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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

Report of the Secretary-General

Introduction

1. Construction work at United Nations Headquarters has been underway since 1977 as a consequence of decisions taken by the General Assembly ^{1/} in 1976, 1977 and 1978 to expand meeting room capacity and to improve conference servicing and delegate facilities. 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.
2. A summary of the situation is presented below in Table 1.

^{1/} General Assembly resolutions 31/195 and 32/212, Section 1 and Decision 33/442.

TABLE I
STATUS OF HEADQUARTERS IMPROVEMENT PROGRAMME

<u>Project</u>	<u>Status of work</u>	<u>Estimated Cost</u> (in thousands of US dollars)	
		<u>Approved</u>	<u>Current</u>
		<u>estimate</u>	<u>estimate</u>
		\$	\$
I. Projects approved in 1976 (Phase I)			
(a) Conference rooms 1, 3 and Trusteeship Council, expansion of seating capacity; and, improvement of facilities adjacent to Security Council Chamber.	completed November 1978		
(b) Conference rooms 2, 4 and Plenary Hall, expansion of seating capacity.	completed September 1979		
(c) Additional air-cooling capacity related to above projects.	completed July 1979	_____	_____
	Total, Phase I	14,019.0	14,689.0
II. Projects approved in 1977 (Phase II)			
(a) North Lawn, construction of underground building for printing and related facilities.	construction underway	7,615.0	18,415.0
(b) Conference building second and third basements, renovation and alteration.	drawings completed and bids valid to 1 January 1980 received	2,269.2	6,265.0

(c) Small conference rooms 5 and 6, expansion of seating capacity and installation of movable partitions.	drawings completed and bids valid to 1 January 1980 received	900.0	840.0
(d) Conference building, extension of north end at first basement and first floor levels and installation of balcony at east end of Delegates Lounge.	drawings completed and bids valid to 1 January 1980 received	3,521.4	7,827.0
(e) Additional air-cooling capacity related to above projects	35 per cent complete	1,356.1	included above as part of cost of each project
(f) Relocation costs			
(i) Temporary office space	work suspended pending resolution of funding questions	80.0	included above as part of project II (d)
(g) Administration costs (temporary assistance)		127.6	included above as part of projects II (a) and (b)
(h) Contingencies		Included above as part of cost of each project <u>1/</u>	
Total, Phase II		15,869.3	31,469.0 <u>2/</u>

1/ In the original estimates the contingency provision was calculated at 5 per cent of all other costs; based on experience with Phase I, the current contingency provision estimate is now calculated at 10 per cent of construction costs.

2/ The amount shown represents the cost of all parts of Phase II executed as a single project and is lower by \$1,878,000 than the cost shown above for projects if undertaken individually because overhead costs would have to be allocated to the smaller individual projects (See also Table 3).

III. Project approved in 1978 (Phase III)

(a) New cafeteria and kitchen

working drawings complete, preparing to bid	<u>7,612.0</u>	<u>7,612.0</u>
Total, Phase III	7,612.0	7,612.0
Total, All Projects	<u>37,500.3</u>	<u>53,770.0</u>

Phase I

3. Phase I consisted of the expansion of delegation seating capacity in Conference Rooms 1, 2, 3, 4, the Trusteeship Council Chamber and the Plenary Hall and the improvement of facilities adjacent to the Security Council Chamber together with the provision of additional air cooling capacity. Construction was finished in September 1979. Although some invoices have not yet been received and some claims for payment are still under discussion as of the writing of this report, an estimate of the financial situation has been prepared based on the best information now available. It is summarized in Table 2 below.

TABLE 2

PHASE I COSTS

<u>Cost Component</u>	<u>Estimated Cost</u>		
	(In thousands of US dollars)		
	<u>Approved estimate</u>	<u>Current estimate</u>	<u>Overexpenditure (underexpenditure)</u>
	\$	\$	\$
(a) Basic construction	9,800.0	10,785.0	985.0
(b) Architectural and engineering costs	1,050.0	1,569.0	519.0
(c) Air-conditioning equipment	700.0	535.0	(165.0)
(d) Telecommunications equipment and installation	1,565.0	1,545.0	(20.0)
(e) Performance bond	100.0	44.0	(56.0)
(f) Administration	154.0	211.0	57.0
(g) Contingencies	<u>650.0</u>	<u>applied above</u>	<u>(650.0)</u>
Total	14,019.0	14,689.0	670.0

4. The projected cost of Phase I represents an overexpenditure of about 5 per cent compared to the approved estimate. In retrospect it is apparent that the provision for contingencies should have been somewhat larger to account more adequately for the large number of unforeseen problems encountered during the course of the work. These included:

- (a) an electricians strike in 1978 lasting five weeks for which overtime was required to make up the time lost, and a truck drivers strike in 1979 which made it necessary to mix concrete on the site; and,
- (b) the need to stop work during normal working hours because construction noise disrupted meetings. The Secretary-General's original estimates contained a provision for this purpose but funds were not included in the appropriation.

