United Nations A/68/796

General Assembly

Distr.: General
12 March 2014

Original: English

Sixty-eighth session
Agenda item 134
Programme budget for the biennium 2014-2015

Strategic capital review

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction and background

1. The Advisory Committee has considered the report of the Secretary-General on the strategic capital review (A/68/733), which describes progress made in the development of a long-term capital programme and prioritization strategy for the global premises of the United Nations Secretariat.[1] During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 25 February 2014.

2. The report of the Secretary-General was submitted pursuant to section III of General Assembly resolution 65/259, in which the Assembly endorsed the conclusions and recommendations of the Advisory Committee set out in its report on overseas property management and construction projects in progress (A/65/518). In paragraph 13 of that report, the Committee emphasized the importance of better projection of midterm and longer-term Organization-wide needs, as well as financial requirements for the maintenance of existing facilities and new construction projects.

3. According to the report of the Secretary-General, the strategic capital review has been divided into three phases, namely:

(a) Phase 1, which focuses on establishing a framework for data collection and work methodology for the review, including the definition of key organizational objectives for capital improvements and development of a method for project assessment (A/68/733, para. 16);

[1] For the purposes of the strategic review, the United Nations Secretariat is defined as United Nations Headquarters, the United Nations Offices at Nairobi, Geneva and Vienna and all the regional commissions, including all subregional offices of the commissions.

(b) Phase 2, which comprises data collection and the development of local capital plans being conducted by offices away from Headquarters in accordance with key organizational objectives (ibid., paras. 14 and 20);

(c) Phase 3, which will include conclusions and recommendations, including a 20-year capital maintenance programme, a database to be used for monitoring and reporting on facilities' and project performance, and a finalized project prioritization methodology, for updating the proposed rolling maintenance programme (ibid., para. 21).

4. The Advisory Committee notes that the report of the Secretary-General is a progress report and includes the outcome of the first phase of the review, which was completed in December 2012 (ibid., para. 16). In addition, the Secretary-General indicates that phase 2 was ongoing at the time of the finalization of the report and that the completion of phase 3 is anticipated during 2014. The Secretary-General intends to submit a subsequent report on the final outcome of the strategic capital review to the General Assembly at its sixty-ninth session (ibid., para. 62).

5. In its report on overseas property management and construction projects in progress, the Advisory Committee recalled that the strategic capital review of facilities at all offices away from Headquarters had been launched in May 2009 and an initial information-gathering process had been initiated to form the basis of a 20-year strategic capital plan (A/65/518, para. 8). However, the initial effort to produce such a review using available resources and in-house expertise proved to be inconclusive (see A/65/351, para. 8, and A/65/518, para. 10). During its recent deliberations on the proposed programme budget for the biennium 2014-2015, the Committee was informed that the review had, in fact, been relaunched in May 2012 with the award of an external consultancy contract to assist the Office of Central Support Services of the Department of Management in coordinating the strategic capital review (A/68/7, para. XI.6). **The Advisory Committee trusts that the relaunched review will be concluded in a timely manner and looks forward to the completion of phases 2 and 3 in 2014 so that conclusions and proposals emanating from the strategic capital review can be submitted to the General Assembly at its sixty-ninth session for its consideration and approval.**

II. General observations

Terminology

6. The Advisory Committee notes that in the report of the Secretary-General on the strategic capital review the terms "property", "premises" and "facilities" are used somewhat interchangeably. In addition, the annex to the report refers to the "real estate portfolio" of the Secretariat, which is not clearly defined. Furthermore, the report refers in some instances to the development of a long-term "capital programme" and in other cases to a "capital maintenance programme" or "capital maintenance investment". **In view of the technical nature of the subject matter and the need for a shared understanding and consistent application of terms moving forward, the Advisory Committee believes that future reports of the Secretary-General on the subject should set out precise, agreed-upon definitions, possibly through the inclusion of a glossary, so that the scope, content and nature of the review are clear for the consideration of the General Assembly.**

