

## **Program and Budget Committee**

**Twenty-Second Session**  
**Geneva, September 1 to 5, 2014**

### **PROGRESS REPORT ON THE NEW CONSTRUCTION PROJECT AND THE NEW CONFERENCE HALL PROJECT**

*prepared by the Secretariat*

#### **INTRODUCTION**

1. The purpose of this document is twofold:
  - (i) to present to the Program and Budget Committee (“the PBC”) an updated progress report on the New Construction Project and the New Conference Hall Project covering the period since September 2013, date on which the last progress report for the Projects was presented to the PBC (document WO/PBC/21/11);
  - (ii) to request the PBC to recommend to the Assemblies to approve proposals relating to these Projects.

### **PROGRESS REPORT ON THE NEW CONSTRUCTION PROJECT AND THE NEW CONFERENCE HALL PROJECT**

*Final Closure with the Former General Contractor*

2. The final closure of the July 2012 amicable termination agreement with the former General Contractor was amicably concluded at the end of August 2014. This brings to an end all the outstanding points with the former General Contractor on substitution works for the New Building and WIPO now holds sufficient funds to cover the cost of these works. In addition, the former General Contractor reimbursed to WIPO the final balance due on the New Conference Hall Project. It is to be noted that the Secretariat did not have to resort to any potentially lengthy legal or conflict resolution mechanisms in order to arrive at these results.

### **Operational Progress Report**

3. In respect of the **New Construction Project**, and as at the date of this document:
  - (a) the corrective works of a variety of small and medium size defects throughout the New Building were completed in December 2013;
  - (b) the repairs of the blue decorative panels of the facades were completed in January 2014;
  - (c) the installation of the vegetation cover on the roof of the New Building was completed in April 2014;
  - (d) the replacement and repair works of windows in the staircases have started mid-August 2014 and are expected to last for several months, subject to weather conditions;
  - (e) the exterior landscaping between the New Building and the New Hall was completed by the end of August 2014;
  - (f) the exterior landscaping in front of the AB Building is expected to be completed by mid-September 2014;
  - (g) the detailed work planning for the replacement and repair works of windows on the ground floor and in the interior gardens is scheduled to start by the end of September 2014, and the actual works in Spring 2015 with a planned completion date at the end of 2015 (both for reasons of minimizing inconvenience to occupants and for reasons of weather);
  - (h) a number of outstanding landscaping items mainly alongside *Route de Ferney* are expected to be dealt with in the Autumn 2014, subject to paragraph 15, below; and
  - (i) the initial infrastructure works and most of the finishing touches for the tunnel between the AB Building and the New Building were completed in Summer 2013 (the remaining finishing touches are expected to be completed by the end of 2014, subject to paragraph 15, below).
  
4. In respect of the **New Conference Hall Project**, and as at the date of this document:
  - (a) all the main technical installations (heating, cooling, ventilation, electrical circuits) have been functioning since end of Spring 2014;
  - (b) the New Access Center opened to the public on August 4, 2014, and has been satisfactorily functioning since then, while the finishing of the exterior facade is expected to be completed by mid-September 2014;
  - (c) the safety and security installations and systems (smoke detection, sprinklers, etc.) have undergone the final tests in respect of all areas required for the first utilization of the new facilities at the beginning of September 2014;
  - (d) the New Hall *per se* is now completed and ready;
  - (e) the renovated first floor level of the AB Building mezzanine, with new small meeting rooms, is now completed and ready;
  - (f) the areas below and adjacent to the New Hall *per se* are in the final stages of completion and expected to be delivered by mid-September 2014; and
  - (g) most of the expanded AB Building lobby is now completed and ready, the small area immediately adjacent to the foyer of the New Hall will be ready by mid-September 2014
  
5. Consequently, the holding of meetings of Member States in the New Conference Hall remains on schedule as from September 2014.
  
6. Compliance with architectural, construction, and technical requirements has remained a priority for the Secretariat throughout the Project implementation, and in its relationship with the architect, engineers and construction companies and suppliers within the framework of their respective expanded mandates. Project modifications, as well as miscellaneous and

unforeseen matters, ranging from architectural to technical nature, have been dealt with in order to either make use of reduced cost opportunity (cost avoidance through simpler technical solutions) or to benefit from improvements during the construction phase.

### ***Oversight and Audit***

7. Since September 2012, the Secretariat has regularly presented progress reports on both Projects to the Independent Advisory and Oversight Committee (IAOC) at each of its subsequent sessions.

