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Chairman: Mr. MacKay (New Zealand)
*Chairman of the Advisory Committee on Administrative
and Budgetary Questions:* Mr. Kuznetsov

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The meeting was called to order at 10.10 a.m.

Agenda item 108: Programme budget for the biennium for 2004-2005 (*continued*)

Capital master plan (A/58/556, A/58/712, A/58/729 and A/58/779; A/59/161, A/59/420, A/59/441 and A/59/556)

1. **Mr. Toh** (Assistant Secretary-General for Central Support Services), introducing the Secretary-General's second annual progress report on the implementation of the capital master plan (A/59/441) and his reports on the plans for three additional conference rooms and viable solutions for allowing natural light into the rooms (A/58/556), on viable options for ensuring sufficient parking space at United Nations Headquarters (A/58/712) and on cooperation with the city and state of New York related to the capital master plan (A/58/779), said that the capital master plan was a major renovation plan to improve health and safety at the Headquarters complex. At its fifty-seventh session the General Assembly had appropriated \$25.5 million for design and pre-construction activities plus a commitment authority for up to \$26 million for the biennium 2004-2005.

2. The host country had made a provisional offer of a loan of \$1.2 billion to finance the plan, subject to approval by the United States Congress, which was expected not later than January 2005. The loan would bear annual interest pegged at 5.54 per cent. The total amount of principal and interest to be repaid throughout the life of the loan would be approximately \$2.5 billion. The Secretary-General welcomed the offer but had concerns about its cost and its implications for the regular budget. The Secretariat had explored several alternative financing options, described in annex I to the second annual progress report.

3. The construction phase of the plan was predicated on the temporary relocation of staff into "swing space". The city of New York had proposed the construction of a building between 41st and 42nd Streets, currently designated UNDC-5. The design work had started in May 2004. Since several factors, notably security, might affect the cost, other swing-space possibilities were being examined. The Secretariat had retained a professional programme management firm to assist with the management of the design and with implementation. Both of the additional studies

requested by the General Assembly — on three mid-sized meeting rooms and on garage facilities — had been submitted at the previous session (A/58/556 and A/58/712). The Secretary-General viewed recent developments in securing financing and progress in design and management as positive and therefore sought approval to appropriate the remaining \$26 million for completion of the design phase in 2005.

4. **Mr. Nair** (Under-Secretary-General for Internal Oversight Services), introducing the report of the Office of Internal Oversight Services (OIOS) on the United Nations capital master plan for the period from August 2003 through July 2004 (A/59/420), said that the report did not contain any new recommendations to the management. The aim of the audit activities had been to determine whether adequate internal controls were being implemented by the Office of the Capital Master Plan and the other units concerned. For the period August 2003 to July 2004 the audit had also covered the construction phase of the security strengthening project. Overall, it had reviewed contracts with a total value of \$59 million.

5. The Office of Internal Oversight Services had concluded that the resources appropriated by the General Assembly for the plan were generally being utilized in accordance with the Financial Regulations and Rules but that procedures and documents related to construction contracts needed to be improved. The results of the Office's related review of the management of funds appropriated for strengthening the security and safety of United Nations premises were being communicated in a separate report. In the report under consideration it highlighted weaknesses in the preparation of the construction documents which might cause delays and cost-overruns. It had also found that the guarantees provided by the contractor were not adequate. Most of the OIOS recommendations had been implemented or were being implemented by the Office of the Capital Master Plan. OIOS would continue to monitor the project and would require the necessary support and resources for that purpose.

6. **Mr. Kuznetsov** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the Advisory Committee's report on the capital master plan (A/59/556), said that the Advisory Committee had also reviewed the report of the Board of Auditors on the capital master plan for the biennium ended 31 December 2003 (A/59/161).