Key objectives

7. In his report, the Secretary-General sets out a number of key objectives that will underpin the methodology for the establishment of the strategic capital investment plan for the Secretariat. These include: maintaining the property value of United Nations premises; meeting industry norms related to occupational health and safety, as well as preparedness against natural disasters and emergencies; improving the efficiency of space usage; modernizing building systems and making them more energy-efficient; and ensuring business continuity (A/68/733, para. 12). In the report, it is indicated that the objectives have formed the basis for ensuring a consistent approach in the subsequent phases of the review (ibid., para. 13).

8. In addition, with respect to the overall aims of the review, the Advisory Committee was informed, upon enquiry, that the intentions of this exercise were: (a) to establish the current condition of United Nations-owned properties at offices away from Headquarters; (b) to establish the performance of the properties relative to the key objectives on the basis of best industry practice; (c) to determine a major maintenance and/or replacement programme required to restore or maintain the capital value of these properties; (d) to institute a timeline over a 20-year horizon for major maintenance projects in line with property valuation according to the International Public Sector Accounting Standards (IPSAS); and (e) to establish the capital review programme requirements, on the basis of a prioritization methodology, that will serve to maintain the useful life of United Nations-owned facilities in a systematic manner so that the need for future large-scale renovations is avoided and a more uniform distribution of maintenance workloads and funding requirements is achieved.

9. At this initial stage, the Advisory Committee notes that the report of the Secretary-General does not make a specific reference to the potential implications of a possible new global service delivery model or to the implementation of the new enterprise resource planning system (Umoja). Both of these initiatives could have an impact on future staffing requirements and functions and, consequently, the long-term requirement of the United Nations for office space globally. Upon enquiry, the Committee was informed that an assessment of existing infrastructure, including facilities, was one of the many factors to be taken into account during the development of a new service delivery proposal. In addition, the Committee was informed that the long-term capital programme was intended to be a rolling programme, which would have the flexibility to adapt to ongoing organizational initiatives.

10. The Advisory Committee also notes that the report of the Secretary-General is silent with respect to the implementation of alternative workplace strategies affecting office space requirements, such as hot-desking, desk sharing and hoteling, which could reduce the overall amount of workspace required for different United Nations premises in the future. The Committee has made related recommendations with respect to the possible implementation of such arrangements in its consideration of the construction of additional office facilities in Addis Ababa and Nairobi, as well as in the ongoing consideration of long-term accommodation needs for Headquarters and the strategic heritage plan of the United Nations Office at Geneva (see also A/67/484, para. 15, A/67/548, para. 45, A/67/788, para. 15, and A/68/585, para. 20). The Committee notes that the Secretary-General has submitted a report on the implementation of a flexible workplace at United Nations Headquarters (A/68/387). That report and the Committee's own comments and recommendations thereon (A/68/583) are currently under consideration by the General Assembly.

11. Finally, reference is made throughout the report of the Secretary-General to industry norms, standards and best practices, although the Committee notes that the terms are used loosely and interchangeably. In addition, the report contains scant detail in terms of the nature of those standards, the methodological basis for their development, and their application to the premises owned and/or managed by the Secretariat across the different duty stations. For example, in the case of the objectives of the review, the report refers to standards with respect to occupational health and safety (A/68/733, paras. 12 (b) and 12 (c)) and to norms for energy efficiency (ibid., para. 12 (g)) but does not provide details concerning the nature or origin of those standards and norms. The report also refers to industry best practices and norms in terms of the rate of ongoing investment in annualized maintenance budgets (ibid., paras. 23-24 and 38-40). Again, the exact source and methodological basis for those norms are not included in the report of the Secretary-General. In addition, there is no indication as to whether those norms are applied in comparable international organizations (see also paras. 20, 21, 23 and 28-29 below).

