United Nations A/66/7/Add.11

General Assembly

Distr.: General
2 December 2011

Original: English

Sixty-sixth session
Agenda items 131 (c) and 134

Financial reports and audited financial statements, and reports of the Board of Auditors: capital master plan

Proposed programme budget for the biennium 2012-2013

Capital master plan

Twelfth report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2012-2013

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the ninth annual progress report of the Secretary-General on the implementation of the capital master plan (A/66/527), submitted pursuant to General Assembly resolutions 57/292 and 65/269, and his report on proposals for financing the associated costs for 2012 from within the approved budget for the capital master plan (A/66/527/Add.1), submitted pursuant to resolution 65/269. The Committee also had before it the report of the Board of Auditors on the capital master plan for the year ended 31 December 2010 (A/66/5 (Vol. V)) and the related report of the Secretary-General on the implementation of the recommendations of the Board (A/66/324).

2. During its consideration of the above-mentioned reports, the Advisory Committee met with the Executive Director of the capital master plan and other representatives of the Secretary-General, as well as with members of the Audit Operations Committee, who provided additional information and clarification.

II. Report of the Board of Auditors on the capital master plan for the year ended 31 December 2010

3. In its report on the capital master plan for the year ended 31 December 2010 (A/66/5 (Vol. V)), which was submitted in response to General Assembly resolution 57/292, the Board of Auditors has examined the progress of the capital master plan

since the preparation of its previous report (A/65/5 (Vol. V)) and assessed the way in which risks associated with the project have been determined and are being managed. **The Advisory Committee commends the Board of Auditors for the quality of its report.**

4. The first issue covered by the Board in its report is the follow-up to its previous recommendations. The Advisory Committee notes that, of the 20 recommendations made by the Board in its report for the year ended 31 December 2009 (A/65/5 (Vol. V)), 9 (45 per cent) were fully implemented, 5 (25 per cent) were under implementation and 5 (25 per cent) were not implemented. Of the five recommendations that were regarded as not implemented, three have been superseded by new recommendations in the Board's present report, one has been reiterated and one, relating to the establishment of a post-contract-award review process, has been implemented but is not working as intended (see also paras. 9 and 10 below). The Board considers that one (5 per cent) of its previous recommendations, concerning delays in the contract negotiations for the Conference Building, has been overtaken by events (A/66/5 (Vol. V), paras. 6 and 7 and annex I). Information on the status of implementation of prior recommendations of the Board is contained in the related report of the Secretary-General (A/66/324, paras. 38-60). **The Advisory Committee emphasizes that management must make every effort to implement the Board's recommendations by the target dates set out in the Secretary-General's report (A/66/324).**

5. In its most recent report (A/66/5 (Vol. V)), the Board has issued a total of 15 recommendations. The Secretary-General indicates in his related report (A/66/324) that a total of 3 recommendations have been implemented and the implementation of 11 recommendations is in progress. Management did not accept one of the Board's recommendations, relating to the establishment of a small senior management group to review all potential benefits arising from the project (ibid., paras. 28 and 29). Information on the measures taken or to be taken to implement the Board's new and reiterated recommendations, the responsible department, the level of priority accorded to each recommendation and, where applicable, target implementation dates is presented in paragraphs 7 to 37 of the Secretary-General's report. The Advisory Committee notes that the five main recommendations highlighted in the summary section of the Board's report have all been accorded high priority by management and that they are all under implementation.

6. In paragraphs 16 to 23 of its report, the Board details the main areas in which progress has been achieved since the issuance of its previous report. Despite the progress made, the Board concludes that overall the project is entering a critical phase where the flexibility to manage unexpected problems and pressures on cost and time is greatly reduced.

7. The Board has made a series of observations on the risks to the project posed by high levels of change, stating, inter alia, that effective change control is a well-recognized feature of successful construction projects (A/66/5 (Vol. 5), para. 24). The Board notes that while the Office of the Capital Master Plan has a robust process in place to handle change orders once they have arisen, the Administration has not established an effective system to minimize the volume of changes from the outset. As illustrated in figures I and II of the Board's report, the total volume and value of change orders continues to increase. As at 5 April 2011, the construction manager had issued 1,116 change order requests, with a value of some $103 million

(ibid., para. 26). The Board further notes that, despite the efforts made by the Office of the Capital Master Plan to improve the change order process, the authorization process remains labour-intensive and time-consuming. In November 2010, the Board found that change orders, together with allowance requests, were taking an average of 114 working days in elapsed time to resolve. As at 5 April 2011, the process was taking on average 118 days, i.e. four days longer than in 2010 (ibid., paras. 29 and 31). According to the Board, risks associated with high levels of change, including those requested by occupiers, which are discussed in paragraphs 34 to 37 of its report, include cost escalation, delays to the project schedule and the increased likelihood of claims for delayed payment from trade contractors.

