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## **Real estate: update on the Geneva buildings renovation strategy**

### **Report by the Director-General**

#### **INTRODUCTION**

1. In 2016, the Sixty-ninth World Health Assembly, in decision WHA69(18), decided to adopt the Geneva buildings renovation strategy and authorize the Director-General to accept a 50-year, interest-free loan of 140 million Swiss francs from the Swiss authorities to finance the construction of a new annex building. The Health Assembly also decided to approve the use of the Real Estate Fund<sup>1</sup> for the financing of renovations to the main building and subsequent loan repayments.

2. The present report provides an update on the current status of the construction and renovation projects, and a description of the cost and risk management mechanisms applied to them, together with details of the following: progress against previously reported timelines; the anticipated final cost of constructing the new annex building; and the cost of renovating the main building.

#### **STATUS OF THE PROJECTS AND PROGRESS AGAINST PREVIOUSLY REPORTED TIMELINES**

3. The project to construct the new annex building has progressed as planned. The following steps have been achieved:

- (a) engagement of a construction cost and risk management consultant;
- (b) finalization of detailed designs for the new annex building;
- (c) obtaining of local building permits;
- (d) finalization of the loan agreement;
- (e) preparation and issue of construction tender documents and selection of a general contractor for the new annex building;

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<sup>1</sup> This has become the real estate component of the Infrastructure Fund, following the adoption of decision WHA70(16) in 2017.

- (f) completion of enabling works;
- (g) logistical reorganization to vacate buildings X and C prior to demolition;
- (h) finalization of the contract for an environmentally sustainable heating and cooling energy system for the site, which will be implemented in phases;
- (i) implementation of updated access control measures; and
- (j) reorganization of car parking and vehicular access following loss of car parking under X and C buildings.

4. The project to construct a new annex building is proceeding in line with the time and cost estimates communicated to Member States in 2015.<sup>1</sup> Although construction work on the new annex building started slightly earlier than originally estimated, it will continue slightly longer than originally foreseen. Nevertheless, the date for completion of the Geneva buildings renovation strategy as a whole remains consistent with the 2015 estimate. The construction period has been extended in order to take account of the expanded programme of work at the interface between the main building and new annex, including the special measures to reduce and manage noise and vibration, in order to allow the main building to function throughout the construction period. Such measures will reduce the amount of work to be carried out during Phase II (renovation of the main building).

5. Preparatory work has begun in parallel with advance planning and preparation for the renovation of the main building. In order to mitigate the inherent risks associated with the renovation of the existing building, the Secretariat is planning to engage a management contractor at an early stage who will participate and assist in the detailed design and project planning phases.

**Table 1. Key milestones and project timeline**

| Milestone                                          | Previously reported target date | Current status and estimated updated target date |
|----------------------------------------------------|---------------------------------|--------------------------------------------------|
| Delivery of preliminary studies to the Secretariat | October 2015                    | Completed                                        |
| Delivery of detailed studies to the Secretariat    | December 2016                   | Completed                                        |
| Issue of construction tender documents             | January 2017                    | Completed                                        |
| Preparatory work for new building construction     | September 2017                  | Completed                                        |
| Construction work for new building starts          | January 2018                    | November 2017                                    |
| Handover of new building                           | December 2019                   | February 2020                                    |
| Renovation of main building starts                 | January 2021                    | January 2021                                     |
| Handover of main building                          | December 2024                   | December 2024                                    |

<sup>1</sup> See document A68/49.

## PROJECT MANAGEMENT AND GOVERNANCE

6. The project is being managed in accordance with best practice principles and the governance model communicated to the Health Assembly in 2016.<sup>1</sup> A combination of external experts coordinated by an in-house project team and a project board composed of senior managers is enabling efficient decision-making and transparent oversight of time, cost, risk and fitness for purpose. Such a management structure is essential for ensuring that the project is delivered on time and within budget.

## PROCUREMENT

7. The procurement process for the construction of the new annex has been completed. It was conducted in accordance with WHO rules and procedures. A notice was published on the global procurement website of the United Nations inviting experienced general contractors to express an interest in competing for the contract to construct the new building.

8. Expressions of interest were assessed against previously formatted criteria and tender documents provided to those meeting the established minimum requirements.

9. Returned tenders were adjudicated in terms of construction methodology, adherence to tender specifications, quality and safety management, risk management, and benchmarked costs for similar buildings constructed in Switzerland.

