

## **Chapter 6**

---

### **Financial Commitments under Public Private Partnerships**

**Central Government**



## Financial Commitments under Public Private Partnerships

6.1 A public private partnership (PPP) is an arrangement between public and private sector partners for the delivery of public infrastructure and/or public services.

6.2 Commitments under PPPs give rise to financing obligations usually extending over 25 to 30 years. These agreements with private sector partners come in a number of forms, the basis of which are outlined in Annex A.

### Chapter Focus

This chapter has been compiled to provide information about the financial commitments entered into by central government departments and agencies under PPP contracts. It also reviews the current status of the Health Service Executive co-location programme.

### Summary of Expenditure and Commitments

6.3 Annex B lists the major<sup>63</sup> PPP projects, as at the end of December 2010, in respect of which central government departments and agencies had entered contracts as the sponsoring agency, or had otherwise made financial commitments to the projects.

6.4 Up to the end of 2010, the total expenditure incurred by central government departments and agencies under PPP contracts was over €1.9 billion (see Figure 29). Expenditure in the year under contracts amounted to €15 million.

---

<sup>63</sup> Projects where the capital cost of asset creation was less than €20 million are not included.

**Figure 29 Expenditure and Commitments under PPP Contracts in Place at End 2010, by Department/Agency**

Department/Agency	Number of projects	Expenditure		Outstanding Commitment <sup>a</sup>
		Prior to 2010	In 2010	
		€m	€m	€m
Education and Skills	5	168	38	1,128
Courts Service	1	–	39	588
Transport, Tourism and Sport/ Office of Public Works	1	–	41	716
National Roads Authority	10	844	228	1,872
Environment, Community and Local Government <sup>b</sup>	20	525	69	18
<b>Total</b>	<b>37</b>	<b>1,537</b>	<b>415</b>	<b>4,322</b>

Source: Annex B

Notes: a Assumes inflation will average 2% a year over the remaining lives of the contracts.

b Amounts shown in relation to projects sanctioned by the Department of the Environment, Community and Local Government are the contributions by the Department towards the capital cost of local authority PPP projects. They do not include expenditure under the contracts by the relevant local authorities, or the outstanding commitments that will have to be met by the local authorities from their own future budgets.

6.5 The total outstanding commitments of central government departments and agencies in respect of contracted PPP projects at end 2010 is estimated at €4.3 billion. Based on expenditure incurred to end 2010 and the estimated outstanding commitments, the aggregate Exchequer expenditure in respect of the currently contracted PPP projects is projected to be €6.3 billion.

## Potential Future Commitments

6.6 A number of PPP projects were in development at the end of 2010 but had not yet reached contract stage<sup>64</sup>.

6.7 Given the complexities involved in the PPP process and payment mechanisms, it is difficult to estimate potential future commitments under projects that are still in planning. The cost of a project depends on a range of factors, including the project specification, perspectives on risk pricing and the cost of borrowing in the project finance market. These are not finally settled until projects reach contract stage.

6.8 The Department of Public Expenditure and Reform maintains a list of ‘pipeline’ PPP projects in respect of which it is envisaged that construction could begin by 2016. The Department has stated that those projects are at various stages of planning and procurement and the estimated costs are at various stages of robustness. The Department considers that providing a composite estimate of cost for all ‘pipeline’ projects at a point in time would be of limited value.

<sup>64</sup> The Department of Public Expenditure and Reform maintains and publishes a project tracker database, listing all PPP projects with an estimated capital value of over €20 million each. The tracker includes projects where a contract is in place, and those for which project advisors have been appointed. The information on each project is provided by the relevant sponsoring authority. The tracker, however, has not been updated since March 2010. See [www.ppp.gov.ie](http://www.ppp.gov.ie)

6.9 Projects in the ‘pipeline’ that would give rise to unitary payment commitments include

<b>Education projects</b>	3 schools bundle projects <sup>65</sup> 3 third level bundle projects Dublin Institute of Technology Grangegorman campus
<b>Transport projects</b>	Metro North DART Underground <sup>66</sup> N17/N18 Gort-Tuam N11 Arklow to Rathnew (including N7 Newlands Cross junction upgrade) M11 Enniscorthy Bypass/N25 New Ross bypass <sup>67</sup> M20 Cork-Limerick South <sup>67</sup>
<b>Other projects</b>	Radiation Oncology Units.

