United Nations A/67/548

General Assembly

Distr.: General
25 October 2012

Original: English

Sixty-seventh session
Agenda item 130
Programme budget for the biennium 2012-2013

Capital master plan

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the tenth annual progress report of the Secretary-General on the implementation of the capital master plan (A/67/350), and his report on proposals for financing the associated costs for 2013 from within the approved budget for the capital master plan (A/67/350/Add.1). The Committee also had before it the report of the Board of Auditors on the capital master plan for the year ended 31 December 2011 (A/67/5 (Vol. V)) and the related report of the Secretary-General on the implementation of the recommendations of the Board (A/67/319, sect. III). In addition, the Committee had before it the report of the Office of Internal Oversight Services (OIOS) on the in-depth technical construction audit of the capital master plan (A/67/330), submitted pursuant to General Assembly resolution 66/258.

2. During its consideration of the above-mentioned reports, the Advisory Committee met with the Under-Secretaries-General for Management and Internal Oversight Services, 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 of the Board of Auditors, who provided additional information and clarification.

3. In section III of its resolution 66/258 on the capital master plan, the General Assembly, inter alia, stressed accountability as a central pillar of effective and efficient management; expressed deep concern about the sudden and unexplained increase in the cost overrun of the project; and requested the Secretary-General to report, in the context of the tenth annual progress report, on practical options to reduce or offset the overall projected costs and to finance such commitment while remaining within the approved budget and scope of the project. The Assembly also requested the Secretary-General to entrust OIOS to urgently undertake an in-depth technical construction audit of the capital master plan.

4. The present report of the Advisory Committee reflects the main issues raised in the report of the Board of Auditors (sect. II), the report of OIOS (sect. III) and lessons learned (sect. IV), as well as the tenth annual progress report of the Secretary-General and the report of the Secretary-General on proposals for financing associated costs (sects. V and VI). The conclusions and recommendations of the Committee are contained in section VII. Overlapping issues addressed by both the Board of Auditors and OIOS and the related observations of the Advisory Committee are discussed under relevant headings in sections IV, V and VI below.

II. Report of the Board of Auditors on the capital master plan for the year ended 31 December 2011

5. The report of the Board of Auditors on the capital master plan for the year ended 31 December 2011 (A/67/5 (Vol. V)) was submitted pursuant to General Assembly resolution 57/292, in which the Assembly requested the Board to submit an annual progress report on the implementation of the project. The Board has examined the progress of the capital master plan since its last report (A/66/5 (Vol. V)) and the likelihood of the capital master plan being delivered on time and within budget and scope, as well as the management of risk within the capital master plan (A/67/5 (Vol. V), paras. 1 and 2). The Board has concentrated mainly on the key developments and associated risks to successful delivery, as well as the information and assurances that the General Assembly will need, at this critical juncture in the project, in order to support its decision-making during 2012 (ibid., para. 10).

6. In its report, the Board of Auditors has provided a summary of the background and major developments concerning the capital master plan and analysed issues related to budget management and the project timeline, scope and quality (ibid., paras. 5-10 and 14-52). Annex I to the report of the Board sets out the key stages in the development of the strategy and budget for the capital master plan. Annex II provides a summary of the changes in the budget and the anticipated final cost estimates over time.

Follow-up to recommendations of the Board

7. The Advisory Committee notes from the report of the Board of Auditors that, of the 15 recommendations made in the Board's previous report, 2 (13 per cent) were fully implemented, 8 (53 per cent) were under implementation, 4 (27 per cent) were not implemented and 1 (7 per cent) was overtaken by events. The Board has expressed concern about the low rate of implementation (ibid., summary and paras. 11-13).

8. In this connection, the Board notes that the Administration did not adequately implement important recommendations, made in the Board's previous report, regarding the need for more analytical and complete cost forecasting and including allowances for the risks contained within the risk register. The Board considers that, had they been implemented, the financial difficulties of the capital master plan reported between October 2011 and March 2012 would have been apparent much sooner, facilitating more timely and effective decision-making (ibid., summary; see also paras. 22-26 and 50 below).

9. The status of implementation of the recommendations of the Board on the capital master plan for the year ended 31 December 2011 is presented in section III of the report of the Secretary-General on the implementation of the recommendations of the Board (A/67/319). According to the Secretary-General, of the 12 recommendations made by the Board, 1 has been implemented, 10 are in progress with target dates set, and 1, related to the recommendation to establish a steering committee for the capital master plan, was not accepted by the Administration (ibid., table 5 and paras. 159 and 176-179; see also paras. 19-21 below).

10. **The Advisory Committee shares the concern of the Board of Auditors about the low implementation rate of its previous recommendations. The Committee is of the view that the Secretary-General should ensure rapid and full implementation of all the accepted recommendations of the Board. In this regard, the Committee reiterates its position that, in the interest of the Organization, priority attention must be given to the most serious problems identified by the Board. The Committee also underlines the importance of achieving concurrence, to the extent possible, between the Secretary-General and the Board on the latter's recommendations and recommends that, in instances of divergence of views, greater collaborative efforts be made to find resolution, including through the jointly developed plans for remedial action (see A/67/381, para. 12).**

III. In-depth technical construction audit of the capital master plan by the Office of Internal Oversight Services

11. Pursuant to General Assembly resolution 66/258, the Office of Internal Oversight Services conducted an in-depth technical construction audit from May to July 2012, with the assistance of a professional services firm. The emphasis of the audit was on the circumstances that led to the projected cost overrun of $433 million. The findings and the recommendations arising from the audit are summarized in the report of OIOS (A/67/330).

12. The Advisory Committee notes that OIOS, in its report on the in-depth technical construction audit (A/67/330) has concluded that the governance, risk management and control processes of the Office of the Capital Master Plan that were examined were partially satisfactory in providing reasonable assurance regarding the effective planning and implementation of the project. The assessment by OIOS was based on four key controls, measured by four control objectives. The audit found that each of the four key controls was partially satisfactory (ibid., summary, para. 12 and table 1). A total of 26 recommendations were issued by OIOS for further strengthening internal controls, which were all accepted by the Office of the Capital Master Plan and the Department of Management. Upon request, the Advisory Committee was provided with information with respect to the linkage between the 26 recommendations and the key controls and objectives, which is presented in table 1 below.

Table 1
Assessment by the Office of Internal Oversight Services of key controls for the effective planning and implementation of the project, by control objective, showing the linkage between its recommendations and the key controls and objectives

	Control objectives			
Key controls	*Efficient and effective operations*	*Accurate financial and operational reporting*	*Safeguarding of assets*	*Compliance with mandates, regulations and rules*
(a) Risk management and strategic planning	Partially satisfactory (recommendations 1 and 2)	Partially satisfactory (recommendation 1)	Partially satisfactory (recommendation 1)	Partially satisfactory (recommendation 3)
(b) Programme management reporting	Partially satisfactory (recommendations 4, 6, 7)	Partially satisfactory (recommendations 5 and 13-16)	Partially satisfactory (recommendations 8-11)	Partially satisfactory (recommendation 12)
(c) Performance monitoring indicators and mechanisms	Partially satisfactory (recommendation 20)	Partially satisfactory (recommendation 17)	Partially satisfactory (recommendations 18 and 19)	Not applicable
(d) Regulatory framework	Partially satisfactory (recommendation 26)	Partially satisfactory (recommendation 21)	Partially satisfactory (recommendations 22-25)	Partially satisfactory (recommendation 26)

