United Nations A/C.5/64/SR.14

General Assembly

Sixty-fourth session

Official Records

Distr.: General
8 February 2010

Original: English

Fifth Committee

Summary record of the 14th meeting
Held at Headquarters, New York, on Tuesday, 10 November 2009, at 10 a.m.

Chairman: Ms. Wairatpanij (Vice-Chairman). . . . . (Thailand)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Ms. McLurg

Contents

09-60006 (E)

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

Agenda item 131: Programme budget for the biennium 2008-2009 (*continued*)

Capital master plan (A/64/5 (Vol. V), A/64/7/Add.5, A/64/326 (Part I) and Corr.1, A/64/346 and Add.1-2 and A/64/368 and Corr.1)

1. **Mr. Adlerstein** (Assistant Secretary-General for the Capital Master Plan), introducing the Secretary-General's seventh annual progress report on the implementation of the capital master plan (A/64/346), said that the project was on schedule and should be completed by 2013, as envisaged in the sixth report (A/63/477). Although the complexities of the swing space arrangements required under accelerated strategy IV had required some short-term adjustments to the schedule, ways had been found to absorb them in the forthcoming renovation work. The relocation of staff to off-site swing space had commenced in the spring of 2009 and would be completed by early 2010. A total of 3,188 staff had already moved into swing space in newly leased offices and existing United Nations properties. About 800 people would be relocated to on-site swing space in the basements of the compound, the Dag Hammarskjöld Library and the newly constructed temporary North Lawn Building.

2. Most functions of the Conference Building would be relocated to the temporary North Lawn Building in mid- to late December 2009, while the Security Council Chamber and associated rooms would move to the existing Conference Rooms 4, 5, 6 and 7, following their temporary renovation for that purpose, which would take about four months. The full renovation of the Conference Building would not begin until April 2010. Upon its completion in just under two years, the Conference Building functions would return to their home and the temporary North Lawn Building would be reconfigured to host the General Assembly functions, as well as providing office space for the Secretary-General and his staff. The renovation of the General Assembly Building would begin in late 2011.

3. Renovation of the Secretariat Building would begin as soon as the last of the offices had been relocated to the temporary North Lawn Building. It would involve pre-abatement clean-up and removal; asbestos abatement; interior clean-out and selected demolition; curtain wall removal and replacement; and interior fit-out. The renovation of the buildings was dependent upon the extensive renovation of the basement infrastructure, involving the replacement of all heating, ventilation, air-conditioning, plumbing, electrical, security and other systems, at a cost of over $300 million. The basement renovation, which was already well under way, was the most complex part of the project, since the work and staging areas were very limited and located close to occupied work space.

4. Through the incorporation of new technologies such as high-efficiency lighting, heating and air-conditioning equipment, an automated building management system, low-flow toilets and a rainwater harvesting system, completion of the capital master plan would significantly improve the environmental performance of the Headquarters complex in a number of key areas. In particular, energy consumption, greenhouse gas emissions and freshwater consumption would be reduced by 50 per cent, 45 per cent and 40 per cent, respectively.

5. Contracts, guaranteed maximum price agreements, leases and other forms of commitments had already been finalized for a total of $1.366 billion, representing 70 per cent of the projected cost to complete. That greatly reduced the level of budget risk, especially in relation to inflation. Procurement opportunities were widely communicated by all appropriate means, including through advertisement on the website of the construction manager, Skanska; regional and trade show outreach; and courtesy notification of significant opportunities to all Permanent Missions. According to Skanska, about 6.2 per cent of the total contract value to date had been sourced from outside the United States of America.

6. The capital master plan required the relocation of many gifts received by the Organization in past years. Some exterior artwork on the North Lawn had been relocated before the commencement of construction work, while the temporary North Lawn Building would be used as a display area for most of the interior artwork. The Office of the Capital Master Plan and the Office of Central Support Services were both involved in planning such relocations.

7. Many Member States had contacted the Office of the Capital Master Plan regarding the prospects for making special donations for particular spaces. Pursuant to General Assembly resolution 63/270, the Secretary-General had issued a revised donations policy and had invited Member States to make cash

donations towards the renovation of a specific space or building element. Such donations would be publicly acknowledged and the donor would have design input for the space in question.