## PPP Contracts in 2010

6.10 Three PPP projects reached contract stage during 2010. These are outlined in the following sections.

### ***Portrane/Donabate/Rush/Lusk Waste Water Treatment Plant***

6.11 A design, build and operate PPP is being used to provide an upgraded and expanded main drainage system in North County Dublin, including a single waste water treatment plant at Portrane. It will cater for a population equivalent of 65,000 and have a two-year construction phase followed by a 20 year operation and maintenance period. The plant commenced construction in March 2010 and the Department of the Environment, Community and Local Government will provide funding of €23.3 million out of a total capital contribution cost of €35 million. The plant is expected to commence operation in March 2012.

### ***Tullamore Waste Water Treatment Plant***

6.12 This project involves the design and building of a waste water treatment plant over a two-year construction period followed by a 20 year operation and maintenance period. The plant is intended to cater for a population equivalent of 45,000. The Department of the Environment, Community and Local Government will provide funding of €15.7 million out of a total allocation for the project of €20.2 million. The plant will become operational in May 2012.

<sup>65</sup> Includes two PPP schools bundles announced as part of the Jobs Initiative.

<sup>66</sup> The tunnelling element of this project has been deferred due to the reduced capital available in the National Recovery Plan. It is envisaged that re-signalling and associated works could proceed over the next four years, and this would prepare the network for the delivery of the underground tunnel once financial resources permit.

<sup>67</sup> Procurement of these projects has been deferred until at least 2014 under the National Recovery Plan.

### **Second Schools Bundle Project**

6.13 Contracts have been signed to design, build, finance and maintain six schools providing primary and post primary education in five towns – Bantry (two schools), Kildare, Abbeyfeale, Athboy and Wicklow. Taken together with a PPP bundle contracted in 2009, this will bring to ten the number of schools to be provided by PPP out of a total of 27 that had been planned in September 2005.

6.14 The second schools bundle will provide accommodation for 4,500 post primary pupils as well as an eight-classroom primary school. The Department of Education and Skills expects the schools to be brought into operation in late 2011.

### **Financing Challenges**

6.15 It was noted in last year's Report that State bodies were beginning to separate funding competitions for the financing of PPP projects. This had become necessary because the financial crisis led to a significant reduction in the number of banks willing to provide long-term funding while those remaining active in the market generally wished to keep lending terms open for only short periods of two or three months.

6.16 The National Development Finance Agency (NDFA) has stated that there was a further significant decrease in the second half of 2010 in the number of banks expressing interest in providing funding for infrastructural projects in Ireland. The prevailing Irish sovereign risk was a further constraining factor reducing the pool of international banks willing to lend into the Irish PPP market.

6.17 In response to the finance risk and reduced willingness of banks to lend, the NDFA introduced its preferred tenderer funding competition arrangement. By separating the process of procuring a preferred tenderer from the obligation of all tenderers to prove they had the necessary funding sourced, the length of time banking terms have to be held and the number of banks from whom commitments have to be raised has been reduced. The approach is being used in the schools projects and the first third-level bundle project.

6.18 The NDFA stated that it is also engaging with the banking market and exploring other funding opportunities to ensure sufficient funding at a price that ensures value for money is achieved for projects currently being procured. It believes that clarity on the prevailing banking uncertainties and a stable or improved fiscal position will also help alleviate some of the concerns of the international financial institutions who traditionally lend to the Irish project finance market.

6.19 Overall, the NDFA believes that well-defined projects with relatively low funding requirements still retain an interest for the debt and equity funding markets. The NDFA was satisfied that such projects continued to merit taking the PPP procurement route and were likely to achieve value for money as defined in the Department of Public Expenditure and Reform PPP guidance.

### **National Roads Authority Traffic Risk Sharing**

6.20 All of the PPP road contracts, with the exception of the M50 upgrade (for which the PPP company does not collect tolls), provide for a share of revenues to accrue to the National Roads Authority (NRA), subject to traffic or sales levels exceeding specified thresholds. Revenue received for 2010 amounted to €1.28 million. The NRA has forecast revenue receipts of €1.5 million to €1.75 million for 2011.

