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Programme, Financial and Administrative Section
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PFA

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THIRD ITEM ON THE AGENDA

Update on the headquarters building renovation project

Purpose of the document

At its 309th Session in November 2010, the Governing Body approved a comprehensive plan for the renovation of the ILO headquarters building. This paper provides information on the developments since the 322nd Session of the Governing Body in November 2014 and seeks authority for the Director-General to enter into a loan agreement with the Government of the host country (see the draft decision in paragraph 22).

Relevant strategic objective: None.

Policy implications: None.

Legal implications: None.

Financial implications: None.

Follow-up action required: Further report in November 2015.

Author unit: Headquarters building renovation project (Deputy Director-General for Management and Reform).

Related documents: GB.309/PFA/BS/2(&Corr.); GB.309/PFA/11/1; GB.310/PFA/BS/1; GB.312/PFA/5(&Corr.); GB.313/PFA/INF/2; GB.313/PFA/INF/2(Add.); GB.313/PFA/3/2; GB.315/INS/6/1; GB.316/PFA/3; GB.170/FA/BS/D1/2; GB.317/PFA/2; GB.319/PFA/4; GB.320/PFA/5(Rev.); and GB.322/PFA/3.

Key developments

1. The Office has formally initiated the process for obtaining a loan from the government of the host country, detailed in paragraph 14.
2. The Office and the competent Swiss authorities have actively engaged in developing proposals for the sale of the two plots of land.
3. The preliminary works (Health Services Unit relocation, new office space on R1 and renovation of the M3 office space) are reaching completion and have remained within budget.
4. The relocation of staff from the southern end of the building is almost complete. Some moves, in particular the office of the Director-General, have been deferred until after the March 2015 Governing Body session.
5. The project management assistance services contract has been awarded; the demolition, asbestos removal and site installation contract is about to be signed; and the public bidding process for the management contractor will close at the end of March 2015.

Upcoming works

6. As announced at the November 2014 Governing Body session, the project team is being reinforced by project management assistance professionals who report to the ILO Project Manager. The project team will be fully staffed by June 2015 when the major works will commence.
7. The Office has begun an international competitive bidding process for the major renovation works of the main building and is expecting to conclude contractual arrangements in early June 2015. While awaiting the completion of this process, the Office will place an order for the demolition, asbestos removal and site installation works, to enable the refitting works to start as early as possible.

Lower floors renovation

8. The terms of reference for the renovation of the lower floors, currently not in scope, are being completed. This will enable the Office to proceed with this work should financing become available in the future.

Land evaluations and financing

9. It is recalled that the financial plan for the renovation project was presented to the Governing Body in November 2010¹ and formally approved in March 2011.
10. In accordance with the financial plan and the decisions of the Governing Body authorizing the Director-General to dispose of the non-strategic land plots,² a procedure

¹ GB.309/PFA/BS/2(&Corr).

² GB.301/PFA/BS/1 and GB.304/PFA/BS/2.

to dispose of the two plots has commenced in full collaboration with the competent authorities of the government of the host country. Interest in both plots remains strong with direct contact having been received from a number of potential purchasers. Given the zoning of the land, it will be essential for proposals to be considered in light of the development objectives of the local cantonal, municipal and communal authorities.

