

## **Update on the Infrastructure Fund**

### **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 federal authorities to finance the construction of a new building at WHO headquarters in Geneva. The Health Assembly also decided to approve the use of the Real Estate Fund<sup>1</sup> for the financing of renovations of the main building (110 million Swiss francs) and the repayment over a 50-year period of the interest-free loan.

2. The present report provides an update on the status of the construction and renovation project including details of the progress made against previously reported timelines and cost updates. It has also been prepared in response to decision WHA70(16) (2017), in which the Seventieth World Health Assembly requested the Director-General to report to the Board both on the implementation of the information technology and real estate funds included in the Infrastructure Fund, and on the financing of the Fund.

#### **PROJECT MANAGEMENT AND GOVERNANCE**

3. The construction and renovation project is managed in accordance with best-practice principles and the governance structure communicated to the Sixty-ninth World Health Assembly in 2016.<sup>2</sup> A combination of external experts (coordinated by an in-house project team) and a project board (composed of senior managers in-house) enables efficient decision-making and effective oversight of the project. The project board is assisted by separate internal and external advisory committees.

#### **STATUS OF THE PROJECT AND PROGRESS MADE**

##### **Construction of the new building**

4. Although all planned work on the construction of the new building to date is on track, several new developments (outlined in paragraphs 7–9) will result in a five-month delay in the completion date of

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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.

<sup>2</sup> See document A69/56.

the building. Notwithstanding this, the overall project timeline remains unaffected as the additional works will run in parallel with the already planned testing and commissioning period, enabling occupation of the new building in September 2020 as originally envisaged. The period of testing and commissioning has been included within the project plan to reflect industry best practice for construction projects. This period will be used to ensure full operability and functionality of the new building's equipment and infrastructure prior to occupation of the building by the Secretariat. This period will also be used to install, test and commission information technology and audio-visual systems. Failure to allocate sufficient time for this testing and commissioning would constitute a risk to business continuity and user acceptance of the new building.

### Renovation of the main building

5. In parallel with the construction of the new building, planning and preparations for the renovation of the main building are under way. To mitigate the inherent risks in renovating an existing building, and in line with construction industry best practice for complex renovation projects, the Secretariat engaged a management contractor at an early stage to advise and assist in the detailed design and project planning phases.

6. Preserving the architectural integrity of the main building presents certain challenges in complying with modern energy performance standards and meeting the desired office layout and configuration requirements. As outlined below, revised United Nations security standards have also resulted in additional constraints and requirements, which must be incorporated into the project planning. The Secretariat maintains close liaison and coordination with the local authorities to overcome these challenges and identify mutually acceptable solutions. Milestones in the construction and renovation project are shown in Table 1.

**Table 1. Milestones in the WHO headquarters construction and renovation project**

| Milestone  | Previously reported target date | Status and target date as at 31 December 2019 |
|--|---------------------------------|---|
| Delivery of preliminary studies to the Secretariat | October 2015                    | Completed as planned                          |
| Delivery of detailed studies to the Secretariat    | December 2016                   | Completed as planned                          |
| Issue of construction tender documents             | January 2017                    | Completed as planned                          |
| Preparatory work for new building construction     | September 2017                  | Completed as planned                          |
| Construction work for new building starts          | November 2017                   | Completed as planned                          |
| Handover of new building                           | February 2020                   | July 2020                                     |
| Testing and commissioning period for new building  | NA                              | September 2020                                |
| Occupation of new building                         | NA                              | September 2020                                |
| Renovation of main building starts                 | January 2021                    | January 2021                                  |
| Handover of main building                          | December 2024                   | December 2024                                 |

NA: not applicable.

## **NEW DEVELOPMENTS AFFECTING THE PROJECT**

### **Security infrastructure**

7. The Host State is engaged in a major infrastructure project aimed at widening and extending the public road adjacent to the headquarters site. Although the infrastructure project presents some logistical challenges to the construction project, it has also resulted in an agreement with local authorities to create a new vehicular entrance to the headquarters site. This offers significant operational advantages, such as enabling compliance with revised recommendations of the United Nations Department of Safety and Security for screening of vehicles and visitors. An increased distance between the headquarters buildings and public roads (“stand-off” distance) will avoid potential delays to the project and also construction and renovation costs that would have been needed to strengthen the new and existing buildings so that they meet the revised security standards.

