Irish Government Stimulus Package and PPP Programme

University of Limerick Presentation
29 May 2013

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Chief Executive, National Development Finance Agency
Director, National Treasury Management Agency
Introduction and Background
NDFA: statutory body with dual mandate

- Established under legislation in 2003
  - Report to Minister for Finance

- Statutory financial adviser on capital projects >€20m
  - Project financial assessments
  - Issue formal “Value for Money” Opinions

- Delivery agent for State Authorities for PPPs except transport and regional authorities
  - Administer the procurement and construction phases
  - Hand back to sponsor / PPP contract management

The Department for Public Expenditure and Reform is responsible for PPP policy matters and for issuing guidance in the area.
NDFA as “Centre of Expertise”

• Take role of experienced public sector client
• Internal competency and resources
  ▸ Team of Project Finance and Project Management professionals with Private sector experience
  ▸ Reduced dependency on external advisers
  ▸ Retain experience in the public sector from deal-to-deal
• Contracts substantially reflect UK deal structures
  ▸ Template Project Agreement largely reflects SoPC positions
• Actively manage procurement and delivery stages
• Responsible for delivery of accommodation-based PPP projects only (ie., not roads or rail – although NDFA is statutory financial advisor on road/rail projects)
Journey of a PPP Project and Value for Money (VfM)

1. Planning (Pre Procurement)
   - Preliminary and/or detailed appraisal undertaken (inc. PPP assessment)
   - Project mgt. structures established
   - Compile output specifications & PSB

2. Implementation (Procurement)
   - Pre Qualification & short-listing
   - Tender process
   - Tender evaluation
   - Award of Contract
   - Financial Close

3. Delivery
   - Contract management

1st VfM test: pre PSB *
2nd VfM test: Should project still proceed as a PPP**
3rd VfM test: Does highest ranking tender have potential to deliver VfM
4th VfM test: Impact of changes pre financial close

* Public Sector Benchmark Prepared by Sponsoring Agency – is project of sufficient scale/risk to justify PPP etc.
** In light of PSB quantifications – e.g. whether level of risk transfer is sufficient to justify cost of private finance
PSB and VfM in context of a PPP Project
(as prescribed under Capital Appraisal Guidelines)

• Why prepare a PSB?
  ➢ PPPs require a common basis for assessment of tenders, i.e. there must be a like for like comparator to what the private sector will be invited to tender for and assessed against
  ➢ PSBs represent the full life (typically construction + 25 years) project cost, including risk, assuming a traditional procurement ..........simply put it is the project budget
  ➢ PSBs must be robust, independent and stand up to scrutiny

  *(in context of multi million projects with numerous stakeholders)*

• Why is VfM testing important?
  ➢ The achievement of VfM in the use of public funds is an overarching consideration in the procurement and delivery of each public investment project
  ➢ 3rd and 4th VfM tests of key importance

  **3rd VfM test:** Private sector tenders (ex. VAT) must demonstrate VfM compared to PSB

  **4th VfM test:** Assesses the impact of movement in funding costs, inflation, discount rate during the Preferred Tenderer period on VfM headroom. Test is completed just prior to financial close and is supported by VfM report and opinion issued by NDFA.
Track Record in Ireland of successful PPPs

• **Historic**
  - 9 major inter-urban motorways/by-passes
  - 5 education PPPs, including 15 schools
  - International Convention Centre
  - Major criminal courts complex
  - Motorway Services Stations contract

• **And recently...**
  - N11 roads contract (April 2013) and Schools Bundle 3 (November 2012)
  - A further roads contract is scheduled to close by end 2013
## Investment Partners in accommodation PPPs

