

## 6 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. 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 (outlined in Annex A).
- 6.2 This chapter has been compiled to provide information about the financial commitments entered into by central Government departments and agencies in respect of PPP contracts.
- 6.3 A request for information was issued to each department/agency with commitments under PPP contracts. Information sought included expenditure to date, potential commitments under PPP projects, and information on significant developments in 2011. The Department of Public Expenditure and Reform and the National Development Finance Agency were also consulted.

### Summary of Expenditure and Commitments

- 6.4 Figure 6.7 (Annex B) lists the major PPP projects, as at the end of December 2011, in respect of which central Government departments and agencies had entered contracts as the sponsoring agency, or otherwise had financial commitments to the projects.<sup>1</sup> A summary of expenditure and outstanding commitments under the contracts at the end of 2011 is set out in Figure 6.1.

**Figure 6.1 Expenditure and Commitments under PPP Contracts at end 2011, by Sponsor**

Department/Agency	No. of projects	Expenditure		Outstanding commitment <sup>a</sup>
		Prior to 2011 €m	In 2011 €m	
Education and Skills	5	206	49	1,078
Courts Service	1	39	20	567
Office of Public Works	1	41	54	658
National Roads Authority	10	1,072	213	1,689
Environment, Community and Local Government <sup>b</sup>	20	594	54	37
<b>Total</b>	<b>37</b>	<b>1,952</b>	<b>390</b>	<b>4,029</b>

Source: Annex B, Figure 6.7

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 Environment, Community and Local Government are the contributions by the Department towards the capital cost of the 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.

<sup>1</sup> Major projects are those where the capital cost of asset creation was €20 million or more.

- 6.5 Expenditure in 2011 under PPP contracts amounted to €390 million. Total expenditure to the end of 2011 was just over €2.3 billion and estimated total outstanding commitments were €4 billion. The total Exchequer expenditure in respect of currently contracted PPPs is therefore projected to be €6.4 billion.

### ***Project Cost Increase***

- 6.6 Following a dispute between the NRA and a PPP company relating to the completion of works on the N6 Galway – Ballinasloe PPP scheme, a mediator was appointed in July 2011. A settlement agreement was reached in August 2011, under which the PPP company undertook to complete specified works, and the NRA agreed to pay an additional €16 million, most of which was paid in 2011.<sup>2</sup> The overall impact of the settlement is that total payments to the PPP company are projected to be €376.5 million (a 4.4% increase).

### **Local Authority PPP Arrangements**

- 6.7 All 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.
- 6.8 The costs reported in Figure 6.7 (Annex B) in respect of local authority schemes only include those schemes where there is an Exchequer contribution and associated commitments. Consequently, large-scale PPP arrangements entered into by local authorities in recent years without a direct Exchequer commitment to project costs are not included in the figures.
- 6.9 Two PPP projects reached contract stage during 2011. Both were local authority sponsored.

### ***Letterkenny Waste Water Treatment Plant***

- 6.10 A design, build and operate (DBO) PPP structure is being used to provide a waste water treatment plant and sludge treatment centre, and associated works for Letterkenny. The waste water treatment plant will cater for a population equivalent of 40,000 and the sludge treatment centre will treat up to 2,500 tonnes of dry solids per annum. It has a two-year construction period followed by a 20 year operation and maintenance period. The contract with Response/Severn Trent was finalised on 18 February 2011. Construction commenced in March 2011 and the plant is expected to commence operation in March 2013. The Department of the Environment, Community and Local Government will provide funding of €25.2 million towards the cost of the project.

### ***River Barrow Water Treatment Plant***

- 6.11 This water treatment plant is also being provided under a DBO PPP structure, with a two-year construction period followed by a 20 year operation and maintenance period. The plant is expected to provide 31 million litres of drinking water per day in south west Kildare. The contract with Veolia Water Ireland Ltd was agreed on 20 April 2011 and the plant is expected to become operational in April 2013. The Department of the Environment, Community and Local Government will provide funding of €24 million towards the capital costs.

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2 At July 2012, approximately €125,000 of this settlement agreement remains outstanding.

