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Held at Headquarters, New York, on Thursday, 31 October 2013, at 10 a.m.

Chair: Mr. Taalas . . . . (Finland)
Chair of the Advisory Committee on Administrative and Budgetary Questions: Mr. Ruiz Massieu

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13-54036 (E)

The meeting was called to order at 10.05 a.m.

Agenda item 134: Proposed programme budget for the biennium 2014-2015 (*continued*)

Capital master plan (A/68/5 (Vol. V), A/68/336, A/68/352 and A/68/352/Add.1 and A/68/551)

1. **Mr. Adlerstein** (Assistant Secretary-General for the Capital Master Plan), introducing the eleventh annual progress report of the Secretary-General on the implementation of the capital master plan (A/68/352) and the report of the Secretary-General on final expenditure for associated costs for the period from 2008 to 2013 (A/68/352/Add.1), said that the capital master plan was proceeding well and on schedule thanks to strong political and financial support from Member States. Since the tenth annual progress report had been issued, the Secretariat and Conference Buildings had been completed and were now in full use, the temporary North Lawn Building had been reconfigured and was being used as a temporary General Assembly Hall, and renovation of the General Assembly Building was under way. The project was moving forward at an accelerated pace, and he was confident that the Assembly Hall would be renovated by summer 2014 and that the entire project would be completed in the course of that year. Project closeout for accounting completion and claims purposes, as well as final landscaping, would occur in 2015, subject to approval by the General Assembly.

2. Although the capital master plan was progressing very well, the General Assembly needed to make some critical decisions concerning financing in order to ensure that the project would have the resources required for completion. As the project neared completion, the risks were increasingly reduced, and there was greater certainty that, if the Secretary-General's proposals were approved, the project would be completed without the need for an additional assessment. Nevertheless, the associated costs and the cost of the secondary data centre, which had not been part of the project's original scope, could not be absorbed within the project's approved funds and must therefore be treated differently.

3. With regard to the project schedule, occupancy of the Conference Building had been delayed by more than three months because of Storm Sandy. However, strenuous efforts were being made to speed up the schedule for the General Assembly Building by applying lessons learned, and the Assembly Hall was still expected to be completed in time for the general debate in September 2014, although the completion date was threatened by a delay in the permit process for work outside the compound. The Office of the Capital Master Plan had worked closely with the Board of Auditors and all stakeholders to document the lessons learned for the benefit of future capital projects.

4. With regard to the project costs, the Secretariat was extremely grateful for the donations received from Member States and was working with donors who had offered to participate in the General Assembly Building programme. As at 30 June 2013, the estimated cost to complete the project had been $2.114 billion. Compared to 2012, the total cost for completion had been reduced by $13 million, while the overall shortfall had been reduced by $16 million as a result of the $13 million in cost reductions approved by the General Assembly and a $3 million increase in donations. The proposals to address the financial shortfall, which had stood at $224.4 million in June 2013, involved the continued suspension of work on the Library and South Annex Buildings because of security concerns, which would create $65 million in savings, and the use of the balance of the interest income and the working capital reserve, which totalled $159.4 million. If the General Assembly endorsed those recommendations, the project would be completed without additional assessed contributions by Member States. If not, the project would run out of cash before the resumed session in 2014.

5. It had not been possible to renovate the Library and South Annex Buildings in a way that would protect them against potential threats from external roadways adjacent to Headquarters. If work on those buildings continued to be suspended, all formal and informal functions would be relocated: the cost implications of the relocation were being studied. Demolishing the existing buildings and erecting blast-proof replacement structures on site would require $350-$450 million. Other medium-term options to relocate the buildings' functions to other locations on the campus would also require significant capital expenditure, and those options were not recommended given the current financial environment. Pending resolution of the security situation, maintaining the library and cafeteria functions in the existing buildings would be the most

cost-effective approach while a long-term accommodation option was decided.

6. Cumulative associated costs for 2008 to 2013 inclusive were projected to total $141.4 million, while the cost of the secondary data centre was $15 million. Those costs had not been included in the original scope of the project, but the General Assembly had recognized the need for that expenditure and had authorized the Secretary-General to enter into commitments to meet those costs. Now, at the last stage of project implementation, capital master plan funds could no longer support those costs and a solution was needed. The project would run out of cash by the end of April 2014 and it would not be possible to move ahead unless the General Assembly decided to fund the associated costs in a timely manner. It was therefore hoped that the Committee would recognize the critical importance of taking prompt decisions concerning the project shortfall, associated costs and the cost of the secondary data centre so that the plan could be completed in time for the general debate in 2014.