6.21 In the case of the Clonee/Kells (M3) and Limerick Tunnel PPPs, the contracts also provide for traffic-related guarantee payment mechanisms whereby the NRA is obliged to make payments to the PPP company if traffic falls under a certain level. The NRA stated that payment arises where the actual traffic in any half year period does not exceed the figures set out in the relevant PPP contract. As these routes opened during the second half of 2010, amounts due only became payable in 2011. The NRA estimated

that it will make payments in 2011 of € million to €5.5 million in respect of these two projects<sup>68</sup>. The extent to which such payments will arise in the long run is dependent on the outturn traffic volumes on the roads concerned.

6.22 The NRA noted that it is difficult at this point to forecast future traffic levels given current economic uncertainties. The pattern has been mixed with traffic growth on some routes well in excess of expectation, while on other routes traffic volumes has reduced in the last 12 months.

### **Co-location of Hospitals**

6.23 In 2005, the Minister for Health issued a direction to the Health Service Executive (HSE) to implement a policy aimed at development of private hospital facilities on public hospital sites and freeing up of beds for public patients in public hospitals. The financial and public health and welfare benefits brought about by the new public bed capacity was expected to outweigh the loss of private bed fee income for public hospitals and the tax advantages conferred on the private partners.

6.24 Following an EU-wide competition first advertised in May 2006, the HSE issued invitations to tender to short-listed bidders for seven hospitals in April 2007. These were

- Waterford Regional Hospital
- Sligo General Hospital
- Limerick Regional Hospital
- St James's Hospital
- Beaumont Hospital
- Cork University Hospital.
- James Connolly Memorial Hospital.

6.25 Project agreements for the Beaumont, Cork and Limerick projects were signed in March 2008 and in the case of St James's Hospital, in December 2008. Planning permission was granted for each of these projects. However, the project agreements in each case expired at the end of March 2011, when the time allowed for the preferred bidders to secure funding had passed. All discussions with the preferred bidders have ceased and the HSE has stated that it has no proposals to progress any of the projects.

6.26 The legal and financial costs associated with the procurement of the co-located hospitals project have been of the order of €1.46 million to date. The Accounting Officer of the HSE told me that there had, to date, been no legal costs associated with the expiry of the agreements.

### **Local Authority PPP Arrangements**

6.27 PPP agreements entered into by local authorities require prior approval by the Minister for the Environment, Community and Local Government who exercises policy making, sanctioning and oversight roles in local government matters. The Minister's approval is required, even where there are no direct Exchequer funding implications foreseen by the PPP arrangements.

---

<sup>68</sup> The payments in 2011 will relate to the second half of 2010 and the first half of 2011. The amount payable by the NRA for traffic risk sharing on the Limerick Tunnel and the M3 in respect of 2010 was €1.79 million.

6.28 The costs reported in Annex B in respect of local authority schemes only include those schemes where there is an Exchequer contribution and associated commitments. Consequently, the costs of large-scale PPP arrangements entered into by local authorities in recent years without a direct Exchequer involvement, for example, the Dublin Waste to Energy Scheme, are not included in the figures.

## Conclusion

The total outstanding commitments of central government departments and agencies in respect of contracted PPP projects at end 2010 is estimated at €4.3 billion. A further significant number of PPP projects were in development at the end of 2010 but had not yet reached contract stage. Estimates of the potential cost of those projects are not currently available from the Department of Public Expenditure and Reform.

The current economic and financial situation has brought about a climate of significant uncertainty over the availability of finance to underpin investment by the private sector in major public projects, including PPPs. Until market conditions improve, the NDFA strategy of advising the separation of the procurement decision from the need for tenderers to prove availability of funding is an approach that may help to bring some of the projects in development to the preferred tenderer stage. The NDFA's view is that well-defined projects with relatively low funding requirements still retain an interest for the debt and equity funding markets.

Difficulties in securing funding for hospital co-location projects resulted in the lapsing of project agreements in four cases. The HSE has indicated that it does not have any proposals to progress its hospital co-location programme.

Another impact of the economic downturn has been lower than projected traffic on some roads developed under PPP arrangements. Two projects have guarantee payment mechanisms and the reduced traffic levels will result in additional payments to the private sector partner in 2011 estimated to be in the region of € to €5.5 million.

## **Annex A Financial Nature of PPP Arrangements**

Typically, a PPP project involves a formal contract between a government agency and a private partner, where the latter undertakes to deliver specified facilities and/or services over the life of the contract. This is usually 25 to 30 years, although some contracts in the roads sector may be up to 45 years in duration. Project risks, which are a feature of all long-term projects, are allocated between the public and private sector partners, depending on which partner is in the best position to manage them. Under the PPP process, the State retains ownership of the assets throughout the contract period. At the end of the contract period, the sponsoring Government agency assumes responsibility for the ongoing maintenance and operation of the assets.