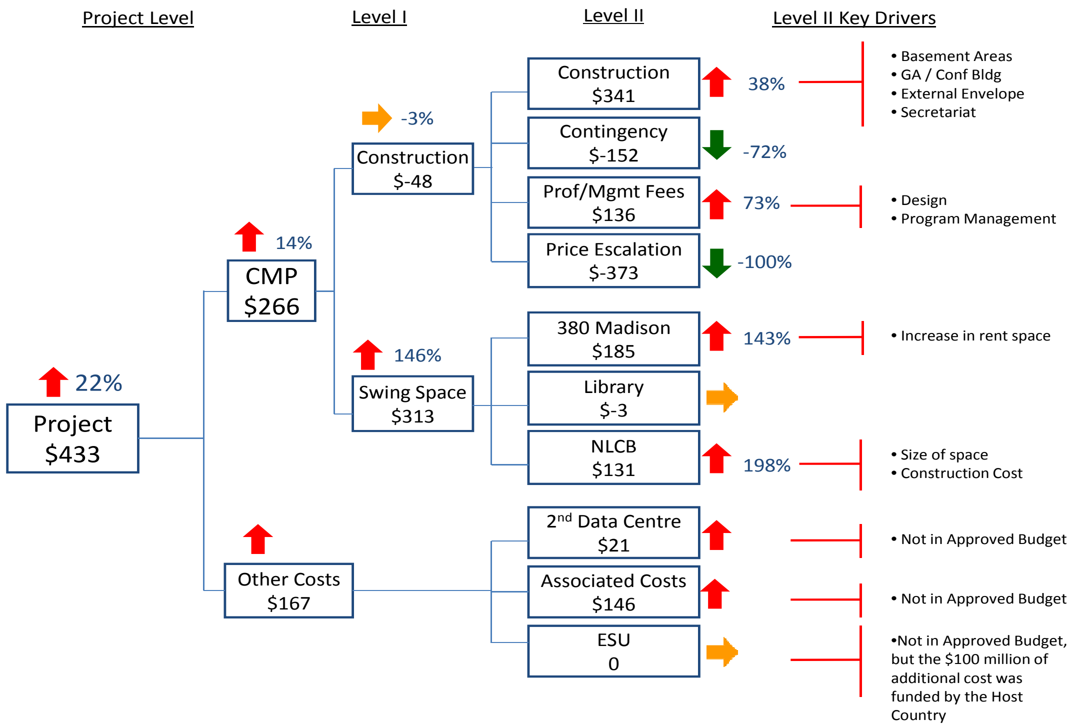
13. The Advisory Committee also notes that the Office of the Capital Master Plan disagreed with the overall rating of partially satisfactory. However, OIOS maintained its conclusion based on its identification during the audit of important deficiencies or weaknesses in processes such that reasonable assurance may be at risk regarding the achievement of the control and business objectives of the capital master plan, including the implementation of the project within budget (ibid., paras. 13 and 14). Notwithstanding this finding, OIOS indicated that the Office of the Capital Master Plan was managing and controlling the project appropriately, given the size, complexity and duration of the project (ibid., summary).

Causes of cost overruns

14. The causes of cost overruns are discussed in paragraphs 15 to 26 of the OIOS report. The root causes identified for the cost overruns include changes in the project execution strategy, leadership changes, unbudgeted associated costs and increased security requirements. The build-up in cost overruns has three main components: (a) an increase of $477 million in construction costs, offset by the use of contingency and price escalation reserves of $525 million, resulting in a net reduction of $48 million (see paras. 22 and 23 below); (b) an increase of $313 million in swing space costs; and (c) other associated costs, not included in the approved budget, amounting to $167 million. According to the OIOS audit, the primary drivers of the current cost overrun are justifiable, given the change in execution strategy, increased security requirements and unbudgeted associated costs (ibid., summary). Key cost overrun drivers are illustrated in table 3 of the OIOS report, which is reproduced below.

Key cost overrun drivers

(Millions of United States dollars; arrows and percentages indicate variances between the March 2012 estimate at completion and the approved budget)



15. OIOS further indicates that the overall capital master plan costs were reasonable for the scope of work performed: the majority of the capital master plan costs were procured through a competitive process and selected on best value; the lease costs were found to be competitive when compared to market data; and professional fees were within industry standard as a percentage of construction costs (ibid., para. 27 and table 4).

Potential cost recoveries

16. In its report OIOS states that, while the Office of the Capital Master Plan and the project manager have been diligent in reviewing payment applications and change orders, the audit identified several potential areas for exploring cost recovery (ibid., summary). The OIOS audit analysed a sample of construction change orders ($34.2 million, or 27 per cent of the total approved) and payment applications ($549 million, or 74 per cent of the total construction contract values) for subprojects related to the basement and the Secretariat and North Lawn Buildings. Several potential areas for cost recovery were identified and four recommendations were made.

17. OIOS indicates that the recoveries identified are only reflective of the sample tested and are not significant in terms of the projected budget shortfall (ibid., paras. 9 and 34-38 and recommendations 7-10). Upon enquiry, the Advisory Committee was informed that in response to the recommendations, the Office of the Capital Master Plan had consulted OIOS and that it intended to request an independent accounting

firm or an integrity monitoring firm to conduct a review of the subcontractors concerned. **The Advisory Committee is of the view that the Secretary-General should take actions to identify and recover such costs, whenever it is cost-effective to do so, and report actions taken in this regard in the eleventh annual progress report on the implementation of the capital master plan.**

IV. Lessons learned

Progress reporting for the capital master plan

18. The Office of the Capital Master Plan is required to provide annual progress reports to the General Assembly. OIOS indicates that the annual reporting process is not the most efficient or effective method for capital project reporting and is not consistent with industry practices (ibid., para. 41). OIOS has therefore recommended that the Office of the Capital Master Plan consider developing more succinct monthly project status reports with key performance indicators to inform stakeholders of progress (recommendation 13). The Department of Management accepted the recommendation, and stated that more frequent project reports would be feasible, while monthly internal reports would continue to be distributed to the relevant offices in the Secretariat. **While the Advisory Committee has recommended annual reporting for construction projects, with lessons learned, the Committee is of the view that more frequent progress reporting on large, dynamic and transformational projects, such as the capital master plan, is necessary. In this connection, and taking into account the concerns expressed by the General Assembly in its resolution 66/258, the Committee is of the view that the Secretary-General should provide quarterly briefings to the Committee, besides submitting annual progress reports to the General Assembly, on all aspects of the implementation of the capital master plan (see also para. 47 below).**

Project governance

19. The Board of Auditors notes that the capital master plan has an experienced project delivery team, and construction costs have been reviewed and negotiated firmly (A/67/5 (Vol. V), summary). However, the Board notes that the capital master plan has no steering committee to provide support and an independent challenge to the project team, which is unusual for a project of this nature, complexity and importance (ibid., paras. 53-55). The main governance control is through the annual reporting cycle to the General Assembly. According to the Board, the internal coordination mechanisms established by the Office of the Capital Master Plan, such as the regular briefings to the Management Committee (chaired by the Deputy Secretary-General) and the Advisory Board of the capital master plan, are not a substitute for effective project governance. The Administration, however, does not accept the Board’s recommendation that it urgently establish more effective and regular governance over the capital master plan. The Administration states that the project is presently managed with clear lines of supervision and accountability, and establishing a steering committee could blur the lines of accountability and delay the decision-making process, and that, at this stage, the project needs a strong execution process, transparent lines of communication with all stakeholders and responsible budget management, all of which are guaranteed under the present managerial structure (A/67/319, paras. 176-179).

20. OIOS concludes that overall project governance for the capital master plan was established in a manner and format traditional for a project of its size and complexity. Further, OIOS states that the project is being executed by an experienced design and construction management team, and the Office of the Capital Master Plan is led by a seasoned construction executive who is accountable for delivering the project. However, the existing oversight committees (the Steering Committee on Associated Costs, the Advisory Board and Department of Management meetings) do not fulfil the function of monitoring cost, schedule and scope. Typically, oversight is provided by a steering committee that includes representatives from senior management and other key project stakeholders (A/67/330, para. 28). In its recommendation 1, OIOS states that the Department of Management should ensure that for future major capital projects, there is a formal oversight committee or governance body between the project team and the General Assembly, while not reducing the accountability of the project team.