8. The Advisory Committee recalls that this is not the first time that the Board of Auditors has raised concerns about the level of change within the capital master plan (see, inter alia, A/64/5 (Vol. V), paras. 106-129 and A/65/5 (Vol. V), paras. 119-147). The Office of Internal Oversight Services has also discussed this issue in its audit of capital master plan procurement and contract management (see A/66/179). **The Advisory Committee shares the Board's concerns regarding the risks associated with large numbers of change orders and the time taken to process them. The Committee regrets that this recurrent problem has not yet been satisfactorily resolved, particularly since, as indicated by the Board, the capacity of the capital master plan to absorb further time or cost pressure is now limited. The Committee trusts that the issues highlighted by the Board will be resolved without delay.**

9. On a related matter, the Board has commented, in paragraphs 99 to 102 of its report, on the functioning of the Post-Award Review Committee, which was established in response to a previous recommendation of the Board in order to increase the level of internal control over amendments to contracts (see A/65/5 (Vol. V), para. 120). According to the Board, the Committee has interpreted its remit as retrospectively reviewing all contract amendments with values from $0.5 million to $5 million in order to decide whether procurement actions were appropriate. However, at the time of the Board's audit, the Committee had considered only 13 of the 154 relevant contract amendments, each of which include reviews of several change orders. The Board is concerned that the Administration is deriving neither enhanced control nor timely value from the review process, and that the backlog of cases may become unmanageable if the present trend continues.

10. In response to the Board's recommendation that the Administration urgently review the effectiveness of the Post-Award Review Committee, the Secretary-General indicates in his report that the Procurement Division has proposed and implemented changes to the Committee's case submission process in order to achieve greater efficiencies. He notes, however, that further efficiencies may be necessary, including greater frequency of meetings (A/66/324, para. 37). The Advisory Committee notes that the target implementation date for the recommendation is the fourth quarter of 2011 (ibid., para. 36). **The Advisory Committee reiterates the importance it attaches to the ex post facto review of all contract amendments (see A/64/7/Add.5, paras. 8 and 9). Given that, by the Secretary-General's own admission, the remedial measures taken to date by the Administration may not fully address the issues identified by the Board, the Advisory Committee expects that the Secretary-General will closely monitor the backlog of cases pending before the Post-Award Review Committee and take additional corrective measures, if necessary, in a timely manner.**

11. A further risk identified by the Board of Auditors relates to succession planning within the Office of the Capital Master Plan. The Board observes that the capital master plan is very reliant on a small number of senior individuals. As the project's completion date approaches, individual staff members, especially those on fixed-term contracts, will begin to focus on their own work continuity, which has the potential to result in an unplanned reduction in project staff. Although the project's risk register recognizes the potential risk posed by the departure at short notice of senior members of the team, the Board found that the Administration has no plan in place to enable it to react quickly to fill vacancies in the project's leadership team should they arise (A/66/5 (Vol. V), paras. 92-94). In a similar vein, the Board also raises concerns about the handover from the construction stage of the project to live building operations, which, in the Board's view and in line with international good practice in construction, would be facilitated by the retention of at least one senior official from the Office of the Capital Master Plan to support the handover to the Facilities Management Service (Office of Central Support Services) (ibid., paras. 39-45).

12. In response to the Board's recommendations, the Secretary-General notes that, while the Office of the Capital Master Plan has initiated dialogue with the Office of Human Resources Management regarding succession planning, any such planning must take place within the boundaries of the staff regulations and rules (A/66/324, para. 14). He further notes that although rosters are used where possible to fill unexpected vacancies in critical positions within the Office of the Capital Master Plan, where rosters are not adequate vacancies will be advertised widely in accordance with relevant provisions of the staff regulations and rules (ibid., para. 33). **The Advisory Committee trusts that the dialogue between the Office of the Capital Master Plan and the Office of Human Resources Management will give rise to a solution that will allow the risks identified by the Board to be mitigated. In the Committee's view, the primary considerations in this regard are the need to ensure the efficient and effective transfer of responsibility for the renovated buildings from the Office of the Capital Master Plan to the Office of Central Support Services and the need to ensure that the skills and expertise acquired during the capital master plan are not lost, as they may be required for future infrastructure projects. There must also be strict compliance with relevant organizational rules, regulations, policies and guidelines. Relevant lessons learned from this exercise should be documented and shared as appropriate (see also paras. 17 and 18 below).**

13. In its report, the Board of Auditors has also made recommendations on security issues, guaranteed maximum price contracts, cost forecasting, associated costs and utilization of space. The Advisory Committee has referred to some of those recommendations in sections III and IV below.

III. Ninth annual progress report on the implementation of the capital master plan

14. In his ninth annual progress report on the implementation of the capital master plan (A/66/527), the Secretary-General outlines a number of areas in which progress has been made since the issuance of his previous annual report. He states, inter alia, that design and construction documents have been completed for approximately

94 per cent of the project; the planning process for the relocation of staff from swing space back to the Secretariat is well advanced; significant progress has been made with the renovation work in the Secretariat Building and the Conference Building and the basements; and the procurement of audio-visual and congress microphone systems, as well as the central systems for the coordination, control and storage of audio and video data, is under way (ibid., paras. 4-25).

Advisory Board

15. The Secretary-General also provides information on the activities of the Advisory Board of the Capital Master Plan, which was established in December 2009 at the request of the General Assembly. The Advisory Committee notes that during the reporting period the Board met five times at United Nations Headquarters (ibid., paras. 26 and 27). During its consideration of the Secretary-General's report, the Committee was informed that the Board was making a valuable contribution to the project, particularly on design-related matters.

