United Nations A/C.5/60/SR.29

General Assembly
Sixtieth session

Official Records

Distr.: General
29 December 2005

Original: English

Fifth Committee

Summary record of the 29th meeting
Held at Headquarters, New York, on Monday, 12 December 2005, at 10 a.m.

Chairman: Mr. Muhith (Vice-Chairman) . . . . (Bangladesh)
Acting Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Saha

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In the absence of Mr. Ashe (Antigua and Barbuda), Mr. Muhith (Bangladesh), Vice-Chairman, took the Chair.

The meeting was called to order at 10.05 a.m.

Agenda item 124: Proposed programme budget for the biennium 2006-2007 (*continued*)

Capital master plan (A/60/5 (Vol. V), A/60/7/Add.12, A/60/288 and A/60/550 and Corr.1, Corr.2 and Add.1)

1. **Mr. Reuter** (Assistant Secretary-General, Executive Director for the Capital Master Plan) gave a PowerPoint slide presentation illustrating the progress of the capital master plan since his informal briefing to the Committee two months previously and summarizing the basic content of the third annual report of the Secretary-General on the plan's implementation (A/60/550 and Corr.1, Corr.2 and Add.1). Confirmation that the United Nations Development Corporation swing-space building project called UNDC-5, would not proceed had led to a decision to spend 60 days reviewing the plan in order to determine whether its scope or funding could be altered to accelerate the proposed work or to maintain or reduce the original cost estimates. In his report, the Secretary-General had identified four strategic options for implementation of the plan, and recommended one of the four to the General Assembly. The Secretary-General had also put forward a substantially revised financing proposal, believing that it would pose the fewest political difficulties and would expedite the project's implementation.

2. Strategy I maintained the original scope of the capital master plan and would entail moving all office functions to commercial space in New York City, building temporary conference facilities on the North Lawn and renovating the Headquarters site in a single phase. Strategy II would involve the same approach, but would reduce the scope or quality of the renovation work in an attempt to keep the budget within the original estimate of $1.2 billion. Strategy III provided for the same temporary conference facilities on the North Lawn, but added to them a large permanent building, into which Secretariat functions would be relocated; the Secretariat Building would subsequently be reconfigured to accommodate functions currently located in commercial office space. Strategy IV would also involve the building of temporary conference facilities on the North Lawn, but only a limited number of Secretariat staff would be moved to commercial office space; the rest would remain in the Secretariat Building while it underwent a phased renovation.

3. Under all four strategic options, the goals of the capital master plan remained the same: to modernize the 1950s-era buildings to bring them into compliance with modern building codes, replace systems which had deteriorated over time, preserve the health and safety of the buildings' occupants, increase energy efficiency and improve security. The capital master plan was intended neither to expand existing facilities nor to upgrade them to make them more luxurious. The strategic options differed in terms of the duration and phasing of renovation works and in terms of requirements for temporary or permanent on-site space and off-site commercial space. While conferences and visits would be affected by the works, he believed the plan could be implemented safely while the site remained in use.

4. Cost inflation would have affected even the former UNDC-5 project, whose lease cost before ownership had been estimated at $96 million in 2002, with a project budget of $1.049 billion. Had the project proceeded as planned, local construction cost escalation alone would have pushed the latter figure up to $1.542 billion in 2005. That was because construction costs in New York City had remained almost flat in 2002 and 2003, but had accelerated to 11 per cent per annum in 2004 and to nearly 9 per cent per annum in the first nine months of 2005. Downtown Manhattan rebuilding plans further illustrated the situation: construction inflation had forced up their $700-million cost by a further $200 million.

5. Project costs and duration varied according to the strategic option considered. Strategies I and II would cost $1.552 billion and $1.200 billion respectively, taking until 2012 to complete. Strategy III would cost $2.114 billion, taking until late 2014 or early 2015 to complete, but would also yield some 900,000 square feet of additional office space. Strategy IV, costing $1.587 billion, would take until late 2013 or early 2014 to complete. Each of the four options had been evaluated in terms of the scope established by the General Assembly in its resolution 57/292, exposure to the vagaries of the New York City real-estate market, scheduling risk, manageability of the technical aspects

of project phasing and functioning of the Organization during the works.

6. Strategy I entailed substantial reliance on off-site office space, and had some security disadvantages, but its logistical disadvantages were the most serious issue. Strategy II involved reducing the scope of the renovation to meet a budget ceiling of $1.2 billion. That could be done by leaving certain buildings or systems unrenovated or by reducing the scope of the renovation throughout the complex. However, the buildings' systems were interconnected and thus could not be upgraded only in part, and any scope reductions would almost certainly compromise health, safety and operating standards, which accounted for 99 per cent of the project budget. As a result, strategy II had not been recommended. Strategy III was complicated because it involved simultaneous construction on different parts of the North Lawn. The Secretary-General had recommended against it because it greatly exceeded the project scope established in General Assembly resolution 57/292, entailed additional costs totalling some $500 million, would require heavy upfront investment in 2007, 2008 and 2009 and would involve a lengthy payback period ending between 2032 and 2042.