21. **The Advisory Committee is of the view that the lack of an independent governance mechanism still poses a risk to the capital master plan. The Committee believes that if it had been possible to establish the Advisory Board in a timely manner (see General Assembly resolutions 57/292, sect. II, para. 19, and 63/270, sect. I, paras. 39 and 40) to fulfil the mandate as described in its terms of reference, the functions that are typically performed by a steering committee could have been provided. However, given the stage of project implementation and the reasoning provided by the Secretary-General (see para. 19 above), the Advisory Committee is prepared to accept the rationale that it is too late to establish a steering committee for the capital master plan project governance. Looking forward, the Committee is of the view that, for future major capital projects, a formal oversight committee or governance body should be established to support and independently challenge the project team (see paras. 19 and 20 above).**

Reporting the full costs of the accelerated strategy and project contingency

22. Both the Board of Auditors and OIOS have reviewed the project contingency provisions for the capital master plan. When the capital master plan budget of $1,877 million was approved in December 2006 (General Assembly resolution 61/251), it provided for project costs of $1,381 million and project provisions of a total of $496 million ($200 million as project contingency and $296 million for construction price inflation) (A/67/5 (Vol. V), table 4). The Board observes that when the Administration, in October 2008, increased the forecast of required project costs by $358 million over the approved budget (owing to the delay in commencing the project and the adoption of the accelerated strategy), it reduced, at the same time, its estimate of required contingency and price escalation provisions from $496 million to $235 million (owing largely to hard economic conditions resulting in inflation levels being lower than originally forecast). The difference of $261 million was used to offset some of the budget deficit under the accelerated strategy and, as a result, a cost overrun of $97 million was reported (ibid., para. 59). The Board states that a contingency is a specific budgetary provision which is allocated so that a project can quickly address the cost impact of project risks, should they arise, without needing to delay the project and negotiate increased funding. However, it is crucial that the Administration not use contingency funding

as a device to absorb general increases in project costs and that it clearly report how and when such provisions have been used.

23. Further, the Board of Auditors states that, although the final actual cost of the project would not have changed, if the $496 million funding provided as a project provision had been ring-fenced, rather than partially used to cover the budget deficit, the General Assembly would have been given a more accurate picture of the likely cost of the project in October 2008, and there would have been sufficient contingency remaining to cover the cost impact of the risks that the Administration reported in December 2011 (ibid., para. 60; see also paras. 46 and 47 below). The Advisory Committee notes that the Administration agreed with the Board's recommendation that, drawing on the lessons from the capital master plan, it consider how in future it can manage contingency funding on capital projects in a more transparent and effective manner (ibid., paras. 61 and 62).

24. It is recalled by the Board of Auditors that the Secretary-General, in his fifth annual progress report (A/62/364 and Corr.1) in September 2007, noted delays in implementing strategy IV and increased project costs. The Secretary-General proposed an accelerated strategy (accelerated strategy IV), involving a shorter period of renovation, fewer phases of construction and less disruption to United Nations operations. Accelerated strategy IV remains the current implementation strategy (A/67/5 (Vol. V), para. 6). The Advisory Committee recalls that it was indicated by the Secretary-General, at the time, that accelerated strategy IV would be less risky, less expensive and faster than the adopted plan, and that in an accelerated project, a single guaranteed maximum price would be agreed for the entire Secretariat Building and a single guaranteed maximum price would be agreed for the General Assembly and Conference Buildings. Almost all of the contract values would be known within the first three years of the project, which would greatly reduce the financial risks to the Organization (A/62/364, paras. 27 and 29). **The Advisory Committee concurs with the Board of Auditors that the full likely costs and risks of the accelerated strategy had not been made clear when the General Assembly was asked to approve it (A/67/5 (Vol. V), para. 56); and the Committee is unable now to determine the success, or otherwise, of the strategy.**

25. OIOS found that approximately 90 per cent of the budgeted contingency had been consumed, while the total spent on the capital master plan was only 50 per cent complete. Further, the remaining contingency of $59 million may not be sufficient for the remainder of the plan, especially considering the history of change orders and unforeseen field conditions to date (A/67/330, para. 33 and recommendation 6). It therefore recommends that the Office of the Capital Master Plan quantify the remaining risks, including lessons learned from the completed subprojects, to assess whether the balance of the contingency is adequate for the remaining work to be completed. The Office of the Capital Master Plan indicates that it will seek to develop a methodology to quantify risks and that the risk register will be updated during the annual risk assessment in October 2012. The General Assembly will be presented with the outcomes of the quantitative risk assessment and contingency required at its resumed sixty-seventh session or at its sixty-eighth session.

26. **While it awaits the outcome of the quantitative risk assessment, the Advisory Committee emphasizes that any contingency requirement in 2013 should be met through further efficiencies throughout during the remainder of the project duration. The Committee also reiterates its view that contingency**

provisions approved for construction projects serve to provide necessary safeguards for the Secretary-General to meet unforeseen cost overruns during project implementation (A/67/484, para. 13). As a matter of principle, cost overruns should be met, to the extent possible, from compensatory reductions identified elsewhere through efficiency measures, while maintaining the quality and scope of the project.

Policies and procedures for future large capital projects

27. OIOS also found that, while the processes used to establish the original budget and contingency amount were appropriate, the current policies and procedures did not provide adequate guidance or controls for larger capital expenditure projects such as the capital master plan. Consequently, management may not have reasonable transparency and control over expenditures (A/67/330, para. 51 and recommendation 21). OIOS recommends that the Department of Management develop or enhance policies and procedures regarding budgeting and monitoring for future large capital projects, such as policies for establishing original budgets and managing contingency. Management accepted the recommendation and stated that it would be implemented for future large capital projects.

28. **The Advisory Committee emphasizes once again the importance of identifying and documenting lessons learned. The Committee stresses that lessons learned should inform the planning and implementation of future large-scale capital projects, and where appropriate, the remaining stages of the capital master plan (see A/66/7/Add.11, para. 18; and A/67/381, para. 26).**

V. Tenth annual progress report on the implementation of the capital master plan

29. In his tenth annual progress report on the implementation of the capital master plan (A/67/350), which was submitted pursuant to General Assembly resolutions 57/292, 65/269 and 66/258, the Secretary-General discusses a number of issues, including progress achieved since his ninth progress report; the schedule of the capital master plan; accountability; an analysis of cost increases and funding shortfalls; the revised consolidated cost to complete the project as at 31 July 2012; interest income and the working capital reserve; project expenditures and requirements for the remaining project period; and cost saving and financing proposals.

Progress achieved since the ninth progress report and schedule

30. The major progress achieved during the reporting period is the completion and occupancy of the Secretariat Building, a process which started in July 2012 and is scheduled to be largely completed in November 2012. As of mid-September, over 1,000 staff had relocated to the renovated Secretariat Building (ibid., paras. 6-12).

31. The Secretary-General indicates that the capital master plan has maintained the schedule reported in the ninth annual progress report in 2012 (A/67/350, para. 19-21). The renovation of the Secretariat Building was completed only three months later than the original forecast outlined in the fifth progress report of 2007 and, with the exception of the Library and South Annex Buildings (see paras. 60 and 61 below),

the overall project is expected to be completed approximately one year behind the original schedule set out in 2007. The delay is due to the reassessment and subsequent security protection measures undertaken by the United Nations and the host country. Consequently, it is now anticipated that the work on the Conference Building will be completed in December 2012, while the renovation of the General Assembly Building will commence in early 2013 and finish by mid-2014 (ibid., para. 6). The projected schedule of the capital master plan is provided in table 2 of the report of the Secretary-General.

Post-construction handover and transfer of management

32. The Board of Auditors discusses issues related to the handover of the completed systems, infrastructure and buildings after the completion of the capital master plan in paragraphs 63 to 67 of its report (A/67/5 (Vol. V)). The Board identifies the handover process as a particular challenge because the campus's antiquated systems and equipment are being replaced by much more modern ones. While the Board has acknowledged the positive developments, it has also highlighted some risks. The Board indicates that it will continue to monitor how the Administration is managing handover risks and learning lessons in this area as the project progresses.

33. Upon request, the Advisory Committee received information with respect to the plans for the handover and how the knowledge gained from the project would be applied to manage future large construction projects. The Committee was informed that the Office of the Capital Master Plan and the Office of Central Support Services had established a handover process to ensure that the Facilities Management Service would be in a position to assume the full responsibility for operating and maintaining the complex after the completion of the capital master plan. Further, the Committee was informed that a computerized facilities management system was being implemented that would serve as a managed repository for all drawings and documentation. At the operational level at United Nations Headquarters, knowledge transfer was in part achieved through the involvement of staff of the Facilities Management Service in the commissioning of the new systems as well as staff training.