12. **The Advisory Committee is generally supportive of the key objectives for the strategic capital review set out in paragraph 12 of the report of the Secretary-General as a basis for the completion of phases 2 and 3 of the review. While supporting the broad-based approach taken in the formulation of those objectives, the Committee expects that the next report of the Secretary-General will include appropriate references to and related analysis of the possible implications of alternative workplace strategies, if approved by the General Assembly, along with additional details concerning the different industry standards proposed to be applied, including justifications of their applicability in the context of the Secretariat. The Committee also trusts that the long-term capital programme will have the flexibility to adapt to different organizational initiatives, including the global service delivery model.**

Scope

13. In his report, the Secretary-General indicates that the scope of the strategic capital review covers the Secretariat premises in Addis Ababa, Bangkok, Beirut, Geneva, Nairobi, New York, Santiago and Vienna. He also states that the subregional offices of the economic and social commissions are not included in the scope of the detailed building assessment analysis undertaken as part of the review, as they are typically leased properties. However, the subregional office locations will also be included in establishing the overall capital programme (A/68/733, para. 6). In addition, it is indicated that phase 3 will include all owned properties managed by the Secretariat, including those of the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda and the new facility of the International Residual Mechanism for Criminal Tribunals to be constructed in the United Republic of Tanzania (ibid., para. 15).

14. Upon enquiry, the Advisory Committee was, however, informed that the capital requirements for properties managed by the Department of Peacekeeping Operations, the Department of Field Support, the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda were currently not included in the scope of the first phase of the review, since the Office of Central Support Services was mandated to manage only the facilities of the offices away from Headquarters, regional economic commissions and Headquarters. The Committee was also informed that the Office did not currently have access to

detailed data related to the cost, age and useful life of the facilities associated with peacekeeping missions and the two Tribunals. Furthermore, the Committee was informed that the Office was mandated to provide policy guidance on property management only for United Nations offices and departments included in volume I of the financial statements of the Organization.

15. **The Advisory Committee notes that the first phase of the strategic capital review does not include the premises currently managed by the Department of Peacekeeping Operations and the Department of Field Support, including the United Nations Logistics Base facilities in Brindisi, Italy, and Valencia, Spain, and the Regional Service Centre in Entebbe, Uganda, the International Tribunal for the Former Yugoslavia, the International Criminal Tribunal for Rwanda, the International Residual Mechanism for Criminal Tribunals, or the subregional offices of the economic and social commissions. While recognizing that some of those facilities are leased spaces and/or temporary in nature, the Committee is of the view that, in order to develop and establish a long-term strategic capital programme for the entire Secretariat, the scope of the review should be broadened to include all locations where the Organization owns and/or manages premises that may have long-term capital requirements.**

16. **In this connection, the Advisory Committee recalls its previous comments concerning the central leadership and support role of the Office of Central Support Services in ensuring efficient planning and budgeting for United Nations properties and their effective overall management (A/64/7/Add.11, para. 5, and A/65/518, para. 13).**

17. **In the light of this observation, the Advisory Committee recommends that the General Assembly request the Secretary-General to ensure that technical guidance and oversight functions are conducted in a coordinated and coherent manner for the effective and efficient management of all Secretariat premises, irrespective of the source of funding for those operations, to reduce the possibility of duplication.**

18. **The Advisory Committee also recommends in this regard that the General Assembly request the Secretary-General to assess the current division of labour and current roles and responsibilities among the Departments of Management, Peacekeeping Operations and Field Support, as well as the International Tribunals, in order to improve internal coherence and oversight.**

III. Preliminary findings of phase 1 of the strategic capital review

19. A description of the United Nations premises in Addis Ababa, Bangkok, Geneva, Nairobi, New York, Santiago and Vienna is provided in the annex to the report of the Secretary-General on the strategic capital review. In the report, it is pointed out that 28 of the 69 buildings occupied and managed by the Secretariat, or 45 per cent, are more than 35 years old, or more than halfway through their expected useful lives. It is indicated that buildings of this age require increased maintenance to remain usable (A/68/733, para. 9).

