EXECUTIVE BOARD **EB120/18**
120th Session **14 December 2006**
Provisional agenda item 5

Real estate fund: draft capital master plan

Report by the Director-General

BACKGROUND

1. After discussion of the item Real Estate Fund at its 115th session,[1] the Executive Board requested the Director-General to report to the Board at its 117th session on progress made on elaboration of a 10-year capital master plan and development of a long-term mechanism for the financing of this plan.[2] The Director-General reported on progress made as requested,[3] indicating that, on the basis of further work on financing modalities, a document detailing a sustainable capital master plan for real-estate operations would be submitted to the Executive Board at its session in January 2007.

2. The Director-General reported to the Executive Board at its 115th session[4] that over the preceding bienniums it had become increasingly difficult for the Organization, through the Real Estate Fund, to maintain buildings appropriately at all its principal locations. It was estimated that considerable additional investment would be required over time to ensure adequate security for staff and rehabilitate some of the Organization's buildings.

3. Traditionally, each application for support from the Real Estate Fund has been judged on its merits alone, without comparing priorities across locations. In addition, in periods of austerity, maintenance is frequently targeted for cuts, because substantive programme activities are accorded higher priority. However, problems arise when periods of reduced or deferred expenditure in facilities are not followed by phases of higher-than-normal expenditure. Certain kinds of maintenance may be neglected, leading to breakdowns that may require expensive emergency repairs.

4. This reactive approach disrupts the work of the Organization and may expose users to unacceptable risks in buildings where equipment and systems no longer meet modern security, safety and environmental standards.

5. WHO's 10-year capital master plan 2008–2017 will offer a strategic and integrated approach to managing and maintaining the Organization's physical infrastructure. It will present a picture of the Organization's global infrastructure needs for the period 2008–2017 in respect of renovation, major maintenance, construction and security. The plan will also help to manage the rescheduling of real-

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[1] See document EB115/2005/REC/2, summary record of the tenth meeting, section 1.

[2] Decision EB115(10).

[3] See document EB117/18.

[4] See document EB115/41.

estate projects in line with budgetary priorities. Local requirements will be assessed in the light of global needs, priorities will be set, and potential surges in demand will be avoided, thus enhancing the Secretariat's response to changing requirements. The plan will also help to ensure that the projects concerned meet operational needs and organizational objectives while remaining cost effective.

6. WHO accommodates its staff in property that is owned, occupied on a cost-shared basis, rented commercially or provided rent free by Member States. The conditions of accommodation vary greatly and often do not match the Organization's needs in terms of space, safety, security and environmental standards.

7. Of a total of 188 WHO locations, there are only 15 whose buildings and/or land are owned by the Organization, including headquarters and five of the regional offices. Of the other offices, including those in United Nations houses and other United Nations common premises, 73 are provided free of charge by the host government concerned and 100 are in premises that are rented or occupied on a cost-shared basis.

GUIDING PRINCIPLES GOVERNING ACCOMMODATION ARRANGEMENTS

8. Where feasible, the Organization uses United Nations common premises arrangements, which encourage a consolidated country presence and a simpler provision of logistics and security: in some locations, such arrangements also permit the outsourcing of management and support services to partner agencies on a cost-shared basis, thus reducing initial capital investment and staffing requirements.

9. If United Nations common premises are not available, premises provided by the host country are the best alternative; with this option there is no liability for maintenance and major repair, and rental inflation and management of the premises in general are avoided.

10. Renting premises does not entail any repair and renewal cost or any capital expenditure; it also makes it easier to expand, contract or relocate as and when necessary. However, renting exposes the Organization to rental inflation, making it the most expensive option over a 10-year period. In addition, restrictions on altering rented premises may prejudice the security and safety of staff and assets.

11. The Organization has only built or bought premises when this has been cost effective or justified for reasons of safety and security. This option allows premises to be designed or altered, taking security and specific needs into account. However, it entails purchase, maintenance and repair costs, and there is also the risk that buildings may be lost during civil unrest or natural disasters.

12. Security of staff and premises – a priority for the Organization – calls for sizeable additional investment as referred to by the Executive Board at its 115th session.[1] The 10-year capital master plan 2008–2017 takes account of real-estate needs in respect of security, based on local risk and threat assessments and in compliance with the United Nations Minimum Operating Security Standards.

[1] See document EB115/2005/REC/2, summary record of the tenth meeting, section 1.

