PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION

# FIRST SESSION OF THE SUBCOMMITTEE ON PROGRAM, BUDGET, AND ADMINISTRATION OF THE EXECUTIVE COMMITTEE

*Washington, D.C., USA, 26-28 March 2007*

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*Provisional Agenda Item 5*

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## MASTER CAPITAL INVESTMENT PLAN

### Introduction

1. As part of the World Health Organization's (WHO) global efforts to improve the planning, budgeting and execution process of its world-wide real estate program and information technology infrastructure (IT), new efforts are underway to assemble a Master Capital Investment Plan detailing its existing assets and identifying the future financial requirements. The Pan American Health Organization (PAHO) is participating in this assessment and planning exercise because the Organization's real estate and information technology require continuous funding to maintain the infrastructure that supports the operations of the Organization.

2. The United Nations General Assembly has approved the adoption of International Public Sector Accounting Standards (IPSAS), which will impact the manner in which the United Nations and its specialized agencies account for and report on capital assets. Currently, all assets are "expensed" immediately upon their purchase, regardless of their value and useful life. Non-expendable assets, such as vehicles and information technology equipment, are inventoried and disclosed in a note to the financial statements. The elaboration of the Master Capital Investment Plan will provide PAHO with comprehensive information on its inventory of assets and will allow PAHO to meet the IPSAS standards which will require the capitalization and depreciation of these assets.

### Planning and Biennial Program Budget

3. PAHO has begun a short- and long-term needs assessment planning exercise for the real estate and IT projects, as well as for replacements and repairs. Historically, PAHO has addressed these areas on an ad hoc basis, but the Organization would like to

regularize the planning process and address the maintenance of the buildings and IT-related infrastructure in a more deliberate manner.

4. To improve the planning and budgeting process, PAHO continuously receives information from all office locations, regardless of the ownership status of the offices, and collects the estimates on major improvements needed over a ten-year period. A similar exercise is conducted by Information Technology Services (ITS) for information technology-related infrastructure requirements. The goal is to develop a comprehensive Master Capital Investment Plan identifying the requirements, regardless of the source of financial support. Funding for major repairs at PAHO-owned properties will likely be linked to the PAHO Master Capital Investment Plan, while the funding for repairs at other locations will require a combination of Biennial Program Budget (BPB) and other funding sources.

5. It is important that the results of this planning exercise be fully quantified and that stable funding mechanisms are identified to support the ongoing requirements of the Organization. Hence, the Master Capital Investment Plan, which will be continuously updated on a rolling ten-year cycle, must be directly incorporated into the Biennial Program Budget planning and funding process.

**Real Estate Program**

6. The real estate program of PAHO is divided into three categories of properties: (a) those properties owned by PAHO, (b) those properties which are provided at little or no cost by Member States, and (c) those properties which are rented by PAHO directly.

7. The routine maintenance for the nine properties owned by PAHO, which include eight country offices and the Washington, D.C., Headquarters building, is funded by the Biennial Program Budget at each location. Major repairs for the country offices have been minimal in recent years. Renovations at the Washington, D.C., Headquarters building, which have been considerable, have been supplemented by the PAHO Building Fund with contributions from the WHO Real Estate Fund.

8. During the 2004-2005 biennium, the PAHO Building Fund received a US$ 300,000 transfer from the buildings' rental income account in accordance with Resolution CD31.R12 of the 31st Directing Council in 1985. The expenditures for major maintenance projects and repairs reached $386,741, which decreased the available balance in the PAHO Building Fund to $253,256 as of 31 December 2006.

9. In 2005, PAHO, following the example of WHO, moved from a five-year to a ten-year planning period, because the number of building repair projects were so numerous and expensive that completion within the shorter time period was unrealistic.

The PAHO Master Capital Investment Plan currently (as of 23 January 2007) identifies a total of $8,011,778 for major repairs and renovations including $6,721,000 for the Washington, D.C. Headquarters building which is a reflection of its large size, age, and real estate value. An additional $814,000 is required for the eight PAHO-owned country office facilities, and $476,778 is needed for major renovations in facilities either provided by Member States or in commercially-leased buildings. (See Annex I).