8. As a result of the audit conducted by the Internal Audit and Oversight Division (IAOD) between December 2012 and June 2013, and on the basis of the final IAOD report issued on June 28, 2013, there were six recommendations made by IAOD. As at the date of the present document, the one outstanding recommendation relating to the settlement of the accounts with the former General Contractor in respect of the New Conference Hall Project has now been implemented.

9. The External Auditors carried out a compliance audit of the New Conference Hall Project in March 2014. Their observations and the Management responses can be found in document WO/PBC/22/3.

### **BUDGET AND FINANCIAL SITUATION FOR THE NEW CONSTRUCTION PROJECT AND FOR THE NEW CONFERENCE HALL PROJECT**

#### *Budget and financial situation for the New Construction Project*

10. It is recalled that, in October 2011, at their 49<sup>th</sup> meeting, the Assemblies of the Member States “authorize[d] the use for the New Conference Hall Project, if and when necessary, of an amount of up to 4,500,000 Swiss francs remaining available from the budget and provisions they had approved in December 2008 for the financing of the New Construction Project, as indicated in paragraph 10 of document WO/PBC/18/10” [emphasis added]. The amount concerned was therefore removed from the New Construction Project budget envelope, and transferred to the budget envelope of the New Conference Hall Project.

11. It is recalled that the amount of 4,500,000 Swiss francs that was removed from the New Construction Project budget envelope was composed of two elements: (i) 2,275,000 Swiss francs representing the uncommitted and unspent balance of the New Construction Project (savings), and (ii) 2,225,000 Swiss francs representing the penalty for delay to be paid by the former General Contractor to WIPO.

12. The assumption underlining the proposal to the PBC and to the Assemblies in 2011 had been that the amount of the penalty for delay (2,225,000 Swiss francs) paid by the former General Contractor could be used towards reducing the construction cost.

13. It is to be noted that the foregoing was anticipated by the then External Auditor, during his Financial Supervision Audit of the Construction Projects, carried out in Summer 2011, and reflected as follows in his final report, issued on December 22, 2011, and presented to the PBC and the Assemblies in 2012 (documents WO/PBC/19/18 and WO/GA/41/6):

“39. As indicated during the audit of WIPO’s opening IPSAS balance sheet and with reference to IPSAS 17, the penalty charge should not be viewed as an extraordinary item in terms of the 2011 financial year. The sum should be distributed in a practical manner, in order to reduce construction costs for the various parts of the building that will be shown as an asset.”

14. However, the penalty amount of 2,225,000 Swiss francs was recognized as of 2012 as “miscellaneous income” in accordance with IPSAS, and therefore was not available to the New Construction Project, as had been assumed.

15. The Secretariat has further reviewed the outstanding work that remained to be completed in 2014 and has concluded that the implementation of a number of these items would not cost as much as initially estimated and that other items could be downsized without affecting the original scope and purpose (see paragraph (3)(h) and (i), above). It is estimated that the amount of funds still needed is in the order of 400,000 Swiss francs. It was anticipated that this amount would have been financed from and covered by the penalty amount of 2,225,000 Swiss francs (refer to paragraphs 12 and 14, and to the table in the Annex).

*Budget and financial situation for the New Conference Hall Project*

16. As at the end of July 2014, the level of expenditure remained within the total revised budget envelope of 72,700,000 Swiss francs approved by the Assemblies in 2008 (4.2 million Swiss francs), 2009 (64 million Swiss francs) and 2011 (4.5 million Swiss francs).

17. Having said that, the Secretariat wishes to inform the PBC that the closing of some of the accounts with the 70-odd contractors (including the construction companies, suppliers and service providers, as well as the engineers, pilot and other specialists) will necessitate additional funds, beyond the total revised approved budget envelope referred to in paragraph 16, above. The main reasons for this situation are as follows:

- (i) in respect of several contracts based on a quantity survey, certain contractors have indicated that the actual quantities used for a number of materials are much higher (up to 40 per cent higher) than had been originally expected when they made their initial offers between 2010 and 2012;
- (ii) the additional delays in the construction phase caused by the insufficient interdisciplinary coordination by the professional specialists (architect and/or engineers); and
- (iii) the fact that most of the construction companies and suppliers had not anticipated having to remain on the worksite beyond the Spring 2014, while they had taken other work commitments, and have since experienced difficulties in responding in a flexible, coordinated and timely manner to the demands placed on them, thereby causing additional work schedule delays.

