



C(2016)63
Confidential

English - Or. English

Confidential

C(2016)63

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

29-Mar-2016

English - Or. English

COUNCIL

Council

**DRAFT DECISION OF THE COUNCIL TO AUTHORISE A PART I SUPPLEMENTARY BUDGET
AND TO DRAW DOWN FROM THE CIBRF (CLASS 2) RESERVE IN ORDER TO FINANCE THE
EARLY TERMINATION OF THE LEASE OF THE DELTA BUILDING**

(Note by the Secretary-General)

JT03392914

Complete document available on OLIS in its original format

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

Purpose and Introduction

1. The Secretariat has made good progress towards achieving an early termination of the lease of the Delta building, which runs to end 2018. The termination of this lease before the scheduled end of lease was identified in presentations of the Office Space Strategy as one of the major risk management objectives, as well as a potential significant addition to the already positive business case for the lease of OECD (Boulogne). Negotiations with the owners are at an advanced stage. There are very good prospects to secure early departure from Delta under good financial terms, and an agreement can be concluded in the coming weeks. Members' agreement is sought for the means to manage the unavoidable temporary cash flow issue that will arise as a result of the termination steps described below. For these purposes, it is proposed to increase the 2016 Part I Budget and to temporarily draw on the Capital Investment Budget and Reserve Fund (CIBRF) up to MEUR 5.0, this reserve being replenished in 2017 without recourse to additional assessed contributions from Members. The draft Council Decision is set out in Annex I.

Background

2. As part of the Office Space Strategy, in July 2015 the Organisation signed a lease to rent OECD Boulogne for twelve years starting 1 September 2015. Members were not asked for additional financial contributions for this project, which is worth around MEUR 240. Throughout 2015, Members were kept informed of the financial projections and business case, in particular to the Council, see Room Document No. 6 of 8 July. The most recent detailed progress report was provided in January 2016 to the Budget Committee [EDG No. 6].

3. The lease of OECD Boulogne and the non-renewal of leases of the Delta, Issy and Louis David buildings represented the best value for money for the Organisation in respect of: accommodating anticipated future growth; managing the OECD estate; and benefiting from consolidation for the OECD 'family' of Programmes and Directorates. By the end of 2015, some 370 staff were located in OECD Boulogne comprising three Programmes (NEA; DEV; and SWAC); and elements of some Directorates. The focus in the first half of 2016 is preparing the move of around 1100 staff currently located in the Delta building to OECD Boulogne to be completed before the end of 2016. The aim from the outset was to empty the Delta building as soon as practicable, both to maximise the opportunity for the owner to find a new tenant and to cut the administrative and operational costs involved in operating three, rather than two, main sites.

4. The business case underpinning the Office Space Strategy was positive, even though it 'assumed the worst' (i.e. the continuation of payments for the Delta lease to its term at end 2018.) Among the opportunities to manage risk and improve the business case further, the early lease termination was identified from the outset as the most significant. The potential benefit was estimated at around MEUR 9.0. During presentations both to the Budget Committee in January and to the Council in February 2016, Members encouraged the Secretariat to pursue negotiations with the owner with a view to an early termination of the Delta lease.

Early Termination of the Delta Lease

5. Indeed, negotiations were already underway with the Delta owner, but were at an uncertain stage until very recently. The OECD is now close to reaching an agreement to terminate the Delta lease before the end of 2016. While negotiations are continuing, the Secretariat estimates that it is possible to inform Members that the expected benefit from this is likely to exceed the estimated MEUR 9.0, and be closer to MEUR 11.5. The tables in Annex II illustrate the potential benefits of this operation on the business case.

6. The early departure from Delta means that the OECD would need to pay the balance of the negotiated amount owing in 2016. This means that lease expenditure payments in 2016 are going to be higher than anticipated and this will create a temporary budget deficit of MEUR 5.0 on the office space project for 2016. The deficit will of course be more than offset by savings generated in 2017 and 2018. The positive financial impact over the period 2016-18 is shown in Annex II.

7. While the advantage of early termination of the lease of Delta is obvious, a solution is required to balance the temporary budget deficit in 2016, which is due solely to the timing of the payments that need to be made to exit Delta. The simplest way to manage this is to draw down temporarily on a reserve (an “internal borrowing” operation) in 2016, and to replenish it in 2017, using the surpluses that will be generated at that time.

8. Members are therefore requested to authorise a short term internal borrowing operation in the form of a temporary drawdown on the CIBRF – Class 2 reserve in order to cover the projected deficit in 2016. The reserve would be fully and immediately replenished in 2017 from transfers from the office space income flows in 2017. Depending on the results of negotiations, some or all of this facility may not be needed, but it is important to be prudent. It should be stressed that negotiations with the Delta owner are ongoing and highly confidential, and the amounts set out in this document are indicative.