10. Past projects included the major renovation of the Washington, D.C., Headquarters building in 1999-2001. Future plans for the Washington, D.C. building include replacement of the cabling/electronic equipment and the audio/translation system in the conference rooms, the modernization of the original elevators and roof, and the repairs of the "plaza" drains. While the country offices' buildings are smaller and generally in good condition, they will require substantial repairs for roofs and electrical and plumbing systems, as well as MOSS-compliance security improvements.

**Information Technology Program**

11. Currently desktop personal computers (PCs) are funded centrally from the Capital Equipment Fund for both the Regional Office and country offices based on a "life-cycle" of approximately five years. In addition, all Microsoft (server/operating system/ database/MSOffice), anti-virus, backup and e-mail anti-spam software, firewalls, tape backup units, and three servers (for corporate applications) are centrally funded and procured. In Headquarters only, all additional corporate software licenses, networking and telecommunications hardware/software are also procured and funded from the Capital Equipment Fund.

12. PAHO's country offices fund additional information technology projects from their country offices' Biennial Program Budgets. Frequently this funding is inadequate which results in these offices having sub-standard information technology programs in support of PAHO's technical cooperation activities. In addition, many of the countries have sub-standard internet connectivity which results in connectivity issues and the inability to use corporate software efficiently and effectively.

13. The Capital Equipment Fund, which has been in existence for 13 years, has an established ceiling of $5.6 million. Its balance as of 31 December 2006 was $2.2 million. It is funded from available financial resources from the Biennial Program Budget at the end of the biennium. However, there is no long-term sustainable source of funding to ensure that technology infrastructure is maintained in an efficient and cost-effective manner. It is important to note that there is no similar WHO fund for information technology related assets from which PAHO can receive a supplemental resource allocation.

**Funding Options**

14. The current funding mechanisms for both physical and technological infrastructures are not sufficient to meet the forecasted demands. Hence, PAHO is exploring traditional, as well as innovative, funding mechanisms to assure the Organization of adequate levels for both planned and extraordinary needs. As the maintenance of these infrastructures is integral to the operations of the Organization, a certain level of funding must be included in the Biennial Program Budget. However, there are other sources of income to the Organization that could be integrated into the funding plan as a sustainable source of financing, including miscellaneous income and program support cost income.

**Summary**

15. The maintenance of the Organization's real estate and technology infrastructures is vital to the continued operation of the Organization. Therefore, a comprehensive planning exercise of short- and long-term requirements is critical. Furthermore, an adequate and sustainable funding plan must be provided based on the Master Capital Investment Plan in order to ensure that these requirements can be met as needed without affecting the regular program of work of the Organization.

**Proposal**

16. The PAHO Secretariat proposes that a Master Capital Investment Fund be established with two distinct sub-funds: (a) Real Estate and Equipment for buildings, building improvements, and capital equipment; and (b) Information Technology for information technology infrastructure. The Master Capital Investment Fund would replace the current PAHO Building Fund and the Capital Equipment Fund.

17. The Master Capital Investment Fund—Building and Equipment would fund building renovations/repairs for projects larger than $15,000 at (a) the locations provided by the Member States where PAHO bears the responsibility under the bilateral agreement for major repairs/renovations, (b) the office spaces rented by PAHO, and (c) the PAHO-owned office spaces or buildings.

18. The Master Capital Investment Fund-Information Technology would provide funding for systematic replacement of cabling and infrastructure-related items, telecommunications equipment, and computer hardware and software. The cost projected for the next ten years is approximately $18,131,000, or $810/year/staff person to maintain an up-to-date information technology program (See Annex II). These numbers reflect current costs, but could change because of rapid advances in technology.

19. The current PAHO rental costs of the first two floors of the 2121 Virginia Avenue building exceed the lease income which the Organization receives for the land on which the 2121 Virginia Avenue building is built. In order to match the land-lease income with the rental expenses, the land-lease income should be fully credited to cover the rental expenses of the first two floors of the building. Therefore, the transfer of $150,000 per year into the PAHO Building Fund provided by income from the 2121 Virginia Avenue lease should be terminated.

