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| **Council 2019Geneva, 10-20 June 2019** |  |
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| **Agenda item: ADM 18** | **Document C19/48-E** |
| **21 May 2018** |
| **Original: English** |
| Note by the Secretary-General |
| SUMMARY Report on THE WORK OF THE MEMBER STATES ADVISORY GROUP on THE Union’s headquarters premises PROJECT |

I have the honour to transmit to the Member States of the Council the summary report on the work of the **Member States Advisory Group (MSAG)**.

 Houlin ZHAO
 Secretary-General

SUMMARY Report on THE WORK OF THE MEMBER STATES ADVISORY GROUP
on THE Union’s headquarters premises PROJECT

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| SummaryThis document presents a summary report on the work of the Member States Advisory Group on the Union’s headquarters premises project (MSAG). Action requiredThe Council is invited to **take note** of the report and **provide any further guidance** as appropriate.\_\_\_\_\_\_\_\_\_\_\_\_References[*Council Decision 588*](https://www.itu.int/md/S16-CL-C-0124/en)*,* [*Resolution 212 (Dubai, 2018)*](https://www.itu.int/en/council/Documents/basic-texts/RES-212-E.pdf)*,* [*C18/48*](https://www.itu.int/md/S18-CL-C-0048/en) |

Since the April 2018 session of the Council, there have been three meetings of the Member States Advisory Group on the Union’s headquarters premises project (MSAG). The meetings were held in Geneva with the possibility of remote participation on 27 June 2018, 28 January 2019, and 15 April 2019 with Mr Dietmar Plesse (Germany) as Chairman. The full reports of these meetings can be accessed at the following link: <https://www.itu.int/en/hq-building/Pages/default.aspx> (TIES protected).

**1. Background**

1.1. During the **5th meeting** (27 June 2018) MSAG was provided for the first time with an analysis of the financial figures of the four laureate designs. The independent cost analysis established in December 2017 covers only CFC 1-4 expenses (1-preparatory work, 2-building construction, 3-building equipment, 4-external works). The estimate does not for example include the professional fees for project management (under CFC 5), this fee being highly negotiable.

With regard to the spread in size and expected cost of the laureate projects, the Secretariat explained that, for a worldwide competition, ITU took the view that site visits should not be permitted so as not to disadvantage non-locals, and that general competition requirements were preferred, so as to allow maximum scope for innovation by the entrants. In addition, some architects had interpreted the (third-party published) project budget as being just for the construction, rather than also including all other project elements (such as demolition, professional fees, temporary relocation, informatics and audio-visual systems, equipment, and furniture).

1.2. In the context of equipment, the Secretariat explained that the Swiss loan can only be used for “passive” (Swiss categorization is CFC 3) rather than “active” items (CFC 9). CFC 3 items are those that are considered to be firmly connected to the building structure. CFC 9 items are for example movable equipment and movable furniture. MSAG asked for an extensive list of those items potentially covered by the loan and those items that are not covered – together with cost estimates for the items. Rough indications are contained in Annex 2 to [C19/7](https://www.itu.int/md/S19-CL-C-0007/en). MSAG has been able to derive more detailed information through the architect’s pre-project phase advancement documentation.

1.3 During the 5th meeting FIPOI suggested that, if necessary for the quality of the project, one more year of delay at this stage will not cause Switzerland a problem in principle. For instance, to allow ITU’s formal verification of the programme.

1.4 MSAG was provided with the pre-project phase advancement immediately after submission by the architect on 15 October 2018, prior to the final session of the 2018 Council in Dubai. Based on this pre-project summary documented in [C18/123](https://www.itu.int/md/S18-CL-C-0123/en), the Council was asked to note that the current maximum project cost estimate, taking all direct and indirect costs at worse case, is CHF 180 million.

1.5 Plenipotentiary Conference 2018, through Resolution 212, resolved that the project will be financed primarily by the loan provided for in Council Decision 588 supplemented by a temporary fund (the “New Building Project Fund”) for additional items that are excluded from financing through the loan, and by the sponsorships and donations for mutually agreed purposes.

1.6 During the **6th meeting** (28 January 2019) MSAG got the final confirmation that conference room audio visual equipment (AV), being CFC 9, cannot be financed through the loan. The Secretariat confirmed that two floors have been eliminated from the competition design (one basement and the 6th office floor). The Secretariat has rejected the idea from the architect to eliminate another office floor. The Secretariat confirmed its desire to maintain 723 work places indicated in the original programme (as opposed to the architect’s proposal to use an 80% occupancy rate as best practice value for open-space designs), and indicated that these places are not exclusively for the secretariat, but also include interns, JPOs, SSAs, and flexibility for the next 100 years.

