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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 eleventh annual progress report of the Secretary-General on the implementation of the capital master plan (A/68/352) and his report on final expenditure for associated costs for the period from 2008 to 2013 (A/68/352/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 2012 (A/68/5 (Vol. V)) and the related report of the Secretary-General on the implementation of the recommendations of the Board (A/68/336).

2. During its consideration of the above-mentioned reports, the Advisory Committee met with the Under-Secretary-General for Management, the Executive Director of the capital master plan and other representatives of the Secretary-General, as well as with the Chair and members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification, concluding with written responses on 9 October 2013.

3. In section V of its resolution 67/246, the General Assembly, inter alia, addressed issues related to the financial management and financing of the project, swing space and office space utilization, and reporting on the final expenditure for associated costs. The Assembly also requested updated information and options for the renovation of the South Annex and Library Buildings.

4. In the present report, the Advisory Committee reflects on the main issues raised in the report of the Board of Auditors (sect. II), lessons learned (sect. III), the eleventh annual progress report of the Secretary-General (sect. IV) and his report on final expenditure for associated costs (sect. V). The conclusion and recommendations of the Committee are contained in section VI.

5. The Advisory Committee recalls its recommended reduction in requirements in the total amount of $1,049,800 under section 33, Construction, alteration, improvement and major maintenance of the proposed programme budget for the biennium 2014-2015. The Committee reaffirms the recommendations contained in its report (see A/68/7, paras. XI.12-15).

II. Report of the Board of Auditors on the capital master plan for the year ended 31 December 2012

6. The report of the Board of Auditors on the capital master plan for the year ended 31 December 2012 (A/68/5 (Vol. V)) was submitted pursuant to General Assembly resolution 57/292. In the report, the Board examines the progress of the capital master plan since its last report (A/67/5 (Vol. V)) and the likelihood of the capital master plan being delivered on time and within budget and scope.

Accountability

7. The capital master plan project is managed by the Office of the Capital Master Plan, with strategic guidance provided by the Office of the Under-Secretary-General for Management. The Under-Secretary-General for Management is responsible for the successful delivery of the capital master plan. The Executive Director of the capital master plan, who, at the Assistant Secretary-General level, reports to the Under-Secretary-General for Management, is entrusted with and accountable for the day-to-day management of the project (see A/68/352, paras. 36-38).

Process for estimating and reporting anticipated final costs

8. In its resolution 67/246, the General Assembly noted the finding of the Board of Auditors that there was no certainty in the final cost projections of the capital master plan project and requested the Advisory Committee to request the Board to scrutinize the final cost projections of the project. The analysis and recommendations of the Board with respect to the process for estimating and reporting anticipated final costs are contained in paragraphs 24 to 39 of its report.

Overall assessment on cost forecasting

9. While acknowledging that the Office of the Capital Master Plan utilizes expert advice in forecasting the final costs and that improvements have been made in the last year in assigning costs to identified risks, the Board of Auditors remains concerned over the robustness and analytical basis of the cost forecasting of the Office of the Capital Master Plan, as highlighted in its previous reports (A/68/5 (Vol. V), summary). The Board expresses the view that the Administration has not changed its approach with respect to forecasting the final cost of the project, with the exception of the costing of risks. For this reason, the Board is unable to provide assurances on the process used by the Administration to produce the final cost projections of the capital master plan (ibid., para. 35). In addition, although previously recommended by the Board, no structured trend analysis has been undertaken by the Administration to determine any potential liability for future change orders, claims or the costs of unexpected acceleration needed to finish the project (ibid., summary, which could have an impact on the final cost projections).

Contingency

10. While the Board of Auditors considers the new risk forecasting technique adopted by the Administration a positive step forward, it notes that the technique is not actively used as part of the process to determine the contingency (ibid., paras. 27 and 28). The Board notes that, at the time of its audit, it appeared that potential savings of $20 million might be realized upon closure of nine guaranteed maximum price contracts, which the Office of the Capital Master Plan did not include in any cost forecast (ibid., paras. 31 and 34). The Office of the Capital Master Plan considers it premature to expect that these identified returns will exist at the end of the project, and hence the Office has not transferred these potential funds to the project's contingency reserve (A/68/352, para. 82).

11. Table 6 in the eleventh progress report of the Secretary-General reflects a decrease in the residual balance of the contingency reserve from $41.6 million as at July 2012 to $14.2 million as at 30 June 2013, to fund ongoing contract amendments (ibid., para. 109). Upon enquiring as to whether the remaining contingency of $14.2 million would be adequate to address potential claims, the Advisory Committee was informed by the Secretariat that, in addition to the current project contingency of $14.2 million, the Office of the Capital Master Plan had provided information on savings allocated across a number of the guaranteed maximum price contracts during the audit in April 2013, based on which the Board of Auditors noted potential unused provisions of approximately $20 million. As at 30 June 2013, the unused provision was estimated at $16 million (since the time of the audit, an amount of $4 million had been allocated to mitigate risks to the overall project schedule). The Office still could not project the exact level of savings that would remain, but indicated that it was likely that it would total over $15 million. The combination of project contingency and potential savings was estimated to be $30 million, which, in the view of the Office, was adequate and reasonable for the remaining work and possible claims.