7. A number of the expectations entertained at the time of the plan's approval by the General Assembly had changed. It was unlikely that the United Nations would obtain interest-free financing from the host country. Moreover, the design changes for UNDC-5 and the delays in the architectural and planning work caused by the new security environment, as well as the other factors described in paragraph 8 of the Advisory Committee's report, had resulted in significant increases in the estimate for swing space. Given those circumstances, the Advisory Committee stressed the urgency of establishing the advisory board first called for in General Assembly resolution 57/292 and noted that the Assembly might wish to take the changed parameters concerning financing arrangements and the increased construction costs into account when considering whether to reaffirm its approval of the capital master plan. The General Assembly might also wish to provide guidance to the Secretary-General and the advisory board: they should consider a wide range of options for financing the project and meeting the need for swing space, including various possibilities for the location of intergovernmental meetings and interim office space.

8. **Mr. Zellenrath** (Netherlands), speaking on behalf of the European Union, the candidate countries (Bulgaria, Croatia, Romania and Turkey), the stabilization and association process countries (Albania, Bosnia and Herzegovina, Serbia and Montenegro and the former Yugoslav Republic of Macedonia), and, in addition, Iceland, Liechtenstein and Norway, said that the condition of the Headquarters building was not only inadequate but also dangerous. The Organization needed to proceed expeditiously with the capital master plan. It was therefore regrettable that the financing option proposed by the host country had not met Member States' expectations and that it had been necessary to ask the Secretariat to explore other options. It should be borne in mind that host countries, which derived special benefits from the presence of the United Nations, also had special responsibilities. The European Union recognized, however, that the main part of the session was not the appropriate time to discuss the financing of the capital master plan, especially since the United States Congress had yet to approve the provisional loan offer. It had taken note of the possible funding arrangements set out in the report before the Committee and would revert to the matter in due course.

9. The provision of swing space during the refurbishment of the Headquarters building was a crucial element of the capital master plan. The European Union was therefore concerned to note that the estimated cost of constructing the swing-space building, UNDC-5, had increased; the funding arrangements seemed uncertain; no agreement had been reached with the city and state of New York on mitigation; and there had been significant delays in the architectural and planning work. In addition, a delay of at least 27 months was expected in the completion of the building, and there were serious doubts as to the viability of UNDC-5 as a long-term consolidation building for the United Nations. The European Union wished to know when clear information would be available on the status of UNDC-5 and what contingency plans were in place should the current arrangements fall through.

10. The European Union concurred with the Advisory Committee that the advisory board, which would provide advice to the Secretary-General on possible commercial borrowing and other financing options, should be established as soon as possible and that it would be premature to take decisions on the plans for additional conference rooms and the options for allowing natural light into rooms and ensuring sufficient parking space at United Nations Headquarters, given the uncertainty concerning the funding arrangements for the capital master plan as a whole.

11. While many questions remained to be resolved, the capital master plan could not be put on hold. The European Union therefore supported the conversion of \$18.6 million of the original commitment authority of \$26 million into an appropriation for the biennium 2004-2005 and the extension of the validity of the balance of the commitment authority into the biennium 2006-2007. It understood that the activities that would be funded through the appropriation were of such a basic nature that they would remain necessary even in the event of major changes to the capital master plan.

12. **Mr. Begg** (New Zealand), speaking also on behalf of Australia and Canada, said that the three delegations remained committed to the capital master plan project. With regard to the possible funding arrangements, none of the options involving an interest-bearing loan seemed more economical than paying for the project through the normal assessment process. It was regrettable that the possibility of an

interest-free loan was not being actively considered. That option would reflect the economic benefits that accrued to the host country from the Organization's presence.

13. The three delegations were concerned about the delays in the development of UNDC-5 and the sharp escalation in costs, which raised questions about the building's viability. While continuing to work with the United Nations Development Corporation, the Secretary-General should explore other swing-space options. It would be helpful to know what proportion of the cost increase was attributable to security-related design features and whether the plan to issue tax-free bonds to finance construction would go ahead and how that would affect the cost. The legislative action necessary for UNDC-5 to be built had not yet been taken. However, the three delegations looked forward to that practical expression of the host country authorities' stated commitment to the capital master plan project.

14. They were pleased to note that the Secretary-General had initiated the process of establishing an advisory board, a step that was overdue. They agreed with the Advisory Committee's comments about the viability of the options for ensuring sufficient parking space at Headquarters and the timing of recommendations on the layout of additional conference rooms. They noted with satisfaction that the Secretary-General had accepted the recommendations of the Board of Auditors and would adopt measures to minimize administrative costs. Lastly, they supported the conversion of \$18.6 million of the original commitment authority of \$26 million into an appropriation for the biennium 2004-2005.