Donations

16. In paragraphs 29 to 31 of his report, the Secretary-General describes the donations policy and indicates that, to date, a number of Member States have made contributions to the project. Architects selected by interested Member States are collaborating with the Office of the Capital Master Plan in order to provide design input for specific areas, the fit-out of which will be supported by the relevant Member States' donations. In this connection, the Advisory Committee notes that the Board of Auditors, in its report, points out that financial donations create a schedule risk because the joint design development activities between the project team and the Member State's nominated architect/designer could potentially delay completion (A/66/5 (Vol. V), para. 57). **The Advisory Committee welcomes the donations made by Member States. The Committee urges the Secretary-General to make every effort to ensure that the donations programme does not have an adverse effect on the project schedule.**

Lessons learned

17. Section V of the Secretary-General's report responds to the request of the General Assembly, contained in its resolution 65/269, that he include in his report information on lessons learned in the implementation of the capital master plan and how they are being utilized to improve current and future planning and implementation activities. The key lessons learned during 2008, 2009 and 2010 that are being applied to the construction phase of the project include the need to identify and document project goals, objectives, expected outcomes, key stakeholders and sponsors; the need to prepare and closely monitor detailed project workplans, as well as accurate conceptual project cost estimates; the need to include a detailed written programme and scope of work in the solicitation documents provided to potential trade contractors; the need to identify, analyse and develop mitigation measures for the escalation of risks and to monitor the risk register on a monthly basis; the need to develop a communication plan to report on the status of the project to key stakeholders, including staff; the need to adopt cost tracking and control practices; and the need to seek user involvement throughout the project, especially during the requirements specification and testing phase (A/66/527, para. 33).

18. During its consideration of the Secretary-General's report, the Advisory Committee was informed that one of the most important lessons learned during the implementation of the capital master plan was the need to budget for associated costs from the outset. **The Advisory Committee stresses the importance of identifying and documenting lessons learned. Not only should the lessons learned be applied, where appropriate, to the remaining stages of the capital master plan; they should also inform the planning and implementation of future large-scale capital improvement projects, in particular the strategic heritage plan at the United Nations Office at Geneva** (see also A/66/7/Add.3, paras. 25 and 26).

Security

19. With regard to security, the Secretary-General indicates that, since the issuance of the eighth progress report, the host country has provided funding for enhanced security upgrades to the Conference Building and for the erection of a line of protection along the western perimeter of the complex to reduce the vulnerability of the buildings facing First Avenue (A/66/527, para. 39). Paragraph 43 of the Secretary-General's report and annex IV to the report of the Board of Auditors (A/66/5 (Vol. V)) provide more detailed information on the implementation of those upgrades. The Advisory Committee notes that, as indicated in table 4 of the Secretary-General's report, funding for the enhanced security measures amounts to up to $100 million in voluntary contributions. As indicated in footnote 1 to the report of the Board of Auditors, $70 million of that amount relates to the Conference Building, with the remaining $30 million being used for the works on First Avenue.

20. The Advisory Committee further notes from the Secretary-General's report that discussions continue with the host country concerning the protection requirements for the structures on the southern perimeter of the Headquarters complex, namely the Dag Hammarskjöld Library Building and the South Annex Building (the cafeteria). Concerns about resilience to blast threats from vehicles on the off-ramp from the Franklin Delano Roosevelt (FDR) Drive have resulted in the design work on those buildings being temporarily suspended pending resolution of the security issue (A/66/527, para. 40). Paragraph 41 of the report sets out the four options being discussed with the host city authorities, which are (a) moving the off-ramp; (b) closing the off-ramp; (c) closing the Dag Hammarskjöld Library and South Annex Buildings once the capital master plan is completed until the security issue is resolved; and (d) assuming that no solution will be found and demolishing the buildings. Upon enquiry, the Advisory Committee was informed that, upon completion of the capital master plan, it was expected that the Dag Hammarskjöld Library Building would house 104 staff, as well as classrooms, training rooms, an auditorium, stacks and two reading rooms. It is the Committee's understanding that, should options (c) or (d) above be implemented, alternative accommodation would need to be found for those staff and facilities.

21. In paragraph 42 of his report, the Secretary-General indicates that the scope and cost implications of the above-mentioned options will be submitted to the General Assembly for approval. **Mindful of the need for realistic forecasting identified by the Board of Auditors (see para. 26 below), the Advisory Committee urges the Secretary-General to conclude the discussions with the host country authorities as soon as possible and to inform the General Assembly of the outcome at the earliest opportunity.** In this connection, the

Committee notes that the Board of Auditors identifies the uncertainties over the Library and South Annex Buildings as one of the six main pressures on the project schedule (see also para. 26 below).

Procurement

22. Information on the procurement activities undertaken during the reporting period is set out in paragraphs 49 to 57 of the Secretary-General's report. He states that, in accordance with relevant General Assembly resolutions, the Secretariat is continuing to work to ensure that all procurement opportunities are communicated as widely as possible, with special emphasis on communicating them to developing countries and countries with economies in transition. He notes, in particular, that the procurement process for the supply of office and specialist furniture has generated interest from companies from a number of countries, including developing countries and countries with economies in transition. In paragraph 57 of the report, the Secretary-General also indicates that, to date, 15 per cent of the value of trade contracts awarded by the capital master plan construction manager to subcontractors has been paid to non-United States firms.

23. The role of the Procurement Division in the review of change orders is described in paragraph 55 of the Secretary-General's report. The Advisory Committee has commented on this issue in paragraphs 7 to 10 above.