8. In order to fully comply with the screening protocols of the United Nations Department of Safety and Security and to improve vehicular circulation within the headquarters site, revised internal road layouts and the construction of a security building adjacent to the new vehicular entrance and a second security building at the vehicular exit will be required. These works are anticipated to cost 4.3 million Swiss francs and are proposed to be funded from the existing interest-free loan, without exceeding the approved budget of 140 million Swiss francs.

9. For topographical and practical reasons, drain connections for the new building are planned to be installed at the same location as the new vehicular entrance and the adjacent security building. These additional works are expected to delay completion of the new building by five months, to July 2020 instead of the original target date of February 2020. However, the expected date of occupation of the new building remains unchanged (September 2020).

### **Infrastructure for an environmentally sustainable heating and cooling system**

10. The renovated WHO site will be connected to a new 100% environmentally sustainable district heating and cooling system known as “GeniLac”. The necessary infrastructure to connect the headquarters site to the distribution network will be installed by the local authorities as part of the major infrastructure works to widen and extend the public road adjacent to the headquarters site.

11. Studies undertaken by the local authority, with the input of project engineers and architects, indicate that the equipment required to enable use of the district heating and cooling system on the headquarters site cannot be accommodated in the main building, as was originally envisaged. The current plan is to locate the equipment in the area occupied at present by obsolete heating oil storage tanks. This would simplify the installation and would also enable amortization of the costs of removing the oil storage tanks and depolluting the soil. The creation of this facility is anticipated to cost 5.5 million Swiss francs and is proposed to be funded from the existing loan provided by the Host State.

12. This additional project is essential and must be completed before renovation of the main building starts (in January 2021).

## FINANCIAL STATUS OF THE GENEVA BUILDINGS RENOVATION STRATEGY

### Financing strategy

13. The interest-free loan from the Swiss federal authorities for the construction of the new building was signed in June 2017 and will be repaid through the real estate component of the Infrastructure Fund. The renovation of the main building will also be financed from the real estate component of the Infrastructure Fund.

### Financing of the real estate component of the Infrastructure Fund

14. The real estate component of the Infrastructure Fund is financed by the sustainable funding mechanism established in resolution WHA63.7 (2010) and decision WHA69(18). The sustainable funding mechanism ensures the allocation of US\$ 25 million per biennium into the real estate component of the infrastructure fund and that Member States will not be asked to provide additional assessed contributions to fund the Geneva buildings renovation strategy.

### Real estate component of the Infrastructure Fund: current balance, income and expenditure

15. As at 30 September 2019, the cumulative balance of the real estate component of the Infrastructure Fund (see Table 2) is in line with previous projections and is on track to fund the anticipated main building renovation costs, loan repayment liabilities, and the repair and maintenance of other headquarters premises.