1.7 The Secretariat explained the Host Country Agreement concept of Member State financing of events that may need to be moved due to construction noise disruption forcing the closure of HQ meeting rooms. In particular, the host has to cover all expenses incurred by ITU (e.g. travel and DSA) when an event takes place outside Geneva.

1.8 The **7th meeting** (15 April 2019) followed the submission by the architect of the pre-project phase advancement on 1 April 2019. This meeting was honoured by Secretary-General Houlin Zhao’s opening remarks, expressing his appreciation for the demanding work of MSAG in this complex and multifaceted project and noting that he offers MSAG full transparency.

1.9 The Secretary-General will request Member States’ feedback on the new building, accepting that there is only limited design flexibility. He notes that two staff are now detached to the project (one P3, one G6). He will seek Member States approval of the project before he submits the second message to the Host Country (planned is submission to FIPOI by 21 June 2019 and submission to the parliamentary process by the end of August 2019).

**2. Concept Design**

2.1 During the **7th meeting** (15 April 2019) MSAG discussed the architect’s latest pre-project phase advancement and the related cost estimates noting that CFC 1-4 cost estimates are +/- 15% at this phase. The Secretariat believes these error bands are highly conservative, since extensive work has been done so far on CFC 1-4 to reduce cost risk.

2.2 Notwithstanding the Secretariat’s optimism, MSAG has concerns that the total project cost may exceed considerably the estimates presented in document [C19/7](https://www.itu.int/md/S19-CL-C-0007/en). MSAG noted that since the time when the design won the competition, the cost CFC of 1-4 items have remained at a similar level.

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|  | **Preliminary estimate 31.05.2018** | **Interim estimate of optimized project 15.10.2018** | **AVP estimate at 01.04.2019** |
| Surfaces (m2) | 31'310 | 26'637 | 29'324 |
| Volume (m3) | 127'030 | 122'081 | 124'010 |
| CFC 1 Preparatory workCFC 2 BuildingCFC 3 Installations (kitchen, audiovisual, fixed furniture)CFC 4 facilitiesOutside | Base | Options and / or programmatic complements | Base | Options and / or programmatic complements | Base | Option not validated (not included in total) |
|  |  |  |  |  |  |
| CHF 10'770'000 | CHF 1'050'000 | CHF 12'258'395 | CHF 1'050'000 | CHF 15'638'353 | CHF 0 |
|  |  |  |  |  |  |
| CHF 94'150'000 | CHF 1'002'000 | CHF 87'093'180 | CHF 1'002'000 | CHF 89'976'063 | CHF 650'000 |
|  |  |  |  |  |  |
| CHF 8'070'000 | CHF 6'498'322 | CHF 7'551'872 | CHF 6'498'322 | CHF 14'302'523 | CHF 0 |
|  |  |  |  |  |  |
| CHF 3'260'000 | CHF 1'561’138 | CHF 2'980'093 | CHF 1'561'138 | CHF 4'872'909 | CHF 0 |
|  |  |  |  |  |  |
| **sub‐total CFC 1 to 4(without tax)** | **CHF 116'250'000** | **CHF 10'111'460** | **CHF 109'883'540** | **CHF 10'111'460** | **CHF 124'789'848** |  |
| **Total CFC 1 to 4 (without tax)** | **CHF 126'361'460** | **CHF 119'995'000** | **CHF 124'789'848** |

The initial estimate after the competition was based on 26,626 m2 and 139,298 m3 at **CHF 127,790,000** (see §1.1 above). The optimization so far resulted in adding additional items to the project without significant cost increase according to the Secretariat.

2.3 The new building is required to be compliant with UN-MOSS (minimum operational security standards) that apply to all UN Organizations’ buildings worldwide that are new or retrofitted.

2.4 The Host Country specialist agency FEDPOL considers certain ITU events as having a lower risk compared with those in UNOG, but acknowledges that the new building should incorporate measures to address the potential risks. The UN DSS specialist analysis concludes that a new building lacking the recommended UN MOSS mitigation measures implemented is not compliant and would be “unacceptable by UN standards, in any circumstances”.

2.5 In line with previous decisions of the Council, MSAG supports the UN DSS specialist security reports and asks the secretariat to achieve UN-MOSS compliance and to extend its consultations with Switzerland to implement the appropriate mitigation measures.

**3 Management and Governance**

3.1 The updated project governance was presented to MSAG.

**4 Financing: PP Resolution 212, PP Decision 5**

4.1 MSAG advocates caution in assuming that the Plenipotentiary Conference 2018, through Resolution 212, established that the temporary fund (the “New Building Project Fund”) and any sponsorships or donations received could increase the financial envelope of the project, while Council Decision 588 remained in force.

4.2 The temporary fund is created only for additional items that are excluded from financing through the loan: According to Decision 5 “to finance the costs that cannot legally be financed by the loan from the host country”. MSAG supports the proposed allocation of CHF 6 million from savings in 2018 to the New Building Project Fund.