8. While the fifth annual progress report had reported that the capital master plan was about $219 million over the approved budget level of $1,876.7 million, by the time of the sixth annual progress report that gap had narrowed to about $97.5 million. The seventh annual progress report indicated that, with the adoption of the accelerated strategy, the conduct of design and value engineering exercises, and careful, disciplined management, the projected cost to complete now stood at $91.4 million over the approved budget. Costs continued to be reduced and the Office of the Capital Master Plan was confident that the project would be completed within the approved budget. While the project's financial position was strong, owing to the excellent financial support received from Member States, the Office was not optimistic about its ability to absorb all the associated costs, or the cost of the secondary data centre, within the budget.

9. Lastly, nominations for the advisory board had been requested and received from the regional groups, and the Secretary-General was expected to announce the board's composition before the end of December 2009, in accordance with the deadline set by the General Assembly.

10. **Mr. Yamazaki** (Controller) introduced the reports of the Secretary-General on the proposal for risk mitigation measures to protect data and the information and communications systems of the Secretariat during construction work of the capital master plan (A/64/346/Add.1) and on proposals for financing the associated costs required for the year 2010 from within the approved budget for the capital master plan (A/64/346/Add.2). The report on the proposal for risk mitigation measures (A/64/346/Add.1) provided an update on the implementation of the new secondary data centre, including the resources required for the biennium 2010-2011. The report on proposals for financing the associated costs (A/64/346/Add.2) detailed the status of implementation of approved resources for the biennium 2008-2009 and resource requirements for 2010, which remained broadly in line with the level requested in the previous report on associated costs (A/63/582), except for an adjustment to general temporary assistance resources to accommodate already approved staffing levels.

11. **Mr. Vanker** (Chairman of the Audit Operations Committee of the Board of Auditors), introducing the report of the Board of Auditors on the capital master plan for the year ended 31 December 2008 (A/64/5 (Vol. V)), said that since the current phase of the capital master plan project involved significant physical construction activities, extensive relocation work and a much higher rate of spending, the Board's annual audit for 2008 had focused on financial, scheduling and procurement aspects. Six of the nine recommendations made in the previous year's report (A/63/5 (Vol. V)) had been implemented, while one was under implementation. Of the two that had not been implemented, one related to the establishment of an advisory board, which had since been addressed by the General Assembly, and the other concerned the need to distinguish capitalized costs from operating costs. While the Administration had indicated that it would implement that recommendation by 31 December 2011, the Board stressed that, owing to the project's short time frame, recommendations must be implemented without delay.

12. The Board had made 17 recommendations in its report for the year ended 31 December 2008 (A/64/5 (Vol. V)), including three reiterated from the previous year. Among a number of important points, it had expressed concern about the total cost of the project, since the projected cost to complete was still higher than the approved budget level and the reduction in the cost estimates to date was partly attributable to a large reduction in the budget for contingencies from $477.8 million to $226.6 million; that approach did not appear conservative enough. It would only be possible to adhere to the approved budget if the project specifications were no longer modified, if there were no significant changes in the economic assumptions on which cost estimates were based and if the project did not have to absorb the associated costs.

13. The Board had also pointed out that the amount of $342.1 million disclosed as construction in progress on the balance sheet encompassed not only expenses that enhanced the value of the Organization's assets, but also all operating expenses funded from the capital master plan, some of which had no impact on the value of assets. That accounting treatment, which inflated the Organization's assets, was a consequence of its inability to separate capitalized costs from operating costs in its current accounting systems.

14. With regard to the project schedule, the Board had established that, considering the delay in the initial stages of the project, an average slippage of six months could have an impact on the rest of the project, if each subsequent stage required the same time as that initially planned. The project would not therefore be finished in 2013 as planned, unless the renovation work progressed more quickly than forecast. The Office of the Capital Master Plan had informed the Board that it intended to speed up the process.

15. Lastly, the Board was concerned about the inadequate level of internal control over contract amendments and the failure to comply with the requirements of the Procurement Manual relating to the review and recommendation process. Seven contracts had been amended many times, with manyfold increases in value, under special temporary increases in delegation of authority. As expenditure increased, the need for expedited procurement approvals must always be considered within the context of the Organization's rules and procedures; the practice of ex post facto approval should not replace the proper prior review of contract amendments.