12. **The Advisory Committee regrets that the Secretariat has not sufficiently changed its approach with respect to the process for forecasting final project cost projections to enable acceptance by the Board of Auditors. The Committee points out that the management of the contingency provisions under the capital master plan project still lacks transparency. The Committee recalls that the Secretariat agreed with the Board of Auditors that, drawing on the lessons from the capital master plan, it should consider how, in the future, it could manage contingency funding on capital projects in a more transparent and effective manner (A/68/336, para. 43).** The Committee will discuss the issue further in the context of its consideration of the report of the Secretary-General on the strategic heritage plan of the United Nations Office at Geneva (A/68/372).

Swing space and office space utilization

13. In its resolution 67/246, the General Assembly expressed concern that the Secretary-General did not provide accurate information regarding space utilization both on and off the campus in New York, which could result in an overestimation of space needs and potential overexpenditure on off-campus office space. In the same resolution, the Assembly noted that the Secretariat intended to keep two swing space leases after the completion of the project, which would result in an additional burden on the regular budget. The Assembly requested the Secretary-General to

enhance efforts to manage the costs pertaining to swing spaces with a view to optimizing the rental contracts and to report on concrete measures taken in this regard in the context of the eleventh annual progress report.

Swing space

14. Information with respect to the swing space is provided in paragraphs 23 to 29 and table 1 of the eleventh progress report. Funding and lease expiration dates for the four swing space leases currently in effect are as follows:

(a) 730 Third Avenue (Teachers Building) and 380 Madison Avenue are funded from the capital master plan budget and the leases will expire on 31 December 2013 and 25 January 2014, respectively;

(b) 305 East 46th street (Albano Building) and the United Nations Federal Credit Union Building, Long Island City, which were funded from the project budget until May 2013, are now covered by the regular budget, under section 29D, Office of Central Support Services, as the leases have been retained on a longer-term basis. They will expire on 23 July 2017 and 30 April 2018, respectively. The lease for the Albano Building beyond July 2017 will either be extended or terminated on the basis of the long-term office accommodation strategy.

15. The Board of Auditors has observed that the total anticipated project cost for the capital master plan project has been reduced since its last report, owing, inter alia, to a reduced share of lease costs ($13 million) achieved by charging some rental costs related to an increase in the number of staff and consultants to a rental account established in the Secretariat (that is, not a project cost, but still a cost to the United Nations) (A/68/5 (Vol. V), summary and table 2).

16. **In the view of the Advisory Committee, the Secretary-General has not provided sufficient information on enhanced efforts to manage the costs pertaining to swing spaces with a view to optimizing the rental contracts, as requested by the General Assembly. The Committee recommends that relevant information be provided to the Assembly at the time of its consideration of the eleventh annual progress report.**

Occupancy of the renovated Headquarters campus

17. The Advisory Committee recalls the inconsistent data it received during its review of the tenth annual progress report of the Secretary-General on the project. The Board of Auditors noted that the renovated campus would officially accommodate 323 fewer people than before the project began, while the Secretariat stated that 169 more occupants would be accommodated. The Committee recommended that the Board of Auditors verify the occupancy of the renovated Headquarters campus in its next annual audit of the capital master plan (A/67/548, paras. 41 and 42).

18. In its report on the capital master plan for the year ended 31 December 2012 (A/68/5 (Vol. V), paras. 65 and 66), the Board of Auditors states that the Administration informed the Board that after the renovation the Headquarters campus would hold 4,216 people, compared with 4,047 prior to the capital master plan, with the Secretariat Building able to accommodate 204 additional occupants. The Board attempted to independently verify the occupancy of the Secretariat Building, but the data required was unavailable at the time of audit. The

Administration could not provide the Board with an auditable basis for the total number of personnel working within the Secretariat or other Headquarters buildings, nor did it have data on, for example, the costs of a workspace in property owned by the United Nations and in leased space.

19. Upon enquiry, the Advisory Committee was informed that the pre-capital-master-plan capacity of the Secretariat Building was 2,763 people and the post-capital-master-plan capacity, inclusive of a larger senior executive component that requires larger space per individual, was 2,849 people. The Committee notes, in this connection, that the capacity was stated as 2,859 people in the report of the Secretary-General on implementation of a flexible workspace strategy at United Nations Headquarters (see A/68/387, table 2). Additionally, the Committee was informed that hypothetically, assuming that the population of the United Nations staff remained the same, an increase in the workspace capacity of the Secretariat from 2,763 people to 2,849 people (an increase of 86 people) would result in a decrease of rental space requirement by the same number of tenants and the estimated annual savings would be around $1.37 million, based on the standard rental budget of $15,900 per person. However, it should be noted that such savings in rental costs can only be realized when the Secretariat has options to terminate leases in off-campus buildings. The Committee was also informed that the Office of the Capital Master Plan understood that at the time the Board was initially looking into the issue of occupancy, not all of the moves out of off-site leased space had been completed and the final distribution of staff between on-site and off-site buildings had not yet been finalized.