<table>
<thead>
<tr>
<th>Project</th>
<th>FC Date</th>
<th>Capex</th>
<th>Operator</th>
<th>Equity Investor(s)</th>
<th>Funders</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Maritime College</td>
<td>2003</td>
<td>€52m</td>
<td>FocusEducation</td>
<td>Bovis Lend Lease/ Bank of Scotland (Focus Education Ltd)</td>
<td>EIB/Bank of Scotland</td>
</tr>
<tr>
<td>5 Schools PPP</td>
<td>2003</td>
<td>€90m</td>
<td>HSG Zander</td>
<td>Hochtief/HICL (Infrared)</td>
<td>Barclays</td>
</tr>
<tr>
<td>Cork School of Music</td>
<td>2005</td>
<td>€50m+</td>
<td>HSG Zander</td>
<td>Hochtief PPP Solutions/ HICL (Infrared)</td>
<td>Barclays</td>
</tr>
<tr>
<td>Courts of Criminal Justice</td>
<td>2007</td>
<td>€100m+</td>
<td>G4S</td>
<td>INPP (Amber Infrastructure)</td>
<td>KBC</td>
</tr>
<tr>
<td>Convention Centre Dublin</td>
<td>2007</td>
<td>€150m+</td>
<td>NEC (SDCCD No.2 Ltd)</td>
<td>Treasury Holdings (SDCCD Ltd)</td>
<td>AIB/ Depfa/ Barclays/ Ulster Bank</td>
</tr>
<tr>
<td>Schools Bundle 1</td>
<td>2009</td>
<td>€60m</td>
<td>Sodexo Ireland Ltd</td>
<td>Macquarie (MPFI)</td>
<td>Bank of Ireland</td>
</tr>
<tr>
<td>Schools Bundle 2</td>
<td>2010</td>
<td>€90m</td>
<td>Sodexo Ireland Ltd</td>
<td>Macquarie, Sisk (Pymble Schools Ltd)</td>
<td>EIB/Bank of Ireland</td>
</tr>
<tr>
<td>Schools Bundle 3</td>
<td>2012</td>
<td>€100m</td>
<td>BAM FM</td>
<td>BAM PPP/PGGM</td>
<td>EIB/Bank of Ireland/NPRF</td>
</tr>
</tbody>
</table>
Fiscal adjustments have had consequences

- Government’s deficit reduction programme of the last 3 / 4 years meant some PPPs were no longer affordable and were stopped:
  - Concert hall
  - Government office “decentralisation” programme
  - Major prison relocation and expansion project
  - Third Level Institutions PPP programme
  - Major mass-transport projects in Dublin
    - Metro and underground rail link between rail deferred

- Some others in planning stage cancelled or deferred
Irish Government Stimulus Package and PPP Programme: Phase 1 (announced in July 2012)

Appendix 1: Stimulus Package PPP Projects
Appendix 2: Ireland Regaining Creditworthiness
€1.4 billion Phase 1 PPP Programme

Education

- 12 Schools delivered in **2 bundles**
  - A single prequalification procedure with access to 2 lots of 6 schools
  - Prior Information Notice (PIN) issued for both bundles in May 2013
  - Authority to secure Full Planning Permission based on Specimen Designs

- Grangegorman DIT Campus: 2 Quadrangles – expected to be procured as a single project

Health

- 20+ Primary Care Centres
  - either **2 regional, single-supplier frameworks** [preferred] OR **2 grouped contract bundles**
  - Authority to secure Full Planning Permission based on Specimen Designs
€1.4 billion Phase 1 PPP Programme

Justice

- 3 Divisional Garda HQs: likely to be procured as a single project; inclusion of Pathology Lab tbc
- 7 Courthouse developments:
  - single prequalification procedure with access to 2 lots of 3/4 courts OR 2 grouped contract bundles
- Authority to secure Planning Permission based on Specimen Designs

Transport

- 3 new road schemes (procured by the National Roads Authority)
- 2 existing availability based schemes to close in 2013
  - N11/N7; Financial Close April 2013: N17 N18; FC forecast Q4 2013

- All PPPs so as to be “off balance sheet” in accordance with EuroStat rules
- Standard availability based payment mechanism proposed for all schemes
Market consultation

- Sponsors, equity
- Debt Funders
- Contractors/FM
- Professional service providers
Issues and concerns

• Pipeline
• Deal size
• Sovereign credit rating
• Availability of funding
• Previous project cancellations
• Process – cost and duration
Trends in other PPP markets to consider

- Government guarantees (to support lending)
- Project “credit enhancement”
- Increased direct public participation
- Cap or limit on returns
- Courting the pension and insurance funds
- Easing procurement processes
- Reducing/eliminating “soft” FM services
Meeting the challenges
Potential debt funding sources identified