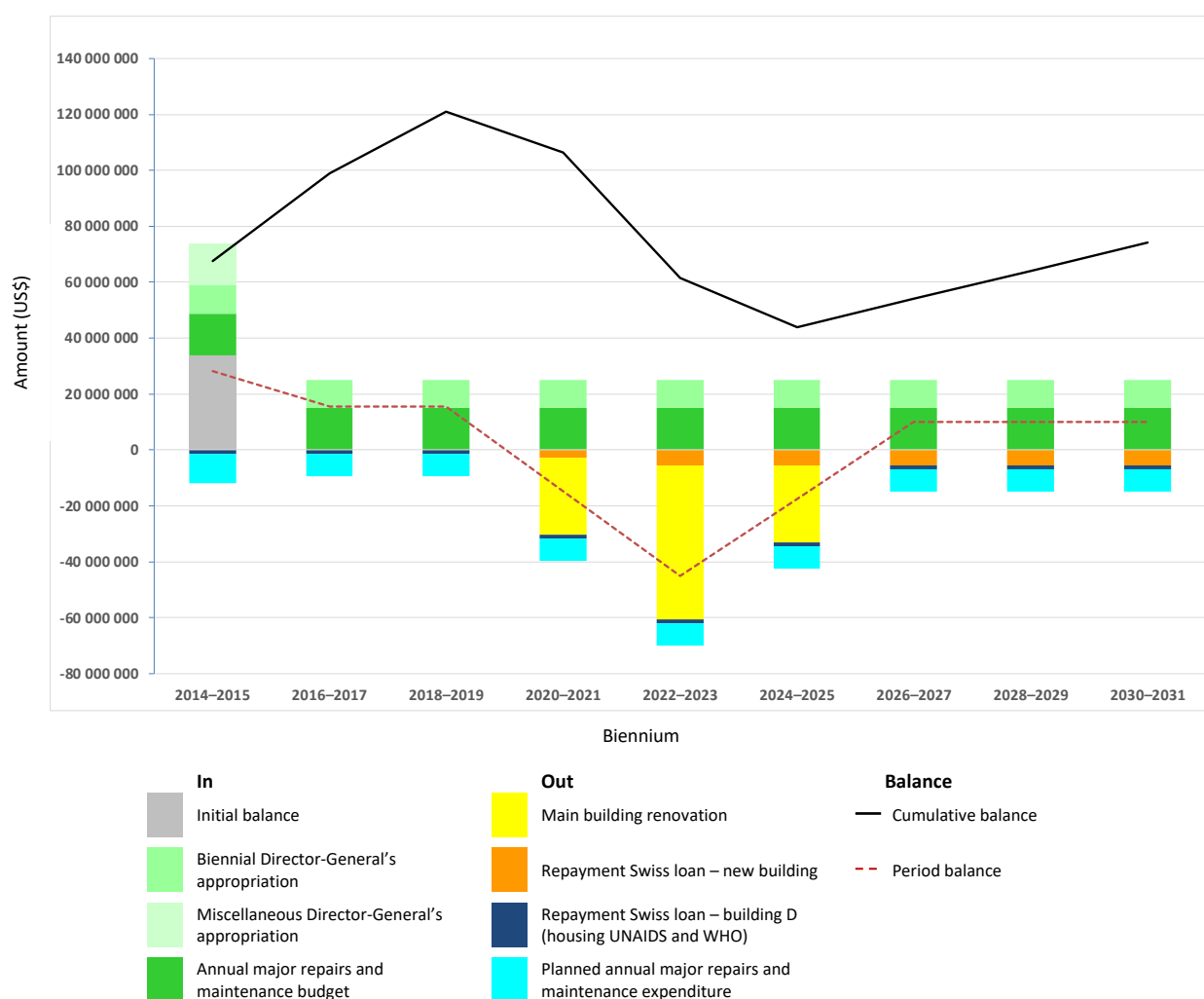
**Table 2. Status of the real estate component of the Infrastructure Fund (in US\$)**

| <b>Balance, revenue, expenditure</b>       | <b>Amount</b> |
|--|---------------|
| Cumulative balance as at 1 January 2019    | 111 464 985   |
| Revenue <sup>a</sup>                       | 22 987 510    |
| Expenses <sup>a</sup>                      | (13 391 364)  |
| Cumulative balance as at 30 September 2019 | 121 061 131   |

<sup>a</sup> As at 30 September 2019.

16. The cumulative balance of the real estate component of the Infrastructure Fund is forecast to remain positive throughout the construction of the new building and renovation of the main building and is expected to increase following completion of the renovation of the headquarters site (see Fig.). This positive balance is made possible by the loan from the Swiss federal authorities for the new building, the continuation of the sustainable funding mechanism for the real estate component of the Infrastructure Fund and continued prudent management of that fund.

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



17. Although the sale of the L1, L2 and M buildings remains the long-term goal for the Secretariat following completion of the renovation of the main building, financing the real estate strategy is not dependent on the revenue anticipated from any future sale of the L1, L2 and M buildings and the land on which they are located (plot 406).

### Construction costs of the new building

18. The construction costs remain in line with previous estimates provided to Member States. Earlier figures were based on a consultant's interpretation of the architect's specifications and drawings. The updated figures in Table 3 show the contractual commitments following competitive tendering and the selection of a general contractor to carry out the construction work of the new building.

