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PPP Procurement in Ireland: An Analysis of Tendering Periods

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Synopsis

The relative complexity of procurement under public–private partnership (PPP) means that tendering periods can be longer compared to traditional procurement models. Reducing the tendering period is therefore an important challenge if PPP is to deliver infrastructure on time and within budget. Using data from 59 PPP projects in Ireland we find that the average tendering period has been 34 months. Using duration analysis we find that tendering periods have fallen over time and are positively but not strongly associated with the capital value of projects. Tendering periods are longer for projects that do not involve private finance with the majority of such projects procured by local authorities. Our findings suggest the need for specific measures to reduce PPP tendering periods especially at the level of local governmnent.

Introduction and Background

The commonly stated objectives of public authorities procuring new infrastructure is ensuring that projects come in 'on time' and 'within budget'. However, the challenges involved in meeting these objectives, to say the least, are onerous. To meet the challenge of improving the procurement of infrastructure, governments around the world are encouraging greater private sector participation and the adoption of different forms of Public-Private Partnerships (PPPs). Proponents of PPPs generally assert that it results in faster delivery of infrastructure and lower whole-life costs (value for money) compared to traditional procurement methods. Such assertions are, however, keenly contested in the literature. While there is evidence that PPPs can reduce time and cost overruns during the construction phase, relatively little attention has been paid to the length of the procurement phase (from contract notice to contract award) and it is this aspect that commands the focus of this paper.

Reviews of PPP activity show that, in comparative terms, Ireland has extensive experience of PPP procurement. Since 1999, it has been the chosen method for procuring infrastructure and services in areas such as schools, environmental and transport services and in this context Ireland represents a valuable reference case with the potential to provide lessons for policymakers in other jurisdictions. While PPP projects have made an appreciable contribution to the creation of capital stock and delivery of public services in Ireland, the experience to date shows that the procurement process has not been very smooth with the delivery of many projects characterized by lengthy periods of planning and procurement.

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Issues and Questions Considered

It is widely recognised that PPP projects are characterised by features that lead to longer tendering periods compared to other forms of procurement (Owen and Merma, 1999, Ahadzi and Bowles, 2004). This is attributable to factors including the long term nature of PPP contracts which normally cover periods exceeding twenty years. Moreover, PPP contracts cover different elements of the project life cycle (i.e. design, build, financing and operation of new assets) which necessarily increases the relative complexity of the procurement process and has the potential to increase uncertainty around the project. Longer tendering periods can have important implications for PPP projects as they delay project completion thereby imposing social costs as citizens cannot access infrastructure sooner. Moreover, the perception that PPP projects involve lengthy tendering periods may deter bidders thereby reducing competition for contracts and the potential for lower costs and better value for money under PPP.

A number of PPP stakeholders have identified the duration of the procurement period as a key challenge in bringing PPP projects to fruition in Ireland. The National Development Finance Agency (NDFA) which is the PPP procurement agent for state authorities (except transport and local authorities) has set explicit targets for PPP procurement in the context of the current stimulus plan. The target reduction in procurement periods is set between 15 (in the case of schools) and 18 months from the contract notice to the contract award and a number of measures have been taken to assist in meeting these targets. The adoption of these targets is clearly based on concerns about the length of the tendering period under PPP and this study therefore aims to establish an understanding of the factors that determine the length of the procurement period.

Methodology

We collected data concerning tendering periods and other relevant factors for 59 Irish PPP projects. We then used duration analysis (DA) with the purpose of statistically identifying the factors that have a significant effect on the length of tendering period. DA is a hazard-based duration model and represents a class of analytical methods which are appropriate for modelling data that have as their focus, an end-of-duration occurrence, given that the duration has lasted to some specified time. The dependent variable in our model is specified as the number of months from the date of issuance of contract notice to the date the contract was signed. The independent variables include the capital value of the project and time period dummy variables. In addition, the model includes a dummy variable for contract type which is divided between PPPs that include private finance and PPPs that are financed from the public budget.

Outcomes and Findings

Our results show that PPP projects that did not include private finance had significantly longer tendering periods relative to PPPs that included private finance. We also find evidence that the higher the capital value of a project, the longer the time to complete the tendering process, although the magnitude does appear small. The estimates also indicate that the period in which the project was advertised was important in determining the length of the tendering period, controlling for project type or capital value. Projects advertised in the period 1997–2003 took over 40% longer to reach financial close compared to projects advertised in 2007 or later, a result that suggests that the length of the tendering process has improved over time despite the impact of the global and domestic financial crisis.

Our findings shed interesting light on the tendering period for PPP projects. Of particular note is our finding that PPP projects that do not involve private finance have significantly longer tendering periods. This may appear counter-intuitive but it is worth noting that all non-private finance PPPs included in our sample are those that were procured as DBOs in the water services sector. These projects are procured by individual local authorities, whereas PPPs involving private finance are, in most cases, procured by specialised procurement agencies (e.g. National Roads Authority and National Development Finance Agency). It is plausible to assume that such agencies are better equipped to manage tendering processes compared to local authorities.

A full copy of the paper can be obtained at:

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Forthcoming Research Bulletin

Title: An evaluation framework for ICT capacity building projects: Action research in Armenia
Authors: Lannon, J.

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