- European Investment Bank
- Council of Europe Development Bank
- National Pensions Reserve Fund
  - To be re-directed by Government as a “strategic infrastructure [investment] fund”
- Domestic banks
- Other Private: domestic (e.g. pension funds) and foreign (e.g. banks, pension funds)
- Part of the proceeds realised from sale of “State assets” is available to fund project elements that require up-front exchequer spending.
### Funding the Programme

<table>
<thead>
<tr>
<th></th>
<th>Schools</th>
<th>Third Level Campus</th>
<th>Primary Care Centres</th>
<th>Justice Projects</th>
<th>Roads</th>
</tr>
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<tbody>
<tr>
<td><strong>EIB</strong></td>
<td>✓</td>
<td>under review</td>
<td>under review</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td><strong>CEB</strong></td>
<td>✗</td>
<td>tbc</td>
<td>tbc</td>
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<tr>
<td><strong>NPRF</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Domestic Banks**
Expressions of support received for lending into PPP Programme

**Other Private (domestic & foreign)**
Subject to market testing / consultation

| Asset sale Proceeds | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

18
Initiatives to reduce bid time and cost

- Overall objective to reduce bid costs for private sector partners by 50%
- Development of specimen/exemplar designs for repeat building types
  - Schools, Primary care centres
- Target reduction of procurement schedule to between 15 mths (schools) and 18 mths (from OJEU Notice to financial close/contract award)
- Publication in advance of indicative capital budget
- Reduced submissions and no draft tender submission stage
- Expect to continue to use Negotiated Procedure

Policy decision agreed by Government in December 2012

- Reimbursement of part-bid costs for bidders/PT in event of PPP project cancellation
- Reimbursement of part-bid costs to unsuccessful bidders (with a compliant bid)
Negotiated Procedure (envisaged for all schemes)

- **3 months**: Pre-Qualify & Shortlist Tenderers
- **5 - 8 months**: Authority Secures Planning
- **2 months**: Conclude Negotiation
- **5 months**: Submit Tenders
- **5 months**: Appoint Preferred Tenderer
- **5 months**: Debt Funding Sourced
- **Contract Award**

- **Already in place for roads**
- **Authority Term Sheet**
Other initiatives under consideration

• Increased “Self-declaration” regime for pre-qualification stages
• PA: Remove requirement for Authority Bond
• PA: Reduce/remove “Change-in-Law” provisions (in line with PF2)
• PA: Review insurance provisions (in line with PF2)

BUT
• Expect to keep “soft FM” services with private sector

• Areas for innovation: increased focus on
  ▶ energy use and performance of buildings; and
  ▶ Lifecycle material/equipment decisions

as part of the technical/quality evaluation
## Indicative schedule (subject to market conditions)

<table>
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<tr>
<th>Accommodation Schemes</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td>Schools Bundle 4</td>
<td>OJEU</td>
<td>Funding/Fin. Close</td>
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<td>Schools Bundle 5</td>
<td>OJEU</td>
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<tr>
<td>Primary Care Centres</td>
<td>OJEU</td>
<td></td>
<td>Funding/Fin. Close</td>
</tr>
<tr>
<td>Grange Gorman</td>
<td>OJEU</td>
<td></td>
<td></td>
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<tr>
<td>Garda Headquarters</td>
<td>OJEU</td>
<td></td>
<td>Funding/Fin. Close</td>
</tr>
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<td>Courts Bundle 1</td>
<td>OJEU</td>
<td></td>
<td>Funding/Fin. Close</td>
</tr>
<tr>
<td>Courts Bundle 2</td>
<td>OJEU</td>
<td></td>
<td>Funding/Fin. Close</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Road Schemes</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>N17 N18</td>
<td></td>
<td>Funding/Fin. Close</td>
<td></td>
</tr>
<tr>
<td>N25 New Ross Bypass</td>
<td>OJEU</td>
<td></td>
<td>Funding/Fin. Close</td>
</tr>
<tr>
<td>M11 Gorey to Enniscorthy</td>
<td>OJEU</td>
<td></td>
<td>Funding/Fin. Close</td>
</tr>
</tbody>
</table>
Appendix 1
Stimulus Package PPP Projects
Education – PPP Schools