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Although these circumstances caused part of the overrun, another significant element relates to the fact that as the work progressed, physical conditions were encountered in existing structural features, wiring, plumbing and mechanical installations that could not be foreseen when the plans were drawn. It is to be recalled that substantial alterations to the structure and installations of the Conference Rooms and Plenary Hall had been undertaken to increase the seating capacity on two previous occasions. It became apparent that changes in the original building blue prints and drawings were, in some instances, not reflected in the "as built drawings" which were prepared in connexion with those renovations years ago. As a result, field "change orders", which increased both architectural and construction costs, were required to adjust to the revealed circumstances.

5. A further reason for the cost overrun was the instruction to the Secretary-General to revise the plans for the North Lawn extension, the Conference Building second and third basements, the new Secretariat cafeteria and additional cooling equipment which had been presented in 1976 (ref. A/31/8/Add.23, para. 40). No additional budgetary provision was made and it proved impossible to absorb the cost.

6. Had the inflation rate remained at the level on which the project estimates were based, it would have been possible to absorb these additional expenses within the contingency provision; however, the inflation rate in the construction industry rose to 15 per cent per annum during the construction period. The approved estimates contained a provision for inflation calculated at 7 per cent. In summary, the overexpenditure for this phase of the project is attributable to (a) inflation, (b) unexpected interruptions of the work, and (c) the need to modify the plans as the work progressed.

7. As a result of the developments reported above, the 1978-1979 final performance report will include provision for an additional amount of \$670,000 under Section 26 of the programme budget to close Phase I.

8. In concluding the report on Phase I, the Secretary-General wishes to record his appreciation for the generous gifts of the Governments of the Federal Republic of Germany and New Zealand. As reported last year (ref. A/C.5/33/24, para. 3, dated 20 October 1978), the Federal Republic of Germany donated the decorative elements and furniture for the new Security Council lounge and provided for the related installation costs. In 1979, the Government of New Zealand donated new panelling for the delegates' lobby and coat room area of the General Assembly building and provided for the related installation costs.

Phase II

9. Phase II consists of the construction of an underground building for printing and related facilities in the north lawn area, the renovation and alteration of the second and third basements of the Conference building, the expansion of seating capacity in Conference Rooms 5 and 6, the extension of the north end of the Conference building at the first floor and first basement levels, the installation of a balcony at the east end of the Delegates' lounge and the provision of additional air-cooling capacity. Except as explained below work

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has progressed to the stage of completion of working drawings and receipt of bids. As shown in Table 1 above, current estimates, based on the bids received, indicate that this phase as currently authorized would cost \$31,469,000 instead of \$15,869,300, the amount the General Assembly has approved.

10. In reviewing how the underestimation of costs developed, it is necessary to examine the recent history of these projects. The work contained in Phase II was authorized by the General Assembly at the end of 1977, at which time the Secretary-General arranged for the preparation of the necessary working drawings. They were completed on schedule in the fall of 1978. Then began the process of seeking a qualified contractor. First, the contractor who was already working at the United Nations was approached since it was believed that he would be able to undertake additional work without having to meet the initial organization and "set up" costs which another contractor would encounter, and thus would be able to provide a lower cost than other contractors. When this contractor's proposal considerably exceeded the funds available, it was decided to invite sealed bids. The time required to obtain competitive bids made it impossible to begin construction in early 1979 as originally envisaged.

11. The lowest bid obtained at this stage (February 1979) would have resulted in costs of \$23.3 million to complete the entire project. Accordingly, the Secretary-General, after consultation with the Chairman of the Advisory Committee in March, sought the guidance of the ACABQ on an urgent basis at the Committee's session in May. Since the validity of the bids obtained in February had expired, new bids were obtained. By then the cost had risen to \$26.5 million. In reporting to the ACABQ, the Secretary-General recommended that he be authorized to carry out as much of the work as possible with the funds already approved and that it was his intention to seek the instructions of the General Assembly with respect to the balance. This course of action was chosen since, in the Secretary-General's opinion, the projects in Phase II are important to the efficient and economical operation of the Secretariat, as well as to the improvement of staff morale, which is adversely affected by substandard physical working conditions particularly in the second and third basements. The Secretary-General believes that in approving the projects the General Assembly shared this view. Under these circumstances, a further postponement of any part of the work which could be financed with the funds authorized could only lead to an additional increase in costs. The Secretary-General therefore proposed to begin work on the North Lawn part of the project which he considered as being of first priority. The ACABQ concurred and the work has begun.