### ***Review of Value for Money in Water Services***

- 6.12** An interdepartmental review of the water services investment programme over the period 2007 to 2009 states that PPP procurement is employed in the water services sector only where it is clearly established that it provides best value for money overall.<sup>3</sup> Water services authorities are obliged to examine all procurement options objectively and to undertake a public sector benchmark (PSB) assessment before awarding a PPP contract.<sup>4</sup> The assessment is designed to enable a cost comparison to be made on a like-for-like basis between traditional and PPP procurement.
- 6.13** Where initial project appraisal indicates that a PPP option would be expected to confer benefits, the preferred form of PPP for water services treatment plants is DBO. The review noted that schemes with a capital cost of less than €40 million to €50 million would not currently be suitable for private finance (i.e. DBOF) due to high project set-up costs (due diligence, etc).
- 6.14** The review also noted, based on experience to date, that the PPP DBO model in projects involving the provision of a water treatment plant offers the following benefits.
- Infrastructure provision is accelerated because the contractor only becomes eligible for operation-phase payments after the construction is completed, thereby reducing exposure to construction inflation.
  - There is greater certainty of final capital cost.
  - Responsibility for design, construction, operation and maintenance incentivises the private sector contractors to optimise the whole life cost of the project and to provide reliable robust treatment processes and technologies and associated mechanical and electrical equipment.
  - There are incentives to use newer technologies with associated technical and economic advantages.
  - Performance and maintenance standards are contractually guaranteed over the operational phase.
- 6.15** The Department of Environment, Community and Local Government has stated that when compared to traditionally procured contracts, PPP DBOs represent average savings in the range of 10-20% in relation to project capital costs and 5-10% for operational costs, depending on the scale of the treatment plant. Details are not currently available of the number of projects that have proceeded under traditional procurement methods.
- 6.16** A new form of contract for all major public works projects were brought into effect by the Department of Finance in 2007. These have been in place for all water service projects since May 2008. The new contracting arrangements include fixed-price contracts designed to achieve greater cost certainty and better value for money for the Exchequer. A further difference from the traditional approach to contracts is the transfer of all construction-stage risks (other than archaeology) to the contractor, who prices for that risk in the tender bid. Under the previous 'traditional' form of contracting, the employer (such as a local authority) carried virtually all risks associated with the contract. This change in the form of contracting increases the level of certainty of final capital costs for non-PPP projects, and so may have implications for the relative value for money to be achieved under PPP DBO projects.

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<sup>3</sup> Report on the *Value for Money Review of the Water Services Investment Programme 2007-2009*; (2010) see Chapter 5 – Funding and Delivery Model of the WSIP.

<sup>4</sup> Public sector benchmarking is required for all PPP projects.

## Impact of Risk Sharing in Roads Projects

- 6.17** One of the key drivers of value for money in PPP projects is the assignment of project risks to the (public sector or private sector) partner that is best placed to manage them. There are many potential forms of project risk and different risks may be suitable for transfer (or sharing) in each project. For example, the public sector partner often retains demand risk i.e. the risk that the users of the service may demand more or less service than is envisaged. In some cases, a risk may be shared between the public and private partners with a 'floor' (to put a limit on the potential loss by the private partner) or with a 'ceiling' (e.g. to trigger revenue sharing arrangements). Guaranteed floor levels for demand risk may assist in making the project 'bankable' i.e. capable of attracting project finance.
- 6.18** The State's ability to transfer risk is limited by whether or not a sufficient number of potential tenderers are willing to assume a particular risk. In the tolled road PPP schemes put in place by the National Roads Authority (NRA) to date, the following allocations of risk have generally been applied.
- Construction, operational and lifecycle cost risks have largely been transferred to the PPP company.
  - Archaeological risks have also been transferred, generally after advance contract archaeological testing and resolution works undertaken by the Authority. In some cases, the Authority continued to carry some construction-phase archaeological risk.
  - Inflation risk is shared.
  - Traffic risk was transferred to the private sector partner in earlier schemes, and shared in a couple of schemes. More recently, projects have been developed on an 'availability' basis i.e. there is no transfer of traffic risk.
  - In some schemes, the Authority also shares risk relating to insurance and revenue.