Sustainability

24. The sustainability and environmental friendliness of the refurbished Headquarters complex is discussed in paragraphs 68 to 72 of the report. It is indicated, inter alia, that the project remains on track to meet or exceed sustainability goals for energy and water consumption, as well as the various applicable "green building rating" standards used by Member States. The Advisory Committee notes from paragraph 71 of the report that installation of the building management system, which will provide "smart" controls to greatly enhance building performance and lower energy use through automatic adjustments to heating, air conditioning and lighting levels, is well under way. **The Advisory Committee commends the Secretary-General for the sustainability initiatives he has incorporated into the capital master plan. The Committee hopes that the benefits of those initiatives will begin to become apparent as soon as the Secretariat Building is reoccupied in the latter half of 2012. Information in this regard should be provided in the next progress report.**

Project schedule

25. Information on the project schedule is contained in section X of the report. According to the Secretary-General, the most complex and high-risk phase of the capital master plan has been renovation of the Secretariat Building. As at October 2011, that portion of the project was expected to be completed in mid-2012, within three months of the schedule set out in the Secretary-General's sixth annual progress report (A/63/477). The overall project, with the exception of the Library and South Annex Buildings, is projected to be completed by the end of 2014, approximately one year behind the original schedule as set out in the sixth progress report (A/66/527, paras. 77 and 78). The Secretary-General indicates in table 1 of his

report that the delay is due mainly to the implementation of the enhanced security measures (see paras. 19-21 above).

26. The Advisory Committee notes that large-scale, multi-year capital infrastructure projects can be delayed for many unforeseen reasons, including, in this particular case, the need for the enhanced security measures referred to above. In its report, however, the Board of Auditors observes that, over time, the forecasts of the Office of the Capital Master Plan have proved to be optimistic. In the Board's view, although the Office of the Capital Master Plan now has the right controls and management processes in place to enable realistic forecasting of the project schedule, in practical terms the schedule is extremely tight and little potential remains to absorb additional delays or scope changes (A/66/5 (Vol. V), paras. 49-51). In paragraphs 52 to 58 of its report, the Board describes six main pressures on the schedule which, in addition to the risks of delays associated with excessive change orders and the major uncertainties about the intentions for the Library and South Annex Buildings discussed in the paragraphs above, include the project's dependence on third parties who are not under the direct control of the Administration and delays in approving guaranteed maximum price contracts. The Board expresses concern that the previously observed pattern of slippage will continue, increasing the risk of higher contractor costs and overheads (ibid., para. 49). **The Advisory Committee shares the concerns expressed by the Board of Auditors regarding the potential for further slippage and the impact of such slippage on the capital master plan budget, and urges the Secretary-General to continue to make every effort to adhere to the current project schedule. Full and expeditious implementation of the relevant recommendations of the Board will play an important role in this regard.**

Financial situation of the capital master plan

27. The Secretary-General gives an overview of the financial situation of the capital master plan project, including the current status of assessments, in sections XI and XII of his report. As indicated in paragraph 84 of the report, the budget of the capital master plan was set at $1,876.7 million by the General Assembly in its resolution 61/251. The primary source of funding for the project consists of appropriations by the General Assembly in the amount of $1,876.7 million. Upon enquiry, the Advisory Committee was informed that the fifth and final multi-year assessment in the amount of $340.96 million took place in 2011. The Committee was further informed that, as at 2 November 2011, an amount of $87.32 million in assessments remained unpaid, $83.74 million of which related to 2011 and the remainder to prior periods. Upon request, the Committee was provided with a detailed breakdown of the status of contributions to the capital master plan as at 2 November 2011. **The Advisory Committee recommends that, at the time of its consideration of this question, the General Assembly be provided with updated information on the status of contributions.**

28. Table 4 of the report provides a comparative analysis of the projected cost of the capital master plan, excluding the associated costs (see sect. IV below) and the costs of the secondary data centre (see para. 36 below) but including voluntary contributions, as at September 2010 and as at May 2011. The Advisory Committee notes from the table that the total projected cost to complete the project as at 31 May 2011 amounted to $1,950,978,000, a decrease of $5,813,000 as compared to the projected cost to complete of $1,956,791,000 reported to the General Assembly

in September 2010. According to the Secretary-General, careful management of the project, as well as the introduction of cost-efficiency measures, has lowered the net budget deficit from $80,091,000 to $74,278,000, or around 4 per cent of the total approved budget (A/66/527, para. 86). Those cost efficiency measures, which are detailed in section VIII of the report, relate to value engineering and the repair and reuse of existing furniture. The Secretary-General also indicates, in paragraph 46 of his report, that the current economic climate has been advantageous to the Organization as it has afforded opportunities to secure contracts at very competitive prices.

29. The Secretary-General indicates that, when his ninth progress report was prepared, $1,586.2 million, or 84.5 per cent, of the total approved capital master plan budget of $1,876.7 million had been committed. He asserts that the high level of funds committed significantly reduces the risk of unexpected, adverse events during the remainder of the project (A/66/527, para. 86). However, the Advisory Committee notes from paragraphs 87 to 89 of the report that further resource requirements amounting to $210.1 million, comprising $42.6 million for "worst-case scenario" lease costs and a total of $167.5 million for associated costs ($146.8 million) and the costs of the secondary data centre ($20.7 million), have been added to the capital master plan budget, bringing the total consolidated amount required to complete the project to $2,161.0 million. The consolidated budget deficit will therefore increase to $284.3 million, or 15.2 per cent of the approved budget.