15. **Mr. Stoffer** (United States of America) said that the United States remained fully committed to the capital master plan, and supported the Secretary-General's recommendation that the General Assembly should authorize the full appropriations requested for 2005 and 2006.

16. As the host country, the United States was offering up to \$1.2 billion as a loan. President Bush had made the offer personally to the Secretary-General, and it should be confirmed when the United States Congress had finished its work on the budget. The Congress had already approved the Department of State's budget for the fiscal year 2005, which included provision for the loan. The United States was ready to

work with the Secretary-General and Member States to find the most cost-effective way to draw on the loan and enable the Secretary-General to use it to maximum advantage. It supported the Secretary-General's proposal that the Committee should take up the plan again at the second part of its resumed session, for the Secretary-General would have to be authorized to sign a loan agreement before 30 September 2005, when the offer would lapse at the end of the United States fiscal year.

17. His delegation was working closely with the Office of the Capital Master Plan and with the city and state of New York. The New York state legislature was about to act to approve a bill to extend the United Nations District in Manhattan to include Robert Moses Playground at 42nd Street and First Avenue. The United States was also looking at ways to bring the costs of UNDC-5 within the scope of comparable rents over the next 25 years and beyond. The building would be a highly secure facility which would meet the Organization's needs well into the twenty-first century. The DC-1 and DC-2 buildings were relatively insecure and would soon need refurbishment at United Nations expense. While UNDC-5 would be more costly in terms of rent, it would belong to the United Nations after 25 years. The Organization would have to pay rent for the other two buildings indefinitely and would have to address their security vulnerability. The staff working there deserved the same degree of security as those who would work in the new Secretariat building after the plan had been completed or in UNDC-5.

18. His delegation supported the Secretary-General's recommendation on the establishment of an advisory board and would work with other delegations on a draft resolution that would authorize design and engineering work for 2005 and 2006.

19. **Ms. Wang Xinxia** (China) said that her delegation concurred with the view expressed in paragraph 23 of the Secretary-General's report (A/59/441) concerning the possible funding arrangements for the capital master plan project. It was regrettable that the host country was not able to provide an interest-free loan, since that would have been an ideal token of its special responsibility to the Organization. Nevertheless, the implementation of the capital master plan remained of critical importance for the security of the Headquarters building and the well-being of the staff, and her delegation was therefore willing to consider the other financing options outlined

in the report. It trusted, however, that the Secretariat would put forward proposals that would minimize the financial implications for Member States. For example, in order to avoid interest payments, Member States could fund the project in stages, through the normal assessment process, as described in paragraph 21.

20. Concerning the report of the Office of Internal Oversight Services on the United Nations capital master plan for the period from August 2003 through July 2004 (A/59/420), her delegation noted with concern that there were inconsistencies in the construction documents for the security strengthening project and that the potential for cost savings had not been addressed. In addition, the guarantees provided by the contractor for the performance of the security strengthening construction contract were not adequate. The Secretariat should carefully study and implement the relevant recommendations of OIOS so that the Organization's interests would be more effectively protected.

21. Her delegation attached special importance to strengthening security. It was not clear to it, however, whether the project referred to in the report of OIOS, which would cost \$21.6 million, was being implemented under the capital master plan or in the context of the first and second phases of measures to strengthen security and safety proposed by the Secretary-General. It also wished to know whether it would be necessary to adjust the capital master plan if the project was in fact being implemented independently of it. It noted that an unspent balance of \$4.8 million relating to deferred security projects had been pooled in a construction-in-progress account. It believed that those funds should have been handled in accordance with the relevant financial regulations.

22. **Mr. Berti Oliva** (Cuba) said that the improvement of Headquarters facilities and the services provided for Member States was of crucial importance, especially in the light of the new challenges and the persistence of problems, such as underdevelopment, with which the United Nations had been grappling since its foundation. However, the costs involved for Member States, especially developing countries, including those whose assessed contributions had been substantially increased by the adoption of resolution 55/5, should be carefully weighed.