16. **Mr. Baez** (Chief, Policy and Oversight Coordination Service), introducing the report of the Secretary-General on the implementation of the recommendations of the Board of Auditors contained in its report on the capital master plan for the year ended 31 December 2008 (A/64/368), said that, for each recommendation made by the Board, the report provided details of the department responsible, the status, the priority and, where the recommendation had yet to be implemented, the target date for implementation, pursuant to General Assembly resolution 61/233 B. While the implementation of all recommendations would be treated as a priority, the 11 main recommendations had been designated as high priority and the others as medium priority. The report showed the overall implementation status of the main recommendations (table 1). Since the Administration continued to work closely with the Board and had provided full information, the Board's report in many cases adequately reflected the Administration's position.

17. **Ms. McLurg** (Chairman of the Advisory Committee on Administrative and Budgetary Questions) said that the report of the Advisory Committee (A/64/7/Add.5) related to the Secretary-General's seventh annual progress report on the implementation of the capital master plan (A/64/346) and its two addenda, as well as the report of the Board of Auditors on the capital master plan for the year ended 31 December 2008 (A/64/5 (Vol. V)) and the report of the Secretary-General on the implementation of the Board's recommendations (A/64/368).

18. The Advisory Committee recommended approval of the Secretary-General's recommendation that the General Assembly should decide to appropriate the remaining balance of $689.9 million towards the construction phases of the capital master plan. It emphasized the need for intensified coordination and consultation between the Office of the Capital Master Plan and all other key stakeholders in order to ensure effective planning of the project and avoid unforeseen delays. Furthermore, it recommended that the Secretary-General should be asked to provide more comprehensive information on the cost implications of any delays.

19. The Advisory Committee encouraged the Secretary-General to pursue the value engineering exercise so as to maximize the cost-effective use of resources while ensuring that the quality, functionality and scope of the project, and the integrity of the architectural design, were not compromised. It also reiterated its request for a detailed description of the exercise, the related costs and fees, and the potential savings that could be realized through each initiative. It encouraged the Office of the Capital Master Plan to award, where feasible, the remaining guaranteed maximum price contracts so as to derive maximum benefit from prevailing favourable market conditions, and reiterated its request for a comprehensive analysis of economic factors and the assumptions underpinning the cost estimates, as an essential means of gaining a better understanding of project risks. The Advisory Committee welcomed the proposed improvements in the environmental performance of the Headquarters facility and asked the Secretary-General to provide, in addition to the targets for reduced consumption, estimates of the resulting cost savings and the time frame for realizing them.

20. With regard to the Secretary-General's proposals for the secondary data centre, the Advisory Committee remained concerned about the risks to that project. It therefore urged the Secretary-General to continue to monitor the situation closely and ensure that the activities related to the migration and running of the secondary data centre were completed in accordance

with the time frame of the capital master plan. With regard to the Secretary-General's proposals for financing the associated costs of the capital master plan for 2010, the Advisory Committee recommended reductions in the projected requirements for the Office of Central Support Services and the Department of Safety and Security, and had some concerns about the lack of coordination and accountability for the implementation of projects under the associated costs heading. Since some of those activities, including the implementation of the secondary data centre and the construction of the permanent broadcast facility, were on the critical path of the capital master plan project timeline, any delays could have significant cost implications.

21. The Advisory Committee's observations on the recommendations of the Board of Auditors and the Secretary-General's response to them, particularly with regard to the Secretary-General's decision to combine the provisions for contingencies and inflation, and the extended delegation of authority granted to the Director of the Procurement Division to cover contract amendments relating to the capital master plan, were contained in chapter II of its report (A/64/7/Add.5).

22. **Mr. Elhag** (Sudan), speaking on behalf of the Group of 77 and China, said that the Group attached the highest priority to the smooth implementation and timely completion of the capital master plan. While it appreciated the progress already achieved following the transition from the design phase to construction activity, including the construction of the temporary North Lawn Building, it stressed that the schedule for the relocation of staff to swing spaces should be strictly followed so that repair and renovation work could begin in a timely manner and cost overruns could be avoided.