20. The preliminary findings of the first phase of the strategic capital review are contained in section IV of the report of the Secretary-General. Specifically:

(a) The Organization, according to the report of the Secretary-General, currently invests less than 1 per cent capital relative to property value on an annual basis, if separately funded multi-year construction projects are set aside, as opposed to "industry best practice", which is 2 to 3 per cent per annum (ibid., para. 23). In the view of the Secretary-General, the current approach to capital maintenance represents an underinvestment in buildings and premises and results in the progressive and rapid deterioration of the currently owned assets (ibid.). Further in the report, it is stated that low levels of maintenance activity over time have led to the accumulation of deferred or postponed maintenance work, resulting in the deterioration of buildings, the requirement for emergency repairs and the need for periodic large-scale construction projects (ibid., para. 42);

(b) Information was provided on the sequencing of major ongoing capital projects (ibid., paras. 25-27) and early indications of potential future capital projects where, according to the Secretary-General, remedial action would benefit the Organization, including the secretariat tower at the headquarters of the Economic and Social Commission for Asia and the Pacific in Bangkok, the old office and expansion office buildings of the Economic Commission for Africa in Addis Ababa and the temporary buildings constructed more than 30 years ago at the United Nations Office at Nairobi (ibid., para. 28);

(c) A preliminary prioritization methodology has been developed, which gives primary consideration to projects requiring compliance with local and international regulations associated with health and safety, security, accessibility, energy efficiency and space utilization efficiency goals (ibid., para. 29). Standardized procedures for capturing data and for project planning have also been established and a set of common criteria developed for a project scoring mechanism (ibid., paras. 32-36).

21. The Secretary-General indicates that one of the recommendations emanating from the first phase of the review is to establish a target minimum depreciation threshold for buildings owned and operated by the Organization, so as to avoid deterioration beyond the point where major capital expenditures for complete renovations are required. The proposed target minimum to be maintained is 25 years of a building's remaining useful life (ibid., paras. 45-46). It is also stated in the report that, once the results of the strategic capital review provide an accurate prediction of future capital requirements, possible funding alternatives can be developed for consideration by the Member States (ibid., para. 47). He cites the possibility, to be examined further, of establishing a separate, multi-year capital fund for this purpose (ibid., para. 48).

22. **The Advisory Committee takes note of the preliminary findings of the first phase of the strategic capital review and looks forward to receiving the final conclusions and proposals in the next report of the Secretary-General, upon completion of phases 2 and 3 of the review.**

Building valuation data, methodology and determination of the maintenance reinvestment rate

23. In his report, the Secretary-General sets out an indicative comparison of the overall value of the United Nations properties at Headquarters offices and offices away from Headquarters to the resources approved under the programme budgets for the biennium 2012-2013 and the biennium 2014-2015 in respect of major maintenance, alterations and improvements (ibid., table 3). The indicative

maintenance reinvestment rate is calculated at 0.9 per cent for both bienniums. In addition, it is indicated in the report that such expenditures as security enhancements and information technology investments, classified as capital expenditures and included in the calculation of major maintenance expenditures, do not necessarily increase property value or extend the useful life of a property (ibid., para. 39). Furthermore, it is indicated that capital funding levels have been previously estimated at approximately 0.88 per cent of property values, which, according to the Secretary-General, are below the industry standard for the low-end figure of 2 per cent per year (ibid., para. 40).

24. In the report of the Secretary-General, it is stated that, for the biennium 2012-2013, the property values used for the purpose of this calculation equate to the insurance values previously reported in the report of the Secretary-General on the proposed programme budget (A/66/6 (Sect. 34)), with the exception of the United Nations Office at Vienna, where IPSAS-compliant valuations were carried out in 2011. For 2014-2015, the property values are, by contrast, the depreciated replacement costs resulting from valuation exercises conducted at offices away from Headquarters in 2013 and 2014. The Advisory Committee notes that the property valuations between these two periods vary considerably as a result of applying these two different valuation methods, particularly for premises located in Nairobi, Santiago and Addis Ababa.

