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WORLD INTELLECTUAL PROPERTY ORGANIZATION
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PROGRAM AND BUDGET COMMITTEE

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**UPDATED AND CONSOLIDATED BUDGET
AND FINANCING
FOR THE NEW CONSTRUCTION PROJECT**

prepared by the Secretariat

1. The purpose of this document is to present to the Program and Budget Committee (“the PBC”) an updated and consolidated budget for the new construction project, together with proposed financing. The progress report on the project *per se* is contained in a separate document presented to the PBC (document WO/PBC/13/5), covering the period since the presentation of the previous progress report (document WO/PBC/12/7) to the PBC, in September 2007.
2. The present document addresses the following matters:
 - I. Updated and Consolidated Budget of the Project
 - II. Contingency Provision for Miscellaneous and Unforeseen
 - III. Construction Phase Modifications
 - IV. Structure for Managing Contingency Provision and Construction Phase Modifications
 - V. Proposed Consolidated Financing

I. UPDATED AND CONSOLIDATED BUDGET OF THE PROJECT

3. Excluding the cost of the land (13,554,123 Swiss francs, purchased in 1998), the updated estimated budget of the project as of February 8, 2008, date of signature of the contracts with the general contractor and with the banks, is 153,628,903 Swiss francs. This estimated amount is to be compared with the original amount of 190,500,000 Swiss francs for the original project, approved by the thirty-seventh session of the Assemblies of the Member States of WIPO (held from September 23 to October 1, 2002 (documents A/37/2, A/37/9 and A/37/14 (report), paragraph 262)). It is also to be compared with the revised amount of 125,497,474 Swiss francs for the revised project whose reduced scope, as well as financing via a commercial loan, were approved by the forty-first session of the Assemblies of the Member States of WIPO (held from September 26 to October 5, 2005 (documents A/41/16 and A/41/17 (report), sub-paragraph 194(iv)).

4. The breakdown of the updated estimated budget is set out in the Annex.

5. It is recalled that an amount of 12,634,139 Swiss francs has already been disbursed (until the end of 2007) to cover mainly the honoraria for the architect and other engineers.

6. A “Contingency Provision for Miscellaneous and Unforeseen” for an amount of 7,886,260 Swiss francs (corresponding to about 5.5% of the updated estimated budget of 145,742,643 Swiss francs) is included in the above-mentioned amount of 153,628,903 Swiss francs and is dealt with in further details under Part II, below.

7. The resulting situation is that the updated estimated budget of the project *per se* is 145,742,643 Swiss francs (that is, 153,628,903 minus 7,886,260 Swiss francs), of which 12,634,139 Swiss francs have already been disbursed, and 113,580,000 Swiss francs are financed through the commercial loan contracted in February 2008, leaving an amount of 19,528,504 Swiss francs to be financed. It is proposed to appropriate the latter amount from the WIPO reserves.

II. CONTINGENCY PROVISION FOR MISCELLANEOUS AND UNFORESEEN

8. As indicated in paragraph 6, above, the amount of 153,628,903 Swiss francs includes a “Contingency Provision for Miscellaneous and Unforeseen” in the amount of 7,886,260 Swiss francs, which is in line with sound and professional management of construction projects of the scope, complexity and duration of a project like that of WIPO and also in line with the norms of the Swiss Association of Engineers and Architects (SIA). This amount has been calculated in accordance with the detailed cost audit carried out by the Project Pilot in 2007 and validated by the External Auditor who, in his 2007 audit report, has recommended that such a provision be established “in order not to compromise decision making which is essential to the progress of the project”¹. Finally, it is recalled that, both in the original project (2002) and in the revised project (2005), commensurate provisions were already included.

¹ The complete text of the recommendation concerned reads as follows: “Recommendation No. 4: To include a reserve for miscellaneous and unforeseen in the financial envelope for the project in order not to compromise decision making which is essential to the progress of the project. This reserve is to be used **only** [*emphasis added*] to meet possible unforeseen construction or market expenses, technical modifications or additions necessary during the execution phase, which were unforeseeable during the project stage and inaccuracies or omissions in the terms of reference leading to additional work.” (See document A/43/INF/6, Annex, paragraph 46).

9. The structure for managing, and (should it be necessary) the proposed financing of, this “Contingency Provision for Miscellaneous and Unforeseen” are dealt with, respectively, under Parts IV and V, below.

III. CONSTRUCTION PHASE MODIFICATIONS

10. For a construction project of the size of that of WIPO, it is usual that certain opportunities and necessities (and, in certain cases, unavoidable new obligations) arise during the construction period and lead to modifications, improvements, alternatives or even additions to the initial technical specifications. Certain possible modifications to the project may have no financial impact or a marginal impact, others may have a positive financial impact in bringing a cost reduction to certain features or elements, while others may have some financial impact in increasing the cost of certain features or elements.