23. The Group regretted the slippage in the current schedule of the capital master plan, now projected to be completed in late 2013 rather than mid-2013, and was concerned about the possible impact of further delays. For example, the delayed decision to house the temporary Security Council Chamber in the main complex could delay the completion of the capital master plan until 2014. The Group deeply regretted the procedural difficulties, lack of managerial diligence and insufficient responsiveness to project needs that had already resulted in delays and tarnished the image of the United Nations. The Secretary-General should establish a mechanism to ensure full accountability for all factors contributing to such delays, which led to cost escalation and disrupted the Organization's work. A clear and realistic timeline for the implementation of the capital master plan should be prepared and provided to the General Assembly. The Group welcomed the accelerated construction schedule developed for the Secretariat Building in order to make up for previous delays and ensure that the project was completed before the swing space leases expired; the measures adopted should also help mitigate cost escalation and eliminate health and safety hazards. The Group concurred with the Advisory Committee that the Secretary-General should provide more comprehensive and specific information on project delays, including their cost implications.

24. While the Group appreciated the benefits of the value engineering exercise, it reiterated the General Assembly's request, contained in resolution 63/270, that detailed information should be provided on such activities, the costs and fees involved, and the advantages that could potentially be realized as a result of the prevailing market conditions. It also concurred with the Advisory Committee that the integrity of the architectural design of the complex should be preserved. The Group noted with satisfaction the high cash balance of the capital master plan fund and the interest income earned; however, bearing in mind that assessments of $88.4 million for the capital master plan were still unpaid for 2009 and previous years, the Group urged Member States to pay their outstanding assessments in full and on time. The donations policy for the capital master plan should not be restrictive and should be consistent with the Organization's international character and with the relevant provisions of General Assembly resolution 63/270.

25. The Group was concerned about the issue of parking spaces at the Headquarters complex and reiterated its request that there should be no reduction in the garage capacity available to Member States before, during and after completion of the capital master plan. It looked forward to receiving further information in the eighth annual progress report, following the review of options undertaken by the capital master plan design team. It welcomed the sustainability initiatives aimed at improving the environmental performance of the Headquarters facility, but underlined the need to present the expected savings associated with the reduced consumption targets, the time frames for achieving them and details

of their contribution to the overall project performance, together with a cost-benefit analysis.

26. The Group reaffirmed that all procurement activities relating to the capital master plan must comply with United Nations rules, regulations and procedures, as well as with the relevant General Assembly resolutions. In that regard, it concurred with the Board of Auditors that the Administration should adhere strictly to the requirements of the Procurement Manual and consider ways to increase significantly the level of internal control over amendments to contracts relating to the capital master plan. The Secretary-General should also take further specific measures to promote procurement opportunities for vendors from developing countries and countries with economies in transition, and provide Member States with detailed information on those measures, as requested in General Assembly resolution 63/270.

27. All recommendations of the Board of Auditors should be implemented expeditiously. In particular, an independent and impartial advisory board for the capital master plan, reflecting wide geographical representation, should be established by the deadline of 31 December 2009. Given the importance of oversight, the Board of Auditors and all other relevant oversight bodies should continue to report to the General Assembly annually on the capital master plan.

28. With regard to the proposals for the secondary data centre, as described in the Secretary-General's report (A/64/346/Add.1), the Group shared the concerns expressed by the Advisory Committee regarding the risks to that project and concurred with its recommendations. With regard to the proposals for financing associated costs (A/64/346/Add.2), the Group reiterated that, pursuant to General Assembly resolution 63/270, every effort should be made to finance associated costs from within the approved budget of the capital master plan, unless otherwise specified by the General Assembly. Lastly, the Group believed that the principles of clarity, transparency and responsibility were of paramount importance throughout the capital master plan project and expected more consistency in the information provided in the Secretary-General's future reports on the subject.

29. **Ms. Håkansson** (Sweden), speaking on behalf of the European Union; the candidate countries Croatia, the former Yugoslav Republic of Macedonia and Turkey; the stabilization and association process countries Albania, Montenegro and Serbia; and, in addition, Armenia, Liechtenstein, the Republic of Moldova and Ukraine, said that the European Union was pleased to see that the capital master plan project was well under way despite some slippage in the construction schedule. However, it was concerned that some of the recommendations of the Board of Auditors, particularly the ones on cost estimates and the review of contractual amendments, had not been accepted by the Secretary-General; it agreed with the Advisory Committee that the Secretary-General had not fully justified his response.