34. The Advisory Committee was further informed, upon enquiry, that long-term plans for the maintenance of the complex would be developed in the context of a global strategic management framework for United Nations facilities, referred to as the strategic capital review. As part of this review, it would be important for the standards of facilities maintenance to be commensurate with the level of capital improvements made by the Organization. At a more strategic level, it was indicated that the Office of Central Support Services had recruited a former capital master plan project manager to head the Overseas Properties Management Unit, act as custodian of lessons learned from the capital master plan and other recent construction projects, leverage his experience in the development of the strategic capital review and provide project guidance on overseas construction projects. The Administration was also reviewing options for a phased transition of the staff and expertise from the capital master plan project to other areas of the Organization.

35. **The Advisory Committee stresses the importance of planning for the transition and handover process from the Office of the Capital Master Plan to the Department of Management and notes steps already taken in this regard. In**

the Committee's view, the primary consideration in this regard is the need to ensure 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 to ensure that the skills and expertise acquired during the capital master plan are utilized for future construction projects (see A/66/7/Add.11, para. 12). The expertise should be maintained, in particular, through knowledge-sharing and transfer. The Committee requests that the Secretary-General presents a clear plan in the eleventh progress report on the capital master plan.

Swing space

36. In its audit, OIOS found that the United Nations did not use a system to track space utilization throughout the New York City real estate portfolio, and therefore, a comprehensive space analysis was not performed in connection with swing space for the capital master plan. The swing space procured allowed for approximately 250 square feet per person, compared with the average market space usage of approximately 225 square feet per person in New York City (A/67/330, para. 50). OIOS recommends that the Department of Management implement a system to track office space vacancies and square footage per person in order to efficiently manage the use of the real estate portfolio. For future capital projects, this system could be used to make better use of office space and thus potentially reduce the amount of swing space required (ibid., recommendation 20). The Advisory Committee notes that, in response, the Department of Management indicated that it was in the process of implementing a computer-aided facilities management system, which would include a space management module. **The Advisory Committee is very concerned that the Secretary-General does not have accurate information regarding space utilization on and off campus in New York City, which could result in an overestimation of space needs and potential overexpenditure on off-campus office space.**

37. In its resolution 66/258, the General Assembly urged the Secretary-General to accelerate his efforts to manage the costs pertaining to the early termination of the swing spaces with a view to optimizing the rental contracts during their renegotiation, as much as possible, and to report thereon to the Assembly in the context of the tenth annual progress report, including detailed information about contract duration and rental payments. **The Advisory Committee finds that the information provided in paragraphs 13 to 18 of the tenth annual progress report is not a detailed enough response to the Assembly's request.**

38. Upon request, the Advisory Committee received the table below, which shows the swing space lease costs covered under the capital master plan.

Table 2
Estimated costs of swing space leases from October 2012
(United States dollars)

Building	*Lease expiration*	*Office swing space costs from October 2012*	*Savings due to early termination*	*Early termination fee/penalty*	*Net savings owing to early termination*	*Estimated costs included in the tenth annual progress report*
	A	*B*	*C*	*D*	*E=C-D*	*F=B-E*
305 East 46th Street (Albano Building)	23 July 2017	4 979 777		Will not be exercised		4 979 777
380 Madison Avenue	25 January 2014	33 794 706	8 456 989	923 000	7 533 989	26 260 717
United Nations Federal Credit Union Building, Long Island City	30 April 2018	868 772		Will not be exercised		868 772
730 Third Avenue	31 December 2013	5 705 104		Not available		5 705 104
Total		**45 348 359**	**8 456 989**	**923 000**	**7 533 989**	**37 814 370**

Note: Table includes only the portion of the rental cost covered by the capital master plan. Savings on actual rent expenditure to 30 September 2012 have been applied to projected rental costs from October 2012.

39. It is indicated in the tenth progress report that swing space leases were entered into in 2007 and 2008 in accordance with accelerated strategy IV. A decision was taken by the Department of Management to lease space for an additional time beyond 2012 to accommodate the risk of a construction delay, as well as future space requirements.

40. The Advisory Committee was informed, upon enquiry, that a cost-benefit analysis was undertaken by the Office of the Capital Master Plan and the Office of Central Support Services prior to exercising the early termination options on any leased spaces. As indicated in table 2 above, early terminations are not currently considered for the Albano Building (the capital master plan would cover the cost of the lease until the end of April 2013; the lease will end in July 2017) and the United Nations Federal Credit Union Building (the project would cover the cost until the end of April 2013; the lease will end in April 2018). The Committee was provided with the following additional information on the status of the leases of the four swing space buildings:

(a) Albano Building: the Secretariat considers the building to be part of its midterm space planning and management strategy. Accordingly, the early termination option has not been sought for this lease. It is estimated that by continuing this lease until its expiration in July 2017, the Organization will pay $47.2 million in rent, of which about $5 million will be covered by the capital master plan. The building accommodates 734 workplaces. Factors considered for this lease were proximity to the United Nations campus for conference service staff of the Department for General Assembly and Conference Management, accessibility and reasonable rent in the range of $46 to $52 per square foot per year. The lease terms provide an option for early termination on 25 July 2015. Were the Organization to decide to terminate the lease early, there would be penalties estimated at $10.5 million. Adding the rent payable between October 2012 and July 2015 to this amount brings total rent to $37.5 million. The potential reduction from early termination would amount to approximately $9.7 million. If the lease were to be terminated, the space to accommodate potential growth would be unavailable;

(b) 380 Madison Avenue: the calculation for the building takes into account the expected savings of $7.6 million resulting from the expected termination of 250,000 square feet of lease space effective 31 May 2013 and the penalty of $0.9 million payable by the Organization. Discussions regarding further early termination options have been disrupted by the departure of the landlord's general counsel and a change in the landlord's internal management. The Secretariat will seek to reopen negotiations in due course;

(c) United Nations Federal Credit Union Building: the Secretariat decided not to exercise the first (five-year) early termination option following the passing of the 16 July 2012 deadline. The lease agreement also contains an eight-year termination option, and the deadline to exercise this is 16 October 2014;

(d) 730 Third Avenue: the Secretariat's real estate adviser continues to seek alternative occupants for the leased premises at 730 Third Avenue. Unless other tenants are found, it is unlikely that the landlord will extend an early termination option.

Use of office space

41. The Advisory Committee notes the observation by the Board of Auditors that the renovated campus will officially accommodate 323 fewer people than before the project began (A/67/5 (Vol. V), para. 78). Upon enquiry, the Committee was informed that the conclusion of the Board of Auditors was based on a comparison of two charts provided to it, which were prepared using different assumptions regarding the occupancy of the campus. The chart showing occupancy before the project began included some anomalies, and furthermore, the planning for occupancy after the completion of the capital master plan had continued to develop. It was indicated to the Committee that, when a consistent methodology for calculating the pre-capital master plan occupancy was applied to the post-capital master plan occupancy, the results showed that the renovated campus would accommodate 169 more occupants after the completion of the capital master plan. It was further clarified that the occupancy figures included such related workspaces as touchdown space for Junior Professional Officers, interns, visiting officials and other offices.

42. **The Advisory Committee observes that an explanation was not provided regarding the anomalies that were included in the first chart provided to the Board of Auditors, nor how these anomalies affected the calculation of the occupancy of the campus. The Committee recommends that the Board of Auditors verify the occupancy of the renovated Headquarters campus in its next annual audit of the capital master plan. The Committee also recommends that a full account of actual and planned occupancy at the renovated Headquarters campus be provided in future progress reports. The Committee points out that two full floors of the Secretariat Building have been reconfigured for conference rooms of various sizes for the Secretariat after the renovation and the utilization thereof should be closely monitored. The Committee stresses, furthermore, that the maximum possible number of staff should be accommodated at the renovated Headquarters campus and off-campus rental should be kept at minimum level and under constant review.**

43. The Board of Auditors discusses the flexible use of office space in paragraphs 77 to 83 of its report (A/67/5 (Vol. V). In its previous report, the Board noted that significant savings could be achieved through flexible use of desk space or "hot desking", whereby staff can access their computers and work at any free desk, rather than allocating one desk to one staff member and thereby requiring greater space. The Board suggested that it would not be unrealistic to expect annual savings of 10 to 20 per cent in office space requirements by adopting flexible workplace strategies, which would allow more people to be accommodated in the Secretariat Building, and reduce off-campus space rental. The Advisory Committee notes that the Administration had hitherto decided not to implement the Board's previous recommendation that it pursue such opportunities, particularly in relation to the Secretariat Building.