7. Strategy IV, which involved a three-phase renovation of the General Assembly and Conference Buildings and a four-phase renovation of the Secretariat Building, had been recommended because it had been judged prudent, achievable and safe. Plant machinery would be installed on the roof, with new risers built downward in stages, allowing the old risers to be removed. Work would proceed 8 to 10 floors at a time, using the existing mechanical floors as a buffer. That technique was permitted by the New York City building code, had been in use for over 15 years, and required the areas under construction to be completely sealed off. He had managed a five-year phased renovation of a major New York City hospital by the same method, with patients still in the area and operating rooms still in use. The phasing issues that had been taken into account included replacement of the curtain-wall exterior of the Secretariat Building and safe removal of hazardous materials while it was still occupied.

8. Because it was impossible to find commercially available space for conference facilities, a temporary structure would be built on the North Lawn irrespective of which strategy was selected. That structure, designed to be built rapidly and cheaply, would house the entire General Assembly and associated office space while the General Assembly Building was being renovated. Subsequently, it would be used to replace space in the Conference Building as that building was being renovated in two stages.

9. With respect to the financing of the recommended strategy, requirements would accelerate from the start of construction in 2007. In United States industry practice, construction on any project could not begin unless the owner of the site had 100 per cent of the contract cost set aside and isolated in a separate bank account. Thus, the United Nations would have to have approximately $1.450 billion on deposit or readily accessible by the third or fourth quarter of 2007.

10. It was recommended that the cost of the project should be covered entirely by Member-State assessments, paid in stages and calculated to stay slightly ahead of disbursements. However, as the Organization had no cash on deposit for the capital master plan, financing options had been examined and the use of an internationally syndicated letter of credit had been proposed. The letter of credit was not a traditional loan, but instead provided contractors and suppliers with a guarantee of payment in the event that the Organization faced shortfalls in funding for the capital master plan. It carried no interest, but instead involved a fee which was approximately $21 million for strategy IV, but could be reduced if other credit enhancements — for example, an additional loan offer from a Member State — became available. Such a loan offer, even without being exercised, would lessen the perceived risk of the plan and could reduce the fee to $8 million. He was confident, based on his previous experience, that such a letter of credit could be obtained.

11. The focus of the capital master plan — to meet modern building codes — had remained unchanged since the plan had first been proposed five years earlier. However, as indecision was costing $8 million to $9 million per month, he urged rapid approval of funding of up to $1.587 billion for strategy IV, which would make it possible to prepare contract documents and obtain an international letter of credit. That, in turn, would make it possible to break ground in 2006 and to construct the temporary building in the third quarter of 2007. Further details could be supplied in informal consultations.

12. **Mr. Cabatuan** (Chairman of the Audit Operations Committee of the United Nations Board of Auditors) said that the Board of Auditors, having audited capital master plan transactions and reviewed capital master plan operations for the period from 1 January to 31 December 2004, would include the resulting findings in its opinion on the financial statements of the Organization for the biennium ending on 31 December 2005.

13. The Board had recognized the efforts of the Secretary-General to seek appropriate funding, and had noted the efforts to minimize operating costs by reducing the staff of the capital master plan and subletting some of its office space. However, the Board remained concerned that, given the degree of expected price escalation, delays in overall implementation could significantly affect the final cost of the plan. Moreover, until the planned improvements were made, the Organization would continue to pay high energy costs and Headquarters staff and visitors would continue to be exposed to the hazards identified.

14. As indicated in table 5 of the Board's report (A/60/5 (Vol. V)), the approval of scope confirmation reports for design contracts B, C, D and E had been delayed, and design contract F was still under review. The Board had accordingly recommended that the Administration should review procedures for the coordination of work and activities among the firms involved in the design phase, to ensure that work was completed within the envisaged time frame and budget.

15. **Ms. Azarias** (Director of Internal Audit Division I in the Office of Internal Oversight Services), introducing the report of the Office of Internal Oversight Services on the capital master plan for the period from August 2004 to July 2005 (A/60/288), said that, during the reporting period, the Office of Internal Oversight Services (OIOS) had reviewed contracts with an aggregate value of $59 million. The purpose of the Office's audit activities had been to determine whether adequate internal controls had been established and implemented by the Office of the Capital Master Plan and other United Nations departments and offices responsible for executing the project.

16. OIOS had concluded that the resources appropriated by the General Assembly for the capital master plan had generally been utilized in accordance with the Financial Regulations and Rules of the United Nations. However, the advisory board that was to have provided advice on financing matters and overall project issues had never been established. The issues of swing space and financing for the project must be resolved as soon as possible in order to give the Office of the Capital Master Plan a clear and definite direction for proceeding with refurbishment construction planning.

17. Lastly, OIOS must be allocated adequate resources if it was to continue to provide uninterrupted oversight of the capital master plan project. Regrettably, the current level of funding was not sufficient for it to provide the oversight coverage envisaged in General Assembly resolution 57/292.

18. **Mr. Saha** (Acting Chairman of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)), introducing the related report of ACABQ (A/60/7/Add.12), said that the Advisory Committee was of the view that the Secretary-General's report (A/60/550) did not provide a complete enough analysis of the relative merits of the four strategic options to enable the General Assembly to take a fully informed decision. While it saw merit in strategy IV, as recommended by the Secretary-General, it believed that the Assembly should be provided with a more comprehensive analysis of all the options, in particular of strategy III. In the meantime, it recommended, inter alia, that an amount of $102.7 million, inclusive of the existing 2006 commitment authority of $8.2 million, should be appropriated to provide for the smooth and continuous implementation of design and planning work. He emphasized that the Advisory Committee was not requesting another submission from the Secretary-General, which would entail further delay; rather, the necessary information should be provided directly to the General Assembly.

