garages. For comparison, recent figures for the comparable “loaded” cost of new office construction in Manhattan are between $550 and $650 per gross square foot.

21. The process of controlling the scope and cost of the capital master plan will continue to be part of the project management and value engineering process during design development and contract document preparation, regardless of the particular strategic direction.

VIII. Summary of resource requirements for recommended strategy

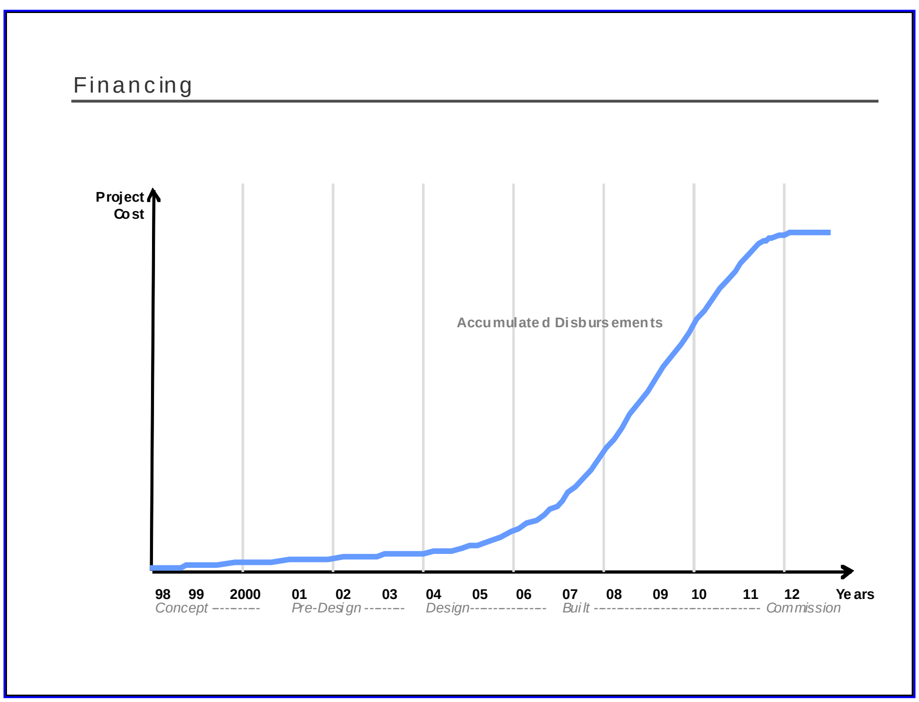
22. The estimated costs of the project under strategy IV amount to $1,587.8 million. This includes the costs covered by the amount of $8 million appropriated in 2001 for the preliminary phase and the $43.3 million ($25.5 million plus $17.8 million) approved by the Assembly for the design phase from 2002 to 2005. The estimated project costs broken down on an annual basis for the estimated duration of the project are detailed in table 3.

Table 3
Estimated expenditure pattern for strategy IV
(Millions of United States dollars)

Year	*2001-2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	***Total***
Expenditure	33.1	126.9	118.5	197.7	234.0	247.9	289.9	238.6	84.1	17.1	**1 587.8**

23. The accumulated requirements for the capital master plan during construction, based on the pattern of the construction phasing and assuming that the recommended strategy IV is selected and that construction will start in mid-2007, are identified in figure 1. The accumulated requirements will increase significantly from 2006 on as the project moves to the development of construction documents and drawings and the preconstruction planning phase. From 2008 on, assuming project duration of seven years, the construction costs will be between $200 million and $250 million annually, increasing to a peak of nearly $300 million in 2011.

Figure 1
Accumulated disbursements during construction



IX. Consideration of funding aspects

Construction industry requirements

24. Industry practice in the United States of America requires that, in order to undertake a construction project, a building owner must demonstrate full financial capability to complete the project.

25. Construction contractors will be required to obtain and provide performance, payment, labour and materials bonds. Bonding entities (sureties) will not issue those required bonds unless the United Nations demonstrates that it has the financial resources available for the full value of the construction contract. In addition, insurance companies that provide builder's risk insurance will require similar evidence from the United Nations.

Separate capital master plan fund

26. To facilitate evidence of such financial capability, the United Nations would be required to maintain a separate capital master plan funding facility within its accounting system to demonstrate the availability of funds for the project. The acceptable form of such funds would be:

(a) Cash on deposit in the fund;

(b) Loan or bond proceeds on deposit in the fund;

(c) Evidence of an irrevocable loan commitment to the fund;

(d) Internationally syndicated letters of credit for amounts not secured by items (a) to (c) above.