7. **Mr. O'Farrell** (Chair of the Audit Operations Committee of the United Nations Board of Auditors), introducing the report of the Board of Auditors on the capital master plan (A/68/5 (Vol. 5)), said that considerable progress had been made since the Board's previous report. With 91 per cent of the available financing committed and two of the three main buildings largely completed, the total level of risk to the delivery of the capital master plan was reduced.

8. The Secretariat Building had been reoccupied, renovation of the Conference Building had been completed in May 2013 and work on the General Assembly Building had begun in June 2013. Overall, the project was on schedule to complete in 2015, but only by dint of an intense effort on the part of a highly skilled and committed project team, and with agreement on how to finance the current cost overrun and a change in scope due to the enhanced security upgrade and the use of $65 million originally budgeted for the renovation of the Library and South Annex Buildings.

9. The main risk to delivery was completion of the General Assembly Building in time for the general debate in September 2014, as the schedule had been compressed from 16.5 months to 13.5 months. Experienced project managers were actively applying lessons learned from the refurbishment of the similarly designed Conference Building in order to mitigate some of the schedule pressure, but there was an inherent uncertainty in the refurbishment of a 1950s building, and the problems that had subsequently arisen during the commissioning of the Conference Centre's state-of-the-art broadcast system could also occur at the very end of the General Assembly Building project.

10. The anticipated final cost of $2.379 billion was $314 million more than the revised consolidated budget of $2.065 billion, but $116 million less than the anticipated overrun given in the previous report. No new cost pressures or significant risks had since emerged, and the report detailed the Administration's 2012 proposal to finance the cost overrun, which included using interest from the working capital reserve, the $65 million originally budgeted for the renovation of the Library and South Annex Buildings and significant cost efficiencies. If no new major risks emerged, completing the capital master plan within the anticipated final cost was achievable, even allowing for the cost of accelerating the schedule for the General Assembly Building, if that was required.

11. The position regarding the Library and South Annex Buildings was unchanged. The Administration had not presented a costed solution whereby the functions of those buildings would be relocated and an alternative use found for the buildings in the light of security concerns, even though the audit had made it clear that the Department of Management bore that responsibility. With regard to the Administration's proposal to fund the cost overrun by using the estimated $65 million budget allocated for refurbishment of the two buildings, any decision on the use of those funds should take into account the cost of providing the functions of the two buildings elsewhere. Under the Administration's current approach, that cost would need to be met from a budget other than the capital master plan. The Administration should report to Member States on the cost and funding source.

12. The Office of the Capital Master Plan exerted firm control over expenditure and showed considerable skill in deriving value from its procurements. However, the Board remained concerned over the robustness and analytical basis of the cost forecasting of the Office, and could not provide firm assurances in that regard. The Board acknowledged that the Office utilized expert advice in forecasting the final costs and that

improvements had been made in assigning costs to identified risks. While that analysis provided the Office with some assurance, the identified risks were not explicitly linked to the forecast for the anticipated final cost. In addition, no structured trend analysis had been undertaken to determine any potential liability for future change orders, claims or the costs of unexpected acceleration needed to finish the project.

13. The Board welcomed the project initiated by the Administration to assess the cost and benefits of the flexible use of office space in response to recommendations by the Board dating back to 2011. More flexible use of office space could realize significant cost efficiencies and reduce reliance on rented office accommodation. However, the Board had been unable to independently verify the occupancy of the Secretariat Building, and the Administration had not provided the Board with an auditable basis for the total number of personnel working in the Secretariat or other Headquarters buildings, nor did it have data on actual occupancy over a representative period of time. Such data were vital if the Organization was to better understand its current and future estate requirements.

14. The United Nations did not have a long-term asset management plan for the newly renovated campus in New York or globally for the entire United Nations estate, and the Board therefore welcomed the strategic capital review of the global estate initiated by the Administration. However, the Secretariat needed to heed the lessons learned in how to deliver a major capital project.