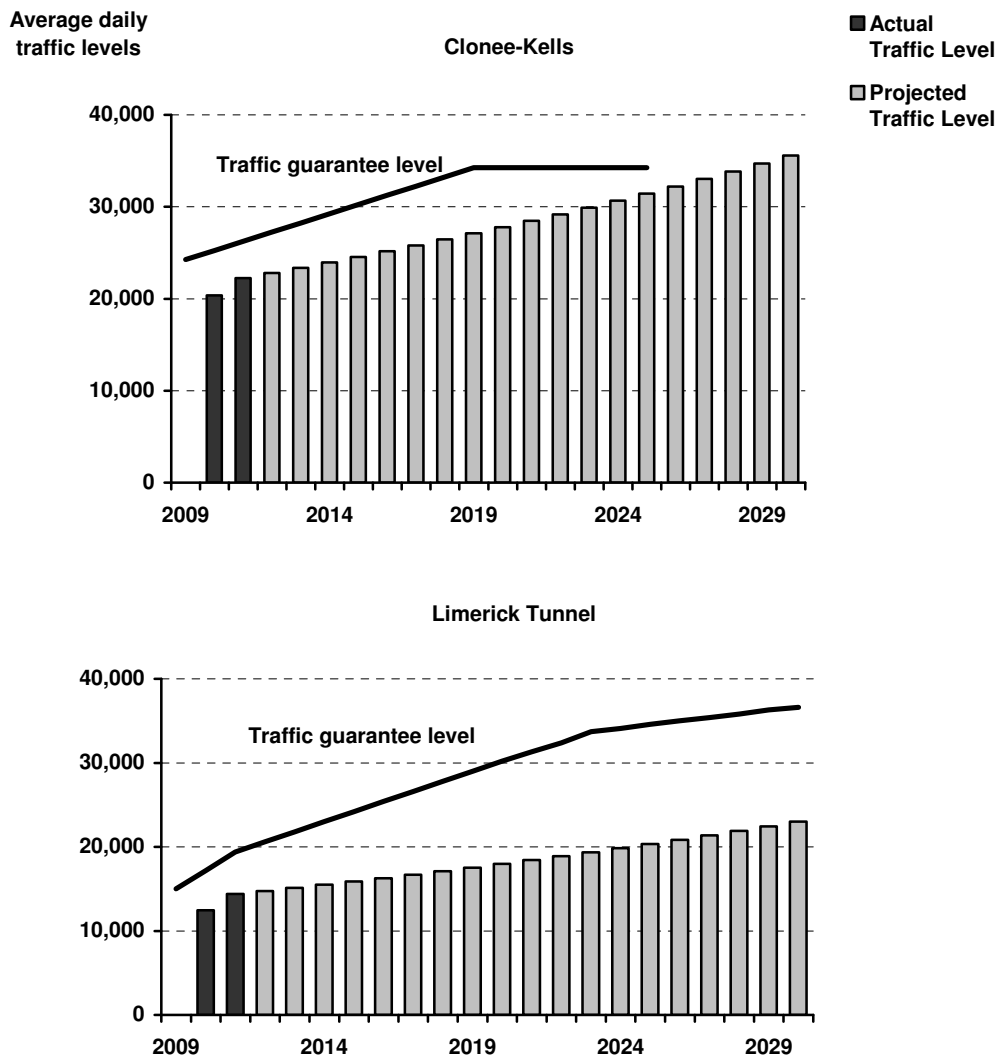
### *Traffic Risk Sharing*

- 6.19** In the case of the Clonee/Kells (M3) and Limerick Tunnel PPPs, the contracts 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. Payment arises where the average traffic level in any half-year period does not exceed the figures set out in the relevant PPP contract. As both these routes opened during the second half of 2010, amounts due under the guarantees only became payable in 2011. Some €5.2 million was paid by the NRA in 2011.<sup>5</sup>
- 6.20** The traffic guarantee threshold in each of the contracts increases over time, as indicated in Figure 6.2
- On the Clonee/Kells (M3) road, the volume of traffic for which revenue is guaranteed in 2012 is 27,250. Thereafter, the guarantee level increases annually until 2019, and continues at that level until 2025.
  - The Limerick Tunnel contract provides for a 6% increase in the 2012 level of traffic over 2011. Subsequent increases are smaller but continue until 2035, after which the traffic guarantee will remain unchanged.

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<sup>5</sup> 2011 payments were in respect of liabilities from the second half of 2010 and the first half of 2011.