20. **The Advisory Committee regrets that the Secretariat did not provide the Board of Auditors with the information required to conduct a proper verification of the occupancy of the Headquarters campus. It is still not clear from the information presented to the Committee what the occupancy level at the Headquarters campus was before the capital master plan project began and what the actual level is after the renovation. The Committee is of the view that the Secretary-General should provide accurate and auditable information including, but not limited to, the total capacity (workspaces) and the number of both permanent and temporary occupants, including staff, consultants and others in the Headquarters campus and off-campus buildings. The Committee requests that the information be provided to the General Assembly in the context of its review of the eleventh progress report, as well as to the Board of Auditors during its next audit of the capital master plan. Furthermore, the Committee reiterates its recommendation that the maximum possible number of staff should be accommodated in the renovated Headquarters campus, and off-campus rental should be kept at minimum level and kept under constant review (A/67/548, para. 42).**

21. Noting that there are several key decisions to be taken by the General Assembly in 2014 regarding future real estate at Headquarters and in other locations, the Board of Auditors is of the view that the Administration urgently needs to develop the business case for its future estate by capturing relevant data and fully exploring the options for flexible workspace solutions, which will be a challenging change management activity requiring visible senior management sponsorship and leadership (A/68/5 (Vol. V), paras. 67 and 68). In this connection, the Advisory Committee notes that the Secretary-General has submitted a report on implementation of a flexible workspace at United Nations Headquarters (A/68/387).

Comments and recommendations of the Committee in this regard will be reflected in its related report. As directed by the General Assembly in its resolution 67/254, the Secretary-General is expected to present a proposal on the future service delivery model for its consideration. The Committee points out that a new service delivery model could have an impact on office space requirements at Headquarters and other duty stations. **The Committee is therefore of the view that the process should be accelerated.** The Committee will elaborate on the issue when it considers the fifth progress report of the Secretary-General on the enterprise resource planning project (Umoja) (A/68/375 and Add.1).

III. Lessons learned

22. In response to the request by the General Assembly for the Secretary-General, as a matter of priority, to present a clear plan on lessons learned from the capital master plan and similar projects (resolution 67/246, sect. V, para. 35), the Office of the Capital Master Plan has analysed programmatic lessons learned and presents the lessons in section V of the eleventh progress report on the capital master plan. The Office worked closely with other departments, consultants, construction managers, designers and other industry partners to capture those lessons learned and best-practice examples for the benefit of future projects. The programmatic lessons learned are organized into six themes: (a) project planning and project team structure; (b) governance and project management; (c) design and engineering; (d) procurement and contract management; (e) project budgeting, financial management, cost control and reporting; and (f) health and safety (A/68/352, para. 35).

23. In annex V of its report, the Board of Auditors has set out some initial thoughts on lessons learned from the capital master plan for the future management of major capital projects in the following areas: project governance, project assurance, commercial strategy, contracting strategy, management of risk, contingency, associated costs, integrated project delivery team and change control. The Advisory Committee was informed that the Board intends to expand its review in its next report on the capital master plan, drawing on its reporting on the project over the last decade. The Board is mindful of two important principles that underpin effective project management:

(a) Making the right start on any project. Best practice is to hold any major project to a very high level of scrutiny before any decision is taken to start or initiate each major phase during the project life cycle. This requires effective governance and decision-making from the outset;

(b) The need for a standard unified approach to the delivery of major projects. It should not be left to each individual project team to determine the processes to follow and actions to take to deliver successfully within the United Nations system. There should be a structured and well-disciplined approach to project governance, management and assurance.

24. **The Advisory Committee emphasizes once again the importance of identifying and documenting lessons learned. The Committee stresses that the 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 (A/67/548, para. 28).** The Committee will discuss the matter further in its report on the strategic heritage plan.

IV. Eleventh annual progress report on the implementation of the capital master plan

25. In his eleventh annual progress report on the implementation of the capital master plan (A/68/352), which was submitted pursuant to General Assembly resolutions 57/292 and 67/246, the Secretary-General presents an overview of and background to the project, as well as progress achieved since his tenth progress report (sects. I-III), and discusses issues related to the project schedule, lessons applicable to future capital projects, accountability, donations, relocation of artwork and gifts, security, accessibility, implementation of the recommendations of the Board of Auditors and the Office of Internal Oversight Services, the financial status of the project and associated costs, total project requirements and expenditure, and financing arrangements and project costs (sects. IV-XV).

Project expenditures, requirements for the remaining project period and revised estimates

26. The expenditure from project inception to 30 June 2013 totalled $1,890.1 million (see A/68/352, table 5 and paras. 99 and 102). Taking into account the projected project requirements for the period from June to December 2013 ($203.6 million), 2014 ($17.3 million) and 2015 ($3.7 million), the cost to complete the project (including renovation work commissioned through donations) amounts to $2,114.8 million. If the enhanced security upgrade work ($100.0 million fully funded by the Host Country) is also considered, the projected cost of the renovation work being undertaken by the capital master plan amounts to $2,214.8 million (see table 1 below). Compared with the estimated cost to complete the project of $2,127.8 million as at July 2012, the revised amount of $2,114.8 million, as at 30 June 2013, reflects a decrease of $13 million owing to the one-time cost reduction approved by the General Assembly (resolution 67/246, sect. V, para. 36).