15. **Mr. Ramanathan** (Deputy Controller, Office of Programme Planning, Budget and Accounts), introducing the report of the Secretary-General on implementation of the recommendations of the Board of Auditors contained in its report on the capital master plan for the year ended 31 December 2012 (A/68/336), said that the report indicated the implementation status as at 12 August 2013.

16. The Secretary-General had noted with appreciation the 25-per-cent decrease in the number of recommendations made by the Board for 2012 compared with 2011. Of the nine recommendations made, two had been implemented as of August 2013 and two were due to be implemented by the end of 2013. Another three would be implemented by the end of 2014 and the remaining two by the end of 2015. With regard to the 12 recommendations for 2011, nine had been implemented, two were in progress and one had not been accepted.

17. The Administration was committed to the full and timely implementation of the accepted Board of Auditor's recommendations and to their full incorporation into management processes. The Board made a positive contribution to improving the efficiency and effectiveness of the United Nations.

18. **Mr. Ruiz Massieu** (Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/68/551), said that the Advisory Committee recommended that the General Assembly should take note of the eleventh annual progress report of the Secretary-General on the implementation of the capital master plan (A/68/352), taking into account the comments and recommendations of the Advisory Committee in its report.

19. Following the request made in General Assembly resolution 67/246, the Board of Auditors had scrutinized the final cost projections of the project. While acknowledging that the Office of the Capital Master Plan utilized expert advice in forecasting the final costs and that improvements had been made in that regard, the Board had expressed concern over the robustness and analytical basis of the cost forecasting of the Office. The Advisory Committee regretted that the Secretariat had not sufficiently changed its approach with respect to the process for forecasting final project cost projections to enable acceptance by the Board of Auditors. In addition, management of the contingency provisions under the capital master plan project still lacked transparency.

20. With regard to swing space and office space utilization, the Secretary-General had not provided sufficient information on enhanced efforts to manage the costs pertaining to swing spaces with a view to optimizing rental contracts, as requested by the General Assembly. The Advisory Committee regretted that the Secretariat had not provided the Board of Auditors with the information required to conduct a proper verification of the occupancy of the Headquarters campus. The Secretary-General should therefore provide relevant information to the General Assembly in the context of its review of the eleventh progress report on the capital master plan.

21. With regard to the Library and South Annex Buildings, in view of the uncertainties that could impact on decisions to be made by the General Assembly, the Secretary-General should be requested to submit feasible alternative options for the location of the functions currently housed in the two buildings that were independent of the long-term Headquarters accommodation requirement, thus allowing for final completion of the capital master plan project. Such options should not be contingent upon the status of the FDR Drive off-ramp at 42nd Street. The South Annex and Library Buildings should therefore remain within the scope of the capital master plan project until the General Assembly made a decision on such options.

22. On financing of the associated costs and the secondary data centre, taking into account the capital master plan project budget, expenditure and projected requirements, the Advisory Committee recognized that the expenditure in respect of the associated costs would need to be funded. However, as the expenditure would continue to be incurred until the end of 2013 and final expenditure related to the associated costs could not be fully ascertained at the current stage, the Advisory Committee recommended that the General Assembly should consider the financing of the associated costs at the first part of the resumed session in 2014.

23. Regarding the remaining balance of $86.5 million in interest income and working capital reserve, the Advisory Committee had no objection to the application of the accumulated interest income and working capital reserve, as well as the future interest income, to the present cash balance. Lastly, the Advisory Committee recommended that the most up-to-date information related to the Working Capital Fund and the Special Account should be provided to the General Assembly at the time of its consideration of the eleventh progress report on the capital master plan. Furthermore, the General Assembly might wish to approve access to the Working Capital Fund and the Special Account at an appropriate level, as a cash-flow bridging mechanism, on an exceptional basis and without creating a precedent.

24. **Mr. Thomson** (Fiji), speaking on behalf of the Group of 77 and China, said that the Group had consistently maintained that the capital master plan must be completed on time and within the approved budget, without affecting its original scope or compromising quality. Management's handling of the budget for the project and the unresolved issue of the associated costs were only two of the major areas of concern. Other problems included the Administration's failure to accurately predict both the associated costs and any projected budget increase and to provide the General Assembly with timely information.