44. Upon enquiry, the Advisory Committee was informed that: (a) the capital master plan, with the assistance of the Office of Information and Communications Technology, had included the installation of infrastructure throughout all office space of the United Nations Headquarters to support "hot desking"; (b) the mobility feature of the new Internet Protocol telephone system enabled any person with a telephone extension to use any telephone; (c) for many years, the Office of Information and Communications Technology had provided a mobile office standard service, which enabled any user to access any data or United Nations enterprise applications from any computer with an Internet connection, including from outside United Nations buildings; and (d) recently, the Office of Information and Communications Technology had introduced a managed laptop service, now in a pilot phase. Staff using this service will be able to connect via cable to the network in any United Nations building and have the same access as they would have in their office.

45. **The Advisory Committee reiterates its view that the implementation of the flexible use of office space, including "hot desking", which allows staff to carry out their responsibilities and work at any workstation, merits serious consideration in the United Nations system. The Committee therefore looks forward to the issuance of a comprehensive policy on flexible office space use, which, it expects, will incorporate industry best practice. In the interim, the Committee recommends that the General Assembly request the Secretary-General to implement the flexible use of office space in ongoing and future construction projects, where feasible (A/67/484, para. 15). As for the renovated Secretariat Building, the implementation of such flexible arrangements needs to be urgently introduced. The Advisory Committee recommends that the General Assembly request the Secretary-General to report on the implementation of the flexible use of office space in the eleventh progress report.**

Cost variances from May 2011 to February 2012 and reporting

46. Compared with the approved budget of $1,876.7 million for the capital master plan, projected shortfalls amounted to $116.8 million (as at 31 May 2011) and $265.7 million (as at 28 February 2012) (A/67/350, table 3). According to the Secretary-General, the increase of $148.9 million in the cost for the capital master plan project from May 2011 to February 2012 was the result of several factors, the most significant of which were as follows (ibid., para. 62):

(a) Discovery of existing site conditions, which resulted in an unanticipated increase of $70 million in the projected cost ($15 million for the Secretariat Building, $24 million for the Conference Building and $31 million for the General Assembly Building);

(b) Complications of undertaking basement renovation infrastructure work in a partially occupied compound ($33.8 million). The original budget estimates presented to the General Assembly in 2006 were based on an approach whereby entire portions of the basements would be unoccupied, requiring only a minimal degree of support services;

(c) Project management and design services ($38.1 million). During the course of the project, the schedule changed to take into account unforeseen events and conditions. Consequently, project management and design consultancy services were extended to bring them into alignment with the new schedule;

(d) Cost increases in other areas ($7.0 million). The increase in the estimated cost of site work and landscaping arose because of the redesign and implementation of the enhanced security upgrade, which resulted in a one-year delay in the completion schedule.

47. In section III of its resolution 66/258, the General Assembly expressed deep concern about the sudden and unexplained increase in the cost overrun of the project and the lack of transparent and timely information provided to it on the evolution of the project budget, forecasts, risks and projected overruns. The justifications provided by the Secretary-General for the delayed reporting of the increase in the project cost include the time required for the negotiation and completion of the guaranteed maximum price contracts for the project and security-related slowdown of the construction (A/67/350, paras. 55-61). **While noting the justifications provided by the Secretary-General, the Advisory Committee underlines the importance of rapid reporting to the General Assembly when significant factors lead to changes in the assumptions and cost levels of the capital master plan and the need to ensure appropriate monitoring and reporting on the use of contingency provisions (see paras. 22-26 above). This also applies to future large-scale capital projects.**

Cost projections as at 28 February 2012 and revised forecast as at 31 July 2012

48. As at 28 February 2012, the cost to complete the capital master plan project had increased from $1,876.7 million to $2,142.4 million, representing a projected cost overrun of $265.7 million, or 14.2 per cent (A/67/350, table 5). The Secretary-General provides explanations for the projected shortfall of $265.7 million in paragraphs 63 to 85 of his tenth progress report. The factors identified as the causes of the recent cost increase include: (a) increased swing space costs; (b) construction conditions; and (c) security requirements. The Advisory Committee notes the increase in the project professional fees and management costs and requested detailed information with respect to that increase, which is attached as annex I to the present report (see also para. 15 above).

49. The revised estimated consolidated cost to complete the capital master plan project, as at 31 July 2012, consists of the following (ibid, paras. 86-100):

(a) Project cost ($2,117,061,000), reflecting a shortfall of $240.4 million, or 12.8 per cent, against the approved budget, excluding donations (ibid., table 6 and para. 88);

(b) Associated costs for the period from 2008-2013 ($143,138,600), which were not included in the original budget approved by the General Assembly (ibid., table 8; see also sect. VI below);

(c) The secondary data centre ($15,260,110); the expenditure relating to the migration of the primary data centre to the North Lawn Building, amounted to $19,525,600; after deducting the full amount of funding from the support account for peacekeeping operations ($4,227,690) and cancellation of prior-period obligations ($37,800), the remaining cost amounts to $15,260,110 (ibid., paras. 95 and 100).

50. The Advisory Committee notes that the Board of Auditors indicates that it is unable to give assurance that the Administration's anticipated final cost for the project as at March 2012 is based on a comprehensive methodology, and that it considers that the final cost is likely to be higher than currently reported (A/67/5 (Vol. V), summary). The Committee further notes that the Administration agreed with the Board's recommendation that it urgently take stock and rebuild the anticipated final cost of the project, which would be recalculated and reported on a quarterly basis from now until the project's completion (ibid., paras. 32-36). **The Advisory Committee concurs with the Board's recommendation that the Secretary-General put in place appropriate controls to clearly demonstrate to the General Assembly that assurance can be placed on the reported cost forecasts (ibid., para. 35).**

51. According to the Secretary-General, in estimating the cost of the project as at 31 July 2012, a comprehensive review of the final cost of the project has been made for: (a) all commitments to date; (b) all potential commitments for items for which proposals had been presented but not yet agreed to; (c) all forward projection items for which proposals had not been received; and (d) the remaining contingency balances to determine the use of the contingency and how the remaining contingency balances aligned with the funds to be obligated for the remaining scope of work (A/67/350, para. 86). **The Advisory Committee concurs with the Board that the Administration must provide a complete, well-justified and robust anticipated final cost (A/67/5 (Vol. V), summary). The revised consolidated cost estimate provided by the Secretary-General, as at 31 July 2012, is still not the basis for the Committee to provide assurance to the General Assembly as to its validity. The Committee therefore requests the Board of Auditors to scrutinize the revised cost estimates of the capital master plan in its next audit of the project.**

Project expenditure and requirements for the remaining project period

52. As at 31 July 2012, the project expenditure already incurred, as well as the monthly rental obligations that are firmly committed through the end of 2012, totalled approximately $1,792.4 million, or 95.5 per cent of the approved budget (A/67/350, para. 113). Upon request, the Advisory Committee was provided with a comparison of the expenditure as at 31 July 2012 with the approved budget of the capital master plan (see annex II below). The consolidated expenditure, which includes the associated costs and the costs for the secondary data centre for the same period, total $1,913.4 million, as shown in table 12 of the tenth progress report.

53. Table 13 in the tenth progress report provides a summary of the requirements for the remainder of the capital master plan, from August 2012 to 2014, which amounted to $377.1 million as at 31 July 2012 ($335.4 million for the project and $41.7 million for associated costs). It is indicated that there are no further requirements for the secondary data centre (ibid., para. 116; see also para. 68 below).