The structure put in place to compensate the private sector partner for developing the assets and delivering the required services varies, with different implications in terms of the financial commitments involved for the sponsoring public bodies. In many cases, the public sponsors of the project take on contractual commitments to make regular payments to the private sector partner over the life of the project. In other cases, projects are designed on a concession basis, whereby the private sector partner receives some or all of the compensation in the form of charges imposed on the users of the service.

### ***Unitary Payment Projects***

This is where the sponsoring public agency makes regular payments (monthly, quarterly or annually) over the term of the contract to the private sector partner, subject to satisfactory performance in providing agreed facilities to the required standard. Typically, part of this unitary (or all-in) payment amount is fixed over the life of the contract, with the remainder varying in line with price fluctuations (usually the Consumer Price Index). The split between the fixed and variable elements varies from project to project. Deductions are made to the unitary payment for non-performance and/or unavailability of the project.

### ***Up-front Capital Payment Projects***

In the water and wastewater sector, many PPP projects are procured on a design, build, operate and maintain (DBOM) basis. In these cases, the Exchequer provides up-front capital funding (as with traditional procurement), so there are no capital or financing costs to be paid back over the life of the project. Annual operating costs (paid by the relevant local authorities) are based on the volume of waste water arriving for treatment or the volume of drinking water produced.

### ***Concession Projects***

In concession projects, the users of the service pay fees to the private sector partner e.g. motorists using toll roads. The State may pay a contribution towards the capital costs of providing the infrastructure, and may also pay operating subventions during the contract period. Where user payments exceed projected levels, there may be scope for the additional income to be shared between the public and private sector partners.

### ***Asset-based Schemes***

In this kind of project, the public sector contribution to the project includes provision of an asset (usually land), with the private partner developing the asset e.g. social/affordable/private housing projects. Ultimately, much of the funding for this kind of project depends on sales or rentals on the open property market, and the ongoing difficulties in the property market have made many proposed developments unviable. Such projects are usually of shorter duration (five to seven years) than concession or unitary payment projects.

## **Annex B Expenditure up to end 2010 and outstanding commitments on large PPP project contracts, by public sector agency and by project**

The table lists the individual projects reported by the respective departments or agency. Only commitments and expenditure in relation to projects which have an estimated capital development value of €20 million or more are included.

A summary outline of the individual projects contracted up to the end of 2008 was included in the Comptroller and Auditor General's Report on the Accounts of the Public Services 2008 (pages 29 to 34). Summary outlines of other projects were included in the Report on the year of contract.

### ***Inflation***

The commitment amounts are projected based on the assumption that inflation will average 2% a year over the remaining life of each project. All amounts include VAT (unless otherwise stated).

### ***Scope of PPP Projects***

The private sector elements contributed to each project are indicated as follows

- D Design** of service/infrastructure
- B Build**/construct/extend/renovate capital assets
- F Provide finance** (e.g. provide/secure private equity and borrowing; collect user charges)
- O Operate** assets (e.g. facilities management; employment of services staff)
- M Maintain** assets over contract life.

Sponsoring authority/ project name	Scope of project	Key project dates			Expenditure			
		Contract signed	Service commencement	Contract end	Pre 2010	2010	Future commitment	Projected total expenditure
					€m	€m	€m	€m
<b>Department of Education and Skills</b>								
Pilot PPP schools bundle	DBFM	November 2001	2002	2027	85.9	10.7	188.4	285.0
Maritime College	DBFM	February 2003	2004	2029	54.3	8.6	136.3	199.2
Cork School of Music	DBFM	September 2005	2007	2032	28.3	8.1	193.8	230.2
First bundle PPP schools	DBFM	March 2009	2010	2035	–	10.2	256.8	267.0
Second bundle PPP schools	DBFM	June 2010	2011	2036	–	–	352.7	352.7
<b>Courts Service</b>								
The Criminal Courts of Justice	DBFM	April 2007	2009	2035	–	38.9	587.9	626.8
<b>Department of Transport, Tourism and Sport/Office of Public Works</b>								
National Conference Centre	DBFOM	April 2007	2010	2035	–	41.0	715.6	756.6
<b>National Roads Authority<sup>a</sup></b>								
Kilcock/Kinnegad	Concession	March 2003	2005	2033	169.3	0.2	7.8	177.3
Dundalk Western Bypass	Concession	February 2004	2004	2034	2.2	0.2	3.9	6.3
Rathcormack/Fermoy	Concession	June 2004	2006	2034	97.9	5.6	46.5	150.0
Waterford City Bypass	Concession	April 2006	2010	2036	107.0	4.0	89.8	200.8
Limerick Tunnel	Concession	August 2006	2010	2041	160.5	25.0	68.8	254.3
Clonee/Kells	Concession	March 2007	2010	2052	235.3	77.9	399.1	712.3