18. According to available benchmarks for major construction projects of comparable nature and scope, a complementary budget at the time of closure in the order of 3 to 5 per cent of the approved budget is not unusual. The current assessment shows the need for an estimated budget increase of up to 2.5 million Swiss francs (or 3.44 per cent) over the 2011 total revised approved budget envelope of 72,700,000 Swiss francs.

19. Furthermore, depending on the respective share of responsibility for the additional cost, some of the professional specialists and companies may have to bear part or the totality of any additional costs. It is recalled that the contracts with all contractors and some of the professional specialists provide for a retainer on each invoice paid by WIPO (between 10 per cent and 20 per cent, depending on the case). The Secretariat will carefully review these retainers when closing of the accounts of each contractor in order to minimize as far as possible the required utilization of the required budget increase mentioned in paragraph 18.

20. As a consequence, the Secretariat is requesting the appropriation of an amount of up to 2.5 million Swiss francs from the reserves, in order to close, as required, the accounts with the 70-odd firms and companies engaged for the New Conference Hall Project, by the beginning of 2015.

21. In conclusion, the total estimated cost of the New Conference Hall Project would be at most 75,200,000 Swiss francs.

#### **OVERALL RESULTING BUDGET AND FINANCIAL SITUATION ON THE TWO PROJECTS CONSIDERED TOGETHER**

22. As detailed above, when considering the savings on the New Construction Project and the penalty for delay due by the former General Contractor (which was recognized as "miscellaneous income" in 2012), the resulting budget situation for the two projects considered together (157,642,643 plus 75,200,000 = 232,842,643) shows an estimated overall increase of 675,000 Swiss francs. Refer to the table set forth in the Annex to this document.

#### **CONCLUSION**

23. The following decision paragraph is proposed.

24. *The Program and Budget Committee recommended to the Assemblies of the Member States of WIPO and of the Unions, each as far as it is concerned:*

*(i) to take note of the contents of the Progress Report on the New Construction Project and New Conference Hall Project (document WO/PBC/22/14);*

*(ii) to approve the proposal to authorize, in favor of the New Construction Project, the appropriation from the reserves of an amount of up to 400,000 Swiss francs (paragraphs 10 to 15); and*

*(iii) to approve the proposal to authorize, in favor of the New Conference Hall Project, the appropriation from the reserves of an amount of up to 2,500,000 Swiss francs (paragraphs 16 to 21).*

[Annex follows]

**Summary of the Updated Revised Budgets for the Construction Projects**  
(in Swiss francs)

*1. Proposed Updated Revised Budgets*

	<i>New Construction Project (NCP)</i>	<i>New Conference Hall Project (NCHP)</i>	<i>Total of two projects</i>
1 Initial Approved Budget	161,742,643	68,200,000	229,942,643
2 Approved transfers from NCP to NCHP*	(4,500,000)	4,500,000	-
<b>3 Revised Approved Budget (1+2)</b>	<b>157,242,643</b>	<b>72,700,000</b>	<b>229,942,643</b>
4 Additional Resources needed to complete projects	400,000	2,500,000	2,900,000
<b>5 Proposed Updated Revised Budget (3+4)</b>	<b>157,642,643</b>	<b>75,200,000</b>	<b>232,842,643</b>

*Note:*

*\*As per document WO/PBC/18/9, the amount of Sfr4,500,000 was comprised of an amount of Sfr2,225,000 constituting the penalty to be paid by the General Contractor to WIPO for the delay and an amount of Sfr2,275,000 constituting uncommitted and unspent balance of the New Construction project (savings). It was assumed that the amount of the penalty received by WIPO could be used towards offsetting the construction expenditure. However, in accordance with IPSAS standards the building was considered completed at the time of reaching the agreement on the penalty and the amount of the penalty (Sfr2,225,000) for delay received by WIPO from the General Contractor was recognized as WIPO's revenue (Miscellaneous Income).*

*2. Net additional resource needs*

	<i>New Construction Project (NCP)</i>	<i>New Conference Hall Project (NCHP)</i>	<i>Total of two projects</i>
1 Additional Resources needed to complete projects	400,000	2,500,000	2,900,000
2 Revenue: Penalty for delay paid by General Contractor to WIPO	(2,225,000)	-	(2,225,000)
<b>3 Net additional resource needs for the two projects above the amount of Revenue from Penalty for delay (1-2)</b>	<b>(1,825,000)</b>	<b>2,500,000</b>	<b>675,000</b>