23. It was regrettable that an official offer of financing had not been received from the host country. The provisional offer did not meet the General Assembly's expectations, and if it was accepted the Member States would have to pay more than double the amount of the loan in interest. That was unacceptable. The Committee had adopted resolution 57/292 on the understanding that the host country would offer an interest-free loan, but the second annual progress report gave the impression that the host country's provisional offer was the only feasible option.

24. His delegation requested information about the commercial financial institutions from which the Organization had requested advice on the funding of the plan. It would also welcome information about the proposed membership of the advisory board. It noted with concern the substantial increase in the estimated costs of UNDC-5 and would like to know whether the alternative referred to in paragraph 31 of the progress report included the mitigation of potential threats and specially reinforced construction. It would also like to know whether the new security measures presented under a different segment of item 108 took into account the refurbishment of Headquarters and the construction of UNDC-5 and whether the new concept of security had had an impact on the cost estimates.

25. His delegation drew attention with profound concern to paragraph 33 of the report of the Board of Auditors, which indicated that the Administration had not complied strictly with the Financial Regulations and Rules with regard to procurement and contracting, in violation of several General Assembly resolutions. The Administration's explanation was unacceptable. Absolute transparency in that area was essential to the credibility of the Organization. That violation reinforced the need for an effective system of accountability, which his delegation had repeatedly called for. The Secretariat might comment on the situation.

26. His delegation would also like to know the reasons for the delays, which would cause increased administrative and overhead expenses of about \$2.6 million. The Board of Auditors should explain whether the comments in paragraphs 42, 43 and 44 of its report meant that the delays would cause other additional costs. In fact, the linkage of the resources in question to administrative and management costs was

very worrying in the light of the relatively high staffing costs already incurred between 2002 and 2003.

27. His delegation noted the Secretary-General's conclusions and recommendations, but the General Assembly should not make any further appropriation before it had clear information about the future costs and their implications for the assessed contributions of Member States.

28. **Mr. Kozaki** (Japan) said that, since the report of ACABQ had only just been issued, his delegation was unable to make a statement on the capital master plan. It would not seek another formal meeting on the issue, however, as it was conscious of the time constraints under which the Committee was operating, but would raise any questions it had in informal consultations.

29. **Mr. Pulido León** (Venezuela) said that his delegation was not in a position to make a statement on the capital master plan owing to the late issuance of the relevant documentation. Nevertheless, it would make a few general comments. When the General Assembly had adopted resolution 57/292, in which it had approved the capital master plan, it had done so on the assumption that the project would be financed through an interest-free loan provided by the host country. Obviously, that option was no longer viable. It was not even clear what alternative financing option would be selected or, if Member States chose to fund the project through assessments, what the financial implications would be. Depending on the funding mechanism chosen, the entire concept of the project could change. The decisions taken by Member States on the first two phases of the capital master plan were thus no longer relevant. His delegation was therefore concerned that the Secretary-General was requesting the appropriation of \$18.6 million for the biennium 2004-2005 in order to proceed with the second phase. In its view, Member States must reach firm decisions about the future of the project before any appropriation was approved. The Secretariat should explain clearly how the resources requested would be used, and clear accountability mechanisms must be put in place. Lastly, he wished to know why an additional security fence had been constructed around the perimeter of the Headquarters complex and whether the fence, which hardly improved the appearance of the façade, was a temporary or permanent structure.

30. **Mr. Toh** (Assistant Secretary-General for Central Support Services) said that the Administration shared

the concerns expressed about the delays in the design and construction of UNDC-5 and was working to resolve the situation. However, there were a number of factors that were outside its control. In that connection, he noted that the Organization was receiving strong support from the city of New York and the Permanent Mission of the United States to the United Nations in securing the legislative changes required. The Administration had begun selecting members of the advisory board several months earlier. The process was somewhat difficult as it was not possible to state with certainty what length of time members would be expected to serve. Efforts had been made to limit the use of resources already allocated for the capital master plan in the light of the projected delays. For example, many appointments had been deferred. He would revert to the issue of the security strengthening projects when the Committee took up the related reports. He would reply to the other questions raised in informal consultations.

The meeting rose at 11.10 a.m.