27. The estimated shortfall for the capital master plan project amounts to $224.4 million (see A/68/352, table 6 and para. 34 below). After allowing for the commitment authority approved by the General Assembly to enable the project to continue with its scheduled activities until the end of 2013 in the amount of $144.4 million (see paras. 29 (b) and 30 (a) below), the net funding gap amounts to $80.0 million, which includes the $65 million budgeted for the renovation of the Library and South Annex Buildings (see A/68/352, para. 107). Table 6 and section XII.D of the report of the Secretary-General provide more detailed information on the revised estimated cost to complete the project.

28. The Advisory Committee notes from table 5 of the eleventh progress report that the requirements for 2014 include $2 million for design contractual services. Upon enquiry, the Committee was informed that previously contracted design services would continue until the final closeout for each subproject. During the renovation phase of the General Assembly Building and the basements, the design services included requests for information from contractors for design sketches related to construction installations and additional design work associated with landscaping, the basements, the removal of the North Lawn Building and the campus-wide systems, which would be performed in 2014 and 2015. **The Advisory Committee is of the view that the information provided is not satisfactory and requests that detailed justifications be provided to the General Assembly.**

Status of assessments and sources of funding

29. The status of assessments and sources of funding for the capital master plan project are provided in section XII.A of the eleventh progress report. Financing for the project, as at 30 June 2013, amounts to $2,034.7 million, as follows:

(a) Total appropriations of $1,876.7 million from 2004 to 2011;

(b) Commitment authority of $144.4 million to the end of 2013;

(c) Voluntary contributions of $13.6 million pledged and received under the donations programme.

30. Concerning the commitments authorized by the General Assembly, the Advisory Committee recalls that the Assembly decided to authorize the Secretary-General to enter into commitments for resources required for the capital master plan project, including its associated costs, of up to $135.0 million through 2012 (resolution 66/258, sect. III, para. 9), and up to $167.8 million through 2013 (resolution 67/246, sect. V, para. 38). The Secretary-General indicates that the total commitments up to the amount of $302.8 million authorized in the two resolutions were based on the following estimates (A/68/352, para. 91):

(a) Estimated project expenditures for 2012-2013 of $144.4 million, which are in excess of the appropriated budget ($1,876.7 million) and therefore require the approval of the General Assembly;

(b) Estimated cumulative associated costs until the end of 2013 in the amount of $143.1 million and the estimated cost of the secondary data centre in the amount of $15.3 million, the cost of which is being borne from within the capital master plan funds (see sect. V below).

The proposals of the Secretary-General

Library and South Annex Buildings

31. According to the Secretary-General, it is not feasible to renovate the Library and South Annex Buildings, nor is cost-effective to demolish and construct new buildings at the same locations in their stead (see paras. 42-50 below). As a result, he requests the General Assembly to endorse his recommendation to continue the suspension of design and renovation of the two buildings, pending the resolution of the security protection requirements, and to approve the revision to the scope of the capital master plan accordingly. Should the Assembly endorse these recommendations, the project's estimated cost to completion would be reduced by $65.0 million, from $2,114.8 million to $2,049.8 million, and the shortfall in funding would be reduced from $224.4 million to $159.4 million (see A/68/352, paras. 130 and 134 (c) and (d)).

Interest income and working capital reserve

32. The accumulated interest and working capital reserve are estimated at $159.4 million, including: (a) the working capital reserve ($45.0 million); (b) the interest accrued on the balance of capital master plan funds ($112.5 million as at 30 June 2013); and (c) estimated future interest income ($1.9 million) (ibid., paras. 97, 98 and 131). Taking into account the application of $71.0 million from the interest and working capital reserve to meet cash flow requirements up to

31 December 2013, which was approved by the General Assembly in its resolution 67/246, the remaining balance of interest income and working capital reserve amounts to $86.5 million.

33. The Secretary-General recommends that the General Assembly approve an increase of $159.4 million in the budget of the capital master plan from the approved $1,876.7 million to a revised $2,036.1 million, and that the funding be met from the accumulated interest and working capital reserve balances (ibid., paras. 132 and 134 (e) and (f)).

34. In summary, the Advisory Committee notes that the above-mentioned proposals of the Secretary-General for financing the current capital master plan project shortfall of $224.4 million include: (a) the revision of the approved scope of the project, thus releasing $65 million; and (b) the application of the estimated accumulated interest and working capital reserve of $159.4 million (for information on cash flow, see paras. 37 and 38 below). **The Advisory Committee has no objection to the application of the accumulated interest income and working capital reserve, as well as the future interest income, to the present cash balance** (see A/67/548, para. 62). The comments and recommendations of the Committee with respect to the South Annex and Library Buildings are contained in paragraphs 42 to 51 below.

Consolidated project costs, updated expenditure and projected cash flow

35. Upon request, the Advisory Committee was provided with the following consolidated project costs table, which reconciles information contained in tables 5 and 9 in the eleventh annual progress report of the Secretary-General.