19. **Ms. Galvez** (United Kingdom), speaking on behalf of the European Union; the acceding countries Bulgaria and Romania; the candidate countries Croatia 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, the Republic of Moldova and Ukraine, reiterated the European Union's firm support for the capital master plan. The project was hardly unnecessary or wasteful, as its critics had claimed. A proper refurbishment of the Headquarters complex was long overdue, and any further delay would be irresponsible and, indeed, more

costly in the long term. The General Assembly should therefore take an early decision to enable the project to move forward.

20. The European Union regretted the failure of the plans for the swing-space building, UNDC-5, which had significantly altered the complexion of the project. It was grateful to the Secretariat for the new strategic options put forward. However, it would require further clarification concerning strategy IV. The Secretariat should also provide, as a matter of urgency, the information requested by the Advisory Committee.

21. The European Union wished to explore in informal consultations the potential for savings to reduce the revised project budget, which currently stood at $1.6 billion. It concurred that payment by direct assessment, as recommended by the Secretary-General, would be the simplest method of financing the project and that a mechanism such as a letter-of-credit facility should be in place to cover the Organization's contractual obligations, thereby obviating the need to have full funding available upfront. However, it wished to know whether all Member States would have to agree to a system of payment by direct assessment and whether assessments would have to be paid on time in order to make such a system workable. It also wondered what the fee for a letter of credit would be in the absence of any other form of guarantee; under what circumstances the Secretariat would draw on the letter of credit; and how it would ensure that any interest that became payable as a result was not charged to Member States that had paid their assessments in full. Lastly, it wished to encourage financial experts to come forward to advise the Secretary-General on the range of financing options available to the Organization so as to provide the best possible value for Member States.

22. The European Union believed that host countries should be prepared to assume additional financial responsibilities with respect to the maintenance of United Nations premises in their territories. In that connection, it noted that the status of the host country's loan offer remained unclear. The existence of a loan offer would reduce the cost of a letter of credit. It was therefore difficult, without accurate information in that regard, to have a clear picture of the overall cost of the capital master plan project.

23. **Ms. Taylor Roberts** (Jamaica), speaking on behalf of the Group of 77 and China, said that the Group was deeply disappointed at the failure of the plans for the swing-space building, which had been an integral part of the capital master plan. Occupancy of the Secretariat building during refurbishment could pose health and safety hazards, as well as resulting in a longer project completion time. The Group also noted with concern the increase of more than $500 million in the cost estimates.

24. While the Group recognized the urgent need to decide on a new approach to the implementation of the capital master plan, it had expected the Committee to have a detailed discussion of the project before taking such a decision. Regrettably, the late issuance of the Secretary-General's report would make it difficult for members to give due consideration to the four new options presented. Furthermore, as the Advisory Committee had stated, more detailed information was required in order to enable the General Assembly to make a fully informed choice. The Committee should revert to the issue at the first part of the resumed session, at which time it should be accorded the highest priority. The Group would be prepared to consider any appropriation that might be required in the meantime, without prejudging the outcome of the Committee's deliberations on the four options.

25. As to the financing options, the Group continued to support payment by direct assessment but would welcome information on the current status of the host country's loan offer. Lastly, it wished to reaffirm its commitment to the capital master plan project, which should be implemented as soon as possible.

26. **Mr. Taula** (New Zealand), speaking also on behalf of Australia and Canada, said that it had been more than five years since the Secretary-General had first drawn attention to the urgent need to tackle the problem of an ageing complex of buildings that did not conform to current safety, fire and building standards, was grossly inefficient in its energy use, operated with outdated mechanical and electrical systems and contained hazardous material. The capital master plan had been conceived to address that need. Regrettably, the approach approved by the General Assembly had become unfeasible because of the failure of the host country authorities to provide land for the construction of UNDC-5 and to confer tax-free status on the bonds needed to finance it. In that connection, it would be interesting to know to what extent the increase in the project budget was attributable to the delays incurred pending local decisions on UNDC-5.

27. A fuller analysis should be conducted of the feasibility of constructing a new permanent office building on the Headquarters campus before a final choice was made among the four strategic options presented to the General Assembly. The analysis should take into account not only the economic benefits of having a consolidation building, but also such factors as the architectural integrity of the site, the importance attached to open space, and any legal, regulatory or other impediments to construction on the North Lawn.

28. In the absence of an interest-free loan, payment by direct assessment would be the least costly means of financing the project. While multi-year assessments would be the most practical option, he was open to other scenarios. The General Assembly could deal with the complex issue of late payment of assessed contributions by deciding that the related costs would be borne by the Member States concerned. The question of whether the expected loan offer from the host country could be used as a credit enhancement vehicle might best be considered once the terms of the offer were known. It would be helpful to have a fuller explanation of the advantages of maintaining a separate capital master plan account, funded by direct assessment, rather than making provision for capital master plan activities from within the regular budget.

29. While he supported the request for an additional appropriation of $108.7 million for the design and preconstruction phases, he wondered to what extent the use of that funding would depend on the strategic option ultimately selected. Lastly, he trusted that the additional information on the feasibility of building on the Headquarters campus would be provided swiftly, so as to avoid any further unnecessary and costly delay in implementing the project.

