



FIRST ITEM ON THE AGENDA

Programme and budget**Programme and Budget for 2008–09:
Treatment of the net premium earned**

1. This paper proposes a derogation from the Financial Regulations to enable unforeseen gains of 29,739,934 Swiss francs (CHF) arising from the operation of the Swiss franc assessment system, to be transferred to the Building and Accommodation Fund as an indirect contribution by member States towards the cost of refurbishing the ILO headquarters building.
2. The Committee will no doubt recall the decision of the International Labour Conference in June 2008¹ to approve a similar derogation authorizing the transfer of some CHF32 million arising in 2006–07 to the Building and Accommodation Fund.
3. In June 1989, the International Labour Conference decided to introduce a system of Swiss franc assessments combined with the forward purchasing of the biennial dollar requirements to avoid the disruptive effects on the implementation of the Organization's approved programme and budget and unforeseeable and major increases in member States' assessed contributions.² The Conference also decided that the "net premium" earned from forward purchasing of the dollar requirements would be distributed in the ratio of one-half to member States and one-half to the incentive scheme for early payment of member States' contributions.³ The net premium earned consists of the difference between the spot rate at the date of entering into the forward purchase contracts and the actual exchange rate paid due to the interest rate differentials between the US dollar and Swiss franc after allowing for any gains or losses from the operation of the Swiss franc assessment system.⁴ Since its introduction for the 1990–91 biennium, the system has returned net premiums to member States totalling CHF61 million.

¹ ILO: Second report of the Finance Committee of Government Representatives, *Provisional Record* No. 11-2, International Labour Conference, 97th Session, Geneva, 2008.

² ILO: *Provisional Record* No. 15, International Labour Conference, 76th Session, Geneva, 1989.

³ Financial Regulations, article 11.5.

⁴ *idem*.

4. The amount of the net premium for the current biennium, subject to completion of the biennial audit, is CHF29,739,934. Should the amount of the net premium change during the final stages of the biennial close, amendments would be made to any decisions taken by the Governing Body related to the current paper. Should member States agree to forego their share of the net premium earned during 2008–09 and agree to its transfer to the Building and Accommodation Fund the financing requirements for the refurbishment of the headquarters building would be significantly reduced.
5. The last financing plan for the refurbishment of the headquarters building presented to the Governing Body at its 304th Session (March 2009) ⁵ included the sale of two non-strategic plots of land adjacent to the headquarters site. The objective of the Office is to optimize the value obtained from any sale or disposition of the land. However, the uncertainties currently present in the real estate market make it difficult to predict with any assurance the amount that would be ultimately realized from these disposals. The transfer of the net premium to the Building and Accommodation Fund would mitigate this risk and avoid the Organization having to sell or dispose of more land holdings than was absolutely necessary.
6. The financing plan also included the possibility of a CHF50–75 million loan, which in turn, would be financed from income generated from leasing of vacant office space in the refurbished building. The exact amount of the loan required would depend, in part, upon the value received from the disposal of non-strategic plots of land, the final technical solutions adopted for the refurbishment and an international procurement process. Nevertheless, reliance on future rental income to finance loan funds includes certain risks; notably the demand for office space at the time the refurbished building is available and during the term of the loan, market rentals and interest rates at that time.
7. The transfer of the net premium to the Building and Accommodation Fund would be an important part of the total financing plan and represent a contribution, albeit indirect, by member States. It would bring the confirmed funds available for the project to a total of CHF96 million, thus reducing significantly the need for funds from additional sources, in particular from the sale of ILO land, from a commercial loan or from specific contributions from member States.
8. Such a decision would require a derogation of article 11.5 of the Financial Regulations by the International Labour Conference and would apply only in respect of the net premium earned in 2008–09. The resolution proposed below is consistent with the final text approved by the Conference in 2008. ⁶
9. ***The Committee may wish to recommend that the Governing Body propose to the 99th Session (June 2010) of the International Labour Conference that, in derogation of article 11.5 of the Financial Regulations, the 2008–09 net premium earned of CHF29,739,934 be credited to the Building and Accommodation Fund to finance partially the refurbishment of the headquarters building and that it adopt a resolution in the following terms:***

The General Conference of the International Labour Organization,

Noting that the operation of the Swiss franc assessment system has resulted in a net premium earned of 29,739,934 Swiss francs in the 2008–09 biennium,

⁵ GB.304/PFA/BS/2.

⁶ ILO: Second report of the Finance Committee of Government Representatives, *Provisional Record* No. 11-2, International Labour Conference, 97th Session, Geneva, 2008, p. 7.

Decides, in derogation of article 11.5 of the Financial Regulations, to transfer the full amount of the net premium earned amounting to 29,739,934 Swiss francs to the Building and Accommodation Fund, and that the one-half share of the net premium earned during 2008–09, amounting to 14,869,967 Swiss francs that would have been distributed to member States through the Incentive Fund, be recognized as a payment in advance by each member State for their respective share of any future assessments that may be made upon them for the purposes of renovating the headquarters building.

Geneva, 10 March 2010.

Point for decision: Paragraph 9.