- 11.** Since 2010, when the financial plan was prepared, there have been changes in the real estate market in Geneva with a softening of the commercial rental market. The ILO land, however, remains prime real estate, demonstrated by the interest that has been shown. The final value to be realised from both plots will depend not only on market forces but also on the nature of the planned use and the construction density that can be authorized within the local planning restrictions. Due to the commercial sensitivity of these transactions, only general financial information can be disclosed in this document.
- 12.** In conjunction with the local authorities, consideration is being given to both direct approaches received from potential purchasers and launching a public competitive process for the freehold plot of land (No. 3844) and the leasehold land (No. 3924) owned by the Canton of Geneva. A public process will require a longer period of time than that needed for direct negotiations with those parties that have already indicated firm interest in the two plots. Local authorities and the Office are carefully analysing both possibilities following independent valuations that have been received to determine the most optimal solution in terms of process and likely financial outcome.
- 13.** Current indications are that the anticipated value on the freehold plot contained in the financial plan is realistic. The potential value to be realised from the leasehold plot will only be finally determined following decisions on the development proposals received and the final terms under which the landowner (the Canton of Geneva) would agree to assign value from the land to the Office due to the early termination of the leasehold. Should there be any shortfall from the land disposal, further scope reductions, increased loan financing or other fund raising would be required to compensate.
- 14.** The 2010 financial plan included a commercial loan to be financed by renting office space that would become available through the more efficient use of space following the renovation. In 2013 the Swiss Government revised its policy on financing building renovation projects of international organizations based in Geneva. Loan financing at preferential rates for such projects will now be considered by the Government. In December 2014, the Director-General formally requested consideration by Switzerland for such a loan. The request includes the 50 million Swiss francs (CHF) foreseen in the financial plan as a longer term loan, plus an amount of up to CHF80 million as bridging finance, pending the sale and disposal of the two plots of land.
- 15.** The review cycle for such a request operates on a calendar year basis. The request will be considered by the Swiss Federal Council and subsequently by both chambers of the Swiss Parliament. A final decision is expected in late 2015, well in advance of any needed drawdown to meet project expenditure.
- 16.** The term of the loan would be 30 years and the interest rate would be set once the final approval is given by the Swiss Parliament. The loan would be interest free throughout the period of the renovation with repayments to commence upon completion of the project.
- 17.** The authority provided in the Financial Regulations for the Director-General to contract loans is limited to sums required to meet budgetary expenditure pending the receipt of

contributions once the Working Capital Fund has been exhausted.³ Although the Governing Body previously approved the financial plan including loan financing, formal authority is required from the International Labour Conference for the Director-General to sign the loan documents between the 104th Session of the Conference in June 2015 and the 105th Session in June 2016.

- 18.** As previously reported to the Governing Body, the increased costs that have arisen subsequent to the approval of the financial plan in 2010 (from CHF205 million to CHF299 million) have resulted in a reduced project scope for the initial phase of the works (total CHF205 million). The planned works are in general limited to the main building (floors 1–11) and some essential safety works in and around the conference rooms. The remaining renovation works (CHF94 million) still to be funded include the following works for the lower floors:
- (a) replacement of remaining Gerber supports;
 - (b) implementation of code-compliant fire safety in the car parks (removal of storage areas, increased signage, installation of sprinklers, additional fire compartmentalization and additional evacuation stairways);
 - (c) treatment of remaining exposed concrete;
 - (d) replacement of outdated electrical substations;
 - (e) internal renovation of conference areas (air-handling units, lighting, data cables, carpets, false ceilings) and fire proofing of internal partitions (separating the conference rooms from the circulation space and the Gobelin hall);
 - (f) renovation and fire safety code compliance works, other than the large bay window emergency exits, in the conference rooms;
 - (g) renovation of the colonnade (replace single glazing with double glazing and update lighting);
 - (h) replacement of the remaining elevators;
 - (i) using the “Genève-Lac-Nations” project to heat the building (discussions are still under way for a joint arrangement with the local energy supplier to use this renewable energy source at no extra cost to the Office).
- 19.** All of these items will have to be addressed at a future date. Clearly there would be advantages and financial benefit if all renovation work could be completed without a break in the project and subsequent remobilization requirements.
- 20.** The Office is continuing to explore possibilities for financing the additional scope. Options currently being considered are:
- (a) as suggested by the group of industrialized market economy countries (IMEC) during the November 2014 Governing Body session, contributions from tripartite constituents. In this respect, a list of rooms or areas of the Office that could be sponsored by voluntary contributions, with or without naming rights, is under consideration;

³ ILO Financial Regulations, article 21.1(b).

- (b) the possibility of retaining a portion of the land proceeds rather than fully reimbursing the bridging finance. The cost of increased loan financing would be offset by lower than anticipated fixed interest rates determined in the current favourable interest rate environment;
 - (c) subject to Governing Body and International Labour Conference approval, retention of future surpluses, should they occur;
 - (d) a one-off assessment on member States in 2018—19 similar to the approach applied for the United Nations Capital Master Plan.
21. A further report on developments will be provided to the Governing Body at its 325th Session (November 2015).

Draft decision

22. *The Governing Body recommends that the International Labour Conference adopt the following resolution at its 104th Session (June 2015):*

The General Conference of the International Labour Organization decides that the Director-General be authorized to contract a loan with the Foundation for Buildings for International Organisations (FIPOI) amounting to not more than 130 million Swiss francs for the partial financing of the renovation of the ILO headquarters building.