30. **Mr. Torres Lépori** (Argentina), speaking on behalf of the Rio Group, said that the Group recognized the urgent need to take a decision on the Headquarters renovation project, but also wished to have sufficient time to review the four strategic options presented in the Secretary-General’s report (A/60/550). It was also concerned at the Advisory Committee’s conclusion that the Secretary-General had failed to provide a thorough analysis of the advantages and disadvantages of all options.

31. The Rio Group noted the Secretariat’s preference for strategy IV and believed that the proposed advisory board on financing matters would be very useful. He asked whether the capital master plan provided for the adequate care of works of art during the renovation process and whether sufficient attention had been given to safeguarding the health of United Nations personnel and Member States’ delegations. The Rio Group opposed the charging of interest for late payment of assessed contributions to the capital master plan account, as proposed in paragraph 53 (j) of the Secretary-General’s report.

32. **Mr. Al-Khalidi** (Kuwait) said that the Secretary-General should act urgently to establish an advisory board on financing matters and overall project issues. Furthermore, there must be adequate controls with respect to contracts, so as to safeguard the interests of the Organization and Member States.

33. On the general subject of the proposed programme budget for the biennium 2006-2007, he expressed the hope that Member States would be able to reach an agreement that was satisfactory to all parties and that would enable the Secretariat to discharge its functions effectively. Because of its commitment to the United Nations, Kuwait would continue to pay its assessed contributions in full, on time and without conditions. Lastly, his delegation called for greater cooperation and coordination between Member States and the Secretariat.

34. **Ms. Shah** (United States of America) said that her Government wished to ensure that there was a safe and secure environment for delegates and staff working at United Nations Headquarters. Noting the significant increase in the capital master plan project budget, she expressed disappointment that the Secretary-General’s report (A/60/550) did not elaborate further on why it would not be possible to work within the cost estimates approved by the General Assembly in its resolution 57/292. There was a need for diligence about containing costs, since implementing the capital master plan in the most cost-effective manner would help to ensure that resources were available to fund the Organization’s many other priorities. Her delegation had taken note of the Advisory Committee’s comments regarding strategy III and looked forward to receiving the additional information requested by that body. The Secretary-General’s report raised a number of other issues that Member States would have to consider, including appropriations for construction documents, financing options and the possibility of establishing a project operating reserve. However, not all of those

issues needed to be settled at the current stage, and the Committee should therefore determine which issues could be deferred pending further analysis and discussion.

35. **Mr. Iosifov** (Russian Federation) said that, while the need for a major renovation of the Headquarters complex had long been clear, little progress had been made in resolving such fundamental issues as the method of financing the project and the question of swing space. His delegation was impressed by the businesslike approach of the Executive Director for the Capital Master Plan and his staff and trusted that Member States would be equally businesslike in considering the proposals before the Committee. It would be in the interests of all concerned to concentrate on the practical details and to avoid politicizing the discussion.

36. Regarding the proposed swing-space building, he noted that the Secretary-General had at last admitted the obvious: the authorities of the City and State of New York were not willing to cooperate with the United Nations, despite the Organization's very substantial contribution to the city's economy. His delegation considered the issue of UNDC-5 closed and regretted the time and resources wasted in pursuing that idea.

37. His delegation would require additional information before taking a final decision on one of the four strategic options for the implementation of the capital master plan. The section of the Secretary-General's report (A/60/550) dealing with funding aspects contained a number of new elements, in particular with regard to construction industry requirements, and his delegation was disappointed that the Advisory Committee had made no comments in that regard. The Secretariat should explain on what basis it had reached the conclusions drawn in paragraphs 24 and 25 of the report and should provide Member States with a comprehensive list of the relevant laws and regulations of the host country.

38. His delegation had taken note of the Secretary-General's conclusion that there would be limited flexibility in the calendar of conferences for the duration of the implementation of the capital master plan. In that regard, the Committee should give serious consideration to strengthening the role of the Committee on Conferences, which was the appropriate organ of the General Assembly for addressing that issue.

39. Without prejudging the outcome of the deliberations on financing options, his Government wished to express its readiness to pay its share of the costs of the capital master plan project through direct assessment and to reiterate that any option involving the payment of interest would be unacceptable. It was also opposed to the idea of charging interest for late payment of assessed contributions to the capital master plan account, which the Secretary-General had proposed as an incentive for prompt payment.

40. The Advisory Committee stated that a minimum amount of $102.7 million would be required for the capital master plan in 2006, irrespective of which strategy was chosen; his delegation would give sympathetic consideration to a request for an appropriation in that amount.

41. **Ms. Wang** Xinxia (China) recalled that at the fifty-seventh session of the General Assembly, during negotiations on the various options for implementing the capital master plan, China had explicitly expressed its support for the plan submitted to the Committee at that time. Its position had not changed since then, and it was therefore disappointed that the plan had not come to fruition and that the project's basic parameters had changed fundamentally.

42. Member States had no choice but to take another decision in the light of the new circumstances. However, there was little to choose from in the menu of options proposed in the Secretary-General's report (A/60/550). Strategy I was similar to the renovation plan approved by the General Assembly in its resolution 57/292, except that the construction of a UNDC-5 building was no longer feasible. The immediate consequence was that the costs of leasing and construction had risen significantly, and the most worrying aspect of that option was that the United Nations would be highly vulnerable to fluctuations in the New York City real estate market.