25. The Group regretted that the Secretariat had not sufficiently changed its approach with respect to the process for forecasting final project cost projections to enable acceptance by the Board of Auditors. In addition, the continuing lack of transparency surrounding reporting to the General Assembly on the management of contingency provisions remained a source of concern. Transparency and accountability were vital in such a complex project: transparent and timely reporting on all aspects of the project's implementation would enable the General Assembly to take prompt appropriate action. Failure to provide such reporting constituted a management failing.

26. The Group questioned whether the Secretariat had the capacity to complete the General Assembly Building in time for the general debate in 2014: the Secretary-General's report did not provide a clear assessment of the risks involved and the contingency measures to be implemented if the schedule proved unrealistic. Achieving the target date for completion of the General Assembly Building while managing related cost pressures was the critical risk facing the Administration.

27. The Group was very concerned that the Secretary-General had not presented viable alternatives for completion of the project in its entirety, and it would be unacceptable for solutions to integral aspects of the project's completion to become dependent on a solution to other items considered by the Committee. He urged the Secretariat to find an agreeable solution concerning renovation of the South Annex and Library Buildings with the host Government as soon as possible. It was unacceptable that a proposal sent by the United Nations to the host Government in December 2011 had remained unanswered for almost two years, and the Group would not consider the project complete until an agreed solution to that issue had been found. It also firmly rejected any proposal to defer demolition of the temporary North Lawn Building upon completion of the Headquarters renovation, and requested the Secretary-General to fully abide by General Assembly resolution 65/269 in that regard. It was extremely important for every effort to be made to refurbish and modernize United Nations

Headquarters while preserving its architectural integrity.

28. **Mr. Van Den Akker** (Observer for the European Union) said that the European Union looked forward to seeing the concrete benefits of the historic renovation of United Nations Headquarters, especially in terms of energy consumption. However, it remained concerned about the financial aspects relating to the final stages of the project, including the Administration's approach to forecasting anticipated final costs: it was important to implement the plan on time and within budget.

29. In view of the cost overruns, transparent accounting for all project costs was essential, and the Secretariat should pursue further savings and work on cost-reduction measures, including by providing more information about savings from swing space and rental contracts, in order to remain within the approved project budget and scope. It was unfortunate that the latest information provided by the Secretariat on project expenditures, requirements for the remaining project period and revised estimates was neither complete nor satisfactory, and additional and detailed justifications should therefore be provided to the General Assembly as soon as feasible.

30. A decision on financing the associated costs of the project could not be taken until the Secretariat could fully ascertain the final expenditure related to those costs. In the meantime, the Secretariat was requested to provide the latest information on the Working Capital Fund and the Special Account so that Member States could consider whether to approve access to those funds as a cash-flow bridging mechanism.

31. The Secretariat should, as a priority, present a clear statement of lessons learned regarding the capital master plan. In addition, all major capital expenditure projects should be subject to a very high level of scrutiny before any decisions were taken or major phases initiated during the project life cycle, and robust governance and oversight structures were needed to ensure accountability. There should be a standard unified approach to the delivery of major projects, and lessons learned should inform the planning and implementation of future large-scale capital projects and, where appropriate, the remaining stages of the capital master plan. Occupancy levels before and after renovation, flexible working arrangements, swing-space related matters and the budgeting of associated costs deserved thorough attention in a lessons-learned exercise. To that end, the Secretariat was urged to provide final auditable occupancy numbers for Headquarters.

32. Regarding sequencing of large-scale capital projects, the long-term accommodation needs of the Organization, the capital master plan and the strategic heritage plan were inextricably linked. The future of the North Lawn Building would be decided by the General Assembly on the basis of previous resolutions on that matter, and an in-depth discussion was needed on the future of the Library and South Annex Buildings, which included preserving the commemorative value of the former regardless of the future location of the library function. Major capital projects could not be implemented simultaneously, and, ultimately, only the General Assembly could take a decision on the initiation of such projects.

33. **Mr. Stojanovski** (Australia), speaking also on behalf of Canada and New Zealand, said that the three delegations were pleased that the capital master plan was largely on track, and recognized the efforts that had been made to place the project on a more sustainable footing and to identify lessons learned for future capital projects. However, they remained concerned at the ongoing cost overruns associated with the project. Although most of the cost overruns could not have been fully foreseen when the initial budget had been approved, it was important that lessons were learned for future projects, such as how to better assess the condition of buildings, provide more accurate forecasting and better communicate with key stakeholders, including the General Assembly.