**Table 2. Project cost report (Swiss francs)**

|                                          | Approved budget (decision WHA69(18)) | Anticipated final cost | Contingency sum | Total contracts awarded to date | Total work invoiced and paid to date |
|------------------------------------------|--------------------------------------|------------------------|-----------------|---------------------------------|--------------------------------------|
| Phase I:<br>new annex                    | 139 951 891                          | 131 001 891            | 8 950 000       | 119 700 000                     | 12 800 000                           |
| Phase II:<br>renovation of main building | 109 545 000                          | 104 800 000            | 4 745 000       | 14 200 000                      | 1 200 000                            |
| Total                                    | 249 496 891                          | 235 801 891            | 13 695 000      | 133 900 000                     | 14 000 000                           |

## ESTIMATES: CHALLENGES ASSOCIATED WITH THE PROJECTS

### Construction of the new annex building

10. Previously reported estimates indicated a construction cost for the new building of 140 million Swiss francs. This estimate was based on preliminary studies and an outline design. The preliminary work was further developed during 2016 and 2017 to enable the production of detailed designs for building permit approval and to facilitate the construction procurement process.

<sup>1</sup> See document A69/56.

11. The Secretariat and design and project management teams collaborated on the design of the new building in order to improve cost estimate precision and identify opportunities for savings and efficiencies. The process remained focused on maintaining the quality and functional flexibility of the space and the environmental and performance standards of the building, since those aspects are essential for achieving the anticipated life cycle cost savings, which are central to the Geneva buildings renovation strategy.

12. The result was an updated cost estimate indicating that the new annex building could be constructed for an estimated cost of 139.9 million Swiss francs, including a current contingency sum for unforeseen costs of 8.9 million Swiss francs.

### **Renovation of the main building**

13. The preliminary studies on the main building renovation project describe a scheme to replace technical infrastructure in accordance with modern standards, to remove materials containing asbestos, and to enhance the thermal performance of the façades and roof.

14. The project involves particular challenges in modernizing infrastructure and meeting modern energy performance standards and office layout and configuration requirements. Such demands must be balanced against the constraints inherent in preserving the architectural integrity of the main building.

15. In the last information provided by the Secretariat to the governing bodies, it was estimated that construction costs for the main building renovation would be 109 545 000 Swiss francs, including fees and contingencies.<sup>1</sup> Although studies have begun, it is too early to provide an update on that figure.

### **FINANCING STRATEGY FOR THE RENOVATION PROJECT**

16. The financing structure of the renovation strategy has not changed since Member States were updated at the Sixty-ninth World Health Assembly.<sup>2</sup> Phase I, construction of the new building, will be financed through a 50-year, interest-free loan of 140 million Swiss francs from the Host State. The loan agreement between the Swiss authorities and WHO was signed in June 2017 and the loan will be repaid through the real estate component of the Infrastructure Fund.

17. The renovation of the main building will be financed entirely from the real estate component of the Infrastructure Fund.

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<sup>1</sup> See document A69/56.

<sup>2</sup> See <http://www.who.int/about/structure/en/> (accessed 3 October 2017).

## FINANCING OF THE REAL ESTATE COMPONENT OF THE INFRASTRUCTURE FUND

18. The real estate component of the Infrastructure Fund is financed by the sustainable funding mechanism established in resolution WHA63.7 (2010):

(a) US\$ 10 million allocated by the Director-General, as available, at the end of each financial period from Member States' non-assessed income; and

(b) US\$ 15 million per financial period, corresponding to the real estate component of the post-occupancy charge.

19. The sustainable funding mechanism thereby seeks to ensure that Member States will not be approached for additional assessed contributions to fund the Geneva buildings renovation strategy.

20. The financing of the real estate component of the Infrastructure Fund will need to be reassessed periodically, particularly in respect of the US\$ 8 million per budget period envisaged for the repair of all WHO-owned properties and the availability of the appropriation from Member States' non-assessed income.

**Table 3. real estate component of the Infrastructure Fund: current balance (US\$)<sup>a</sup>**

|                                                     |             |
|-----------------------------------------------------|-------------|
| Balance as at 1 January 2016                        | 90 981 984  |
| Income (appropriation)                              | 0           |
| Revenue (post-occupancy charge and rental receipts) | 16 339 115  |
| Expenses                                            | (8 312 366) |
| Total                                               | 99 008 733  |