**Figure 6.2 Projected traffic on Clonee/Kells and Limerick Tunnel projects**



Source: Analysis by the Office of the Comptroller and Auditor General

- 6.21 The shortfalls in traffic volumes relative to the guarantee thresholds in 2010 and 2011 were significant. The NRA estimates the guarantee-related amount payable in 2012 at €6.7 million, based on the achievement of an assumed 2.5% traffic growth year-on-year.
- 6.22 On the assumption that traffic on both routes will grow at an annual average of 2.5% a year, the State will continue to make traffic guarantee payments to the Clonee-Kells PPP company until 2025.<sup>6</sup> On a similar basis, the projected traffic levels using the Limerick Tunnel will not reach the guaranteed traffic levels and the State will make additional payments to the PPP company for the whole duration of the contract (i.e. until 2041).<sup>7</sup>

6 The NRA will continue to make other contracted operational payments (fixed other than in relation to inflation) until 2052.

7 The traffic levels, which are well below the base case scenarios underpinning the PPP contracts, will also have an impact on the PPP companies' returns relative to those envisaged at contract signing.

- 6.23 The financial commitments indicated in Figure 6.7 (Annex B) in relation to these projects do not include a provision for traffic guarantee payments over the remaining life of the projects.

### ***Revenue Sharing***

- 6.24 All tolled NRA PPP contracts have revenue sharing provisions, which effectively means that revenue above threshold traffic levels specified in the PPP contracts is shared.<sup>8</sup> Revenue received for 2011 amounted to €1.18 million.

### ***Insurance Risk Sharing***

- 6.25 Eight road PPP projects which have reached financial close have an insurance risk-sharing clause. Under this clause, the insurance costs are reviewed every three years, and depending on costs incurred in the period, compensation may be paid to the NRA, or payable by the NRA. A base reference amount for the cost of insurance is provided for in the contract. If the actual costs incurred during a review period exceed the sum of the base costs, the NRA and the PPP company will share the cost of such increased insurance costs.<sup>9</sup> In circumstances where the actual insurance cost incurred is less than the base cost, the NRA and the PPP company will share the benefit of the decreased insurance costs. During 2011, the NRA received a rebate of approximately €0.9 million in relation to insurance risk sharing from the Dundalk and Fermoy PPP projects.

### ***Chief Executive's Views***

- 6.26 The Chief Executive of the NRA has stated that traffic risks in the context of the underwritten traffic volumes applicable on certain PPP schemes, have, to date, been more than offset by the revenue sharing arrangements in place on other projects. The net variable payments in 2012 will be equivalent to approximately 6% of the total annual payments due in the form of operation/availability payments arising on the PPP contracts. This percentage will increase in future years as the current annual committed payments decline. Because the operational and availability payments extend for decades, variation in inflation rates will be likely to have an impact on overall payment levels. From a risk perspective, any emergence of high inflation would be a concern.

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8 The exception is the M50 upgrade for which the PPP operator does not collect tolls.

9 Subject to defined threshold percentage levels specified in the particular contract being met.

## PPP Projects in Development

- 6.27** With the onset of the international financial crisis in 2007/2008, the availability of private finance became severely curtailed. There was limited liquidity in the European PPP market as the majority of large international project finance banks refocused activities on home markets. This led to an absence of international banks in the Irish PPP market. Simultaneously, the needs of the public finances required reductions in Exchequer budgets and the re-prioritisation of resources.
- 6.28** The National Development Finance Agency (NDFA) has stated that apart from the financing challenges, other factors also constrain the PPP market in Ireland. Few large international contractors remain active in the Irish market. There are indications that domestic contractors may not be willing to participate in future Irish PPP competitions due to the level of bid costs. Also, a number of the large domestic participants have gone into liquidation and because of a rise in construction bond premia, some construction companies are unable to secure bonds.
- 6.29** A number of PPP projects in development were cancelled for various reasons (including on VFM and affordability grounds) and others were deferred to a later period. Some projects continued in preparation over this period but the challenges in securing project funding meant that few could progress to financial close.
- 6.30** The NDFA have stated that despite the difficult financing backdrop, detailed discussions on funding of two PPPs (schools bundle 3 and the N11 Arklow-Rathnew/N7 Newlands Cross upgrade) have recently been successfully advanced. Contractual negotiations with the preferred tenderers are now in the final phase with financial close targeted for the last quarter of 2012 for both projects. This confirms the NDFA's view that certain well-defined PPP projects with relatively lower funding requirements retain an interest for the debt and equity funding markets.
- 6.31** During 2011, the Department of Public Expenditure and Reform undertook a review of capital investment needs which was followed by the publication, in November 2011, of a Government plan for Exchequer capital investment for the period 2012 to 2016. In addition to setting out the five year programme for Exchequer capital spending, the plan announced that work was underway to develop alternative, non-Exchequer sources of investment for infrastructure, and one of the potential funding channels identified was PPP.
- 6.32** The Government announced a capital stimulus package on 17 July 2012. The central feature of the stimulus package was the announcement of phase 1 of a new PPP programme. This sets out the targeted range of PPP projects that the Government now plans to progress in four sectors — education, transport, health and justice — and on which the relevant departments and agencies are working in conjunction with the NDFA. The projects identified will involve an estimated €1.4 billion of investment by non-Exchequer sources. These funding sources include the
- National Pension Reserve Fund, which the Minister for Finance plans to reconstitute as a strategic infrastructure fund
  - European Investment Bank
  - domestic banks
  - other potential sources of private investment.