**Table 3. Costs of the Geneva buildings renovation strategy (in Swiss francs)**

| <b>Project phase</b>         | <b>Approved budget<sup>a</sup></b> | <b>All contracts awarded as at 30 September 2019</b> | <b>Contracts not yet awarded</b> | <b>Total anticipated expenditure</b> |  | <b>Contingency sum<sup>b</sup></b> |
|------------------------------|------------------------------------|--|----------------------------------|--------------------------------------|--|------------------------------------|
| Construction of new building | 139 951 891                        | 120 459 230  | 9 816 004                        | 130 275 234                          |  | 9 676 657                          |
| Renovation of main building  | 109 545 000                        | 14 206 990   | 90 573 010                       | 104 780 000                          |  | 4 765 000                          |
| <b>Total</b>                 | <b>249 496 891</b>                 | <b>134 666 220</b>                                   | <b>100 389 014</b>               | <b>235 055 234</b>                   |  | <b>14 441 657</b>                  |

<sup>a</sup> See decision WHA69(18).

<sup>b</sup> Approved budget minus total anticipated expenditure.

19. To manage the risk of cost escalation, a guaranteed fixed-price contract has been agreed with the general contractor for the construction of the new building. The anticipated total expenditure of 130 275 234 Swiss francs represents the anticipated construction costs of the new building, including 9 816 004 Swiss francs for the new security buildings and associated works, and the new facility housing equipment for the district heating and cooling system. A contingency sum of 9 676 657 Swiss francs remains in reserve, within the approved budget amount of 139 951 891 Swiss francs, to allow for any unforeseen works.

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

20. The preliminary studies and cost estimates of the main building renovation project were prepared in 2014. They were based on a plan: to replace the building's technical infrastructure, in accordance with current environmental standards; to remove materials containing asbestos; and to enhance the thermal performance of the building façades and roof.

21. Studies to validate the estimated renovation costs of the main building are under way. A process was initiated in April 2019 to identify a management contractor to coordinate and ensure the completion of the construction work. Detailed designs for a building permit were submitted in November 2019. The outcome of these processes will be used to generate an updated cost estimate, which will be communicated to Member States as the project progresses. The estimated renovation costs have not changed since the start of the project.

### **COST AND RISK MANAGEMENT**

22. Cognizant of the fact that all construction projects involve a high degree of inherent risk, the Secretariat has engaged professional construction cost and risk managers to identify and quantify project risks. They will also assist in managing and coordinating project risk mitigation and acceptance.

23. A project-specific risk register has been established to show the evolution of risks relative to progress. The risk register is reviewed and updated regularly 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. The risk register is a

standing item on the agenda of every project board meeting under which identified risks, quantified impact and proposed mitigation measures are reviewed. Mitigation of risks is a key driver of any decisions for consideration and approval by the project board.

24. The Secretariat remains focused on cost control, in terms of both the capital 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. Strategies such as a district heating and cooling system (as an alternative to on-site boilers and cooling machines) will allow savings to be made in energy and carbon dioxide emissions and obviate the need for future repairs and renewal, thereby reducing long-term maintenance costs.

25. Costs are reviewed on a weekly basis by the project team under the guidance of specialist construction cost managers. Construction plans and specifications are drawn up by several design and contractor teams and are coordinated to ensure strict compliance with contract specifications, to mitigate inadvertent design changes and consequential extra cost claims by subcontractors.

## **ACTION BY THE EXECUTIVE BOARD**

26. The Board is invited to note the report and consider the following draft decision:

The Executive Board, having considered the report of the Director-General on the Geneva buildings renovation strategy,<sup>1</sup> decided to recommend to the Seventy-third World Health Assembly the adoption of the following decision:

The Seventy-third World Health Assembly, having considered the report on the update on the Geneva buildings renovation strategy, decided:

OP (1) to reiterate its appreciation to the Swiss Confederation and to the Republic and Canton of Geneva for the continued expression of their hospitality;

OP (2) to authorize the Director-General to proceed with the construction of two security buildings and a new facility for housing equipment for the district heating and cooling system at WHO headquarters in Geneva on the basis that the costs of both projects do not exceed the previously approved budget of the Geneva buildings renovation strategy;

OP (3) to reiterate that if the likely total cost of the Geneva buildings renovation were to increase by more than 10% of the previously approved budget, further authority would be sought from the Health Assembly;

OP (4) to request the Director-General to continue to report at least every two years to the Executive Board and the Health Assembly on progress with the Geneva buildings renovation strategy and related construction costs until completion of the project.

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<sup>1</sup> Document EB146/41.