Table 1
Cumulative analysis of project costs as reflected in the eleventh annual progress report
(Thousands of United States dollars)

Capital master plan costs	2 114 750.1 (table 9)
Enhanced security upgrade	100 000.0 (table 5)
Capital master plan and enhanced security upgrade	2 214 750.1 (table 5)
Associated costs	141 408.6 (table 9)
Secondary data centre expenditure (net of contributions from the support account for peacekeeping operations*)	15 040.4 (table 9)
Consolidated costs	**2 371 199.1**

* See breakdown in table 2 below.

36. The Advisory Committee also requested information with respect to total cumulative expenditure as at 30 September 2013, which is shown in table 2 below. As at 30 September 2013, the utilization of the capital master plan project funding was 97.05 per cent.

Table 2
Actual expenditure as at 30 September 2013
(Thousands of United States dollars)

Description	*Amount*
Capital master plan expenditure (including costs related to Hurricane Sandy)	**1 974 643.1**
Available funding	
Approved budget	1 876 700.0
Donations	13 531.4
Commitment authority	144 400.0
Total available funding	**2 034 631.4**
Balance on capital master plan funding	59 988.4
Percentage utilization	97.05
Associated costs expenditure	**125 078.8**
Secondary data centre expenditure	19 268.1
Less: contributions from the support account for peacekeeping operations	(4 227.7)
Secondary data centre expenditure (net of contributions from the support accounts)	**15 040.4**

37. Table 8 in the eleventh annual progress report of the Secretary-General provides information related to current cash flow projection for the capital master plan and associated costs. It is stated therein that the cash balance is expected to be fully utilized towards the end of April 2014 (A/68/352, paras. 126 and 127). The Advisory Committee requested a revised table, showing a separation of the cash outflows between project cost and the associated costs, which is reproduced below.

Table 3
Cash flow projection for the capital master plan and associated costs
(Millions of United States dollars)

		Project and associated costs cash outflows	*Associated costs cash outflows*	*Project costs cash outflows*	*Remaining cash balance*
		a	*b*	*a-b*	
Opening cash balance	**382.5**				
By the end of September 2013		101.5	5.3	96.2	281.0
By the end of December 2013		119.2	5.3	113.9	161.8
By the end of March 2014		120.9	5.3	115.5	40.9
By the end of June 2014		117.1	5.3	111.8	(76.2)
By the end of September 2014		67.7	2.0	65.7	(143.9)
By the end of December 2014		9.2	2.0	7.2	(153.1)
By the end of March 2015		1.7	1.3	0.4	(154.8)
By the end of June 2015		1.6	–	1.6	(156.4)

38. The opening balance of $382.5 million shown in table 3 above reflects the proposals of the Secretary-General regarding the South Annex and Dag Hammarskjöld Library Buildings ($65.0 million) and the application of accumulated and estimated future interest income and working capital reserve ($159.4 million). The Advisory Committee requested but did not receive information on the impact on the cash outflows if the General Assembly decided against releasing the $65 million through the de-scoping of the Library and South Annex Buildings and against the application of the remaining interest and working capital reserve funds in the amount of $86.5 million (see para. 32 above). The Committee was informed that it is not possible to revise the analysis above based on a hypothetical reprogramming back of the cash outflows of a $65 million renovation of the South Annex and Library Buildings, because the buildings cannot be renovated at this price and hence it is not possible to model a cash flow projection on a non-feasible project, at least not in a meaningful fashion.

39. The Advisory Committee notes from table 3 above that cash outflow for the associated costs would continue until the first quarter of 2015. The Committee was informed, upon enquiry, that the cash outflow in the first quarter of 2015 ($1.3 million) reflects anticipated final payment/release of contractual “retainage” related to activities, including furniture, at the financial closeout of contracts for construction in the General Assembly Building. The Committee was also informed that the Office of the Capital Master Plan normally releases the final portion of retainage at the contract closeout stage, and that while contractual obligations/ contract amendments might be signed in 2013, it is not unreasonable to expect the settlement of invoices to continue throughout 2014 and for final release of retention payments to continue until early 2015, when all contracts are ready for operational and financial closure.

Follow-up to other requests by the General Assembly in resolution 67/246

40. The General Assembly approved the one-time cost reduction and financing proposals reflected in section XII of the tenth annual progress report of the Secretary-General (A/67/350), excluding those proposals related to the North Lawn Building, the South Annex Building and the Dag Hammarskjöld Library Building and the deferral of the refurbishment of fixed furniture in Conference Room 4 of the Conference Building, and decided to revert to the issue of the Dag Hammarskjöld Library Building, the South Annex Building and the refurbishment of fixed furniture in Conference Room 4 of the Conference Building in the context of the eleventh progress report of the Secretary-General (resolution 67/246, para. 36).

Conference Room 4

41. With regard to the refurbishment of fixed furniture in Conference Room 4 of the Conference Building, the Advisory Committee notes that the Office of the Capital Master Plan is confident that it can now undertake the refurbishment within its currently estimated cost to completion (A/68/352, para. 108).