25. Upon enquiry, the Advisory Committee was informed that the property values cited for the biennium 2014-2015 had been produced in accordance with the newly adopted IPSAS and were referred to as "fair value" or depreciated replacement value. This methodology takes into account functional and economic obsolescence and impairment charges. In addition, the Committee was informed that capital improvements would be valued at cost under IPSAS. The Secretariat also confirmed that land values were excluded from the strategic capital review, since the value of land had no bearing on the projected capital requirements.

26. The Advisory Committee was also informed that the valuations included in the report were to be considered a "work in progress", given that a validation process was currently under way in connection with the finalization of the IPSAS-compliant financial statements. Some of the reported property valuations may change in subsequent reports, until the Organization finalizes its financial statements. In the case of the United Nations Office at Geneva, in particular, the Office is presently undergoing an IPSAS-compliant valuation process, after which the reported property value for 2014-2015 will be revised.

27. As regards the validity of the maintenance reinvestment rates, which compare the annual expenditures for major maintenance with the value of United Nations premises, the Advisory Committee notes, however, that the reinvestment rates in percentage terms will vary depending on the reported values for United Nations premises and what is considered to be capital expenditure. Given that the property values shown for the biennium 2014-2015 are subject to change in the light of the ongoing IPSAS-compliant valuation exercise, the maintenance reinvestment rates will also be subject to change.

28. **The Advisory Committee notes that future decisions concerning the level of resources required for future capital investment and/or progressive maintenance requirements for the Organization's capital assets depend on the application of a reliable, consistent and realistic valuation methodology, along**

with details concerning the applicability of comparable industry standards to all Secretariat-owned and/or operated premises.

29. **While it is not yet in a position to recommend any course of action to the General Assembly on the basis of the initial results of the first phase of the strategic capital review, the Advisory Committee recommends that the Assembly request the Secretary-General to provide additional details in his next report with respect to the valuations of the different United Nations premises and the applicability of relevant industry standards along with explanations of any significant variations over time.**

30. On a related matter, the Advisory Committee notes that the ongoing global implementation of Umoja, the new enterprise resource planning system of the Secretariat, is expected to improve the Organization's asset management capabilities and the quality and accuracy of property information contained therein. The Umoja Foundation phase, which encompasses asset management, is currently under implementation throughout the Secretariat. **The Committee expects, therefore, that Umoja will assist with the effective development and implementation of a long-term capital programme for the Secretariat.**

IV. Project planning and lessons learned

31. In his report, the Secretary-General indicates that the Office of Central Support Services, in parallel to the development of the strategic capital review, has begun to develop guidelines for major construction project management, specifically for projects at offices away from Headquarters (ibid., para. 50). These are intended to guide action in the various areas of project management within the context of organizational processes, including in terms of procurement, administration and applicable legislation (ibid., para. 52). Lessons learned from recent major capital projects undertaken by the Organization, in particular the capital master plan at Headquarters, will be highlighted in the guidelines (ibid., para. 53). **The Advisory Committee notes that the Secretary-General referred to the development of these guidelines more than three years ago in his report on overseas property management and construction projects in progress (A/65/351, paras. 16-18). The Committee therefore recalls its prior observation in which it stressed the importance of the expeditious completion of this task (A/65/518, para. 15).** Additional observations and recommendations concerning the implementation of the capital master plan and the study on the long-term accommodation needs at Headquarters for the period from 2014 to 2034 are contained in the Committee's forthcoming reports on those subjects

V. Conclusions and recommendations

32. The action requested of the General Assembly is set out in paragraph 63 of the report of the Secretary-General. **The Advisory Committee recommends that, subject to its observations and recommendations in the preceding paragraphs, the General Assembly take note of the report of the Secretary-General.**