12. The time period for which the second set of bids was valid expired several months ago. In order to provide the General Assembly with current cost information, the Secretary-General obtained new offers which are valid to 1 January 1980. Given present inflationary pressures in the construction industry it is not surprising that the estimated cost of the postponed parts of Phase II has again increased. It is now estimated that the cost of Phase II will reach \$31,469,000, an increase of \$15,599,700 compared to the original estimate of \$15,869,300.

13. In seeking an explanation of why estimates prepared in 1977 have proved after two years to be substantially below current cost, the Secretary-General has ascertained that the main causes related to (a) higher than anticipated inflation rates, together with the inflationary impact of delays, (b) significant estimating errors by the consultants employed by the architectural firm, and (c) the need based on Phase I experience to provide a larger allowance for contingencies.

14. In the original estimates prepared in 1977, inflation was calculated at 7 per cent annually although the Secretary-General indicated even then that the rate of inflation might well exceed that figure (ref. A/C.5/32/4, paragraph 10, dated 29 June 1977). At the present time the over-all local construction index is growing at an annual rate of around 15 per cent and for some items it is considerably higher. Concrete now costs up to 25 per cent more than in 1977 and plywood is up 35 per cent over 1977 prices. In submitting bids, contractors project costs on the basis of current and anticipated levels of inflation rather than on the rates prevailing previously. The delays occasioned by the necessity of obtaining competitive bids further increase the effects of inflation. Roughly \$11 million of the added costs or about 70 per cent can be attributed to this factor.

15. A significant cause of the difference between the estimates of 1977 and the costs of the project revealed by the current bids, however, is attributable to errors by the consultants employed to furnish cost estimates. The costs, particularly for the north lawn building, have proved to be seriously underestimated. Apart from the basic error in projecting costs, a part of the miscalculation probably was caused by the fact that the level of construction activity was relatively low when estimates were prepared in 1977 but had substantially increased at the time of bidding in 1979 (with the result that contractors who were willing to offer low prices in 1977 were not under similar pressure in 1979). The Secretary-General would point out that while the consultants' error is an important part of the explanation of the difference between the 1977 estimate and the bids received in February 1979, since that time a further increase in the cost of the work by some \$18 million is almost entirely attributable to inflation and the need to increase the contingency allowance.

16. Several other factors contributed to the shortfall. These include:

- (a) the decision of the General Assembly to reduce the size of the original north lawn proposal by 15 per cent and to reduce the funds available by an equivalent percentage. When the bids were obtained, it became apparent that the reduction in the square footage of 15 per cent had not produced an equivalent reduction in materials or labour and hence in cost;
- (b) an increase in architectural and engineering costs partly due to general cost escalations in the industry and partly due to the fact that alteration work is proving to require more architectural and engineering work than had been previously estimated;

- (c) a decision by the building authorities of the City of New York that a sewer line under the north lawn had to be rebuilt before the new building could be constructed. In 1976 the City authorities gave preliminary approval to the plans on which the original cost estimates were based. In 1978, however, they reversed their position and determined that a new sewer line would have to be built. They took this decision under the terms of an easement held by the City.

17. The Secretary-General 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 ACABQ 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.

18. In the light of the fact that the projects comprising Phase II of the construction programme are estimated to cost almost double the amount which was estimated at the time they were approved, the Secretary-General is resubmitting them for consideration by the General Assembly. Although he has no reason to believe at this time that his estimate of \$7.6 million for the new cafeteria and kitchen (Phase III) is not sound, he considers that the General Assembly may also wish to reconsider this project in the light of the cost involved.

19. It was apparent even before 1968 that there was a need to make most, if not all of the improvements which are included in the proposed plans. When the present facilities were completed in 1951, they were intended to accommodate a membership of less than 80. The increase in the number of Member States, the use of meeting rooms, the number of languages and the amount of documentation has resulted in serious overcrowding and in deficiencies in facilities vital to the accomplishment of the Organization's work. These deficiencies were first addressed in a comprehensive way by the General Assembly in 1968 when it authorized the Secretary-General to prepare an extensive programme of alterations. The programme as proposed the next year was endorsed by the General Assembly; however, the financial arrangements for its implementation could not be completed and in consequence, the project was not carried out.