9. There are precedents to the temporary use of reserves and subsequent replenishment. For example, in 2010 the Council authorised the draw down on three different reserves for an urgent financing need following cyber-attacks [[C\(2010\)181/REV2](#)]. The reserves were subsequently replenished in 2011-12 from within the budget without calls for additional Member contributions.

10. Members’ rapid approval is sought to permit the Organisation to finalise the lease termination arrangements and transact the associated payments.

Proposed Action

11. In the light of the preceding, the Secretary-General invites the Council to adopt the following draft conclusions:

THE COUNCIL

- a) noted document [C\(2016\)63](#);
- b) approved the draft Decision set out in Annex I approving Part I Supplementary appropriations in Output Group 6.3 and adjusting the estimates of income for the Financial Year 2016; authorising the Secretary-General to use, as necessary, the CIBRF Reserve, Class 2, (up to MEUR 5), for the purpose of financing the early termination of the lease for the Delta building as set out in this note; and inviting the Secretary-General to replenish this reserve up to the amounts used for the purpose of financing the early termination of the lease for the Delta building, in 2017 and without recourse to additional assessed contributions from Members.

ANNEX I**DRAFT DECISION OF THE COUNCIL TO AUTHORISE A PART I SUPPLEMENTARY BUDGET AND TO DRAW DOWN FROM THE CIBRF (CLASS 2) RESERVE IN ORDER TO FINANCE THE EARLY TERMINATION OF THE LEASE OF THE DELTA BUILDING**

THE COUNCIL,

Having regard to the *Financial Regulations* of the Organisation;

Having regard to the *Decision of the Council concerning the Programme of Work and Budget of the Organisation for 2015-16* [[C\(2014\)158/FINAL](#)], adopted at its 1304th session on 17 December 2014 [[C/M\(2014\)13](#), Item 228];

Having regard to document [C\(2016\)63](#);

Having regard to the opinion of the Budget Committee on 31 March 2016;

DECIDES:

- a) To approve Part I supplementary appropriations in Output Group 6.3 and adjusting the estimates of income for the financial year 2016 amounting up to MEUR 5.0, in order to finance the early termination of the lease for the Delta building;
- b) To authorise the Secretary-General to use the CIBRF Reserve, Class 2, up to MEUR 5.0, to provide funding for the above supplementary budget;

INVITES the Secretary-General:

- a) To report to Members on a regular basis on this issue;
- b) To replenish in Quarter 1 2017, the above mentioned reserve, up to the amounts used for the purpose of financing the early termination of the lease for the Delta building, without recourse to additional assessed contributions from Members.

ANNEX II

Indicative cash-flows simulations

(Rebates from the owner offset expenses)

In&Out - full building: estimates from EDG n°6 of 12 January 2016

Baseline growth assumption	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
EXPENSES	-16.4	-15.7	-10.2	-30.5	-20.4	-20.4	-20.4	-20.4	-20.4	-20.4	-20.4	-20.4	-235.9
FUNDING	15.7	17.1	18.2	19.7	21.5	22.3	22.8	23.1	23.5	23.9	24.3	24.8	257.0
CARRY-FORWARD	2.2												2.2
NET CASH	1.5	1.4	8.1	-10.9	1.2	1.9	2.4	2.7	3.1	3.5	4.0	4.4	23.3
Cumulative net result	1.5	3.0	11.0	0.2	1.3	3.2	5.6	8.3	11.4	15.0	18.9	23.3	

Other potential income

Sub-letting to IEA 2016-18 (assuming 20 months)

Early Delta lease exit 2018

3.0

9.0

In&Out - full building: EDG No 6 updated with potential Delta lease termination in 2016

Baseline growth assumption	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	
EXPENSES	-16.4	-21.9	-6.0	-20.9	-19.9	-19.9	-19.9	-19.9	-19.9	-19.9	-19.9	-19.9	-224.7	Overall lower expenditure
FUNDING	15.7	17.1	18.2	19.7	21.5	22.3	22.8	23.1	23.5	23.9	24.3	24.8	257.0	
CARRY-FORWARD	2.2												2.2	
NET CASH	1.5	-4.7	12.2	-1.3	1.6	2.3	2.8	3.2	3.6	4.0	4.4	4.8	34.5	
Cumulative net result	1.5	(3.2)	9.0	7.7	9.4	11.7	14.5	17.7	21.3	25.2	29.6	34.5	34.5	Improved business case

Increased 2016 costs due to lease termination

Draw from CIBRF reserve needed to cover this deficit

CIBRF Reserve fully replenished from this surplus

No need to call for smoothing

Other potential income

Sub-letting to IEA 2016-18 (assuming 24 months)

2.9