43. Strategy III, in proposing a permanent office building, resembled the earlier UNDC-5 proposal, and was attractive for that reason. However, her delegation was not certain as to the strategy's feasibility. Certain issues required further consideration, and the strategy included no plan for renovating the Secretariat Building; instead, it simply deferred that aspect of the project. Under the phased renovation proposed in

strategy IV, the cost of swing space would be much lower than under strategy I, but the redesign costs would rise sharply, thus resulting in virtually the same total cost. The phased renovation would also create many inconveniences for the work of the Organization.

44. The financing aspect was key to the plan's implementation. China favoured financing based on assessments. Member States could decide whether they preferred a one-time assessment or multi-year assessments, but it was essential, in any event, that adequate and uninterrupted financing should be provided for the plan.

45. With respect to the proposed international letter of credit, China wished to echo the various related questions raised by the United Kingdom on behalf of the European Union. With respect to the outside commercial borrowing described in document A/60/550/Add.1, China required more time to study the proposed bond offering and would raise certain questions about the "set aside" mechanism mentioned in the same document.

46. **Mr. Berti Oliva** (Cuba) said that the strategic options proposed by the Secretary-General diverged considerably from the plan adopted by the General Assembly at its fifty-seventh session, with respect both to the project design and to the level of resources required. His delegation was profoundly disappointed at the late submission of the Secretary-General's report (A/60/550), which would limit the ability of Member States to give the matter proper consideration and take the necessary action.

47. It was crucially important to improve the Headquarters facility and the services provided to Member States in order to ensure the smooth functioning of the legislative process. However, the cost to Member States — particularly developing countries — must be very carefully considered. In the light of the reform process under way at the United Nations it seemed incredible that even though almost $30 million had been spent on the project since 2003, the project had still not progressed beyond the initial phase. The reason for that might be found in paragraph 6 (a) of the Secretary-General's report, which indicated that New York City, New York State and the United States Congress had all failed to comply with their commitment to facilitate the construction of a UNDC-5 swing space.

48. Cuba shared the Advisory Committee's view, as stated in paragraph 11 of its report (A/60/7/Add.12), that the Secretary-General's report did not give sufficient details about the four proposed options. For example, paragraph 6 (c) of the report referred to elements that had not been factored in earlier and to the need to look at new approaches for the capital master plan, but provided no specific information about the related costs. Such details were essential in view of the increased costs involved. His delegation could not take a decision on the matter because, as the Advisory Committee had noted in its report, detailed analysis of the various advantages and disadvantages of the four options had not been provided by the Secretary-General. For example, the report stated, in paragraph 15, that there was no safe way to accomplish strategy II, but gave no details. Member States should be told how much money would be needed to maintain life safety systems under all four options.

49. Having undertaken a very careful analysis of strategy III, his delegation still failed to understand why it was not possible to renovate the Secretariat Building. As in the case of strategy IV, the data showed only the cost of renovating the General Assembly and Conference Buildings. It was therefore very hard to determine the total amount that would be needed at each stage. He understood that additional information not contained in the report had been provided to Member States, and his delegation would review that information very carefully.

50. With respect to the suggested financing options, he noted that paragraph 35 of the Secretary-General's report stated that neither the one-time assessment nor the multi-year assessment would fully meet the construction industry requirements discussed in paragraphs 24 and 25. Of the other proposals — the internationally syndicated letter of credit, the bond capital issue and the host country loan offer — the last one appeared to be the preferred option. However, the loan was a very sensitive issue. Contrary to the provisions of General Assembly resolution 57/292, the loan would be interest-bearing. It was regrettable that the host country, despite the considerable income it received from the presence of the United Nations in New York City, had not offered the Organization an interest-free loan.

51. The proposal to charge Member States interest for late payment of assessed contributions to the capital master plan account was a very novel one, whose

implications would further complicate the decision-making process. His delegation understood the problems encountered by the Secretary-General in establishing an advisory board on financing matters, but the Secretariat should do more to resolve the issue, as noted in the reports of OIOS (A/60/288), the Board of Auditors (A/60/5 (Vol. V)) and the Advisory Committee. Cuba had carefully reviewed the reports of OIOS and the Board of Auditors and would raise questions on them at a later stage.

52. **Mr. Staehli** (Switzerland) said that his delegation fully endorsed the conclusion of the Secretary-General’s report that the cutbacks required under strategy II would raise serious safety concerns. With respect to strategy I, it shared the concern that major involvement in the local real estate market would entail risks. Also, the staff would be dispersed to multiple locations without direct access to meetings facilities, thus harming the Organization’s work and bringing about further cost increases.

53. The proposal to construct a permanent building on United Nations premises, set forth under strategy III, was worthy of consideration. Despite the higher costs involved, it remained a valid alternative to strategy IV. An office building on the North Lawn could accommodate United Nations staff currently occupying rented space in commercial buildings, thereby generating savings over the long term. Moreover, the location of most staff within the Headquarters compound would better meet increased security requirements.

54. Switzerland agreed with the Advisory Committee’s observation regarding the lack of information on potential savings, which should be better reflected in strategy III, based on a life-cycle study of premises rented by the United Nations. His delegation looked forward to receiving more information in that regard. Whichever option was chosen, his delegation would be grateful for further information regarding the current use of the North Lawn, which was apparently neither accessible to the United Nations community nor used for any particular purpose.