20. By 1975, the deficiencies became even more serious. As a consequence of a request by the Secretary-General, provision was made in the 1976-1977 programme budget for another architectural and engineering survey. The results of this study were presented to the General Assembly in 1976 (ref. A/C.5/31/22 and Corr.1, dated 4 November 1976). The General Assembly approved a programme of expansion of meeting rooms (Phase I) and directed the Secretary-General to review his proposals with respect to the related conference servicing and delegate

facilities and to be particularly careful in assessing space requirements in order to make every effort to economize. In 1977, the Secretary-General reported that he had developed modified plans which were significantly less expensive than those proposed previously, despite the effect of an additional year of price inflation (ref. A/C.5/32/4, dated 29 June 1977). Cost decreases were achieved by reducing the scope of the projects and eliminating features which, while desirable, did not need to be implemented at that time. Except for the proposals for a new cafeteria, delegates' dining facilities and the new main conference room, the General Assembly approved the Secretary-General's recommendations which are contained in Phase II. As directed, the Secretary-General thereafter submitted revised proposals in 1978 (ref. A/C.5/33/24, dated 20 October 1978) for the reconstruction of delegates' dining facilities and for a new Secretariat cafeteria and kitchen (Phase III). The work was authorized by the General Assembly that year.

21. The Secretary-General would recall that one of the factors which led to the approval of the Phase II projects was that the conditions of work in the second and third basements had become a matter of serious concern both to the staff and to the Secretary-General. Thirty years ago, when these areas were constructed the anticipated use was far different than has been required by developments. The increase in documentation alone has completely changed the size, capacity and complexity of reproduction and printing equipment with a result that much of the working area is overcrowded, excessively noisy and difficult to keep clean. In a large part of the space, although some improvements have been made over the years, the lighting and ventilation are inadequate. In some areas air conditioning is non-existent and due to the interior location the introduction of outside air is impossible. The Secretary-General believes that corrective measures which will result from the north lawn construction and the renovation of these basement areas are urgently required.

22. In reviewing the extended period over which these problems have been considered, the Secretary-General feels that the proposals have been thoroughly studied with the result that a general agreement on the need to proceed with the work had developed. He believes that further delay of any part of the postponed projects will only serve to increase the cost of work that will have to be eventually authorized. It was on that basis that he proceeded with the north lawn building.

Phase III

23. Phase III consists of the expansion of delegates' dining facilities and the construction of a new cafeteria building in the south garden. Work has reached the bidding stage. 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.

24. As part of Phase III, the Secretary-General had undertaken to report to the thirty-fourth session of the General Assembly on the findings of a study on the use of part of the thirty-ninth floor of the Secretariat building

(ref. A/33/7/Add.13, dated 14 November 1978 and A/C.5/33/24, paragraph 25, dated 20 October 1978). It may be recalled that, while the main purpose of Phase III is to construct a cafeteria and kitchen in a new building to occupy part of the south garden and to improve delegates' dining facilities on the fourth floor of the Conference Building, an ancillary objective is to provide classroom space in the first basement of the new structure. As a consequence, a study of the possibilities of redeveloping the present classroom area on the thirty-ninth floor for other use was authorized. During the course of consideration of the proposal by the General Assembly, the Secretary-General undertook to complete the study within the funds appropriated for the dining facilities and withdrew a request for \$50,000 to carry out the study. Pending receipt of the bids for the cafeteria and kitchen construction project and a determination of the availability of resources, this study has been held in abeyance.

Conclusion

25. As indicated in paragraph 18 above, the Secretary-General believes that since the current cost estimates far exceed those previously approved, the General Assembly may now wish to review its prior decision. As shown in Table 3 below, an estimate of \$23,481,300 has been approved for the Phase II and Phase III projects. Of this amount, \$9,068,700 has been appropriated in the 1978-1979 budget and \$14,412,600 is included in the Secretary-General's 1980-1981 proposed programme budget. Completion of the North Lawn building, on which construction has already started, will require an amount of \$18,415,000 including the cost of removal to the new building of printing and reproduction equipment from its present location in the second and third basements of the Conference Building (\$300,000). The Secretary-General also considers indispensable the completion of the Conference Building second and third basements project. Completion of this project at an estimated cost of \$6,265,000 would raise the total amount required to \$24,680,000. It would also be necessary to provide for \$520,000 for the design costs already authorized and incurred in respect of the new cafeteria building and improved delegates' dining facilities. The total cost, therefore, of the project considered indispensable at this stage amounts to \$25,200,000, or \$1,718,700 over the amount already included in the 1978-1979 approved budget and in the 1980-1981 proposed programme budget.