11. As of the date of this document, and as illustrations of the modifications referred to above, there are two important matters under consideration which will constitute modifications to the project, this first one being an “opportunity” and the second one a “necessity”: (i) moving the main WIPO IT Data Center from the AB Building to the new building; (ii) implementing minimum physical UN H-MOSS security requirements for the new building.

- (a) *Moving the main WIPO IT Data Center from the AB Building to the new building.* The current location of the WIPO IT Data Center in the basement of the AB Building is inadequate on account of the lack of space available to host additional needed IT equipment and inadequate security and safety levels, which risk jeopardizing the integrity of data stored in the event of any deliberate or accidental violation of, or intrusion into, the Data Center by human or natural cause. The technical specifications included (in April 2007) in the tender documents for the General Contractor for the new building were limited to an IT room fitting the needs of the new building only, and it is on that basis that the mandate was awarded to the selected General Contractor, and the final contract signed. The Secretariat has since studied the possibility of moving the main WIPO IT Data Center from the AB Building into the new building, which would significantly increase the space available and improve, in a properly tailored location in the basement of the new building, the safety and security environment of such a crucial operation for the organization. However, such a modification of the technical specifications will require implementation of measures during the construction (in particular during the coming months when all basement levels are being laid) and it will represent an additional cost. The additional cost yet to be covered in order to convert the originally planned IT room into the main WIPO IT Data Center is currently estimated at 3,000,000 to 3,500,000 Swiss francs.
- (b) *Implementing minimum physical UN Headquarter Minimum Operating Security Standard (UN H-MOSS) security requirements for the new building.* In order to minimize the future inevitable additional work and related cost to implement minimum UN H-MOSS security requirements in a building under construction, the Secretariat decided—pending approval by the Member States of the updated comprehensive proposal for upgrading the minimum UN H-MOSS security requirements for the existing and future WIPO buildings (proposal presented to the PBC in document WO/PBC/13/6(a))—to include certain technical specifications in the tender documents for the General Contractor in April 2007

and, subsequently, in the contract signed in February 2008. The specifications concerned related to features whose significant impact on the infrastructure of the new building was already known, and which had to be implemented during the early stages of the construction phase². It is recalled that no approval could be given by the Member States on UN H-MOSS security implementation in the context of the September 2007, March 2008 and September 2008 respective sessions of the WIPO Assemblies. In the meantime, the construction phase of the new building has continued to proceed in accordance with its own timetable and the Secretariat has had to decide, in October 2008, to implement a number of conservatory measures in order to anticipate the high likelihood of approval by Member States of features affecting access by vehicles to and around the new building and to the basement levels. It is emphasized that these conservatory measures are aimed at minimizing the future inevitable additional work and related cost required to implement, as from 2009, the minimum UN H-MOSS security requirements which the WIPO Assemblies are invited to approve at their December 2008 session. The cost of these conservatory measures is currently estimated at about 1,070,000 Swiss francs³, and the cost of the remaining measures at about 3,500,000 Swiss francs. It is recalled that measures which affect the infrastructure of the new building (for an estimated amount of 2,500,000 Swiss francs)² are already included in the estimated budget referred to in paragraph 7, above. Finally, the Secretariat wishes to draw the attention of the PBC to the fact that the Host Country has officially notified WIPO that, contrary to the situation in respect of the existing WIPO buildings, the Host Country will not contribute to the cost of any of the minimum UN H-MOSS security requirements to be implemented in respect of the new building.⁴

12. It should also be highlighted that the fixed price contract with the General Contractor, signed in February 2008, requires that modifications to the project, if proposed by the General Contractor, be decided upon (that is, approved or rejected) by WIPO within 15 days if they are of a technical nature, and within 40 days if they are of a technical and financial nature. The relevant contractual provisions are aimed at establishing the appropriate balance between a reasonable turn-around time for decision making on the one hand, and, on the other hand, the maintaining of the date of delivery of the building as fixed in the contract (that is, October 2010). Should the Secretariat need more time to revert to the General Contractor with the required decision (whether positive or negative for that matter), the risk of a delay in subsequent construction work would become an issue.

13. The management structure and proposed financing for the “Construction Phase Modifications” are dealt with, respectively, under Parts IV and V, below.

IV. STRUCTURE FOR MANAGING THE CONTINGENCY PROVISION AND THE CONSTRUCTION PHASE MODIFICATIONS

14. The potential effect of any type of event (whether under the contingency framework or the modification framework) on the delivery of the project, and the related cost, should be

² The two measures concerned are as follows: reinforced facades and inside concrete wall at a vulnerable corner of the new building. These measures (estimated at 2,500,000 Swiss francs) are already included in the contracts, and therefore also already included in the updated estimated budget of the project (145,742,643 Swiss francs).

³ This amount includes equipment, installation and corresponding honoraria for architect and experts.