Status of assessments and sources of funding

54. Information on the status of assessments and sources of funding for the capital master plan is provided in section IX of the tenth progress report (paras. 101-110). Financing for the capital master plan, as at 31 July 2012, amounted to $2,129.6 million, as follows (ibid., table 10):

(a) The approved budget for the project, the full amount of which has been assessed ($1,876.7 million);

(b) Commitment authority for the project and the associated costs under resolution 66/258 ($135 million);

(c) Peacekeeping support account coverage for the secondary data centre ($4.2 million);

(d) Voluntary contributions ($13.7 million);

(e) Enhanced security upgrade project ($100 million).

Capital master plan cost reduction and financing proposals

55. In its resolution 66/258, the General Assembly requested the Secretary-General to report on practical options to reduce or offset the overall estimated costs and to finance such commitments while remaining within the approved budget and scope of the project. In response, the Secretary-General proposes cost reduction options and financing proposals in section XII of his tenth annual progress report (A/67/350). The cost reduction options of $81 million include continued suspension of the renovation of the Library and South Annex Buildings ($65 million) and proposed cost reductions of $16 million, as illustrated in table 14 of the report (see table 3 below) below. According to the Secretary-General, subject to the approval by the General Assembly of the cost reduction proposals, the requirements in estimated project costs would not give rise to an additional assessment for the capital master plan over and above the utilization of the accumulated interest and working capital reserve (ibid., para. 118). **The Advisory Committee is not fully convinced that the Secretary-General's proposals conform to the request by the General Assembly. The Committee therefore reiterates its recommendation that the Secretary-General manage large-scale projects to limit the possibility of the de-scoping or deferral of key project deliverables as a means to contain cost or time overruns. In order to fully realize the expected benefits of such projects, the Committee stresses that, in principle, the full scope of all projects, as approved by the General Assembly, should be delivered (A/67/381, para. 26).**

56. Table 3 below, reproduced from table 14 in the tenth progress report of the Secretary-General, contains the proposals of the Secretary-General for the reduction of the project shortfall. **The Advisory Committee is of the view that the proposals are mainly one-time cost reductions or deferrals of planned activities, and as such do not constitute cost savings.**

Table 3
Capital master plan project shortfall and cost saving and financing proposals
(Millions of United States dollars)

Description	*Project shortfall*	*Associated costs*	*Secondary data centre*	*Total*
Capital master plan project shortfall	215.6	–	–	215.6
Office space rental from October 2012	24.8	–	–	24.8
Total capital master plan shortfall	**240.4**	**–**	**–**	**240.4**
Associated costs	–	143.1	–	143.1
Secondary data centre	–	–	19.5	19.5
Funds received from the support account			(4.2)	(4.2)
Total consolidated capital master plan shortfall	**240.4**	**143.1**	**15.3**	**398.8**
Proposals for reduction of the shortfall				
Proposed cost savings				
Deferred removal of temporary North Lawn Building and installation of final landscape on North Lawn	(2.0)			
Deferred refurbishment of fixed furniture in conference room 4	(1.0)			
Reduction of landscaping budget to minimal requirements	(7.0)			
Refurbishment, rather than purchase, of various security devices	(0.6)			
Renovation and equipment cost for Vienna café, visitors' coffee shop, ex-press bar, gift shop and book store paid by vendors	(1.0)			
Mail screening facility costs to be considered for absorption by the Department of Safety and Security	(0.2)			
Remaining basement moves, signage for remaining staff workstations, overall signage, parking system, maintenance contract on elevators for first year to be considered for absorption by the Facilities Management Service	(2.3)			
Other capital master plan cost savings in discussion	(1.9)			
Total proposed cost savings	**(16.0)**			**(16.0)**
Continued suspension of the renovation of the Library and South Annex Buildings	**(65.0)**			**(65.0)**
Total cost saving proposals and suspension of renovations	**(81.0)**			**(81.0)**
Proposed consolidated capital master plan shortfall	**159.4**	**143.1**	**15.3**	**317.8**
Financing proposals				
Application of accumulated interest income and working capital reserve	(154.4)			(154.4)
Application of projected future interest income	(5.0)			(5.0)
Remaining shortfall	**–**	**143.1**	**15.3**	**158.4**

North Lawn Building

57. As shown in table 3 above, the deferred removal of the North Lawn Building would produce a cost reduction of $2 million. However, it is also indicated that the maintenance of the North Lawn Building would cost $0.5 million per annum depending on the level of occupancy of the building (ibid., para. 119). Upon request for information on the full cost of maintaining the North Lawn Building, the Committee was informed that the operating expenses for maintaining the North Lawn Building would be dependent on the level of occupancy as follows:

(a) The amount of approximately $0.5 million per annum indicated in the tenth progress report assumes that the building will be vacant and unused;

(b) In the case of partial occupation of the building, assuming that the offices are occupied but the conference rooms are not, the operating and maintenance expenses would be approximately $1.5 million per annum;

(c) Should a decision be made, as part of an overall strategy for long-term office space accommodation, to fully occupy and use the North Lawn Building, future operating expenses would increase to approximately $2 million per annum, primarily for expenditure relating to utilities, cleaning and HVAC maintenance;

(d) Should the North Lawn Building be maintained, the annual cost of security coverage is estimated at $114,000 for an unoccupied building and $538,000 for an occupied building. The security coverage would primarily provide for fire safety and access control.

58. From the aforementioned information provided to the Advisory Committee, it appears that the full annual cost to maintain the North Lawn Building would range from approximately $614,000 (unoccupied) to approximately $2,538,000 (fully occupied), compared with a total of $2 million for the removal of the temporary building and installation of final landscape on the North Lawn. The Advisory Committee notes from the tenth annual progress report that, on the basis of a decision to be made by the General Assembly with regard to the future disposal of the building, any future operating cost relating to the building's maintenance would be considered in the context of the proposed programme budget for the biennium 2014-2015 (ibid., para. 119).

59. **In the view of the Advisory Committee, the information provided to it, as summarized in paragraphs 57 and 58 above, is insufficient and not a basis upon which to make decisions on the future use of the North Lawn Building. The Committee is also of the view that the future of the North Lawn Building is a matter to be decided by the General Assembly, taking into account the Assembly's support for the timely deconstruction and removal of the temporary North Lawn Building upon the completion of the Headquarters renovation work (resolution 65/269, para. 19). In addition, the Committee recalls that issues related to the use of the North Lawn have been discussed in the context of the feasibility study on the United Nations Headquarters accommodation needs 2014-2034 (see A/66/349, paras. 17-22; A/66/7/Add.3, para. 50-52).**

Dag Hammarskjöld Library and South Annex Building

60. In its resolution 66/258, the General Assembly expressed deep concern about the lack of clarity regarding the plans for renovation of the Dag Hammarskjöld

Library and the South Annex Building, and requested the Secretary-General to provide information to it on the progress made in the renovation as provided for within the overall scope of the capital master plan. The Secretary-General states that, since the security concerns which led to the suspension of design work on both buildings remain unresolved, it is not appropriate to invest an estimated $65 million in the renovation of the two buildings. The design and renovation of the two buildings will, therefore, continue to be suspended, given that no agreement has been reached with the appropriate authorities of the host country and that the projected completion of the capital master plan is within less than 24 months (A/67/350, paras. 37-38). The Secretary-General's proposal to continue the suspension of design and renovation of the Library and South Annex Buildings would decrease the capital master plan project costs by $65 million (ibid., table 14).