Dag Hammarskjöld Library and the South Annex Building

42. The General Assembly requested the Secretary-General to present, as soon as possible, but no later than the main part of the sixty-eighth session of the General Assembly, updated information and options, as well as financial implications, on the

renovation of the South Annex Building and the Dag Hammarskjöld Library Building (resolution 67/246, para. 29). The Secretary-General has provided related information in paragraph 64 of the eleventh progress report (A/68/352). He indicates that the existing buildings could not be renovated to meet the security requirements owing to the original construction methods used, and therefore other options have been explored.

Replacement buildings

43. With respect to the replacement of both buildings on their existing site, a preliminary scoping survey conducted by the Secretariat determined that the cost of replacing both buildings on their existing site would range from approximately $350 million to $450 million. The Secretary-General is of the opinion that in the current global financial environment, such a cost is not feasible for consideration by the Member States. Therefore, the option of replacement buildings is not recommended (ibid., paras. 65 and 66).

Recommendations of the Secretary-General contained in the report on an expanded feasibility study on United Nations Headquarters accommodation needs 2014-2034

44. In the eleventh progress report, the Secretary-General recalls the options for the locations of the functions of the Library and the South Annex Building that he proposed in his report on the expanded feasibility study on the United Nations Headquarters accommodation needs 2014-2034 (A/67/720). Those options were set out in a table that is replicated in table 3 in the eleventh annual progress report for ease of reference. In summary, the options contained in his previous report (A/67/720) for the location of the functions of the two buildings were:

(a) Short term (2013-2014), all functions would remain in place;

(b) Medium term (2014-2017), remain in place or temporary North Lawn Building;

(c) Long term (2017-2023), Consolidation Building (DC-5), new North Lawn Building or lease.

Medium-term options

45. The Secretary-General proposes three medium-term options in the eleventh annual progress report (A/68/352, paras. 69-73), which, according to him, are an elaboration of the concepts included in his report on the expanded feasibility study on United Nations Headquarters accommodation needs 2014-2034. The three options are based on the following assumptions: the security conditions would not permit the continued use of the buildings in their present form; none of the current functions of the two buildings could be suspended; an on-site cafeteria would be required; and a long-term solution would be implemented within the four-year time frame. Costs of the medium-term options identified below exclude demolition costs for the Library and South Annex Buildings, and assume that the demolition cost for the existing North Lawn Building is included in the budget of the capital master plan. A summary of the three medium-term options is presented below:

(a) Relocate all functions to the temporary North Lawn Building, with minimal alterations to accommodate the new functions (capital cost of $50 million;

annual operating cost of $2.2 million, compared with the current $1.5 million required for the two buildings);

(b) Relocate functions to newly leased off-site rental space, with the exception of the cafeteria, which would occupy on-site space available in the third basement (capital cost of $70 million, and annual operating cost of $10 million);

(c) Relocate all functions temporarily to other buildings on site, with an equal area of off-site rental space to accommodate the functions displaced by the functions of the two buildings (the temporary North Lawn Building would have been demolished) (capital cost of $120 million, and annual operating cost of $10 million).

Long-term options

46. With respect to the long-term options, the Secretary-General reiterates his previous proposals (see para. 44 above), according to which the functions of the Library and South Annex Buildings could be incorporated into two of the options in the long-term accommodations strategy, namely, (a) the option of the Organization entering into an agreement with the United Nations Development Corporation for the occupancy of an office tower (DC-5); and (b) the construction of a permanent building on the North Lawn (A/68/352, para. 74).

47. The Secretary-General is of the view that, pending the resolution of the security situation, the interests of the Organization would be best served through the incorporation of the library and cafeteria programmes into the future decision of the General Assembly regarding long-term accommodations at Headquarters. He indicates that the issue will be elaborated upon further in his report on the long-term accommodation requirements at Headquarters, to be submitted to the Assembly at its resumed session in early 2014, as the viability and cost of the various alternative proposals are inherently linked to the overall long-term planning requirements of the Organization (ibid., paras. 32 and 75).

48. The Advisory Committee sought a security assessment on the present use of the South Annex and Library Buildings from the Department of Safety and Security. The Committee was informed that the two buildings should not be used for high density usage. The completion of the enhanced security upgrade will raise the levels of protection of the Headquarters campus (structural hardening of buildings along or above perimeter roadways and the installation of a line of bollards along First Avenue), with the exception of the two buildings (no degree of structural hardening could make the two buildings safe from the indicated security threat). The Department of Safety and Security has, therefore, determined that the present use of the Library and South Annex Buildings is acceptable; however, the threat situation remains fluid and under constant analysis. As for the long term, the safety and security of the Library and South Annex Buildings cannot be guaranteed. **The Advisory Committee trusts that the Department of Safety and Security will closely monitor the security situation with respect to the South Annex and Library Buildings on an ongoing basis.**

49. The Advisory Committee requested an update on the status of discussions with the City of New York regarding the closing and/or relocation of the FDR Drive off ramp at 42nd Street. The Committee was informed that in December 2011, the Secretariat proposed the options in writing to the City and, to date, no response has

been received. **The Advisory Committee believes that a final determination on the issue should be made soon (see para. 50 below).**