4.3 MSAG noted that the contingency of CHF 7 million is only included in the funding, but not in the cost (expenses) of C19/7. To account properly for use of contingency funding, one must recognize an equal amount of unforeseen costs.

4.4 A worst-case scenario should take into account that CFC 1-4 cost estimates are +/- 15% at this phase. Thus, an additional need CHF 18,717,000 may apply and the total residual funding needed may increase to a maximum of CHF 52,159,000. The total project cost (not including the additional Project Team salary to be paid from regular budget) may increase to CHF 220,299,000 which is above the amount for option 1 in [Document 57(Rev.1)](https://www.itu.int/md/S14-PP-C-0057/en) presented to Plenipotentiary Conference 2014 that the Conference was not in the position to approve.

4.5 MSAG revised Annex 2 to [C19/7](https://www.itu.int/md/S19-CL-C-0007/en) considering in addition the worst-case scenario based on the estimates available to the Group as of April 2019, while funding includes sponsorship of CHF 10 million and CHF 5 million generously committed by Saudi Arabia and the United Arab Emirates, respectively, and donations of USD 100,000 and CHF 40,000 generously contributed by the Czech Republic and Ghana.

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| **Scenario as per C19/7 adjusted for contingency** |
| Total project cost (kCHF) | Residual funding need (kCHF) | Surplus or sponsorship (kCHF) per year 2019-2025 |
| 198,582 | 30,442 | 4,348 |
| 201,582 | 33,442 | 4,777 |

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| **Worst case scenario as per C19/7 adjusted for contingency and 15% increase in CFC 1-4** |
| Total project cost (kCHF) | Residual funding need (kCHF) | Surplus or sponsorship (kCHF) per year 2019-2025 |
| 217,299 | 49,159 | 7,022 |
| 220,299 | 52,159 | 7,451 |

4.6 The Secretariat believes these error bands of +/- 15% are highly conservative (see §2.1 above). Assuming an exact estimate by the architect, the total direct and indirect costs exceed the CHF 180 million indicated in [C18/123](https://www.itu.int/md/S18-CL-C-0123/en) by another CHF 20 million, almost CHF 25 million if Project Team staff costs are included.

4.7 MSAG has concerns that future savings, on which the project relies, cannot be guaranteed, notwithstanding savings proposed from the 2018 budget implementation. If there will be savings, the project will absorb most, if not all of them during the next 7 years. This will restrict the Union’s capability to cope with unforeseen expenses.

**5 Conclusion**

5.1 The Council is invited to take note of the financial risk related to the implantation of the winning laureate design for the Union’s headquarters premises project. To mitigate the risk, it is proposed that the maximum total cost for all Host Country loan-includable Items shall not exceed the Host Country loan amount supplemented by agreed donations and sponsorships.

***Annex****: 1*

Annex

Financial Budgetary Details

Revised by MSAG (new figures in *italic*)

**Table: Financial detail, CFC categories: kCHF (April 2019).**

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| **Item** | **Cost (range)** | **Funding** |
| P5, P3, G6 staff salary from ITU Budget | 4,840 | **4,840** |

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| **Host Country loan-includable Items** |  |  |
| CFC 1-4 construction (+/- 15%) | 124,780 |  |
| Contingency | *7,000* | ***7,000*** |
| CFC4 Additional Safety & security for UN-MOSS | 3,000 to 6,000 |  |
| CFC 5 Construction permit, taxes & insurances | 1,280 |  |
| CFC 5 HQP competition | 722 |  |
| CFC 5 External Support Services | 5,700 |  |
| CFC 5 CDTK fees | 26,000 |  |
| CFC 5 General contractor fees | 4,600 |  |
| CFC 8 Staff relocation | 11,000 |  |
| **Total**  | ***184,082* to *187,082*** |  |
| **Host Country Loan** |  | ***140,000*** |
| **Residual of loan-includable items to be funded** | ***37,082* to *40,082*** |  |

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| **additional non-includable items** |  |  |
| CFC 8 Conference & meeting renting | 2,500 |  |
| CFC 9 Movable furniture | 5,000 |  |
| CFC 9 Active ICT | 7,000 |  |
| **Total to be funded outside loan before optimizations** | ***51,582* to *54,582*** |  |

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| **Other Funding** |  |  |
| Donations and sponsorships agreed |  | **15,140** |
| Dedicated Fund: Budget surplus 2018[[1]](#footnote-1) |  | **6,000** |
| **residual funding needed: from further optimizations, further allocations to the new building fund from budgetary surpluses for the years 2019-2025, sponsorships and donations** | ***30,442* to *33,442*** |  |

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1. Subject to the approval of Council 2019 [↑](#footnote-ref-1)