55. Switzerland regretted that the delays in implementing the project had led to a substantial cost increase, and called on all delegations to work towards a speedy decision on the scope of the project. Based on its own experience in financing the construction and renovation of the premises of international organizations, Switzerland would have preferred the option of receiving an interest-free loan from the host Government.

56. His delegation understood that the commercial loan offered by the host country would be used as a credit enhancement vehicle, not as a source of project funds. Switzerland was ready to accept any of the proposed financing options as outlined in the report. The option of a one-time assessment upfront was an interesting alternative, which was unfortunately not developed in the report. Advance payments could be linked to reserve funds, potentially increasing the Secretariat’s flexibility in the event of liquidity shortfalls and offering Member States a discount based on future interest earnings.

57. Lastly, his delegation shared the Advisory Committee’s view that the continuing work of the Office of the Capital Master Plan should not be put at risk, since that would further delay the plan’s implementation. It was therefore urgent to appropriate $102.7 million for the smooth and continuous implementation of design and planning work, as outlined in the Advisory Committee’s report.

58. **Mr. Yáñez** (Bolivarian Republic of Venezuela) said that although it was certainly essential to take a decision on the capital master plan as quickly as possible, given the additional costs that would result from any additional delays, his delegation shared the view of the Advisory Committee that more information about the four options was required. His delegation regretted that part of the work undertaken on the basis of General Assembly resolution 57/292 appeared to have been a waste of time and money for Member States, and efforts should be made to determine why erroneous decisions had been taken.

59. His delegation had been struck in particular by the increased costs of the project and by developments concerning the host country’s loan offer and the UNDC-5 swing space, and wished to express its regret at the negative impact of those factors on the project’s implementation. The host county bore a special responsibility towards the United Nations, bearing in mind the various benefits it received from the Organization’s presence in New York City, and it would be useful to receive details of those benefits, as they were relevant to the Committee’s negotiations. The significant weight given to inflation in determining

the cost of the four options represented a departure from the approach taken in costing the UNDC-5 option, and might perhaps be exaggerated; he therefore requested further clarification in that regard.

Liabilities and proposed funding for after-service health benefits (A/60/7/Add.11 and A/60/450)

60. **Mr. Sach** (Controller), introducing the report of the Secretary-General on liabilities and proposed funding for after-service health benefits (A/60/450), said that it dealt with accounting and funding issues related to the Organization's after-service health insurance programme. It recommended that the United Nations should recognize the accrued liabilities associated with the programme through the adoption of full accrual accounting, in accordance with best accounting practices, and the initiation of a strategy to fully fund the programme within a 30-year time frame.

61. At the programme's inception, its annual cost had been estimated at about $10,000. Since that time, the number of enrollees and the related subsidy costs had grown significantly. During the biennium 1980-1981, the total number of participants had been about 400 and the subsidy had amounted to $2.2 million. By the 1994-1995 biennium, the number of United Nations participants had increased to more than 3,400, with subsidy costs reaching $29 million. By the 2002-2003 biennium, those numbers had grown to about 7,100 enrollees, with total subsidy requirements of more than $67.7 million. The United Nations accounted for those costs on a pay-as-you-go or cash basis, with expenditures based on annual payment requirements for current retirees.

62. In 1995, in view of the growth of after-service health insurance costs and the lack of related funding or accrual, the Secretariat had formed a task force to define an actuarially sound basis for future United Nations after-service health insurance obligations. At that time, the current value of net accrued unfunded liabilities had been $786.8 million. The comparable accrued liability figure reported on the financial statements for 2003 had been $1.4849 billion, an increase of 89 per cent in eight years. Those reported liabilities had been calculated in accordance with the actuarial method ("projected unit credit") prescribed by accounting standards boards for valuing pension and after-service benefits.

63. Both the disclosure of liabilities in the notes to the financial statements and pay-as-you-go accounting for after-service health insurance expenditures were acceptable under United Nations system accounting standards. However, best accounting practices applicable to post-retirement benefits, including Financial Accounting Standard 106 and International Accounting Standard 19, required accounting on a full accrual basis. Retiree health benefits must therefore be reported and expensed as they were earned rather than as they were paid, as post-retirement benefits were a form of deferred compensation.

64. The current report recommended that the General Assembly should approve the recognition of accrued after-service health insurance liabilities on the accounts of the Organization, as required under the International Accounting Standards. The adoption of accrual accounting for post-retirement benefits and recognition of the liability on the financial statements was a first step towards bringing the United Nations into line with best accounting practices and adopting the International Accounting Standards.

65. Demographics and medical trends affected the cost of providing health benefits. The costs of medical treatments and the utilization of medical services continued to increase. Since 1995 the number of retirees receiving after-service benefits had doubled, the average age of participants had risen slightly and life expectancy had increased. Those trends were expected to continue, with the related costs to the Organization expected to grow at a rate of 15 to 20 per cent each biennium in the coming decade.

66. In the light of the expected growth of the programme and the rising level of the associated liabilities, the Secretary-General considered it prudent to adopt a funding policy that supported the process of ensuring that adequate funds were put aside on a systematic basis to meet the costs of current and future benefit liabilities. Given the size of the accrued liabilities, they could not be fully funded in the short to medium term, but would require a dedicated long-term funding strategy. The current report set forth a two-tiered funding approach, recommending the building of a reserve through a one-time infusion of funds and a long-term funding policy which included a component of predictable and relatively stable annual contributions, plus an additional flexible component involving potentially uneven levels of funding. The

report also recommended a number of revisions to eligibility provisions aimed at reducing future costs.

