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Lifting the Lid: the Private Financing of Motorway PPPs in Ireland

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Synopsis

This paper addresses the complete absence of detailed information on, and analysis of, the financial aspects of Ireland's road public-private partnership (PPP) programme to date. We focus on the eight hard toll roads in operation by 2010 and provide a financial analysis of their performance. Although privately financed, we find that projects also received considerable public money. Whereas four projects are profitable, the other four have accumulated significant losses to date. The risk premia paid to profitable projects and the potential renegotiations that may be necessary for loss-making projects raise questions as to whether value for money can be achieved. Our paper concludes with a number of policy recommendations.

Introduction and Background

Public private partnerships (PPPs) have become an important part of the toolkit governments are employing to improve infrastructure policy. "PPP" is a broad term referring to a long-term contract to provide the design, construction, operation, and (sometimes) finance of infrastructure assets and ancillary services. In a PPP, the private sector plays a greater role in infrastructure delivery relative to traditional public-sector procurement and service delivery. PPPs

bundle different elements of the project life cycle into a single contract. That generates greater scope for risk sharing between the public-sector project sponsor and private contractors.

Ireland ranks among a small group of countries where PPP has made an appreciable contribution to overall public infrastructure investment. As of December 2018, there were 24 privately financed PPP contracts in operation. The capital value of these projects amounts to over €5.7 billion, with road transport projects accounting for over 60 per cent (€3.4 billion) of this total. Despite the ongoing contribution of PPP to the much needed development of road infrastructure in Ireland, there has been a distinct scarcity of independent analysis of whether road PPPs have achieved key policy objectives, such as accelerated delivery of assets, achievement of value for money (VFM), and risk sharing. This paper addresses the complete absence of detailed information and analysis of the financial aspects of Ireland's road PPP programme.

Methodology

In order to analyse the motorway PPP projects included in this paper, we sourced all of the financial statements for the special purpose vehicle (SPV) companies that control

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each project, the financial statements for the National Roads Authority (now Transport Infrastructure Ireland) which procured each project, and project data from the Department of Public Expenditure and Reform, as well as the CSO. We then analysed the structure of PPP deals in terms of the composition of PPP companies and the financial structure of each deal. We also examined the nature and extent of payments by the NRA to the PPP companies. Finally, we conducted a detailed financial analysis of the income, costs, profits and return to shareholders for each project.

Issues and Questions Considered

It is widely acknowledged that the financial analysis of PPP contracts is obstructed by the absence of reliable data made available by public bodies and private companies alike. In the case of Ireland the full business case for motorway PPPs, including the expected costs and revenues, traffic flows, VFM assessments and public sector comparators are not placed in the public domain for reasons such as commercial confidentiality. Independent financial analysis is also obstructed by the complex structure of PPP companies and their reporting methods. Whilst private companies are regulated by national and international accounting regulators, they maintain significant discretion and choice over matters such as the aggregation of information and how it is disclosed and presented. In addition, SPVs in particular, take advantage of reporting rules to present the minimum information permissible. Notwithstanding these issues, our paper utilises the information gleaned from public and private sources to examine the level of expenditure committed by the NRA to each project, the financial structure of the PPP companies, how each project has been financed and, finally, the financial performance of each project.

The paper also explores policy options that could be exercised for the purpose of making relevant information publicly accessible. It highlights options such as bringing PPP companies within the remit of the Freedom of Information Act given their status as para-statal companies. It considers the competing calls for greater transparency on the one hand versus the demands of interested parties for the protection of commercial confidentiality on the other and makes suggestions for resolving these tensions. It suggests that PPP companies should be contractually obliged to disclose information that ensures the public

can access clear and transparent data on the financial performance of PPP companies that provide vital public services. Such information should include a breakdown of its costs, the location of and the amount retained within a sinking fund and thus the viability of the project and the company. Public agencies should also disclose full information on the breakdown of annual costs, including its monitoring costs, performance deductions and any changes to contractual arrangements.

Outcomes and Findings

A striking feature of our analysis is the revelation that road PPP projects are mainly financed by the public sector. Our analysis has established that the public sector has contributed €1.01 billion in construction payments, in addition to €1.17 billion spent on land acquisition costs. Although private finance contributed over €1.8 billion of investment in the projects analysed, over €590 million of this was borrowed from the European Investment Bank (EIB) which is a major lender of public funds to the private PPP companies.

One of the notable features of the financing of road PPP projects in Ireland has been the extremely small amount of ordinary share capital injected into the PPP companies, the so-called 'pinpoint' equity model. For six of the eight companies in our sample, paid up share capital does not exceed €90,000. Instead of direct share capital injections, shareholders in all cases have issued shareholder loans to the PPP company, generally in the form of subordinated debt with relatively high interest rates.

Furthermore, our financial analysis shows that just four of the eight projects in our study were profitable at the end of 2016, with this group including the three longest running projects and the M3 Clonee-Kells project which is heavily reliant on large operational payments from the NRA. The other four loss-makers all became operational in 2009/2010 and have accumulated large after tax losses to date. While all of these projects opened during a major economic downturn, it would still appear that these companies significantly overestimated traffic levels when submitting their bids prior to the financial close of contracts in 2007, and it remains to be seen whether they seek to re-negotiate terms with the NRA.

The underlying paper was awarded the Miriam Hederman O'Brien Prize 2019. This prize is awarded by the Foundation for Fiscal Studies and recognises outstanding contributions in the area of Irish fiscal policy. It was published in the Economic and Social Review, Volume 49. A full copy can be obtained at <https://www.esr.ie/article/view/914>

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