- 2 PPP contract bundles expected of 6 schools each
- Prior Information Notice (PIN) issued for both bundles in May 2013
- Continuation of successful PPP programme
  - 15 schools completed; FC on 8 further schools in Nov ‘12
- Standardised PPP contract in place
- Supported by European Investment Bank
- Standard availability-based payment mechanism

- NDFA to develop specimen with full planning
- Technical adviser appointments on OJEU

Kildare Town: a post-primary school for 1,000 pupils
Demographics driving need for places

Total number of Pupils Registered

- 24,900 additional Secondary school places by 2017
- 45,000 additional Primary school places by 2018
Education – New campus, Dublin

• Development is part of the consolidation of Dublin Institute of Technology ("DIT") onto a new campus
• 57,000 m² of teaching space in two major buildings
• Single PPP project development preferred option
• Standard availability-based payment mechanism
• Capex estimated circa €200m
• Site in central Dublin has special planning status to facilitate development
• First planning applications lodged (site infrastructure)
• Technical adviser will be appointed in December 2012
• www.ggdai.ie
Grangegorman DIT Campus

Healthcare facility: near completion

Central Quad

East Quad
Health – 20+ Primary Care Centres

- 35 potential locations identified - at least 20 to be developed
- Contract bundling or framework-type structure options being considered
- Does not involve GP or healthcare related services
- HSE/NDFA to procure planning permission
- Common template (specimen) design
- Availability-based payments
- Potential Phase 2 developments
Justice – Garda (Police) Regional HQs

- 3 locations identified
  - Dublin, Galway, Wexford
- Total capex estimated circa €65m - €75m
- Special planning consent regime
- Standard availability-based payment mechanism
- Single contract preferred option

- State Pathology Laboratory project being considered for inclusion in this PPP programme
Justice - Courthouses

• 7 locations identified
  ▸ Cork, Drogheda, Letterkenny, Limerick, Mullingar, Wexford and Waterford
• 2 PPP contract bundles expected
• Total capex estimated circa €120m
• Will follow special planning consent regime
• Refurbishment/development of existing historical structures a feature of some sites
• Standard availability-based payment mechanism
Second PPP Roads Programme

• 3 new road schemes
  ▶ M11 Gorey - Enniscorthy: 28 km motorway + bypass
  ▶ N25 New Ross Bypass: 15 km
  ▶ N6 Galway City Bypass: 12 km orbital

• Delivered by the National Roads Authority
• Availability-based payment structure (ie., not tolled)
Appendix 2
Ireland: Regaining Creditworthiness
Ireland continued its recovery in 2012

- **Government set to cut deficit to 8.2% in 2012, beating target again**
  
  Troika (EC/ ECB/ IMF) very pleased with delivery on all Programme benchmarks; significant outperformance versus fiscal targets in 2011
  
  Fiscal numbers on track after Q3 (and three Troika reviews)

- **Second consecutive year of modest GDP growth expected**
  
  Export growth remained resilient in 2012, despite euro area difficulties; Ireland’s forecast GDP growth among highest in euro area
  
  But domestic demand may not bottom until H2 2013

- **Bank deleveraging plan has continued apace and other contingent liabilities reduced sharply**
  
  Pillar bank deleveraging to be virtually complete by end year two of three
  
  Government is reforming insolvency laws to deal with mortgage arrears
  
  Ireland's main contingent liability being reduced: NAMA is well on track to repay €7.5bn by 2013 of its senior bonds (repaid €3.25bn by end-H1 2012)
  
  ELG liability down to €78.3bn by September 2012 (€56.7bn were deposits)
National Treasury Management Agency (NTMA) plans to regain normal market access in 2013

- **NTMA bond market return for first time in almost two years in July - September 2012**
  Returned to Treasury Bills market with three auctions. Brought rate down from 1.8% initially to 0.55%. Around 80% of the bills bought by international buyers.
  Sold €4.2bn of conventional long-term bonds in July, at rate just below 6%. The majority of the purchases again came from overseas.
  Sold €1bn in amortising bonds at 5.91% in August; this is a new product mainly demanded by the domestic pensions industry to construct sovereign annuities.
  Reduced near €12bn redemption in January 2014 to €7.6bn through switches: €5.2bn of that €7.6bn redemption is also covered by the new funding raised.