61. The Advisory Committee notes that the Board of Auditors observes that the Administration is considering reducing the remaining scope by, among other things, not renovating the South Annex Building or the Library and reducing specification levels within the General Assembly Building (A/67/5 (Vol. V), paras. 48 and 49). The Committee further notes that the Administration agreed with the Board's recommendation that if the two buildings cannot remain in scope, it should present the General Assembly at its sixty-seventh session with costed options for accommodating the facilities that are currently housed there (ibid., para. 51). **The Advisory Committee points out that, in his tenth progress report, the Secretary-General has not provided the necessary clarity or alternatives for the use of the South Annex Building and the Library and options for facilities currently housed there. While the Committee notes that the renovation of the South Annex Building and the Library will continue to be suspended owing to security concerns, it considers that, given the potential impact on the scope of the capital master plan, the Secretary-General should present costed options for the two buildings as recommended by the Board of Auditors and agreed by the Secretary-General. In addition, it is the view of the Committee that proposals of the Secretary-General to the General Assembly in this regard should take into account any developments related to longer-term accommodation at Headquarters.**

Interest income and working capital reserve

62. The interest accrued on the balance of capital master plan funds as at 31 July 2012 totalled $109.4 million, an increase of $5.3 million from the level reported in the ninth progress report (A/66/527). The working capital reserve remains at $45.0 million. Given the present cash balance of the capital master plan fund and anticipated annual return on assets of 0.4 per cent, it is estimated that the remaining cash balance may generate up to $5 million by the time the project is completed (A/67/350, paras. 111 and 112). The Secretary-General proposes to apply to the present cash balance the accumulated interest income and working capital reserve in the amount of $154.4 million and the future interest income, estimated at $5 million (ibid., para. 121). **The Advisory Committee has no objection to the proposed application of the accumulated interest income and working capital reserve, as well as the future interest income, to the present cash balance. The Committee, nevertheless, stresses that this should not be considered as a means to finance cost overruns in the future.**

VI. Proposals for financing associated costs for 2013 from within the approved budget for the capital master plan

63. In his report on proposals for financing associated costs for 2013 from within the approved budget for the capital master plan (A/67/350/Add.1), which was submitted pursuant to General Assembly resolution 66/258, the Secretary-General provides an update on the status of activities associated with the capital master plan, including expenditure for the period 2008-2011 (sect. III), revised estimates for 2012 (sect. IV) and projected requirements for 2013 (sect. V).

64. In section I of his report, the Secretary-General presents a brief overview of the evolution of the associated costs. In 2008, the Secretary-General presented the initial report on the associated costs of the capital master plan for the period 2008-2013 (A/62/799), which was revised in his subsequent report (A/63/582). By its resolution 63/270, the General Assembly decided that the resources approved for associated costs would be financed from within the approved budget of the capital master plan unless otherwise specified by the Assembly, and decided not to approve the overall level of the associated costs at that time, bearing in mind opportunities for further cost reductions posed by the economic circumstances at that time and savings realized by the Secretary-General. In the same resolution, the Assembly requested the Secretary-General to make every effort to absorb the associated costs, totalling $30,272,400 for 2008-2009, from within the overall budget approved for the project. In its resolution 64/228, the Assembly approved an amount of $42,069,695 for 2010. In its resolution 65/269, it approved an amount of $58,871,305 for 2011 and authorized the Secretary-General to enter into commitments of up to $286,300. In its resolution 66/258, the Assembly authorized the Secretary-General to enter into commitments of up to $135,000,000 for the capital master plan, including its associated costs, through 2012.

65. Total projected resource requirements for associated costs for the period from 2008-2013 amount to $143,138,600, compared with the estimate of $146,806,000 in the ninth annual progress report (A/66/527/Add.1), representing a decrease of $3,667,400 (A/67/350/Add.1, para. 8 and table 1). The latest estimate is based on the assumption that there will be no delays in the implementation of the current schedule, as set out in the tenth annual progress report (see para. 31 above). A summary of the associated costs from 2008-2013, by department, is shown in table 8 of the tenth annual progress report.

Table 4
Associated costs and secondary data centre requirements, 2008-2013
(Thousands of United States dollars)

Department/office	*2008-2011 (expenditure)*	*2012 (estimate)*	*2013 (estimate)*	*Total (estimate)*
Associated costs				
Department for General Assembly and Conference Management	2 272.9	665.2	–	2 938.1
Department of Public Information	25 772.0	288.1	–	26 060.1
Office of Central Support Services	21 108.6	5 564.9	2 389.8	29 063.3
Office of the Capital Master Plan	18 146.3	20 533.7	9 959.4	48 639.4

Department/office	*2008-2011 (expenditure)*	*2012 (estimate)*	*2013 (estimate)*	*Total (estimate)*
Office of Information and Communications Technology	2 035.4	631.1	–	2 666.5
Construction, alteration, improvement and major maintenance (Office of Information and Communications Technology and Office of Central Support Services)	5 446.9	580.0	230.0	6 256.9
Department of Safety and Security	18 726.9	5 804.0	2 983.4	27 514.3
Total, associated costs	**93 509.0**	**34 067.0**	**15 562.6**	**143 138.6**
Secondary data centre[a]				**15 260.1**
Total, associated costs and secondary data centre				**158 398.7**

[a] A total of $20.7 million was approved in the budget of the capital master plan (see A/66/527, table 5); however, the actual cost to be absorbed is only $15.3 million. This amount represents the difference between the actual secondary data expenditure of $19.5 million and funding from the support account for peacekeeping operations of $4.2 million.

66. For 2013, the requirements are estimated at $15,562,600, with the net requirements amounting to $3,666,100, after taking into account the estimated balance of unutilized funds of $11,896,500 against the amounts approved for the period 2008-2012 (A/67/350/Add.1, para. 50 and table 6). The Secretary-General indicates that the majority of the associated costs in 2013 relate to the procurement and refurbishment of furniture for the General Assembly Building and the continued implementation of the broadcast facility and media asset management system, both managed by the Office of the Capital Master Plan. The expenditures for those associated costs had been approved by the General Assembly in earlier years, but the activity has been partially rephased into 2013, reflecting the current construction schedule for the Conference and General Assembly Buildings (A/67/350, para. 97).

Findings of the Office of Internal Oversight Services on the associated costs

67. As indicated by OIOS, the approved budget for the capital master plan did not include associated costs, resulting in an estimated shortfall of $146.8 million as of March 2012 (A/67/330, para. 31). Associated costs include items pertaining to various United Nations departments, such as additional operating expenses for security, archival storage and furniture. **The Advisory Committee concurs with the recommendation of OIOS that the Secretary-General should ensure that future United Nations capital projects include a budget for associated costs in addition to the actual direct cost of construction (recommendation 4). In addition, all such costs related to projects, regardless of the source of funding, should be identified prior to approval of the projects by the General Assembly.**

Financing the associated costs and the secondary data centre

68. The Secretary-General indicates that, given the current stage of the project and the significant amount incurred and required, the objective of absorbing the associated costs and the secondary data centre from within the approved budget of the capital master plan is unlikely to be met. He therefore recommends that the

General Assembly decide on the funding of these costs at its sixty-eighth session, when the final expenditures are known with certainty, in conjunction with its consideration of the second performance report on the programme budget for the biennium 2012-2013 (A/67/350, paras. 123 and 127). **The Advisory Committee has, in principle, no objection to the Secretary-General's proposal, but recommends that financing of the associated costs should be considered by the General Assembly only when the final expenditure is really certain. In this context, the Committee encourages the Secretary-General to further contain associated costs.**

Reuse of furniture

69. Upon enquiry concerning the reuse of furniture, as requested by the General Assembly in paragraph 57 of resolution 65/269, the Committee was informed that the project had identified and selected furniture items in good condition and was implementing a strategy to ensure that those items were reused within the renovated spaces. The Committee was further informed that the furniture inventory database compiled by the Office of the Capital Master Plan held information on all stored furniture and furniture currently being utilized in the off-campus spaces, together with details on the condition of each item. Furniture that could be reused or refurbished efficiently had been identified by the furniture manager and had been incorporated into the design layout of the renovated spaces by the furniture designer. In some cases, a cost analysis had been undertaken to asses whether to use refurbished furniture or to purchase replacement furniture, and the most cost-effective option had been chosen.