27. It is recalled that by its resolution 57/292, the General Assembly decided that a special account should be established for accounting for income and expenditures related to the capital master plan. Since an early stage of the project, that account has been maintained in a simplified form. In order to meet the requirements of the construction industry, it is foreseen that the terms of reference of the capital master plan special account would be extended and that the account would be maintained in full compliance with the stated requirements, including establishment of a working operating reserve in the context of financing the capital master plan operations. It is also assumed that the assessment on Member States of appropriations approved by the General Assembly for financing the project costs would be made on an annual basis and that the scale of assessments approved by the Assembly for the regular budget and applicable for a given year would be utilized for that purpose.

28. It is also foreseen that, 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, bearing in mind the relevant recommendations of the Advisory Committee on Administrative and Budgetary Questions (see A/57/7/Add.4) as endorsed by the General Assembly in its resolution 57/292. Any funds temporarily unutilized would be invested on a short-term basis through the centrally managed cash pool mechanism and the proceeds from investments would be credited to the account and utilized for project requirements, thus reducing the need for direct deposits. The cash pool mechanism would allow the withdrawal of invested funds on short notice in accordance with programme needs.

29. For any major capital project, the creation of a working capital reserve is also essential. The main purpose of such reserve under the capital master plan special account would be to cover temporary cash flow deficits and facilitate advance procurement or accelerated construction activity. For the budget detailed above, a working capital reserve at the level of 20 per cent of anticipated annual expenditures is recommended to allow proper management and uninterrupted funding of the project. This reserve should be established before the construction phase of the project begins, namely, effective 2006. On the basis of the above considerations, a 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 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.

30. Given the distinctive nature of the capital master plan account, ensuring a stable cash flow is an essential precondition for uninterrupted financing of the project costs. From this perspective, the General Assembly may also wish to consider 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. To that end, the Assembly may wish to request the Committee on Contributions to make a recommendation in that respect to the Assembly at its sixty-first session.

X. Financing options

Assessments on Member States

31. *One-time assessment*. The option of a one-time cash assessment on Member States equal to the value of the total anticipated capital master plan project costs would meet all requirements for funding the capital master plan without additional fees only if it were made entirely as a lump-sum assessment before construction began and the Member States paid their contributions in full and on time. This could lower the burden on Member States because the contributions would be invested and earn interest on deposit. However, the application of a one-time cash assessment would place a significant financial burden on Member States and might not be suitable for some Member States for funding the capital master plan.

32. *Multi-year assessments*. The application of multi-year cash 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.

33. There are several possible scenarios for the phasing of the cash payment options, which have different impacts on the cash flow, owing to the possibility of investing temporarily free funds. The following scenarios for phasing the multi-year cash assessment option and the respective impact of each scenario, developed in response to requests by Member States made during informal consultations of the Fifth Committee during the review of the second progress report at the fifty-ninth session of the General Assembly, are detailed in table 4 for consideration by the General Assembly.

Table 4
Multi-year cash assessments scenario[a]
(Millions of United States dollars)

	2001-2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	***Total***
Alternative A: 20 per cent per year of the 2007-2014 costs for the first five years of construction											
Expenditure	33.1	126.9	118.5	197.7	234.0	247.9	289.9	238.6	84.1	17.1	**1587.8**
Percentage received each year	-	-	20	20	20	20	20	-	-	-	-
Assessment/funds received	51.3	108.7	285.6	285.6	285.6	285.6	231.0	-	-	-	**1533.2**
Funds in reserve by year’s end	18.2	—	167.1	260.8	321.5	370.4	324.4	97.2	16.5	-	-
Estimated interest earned[b]	—	—	5.8	9.1	11.3	13.0	11.3	3.4	0.6	-	**54.5**
Alternative B: 25 per cent per year of 2007-2014 costs for the first four years of construction											
Expenditure	33.1	126.9	118.5	197.7	234.0	247.9	289.9	238.6	84.1	17.1	**1587.8**
Percentage of funds received each year	-	-	25	25	25	25	-	-	-	-	-
Assessment funds received	51.3	108.7	356.9	356.9	356.9	279.3	-	-	-	-	**1510.1**
Funds in reserve by year’s end	18.2	—	238.4	40s.1	543.2	593.6	324.5	97.2	16.5	-	
Estimated interest earned[b]	—	—	8.3	14.2	19.0	20.8	11.4	3.4	0.6	-	**77.7**

Note: An em dash (—) indicates that an amount is nil or negligible; a hyphen (-) indicates that the data are not applicable.
[a] The multi-year cash assessment is applied to the construction phase, which begins in 2007.
[b] Interest rate is assumed to be 3.5 per cent.