30. The information about the value engineering exercise and the healthy cash balance was encouraging: the Secretariat should seize further opportunities in the current economic climate to lower costs and bring the project back to within the agreed budget. The European Union reiterated its regret that the associated costs had not been built into the original budget proposals; it remained unconvinced that such costs could not be absorbed within the approved budget. The Advisory Committee was correct to argue that the associated costs should not include investment costs or long-term commitments. Additional information about the donations policy and the secondary data centre would be welcome.

31. **Ms. Pataca** (Angola), speaking on behalf of the Group of African States, said that the Group welcomed the progress made with the capital master plan but stressed the importance of expediting the relocation of staff to avoid any further delay in the work on the Secretariat Building. It regretted the slippage of the completion date from mid- to late 2013 and agreed with the Advisory Committee's recommendations in that regard. It naturally welcomed the accelerated schedule for the renovation of the Secretariat Building but requested the Secretary-General to provide more specific information on project delays and their cost and other implications.

32. The Group also welcomed the cost savings of some $100 million identified though the value engineering exercise and supported the continuation of the exercise. The requests concerning value engineering contained in General Assembly resolution 63/270 should be addressed in the forthcoming progress report on the capital master plan. The level of cash available to the project was satisfactory, but the Member States should pay their outstanding assessed contributions without delay. Any donations policy that

was consistent with the Organization's international character and the Financial Regulations and Rules, and that did not prejudice the scope of the project, would be acceptable.

33. The Group considered that, pursuant to General Assembly resolution 57/292, there should be sufficient parking space available on completion of the project to meet the needs of diplomatic missions and Secretariat staff. It welcomed the progress achieved in the area of sustainable design but requested clarification of the cost savings and the time frame for their realization. It also sought clarification of the procurement activities associated with the capital master plan, with regard in particular to increased opportunities for vendors from developing countries and countries with economies in transition.

34. The Group considered that the advisory board requested in several General Assembly resolutions should be established as a matter of urgency and was glad that the Secretary-General would be able to appoint its members before the end of 2009. It concurred with the recommendations of the Board of Auditors, which should be implemented expeditiously and in full. It also concurred with the Advisory Committee's recommendation on the proposal for risk mitigation measures to protect data and the information and communications systems of the Secretariat set out in the Secretary-General's report (A/64/346/Add.1). The Group urged the Secretary-General to make every effort to absorb the associated costs of the capital master plan within the approved budget. It called for sustained efforts to be made by all the relevant departments and offices for the duration of the plan and stressed the importance of coordination and of clear lines of responsibility and accountability.

35. **Ms. White** (Australia), speaking also on behalf of Canada and New Zealand, said that the three delegations welcomed the efforts to bring the capital master plan back within the agreed budget and acknowledged the project's sound cash position. They took seriously the observations of the Board of Auditors on the need to address gaps in internal controls and looked forward to receiving further justification of the Secretary-General's decision to withdraw the requirement for ex post facto review of contractual amendments and procurement processes. They would also welcome further discussion of the Board's view that the plan's budget would be unable to absorb the associated costs. They would be examining closely the project's safety and security needs.

36. It was of utmost importance for the United Nations to respect its mandates in all areas, including the capital master plan. In that connection, the efforts to comply with the design standards to meet the needs of persons with disabilities deserved commendation: United Nations Headquarters should offer a leading example of full compliance with the Convention on the Rights of Persons with Disabilities. It was to be hoped that appropriate facilities for nursing mothers would be provided under the plan and that the efforts to improve the implementation of the no-smoking regulations would be continued.

37. **Mr. Lim** (Singapore) said that his delegation noted with satisfaction the significant progress made with the capital master plan and urged the Secretariat to ensure that the project was completed on time. The use of green technology to reduce energy and water usage had the potential to deliver real dividends. However, the changes in the project design gave rise to concern, in particular the decision not to relocate the Security Council to the temporary North Lawn Building, for they added costs and delays and increased the burden on the Member States.

38. It was unfortunate that the brunt of the reduction in parking space was being borne by Secretariat staff, but diplomatic missions were suffering as well; it was to be hoped that the review of available options currently being carried out by the design team would resolve the issue to the satisfaction of all parties. His delegation also hoped that the users of the new premises would enjoy a smoke-free environment; it reiterated its suggestion that dedicated smoking enclosures should be provided. Although implementation of the capital master plan would not be problem-free, all the stakeholders should take a long-term view, while making sure that the necessary resources were made available.