**Action by the Subcommittee on Program, Budget, and Administration**

20. The Subcommittee on Program, Budget, and Administration is requested to:

(a) Approve the establishment of a Master Capital Investment Fund with two sub-funds, Real Estate and Equipment, and Information Technology to fund the Master Capital Investment Plan. This Master Capital Investment Fund will replace the current PAHO Building Fund and Capital Equipment Fund, and the balances in the two funds will be transferred to the Master Capital Investment Fund on 1 January 2008.

(b) Approve the funding of the Master Capital Investment Fund from the following sources:

- A Biennial Program Budget allocation, as well as the credit from the depreciation expense when International Public Sector Accounting Standards (IPSAS) are implemented;

- Savings on the cancellation of obligations at the end of the 2006-2007 biennia in order to initially fund the Master Capital Investment Plan;

- Miscellaneous income earned which exceeds the budgeted Miscellaneous Income amount at the end of each biennium;

- Income derived from the rental of the Organization's premises, not including the land-lease income from the 2121 Virginia Avenue building;

- Excess funding of the Organization's Biennial Program Budget at the end of each biennium.

(c) Recommend that the Executive Committee adopt a resolution which supersedes operative paragraph 2 (a) of Resolution CD31.R12 which provided for annual transfer of land-lease income to the PAHO Building Fund.

Annexes

## MASTER CAPITAL INVESTMENT FUND
## BUILDING INFRASTRUCTURE COST ESTIMATES 2007-2016*

| *Location* | *Total* | *Commercial Lease* | *MOH Provided or leased* | *PAHO Owned* |
|---|---|---|---|---|
| Argentina | $76,000.00 | | | $76,000.00 |
| Belize | $6,500.00 | $6,500.00 | | |
| Brazil | $300,000.00 | | | $300,000.00 |
| Colombia | $5,000.00 | $5,000.00 | | |
| Dominican Republic | $191,600.00 | | $191,600.00 | |
| Ecuador | $12,000.00 | $12,000.00 | | |
| El Salvador | $44,850.00 | $44,850.00 | | |
| Guatemala | $60,000.00 | | | $60,000.00 |
| Guyana | $55,828.00 | | $55,828.00 | |
| Haiti | $20,000.00 | | | $20,000.00 |
| Jamaica | $25,000.00 | | $25,000.00 | |
| Nicaragua | $36,000.00 | | $36,000.00 | |
| Paraguay | $71,300.00 | | | $71,300.00 |
| Venezuela | $85,000.00 | | | $85,000.00 |
| Washington DC - HQ | $6,721,000.00 | | | $6,721,000.00 |
| ***Grand Total*** | $7,710,078.00 | $68,350.00 | $308,428.00 | $7,333,300.00 |

**Friday, February 09, 2007*

*PAHO Building Fund – Report # S.03*

## MASTER CAPITAL INVESTMENT FUND
## HARDWARE AND SOFTWARE INVESTMENT
## PAHO FIELD OFFICES AND HEADQUARTERS

| Type of Investment | 2008/09 Biennium | 2010/2011 Biennium | 2012/2013 Biennium | 2014/2015 Biennium | 2016/2017 Biennium |
|---|---|---|---|---|---|
| PC Replacement Cycle | $840,800 | $840,800 | $840,800 | $840,800 | $840,800 |
| Telephone Systems (PBX) | $830,000 | $255,000 | $70,000 | $30,000 | |
| File Servers Replacement Cycle | $775,000 | $350,000 | $350,000 | $350,000 | $350,000 |
| Backup Devices | | $100,000 | $175,000 | | |
| Firewalls | $100,000 | | $100,000 | | |
| Cabling | $50,000 | $50,000 | $50,000 | $300,000 | $50,000 |
| Other Infrastructure (router, switch) | | | | | |
| | $50,000 | $50,000 | $50,000 | $100,000 | $50,000 |
| Peripherals (printer, digital sender) | $444,000 | | $474,000 | | $474,000 |
| Software | $1,580,000 | $1,580,000 | $1,580,000 | $1,580,000 | 1,580,000 |
| Total | $4,669,800 | $3,225,800 | $3,689,800 | $3,200,800 | $3,344,800 |
| | | | | **Grand total** | **$18,131,000** |

9 February 2007