30. The requirements for associated costs and for the secondary data centre are discussed in more detail below. With regard to the "worst-case scenario" requirements for leases, the Secretary-General indicates that the original capital master plan budget provided for office swing space rent until September 2012. However, in order to avoid the possibility that a delay in the completion of the capital master plan project could leave the United Nations without rental space, the lease commitments entered into by the Organization went beyond the project completion date. According to the Secretary-General, the lease costs for the additional months, which vary from building to building and, as the Advisory Committee understands the situation, cannot be met from within the original budget allocation, might be mitigated if the rental market improves and the space can be sublet or landlords wish to lease the space to other tenants. Upon enquiry, the Advisory Committee was informed that negotiations between the Office of Legal Affairs and swing space landlords regarding early termination or alternative cost-saving measures such as subleasing would commence shortly.

31. Upon request, the Advisory Committee was provided with the following table illustrating how the net additional requirement for leases was calculated (in United States dollars):

Provision for swing space rental until 30 September 2011	*Actual swing space rental to 30 June 2011*	*Estimated rental cost payments from 1 July 2011 to end of capital master plan, after allowing for early termination*	*Gross provision required*	*Landlord contribution*	*Net provision required*
(a)	*(b)*	*(c)*	*(d)=(a)-(b)-(c)*	*(e)*	*(f)=(d)+(e)*
157 948 000	115 507 045	96 700 444	(54 259 489)	11 710 167	(42 549 322)

32. **While the Advisory Committee understands the need to mitigate risk by building contingency provisions into the capital master plan schedule, it regrets that the Secretary-General did not bring the issue of "worst-case scenario" requirements for leases to the attention of the General Assembly at an earlier stage. Now that it has become apparent that some swing space will not be required for the full duration of the leases, and given the magnitude of the consolidated deficit referred to in paragraph 29 above, the Committee expects that the Secretary-General will commence negotiations with landlords without delay with a view to limiting, as far as possible, use of the "worst-case scenario" requirements. All available options for recouping the full amount of $42.6 million should be explored.**

Financing arrangements proposed for the consideration of the General Assembly

33. In order to cover the additional costs referred to in paragraph 29 above, the Secretary-General, in response to the request contained in General Assembly resolution 61/251, is recommending that the Assembly consider utilizing the working capital reserve and interest earned on the capital master plan fund to cover the combined direct project costs, as well as part of the associated costs and the costs of the secondary data centre (A/66/527, paras. 101 and 110). As at 1 October 2011, the interest income amounted to $104.1 million, and $45 million was available in the working capital reserve. Together, those resources total $149.1 million (ibid., para. 102). The Advisory Committee notes that, should the General Assembly accept the Secretary-General's recommendation, the consolidated deficit would be reduced from its current level of $284.3 million to $131.9 million. Furthermore, the Committee was informed that the Secretary-General's proposal, if approved, would obviate the need to approach Member States for an additional assessment in 2012.

34. Upon enquiry, the Advisory Committee was informed that regulation 4.18 of the Financial Regulations and Rules of the United Nations provides that income derived from investments shall be credited as provided in the rules relating to each fund or account. The relevant rule in this case, rule 104.15 (b), states that income from investments pertaining to trust funds and special accounts shall be credited to the trust fund or special account concerned. The Committee was informed that, since the Financial Regulations and Rules neither prohibited nor expressly allowed for the utilization of interest income from the capital master plan fund, it was appropriate to seek the consent of the General Assembly for that course of action, particularly since the Secretary-General was seeking not only to utilize the interest income but also, in so doing, to increase the total budget of the capital master plan as approved by the Assembly in its resolution 61/251.

35. Table 8 of the Secretary-General's report, reproduced below, summarizes the total adjusted resource requirements for the project, the total available funding and the proposed financing options:

Adjusted resource requirements of the capital master plan with financing options

(Thousands of United States dollars)

	As at May 2011
Capital master plan (direct costs)[a]	1 961 921
Associated costs	146 806
Enhanced security upgrade	99 557
Secondary data centre	20 700
Provision for office space rent from October 2012	42 550
Total	**2 271 534**
Less	*As at 1 October 2011*
Assessments on Member States	1 876 700
Voluntary contributions	Up to 10 500
Contribution for the enhanced security measures	Up to 100 000
Interest income	104 100
Working capital reserve	45 000
Funding from the support account for the secondary data centre	3 286
Total	**2 139 586**
Shortfall	131 948

[a] Direct costs include a contingency/cost escalation provision of $89,084,000.

36. As explained in paragraphs 97 and 98 of the Secretary-General's report, while the aggregate resources approved by the General Assembly for the secondary data centre total $20.9 million, the Office of Information and Communications Technology now estimates that total resource requirements for the centre will amount to $20.7 million. The cumulative approved funding from the support account for peacekeeping operations for the period from 1 July 2009 to 30 June 2011 amounts to $3.3 million. As such, the unfunded costs of the secondary data centre requested to be absorbed by the capital master plan amount to $17.4 million. The Advisory Committee recalls, in this connection, that, from 1 January 2012, funding for the secondary data centre will be provided under the regular budget and the support account for peacekeeping operations. The Committee has commented further on the future operation of the secondary data centre in its report on the emergency management framework (A/66/7/Add.10).