### **Education Projects**

**6.33** The status of education PPP projects is as set out in Figure 6.3.

**Figure 6.3 Status of Education Projects**

<b>Project</b>	<b>Current status</b>
<b>School bundle 3:</b> Comprises eight schools on seven sites - Wexford, Waterford, Galway, Westmeath, Leitrim, Donegal and Limerick	Preferred tenderer stage – financial close expected Q4 2012.
<b>School bundle 4:</b> Will consist of one primary and five post primary schools on five sites in Clare, Cork, Kildare (2 schools), Louth and Tipperary.	Procurement to commence in 2013.
<b>School bundle 5</b>	Schools to be included in bundle 5 are being finalised — procurement to commence in 2013.
<b>DIT Grangegorman Campus</b>	Enabling works to commence in 2013.

Source: Department of Education and Skills

**6.34** In November 2011, the Dublin Institute of Technology's proposed Grangegorman campus development was postponed although planning was to take place for a PPP project for possible completion in 2017. An Bord Pleanála approved planning permission for the integrated campus in May 2012. The development project has since been identified as a priority project under the July 2012 stimulus package.

**6.35** The Grangegorman site consists of 73 acres which will consolidate the existing DIT accommodation which amounts to approximately 125,000m<sup>2</sup> of facilities spread across 39 locations. The project is expected to consist of two main elements – preparatory works on the site and the PPP works. The preparatory works will be funded from direct Exchequer capital resources likely to total around €79 million. (Such preparatory works are usually undertaken outside the scope of the PPP works on value for money grounds).

**6.36** In November 2011, it was announced that three planned bundles of third level education PPP projects would be cancelled. For each of these bundles, the NDFA had procured and provided technical, legal, financial, insurance, and other required services for the PPP process. Total expenditure on these projects was €10.1 million, comprising consultancy costs of €4.4 million and enabling works of €5.7 million.<sup>10</sup> The costs incurred in each of the third level bundles is set out in Figure 6.4 below.

<sup>10</sup> Enabling works were conducted for each project to prepare clean, serviced sites for the PPP companies.

**Figure 6.4 Costs of Cancelled Third Level PPP Bundles**

		Enabling costs <sup>a</sup> €000	Consultancy costs <sup>b</sup> €000
<b>Bundle 1</b>	Limerick IT	144	} 1,980
	University of Limerick	524	
	Cork IT	298	
	Dun Laoghaire	163	
<b>Bundle 2</b>	Waterford	2,915	} 1,599
	IT Tallaght	1,318	
<b>Bundle 3</b>	NUI Maynooth	—	} 780
	Carlow IT	48	
	Galway	312	
<b>Total</b>		<b>5,722</b>	<b>4,359</b>

Source: a Department of Education and Skills

b National Development Finance Agency (excludes VAT)

**Transport Projects**

**6.37** The status of PPP roads projects in development is summarised in Figure 6.5. Three projects have been in development for some time. A further project was added as part of the July 2012 stimulus package.