34. He noted the Secretary-General's recommendations for financing the project shortfall of $224.4 million. The delegations understood why the General Assembly had been asked to remove the renovation of the Library and the South Annex Buildings from the project scope, and believed that replacing both buildings on their existing site at a cost of $350-450 million was a poor use of scarce financial resources. He hoped that a prompt consensus decision would be made concerning the location of the functions currently housed in those buildings, independently of the General Assembly's consideration of the Organization's long-term Headquarters accommodation needs.

35. It was disappointing that the Secretariat had been able to remove only $1.7 million from the total

projected associated costs for 2008 to 2013, which still totalled $141.4 million: the Secretariat should continue to examine ways to further absorb those costs among various departments. It was essential for the sources of funding that had not yet been made available to the project to be provided without delay. He urged Member States to pay their outstanding assessed contributions expeditiously.

36. The delegations would seek further information on the contingency available, including potential savings across a number of guaranteed maximum price contracts, in order to verify whether the level of resources was sufficient. The Secretary-General and the Office of the Capital Master Plan must be ever-vigilant with regard to potential risks that could give rise to a financial liability, and should report to the General Assembly on those risks as soon as practicable.

37. Unfortunately, the Organization had missed a valuable opportunity to replicate the best practices adopted by large organizations around the world relating to optimum management of office space. Implementing more flexible workspace arrangements could result in significant savings and more productive workplace practices. Clearly, such arrangements would require a shift in mindset and a change in entrenched workplace culture, but that was entirely possible once the benefits of more flexible workspace arrangements were realized by both staff and managers. The three delegations would work constructively with others to address collective concerns and ensure that the capital master plan was delivered efficiently and in an affordable manner.

38. **Mr. Haniff** (Malaysia) said that his delegation was pleased that the capital master plan project was nearing completion, given that a modern United Nations Headquarters would benefit all Member States. Although the estimated cost of completing the project was significantly higher than the budget approved by the General Assembly in its resolution 61/251, Malaysia continued to support the project's completion in a timely manner.

39. Despite the substantial progress made, his delegation was deeply concerned at the estimated project shortfall of $224.4 million and urged the Secretariat to use every means necessary to absorb the shortfall within the project budget. It was also concerned about the additional associated costs totalling $141.4 million and the $15 million required for the secondary data centre. Given that those items had never been part of the project budget, he urged the Secretariat to identify ways to absorb the cost increases. In view of the rising costs, the cost overrun should be reduced by using the working capital reserve and the accumulated interest earned on advance funding. Further deliberations on that matter should continue until Member States were satisfied with the measures that would be implemented to finance the cost overrun, associated costs and the secondary data centre.

40. Use of the makeshift General Assembly Hall in the North Lawn Building had created complications and inconveniences for all Member States, and it was therefore important for renovation of the Assembly Hall to be completed before the sixty-ninth session of the General Assembly. His delegation was concerned at the calls for suspension of the renovation of the Library and South Annex Buildings, since that work was an important part of the project. While taking into account the security requirements and construction methods used in the two buildings, the renovation should be completed within the specified costs under the project budget.

41. The Secretariat and the Office of the Capital Master Plan should implement the recommendations made by the Board of Auditors and the Office of Internal Oversight Services in order to improve decision-making and cost projections under the capital master plan. Member States and the Secretariat should also carefully consider the conclusions and recommendations of the Advisory Committee in order to ensure successful completion. The project must be completed in a timely manner and within the approved budget, but his delegation recognized that the project was not impervious to inflation or cost overruns. However, it urged the Secretariat to identify all ways to mitigate the estimated shortfall and cost overruns.

42. **Mr. Ono** (Japan) said that his delegation welcomed the progress made over the previous year and hoped that renovation of the General Assembly Building would be completed in time for the general debate in 2014. It also welcomed the Secretary-General's efforts to present updated information, options and financial implications relating to the Library and South Annex Buildings, and would examine the options for those buildings in the context

of his proposals concerning the long-term accommodation needs of United Nations Headquarters.

43. The Secretary-General's proposals for financing the project shortfall appeared to be both practical and the sole option available to Member States; his delegation would actively engage in discussions on those proposals. The Secretary-General must do his utmost to contain the associated costs. However, given that the associated costs could not be fully ascertained at the current stage, the Committee should consider their financing at the first part of the resumed session in 2014.