50. With respect to the future use of the South Annex and Library Buildings and future locations of the functions that are currently housed in the two buildings, the Advisory Committee notes that there are uncertainties that could impact on decisions to be made by the General Assembly, such as the FDR Drive off ramp closure/relocation and developments related to the longer-term accommodation needs at Headquarters. The Board of Auditors has also shared its view with the Advisory Committee that any decision on the use of the $65 million budgeted for the renovation of the two buildings needs to take into account the cost of providing the functions of the Library and South Annex Buildings elsewhere, if they are still required; otherwise, there is a risk that Member States will be asked to pay for the same functionality twice. **The Advisory Committee is of the view that, in addition to the two options related to the long-term accommodation proposals, the Secretary-General should be requested to submit feasible alternative options for the locations of the functions currently housed in the South Annex and Library Buildings that are independent of the long-term Headquarters accommodation requirement, thus allowing for a final completion of the capital master plan project. Such options should not be contingent upon the status of the FDR Drive off ramp at 42nd Street. The Committee is, therefore, of the view that the South Annex and Library Buildings should remain within the scope of the capital master plan project until the General Assembly makes a decision on such options.**

51. **Furthermore, the Advisory Committee continues to believe that, regardless of the future location of the Library function, it is essential that the United Nations respect the commemorative value of the Dag Hammarskjöld Library as an institution, which was established in memory of the former Secretary-General (A/67/788, para. 59).**

Other related issues

Temporary North Lawn Building

52. The Secretary-General indicates in the eleventh annual progress report that the project closeout, for accounting completion and claims purposes, as well as final landscaping, including the removal of the North Lawn Building, will occur in 2015 (A/68/352, para. 10). Table 5 in his report presents information with respect to the estimated project expenditure and requirements for the period 2013 to 2015. The Advisory Committee notes that the various cost tables contained in the eleventh progress report do not separately disclose and identify the cost for the demolition of the temporary North Lawn Building. Upon enquiry, the Committee was informed that of the resource requirement of $2.5 million under construction for 2015 (table 5), a provision of $2 million is allocated for the demolition of the building.

53. **The Advisory Committee reiterates its view that the matter related to the future of the North Lawn Building is 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; and A/67/548, para. 59).**

54. In addition, in paragraph 28 of resolution 67/246, the General Assembly also requested the Secretary-General to report on the impact of the accelerated implementation strategy on the project's final costs in his eleventh annual progress report, which is not included in that report. **The Advisory Committee recommends that the Secretary-General submit the information to the Assembly at the time of its consideration of the eleventh annual progress report.**

V. Report of the Secretary-General on final expenditure for associated costs for the period from 2008 to 2013

55. In his report on final expenditure for associated costs for the period from 2008 to 2013 (A/68/352/Add.1), the Secretary-General provides a summary of the evolution of the associated costs, in section I, an overview of the requirements for 2008-2013, in section II, implementation during the period 2008-2011 and 2012, section III, and status of implementation and forecast expenditure for 2013, in section IV.

56. The projected final expenditure for associated costs for the period 2008-2013 amounts to $141,408,600, compared to an estimate of $143,138,600 reported to the General Assembly at its sixty-seventh session (A/67/350/Add.1), representing a decrease of $1,730,000 (A/68/352/Add.1, para. 10, and table 2). A summary of the actual and projected associated cost requirements, by department and office, is provided in table 3 of the report. The estimated final expenditure of $141,408,600 includes the following (ibid., table 3):

(a) Actual expenditure for the period from 2008 to June 2013 ($122,625,100);

(b) Projected expenditure from July to December 2013 ($18,783,500).

57. The Advisory Committee recalls that the General Assembly requested the Secretary-General to report on the final expenditure for associated costs for the period from 2008 to 2013 only when the final expenditure is properly ascertained (resolution 67/246, part V, para. 44). The Secretary-General considers the projected expenditure for the remaining months of 2013 to be reasonably certain (A/68/352/Add.1, para. 11).

58. On the evolution of the associated costs of the capital master plan, the Advisory Committee recalls that in 2008, the Secretary-General presented the initial report on the associated costs 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 owing to 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 the period 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 resolutions 66/258 and 67/246, the Assembly authorized the Secretary-General to enter into commitments for the capital master plan, including its associated costs, of up to $135,000,000 through 2012 and up to $167,773,400 through 2013, respectively.

Financing the associated costs and the secondary data centre

59. The financial status and financing of the associated costs and secondary data centre are set out in section XIII and paragraph 134 (g) to (i) of the eleventh annual progress report of the Secretary-General (A/68/352). It is stated therein that the expenditures of $156.4 million, which comprise cumulative associated costs ($141.4 million) and the cost of the secondary data centre ($15 million), are within the authority to enter into commitments granted to the Secretary-General by the General Assembly in resolutions 66/258 and 67/246 (see para. 30 above). The Secretary-General sets out his alternative proposals for financing of cumulative associated costs and the cost of the secondary data centre, as follows (ibid., para. 134 (g) to (i)):

(a) The conversion of $156.4 million of commitment authority into an appropriation of the capital master plan in 2013;

(b) Appropriations under the programme budget for the biennium 2012-2013 as distributed among the relevant sections set out in table 7 of the eleventh annual progress report, or;

(c) Other definitive funding decision, by the end of the first resumed session.