**Figure 6.5 Status of Roads Projects, July 2012**

Projects	Current status
<b>Existing</b>	
N11 Arklow-Rathnew and N7 Newlands Cross junction upgrade (one bundle)	Preferred tenderer stage/award of contract due by end 2012
N17/18 Gort –Tuam	Preferred tenderer stage/award of contract
N11 Gorey-Enniscorthy/N25 New Ross bypass	Tendering to recommence in 2012
<b>New</b>	
N6 Galway City bypass	New project announced July 2012 Progression contingent on the outcome of pending legal proceedings

Source: National Roads Authority

- 6.38** Three public transport PPP projects in development over a number of years have been postponed. The status and expenditure to date of each is outlined in Figure 6.6. The status of the projects when they were postponed is reflected in the level of costs incurred. Metro West was postponed at railway order application process stage, Dart Underground at pre-qualification of bidders stage and Metro North at the short listing of bidders stage.

**Figure 6.6 Expenditure on Cancelled Public Transport Projects to end December 2011**

<b>Expenditure category</b>	<b>Metro North</b>	<b>Dart Underground</b>	<b>Metro West</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
Property acquisition	25,668	—	—
Design & PPP procurement	31,673	19,921	5,328
Enabling works	51,058	—	—
Legal, financial, commercial and insurance advisors	20,670	4,668	37
Railway order application/preparation	10,477	1,435	10,173
Oral hearing	5,510	—	918
Other/overheads	9,418	17,086	2,079
<b>Total</b>	<b>154,474</b>	<b>43,110</b>	<b>18,535</b>

Source: Department of Transport, Tourism and Sport

- 6.39** In the case of Metro North, a total of 13 properties were purchased by the Railway Procurement Agency (RPA) and these properties continue to be held by them. The costs of these properties, including advice and other property related costs, amount to €25.7 million. No lands were purchased in the case of Dart Underground and Metro West.
- 6.40** As part of the PPP tender competition for Metro North, it was agreed to compensate the underbidders for their verifiable tendering costs up to a maximum of €1 million each in the event of the PPP procurement process being deferred. The RPA have paid one of the bidders € 1 million in compensation and it is awaiting further information to support the compensation claim of €1 million from the other.

### **Health Projects**

- 6.41** The provision of 20 primary care centres, in two bundles of ten, by means of PPP procurement was announced as part of the new PPP programme. The HSE has commenced a site selection process. No expenditure has been incurred to date.
- 6.42** The national plan for radiation oncology units was proposed for PPP-based delivery, but is no longer progressing by that route. Costs of €4.1 million have been incurred in developing the PPP project to date. The HSE's draft capital plan for 2012 to 2016 includes provision for financing the plan by traditional means.

### ***Justice Projects***

- 6.43** The new PPP programme for the justice sector will involve the refurbishment and extension works of existing courthouses at Cork, Mullingar and Waterford with new courthouses being provided at Drogheda, Letterkenny, Limerick and Wexford. Other projects include two new Garda divisional headquarters and a new State pathology laboratory.

### **Programme and Project Monitoring**

- 6.44** Government departments are required to disclose certain information in relation to PPP projects in a note to their appropriation accounts. In addition to overall (unitary) charges incurred on the vote each year, the accounts also include a note stating the capital commitment outstanding at the year end i.e. excluding any future payments for recurrent operating and maintenance costs, or financing costs. There are no fixed requirements on the level of disclosure to be made about PPP projects by other central Government bodies in their financial statements.
- 6.45** The Department of Public Expenditure and Reform maintains a website for information on the PPP process in Ireland. Information on this site includes a list of all PPP projects with a capital value over €20 million. The list was intended to summarise the current state of major PPP projects across the public sector but has not been updated since March 2010. There is no central record of PPPs (including those at planning stage or those that were deferred or cancelled) with information on associated costs to date, work undertaken to date and work required to completion.

### **Conclusions and Recommendations**

- 6.46** PPP projects involve State bodies entering into long-term legally binding financial commitments. It is important that these are fully recognised and monitored on an ongoing basis. The total outstanding commitments of central Government departments and agencies in respect of contracted PPP projects at end 2011 is estimated at just over €4 billion. Based on expenditure incurred to end 2011 and the estimated outstanding commitments, the aggregate Exchequer expenditure in respect of the currently contracted PPP projects is projected to be €6.4 billion.