ORGANIZATION-WIDE REAL-ESTATE INVENTORY

13. In order to provide a baseline for the plan in respect of the Organization's principal locations, an Organization-wide real-estate survey was conducted in 2006. The results are presented in the Organization-wide real-estate inventory,[1] which now contains, for the sites and buildings at all the Organization's locations, general facts and figures on the extent and nature of real-estate holdings, the status of maintenance, situational factors and health and safety indicators, together with basic information on compliance with the Minimum Operating Security Standards.

14. Of its 188 locations, a total of 80 offices, including headquarters and the six regional offices, are wholly or partly maintained at the Organization's cost.

15. In this initial phase of the development of the draft 10-year capital master plan 2008–2017,[1] offices have been asked to evaluate the state of maintenance of their own buildings. In most cases, the general status is rated good or better than good.

16. Despite the good state of maintenance that has been reported, almost half the locations indicate that within the next two years major repairs and/or renovation will be needed. The work involved ranges from painting and maintenance to major security-related enhancements (installation of perimeter walls and fences, shatter-resistant glass, alarm systems and security rooms).

DEFINITION OF INDICATORS

17. In order to assess the current maintenance conditions of a given property and to help to prioritize the projects requiring investment, a mechanism using indicators has been devised. Each project is assessed on the basis of six different indicators of priority: security, health and safety, economy and efficiency measures, environmental concerns, introduction of new technology and innovation, and miscellaneous factors. The combination of these indicators is then used to identify the facilities in greatest need of investment and to help to set priorities, especially when funds are short. The draft 10-year capital master plan 2008–2017 includes these self-assessed priority indicators, as established by the regional offices and headquarters. Projects included in the plan will be reviewed by an independent party prior to implementation; they will be awarded using the Organization's standard bidding procedures.

THE DRAFT 10-YEAR CAPITAL MASTER PLAN 2008–2017

18. The draft plan gives an Organization-wide overview of the projects for the period 2008–2017. It lists the full range of areas concerned: security, health and safety, efficiency, energy conservation and the environment, and new technology and innovation. The draft plan also includes a summary of the estimated recurrent infrastructure cost (in respect of routine maintenance and repair, utilities and building rental) together with capital expenditure costs. The term "capital expenditure" is defined as the cost of major renovation, upgrading and construction and of large information technology projects, which add value to a given facility. Maintenance is not usually encompassed by this term, since such work does not change the book value of the buildings concerned.

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[1] Available upon request.

19. The total package organization-wide for the 10-year period 2008–2017 is estimated at US$ 297.7 million, of which US$ 96.6 million represent capital expenditure costs.

20. A number of projects have been deferred in recent years and the draft 10-year capital master plan 2008–2017 reveals the need for an initial "catch-up" investment in the biennium 2008–2009. The package Organization-wide for 2008–2009 is estimated at US$ 62.7 million, of which US$ 34.6 million represent recurring infrastructure costs and US$ 28.1 million represent capital expenditure costs (US$ 13 million for major renovation and alterations to existing office buildings and staff housing, US$ 13.6 million for capital acquisition and construction and US$ 1.5 million for security-related projects). It is anticipated that in the remaining four bienniums of the 10-year period of the plan, capital expenditure will fluctuate according to the priorities set and the availability of adequate financing.

21. With budgets increasing and decentralization being implemented, the office buildings at many locations are no longer able to house staff. In many cases, this is having a negative impact on coordination and effectiveness. Of the three regional offices so affected, two are proposing to add floors (the Regional Offices for South-East Asia and the Western Pacific) and one is proposing to add offices and staff housing (the Regional Office for Africa).

22. At headquarters, the 40-year-old heating system in the main building is in urgent need of replacement. There have been several emergency replacements of pipes, and it is expected that further leaks may occur if replacement of the system is deferred. In 2004, asbestos was found in the dividers between offices of the main building. Since the replacement of the heating ducts will necessitate opening these dividers, the asbestos will be removed at the same time. The main meeting rooms and the Executive Board room at headquarters are also in urgent need of refurbishment.

23. A building programme committee will be established at each principal location in order to ensure that projects are reviewed independently, assessed, adjusted and re-prioritized on a continuing basis, in the light of local needs and resource constraints. The committee should also consider the appropriateness of submitting any new project as part of the 10-year capital master plan 2008–2017, or propose other sources of financing.

FINANCING

24. In a study of building-management practices,[1] the Joint Inspection Unit conducted a survey in a number of international organizations. The results indicated a pattern in the financing of building-management projects, based on the distinction between maintenance and repair on the one hand, and capital expenditure on the other.

