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PROPOSED PROGRAMME BUDGET FOR THE BIENNIUM 1980-1981

Expansion of meeting rooms and improvement of conference servicing
and delegate facilities at United Nations Headquarters

Twenty-first report of the Advisory Committee on Administrative
and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on expansion of meeting rooms and improvements of conference servicing and delegate facilities at United Nations Headquarters (A/C.5/34/34 and Corr.1 and Add.1). As indicated by the Secretary-General, this report provides "a description of the progress of the work, an explanation of the problems which have developed concerning the cost of certain projects and recommendations for General Assembly consideration" (A/C.5/34/34 and Corr.1, para. 1).

2. Table 1 of the Secretary-General's report (A/C.5/34/34 and Corr.1) provides a summary of the situation with regard to the Headquarters improvement plan, listing projects approved in 1976 (Phase I), projects approved in 1977 (Phase II) and projects approved in 1978 (Phase III), together with an indication of the status of work and revised cost estimates as compared with previous estimates. The table has not been revised to reflect the latest information with regard to Phase III (see A/C.5/34/34/Add.1). As indicated in that document, the current estimate for Phase III is now \$10,773,000, as compared with the previous estimate of \$7,612,000. If that information is taken into account, the current estimated cost of completing all three phases is \$56,931,000, as compared with previous estimates of \$37,500,300. This represents a cost overrun of \$19,430,700 as follows:

	<u>Previous estimate a/</u>	<u>Current estimate</u>	<u>"Overrun"</u>
	\$	\$	\$
Phase I	14,019,000	14,689,000	670,000
Phase II.	15,869,300	31,469,000	15,599,700
Phase III	7,612,000	10,773,000	3,161,000
	<u>37,500,300</u>	<u>56,931,000</u>	<u>19,430,700</u>

a/ Appropriated in the budgets for 1976-1977, 1978-1979 or included in the proposed programme budget for 1980-1981.

3. Developments in Phase I are reported by the Secretary-General in paragraphs 3 to 6 of his report. In paragraph 7, he indicates that, as a result of these developments, the final performance report for the biennium 1978-1979 will include provision for an additional amount of \$670,000 under section 26 of the programme budget to close Phase I.

4. The increase from \$15.9 million to \$31.5 million in the estimates for Phase II is described in paragraphs 9 to 12 of the Secretary-General's report (A/C.5/34/34 and Corr.1). In paragraph 11, the Secretary-General reports that, in May 1979, the Advisory Committee concurred in his carrying out as much of the work in Phase II as possible with the funds already approved, on the understanding that it was his intention to seek the instructions of the General Assembly with respect to the balance of the work.

5. In paragraphs 13 to 16 of his report, the Secretary-General provides his explanation of why the estimates for Phase II prepared in 1977 have proved, two years later, to be substantially below cost. In paragraph 17 he states that he

"Has been deeply concerned about the serious divergence between his estimates and the current cost of the work. The methods used and the firms employed to provide cost estimates had proven reliable on previous projects. The inaccuracy of these particular estimates was unexpected. The Secretary-General recognizes the need to establish procedures which would prevent a recurrence of this situation in future projects. Accordingly, he has agreed with the External Auditors, who had been requested by the Advisory Committee to study the matter, to institute a number of changes in the procedures heretofore followed. As appropriate, these changes will be made as existing contracts expire and are replaced or as the need for architectural services and cost estimation arises in connexion with future projects."

The Advisory Committee's request to the Board of Auditors is referred to in paragraph 10 below. A summary of the Board's findings and also of the measures taken by the Administration to meet the Board's recommendations are contained in annexes I and II below.

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6. Phase III is discussed by the Secretary-General in his report (A/C.5/34/34 and Corr.1, paras. 23 and 24). In this connexion, the Advisory Committee notes from paragraph 23 that "Bids will be available by December 1979, at which time it will be possible to confirm the cost. At present, the Secretary-General has no information which would indicate that the original estimate of \$7,612,000 is not valid." However, he states in the addendum to his report (A/C.5/34/34/Add.1, para. 2) that:

"On the basis of bids opened on 20 November 1979, it has now developed that the contractors' offers are substantially in excess of the estimates. As against the amount of \$7,612,000 approved by the General Assembly based on the lowest bid, the cost is now projected at \$10,773,000."

7. The Secretary-General concludes in his report (A/C.5/34/34 and Corr.1, para. 25) that "since the current cost estimates far exceed those previously approved, the General Assembly may now wish to review its prior decision". The Secretary-General then goes on to describe those projects which he considers indispensable. As to the remaining projects, the Secretary-General states, in paragraph 26, that "each of these is desirable and justified". Table 3 in the addendum to his report (A/C.5/34/34/Add.1) provides a summary of the estimated cost for Phase II and Phase III with an indication of amounts already appropriated in the 1978-1979 budget or included in the proposed programme budget for 1980-1981. As can be seen from that table, a shortfall exists of just under \$18.8 million.

8. As shown in the table in paragraph 2 above, the total current estimate for Phases I, II, and III is \$56,931,000, against which an amount of \$37,500,300 has already been appropriated in the budgets for 1976-1977, 1978-1979 or is included in the proposed programme budget for 1980-1981. The total shortfall, that is, the additional amount which must be appropriated in order to complete the projects as originally approved by the Assembly, is thus \$19,430,700 (see also paras. 3 and 7 above).