**Recommendation 6.1:** The Department of Public Expenditure and Reform should maintain and publish up to date listings of major projects under contract, or in development. This should indicate the State's expected financial commitment under legally binding PPP contracts. The relevant commitment should be reported in the annual Finance Accounts.

#### **Accounting Officers' Responses:**

**Department of Public Expenditure and Reform** – The Department has recently completed a review of the PPP website and updated as appropriate the information contained therein. This website now contains an up to date list of major PPP projects under contract, and in development. Details are also published on individual project costs to date and projected total expenditure to project end. The Department is currently reviewing the suite of guidance on PPPs with a view to updating the content where necessary. The Department is working with the Department of Finance to consider how best to include PPP commitments in the annual Finance Accounts.

**Department of Finance** – The Department is happy to include a new statement in the Finance Accounts in regard to expenditure commitments under PPPs. The timely production of the Finance Accounts is dependent on the timely availability of the information included in the supporting statements and adding new disclosures increases risks which may be outside the direct control of the Department. The Department is concerned that the collection of the necessary information may militate against efforts to bring forward the date for completion of the Finance Accounts.

**6.47** Significant costs have been incurred on cancelled PPP projects. Some of this expenditure is sunk cost that has delivered no effective benefit. In other cases, assets have been acquired that may be usable in the future if projects recommence.

**6.48** Appropriate sharing of project risks is a requirement if PPP projects are to deliver value for money. Outturns in some road projects have resulted in additional costs to the State, relative to what was originally projected. Post implementation evaluation of the value for money achieved in major projects is desirable (once projects have ‘bedded down’) so that lessons can be learned for future projects.

**Recommendation 6.2:** The NRA should re-evaluate the value for money now likely to be achieved under the Limerick Tunnel and the Clonee-Kells projects, with a primary focus on learning lessons about projections of traffic levels and optimum risk sharing. Relevant findings should be incorporated into the structure of the contracts for future planned projects.

**National Roads Authority CEO’s Response:** The NRA’s project appraisal guidelines provide for post project reviews to be undertaken and the NRA will complete reviews in due course. In relation to risk transfer and specifically the downside traffic risk transfer arrangements, such options are no longer available. The risk transfer mechanism has been effective from a State perspective, but PPP companies are no longer willing to risk the losses they have incurred in previous schemes. On the matter of traffic forecast levels, the impact of the recession has already been addressed in demographic and traffic forecasts.

**6.49** The approach to ‘traditional’ procurement of capital infrastructure has changed as a result of revised forms of contracts and more recourse to design-build procurement contracts. This has increased the level of price certainty on capital procurements.

**6.50** VFM appraisals are carried out for all proposed major public investments and a PPP cannot proceed unless it is found likely to deliver better value than traditional procurement. However, few value for money reviews of PPP projects have been published. Publication of value for money assessments (including situations where projects have been cancelled) would help to improve public understanding of the factors that influence the achievement of value for money in public investment projects.

**Recommendation 6.3:** Evaluations of the value for money expected to be achieved through procurement of projects by means of PPP should be published.

**Department of Public Expenditure and Reform’s Response:** The Department has some concerns regarding the publication of information which may be commercially sensitive and which may have implications for the State’s negotiating position for future similar projects.

## **Annex A Types 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 typically 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 2011 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 department 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.

