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Agenda item 130

**Report of the Secretary-General on A/67/350
Tenth Annual Progress Report on the implementation of the Capital Master Plan**

**Report of the Secretary-General on A/67/350/Add.1
Proposals for financing associated Costs for 2013 from within the approved budget
for the Capital Master Plan**

FIFTH COMMITTEE

Statement by

Mr. Yukio Takasu
Under-Secretary-General for Management
Monday, 5 November 2012

Mr. Chairman,
Distinguished delegates,

1. I have the honour to introduce the tenth annual progress report of the Secretary-General on the implementation of the Capital Master Plan (CMP), and the proposals for financing the associated costs to the CMP for the year 2013. Mr. Michael Adlerstein, Assistant Secretary-General for CMP and Ms. Maria Eugenia Casar, Assistant Secretary-General, Controller, are present with us. I would like to express my gratitude to the chairman of the ACABQ for its consideration of this subject and for the Committee's report.

2. You may recall that at the resumed session in last March, serious concern was expressed by Member States, particularly on the transparency and financial aspect of

CMP. Further to the Board of Auditor's annual audit, the General Assembly requested a special review by the OIOS.

3. I would like to assure the Committee that the Secretariat is paying utmost attention to those concerns and recommendations of the Board and the OIOS, and has taken a number of steps to enhance accountability and transparency, project governance and control of the CMP financing.

4. Since I assumed my duties in the Department of Management in May, the Secretariat has established a clear line of supervision and accountability, strengthened responsible budget management, and transparent lines of communication with all stakeholders including quarterly briefing to the Fifth Committee and ACABQ, and updating of the CMP website on a regular basis. I, in my capacity as USG for Management, am responsible for ensuring the successful completion of CMP. Under my supervision, the ASG for CMP, as project director, is directly responsible for management of the project. The Controller continues to be responsible for overall financial control over project and associated costs.

5. We have been working very hard collectively under the direction of the Management Committee, and under the guidance of the Advisory Board on the CMP to ensure that project governance over the CMP is more effective, and that the remaining portion of the project will be delivered on schedule and as closely as possible to the originally approved budget. We have worked diligently to tighten the financial control of all costs relating to CMP, the project cost, as well as the associated costs, and we have presented the total financial picture of CMP in the latest progress report. In our considered view, establishing a steering committee at

this late stage of the project implementation could blur the lines of accountability and delay the decision-making process.

6. The General Assembly's decision in April 2012 to provide \$135 million in additional commitment authority, was essential and has helped us keep the project moving forward through the end of this year.

Project Implementation

7. The project is on-schedule, and has met planned construction and occupancy milestones. So far we have achieved significant accomplishments in each of the three major portions of the project currently under renovation: the Secretariat Building, the Conference Building, and the basements.

8. Our major success is that we have achieved substantial completion and occupancy of the Secretariat Building, and we have successfully relocated about one thousand four hundred people into the building so far. The reoccupancy process for staff will continue through the end of November 2012, with additional non-staff functions occupying the lower floors in early 2013.

9. The next landmark goal will be marked by the completion of the renovation of the Conference Building, including its three main chambers, in December 2012. The moves of the conference facilities back from their swing space in the North Lawn and General Assembly buildings are scheduled to begin from the end of January. The number of conferences in swing space will then be reduced until functionality of the conference facilities in the Conference Building is achieved in early 2013.

10. This work has included the completion of the enhanced security upgrades at the FDR Drive, which was implemented with a voluntary contribution by the Host Country.

11. We are very encouraged by the positive findings of a special technical construction audit by the OIOS, which should provide assurance to the Member States that the project has been moving consistently in the right direction, under proper management with adequate controls.

12. In coming weeks, we will be working on the tasks required for the reconfiguration of the North Lawn Building in early 2013 to house the functions of the General Assembly Building, including the Plenary Hall. Our renovation of the General Assembly Building will commence in April 2013, on schedule, and the General Debate next year will take place in the interim Plenary Hall that we will create in the temporary North Lawn Building.

13. As I briefed a moment ago, the damages by hurricane Sandy was relatively contained. Among others, the flooded main Chiller cooling system requires cleaning and replacement of electrical switch gear, which is likely to take a few months. However, we do not anticipate notable impact in the overall schedule of CMP completion.

Financial Positions

14. The financial position of the project has remained steady, and we have identified additional savings, reducing the projected cost to complete the project. We also presented further cost saving and financing proposals for consideration of the

General Assembly. Four years into the construction phase of the CMP, the projected cost to complete the original scope is now 12.8 per cent above our cost estimate, as approved by the General Assembly in December 2006.