- **Next steps towards sustainable market re-entry in early 2013**
  Launch of longer-term bond issue, possibly through syndication in € or $.
  Introduction of inflation-linked bonds: driven mainly by domestic demand.

- **Euro area financial conditions have improved, but risks remain**
  In order to sustain Ireland's improvement, EU must act on summit declaration of 29 June 2012 to break “vicious circle between banks and sovereigns” and to examine “special case” Irish situation (as per recent communiqués).
  The advent of the ECB’s revamped bond purchase programme – Outright Monetary Transactions (OMT) – led to sharp rally at the short-end of euro area yield curves. Programme available for countries with normal market access.
Irish bond market recovery continued in 2012

Source: Bloomberg (weekly data)
Foreign ownership of marketable bonds is high

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<tbody>
<tr>
<td><strong>End quarter</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Resident</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– MFIs and Central Bank</td>
<td>15,441</td>
<td>15,665</td>
<td>17,158</td>
<td>20,083</td>
<td>21,285</td>
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<tr>
<td>– General government</td>
<td>879</td>
<td>806</td>
<td>349</td>
<td>841</td>
<td>1,558</td>
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<tr>
<td>– Financial intermediaries</td>
<td>1,822</td>
<td>2,157</td>
<td>1,043</td>
<td>1,339</td>
<td>1,179</td>
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<td>i) Financial auxiliaries</td>
<td>333</td>
<td>337</td>
<td>445</td>
<td>501</td>
<td>313</td>
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<td>ii) Insurance corporations and pension funds</td>
<td>1,147</td>
<td>1,192</td>
<td>453</td>
<td>452</td>
<td>447</td>
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<tr>
<td>iii) Other financial intermediaries</td>
<td>341</td>
<td>627</td>
<td>146</td>
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<tr>
<td>– Non Financial Corporations</td>
<td>48</td>
<td>12</td>
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<td>5</td>
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<tr>
<td>– Households</td>
<td>217</td>
<td>224</td>
<td>195</td>
<td>176</td>
<td>184</td>
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<tr>
<td>2. Rest of world</td>
<td>71,182</td>
<td>66,446</td>
<td>60,896</td>
<td>60,684 (73%)</td>
<td>64,295 (73%)</td>
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<tr>
<td><strong>Total MLT debt</strong></td>
<td><strong>89,589</strong></td>
<td><strong>85,310</strong></td>
<td><strong>79,651</strong></td>
<td><strong>83,131</strong></td>
<td><strong>88,506</strong></td>
</tr>
</tbody>
</table>

Source: Central Bank of Ireland
Total funding requirement declining steadily (€bn)

Ireland’s issuance of T-bills, new bonds (€5.2bn) and switches in 2012 has pre-funded more than half of 2014 requirement

Source: NTMA; Department of Finance
New export orders (from PMI) have driven Irish GDP

Source: Markit; NCB; CSO
Ireland’s balance of payments current account surplus reflects large-scale rebalancing of economy (\% GDP)

Highest quarterly surplus on record in Q2 2012

Source: CSO
Ireland’s competitive position vastly different to the other non-core countries

**Current Account Balance (% GDP)**

Source: DataStream
Ireland is far more open than other non-cores

<table>
<thead>
<tr>
<th></th>
<th>Exports (%GDP)</th>
<th>Imports (%GDP)</th>
<th>Openness proxy (X+M/GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>106</td>
<td>84</td>
<td>1.90</td>
</tr>
<tr>
<td>Spain</td>
<td>30</td>
<td>31</td>
<td>0.61</td>
</tr>
<tr>
<td>Italy</td>
<td>29</td>
<td>30</td>
<td>0.59</td>
</tr>
<tr>
<td>Portugal</td>
<td>35</td>
<td>39</td>
<td>0.75</td>
</tr>
<tr>
<td>Greece</td>
<td>21</td>
<td>29</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Source: Datastream (for 2011)