**Figure 6.7 Expenditure and Commitments under PPP Contracts at end 2011**

Sponsoring authority/project name	Scope of project	Key project dates			Expenditure			
		Contract signed	Service commencement	Contract end	Pre 2011	2011	Future commitments	Projected total expenditure
<b>Department of Education and Skills</b>								
Pilot PPP Schools Bundle	DBFM	November 2001	2002	2027	96.6	10.7	177.7	285.0
Maritime College	DBFM	February 2003	2004	2029	62.9	8.6	127.7	199.2
Cork School of Music	DBFM	September 2005	2007	2032	36.4	7.9	185.9	230.2
First bundle PPP schools	DBFM	March 2009	2010	2035	10.2	8.1	248.7	267.0
Second bundle PPP schools	DBFM	June 2010	2011	2036	-	13.9	338.4	352.3
<b>Courts Service</b>								
The Criminal Courts of Justice	DBFOM	October 2007	2009	2035	38.9	19.5	567	625.4
<b>Department of Transport, Tourism and Sport/Office of Public Works</b>								
National Conference Centre <sup>a</sup>	DBFOM	April 2007	2010	2035	41.0	54.2	658.1	753.3
<b>National Roads Authority<sup>b</sup></b>								
Kilcock/Kinnegad <sup>c</sup>	Concession	March 2003	2005	2033	171.2	0.8	7.3	179.3
Dundalk Western Bypass <sup>c</sup>	Concession	February 2004	2004	2034	2.6	0.2	3.8	6.6
Rathcormack/Fermoy <sup>c</sup>	Concession	June 2004	2006	2034	103.5	5.9	40.6	150.0
Waterford City Bypass <sup>c</sup>	Concession	April 2006	2010	2036	110.8	7.8	82.0	200.6
Limerick Tunnel <sup>cd</sup>	Concession	August 2006	2010	2041	185.5	12.3	59.3	257.1
Clonee/Kells <sup>cd</sup>	Concession	April 2007	2010	2052	311.6	23.0	379.8	714.4
Galway/Ballinasloe <sup>c</sup>	Concession	April 2007	2010	2037	72.0	111.1	193.4	376.5

Sponsoring authority/project name	Scope of project	Key project dates			Expenditure			
		Contract signed	Service commencement	Contract end	Pre 2011	2011	Future commitments	Projected total expenditure
Portlaoise/Cullahill <sup>c</sup>	Concession	June 2007	2010	2037	46.3	6.3	32.9	85.5
M50 Upgrade <sup>de</sup>	DBFOM	September 2007	2007	2042	42.0	24.0	889.4	955.4
Motorway Service Areas <sup>c</sup>	Concession	October 2009	2010	2034	25.9	21.2	—	47.1
<b>Department of Environment, Community and Local Government<sup>f</sup></b>								
<b><i>Waste water treatment plants</i></b>								
Dublin Bay <sup>g</sup>	DBOM	March 2001	2003	2024	220.3	7.6	—	232.6
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	1.6	—	20.6
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	DBOM	June 2006	2008	2030	25.2	—	—	25.2
Waterford	DBOM	September 2006	2011	2031	22.5	3.0	0.6	26.1
Portlaoise	DBOM	December 2006	2009	2031	20.1	—	—	20.1
Meath Villages <sup>g</sup>	DBOM	October 2007	2010	2032	23.1	—	—	25.5
Mullingar	DBOM	April 2008	2010	2032	16.5	—	—	16.5
Castlebar	DBOM	September 2008	2010	2032	11.4	—	—	11.4
Bray/Shanganagh	DBOM	September 2008	2011	2031	55.3	1.1	—	56.4
Wicklow	DBOM	September 2007	2009	2031	14.4	—	—	14.4
Portrane/Donabate/Rush/Lusk	DBOM	February 2010	2012	2032	16.8	10.4	7.0	34.2

Sponsoring authority/project name	Scope of project	Key project dates			Expenditure			
		Contract signed	Service commencement	Contract end	Pre 2011	2011	Future commitments	Projected total expenditure
Tullamore	DBOM	April 2010	2012	2032	4.8	10.3	0.6	15.7
Letterkenny	DBOM	February 2011	2013	2033	—	13.7	11.5	25.2
<b>Water treatment services</b>								
Clareville	DBOM	December 2006	2010	2030	16.7	—	—	16.7
Barrow Abstraction-Srowland	DBOM	April 2011	2013	2033	0.0	6.7	17.3	24.0

Source: Listed departments/sponsoring agency provided information

- Notes:
- a Pre 2011 and 2011 expenditure figures include VAT and rates. Future commitments include unitary charge only.
  - b Excludes VAT.
  - c The Authority benefits from a share of revenue from these schemes. This share of revenue is dependent on traffic and sales volumes on the various schemes and is payable throughout the concession period.
  - d Clonee/Kells and Limerick Tunnel provide for the NRA to make payments if traffic levels fall under specified levels. Expenditures to date include such payments. Traffic-related payments are not included in the future commitments.
  - e The M50 is tolled between Junctions 6 and 7. The revenue arising from the M50 tolling accrues to the Authority.
  - f Expenditure/commitments exclude those of local authorities.
  - g The Department has not indicated future commitments in respect of these projects. Funding is under examination in the context of the final accounts. The projected total expenditure column shows the currently approved grants.