67. As no provision had been made in the proposed budget for the initial infusion of funds, balances available in reserve funds and other possible funding sources had been reviewed as an alternative to requesting a special assessment on Member States for that purpose. As a result, the report requested approval of a one-time infusion of $350 million into an after-service health insurance reserve fund.

68. The report defined an annual funding goal for the United Nations of between $130 million and $150 million, which, when added to the one-time infusion of funds, was expected to result in full funding of the plan in about 30 years. The report therefore recommended continuing current funding arrangements for current retirees as a closed group; establishing a charge of 4 per cent of salary costs on all budgets; and periodically suspending financial regulations to provide additional funding of the accrued liability through the use of any unspent balances of final appropriations and excess actual miscellaneous income over budget estimates under the regular budget, as well as any savings from the liquidation of prior periods' obligations. As the report gave only indicative figures, periodic reviews would be required to ensure that the funding was actuarially sound and to see whether the percentage charged against salaries should be adjusted.

69. Aside from the development of a reserve to meet after-service health insurance requirements, the report also recommended the establishment of cost containment initiatives such as more restrictive eligibility requirements and changes in the cost-sharing basis for new recruits. Additional cost containment measures would be reviewed on an ongoing basis.

70. The report also recommended funding of after-service health insurance reserves for the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the United Nations Compensation Commission, with the aim of fully funding the relevant liabilities prior to the closure of those entities. Subject to the approval of the funding measures outlined in the report, separate special accounts for post-retirement benefits and retiree premiums would be established for those entities.

71. The Secretary-General attached great importance to the after-service health insurance programme and, therefore, to the viability of its financial base. The short- and long-term funding strategies outlined in his report identified ways of funding the related liabilities.

72. **Mr. Saha** (Acting Chairman of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)), introducing the related report of the Advisory Committee (A/60/7/Add.11), said that United Nations liability related to after-service health insurance benefits was an extremely important issue of long-standing concern. While the report of the Secretary-General was a welcome first step, it had a number of shortcomings which needed to be addressed before the General Assembly could decide on a strategy.

73. For example, updated information on potential liabilities should be provided to the General Assembly. Detailed information should also be provided as to how the estimates for current retirees and active employees currently eligible to retire with after-service health insurance benefits had been derived. ACABQ questioned the inclusion of an estimate of nearly $400 million for liabilities related to active employees who were not yet eligible to retire with those benefits, since some of those employees would separate from the United Nations without ever acquiring such eligibility, while others might choose not to participate. It also wondered why active peacekeeping missions should fund an accrued liability attributable at least in part to closed missions, and how the Secretariat had calculated the proposed amount of $25 million to be transferred from the authorized retained surplus of the United Nations regular budget.

74. The Advisory Committee had no objection to the transfer of $43 million of income from the medical and dental reserves or to the transfer of $32 million from the Compensation Fund, provided that an assurance could be given that it was not foreseen that those amounts would be needed to meet their originally intended purposes.

75. While the Advisory Committee agreed in principle with the proposal to charge a certain percentage of salary costs as a means of building a fund for after-service health insurance payments, it considered that further and more detailed analysis should be undertaken before it could recommend a specific percentage.

76. With regard to the proposals on the utilization of savings under the regular budget, the Advisory Committee pointed out that a plan to use savings as

part of a funding mechanism for after-service health insurance did not appear to be in line with best management practices, as it was not transparent and might encourage deliberate over-budgeting in order to realize savings.

77. The Advisory Committee recommended approval of the Secretary-General’s proposals to change eligibility requirements, as contained in paragraph 19 of his report. Lastly, the Advisory Committee’s observations and recommendations on the Secretary-General’s proposals in respect of the United Nations should also apply to the other United Nations entities mentioned in the Secretary-General’s report.

78. **Mr. Hodges** (United Kingdom), speaking on behalf of the European Union, said that he welcomed the first steps taken to identify how the issue might be addressed. Liability for after-service health benefits was a technical and complex issue with wide-ranging implications. The General Assembly, when it had ample time, should thoroughly examine the issue not only in financial terms, but possibly also in the context of human resources management.

79. **Mr. Al-Khalidi** (Kuwait) said that his delegation concurred with the Advisory Committee that there was little rationale or justification for the proposal to transfer $25 million from the authorized retained surplus of the United Nations regular budget to fund the Organization’s liabilities for after-service health benefits. It also failed to see why active peacekeeping missions should fund an accrued liability attributable at least in part to closed peacekeeping operations.

80. **Mr. Sach** (Controller) said, with respect to the concerns raised in paragraphs 7 and 8 of the ACABQ report and by the Chairman of the Advisory Committee in his statement, that the inclusion of the estimated provision of $393.4 million for liabilities related to active employees who were not yet eligible to retire with after-service health insurance benefits was in line with best actuarial practices. The report of the Secretary-General had taken into account, in estimating the accrued liability for future after-service health insurance benefits, the probability that some of the active employees would retire without ever acquiring eligibility for such benefits, while others might choose not to participate in after-service health insurance. He was confident that the estimates were accurate to the extent that any actuarial estimates could be accurate. Concerning the transfer of $250 million in unencumbered balances from fiscal year 2005 and savings on cancellation of prior period obligations under peacekeeping operations, no contributions had been made by peacekeeping operations to fund after-service health insurance liabilities to date. The peacekeeping operations were sources of liabilities, however. The transfer was a way to begin to recognize liabilities and sources of liability. It was also a better alternative to a new assessment, as it involved funds that had already been assessed and paid and were available. Likewise, the proposal to transfer $25 million from the authorized retained surplus of the United Nations regular budget was aimed at filling the projected gap of some $1.4 billion, which would take many years to close. Lastly, the transfer of $43 million of income from the medical and dental reserves and $32 million from the Compensation Fund would in no way endanger the reserves or the Fund.