60. The Secretary-General indicates that the approved budget of the capital master plan of $1,876.7 million had been fully utilized by mid-2012, with the necessary commitment authority of $302.8 million approved by the General Assembly enabling the Secretariat to continue to enter into financial obligations until the end of 2013. In the light of the cash flow analysis (see table 3 above), he believes that this arrangement cannot be sustained through 2014 and the question of financing associated costs and the cost of the secondary data centre is paramount (ibid., para. 124 and table 8).

61. As for the pros and cons of each of the three options proposed by the Secretary-General for the financing of the associated costs and the secondary data centre, the Advisory Committee was informed, upon enquiry, that from the perspective of the capital master plan, an early decision by the General Assembly would be favourable, providing greater certainty and predictability. At the same time, the Secretary-General believes that the third option is also reasonable in that it would provide ample opportunity for consideration by Member States before committing to a definitive funding decision. However, it would be imperative for such a decision to be made by the end of the first resumed session; otherwise, the project will likely run out of cash and would need to be suspended.

62. **Taking into account the capital master plan project budget, expenditure and projected requirements, the Advisory Committee recognizes that the expenditure in respect of the associated costs will need to be funded. However, as the expenditure continues to be incurred until the end of 2013 and final expenditure related to the associated costs cannot be fully ascertained at this stage, the Advisory Committee recommends that the General Assembly consider the financing of the associated costs at the first resumed session in 2014.**

Working Capital Fund and the Special Account

63. The Advisory Committee requested information on the possibility of accessing the Working Capital Fund and the Special Account as a cash flow bridging mechanism. The Committee was informed of the following, inter alia:

(a) Both the Working Capital Fund and the Special Account are used to provide liquidity to the Organization for the operations financed from the regular budget; the Special Account is used only when the Working Capital Fund has been fully utilized (cash from the Special Account was used in November and December 2012);

(b) The General Assembly determines the level at which the Working Capital Fund is to be maintained for each financial period and the purpose for which advances may be made (resolution 66/250 being the most recent), and authorizes the utilization of the Special Account;

(c) The Working Capital Fund was established by the General Assembly in 1946 (resolution 80 (I)) for the purpose of providing advances necessary to finance budgetary appropriations. The Secretary-General established the Special Account in 1965. In 1972, in resolution 3049 (XXVII), the General Assembly requested the Secretary-General to establish a special account into which voluntary contributions may be paid and used for the purpose of clearing up the past financial difficulties and especially for resolving the short-term deficit of the Organization, and to merge into this account the United Nations Special Account established in 1965.

64. The Advisory Committee notes from resolution 66/250 that the level of the Working Capital Fund is maintained at $150 million for the period 2012-2013. Upon enquiry, the Advisory Committee was provided with an illustrative example of the relative size of the Working Capital Fund as compared to the approved programme budget, presented in table 4 below.

Table 4

(Thousands of United States dollars)

	Financial years 1950-1951	*Biennium 1974-1975*	*Biennium 2006-2007*	*Biennium 2012-2013*
Working Capital Fund	20 000.0	40 000.0	100 000.0	150 000.0
Approved programme budget (initial appropriation)	97 440.4	540 473.0	3 798 912.5	5 152 299.6
Working Capital Fund as a percentage of the approved regular budget	20.5	7.4	2.6	2.9

65. Upon request, the Advisory Committee was also provided with the balance of the Special Account from 2000 to 2012, as shown in table 5 below.

Table 5
Balance of the United Nations Special Account
(Millions of United States dollars)

Date	*Balance*
1 January 2000	169.0
31 December 2001	194.9
31 December 2003	207.9
31 December 2005	214.7
31 December 2007	236.7
31 December 2009	251.4
31 December 2011	260.2
31 December 2012	259.0

66. The Advisory Committee was informed that the balance of the Special Account remained at $259 million as at 30 September 2013. With respect to utilization, it was indicated to the Committee that it is envisaged that during the last quarter of 2013, the Secretariat may need to utilize the cash funds of the Working Capital Fund and potentially the Special Account, should it find itself in the position of having to settle invoices in respect of Hurricane Sandy-related works and/or the replacement of damaged goods pending insurance claim settlements.

67. In addition, the Advisory Committee requested updated information on the budget performance for the biennium 2012-2013 and was informed that the second performance report in respect of the programme budget for the biennium 2012-2013 is currently under preparation and will be finalized by the end of November 2013.

68. **The Advisory Committee recommends that the most up-to-date information related to the Working Capital Fund and the Special Account be provided to the General Assembly at the time of the consideration of the eleventh progress report on the capital master plan. The Committee is of the view that the General Assembly may wish to approve access to the Working Capital Fund and the Special Account at an appropriate level, as a cash flow bridging mechanism, on an exceptional basis and without creating a precedent.**

VI. Conclusion and recommendations

69. The actions requested of the General Assembly in connection with the eleventh progress report on the capital master plan (A/68/352), including the associated costs, are set out in paragraph 134 (a) to (i) of that report. **The Advisory Committee recommends that the General Assembly take note of the eleventh annual progress report of the Secretary-General, taking into account the comments and recommendations of the Advisory Committee in the present report.**