37. Upon enquiry, the Advisory Committee was provided with the following table, which illustrates two possible cash flow scenarios for the capital master plan, including all associated costs, for the period from 21 October 2011 to May 2013. The table, which takes as its point of departure the available cash balance as of 21 October 2011, compares the month-by-month cash balance with and without the resources from the working capital reserve and the accrued interest. The figures exclude the outstanding assessed contributions in the amount of $87.32 million:

	Total projected cost	*Cash balance (including accrued interest and working capital reserve of $149,100,000)*	*Cash balance (excluding accrued interest and working capital reserve of $149,100,000)*
Cash balance as of 21 October 2011		842 404 540	693 304 540
Contractor invoices received but not yet paid	66 460 192	775 944 348	626 844 348
November 2011	46 499 108	729 445 239	580 345 240
December 2011	50 592 192	678 853 047	529 753 047
January 2012	50 272 819	628 580 228	479 480 229
February 2012	51 602 687	576 977 541	427 877 541
March 2012	56 103 693	520 873 848	371 773 848
April 2012	55 640 720	465 233 128	316 133 129
May 2012	57 364 868	407 868 260	258 768 260
June 2012	52 809 394	355 058 866	205 958 866
July 2012	53 724 901	301 333 965	152 233 965
August 2012	45 304 411	256 029 554	106 929 554
September 2012	41 708 101	214 321 453	65 221 453
October 2012	41 656 914	172 664 538	23 564 539
November 2012	37 762 097	134 902 442	(14 197 558)
December 2012	35 636 929	99 265 512	(49 834 487)
January 2013	24 262 871	75 002 641	(74 097 359)
February 2013	19 391 086	55 611 555	(93 488 445)
March 2013	19 906 067	35 705 488	(113 394 512)
April 2013	19 316 347	16 389 141	(132 710 859)
May 2013	18 260 144	(1 871 003)	(150 971 003)

38. The Advisory Committee was informed that the interest income and working capital reserve would be utilized only when the cash balance of the fund was exhausted, i.e. between October and November 2012, and that, should the majority of the outstanding contributions in the amount of $87.32 million (see para. 27 above) be received before the end of 2012, the interest income and working capital reserve would not be required until some point between January and February 2013.

39. **Having considered all the information before it, and mindful of the fact that a cash shortfall could further delay the project, the Advisory Committee can recommend that the General Assembly endorse the Secretary-General's proposal on financing arrangements, which would make it possible to cover all the additional direct project costs, as well as a portion of the associated costs, without the need for an additional assessment on Member States in 2012. The Committee considers, however, that the additional resources should be made available in a phased manner — beginning with the working capital reserve and moving on, if necessary, to the interest income — and only when they are needed, which, depending on the status of outstanding contributions, may not be until early 2013. In this connection, the Committee recalls the provisions of General Assembly resolution 64/243, in which the Assembly stressed that Member States should fulfil their financial obligations as set out in the Charter**

of the United Nations on time, in full and without conditions. The Committee also urges the Secretary-General to continue to explore all opportunities to reduce the total cost to complete through value engineering and other cost-efficiency measures (see also para. 55 below). Detailed information on the outcome of those efforts should be provided in the next progress report.

IV. Report of the Secretary-General on proposals for financing associated costs for 2012 from within the approved budget for the capital master plan

40. In his report on proposals for financing associated costs for 2012 within the approved budget for the capital master plan (A/66/527/Add.1), the Secretary-General provides an update on the status of activities associated with the plan, including historical expenditure to 2010, reforecast expenditure for 2011 and estimated resource requirements for 2012 and 2013. The report also contains information on the activities of the Steering Committee on Associated Costs, which was established pursuant to General Assembly resolution 64/228 to ensure close coordination across departments involved in the capital master plan with respect to the cost of activities associated with the plan. The Secretary-General indicates, in particular, that through the monthly review mechanism of the Steering Committee, the requirements for associated costs have been thoroughly reviewed and reconsolidated so as to ensure that they are aligned with the most recent project schedule (ibid., paras. 2 and 3).

41. As indicated in paragraph 8 of the Secretary-General's report, the total projected resource requirements for 2008-2013 for activities associated with the capital master plan, which relate to temporary increases in staffing and operational costs in the Department for General Assembly and Conference Management, the Department of Public Information, the Department of Management, the Office of Information and Communications Technology and the Department of Safety and Security, amount to $146.8 million. Table 1 of the Secretary-General's report provides a summary of the associated cost requirements as compared with those presented in the previous report (A/65/511/Add.1). The Advisory Committee notes that the current projection is based on the assumption that there will be no delays to the capital master plan schedule as set out in the ninth annual progress report (see paras. 25 and 26 above). According to the Secretary-General, the delays to the previous schedule have affected the associated costs only in so far as certain activities, for example the installation of the permanent broadcast facility and the media asset management system, are taking place later than previously forecast because the renovation of the Conference Building has been delayed owing to the enhanced security upgrades. From a financial perspective, there is no impact on the overall amount of associated costs (A/66/527/Add.1, summary).

42. During its consideration of the Secretary-General's report, the Advisory Committee was provided with an analysis of the main cost drivers of the associated costs for the period from 2009 to 2012. The Committee was informed that $43,858,200, or 31 per cent of the total associated costs for that period, related to the purchase of furniture (see also paras. 51 and 52 below); $40,462,600, or 28 per cent, related to the permanent broadcast facility and the media asset management

system (see paras. 47-50 below); and $25,025,100, or 18 per cent, related to security coverage in connection with construction activity and temporary locations.

43. Section III of the Secretary-General's report describes the associated cost expenditure for the biennium 2008-2009 and for 2010. Actual expenditure for the biennium 2008-2009 amounted to $18.4 million against a total approved amount of $30.3 million. The unspent balance of $11.9 million was carried forward to 2010 (see A/66/257/Add.1, table 2).