39. **Mr. Hussain** (Bangladesh) said that his delegation attached importance to compliance with technical and safety regulations and environmental standards in the implementation of the capital master plan. It welcomed the progress made thus far but was concerned about the slippage in the construction schedule due to procedural delays and inadequate planning; for example, the decision to house the Security Council in the General Assembly Building

exemplified the lack of serious coordination among Secretariat departments. The Advisory Committee was right to call for detailed explanations of delays and statements of the cost implications. Every effort should be made to complete the project within the approved budget. The cost savings identified through value engineering were welcome, but value engineering must not be allowed to compromise the quality of the work. Given the varied nature of the factors contributing to cost reductions and efficiency gains, his delegation would appreciate receiving detailed information on costs and fees, as requested in General Assembly resolution 63/270.

40. The failure to comply with the accounting principle of cost classification identified by the Board of Auditors was disappointing: both operating expenses and capital expenditures had been recorded as construction in progress, a treatment which inflated the Organization's construction assets. Furthermore, the cash surplus was due to the delayed implementation of scheduled work. Taken in conjunction with the unpaid contributions of $88.4 million, that accounting approach did not give a true picture of the project's financial position.

Liabilities and proposed funding for after-service health insurance benefits (A/62/541 and Add.1, A/64/7/Add.4 and A/64/366)

41. **Mr. Yamazaki** (Controller), introducing the report of the Secretary-General on liabilities and proposed funding for after-service health insurance benefits (A/64/366), said that the Organization's liabilities in respect of post-employment benefits were now reflected in the financial statements. The report recommended that the United Nations should move away from financing such benefits on a pay-as-you-go basis and introduce a funding strategy to ensure that adequate funds were systematically put aside to meet the cost of current and future liabilities in full. The principal objective was to contain costs while maintaining health insurance coverage for serving staff and retirees comparable to the programmes of large employers and Governments. However, despite the containment initiatives noted in the report, costs were projected to increase considerably in the years ahead.

42. The Organization's share of the costs of after-service health insurance benefits for current retirees was appropriated on a biennial basis in the special expenses section of the programme budget; for the 2010-2011 biennium, part of that share would be met from the support accounts for extrabudgetary funds and peacekeeping operations. The pay-as-you-go costs had increased dramatically over the years: the total of $130.4 million for 2010-2011 was more than quadruple the amount for the biennium 1994-1995. As that trend was expected to continue, the current financing arrangement was not sustainable. The method for calculating the after-service health insurance liability treated the entitlement in question as deferred compensation and thus provided for the accumulation of the liability over the working life of staff members. The Organization's share of the accrued liabilities had been actuarially valued at $2,430 million as at 31 December 2007, compared with $2,072 million at the end of 2005.

43. The General Assembly had recognized the liabilities by its resolution 60/255; it was now time to adopt a funding strategy. Paragraphs 47-73 of the report set out three funding alternatives for staff working under the regular budget, extrabudgetary funds and the peacekeeping budgets. Each alternative set an initial 30-year funding target of under 100 per cent and included a charge against salary costs as the most equitable method of financing. The third alternative was the recommended option: it consisted of a one-time infusion of $425 million and a long-term strategy which initially maintained the current funding provisions while also applying a charge against salary costs.

44. For the one-time infusion the report requested approval for the transfer of $290 million from unencumbered balances under peacekeeping budgets for the 2008/09 financial period to an after-service health insurance reserve fund as an alternative to requesting a separate assessment of the Member States. Such a move would require the suspension of financial regulation 5.3. Approval was also requested for the transfer of $83.1 million from the medical and dental reserve fund and $51.9 million from the compensation reserve fund.

45. The recommended option also included appropriations under the special expenses section of the regular budget and under the accounts for extrabudgetary funds and peacekeeping operations, as well as charges of 9.6, 2.6 and 1.0 per cent, respectively, against net salary costs. The figures given in the report were indicative. Periodic reviews would be required in order to ensure that a systematic

increase in funding levels was maintained and full funding ultimately achieved. The report included an outline of an investment strategy for an after-service health insurance reserve; discussions had been held in that connection with the Investment Management Service of the United Nations Joint Staff Pension Fund. The report also recommended the funding of reserves for the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda.

