



SECOND ITEM ON THE AGENDA

**Premises for the Subregional Office
in Santiago, Chile**

1. At its 289th Session (GB.289/PFA/5), the Governing Body, while approving the project for construction of the Subregional Office in Santiago, made the following conditions that:
 - (a) the cost of the building be funded from the Building and Accommodation Fund and that the Office be authorized to enter into contractual arrangements within the approved ceiling of US\$1.8 million authorized by the Governing Body at its November 2003 session; and
 - (b) the Office be requested to report on the state of progress of the project to the next session of the Building Subcommittee in 2004 and, in particular, on the conditions terminating the current lease agreement, which should be done as quickly and as smoothly as possible.
2. In accordance with the results of the invitation to tender carried out in February 2004 and following the decision of the Governing Body in March 2004, the Office immediately began negotiations with the company chosen, while checking the technical validity of the bid with an in-depth confirmation of the architectural and engineering aspects of the building. Following long and intense negotiations, the Office signed a construction contract for the fixed sum of US\$1,688,525, or 1,030,000,000 Chilean pesos, at a fixed rate of 610 pesos to the dollar.
3. At the last Governing Body session, attention was drawn to the possible consequences of the fluctuating value of the Chilean peso with respect to the US dollar and the Swiss franc. It should be recalled that, in autumn 2003, the project costs were estimated on the basis of an exchange rate of 655 pesos to the US dollar (October 2003) for a total project cost of US\$1,800,000 (including architects' fees and other construction-related costs). This amount was approved by the Governing Body last November. When the construction company submitted its proposal in February 2004, the US dollar had, meanwhile, devalued with regard to the peso by approximately 10 per cent, and the exchange rate was set at 595 pesos to the dollar. Moreover, during the negotiation period in March/April 2004, the price of steel and other essential building materials had "soared", increasing by 30-40 per cent. Despite these factors, the ILO was able to negotiate a fixed construction cost of US\$1,688,525, thereby avoiding the consequences of any other possible fluctuation in exchange rates on the cost of construction.

4. The effects of the devaluation of the dollar from the time when the project was submitted in November 2003 to the signing of the contract with the company will nevertheless require an increase of US\$120,000 allocated to this project to cover its overall cost. This amount will be taken from the Building and Accommodation Fund.
5. Construction began on 14 July 2004 after the Office had obtained all the necessary authorizations from the Government of Chile and the Municipality of Santiago. It is proceeding rapidly, according to the construction schedule. The Office estimates that the new building will be available from the beginning of summer 2005. The Internal Administration Bureau will submit a series of photos at the next session of the Building Subcommittee to show the progress being made.
6. With regard to the local sales tax (IVA), exemption is now provided for in the headquarters agreement signed between the ILO and Chile. The Office has sent an official letter to the Permanent Mission of Chile in Geneva and is working to finalize the administrative procedures to make this exemption effective so that the IVA will not be added to the construction costs.
7. The Office has begun the procedure for terminating the lease agreement of the Office with the owner of the premises, who has stated in writing the intention to come to an amicable agreement with the ILO and a willingness to accept the transfer of the lease agreement to a new leasee for the remaining period, without any penalties. The Office, having received this confirmation from the owner of the premises, immediately contacted various local and reputable real estate agencies and obtained offers that were entirely comparable with the rent currently paid by the Office. It must now be decided, based on progress made with construction work, when the Office will be able to transfer the lease to a potential new leasee while minimizing difficult conditions for the staff of the Santiago Office who must continue their work throughout the relocation process.
8. *The Building Subcommittee may wish to recommend to the Programme, Financial and Administrative Committee that it recommend to the Governing Body that:*
 - (a) *it authorize the Office to adjust the project cost by an amount of US\$120,000, to be funded from the Building and Accommodation Fund, to take into account the devaluation of the US dollar against the Chilean peso between autumn 2003 and the beginning of construction;*
 - (b) *it note the steps taken by the Office with regard to the refund of IVA and termination of the current lease agreement (see paragraphs 6 and 7);*
 - (c) *it request the Office to report on the progress of this project to the Building Subcommittee at its next session in March 2005.*

Geneva, 5 October 2004.

Point for decision: Paragraph 8.