Public-Private Partnerships in Ireland: A Review of the Experience

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University of Limerick, May 2013
Context for Today’s Presentation

1. Economic Recession and Planned Stimulus.
2. The Challenge of Procurement
   - Problems with traditional procurement.
3. Does PPP offer a better alternative?
What are PPPs?

• Different meanings.
• Focus on long term infrastructure contracts (LTICs).
• PPPs are a procurement model for the provision of infrastructural assets and related services.
• Integrated model normally combining the Design, Build, Operate and Finance (DBOF) elements of asset based-service.
• Private sector participation is not new.
Modern “PPPs” – Took off in UK in early 1990’s – The Private Finance Initiative (PFI)

Chart 1.A: Number of projects reaching financial close and total capital costs incurred for current projects

Figures based on departmental and Devolved Administration returns. Current projects only – does not include projects that have expired or terminated.
PPP Activity in Europe and Beyond

- PPP popular in Australia, Canada, S. Africa, Emerging economies, USA and Europe.
  - *In Europe*
    - 1990 – 2009:
      - 1,340 projects,
      - Cap Value over €250 billion.
Global Financial Crisis and PPP

- Credit crunch.
- Collapse of ‘monoline’ industry.
- Closure of ‘wrapped bond market’.
- Europe – Slowdown in PPP activity.
- 2012 [1st half]
  - Lowest volume in a decade (€6 billion)
PPP in Ireland

• Huge enthusiasm among policy makers since first PPPs announced in 1999.

• Pre-crisis –
  – Multi-Annual Capital Investment Framework 2008-12:
    PPP to account for 16% of planned investment.

• Bringing PPPs to stage of operation took time.

• Post-crisis –

• 24 projects cancelled but.............
New lease of life for PPP

• PPP at heart of ‘stimulus plan’ announced in July 2012.
• Schools, Third Level Education, Roads, Courthouses, Garda HQs, Pathology Lab, Primary Care Centres.
• Current estimate - 94 PPPs at different stages of procurement life cycle.
Number of PPP Projects Sept. 2012

<table>
<thead>
<tr>
<th>Project/Stage</th>
<th>Procurement</th>
<th>Construction</th>
<th>Operation</th>
<th>Stimulus Projects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>3</td>
<td>13</td>
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<tr>
<td>Courts</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
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<tr>
<td>Education</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>3</td>
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<td>Arts</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
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<td>Primary Care</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Garda HQ</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Water</td>
<td>8</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Wastewater</td>
<td>16</td>
<td>15</td>
<td>24</td>
<td>0</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>16</td>
<td>43</td>
<td>11</td>
<td>94</td>
</tr>
</tbody>
</table>
Examining PPP Procurement

• Economic Objectives
• In practice Value for Money (VFM) is the stated objective.
• How may PPP offer better VFM compared to traditional procurement?
Drivers and **Obstacles** to Value for Money

- Competition
- Risk Transfer
- Output Specification
- Cost of Borrowing
- Transaction Costs

**Value for Money**
Other Criteria for Examining PPP

- PPP and Public Finances
  - Off-balance sheet financing.
  - Buy now pay later.
  - Liabilities still exist.

- PPP and Governance
  - Legitimacy, Accountability, Transparency.
  - Governance of the PPP decision including VFM assessment
  - Governance of contractual relations
What do we know about PPP Procurement in Ireland?

• Information on extent of PPP activity is difficult to piece together.
• Information on value of PPP projects difficult to access.
• Information on State’s financial obligations of PPP not (fully) available.
• Information on justification for PPP not publicly available.
• Information on governance of PPP procurement at *ex ante* and *ex post* stages is scarce.
Some Evidence on the Irish Experience 1 - Governance

• Accountability and Transparency
  – VFM tests not made public.
  – Contracts not made public.
  – Public Accounts Committee frustrated.

• Managing Procurement and Contractual Relations
  – No published studies on procurement practice, timelines etc.
  – Limited evidence on management of contracts.
    [first schools PPP : C&AG (2006), Reeves (2008)].
Irish Experience 2 – Public Finances
Most PPPs are off-balance sheet.

<table>
<thead>
<tr>
<th>Department/Agency</th>
<th>No. of Projects</th>
<th>Expenditure to Date (€)</th>
<th>Outstanding Commitment (€m)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>5</td>
<td>255</td>
<td>1,078</td>
<td>1,333</td>
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<tr>
<td>Courts Service</td>
<td>1</td>
<td>59</td>
<td>567</td>
<td>627</td>
</tr>
<tr>
<td>OPW</td>
<td>1</td>
<td>95</td>
<td>658</td>
<td>753</td>
</tr>
<tr>
<td>NRA</td>
<td>10</td>
<td>1,285</td>
<td>1,689</td>
<td>2,974</td>
</tr>
<tr>
<td>Environment &amp; Local Gov.</td>
<td>20</td>
<td>648</td>
<td>37</td>
<td>685</td>
</tr>
<tr>
<td>Total</td>
<td>37</td>
<td>2,342</td>
<td>4,029</td>
<td>6,408</td>
</tr>
</tbody>
</table>
Irish Experience – Value for Money

• First Schools Contract:
  – Predicted Cost Savings – 6%
  – C&AG says 8% - 13% more expensive.

• Water Services:
  – VFM Assessments – VFM of 4.5% (6 PPP contracts)
  – Quality of VFM assessments questionable.
  – Consultation leads to different conclusions.
  – PPP is still the only game in town in water sector.

• No consideration of transaction costs!
Comments on Risk Transfer and Competition for Contracts

• Problems with Social Housing. Who ultimately bore the risk?
• Roads PPPs with traffic guarantees.
• Implications for new forms of contracting for public works.
• C&AG voices concern about competition for contracts in Ireland post-GFC.
Concluding Remarks 1

- Private sector participation (PSP) is desirable.
- There is a scarcity of independent “critical” research on PPP in the Irish context.
- Models of PSP including PPP are likely to evolve.
- PF2 in UK is an example of such evolution
  - “widespread concern that the public sector has not been getting value for money and taxpayers have not been getting a fair deal now and over the longer term” (HM Treasury, 2012: 1).
Concluding Remarks 2 – PF2 in the UK

- Government to take minority equity stakes
- Transparency measures e.g. assessment of PFI liabilities in Whole of Government Accounts
- Reduce services included in PPP contracts (e.g. cleaning) to give public sector flexibility to make changes.
- Reduce the extent of risk transfer (e.g. some construction risks and ‘required insurances’).
Conclusions 3

• Must Improve Transparency and Accountability

• “Consistent and timely budget reporting on anything that smells remotely like a P3” (Vining and Boardman, 2008).

• Public availability of all VFM Tests and contracts.
  – Sealing of provisions decided by neutral 3rd party.
Conclusions 4

- No form of public procurement is perfect.
- There are *No Free Lunches*!
- In the case of PPP - *caveat emptor* should apply!