Agenda item 133: Programme budget for the biennium 2012-2013

After-service health insurance liabilities (A/68/353 and A/68/550)

44. **Mr. Ramanathan** (Deputy Controller, Office of Programme Planning, Budget and Accounts), introducing the report of the Secretary-General on managing after-service health insurance liabilities (A/68/353), said that the United Nations was not exempt from the pressure of the growing cost of providing post-retirement health-care benefits to employees. A number of United Nations organizations had taken steps to recognize and/or fund their liabilities as part of their adoption of the International Public Sector Accounting Standards (IPSAS), which required the reflection of such liabilities in financial statements. Even before the implementation of IPSAS, however, the United Nations had long included that liability in its financial statements.

45. At the last measurement date of 31 December 2011, the total liability faced by the United Nations had been $3.65 billion, a figure projected to grow to $3.94 billion by the end of 2012. Of that figure, 70 per cent related to the regular budget, 21 per cent to peacekeeping activities and 9 per cent to extrabudgetary funded activities.

46. In the face of such liabilities, a funding strategy was needed to cover both existing and future liabilities, both the Joint Inspection Unit and the Board of Auditors having expressed concern regarding the absence of funds to finance those liabilities. Although the existing pay-as-you-go funding mechanism currently remained a viable option, it was unsustainable in the long-term. To address the growing after-service health insurance liabilities, the Secretary-General was therefore proposing an accrual on current staff expenditure in order to build a reserve. Initially, that would operate in addition to pay-as-you-go funding, but it was envisioned that the reserve funds would eventually replace the current funding mechanism.

47. The proposal comprised a charge equivalent to 4.5 per cent of total staff costs to cover the service cost of liabilities, which increased with each additional year of service by staff. That rate would be applied consistently across all funding sources and would be included as part of the standard cost of employing staff. The approach was similar to how staff pension benefits were currently funded and the accrual was expected to remain in place on a permanent basis. An additional charge equivalent to 2 per cent of total staff costs would fund already accrued liabilities without the need for any initial one-time funding. That rate would be applied for approximately 20 years until full funding was achieved, resulting in the gradual replacement of pay-as-you-go funding by resources from the reserve funds. Variations in the accrual rate and pay-as-you-go combination would affect how long the additional accrual would need to remain in place.

48. The proposed accrual rates were based on the most recent actuarial valuation, conducted in 2011. Periodic reviews of the accrual rates would be needed so that the necessary adjustments could be made to reflect variations in actuarial assumptions and ensure full funding of liabilities.

49. The adoption of the Patient Protection and Affordable Care Act by the United States Government in 2010 could affect future valuations given that a significant proportion of after-service health insurance costs were related to the United States health insurance plan market, which was likely to be affected by the Act. The Secretary-General was proposing that the accruals should be implemented for the regular budget and the peacekeeping accounts beginning January 2016, in which case the related costs would be reflected in the budget estimates for the biennium 2016-2017 onwards.

50. The proposed approach differentiated between funding of liabilities already accrued and those to be accrued, and would maintain transparency in the true cost of employing staff even after full funding of past liabilities had been achieved. Investment of the reserve funds that would be generated from the accruals would

initially be handled within existing resources by the United Nations Treasury, which already managed the existing operating reserves of the self-insured United Nations health insurance plans, but the United Nations system organizations were also considering the possibility of a joint procurement exercise to identify a specialized asset manager for the funds.

51. The report also explained the measures implemented by the Secretariat in recent years to contain costs relating to health insurance plans. The Secretary-General had also examined the financial and legal implications of changing the scope and coverage of the after-service health insurance plans, as well as the contribution levels for current retirees and active staff. The General Assembly had mandated cost-sharing formulas between staff and the Organization, which had been devised on the basis of reviews undertaken by the International Civil Service Commission, and the Secretariat had implemented some changes to the plan designs as part of its cost containment initiatives. However, any significant changes to the scope, coverage and contribution levels that were detrimental to participants could affect the core elements of the acquired rights of both active and retired staff members, which were protected by the Staff Regulations and Rules.

52. After-service health insurance was a crucial element of social security for staff members who, as a result of their service to the Organization, were not always able to access the benefits offered by their national Governments when they retired. It was therefore in everyone's interest that the programme should remain affordable and viable in the long-term.