15. The main cost drivers for this increase were the increase in swing space requirements. Another cost driver was the need for upgrading of security standards. Moreover, the additional costs from neither the associated activities nor the secondary data centre were included in the original scope of work or the approved budget of CMP.

16. When added to the estimated project cost shortfall, the consolidated shortfall against approved budget was \$284.3 million in May 2011. The tenth annual progress report explains the sound business reasons for delaying the publication of the estimated cost of guaranteed maximum price (GMP) contracts until negotiation is complete.

Financing proposals

17. The General Assembly, in its resumed session, requested the Secretary-General to present practical options to reduce or offset the overall projected costs and to finance such commitments while remaining within the approved budget and scope of the project. The Department of Management has undertaken a comprehensive review of the financial situation of CMP, tried to contain costs and come up with a proposal for consideration by the General Assembly.

Project cost

18. Regarding the project cost: As at July 2012, the updated cost to complete was reduced by \$25.8 million, but we still have a shortfall of \$240.4 million. We have proposed to realize additional cost reduction of \$16 million, including \$2 million by deferring the removal of the North Lawn Building. We have proposed that any future operating costs relating to the building's maintenance would be considered in the context of the proposed programme budget for the biennium 2014-2015. The basis of such proposal is that under the current CMP implementation, the disposal of North Lawn Building cannot take place in any case earlier than 2015, after CMP is complete. And the disposal of this building beyond 2015 is closely related to the consideration of the long-term accommodation needs of the UNHQ. The experience of the last week proved usefulness of NLB in unforeseen situation, which was constructed as a swing space at about \$140 million. The Secretary-General will include options of future disposal of the North Lawn Building in a report to be submitted to the resumed session in 2013 for the consideration and decision by the General Assembly.

19. We have also proposed to continue the suspension of design and renovation for the Library and South Annex, in light of sustained security protection requirement along the Southern perimeter of the HQ. The suspension would decrease the CMP project cost requirements by \$65 million, which were originally estimated in 2006. As a result of increased security threats since 2010, it is no longer feasible to renovate these two buildings at \$65 million. The consideration of heightened security protection since 2010 raised serious doubt about the wisdom of constructing blast-resistant buildings for the library and cafeteria, estimated at several hundred million

dollars. For the duration of CMP until 2015, these buildings will continue to be used for the current level of activities.

20. For the long-term arrangement of library and cafeteria, the Secretary-General will include options in a report on the long-term accommodation needs of the UNHQ to be submitted to the resumed session in 2013 for the consideration and decision by the General Assembly.

21. It is further proposed to apply the interest income and working capital reserve in the amount of \$154.4 million to the project shortfall. The future interest income, estimated at \$5 million, would also be applied.

22. If approved by the General Assembly, those measures would allow the CMP project to proceed to complete without an additional assessment.

Associated costs

23. As for the associated costs and the secondary data centre: We need to approach these costs differently from the project cost. Please recall that these costs were not included in the originally approved budget or scope of work.

24. During the construction period of the CMP, temporary increases in staffing and operational costs have been required to support the construction work in several areas such as moving and asset management and the provision of security services. These costs, together with the capital costs of furniture, equipment, new broadcast facility and media asset management system, are essential to the successful completion of the project.

25. The Secretary-General has reported these additional costs in its annual progress report since the sixty-second session to 2012 and the Assembly approved expenditure on such activities, every year, amounting to a total of \$139.4 million, but with no additional appropriation. The additional requirements requiring approval for 2013 are \$3.7 million, and there will be no requirements beyond 2013.

26. As directed by the Assembly, we will continue every effort to absorb the associated costs within the budget. However, given the current stage of the CMP implementation and significant amount incurred and needed for the associated costs, this objective is unlikely to be met.

27. It is therefore proposed that the final actual expenditures for the associated costs and the secondary data centre for the biennium 2012-2013, as well as the accumulated expenditures for the period 2008 to 2011, will be reported to the General Assembly at its sixty-eighth session in 2013 (in addendum). We have proposed that General Assembly consider the funding of these consolidated costs, in conjunction with the second performance report for the biennium 2012-2013.

Summary of Proposed Actions

28. In conclusion I would like to summarize the actions we recommend be taken by the Assembly:

- Approval of the cost reduction and financing proposals, including the application of interest income and the working capital reserve to the present cash balance;

- Approval of the extension of the approved commitment authority for 2012 into 2013;
- Approval of additional commitment authority in the amount of \$167.8 million for the project activities in 2013.
- Approval of a net amount of \$3.66 million for the associated costs for 2013.

Thank you, Mr.Chairman