70. The Advisory Committee was further informed that, based on an analysis of furniture procurement as at 28 September 2012, it had been determined that all furniture for a total amount of $41,701,838 had been or would be procured through competitive bidding processes. **The Advisory Committee reiterates its earlier recommendation that every effort be made to reuse furniture in good condition (A/66/7/Add.11, para. 52).**

VII. Conclusions and recommendations

71. The actions requested of the General Assembly in connection with the tenth progress report on the capital master plan (A/67/350), including the associated costs, are set out in paragraph 128 of the report. **The Advisory Committee has made comments and recommendations in the present report. Taking into account its considerations in paragraphs 59, 61 and 68 above, and subject to the decisions to be taken by the General Assembly regarding the North Lawn Building, the South Annex Building and the Dag Hammarskjöld Library, as well as the reporting of the final expenditure of the associated costs, the Committee recommends that the General Assembly:**

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

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

(c) **Approve the one-time cost reduction and financing proposals reflected in section XII of A/67/350, excluding those proposals related to the North Lawn Building, the South Annex Building and the Dag Hammarskjöld Library as discussed in paragraphs 59 and 61 above, which are subject to approval by the General Assembly, and approve the application of interest income and the working capital reserve to the present cash balance;**

(d) **Approve the extension of the approved commitment authority for 2012 into 2013;**

(e) **Approve additional commitment authority in the amount of $167,773,400 for project activities in 2013; the level of the proposed commitment authority would be adjusted, subject to the decisions to be taken by the General Assembly regarding the North Lawn Building, the South Annex Building and the Dag Hammarskjöld Library;**

(f) **Request the Secretary-General to report, in his eleventh annual progress report, on the resource requirements for the project in 2014, taking into consideration the observation of the Advisory Committee in paragraph 50 above and the decisions to be taken by the General Assembly regarding the North Lawn Building, the South Annex Building and the Dag Hammarskjöld Library;**

(g) **Note the overall total associated costs projection of the capital master plan for the period from 2008 to 2013, in the amount of $143,138,600;**

(h) **Note the associated costs projection for the year 2013 in the amount of $15,562,600, broken down as follows:**

(i) **$2,389,800 for the Office of Central Support Services;**

(ii) **$9,959,400 for the Office of the Capital Master Plan;**

(iii) **$230,000 for construction, alteration, improvement and major maintenance activities at Headquarters;**

(iv) **$2,983,400 for the Department of Safety and Security;**

(i) **Approve a net amount of up to $3,666,100 for associated costs in 2013, after taking into account the estimated unutilized balance of $11,896,500 for the period 2008-2012;**

(j) **Request the Secretary-General to report to it on the final expenditure for associated costs for the period 2008-2013 only when the final expenditure is really certain (see para. 68 above).**

Annex I

Capital master plan professional fees and management costs

(United States dollars)

Category	*Approved strategy IV (A/61/549, table 4, and A/67/350, table 5)*	*Revised estimates as at July 2012 (A/67/350, table 6)*	*Variance*	*Main reasons for increased costs*
Administrative costs and management fees				
United Nations project management	54 895 764	79 784 453	24 888 689	Extension of overall capital master plan project duration. Swing space subprojects were not included in the original scope and contracts.
Planning and programming	2 994 874	10 962 280	7 967 406	Additional swing space. Air monitoring for asbestos abatement.
Legal services	2 726 610	2 649 578	(77 032)	
Surveys	10 125 000	10 125 000	–	
Relocation	7 000 000	4 534 870	(2 465 130)	
Construction manager, pollution liability insurance, programme manager, audit, commissioning, etc.	58 549 140	100 142 205	41 593 065	Extension of overall capital master plan project duration. Swing space subprojects were not included in the original scope and contracts. Various additional services added, e.g. audit and insurance.
Subtotal, administrative costs and management fees	**136 291 388**	**208 198 386**	**71 906 998**	
Architectural and engineering fees				
Functional relocation planning	1 469 937	6 793 160	5 323 223	Swing space subprojects were not included in the original scope and contracts.
Basement and infrastructure	20 924 494	63 531 477	42 606 983	Redesign associated with the change in construction strategy. Air monitoring for asbestos abatement. Increased levels of construction administration requirements. Blast options included, design options included, audiovisual scope added.
Conference and General Assembly Buildings	12 626 852	30 519 059	17 892 207	Redesign associated with the change in construction strategy. Blast options included, design options included, audiovisual scope added.

Category	*Approved strategy IV (A/61/549, table 4, and A/67/350, table 5)*	*Revised estimates as at July 2012 (A/67/350, table 6)*	*Variance*	*Main reasons for increased costs*
Secretariat and South Annex Buildings	10 095 812	29 695 679	19 599 867	Redesign associated with the change in construction strategy. Blast options included, design options included, audiovisual scope added.
Dag Hammarskjöld Library	2 192 713	5 038 203	2 845 490	Various blast studies/design as a temporary swing space.
Security	5 782 177	8 541 675	2 759 498	Redesign associated with the change in construction strategy. Security design options included.
Curtain wall and exterior envelope	6 983 495	5 754 009	(1 229 486)	
Audiovisual	1 846 972	–	(1 846 972)	Audiovisual scope is delivered through individual building design firms.
Landscape	476 865	1 663 392	1 186 527	Additional surveys. Design options included.
Code consultancy	190 840	577 096	386 256	Additional costs for swing space. Additional design document reviews.
Pre-2003	7 977 864	7 977 864	–	
Subtotal	**70 568 021**	**160 091 614**	**89 523 593**	
Design options: basement and infrastructure, Conference, General Assembly, Secretariat and South Annex Buildings	10 000 000	–	(10 000 000)	
Subtotal, architectural and engineering fees	**80 568 021**	**160 091 614**	**79 523 593**	
Architectural and engineering fees as a percentage of construction costs	9.30	12.94		
Overall summary				
Administrative costs and management fees	136 291 388	208 198 386	71 906 998	
Architectural and engineering fees	70 568 021	160 091 614	89 523 593	
Subtotal	**206 859 409**	**368 290 000**	**161 430 591**	
Design options: basement and infrastructure Conference, General Assembly, Secretariat and South Annex Buildings	10 000 000	–	(10 000 000)	Adjustments in order to align with the presentation in the OIOS report.
Construction manager/insurance (moved to construction costs)	(30 000 000)	–	30 000 000	Adjustments in order to align with the presentation in the OIOS report.
Total	**186 859 409**	**368 290 000**	**181 430 591**	

Annex II

Comparison of expenditure as at 31 July 2012 with the approved budget of the capital master plan

(United States dollars)

Description	*Budget for approved strategy IV (A/67/350, table 5)*	*Expenditure as at 31 July 2012*	*Variance*	*Comments*
Construction				
Infrastructure		456 913 366		
General Assembly/Conference Building		120 818 430		
Secretariat/South Annex		263 792 980		
Security		32 225 482		
Exterior envelope		138 223 940		
Audiovisual		19 943 397		
Subtotal	**891 100 000**	**1 031 917 595**	**(140 917 595)**	**The negative variance is covered from contingency and forward pricing/escalation.**
Contingency	210 900 000			
Professional fees/management costs				
Project management and administration		118 326 586		
Planning and programming		10 700 725		
Legal services		1 059 578		
Professional costs and design		158 768 372		
Relocation		8 789 417		
Construction Manager/Insurance		8 600 000		
Pre-2003 architectural and engineering fees		7 981 500		
Subtotal	**186 900 000**	**314 226 178**	**(127 326 178)**	**A detailed variance analysis of the total estimated professional fees and management costs compared with the approved budget is provided in annex I. The negative variance is covered from contingency and forward pricing/escalation.**
Forward pricing/escalation	373 300 000			
Subtotal, construction	**1 662 200 000**	**1 346 143 773**	**315 956 227**	

Description	*Budget for approved strategy IV (A/67/350, table 5)*	*Expenditure as at 31 July 2012*	*Variance*	*Comments*
Swing space	214 500 000	511 417 338	(296 917 338)	The main cost drivers for the variance in swing space costs are detailed in paragraphs 75 to 79 of the tenth annual progress report. The negative variance is covered from contingency and forward pricing/escalation.
Total	**1 876 700 000**	**1 857 561 111**	**19 038 889**	
Prior-period savings		(65 173 900)		Reflects the buy-outs gained as of 31 July 2012. Buy outs are savings obtained through competitive bidding as a part of the guaranteed maximum price process.
Adjusted total	**1 876 700 000**	**1 792 387 211**	**84 212 789**	
Percentage of budget utilization		**95.51**		