53. **Mr. Ruiz Massieu** (Chair of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/68/550), said that the Advisory Committee expected that actuarial valuations of the Organization's accrued liability for after-service health insurance benefits would be undertaken every year so that any changes in actuarial assumptions could be reflected in a timely manner.

54. The funding of after-service health insurance benefits was an issue of system-wide concern and would therefore best be resolved by adopting a system-wide approach similar to that currently employed by the United Nations Joint Staff Pension Fund for retirement and disability benefits. Given the Pension Fund's experience in administering after-service benefits and taking into account its relatively low asset management cost, the Advisory Committee recommended that the General Assembly should request the Secretary-General to look into broadening the mandate of the Fund to include the administration of after-service health insurance benefits.

55. The Advisory Committee noted the concerns expressed by the Board of Auditors and the Joint Inspection Unit with regard to the absence of a long-term funding strategy for the growing liability for after-service health insurance. It also noted the strategy proposed by the Secretary-General, but was of the view that the objective of ensuring the availability of adequate resources to settle those liabilities could be achieved without necessarily creating a reserve. It therefore recommended the continuation of the pay-as-you-go approach at the present time while alternative strategies were explored.

56. With regard to the rising costs of health insurance, the Advisory Committee commended the cost containment initiatives so far undertaken and recommended that the General Assembly should request the Secretary-General to continue to explore innovative ways in which the access of participants to quality health care could be maintained while at the same time containing costs. Lastly, with regard to the impending closure of the International Tribunal for the Former Yugoslavia and the International Criminal Tribunal for Rwanda, the Advisory Committee recognized the urgent need to resolve the issue of their unfunded employee benefit liabilities and recommended that the General Assembly should request the Secretary-General to closely monitor their after-service health insurance expenditure in the interim while efforts were made to establish a funding mechanism for that purpose.

57. **Mr. Thomson** (Fiji), speaking on behalf of the Group of 77 and China, said that the Group attached great importance to the welfare of United Nations staff and firmly supported the settlement of end-of-service liabilities given that many staff members were unable to benefit from the national social security schemes of Member States owing to their service to the Organization.

58. After-service health insurance liabilities had long-term implications for both Member States and United Nations staff, and the Group noted that different

approaches to funding liabilities had been adopted within the United Nations system. However, the Secretary-General should address after-service health insurance liabilities and the impact of the growth of those liabilities on a system-wide basis, and the Group sought information on the measures that would be implemented to that end.

59. The Group noted that the pay-as-you-go approach had led to the accumulation of almost $4 billion in unfunded liabilities as at 31 December 2012; it sought further information from the Secretariat on how that approach had been functioning since that date and its correlation with the accumulation of after-service health insurance liabilities. It would also like more detailed information on the options for the judicious use of reserves in excess of reasonable industry and United Nations standards, in the context of the analysis of pay-as-you-go and long-term funding strategies for after-service health insurance liabilities.

60. The Group was seriously concerned that the Secretariat did not have a funding plan for the growing unfunded portion of end-of-service liabilities, including after-service health insurance. It was also concerned that, based on the projected retirement rate of United Nations staff, the growth in liability and in expenditure to cover after-service health insurance costs for retirees would continue to accelerate in future bienniums. Despite that situation, the financial statements of the Secretariat indicated that no specific assets existed to settle the unfunded liabilities. Taking into account the stipulation in International Public Sector Accounting Standard 25 that liabilities related to employee benefits must be recognized in the financial statements, the Group would seek additional information from the Secretariat and the Board of Auditors on how the Secretariat could handle that situation, which could hamper its ability to become fully IPSAS-compliant.

61. The funding of after-service health insurance benefits was an issue of system-wide concern and, in the long term, would best be resolved by adopting a system-wide approach similar to that currently employed by the United Nations Joint Staff Pension Fund for retirement and disability benefits. Taking into account the Advisory Committee’s recommendation that the Secretary-General should examine possible options with the objective of broadening the mandate of the Fund to include the administration of after-service health insurance benefits on a system-wide basis, the Group sought further information from the Pension Fund on the feasibility and impact of that approach. Lastly, the Group would work closely with all stakeholders to find a practical and comprehensive solution to the current after-service health insurance liabilities.

The meeting rose at 11.30 a.m.