44. Available resources for 2010 amounted to $54.0 million, comprising the aforementioned unspent balance of $11.9 million from 2008-2009 and resources in the amount of $42.1 million approved by the General Assembly in its resolution 64/228. As indicated in the Secretary-General's previous report on associated costs, requirements for 2010 were subsequently revised to $14.9 million, reflecting the deferral to 2011 of the procurement and installation of the permanent broadcast facility and the media asset management system (see A/65/511/Add.1, para. 10 and table 4). Actual expenditure for the year amounted to $13.6 million, and the unspent balance of $40.3 million was carried forward to 2011. Detailed information on expenditure by department/office is contained in paragraphs 16 to 29 of the Secretary-General's report.

45. The Advisory Committee notes from the report that, in 2010, the Office of Central Support Services recorded underexpenditures in the amount of $461,400 under general operating expenses owing, inter alia, to the postponement of the relocation of the postal and gift centres because of the delayed closure of the General Assembly Building (A/66/527/Add.1, para. 20 (c)). As indicated in table 1 of the ninth annual progress report (A/66/527), the renovation of the General Assembly Building has been delayed owing to the enhanced security measures. Upon enquiry, the Committee was informed that, during the renovation of the General Assembly Building, which was anticipated to take approximately 18 months, the postal and gift centres would be temporarily relocated to the Library Building.

46. The Secretary-General discusses the actual and projected expenditure for associated costs for 2011 in section IV of his report. As indicated in table 4, total available funding for 2011 amounts to $99.2 million, comprising $40.3 million carried forward from 2010 (see para. 44 above) and $58.9 million approved by the General Assembly in its resolution 65/269. In paragraph 31, the Secretary-General indicates that, on the basis of expenditure patterns for the first six months of 2011 and the current revised projections, it is estimated that associated costs for 2011 will amount to $64.2 million, comprising pre-encumbered resources of $31.3 million plus expenditure of $32.9 million. It is therefore expected that there will be an unencumbered balance of $35.0 million at the end of the year, reflecting the phased completion from 2011 to 2012 of the procurement of office furniture and the installation of the permanent broadcast facility and the media asset management system. Detailed information on expenditure by department/office is contained in paragraphs 33 to 55 of the report.

47. The Advisory Committee notes from paragraph 40 of the Secretary-General's report that the cost of the permanent broadcast facility and the media asset management system is to be shared between the Department of Public Information and the Office of Central Support Services at a ratio of 75:25. The total resources approved for those two projects amount to $40,272,500, of which $31,330,600 has been pre-encumbered and a further $1,665,000 has been spent on design work.

48. Approved resources for 2011 for the Department of Public Information in respect of the permanent broadcast facility and the media asset management system amount to $30,291,900 (A/66/527/Add.1, para. 35). However, as indicated in paragraphs 40 and 41 of the Secretary-General's report, value engineering exercises conducted during 2011 have had a positive effect on the final negotiated contract terms for the systems, reducing the Department's share of the total pre-encumbered cost to $24,746,200 and leaving a projected unencumbered balance of $5,545,700. The Secretary-General reports that $5,095,700 of that amount is to be carried forward to 2012 for cameras and other related furniture, fixtures and equipment, the transition from existing to new studios and additional functionality not identified in the original design/build scope.

49. During its consideration of the Secretary-General's report, the Advisory Committee enquired why the Secretary-General was proposing to carry forward to 2012 the above-mentioned savings in the amount of $5,095,700 and use them to acquire additional elements that were not included in the original scope of the two projects. In response, the Committee was informed that the schedule, size and complexity of the overall project to modernize the broadcast and audio-visual facilities at Headquarters had presented a number of challenges that could not be estimated or were not foreseen when the scope of the projects was originally established. It had also been necessary to make allowances for the rapid developments in technology that had occurred since the projects were conceived. Accordingly, a number of changes to the permanent broadcast facility and/or the media asset management system projects were now required, including enhancements to the old broadcast facility in the Secretariat Building so that it was able to support the new technologies until the new facility was operational; additional mobile broadcast cameras to temporarily augment video production, as required, in conference rooms with small numbers of permanently installed cameras; detailed integration and harmonization of four of the audio-visual and broadcast systems, which entailed modifying some systems to accommodate the specifications of others; and the acquisition of additional equipment to accommodate the evolving broadcast requirements of broadcasters accompanying high-level dignitaries.

50. **While the Advisory Committee regrets that the savings identified from value engineering were not utilized to lower the total balance of associated costs, it also recognizes the importance of ensuring that the new audio-visual and broadcast systems incorporate the most modern, state-of-the-art technology. Going forward, and at this late stage, the Advisory Committee trusts that adjustments to the two projects will be kept to a minimum and that any further savings from value engineering will be used to reduce the total cost-to-complete of the project.**

51. The Advisory Committee recalls that, in its resolution 65/269, the General Assembly approved $51,350,800 for the Office of Central Support Services for 2011. That amount includes $43,858,200 for office furniture, the procurement of which is being managed by the Office of the Capital Master Plan. In paragraph 55 of his report, the Secretary-General indicates that expenditure as at 30 June 2011 amounted to $1,499,900 and that requirements of $17,908,700 are projected for the second half of the year. The unspent balance of $24,449,600 will be deferred to 2012, when the procurement and installation of furniture will be completed.