Sponsoring authority/ project name	Scope of project	Key project dates			Expenditure			
		Contract signed	Service commencement	Contract end	Pre 2010	2010	Future commitment	Projected total expenditure
					€m	€m	€m	€m
Galway/Ballinasloe	Concession	April 2007	2010	2037	43.7	28.2	288.6	360.5
Portlaoise/Cullahill	Concession	June 2007	2010	2037	27.9	18.6	37.3	83.8
M50 Upgrade	DBFOM	September 2007	2007	2042	–	42.0	908.8	950.8 <sup>b</sup>
Motorway Service Areas	Concession	October 2009	2009	2034	–	25.9	21.2	47.1
<b>Department of Environment, Community and Local Government<sup>c</sup></b>								
<b><i>Waste water treatment plants</i></b>								
Dublin Bay <sup>d</sup>	DBM	March 2001	2003	2024	203.7	16.6	–	222.8
Wexford	DBOM	July 1999	2004	2026	18.4	–	–	18.4
Cork	DBOM	December 2001	2004	2027	68.1	–	–	68.1
Balbriggan/Skerries	DBOM	September 2004	2006	2028	19.0	–	–	19.0
South Tipperary	DBOM	March 2003	2007	2029	13.4	–	–	13.4
Dungarvan	DBOM	April 2004	2007	2029	12.2	–	–	12.2
Sligo	DBOM	September 2006	2008	2030	17.0	–	–	17.0
Donegal (A)	DBOM	June 2006	2008	2030	25.2	–	–	25.2
Waterford	DBOM	September 2006	2010	2033	21.5	1.0	0.5	23.0
Portlaoise	DBOM	December 2006	2009	2031	20.1	–	–	20.1
Meath villages	DBOM	October 2007	2010	2032	21.3	1.1	–	22.4
Mullingar	DBOM	April 2008	2010	2032	16.5	–	–	16.5
Castlebar	DBOM	September 2008	2010	2032	11.3	0.1	–	11.4
Bray/Shanganagh	DBOM	September 2008	2011	2034	26.5	28.8	1.1	56.4
Wicklow	DBOM	September 2007	2009	2031	14.4	–	–	14.4

Sponsoring authority/ project name	Scope of project	Key project dates			Expenditure			
		Contract signed	Service commencement	Contract end	Pre 2010	2010	Future commitment	Projected total expenditure
					€m	€m	€m	€m
Portrane/Donabate/Rush/Lusk	DBOM	February 2010	2012	2032	–	16.8	6.5	23.3
Tullamore	DBOM	April 2010	2012	2032	–	4.8	10.9	15.7
<b>Water treatment services</b>								
Clareville	DBOM	December 2006	2010	2030	16.7	–	–	16.7
<b>Area development projects</b>								
Fatima Mansions redevelopment <sup>e</sup>	DBF	June 2004	2004	2011	–	–	–	–
Greystones harbour development	DBOF	December 2007	2017	2047	–	–	–	–

- Notes:
- In the case of NRA concessions contracts, the projected total expenditure represents the total payments expected to be made to the PPP companies concerned over the life of the contract. The PPP companies also benefit from user charges which contribute to their capital and operational costs. The contracts incorporate a revenue sharing mechanism whereby the NRA receives a portion of toll revenue.
  - Excludes VAT.
  - Expenditure/commitments exclude those of local authorities.
  - The Department has not indicated the future commitment for the Dublin Bay project as the amount is under examination as part of the final account, and it states that no further payments are being made pending clarification of certain issues. The currently approved grant is shown in the projected total expenditure column.
  - The Department was the sanctioning authority in this case. Dublin City Council was the sponsoring authority.