<sup>a</sup>Totals as at June 2017

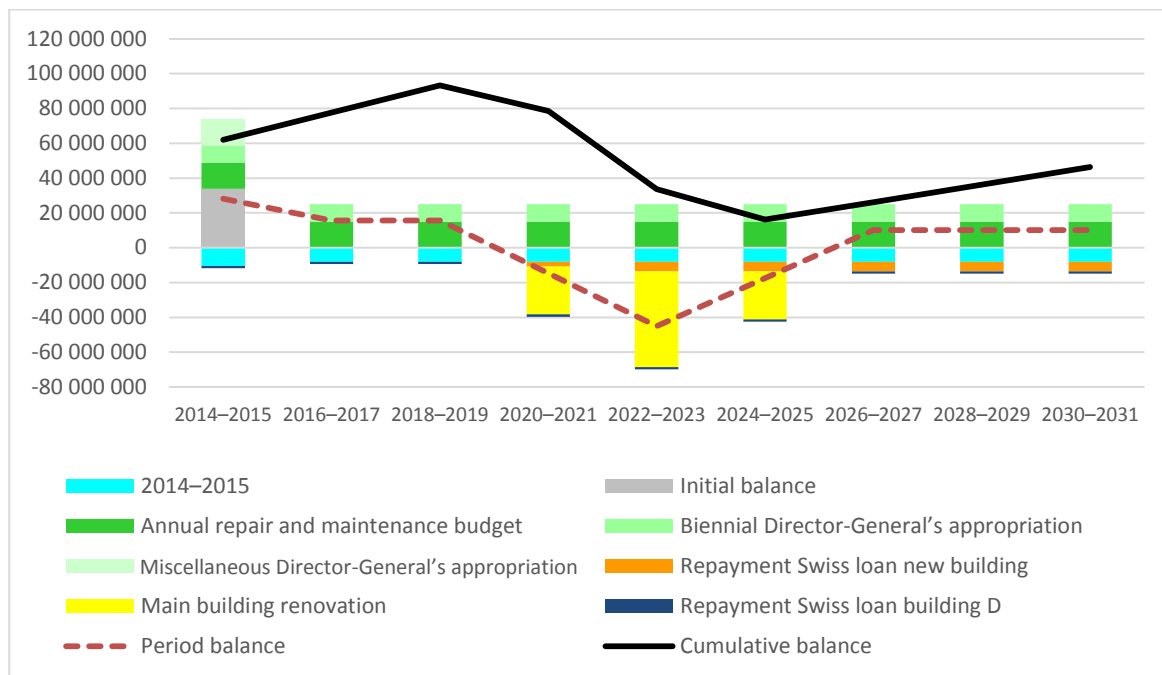
21. The current balance of the real estate component of the Infrastructure Fund is in line with previous projections and on track to fund the foreseen construction costs, loan repayment liabilities and the repair/maintenance of other premises.

22. The anticipated cash flow for the project is also in line with previous projections and is forecast to remain positive throughout the implementation period of the Geneva buildings renovation strategy. The positive balance is made possible by the loan from the Swiss authorities for the new building, the continuation of the sustainable funding mechanism for the real estate component of the Infrastructure Fund and prudent management of that fund during the period preceding the start of renovation of the main building.

23. The positive balance of the real estate component of the Infrastructure Fund makes it easier to implement the Geneva buildings renovation strategy without recourse to additional funding. Although the sale of the L1, L2 and M buildings remains a long-term goal for the Secretariat following completion of the renovation of the main building, financing the real estate strategy will not be dependent on the revenue anticipated from the sale of plot 406 and the L1, L2 and M buildings.

24. The projected balance of the real estate component of the Infrastructure Fund should be viewed in the context of the anticipated needs of all offices, including the WHO/UNAIDS building in Geneva. The latter will be 19 years old on completion of renovation of the main building and may need significant investment. Although no comprehensive studies have yet been conducted to assess such needs, it is expected that they will be met from the real estate component of the Infrastructure Fund (see Figure).

**Figure. Real estate component of the Infrastructure Fund: income and expenditure projection (US\$)**



## COST AND RISK MANAGEMENT

25. All construction projects are inherently risky. Hence, the Secretariat has engaged professional construction cost and risk managers to identify and quantify project risks and assist in managing and coordinating the process of risk mitigation and acceptance.

26. A project risk register has been drawn up to show the evolution of risks relative to progress. The risk register is reviewed and updated weekly as part of the project management process with input from architects, engineers, project managers and contractors. Risks are evaluated in terms of their impact and the likelihood of their occurrence and are graded accordingly. Where feasible, both the financial impact of the risk and proposed mitigation are calculated. The risk register is a standing item on the agenda of every project board meeting under which identified risks, quantified impact and proposed mitigation are reviewed. Mitigation of risks is a key driver of decisions on design changes for consideration and approval by the project board.

27. The Secretariat remains focused on cost control, in terms of both the construction cost of the works and the long-term life-cycle costs of the completed building. Architects and engineers have been tasked with producing simple, low maintenance, durable designs that will reduce operational costs for the Organization in the future, such as a district heating and cooling system as an alternative

to on-site boilers and chilling machines. That would both allow savings to be made in energy and carbon dioxide emissions and obviate the need for future system repairs and renewal, as well as reduce staffing and facility management needs. The resulting design decision not only simplifies and reduces construction costs, but also produces year-on-year cost savings throughout the life of the building.

28. Costs are reviewed weekly by the project team under the guidance of specialist construction cost managers. Designs and their corresponding estimated costs are constantly reviewed according to local benchmarks derived from comparable tender processes and industry cost models. Where designs are judged likely to exceed cost parameters, or to be in excess of locally applicable benchmarks, architects and engineers are asked to re-design or propose alternatives that ensure compliance with previously agreed budgets. Such continual value management must be balanced against the need to produce a durable and long-lasting building, and the operational and functional needs of the Organization.

**ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE**

29. The Committee is invited to note the report on the Geneva buildings renovation strategy.

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