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Substantive Segment: UNECE/UNOG Special Session on Public-Private Partnerships (PPPs)

EXPLORING PPP OPTIONS TO RENOVATE BUILDINGS: A REVIEW OF BEST PRACTICES AND THEIR APPLICABILITY FOR THE PALAIS DES NATIONS

6 December, 2012 (10 a.m. to 1 p.m., *Palais des Nations*, Salle V)

Conference room paper submitted by the Secretariat

Executive Summary

The objective of this paper is to provide the rationale for having a special session on Public-Private Partnerships (PPPs) within the Substantive Segment of the seventh session of the Committee on Economic Cooperation and Integration. It also outlines the role of PPPs in the renovation of public buildings, with a special emphasis on the applicability of the PPP approach to the renovation of the *Palais des Nations*.

The session will: discuss the various PPP models adopted around the world for the renovation of public buildings; present a number of case studies where the PPP approach was preferred to traditional public procurement in the renovation of public buildings; and enable members of the UNECE Team of Specialists on PPPs to provide preliminary recommendations to UNOG on the most appropriate models of PPPs for the renovation of the *Palais des Nations*.

1. Background

The United Nations Office in Geneva (UNOG), represented by the United Nations administration and in cooperation with other departments within the United Nations, has been given the task to develop the Strategic Heritage Plan (SHP) of the *Palais des Nations*, Geneva. The *Palais des Nations* - one of Europe's most impressive and well known buildings and unquestionably the city of Geneva's most important landmark - is in need of substantial funds for its renovation. The member States have asked the UNOG Project Team to investigate alternative funding mechanisms, including Public Private Partnerships (PPPs).

The United Nations Economic Commission for Europe (UNECE) has a resident expertise in the full range of PPP options, a strong network of experts with PPP experience including on procuring buildings through PPPs and a mandate to undertake PPP capacity-building. The UNECE has also

established a few years ago an intergovernmental body, a Team of Specialists on PPPs (TOS PPP). The UNECE Member States recently approved the creation of the International PPP Centre of Excellence.

As a result, the UNOG and the UNECE have agreed to cooperate on this task, and specifically in the preparations of a report and recommendations on alternate funding mechanisms for the SHP to the General Assembly in New York in 2013. The report will be prepared and the advice of the members of the TOS PPP will be considered in this context. As part of this cooperation, the UNECE has proposed to hold this seminar during the substantive segment of the seventh session of the Committee on Economic Cooperation and Integration (CECI) to explore the possible role of PPPs in the renovation of the *Palais des Nations*¹.

2. Purpose of the special session

The purpose of the session is threefold:

- (i) To define PPPs and the different models that might be considered in renovating public buildings;
- (ii) To present some key PPP models and case studies on how PPPs have been used successfully for the renovation of buildings and the reasons public organizations (governments) choose PPPs; and
- (iii) To provide some preliminary recommendations to UNOG on the most appropriate models of PPPs for the renovation of the *Palais des Nations*.

3. The underlying principles that should guide such work

It should be noted that in undertaking this task, the members of the TOS PPP provide such advice under the auspices of the United Nations (UN), that is, it should be neutral and free from corporate or national bias. Moreover UNOG is not in a tendering stage: it is only in the stage of exploring various options.

In addition, the UN is not an island but reflects global debates on tackling many of the world's problems. It furthermore must give leadership to the world in delivering the UN goals that are defined precisely to address some of the world's most critical global challenges. This underlying objective should also guide the reflection on the most appropriate models for the renovation of the *Palais des Nations*. For example, given the threat from climate change, the UN too must be cognizant of the fact that buildings are a huge emitter of greenhouse gases. The *Palais des Nations* is a historical building built between 1929 and 1936, under a design whose objective was not to address climate change but rather to allow the various organs of the League of Nations 'to hold

¹ UNOG's consideration of the PPP option for the renovation of the *Palais des Nations* should not come as any surprise. In fact, what we see is but a microcosm of what Governments are doing all over the world, namely, exploring PPP options on large projects that previously had been done through traditional public procurement. Buildings is a sector now which has a proven track record and indeed there are around 400 large buildings that have been undertaken as PPP in Europe and North America and from such a 'critical mass' it is possible to extrapolate what might be termed 'best practice'.

discussions, independently and easily in the calm atmosphere which should prevail when dealing with problems of an international nature'.²

4. Why PPPs for building renovations?

PPP is a method of procurement with the aim of financing, designing, implementing, maintaining, operating, and periodically refreshing public sector facilities and services. Generally PPPs have the following characteristics:

- i. A long term contract (from 5 up to 30 years) between a public contracting authority and a private sector company based on the procurement of services;
- ii. The transfer of appropriate project and operation risks to the private sector;
- iii. The contractor takes custodial responsibility;
- iv. A focus on the specification of project outputs/outcomes rather than project inputs as under traditional procurement;
- v. Application of private financing in most instances, and
- vi. Payments to the private sector which reflect the services delivered.

The motivation of the public sector partner is driven by the aim to deliver services more efficiently, to optimise life cycle costs and to secure a transfer of know-how. To date, projects undertaken through PPPs provide considerable benefits:

- i. Certainty of outcomes: on time delivery of projects and within budget delivery;
- ii. Radical energy saving costs that can be used to offset the costs of the renovation;
- iii. Innovation that can achieve excellence in design and construction; and
- iv. Ongoing asset management of the *Palais des Nations* over the term of the contract (up to 30 years).

On the other side of the balance are the following:

- i. Public building owners or users often lack the technical backgrounds and expertise on PPP methodologies, leading to fear of losing control of the building;
- ii. Complexity of contracts that are needed to satisfy both the lenders and the users;
- iii. Far greater time and money required in the initial project development phase;
- iv. Focus on the construction of the physical asset and separation from innovation in service delivery;
- v. Transfer of facilities, maintenance and asset management responsibility to the private sector; and
- vi. Challenge to introduce flexibility in order to meet changing service needs.

² It is thus possible to argue that such buildings are an area where the high level of energy inefficiency is contributing to a large percentage of greenhouse gas emissions. One of the goals then in defining best practice in PPPs in buildings is improving energy efficiency and the metrics involved in calculating energy efficiency will need also careful consideration.

5. Topics of the Special Session

The session starts with an introduction to the term ‘PPPs’ and the challenges faced by the *Palais des Nations* and how PPP models might be used to address these challenges. The second part focuses on the most important and relevant PPP models and on actual case studies which illustrate each of the models. The final part is devoted to comments by the UNECE TOS PPP experts on the various models and case studies and some initial recommendations to UNOG on the suitability of the PPP approach to the renovation of the *Palais des Nations*.

1. Introduction: The PPP Options and the Challenges facing the *Palais des Nations*;
2. Presentation of Key PPP Models and Relevant Case Studies in Renovation of Buildings;
3. Review of the Key Models and Initial Recommendations by UNECE TOS PPP on the question of using PPP models in the renovation of *Palais des Nations*

6. Documentation

A more detailed programme of the special session will be available nearer the date. The secretariat is also preparing a discussion paper summarizing the role of PPPs in building renovations, using a number of PPP models and case studies from around the world, and documenting the conclusion of the session in relation to initial recommendations, as well as the pros and cons for using the PPP approach in the renovation of the *Palais des Nations*.