52. During its consideration of the Secretary-General's report, the Advisory Committee was informed that requirements for the purchase of furniture accounted for 31 per cent of the total associated costs for the period from 2009 to 2012. When the capital master plan was initially conceived, it had been anticipated that existing office furniture could be re-purposed for use in the renovated complex. However, the decision to introduce an open-office-space concept had made it necessary to revise the original plan and to provide for the acquisition of new, modular office furniture. The Advisory Committee notes from paragraph 47 of the ninth progress report (A/66/527) that opportunities for the reuse of furniture are being explored. In particular, the planning for the lounges and open areas of the Conference Building provides for the repair and reuse of furniture, except where the spaces in question are the subject of donations. For seating in conference rooms 1, 2 and 3 of the Conference Building and conference rooms 5, 6, 7 and 8 of the General Assembly Building, competitive bids are being taken for both new seating and the repair of existing seating. Upon enquiry, the Committee was informed that the Office of the Capital Master Plan would be selecting the least expensive option. **The Advisory Committee reiterates its earlier recommendation that every effort be made to reuse furniture in good condition** (see A/65/725, para. 18).

53. The projected requirements for associated costs for 2012 are set out in section V of the Secretary-General's report. It is currently projected that an unutilized balance of $34,957,100 will remain at the end of 2011, which will partly offset the projected resource requirements of $46,322,200 for 2012. Net additional funds of $11,365,100 are therefore required to meet those requirements. Detailed requirements by department/office are set out in table 6 and paragraphs 58 to 75 of the report, and can be summarized as follows:

(a) $722,800 net for the Department for General Assembly and Conference Management;

(b) $43,000 net for the Department of Public Information;

(c) $4,942,300 net for the Office of Central Support Services;

(d) $318,600 net for the Office of Information and Communications Technology;

(e) $5,885,000 net for the Department of Safety and Security.

The Advisory Committee notes that, under construction, alteration, improvement and major maintenance, $546,600 in approved resources carried forward from 2011 will not be needed and will therefore be available to offset resource requirements for other associated costs.

54. In paragraphs 74 to 82 of its report on the capital master plan for the year ended 31 December 2010 (A/66/5 (Vol. V)), the Board of Auditors makes a series of observations and recommendations on the associated costs. The Board states, inter alia, that the project is unlikely to be able to absorb the associated costs without either a reduction in the scope of the capital master plan or a potential increase in the anticipated final cost. The Board therefore recommends that the Administration and those responsible for governance clarify the question of budgetary responsibility for the associated costs by making a clear decision about the way in which they will be funded. In his response to the Board's recommendations, the Secretary-General

indicates that the funding of associated costs is discussed in the ninth annual progress report (A/66/324, para. 25).

55. **The Advisory Committee agrees with the analysis of the Board of Auditors. The Committee recalls that, in its previous report on this matter, it expressed concern about the capacity of the capital master plan budget to absorb the associated costs, noting that the situation needed to be addressed in a timely manner, without eventually placing an additional financial burden on Member States (A/65/725, para. 15). At this juncture, the Committee considers that, while the Secretary-General's proposals for the utilization of the working capital reserve and interest income (see paras. 33-39 above) respond partially to the Board's concerns, if the additional resources made available are also to be utilized to offset the existing budget deficit, they will not be sufficient to cover the full amount of associated costs. In the Committee's view, the General Assembly should therefore, in the interest of transparency, request the Secretary-General to clarify to it how the remaining requirements are to be met, bearing in mind (a) the Assembly's decision that approved associated costs are to be financed from within the budget approved for the capital master plan (see resolution 65/269, paras. 54-56) and (b) the course of action recommended in paragraph 81 (e) of the Secretary-General's report. The Advisory Committee also recommends that the Secretary-General be requested to explore every possible opportunity for implementing improved cost-efficiency measures.**

V. Conclusion and recommendations

56. The actions requested of the General Assembly in connection with the ninth progress report on the capital master plan (A/66/527) are set out in paragraph 111 of that report. **Subject to the comments and observations set out above, the Advisory Committee recommends that the General Assembly:**

(a) **Take note of the progress made since the issuance of the eighth annual progress report;**

(b) **Request the Secretary-General to continue reporting on the status of the project, the schedule, the aggregate projected cost to complete, the status of contributions, interest and the working capital reserve;**

(c) **Endorse the Secretary-General's proposals relating to the utilization of the working capital reserve and, if necessary, the interest earned on the capital master plan fund.**

57. The action to be taken by the General Assembly in connection with the proposals for financing associated costs for 2012 within the approved budget for the capital master plan (A/66/527/Add.1) is set out in paragraph 81 of that report. **Subject to the observations and recommendations set out above, the Advisory Committee recommends that the General Assembly:**

(a) **Take note of the progress set out in the Secretary-General's report;**

(b) **Note the overall total costs of activities associated with the capital master plan for the period from 2008 to 2013 in the amount of $146.8 million;**

(c) **Note the associated costs for 2012 in the amount of $46,322,200, broken down as follows:**

(i) **$722,800 for the Department for General Assembly and Conference Management;**

(ii) **$5,138,700 for the Department of Public Information;**

(iii) **$32,921,000 for the Office of Central Support Services;**

(iv) **$610,900 for the Office of Information and Communications Technology;**

(v) **$478,000 for construction, alteration, improvement and major maintenance activities at Headquarters;**

(vi) **$6,450,800 for the Department of Safety and Security;**

(d) **Approve a net amount of $11,365,100 for 2012, after taking into account the estimated unspent balance of $34,957,100 for the period 2008-2011;**

(e) **Approve the continued financing of associated costs from within the approved budget of the capital master plan.**