46. The many staff members who were precluded by their employment in the United Nations from entitlement to after-service benefits in their home countries were dependent on the Organization for that social protection. Health insurance coverage for retirees on a cost-sharing basis remained an important component of the overall compensation package and conditions of service of international civil servants. The introduction of a long-term funding strategy coupled with cost-containment initiatives was the prudent way forward.

47. **Ms. McLurg** (Chairman of the Advisory Committee on Administrative and Budgetary Questions) said that the Advisory Committee had considered the three funding alternatives proposed by the Secretary-General. It considered that a decision to establish a reserve fund to finance the Organization’s after-service health insurance liabilities for the long term or to continue the current pay-as-you-go approach was a policy matter for the General Assembly.

48. Irrespective of that decision, the Advisory Committee agreed with the Secretary-General’s proposals to continue biennial appropriations to cover the cost of subsidy payments in respect of current after-service health insurance participants who had retired under the regular budget and peacekeeping budgets and to establish biennial appropriations to cover such costs for staff who had retired under extrabudgetary funds.

49. With respect to the Secretary-General’s proposals for funding the current and future after-service health insurance liabilities of the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia, the Advisory Committee was of the view that the United Nations should take a consistent approach to the funding of such liabilities. It recommended therefore that appropriations should be made to cover the costs in respect of current participants who had retired from the two Tribunals. Since the Tribunals had limited mandates, the General Assembly would need to address their long-term liabilities in the context of the final performance reports.

50. On the question of alternative investment strategies for a reserve fund to be established under the proposed funding alternatives, the Advisory Committee was of the view that more detailed information, in particular on the administrative costs of managing such a fund, should have been provided in the report. It recommended therefore that the information in question should be provided to the General Assembly.

51. The Advisory Committee’s other recommendations were contained in chapter VII of its fifth report on the proposed programme budget for the biennium 2010-2011 (A/64/7/Add.4).

52. **Mr. Elhag** (Sudan), speaking on behalf of the Group of 77 and China, said that the Group attached great importance to the welfare of staff members, in particular those who were not entitled to social security benefits in their home countries by reason of their service with the United Nations. A long-term solution to the problem of after-service health insurance liabilities which took account of international practice should be adopted. The Group agreed with the Advisory Committee that the Secretary-General needed to address the problem on a system-wide basis.

53. The Group sought clarification from the Secretariat as to how the pay-as-you-go approach functioned and how it was related to the accumulation of after-service health insurance liabilities; in view of the significance of the discount rate it wished to know in particular why the 5.5-per-cent rate chosen for 2005 had remained unchanged until the end of 2007. Since the International Public Sector Accounting Standards were not to be applied until 2012 at the earliest, what impact would that delay have on the actuarial methodology for validating the accrued liabilities?

54. The Group concurred with the Advisory Committee’s observations on the three funding alternatives and would welcome an explanation of why no recommendation had been made for the full funding of the liabilities and why different funding percentages had been proposed for the three alternatives. Furthermore, the Member States could not take an informed decision without further details of the possible investment strategies for a reserve fund. With regard to the proposed transfers of funds from the

compensation reserve fund and the medical and dental reserves, the Group would welcome clarification of the current use of those reserve funds and of the potential impact of the proposed transfers on them. It endorsed the position of the Advisory Committee that the transfer of unencumbered balances from the peacekeeping budgets was an inappropriate financial management practice.

55. **Mr. Kanamori** (Japan) said that, given the daunting prospect of increasing liabilities, his delegation shared the Advisory Committee's view that the General Assembly might wish to review the scope and coverage of the existing after-service health insurance plans, as well as the contribution levels of the Organization and the participants. The General Assembly might consider in particular the imposition of a limit on the duration of the coverage of retired staff members and their dependants. The Secretary-General should recalculate the accrued liabilities and formulate a new funding strategy on the basis of such a possibility. In any event, his delegation could not accept the current funding proposals, in particular the transfer of $290 million in unencumbered balances from the peacekeeping budgets. Such balances should be returned to Member States.

56. His delegation would like to be informed about the actual circumstances under which some Member States allegedly denied United Nations retirees national social security benefits. If such situations obtained, had the Secretariat ever held consultations with the States in question in an attempt to relieve the financial hardship suffered by such retirees? The Japanese delegation agreed with the Advisory Committee that appropriations should be made to cover health insurance costs only in respect of current participants who had retired from the two Tribunals.

The meeting rose at noon.