⁴ Refer to document WO/PBC/13/6(a), Annex II, letter to the Director General from the *Fondation des immeubles pour les organisations internationales* (FIPOI) on behalf of the Host Country.

anticipated and managed by the Secretariat, in the best interests of the Organization, to avoid or at least reduce to a minimum the risk of a delay or interruption in the construction work. Any delay in the date of delivery of the construction may require that the lease for the currently rented premises be extended, which would consequently generate additional rental cost to be covered by the regular budget in the 2010/2011 biennium.

15. Furthermore, the occurrence of events, opportunities and/or necessities in the tight framework of the operational construction project timetable will require technical and/or financial decisions on the part of WIPO, which will generally not coincide with the timing of the respective sessions of the WIPO Audit Committee (quarterly), the PBC (once or twice a year in an ordinary budget cycle) and the Assemblies of the Member States (once a year in an ordinary cycle). In other words, neither the operational project timetable nor the timing of the WIPO meetings would lend themselves to being slowed down or accelerated in order to coincide with each other, noting that the date of delivery of the new construction (October 2010) is fixed in the contract with the general contractor. The External Auditor has, in his 2007 audit report, expressly noted the “major risk of a bottleneck with respect to the need to take quick decisions”⁵.

16. It is therefore proposed to establish a pre-determined financial envelope which would be managed by the Secretariat in accordance with the framework established since 2006 to manage the project, through the three-tier structure in place (including both external and internal parties) as provided for in the Charter for the New Construction Project (version v.07 (May 2008))⁶, and on the basis of the experience gained since 2006 in actual use of that structure:

- (i) the Pilot (external party acting as the Project Director) for assessment of any required correcting measure or proposed modification (that is, whichever would be the initiator) and for making recommendations to the Internal Project Monitoring Team,
- (ii) the Internal Project Monitoring Team for reviewing the Pilot recommendations and for making its own recommendations to the Construction Committee (either following party or fully the Pilot recommendations, or rejecting them, or recommending alternatives),
- (iii) the Construction Committee for considering the recommendations and making decisions.

17. The Construction Committee would report on all such matters to the WIPO Audit Committee, the PBC and the Member States of WIPO, as has been the case so far in respect of all ongoing matters relating to the project. Furthermore, the External Auditor and the Internal Auditor would continue to carry out any audits of the project in accordance with their respective mandates.

⁵ The extract of the Audit Report reads as follows: “given that the Program and Budget Committee only meets once or twice a year and the Audit Committee around four times, there is a major risk of bottleneck in respect to the need to take quick decisions.” (See document A/43/INF/6, Annex, paragraph 17)

⁶ Copies of the Charter are available upon request.

V. PROPOSED CONSOLIDATED FINANCING

18. The contract for a commercial loan of 114,000,000 Swiss francs, signed in February 2008, includes the option, upon mere request from WIPO, to extend the amount by 16,000,000 Swiss francs, under the same conditions as the principal amount. This option is valid, and therefore available, until the end of the construction period, that is, until October 2010.

19. It is therefore proposed to use this existing option to finance, only if and when necessary, the “Contingency Provision for Miscellaneous and Unforeseen” and “Construction Phase Modifications” from the loan up to a maximum amount of 16,000,000 Swiss francs.

20. Interest would have to be paid only on the portion of the amount of 16,000,000 Swiss francs that would actually be borrowed. It is proposed that the interest be financed from the regular budget, as is the case already for the interest paid on the principal amount of 114,000,000 Swiss francs. The additional cost for the interest would be reflected in the context of both the proposed and revised Program and Budget for the 2010/2011 biennium. Subsequently, amortization of any additional borrowed capital would be the same as for the principal borrowed capital, at the rate of 3% per year.

21. The Program and Budget Committee is invited to recommend to the Assemblies of the Member States of WIPO and of the Unions, each as far as it is concerned, to:

(i) approve the updated and consolidated budget for the new construction project as set in the Annex to this document;

(ii) authorize the use of an amount of 20,000,000 Swiss francs, from the WIPO reserves;

(iii) authorize the Secretariat, to use, if and when necessary, the existing option to extend the bank loan within the contractual limit of 16,000,000 Swiss francs to finance the “Contingency Provision for Miscellaneous and Unforeseen” and the “Construction Phase Modifications”.

[Annex follows]

ANNEX

NEW CONSTRUCTION PROJECT

UPDATED AND CONSOLIDATED BUDGET
 (AS OF DATE OF SIGNATURE OF THE CONTRACTS, FEBRUARY 2008)
(Amounts in Swiss francs)

ELEMENT		AMOUNT
I.	Construction costs	
	Construction works	117,768,338
	Honoraria and related costs	27,974,305
	Total Construction Costs	145,742,643
II.	Contingency provision for miscellaneous and unforeseen	
	Total Contingency Provision	7,886,260
III.	TOTAL UPDATED AND CONSOLIDATED BUDGET	153,628,903

[End of Annex and of document]