81. With respect to the United Kingdom’s reference to the time factor, he acknowledged that there was no way to look into the matter in detail within the coming few days. Current liabilities were estimated to reach some $1.7 billion by the end of 2005 and were growing. The longer action was delayed, the less manageable the problem would be. He therefore urged delegations to consider the issue as early as possible.

Agenda item 123: Programme budget for the biennium 2004-2005 (*continued*) (A/60/327; A/C.5/60/L.9)

United Nations Fund for International Partnerships (A/60/327)

82. **Mr. Silva** (United Nations Fund for International Partnerships), introducing the report of the Secretary-General on the United Nations Fund for International Partnerships (A/60/327), said that the report was indicative of an evolving partnership with the United Nations Foundation and of United Nations engagement with the private sector. The United Nations Fund for International Partnerships (UNFIP) continued to benefit from the valuable and critical advice of ACABQ and the Board of Auditors.

83. UNFIP was increasingly seen as a one-stop service for partnership-building by the United Nations system and, more importantly, by outside entities that approached the Fund for advice on how to build successful partnerships with the United Nations as well as at the country level. UNFIP offered a facilitation and advisory service for companies, foundations and civil society, including NGOs and academic institutions. That service had grown exponentially within a few

years, with 80 enquiries in 2004 and about 10 enquires received weekly during the past year. The Fund had therefore expanded its reach beyond traditional donors.

84. The report of the Secretary-General showed a continued increase in allocations to United Nations causes. The relevant programmes were summarized in chapter II of the document. The information in the document had already been superseded by the decisions and events of 2005. Total funding had grown during the past year to over $760 million and currently involved more than 365 projects. By the end of the year, the Fund expected the figure to approach $800 million.

85. More significantly, UNFIP continued to evolve as a full partner of the Foundation in advocacy and in facilitating partnerships with the private sector and foundations, especially when seeking to engage them to support the Millennium Development Goals. In that connection, he drew attention to chapters III and IV of the report. The success of United Nations partnership with the Foundation had a multiplier effect that had enabled UNFIP and the United Nations to attract and foster additional partnerships.

86. One of the more successful partnerships was with the Polio Education Initiative. He also pointed to the partnership with the United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage Centre, which promoted the conservation of globally significant sites listed under the World Heritage Convention by supporting sustainable economic development initiatives for local communities and engaging companies in efforts to promote sustainable tourism development, among other initiatives. Furthermore, UNFIP partnership with European foundations had yielded a firm commitment to adopt the Millennium Development Goals as a basis for steadily increasing European contributions to other regions over a period of five years.

87. In the wake of the tsunami emergency, there had been an outpouring of support from all quarters, including individuals and the private sector. The tremendous response to the flash appeal had exceeded all expectations. In addition to committing $5 million of its core funds, the Foundation had mobilized more than $100 million from private-sector donors and NGOs and had established a Tsunami Relief Fund, which provided tax advantages to donors. UNFIP supported those efforts by providing assistance and advice on the acceptance of private-sector contributions. The United Nations Foundation was also working with the Office for the Coordination of Humanitarian Affairs to forge a partnership that focused on resource mobilization to address emergency needs for the entire United Nations system.

88. **Ms. Udo** (Nigeria) said that her delegation would welcome information on projects being funded by the United Nations Foundation for 2005-2006. She would also like to know how often the composition of the UNFIP Advisory Board changed. Lastly, it would be useful to have an annex showing the funds received for projects concerning the tsunami.

89. **Mr. Silva** (United Nations Fund for International Partnerships) said that the programme frameworks — children’s health; population and women; environment; and peace, security and human rights — would remain the same for the coming two years. Other than the President of the Economic and Social Council and the Chairman of the Second Committee, who changed yearly, the membership of the Board had remained stable. He drew attention to the breakdown by programme area of projects funded by the United Nations Foundation, in annex II of the report, and noted that information on the funding of tsunami projects in 2005 would be provided in the next report of the Secretary-General.

90. **The Chairman** said he took it that the Committee, having considered the report of the Secretary-General on the United Nations Fund for International Partnerships, wished to adopt the following draft decision: “The General Assembly takes note of the report of the United Nations Fund for International Partnerships (A/60/327)”.

91. *It was so decided*.

Estimates in respect of special political missions, good offices and other political initiatives authorized by the General Assembly and/or the Security Council: United Nations Office in Timor-Leste (*continued*) (A/C.5/60/L.9)

Draft resolution A/C.5/60/L.9

92. **Ms. Vasak** (France) requested that the draft resolution should be read out, as the Committee had not yet considered it in all the official languages, and drew attention to a misprint in the French version.

93. *Draft resolution A/C.5/60/L.9 was adopted*.

The meeting rose at 12.55 p.m.