34. The above alternatives can be summarized as follows:

- Alternative A: assessed contributions would be equal to 20 per cent of the total value of the anticipated expenditures during construction for the first five years, commencing in 2007
- Alternative B: assessed contributions would be equal to one quarter of the value of the anticipated expenditure during construction for the first four years, commencing in 2007

35. Alternatives A and B would both meet the requirements for cash assessments to fund the capital master plan and those of the capital reserve fund described in paragraph 29 above. However, they do not fully meet the construction industry requirements discussed in paragraphs 24 and 25 above. Consequently, the United Nations would require in addition one or more of the following credit facilities or instruments to be in place:

(a) An irrevocable letter of credit;

(b) A loan or loan guarantee, which may be in the form of a bond capital issue or a host country loan offer.

Internationally syndicated letter of credit

36. The letter of credit would be required to be valid for the duration of the construction contract but could be renegotiated as the unpaid balance of construction costs declined over the construction period. The cost of the letter of credit would range from 0.05 per cent and 0.50 per cent of the value of the remaining project cost not secured by actual assessment collections or deposits on hand. No allowance has been made in the estimated budget for the costs of a letter-of-credit facility.

Bond capital issue

37. In the annex to document A/55/117, the Secretary-General provided an explanatory note on the mechanisms associated with a possible bond offering by the United Nations to finance all or part of the capital master plan. While the specific example provided in paragraph 6 of the annex is no longer valid, the description of this mechanism as a vehicle for funding the capital master plan remains valid.

38. The Secretary-General does not believe that the bond offering by the United Nations would be an appropriate option for financing the capital master plan. The issuance of bonds by the United Nations would be secured by Member States' assessed contributions to the regular budget. Interest paid by the United Nations to bondholders would be charged to the Organization and would significantly increase the cost of the capital master plan.

39. The issuance of bonds by the United Nations would be a realistic solution only if all Member States were to participate in the use of bonds to finance the capital master plan. However, a number of Member States have indicated a preference for the funding of the capital master plan by direct assessments. In these circumstances, the Secretary-General does not recommend the bond offering option to finance the plan.

Host country loan offer

40. In document A/59/441/Add.1, the Secretary-General indicated that the host country had formally made an offer of an interest-bearing loan of $1.2 billion, at an interest rate of 5.54 per cent, up to a maximum period of 30 years, which had been approved by the United States Congress. The Secretary-General also indicated that the host country had advised that the loan offer would lapse if not accepted by the United Nations by 30 September 2005.

41. No decision was taken by the General Assembly at its fifty-ninth session on the offer of a loan from the host country. On 9 September 2005, at the meeting of the Fifth Committee of the General Assembly, the representative of the host country verbally advised the Committee that the capital master plan-related loan offer would be renewed and adjusted.

42. As at the date of the present report, the Secretary-General had not received formal notification from the host country of the loan offer renewal.

43. Depending on the terms and conditions of an expected renewed loan offer from the host country, the existence of such a loan could act either as a source of project funds or as a credit enhancement vehicle to enable the United Nations to access short-term borrowing or letters of credit in international capital markets.

XI. Status of appropriations and expenditures

44. In its resolution 57/292, the General Assembly appropriated $25.5 million for the design development phase of the capital master plan and provided a commitment authority of $26.0 million for the biennium 2004-2005 for the preparation of construction documents. In its resolution 59/295, the General Assembly decided to convert $17.8 million of the $26.0 million commitment authority into an appropriation and renewed the existing commitment authority for the balance of $8.2 million for 2006.

45. Actual expenditures as at 30 September 2005 amounted to $22.1 million. This consists of actual expenditures of $3.2 million in 2003, $14.8 million in 2004 and $4.1 million for 2005 as at 30 September. For the remainder of 2005, it is now expected that an additional $3.0 million will be spent, bringing the total 2005 estimated expenditures to $7.1 million. This is $10.7 million less than had been anticipated in document A/59/441/Add.1. It should be noted in connection with this estimated underexpenditure that it had previously been planned to commence the construction documents phase for most contracts and to initiate the design development phase for the other remaining contracts in 2005. Thus, it had been anticipated that by the end of 2005 further obligations would have been raised in the amount of $16.6 million. However, in the light of the new strategic options being recommended in the present report, the initiation of the construction documents phase will likely occur in early 2006. Expenditures for the period 2002-2005 and estimated expenditures for 2006 are detailed in table 5. This pattern of expenditures is based on strategy IV.