26. As evidenced by the consideration given by the General Assembly to the remaining projects, each of these is desirable and justified. It is evident, however, that some are more pressing than others. Accordingly, the listing below shows the remaining projects together with their estimated cost set forth in the order of priority of need which the Secretary-General recommends in the event that the General Assembly would decide to delete or postpone any part or parts of the rest of the programme. In reconsidering these projects, the General Assembly will wish to note that a decision to delete or postpone would entail a number of disadvantages. These include the loss of all or part of the benefit of the substantial sums expended for detailed architectural planning work; the likelihood of increased costs in future due to the need to re-incur contractor's overhead and start-up costs; the continuing loss of productive time by staff and delegates which results from existing conditions both in working and eating areas;

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and, the almost certain increase in costs due to price inflation during the period of any delay.

- (a) Extension of north end of Conference building including provision for temporary offices. This includes the construction of a small balcony along the east wall of the Delegates' lounge at an estimated cost of \$300,000 (Total project cost - \$7,827,000).
- (b) Expansion of seating capacity in Conference Rooms 5 and 6. This project includes provision for a movable partition between Conference Rooms 5 and 6 to permit connexion of the two rooms into one large room seating 100 at a cost of \$20,000. The plan also provides for the construction of a coffee and snack bar in the first basement concourse outside of the small conference rooms and Conference Room 4 at a cost of \$36,000 (Total project cost - \$840,000).
- (c) Construction of a new cafeteria and kitchen and expansion of delegates' dining facilities (Total project cost - \$7,612,000).

27. Table 3 below contains a breakdown by cost component of each project. The table illustrates that the cost of each project in Phase II is lower when it is undertaken together with the other parts of Phase II than when it is undertaken alone. If the General Assembly confirms its decision to proceed with all of these improvements, it will be necessary to appropriate an additional amount of \$15,599,700 under Section 32 of the 1980-1981 programme budget. This amount represents the difference between what has already been appropriated in 1978-1979 or included in the 1980-1981 estimates (\$15,869,300) and the total Phase II cost (\$31,469,000). It is expected that the funds would be committed before the end of the next biennium and that construction will have been completed by late 1981. However, as is the practice in construction projects involving substantial sums and unanticipated delays over which the Secretariat has little control, the Secretary-General proposes that the funds appropriated be placed in a separate account and that unexpended balances be carried forward into succeeding biennia until the project is completed and the final accounts audited.

28. The construction costs shown below are those on which a contract would be based except for Phase III, which is currently out for bid. A large part of the architectural and engineering costs have already been incurred. The remaining part of the architectural costs is based on an estimate of the cost of construction supervision. In addition, the provision for contingencies in Phase II has been calculated at 10 per cent of construction costs rather than 5 per cent of all items in recognition of the experience gained in Phase I.

TABLE 3

PHASE II AND III COSTS

(In thousands of US dollars)

Project	Phase II					Phase III			
	North lawn	Conference buildings basements	Conference building north end	Conference rooms 5 and 6	Subtotal costed as separate projects	Difference	Entire phase II total	Cafeteria and delegates dining facilities	Entire programme total
Basic construction	14 500.0	5 150.0	6 390.0	700.0	26 740.0	(1 140.0)	25 600.0	6 726.0	32 326.0
Architectural and engineering costs	2 000.0	515.0	639.0	70.0	3 224.0	(624.0)	2 600.0	506.0	3 106.0
Removal of printing and reproduction equipment	300.0	-	-	-	300.0	-	300.0	-	300.0
Temporary relocation of facilities and staff	-	-	159.0	-	159.0	-	159.0	-	159.0
Administration (temporary assistance)	165.0	85.0	-	-	250.0	-	250.0	-	250.0
Contingencies	1 450.0	515.0	639.0	70.0	2 674.0	(114.0)	2 560.0	380.0	2 940.0
Total	18 415.0	6 265.0	7 827.0	840.0	33 347.0	(1 878.0)	31 469.0	7 612.0	39 081.0
Financing									
Appropriated in 1978-1979 budget							8 647.7	421.0	9 068.7
Included in 1980-1981 proposed programme budget							7 221.6	7 191.0	14 412.6
					1978 through 1981 total		15 869.3	7 612.0	23 481.3
Shortfall							15 599.7		15 599.7

1/ An additional amount of \$500,000 related to phase I is included in the initial 1980-1981 estimates.