9. The Advisory Committee believes that under the circumstances, it is for the General Assembly to take the policy decision whether the projects it initially authorized should be discontinued, modified or carried through to completion. In taking its decision, the Assembly should, in the opinion of the Advisory Committee, bear in mind two factors:

(a) Given past experience, final actual costs may be in excess of what is now indicated;

(b) Any decision to discontinue or modify (scale down) projects should be final, since a mere postponement of projects would ultimately prove more expensive to the Organization in view of continually rising costs in the construction industry.

10. In this connexion, the Advisory Committee believes that the current procedures for estimating and bidding for United Nations construction projects leave much to be desired. In dealing with this question, the Advisory Committee

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requested the Board of Auditors to carry out an investigation of the matter. The findings of the Board have been summarized by the Committee in annex I below.

11. In addition to what has been done by the Board, the Committee is of the opinion that the time has come for an independent full-scale study of procedures for obtaining estimates and soliciting bids on United Nations construction projects at Headquarters and in other United Nations offices. The Committee recommends that the Joint Inspection Unit be requested to conduct this study with the assistance of outside expertise, as necessary. In addition to covering procedures for major construction at all United Nations offices, the study should include comparative information with respect to other organizations in the United Nations system. The study should comment on the adequacy of practices and procedures now in place and should suggest such specific revisions and improvements as may be necessary.

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ANNEX I

Summary of main findings

Report of the Board of Auditors to the Advisory Committee on
Administrative and Budgetary Questions on Construction Project
Estimates at United Nations Headquarters

1. The request by the Advisory Committee to the Board of Auditors was prompted by information made available to the Committee in the spring of 1979 in connexion with the request of the Secretary-General described in paragraph 11 of his report (A/C.5/34/34 and Corr.1). That information revealed, among other things, that a serious miscalculation of basic construction costs by consulting engineers had resulted in a significant underestimation of the original construction estimates prepared in 1977. In view of the magnitude of the error made by the estimators, the Committee considered it desirable for the matter to be investigated by the Board of Auditors with a view, inter alia, to devising ways and means of avoiding similar errors in the future.
2. In response to the Advisory Committee's request, representatives of the Board carried out a review of the procedures used for estimating costs of the construction projects currently in progress at United Nations Headquarters, with particular emphasis on the North Lawn Extension project. The review included an examination of the construction estimates developed by the consulting engineer, the procedures for determining the other costs related to the projects, the management process for the review and approval of project cost estimates and the system for obtaining bids and awarding contracts.
3. In the Board's opinion, the cost estimates developed by the consulting engineer for the Headquarters construction projects did not provide an adequate basis for the accurate determination and measurement of the reasons for the cost overruns. In order to minimize future estimating errors, the Board recommended that the Administration should:
 - (a) Establish stricter standards and specifications for the development of cost estimates by outside consultants;
 - (b) Review alternate methods of employing cost estimators;
 - (c) Verify the mathematical accuracy of future cost estimates;
 - (d) Use more realistic inflation factors;
 - (e) Bring up to date the detailed plans and specifications for the existing buildings in the New York Headquarters complex;
 - (f) Require the review of estimates by professional cost estimators when major structural changes are contemplated;
 - (g) Call for a detailed examination of current architectural and engineering costs and a review of the present contractual and fee arrangements with the consulting architects.

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ANNEX II

Response of the Administration to the recommendations
of the Board of Auditors

The information set forth below has been provided by the representatives of the Secretary-General in response to questions raised in the Advisory Committee:

1. At the meeting of the Advisory Committee on Administrative and Budgetary Questions held on 5 December 1979, the representatives of the Secretary-General undertook to provide additional information on the steps to be taken to improve the accuracy of construction project estimates. This note elaborates on the information provided in paragraph 17 of his report (A/C.5/34/34 and Corr.1, dated 16 November 1979).
2. It is important to note that construction cost estimates are valid only for the circumstances and assumptions stated at the time they are sought. Since considerable time normally elapses between the preparation of estimates and the receipt of bids (from nine to 11 months in the projects under discussion), there is always the possibility that circumstances will change. For example, between late 1978 and late 1979, construction industry perceptions of the rate of future inflation changed considerably.
3. It is also relevant to note that cost estimates are prepared on the basis of preliminary drawings. It is only after the detailed working drawings have been prepared that more accurate estimates of cost become possible.
4. In order to judge better the quality of estimates, the Secretary-General intends, in future, to require cost estimators to include a detailed explanation of the assumptions used and the time periods for which they are valid. The estimates will also contain narrative descriptions of the source material and indices used. A breakdown of the major cost components and a description of the nature and quality of materials will also be included.
5. Although general contractors have provided reasonably accurate estimates in the past, both general contractors and professional estimators have also provided figures which later proved to be underestimated. In future, the Secretary-General plans only to employ firms which specialize in cost estimating and these firms will be hired directly by the United Nations, rather than through the architect.
6. With respect to inflation, the Secretary-General also plans to obtain inflation projections from the best available sources in order to cross-check the work of the estimators. With respect to architectural and engineering services, the Secretary-General, in future projects, will explore the possibility of holding architectural competitions and other methods of widening the selection process. The form of contractual arrangements entered into at Headquarters will be based on the standard agreements recommended by the American Institute of Architects.

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Annex II

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7. It should be appreciated that the procedural modifications listed above will not affect the Headquarters expansion projects referred to by the Secretary-General (A/C.5/34/34 and Corr.1 and Add.1), because the cost-estimating phase of these projects has been completed. However, as the need for additional service arises in future, the above-mentioned procedures will be applied.