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

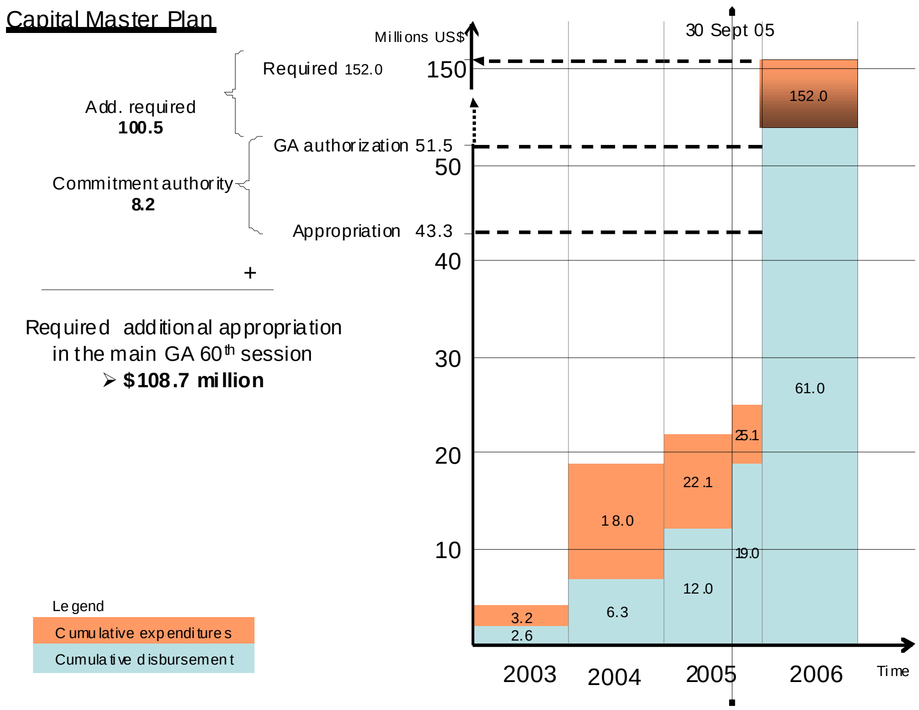
	2003[a]	2004[a]	2005	2006	Total
Design contractual services	612.1	9 573.9	2 990.7	25 115.9	38 292.6
Direct staff costs	1 611.1	1 720.9	1 525.3	2 497.0	7 354.3
Support costs	180.6	574.2	677.4	765.5	2 197.7
Operating and other costs	556.0	589.3	489.9	655.0	2 290.2
Programme management and consultants	245.7	2 378.5	892.7	10 123.5	13 640.4
Construction manager	—	—	—	2 000	2 000
Swing space cost	—	—	506.3	85 718.5	86 224.8
Total	**3 205.5**	**14 836.8**	**7 082.3**	**126 875.4**	**152 000.0**

[a] Actual.

46. As originally scheduled, 60 per cent of the design development documents for the original strategy, strategy I, were received by September 2005, and 100 per cent of the design development documents for the major work will be completed between October 2005 and January 2006.

47. Figure 2 shows in graphic form the expenditure pattern anticipated on the basis of the recommended strategy. As the graph indicates, disbursement lags considerably behind expenditures owing to several factors, including the fact that in the capital master plan project most of the costs relate to professional services, which are performance based, namely: 10 per cent of the total lump-sum contract value is paid over time and the remaining payments are set as follows: 13 per cent is paid after scope confirmation; 29 per cent is paid upon receipt of 60 per cent of completed design development documents; 29 per cent is paid upon receipt of 100 per cent of completed design development documents; and the last 29 per cent is paid upon acceptance of the revised documents incorporating all comments. For construction documents, payments are similarly phased.

Figure 2
Expenditures versus disbursements



48. As indicated in table 5, the anticipated requirements for 2006 are estimated at $126,875,400. These requirements could be financed in part by the balance of the unutilized 2002-2005 appropriation in the amount of $18,177,400. For the balance of the requirements of $108,698,000, the 2006 commitment authority in the amount of $8,198,000 renewed for 2006 under the terms of resolution 59/295 should be converted into the appropriation and, furthermore, an additional appropriation in the amount of $100,500,000 million should be approved.