25. The pattern of financing modalities shows that maintenance and repair work is financed by cash payment, principally through the regular budget and occasionally through special account arrangements. On the other hand, capital expenditure for major improvements and construction tends to be financed by cash payment based on special account arrangements, by deferred payment (i.e. loans from quasi-governmental organizations), or by commercial borrowing repaid from the regular budget.

[1] Joint Inspection Unit. Management of buildings: practices of selected United Nations system organizations relevant to the renovation of the United Nations headquarters. (Document JIU/REP/2001/1).

26. As indicated in paragraph 20 above, the draft capital master plan 2008–2017 reveals that the estimated total cost of appropriately maintaining the buildings of the Organization, including the need for capital expenditure, is US$ 62.7 million for 2008–2009. Just over half of this amount relates to recurrent infrastructure costs, which are traditionally covered by regular budget appropriations. The remainder consists of those capital expenditure projects that would normally be financed through the Real Estate Fund. However, over the years the Fund has been underfinanced in the context of the overall biennial budget in which technical priorities take precedence. In this connection, the Executive Board at its 117th session expressed concern about the impact of budget cuts on building maintenance.[1]

27. The table attached at Annex summarizes the financing requirements of the 10-year capital master plan 2008–2017 for the period that it covers, with details by principal location for the biennium 2008–2009. It will be noted that, based on submissions included in the Proposed programme budget for 2008–2009, there is a financing gap of some US$ 22.1 million that will need to be tackled in the light of the Executive Board's discussions on both the current item and the Proposed programme budget for 2008–2009.[2]

28. Other international organizations have had similar problems in financing major renovation, construction and acquisitions. In 2004 IMO, which was faced with financing the major refurbishment of its headquarters building in London, collected information from a sample of organizations of the United Nations system concerning their real-estate financing mechanisms.[3] In most of the organizations surveyed, regular maintenance and repair work was funded through the regular budget. However, several mechanisms were used to finance capital expenditure; these included:

- special fund financing on a fifty-fifty basis between the organization concerned and the host government (United Nations Office at Vienna);

- special account arrangements funded and replenished by various mixtures of regular budget, rental incomes, "reserves", casual income and surpluses (UNESCO, WHO, WMO and WIPO);

- full financing by the host government (FAO);

- interest-free loans from the host government for construction and extensions (Geneva-based international organizations);

- interest-bearing loans from the host government (United Nations headquarters in New York);

- interest-bearing loans for which the host government covers the interest and acts as guarantor (UNESCO);

- grants from Member States other than the host country (UNHCR).

[1] See document EB117/2006/REC/2, summary record of the tenth meeting, section 1.

[2] Documents EB120/17 and MTSP 2008–2013/PPB 2008–2009.

[3] IMO Council 93rd session, document C 93/WP.5.

29. Although there are several possible sources of funding, it is assumed that most, and possibly all, the costs associated with the 10-year capital master plan 2008–2017 have to be met by Member States. Possible additional options could include commercial loans guaranteed by Member States, increasing the regular budget assessment to cover the necessary investment, returning the building to the host country against financing (the FAO model), and voluntary contributions or donations from Member States.

ACTION BY THE EXECUTIVE BOARD

30. The Executive Board is invited to note the above report and provide guidance, in the light of its deliberations on the Proposed programme budget for 2008–2009, on the options presented for dealing with the financing gap.

ANNEX

CAPITAL MASTER PLAN 2008–2017: FINANCING REQUIREMENTS (US$ thousand)

Location	Capital expenditure 10 years	Maintenance and repairs 10 years	Total 10 years	Capital expenditure 2008–2009	Maintenance and repairs 2008–2009	Total 2008–2009
Africa	18 860	30 837	49 697	8 260	4 746	13 006
The Americas	2 269	12 622	14 890	267	2 142	2 409
South-East Asia	9 375	9 490	18 865	1 955	1 725	3 680
Europe	6 155	17 393	23 548	550	3 276	3 826
Eastern Mediterranean	12 840	35 864	48 704	6 124	5 874	11 999
Western Pacific	3 262	7 935	11 197	1 214	1 408	2 622
Headquarters	43 863	86 917	130 780	9 703	15 436	25 139
Total	96 623	201 058	297 681	28 073	34 607	62 680
Included in Proposed programme budget 2008–2009				6 000	34 607	40 607
Financing gap				22 073	0	22 073

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