



PAN AMERICAN HEALTH ORGANIZATION
WORLD HEALTH ORGANIZATION



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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 worldwide 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 10-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 10-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 5-year to a 10-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 9 February 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. The requirements listed in the PAHO Master Capital Investment Plan are included within the WHO Integrated 10-year Capital Master Plan for funding consideration. However, due to the extreme shortage of funds at the WHO global level, PAHO currently receives approval for one project per biennium.

11. 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 improvement.

Information Technology Program

12. 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), antivirus, backup and e-mail antispam 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.

13. 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 substandard 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.

14. 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 information 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

15. The current funding mechanisms for both physical and technological infrastructures are not sufficient to meet the forecasted demands. Hence, PASB is exploring traditional, as well as innovative, funding mechanisms to assure adequate levels for the Organization for both planned and extraordinary needs, but they require Governing Body support. 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 for both subfunds.

16. The current PAHO Building Fund receives a \$300,000 transfer each biennium from the buildings' rental income account (for 2121 Virginia Avenue) in accordance with Resolution CD31.R12 of the 31st Directing Council in 1985, and also roughly \$100,000 per biennium for rental cell tower space at the Headquarters building. There is an amount provided from the WHO Building Fund, which averaged \$250,000 during each of the last three bienniums. All of these funds would continue to be used for projects listed in the Real Estate subfund.

17. However, there are few other potential sources of income available for these subfunds. The program support costs are currently fully expended for salaries and administration costs for the support of extrabudgetary initiatives. Funding from miscellaneous income that is within the budgeted level of miscellaneous income is not an option because they are included within the biennial program budget as approved by the Governing Bodies. Regular budgeted income in excess of the authorized regular budget appropriation could be used, if approved by the Governing Bodies.

18. In response to the concerns expressed by the members of the Subcommittee on Program, Budget, and Administration about the proposal to use excess resources from the Organization's biennial program budget as a source of funding, the Secretariat seeks to clarify that excess resources can come in two areas. One is regular budget income (miscellaneous income and assessments) received in excess of regular budget appropriations. The other is balances remaining from the implemented approved regular budget. In either case, these funds do not represent a forgoing of program activity, but rather they represent funds that can no longer be spent on program activities or are in excess of approved budget levels. They represent the Organization's best opportunity to secure funding for an initiative such as the Master Capital Investment Plan, and they should be considered as a possible source of funding for the Master Capital Investment Plan.

Summary

19. The maintenance of the Organization's real estate and information 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

20. The PAHO Secretariat proposes that a Master Capital Investment Fund be established with two distinct subfunds: (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.

21. The Master Capital Investment Fund—Real Estate 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.

22. 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 10 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.

23. The two subfunds would be separate and distinct with each subfund possessing specific funding sources. To maintain the integrity and independence of the subfunds, transfers between subfunds would be prohibited. This independence and subfund integrity is consistent with the operations of the existing PAHO Building Fund and Capital Equipment Fund.

24. To simplify the sources of funding and respond to the recommendations of the Subcommittee on Program, Budget, and Administration of the Executive Committee on ceilings for each fund, the Secretariat recommends that minimum resources approved for the 2008-2009 biennium would be \$1.6 million for the Real Estate and Equipment subfund and \$4.7 million for the Information Technology. Future resources would be determined by the Executive Committee, based on proposals from the Secretariat to the

Subcommittee on Program, Budget, and Administration of the Executive Committee. However, it is envisaged that the biennium amounts would reflect the needs outlined in the respective annexes as amortized over five bienniums.

25. The ceilings of the respective subfunds would be \$2 million for Real Estate and Equipment and \$6 million for Information Technology.

Action by the Executive Committee

26. The Executive Committee 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;
 - Income derived from the rental of the Organization's premises, including the land-lease income from the 2121 Virginia Avenue building (to be provided to the Real Estate and Equipment subfund).
- (c) Approve the use of unspent funds from the Organization's biennial regular program budget remaining at the end of the biennium.

Annexes

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

<i>Location</i>	<i>Total</i>	<i>Commercial Lease</i>	<i>MOH Provided or leased</i>	<i>PAHO Owned</i>
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

**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