XII. Status of the advisory board and financial consultant

Advisory board

49. In line with section II, paragraph 19, of General Assembly resolution 57/292 and as reported in document A/59/441, the Secretary-General has initiated the process of establishing an advisory board. A broad list of potential candidates for the board has been developed over the past two years. A number of meetings have been held with potential candidates for chairperson of the board, but all have declined to serve, for the following main reasons:

(a) An undertaking the size of the capital master plan would require a significant time commitment and knowledge of the plan;

(b) There were potential liability issues;

(c) The advice could be better obtained from firms specializing in the specific areas;

(d) Given the nature of the required expertise, persons or firms prominent in the financial field could be competitors for the work involved and participation in the advisory board would preclude that possibility.

50. The Secretary-General continues his efforts to create an advisory board, but no solutions have yet been found to overcome the constraints identified above. The Secretariat continues to investigate the financial costs and structures required to overcome these problems.

Financial consultant

51. An expression of interest was issued in April 2005 and a request for proposals was subsequently issued to 14 firms. No response to the request for proposals was received. The request for proposals was issued on two additional occasions. Finally, in September 2005, two firms responded. A technical evaluation was conducted, and one firm was found to be technically qualified. The financial proposal submitted by the technically qualified firm was, however, excessive for the services required. The proposed financing mechanisms have been tested informally with a recognized financial institution. On the basis of the funding mechanisms selected by the General Assembly, additional steps will be made to select a financial consultant to design and develop the details of an implementation plan for the financing of the capital master plan.

XIII. Conclusions and recommendations

52. **The full scope of the capital master plan renovation is important for the safety of all occupants at United Nations Headquarters. It is important to restore reliability to the ageing infrastructure and prevent unpredictable disruptions to the work of the Organization, which are being experienced with increasing frequency. The Organization should also be an international pacesetter for sound environmental practices. All schedules and costs presented herein are based on the assumption that the strategy and cost estimates will be approved by December 2005. It is critical, therefore, that a decision on the future direction of the project be taken by the General Assembly at its current session.**

53. **The Secretary-General recommends that the General Assembly:**

(a) **Approve, effective 1 January 2006, the recommended strategy for implementation of the capital master plan, strategy IV (phased approach), including the approach to phasing, swing space, cost and schedule;**

(b) **Approve a revised project budget of $1,587.8 million for strategy IV for the capital master plan, excluding potential scope options;**

(c) **Endorse the proposal of the Secretary-General to maintain a separate capital master plan account for financing the capital master plan to be operated under the terms detailed in paragraphs 26 to 29 above;**

(d) **Approve the funding plan for the capital master plan based on a multi-year assessment, as outlined in paragraphs 32 to 35 above (a decision must be taken on one of the proposed alternatives);**

(e) **Authorize the Secretary-General to proceed in 2006 with respect to early contracts required for the recommended strategy, namely for:**

(i) **Design and construction of a temporary conference facility on the North Lawn at the Headquarters compound;**

(ii) **Design and arrangement of multi-year lease for office space and for the Dag Hammarskjöld Library in the most suitable and cost-effective locations that could be identified under strategy IV;**

(f) **Appropriate an amount of $108,698,000 for 2006, including the conversion of the existing 2006 commitment authority in the amount of $8,198,000 into an appropriation for financing the design and preconstruction phases, including swing space requirements, for the capital master plan;**

(g) **Decide that the appropriation of $108,698,000 shall be financed in accordance with regulation 3.1 of the Financial Regulations and Rules of the United Nations through an assessment on Member States in 2006 on the basis of the regular budget scale of assessments in effect for that year;**

(h) **Appropriate for the year 2006 an amount of $45 million for the purpose of establishing a working operating reserve under the capital master plan account to be operated under the terms of financial regulations 3.5, 4.2 and 4.3;**

(i) **Decide that the appropriation of $45 million for the purpose of establishing a working operating reserve under the capital master plan account shall be financed in accordance with financial regulation 3.1 through an assessment on Member States in 2006 on the basis of the regular budget scale of assessments in effect for that year;**

(j) **Request the Committee on Contributions to make recommendations to the General Assembly at its sixty-first session on the level and modalities of an interest rate to be charged for the late payment of assessed contributions to the capital master plan account in the context of financing of the capital master plan;**

(k) **Note that there will be limited flexibility in the calendar of conferences for the duration of the implementation of the capital master plan and, in this context, requests the Secretary-General to submit proposals to the General Assembly at its sixty-first session, through the Committee on Conferences, under the agenda item entitled "Pattern of conferences", on the possible adjustment of meeting schedules, including a change in venue of meetings for the United Nations intergovernmental organs that normally meet at Headquarters for the period of implementation of the capital master plan;**

(l) **Request the Secretary-General to report on progress in the implementation of strategy IV in the context of annual progress reports on the capital master plan.**