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NATIONAL DEVELOPMENT FINANCE AGENCY (NDFA)

Submitted
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Briefing Note for Public Accounts Committee Members regarding:

C&AG Report 2016

Chapter 4: Overview of Public Private Partnerships

22 March 2018

Contents

Background Information

This briefing note provides a high level overview of the National Development Finance Agency's ("NDFA's") activities including a status update on PPP projects referred to in the Comptroller and Auditor General's *Report on the Accounts of the Public Services 2016*, as published in September 2017. A separate note on the disclosure of financial information has been presented to the Committee on 8 March 2018 and information referenced therein has been forwarded separately.

1. NDFA Mandate

The NDFA's mandate is set out in the National Treasury Management Agency (Amendment) Act 2014 "the Act" (see appendix 1). The NDFA is the statutory financial adviser to State authorities as listed in Schedule 3 of the Act in respect of all public investment projects with a capital value over €20m. Public investment occurs when Exchequer funding or assets are proposed to be invested. We are currently providing financial advice in respect of over 30 projects with a value in excess of €5.5bn, including Public Private Partnership ("PPP") projects with a value in excess of €1.5bn.

The NDFA's mandate includes responsibility for the procurement and delivery of PPP projects in sectors other than in the transport and local authority sectors. A small element of our work includes delivery of Exchequer-funded projects for the Department of Education and Skills and management of certain PPP contracts during their operational phase.

For clarity, NDFA is a project taker and has no role in the selection of projects. It is also noted that NDFA is not responsible for post project reviews.

Financial advisory role

In its financial advisory role, the NDFA advises State authorities on the optimal financing of priority public investment projects by applying commercial standards in evaluating financial risks and costs. Key services provided by the NDFA in this role may include:

- Financial, risk and insurance advice;
- Financial modelling;
- Preparing public sector benchmarks ("PSBs") on behalf of sponsoring Departments/Agencies in respect of proposed PPPs;
- Value for money assessments;
- Overseeing and reviewing fund raising for PPPs;
- Financial advice during procurement including assessment of financial robustness of tenderers and financial evaluation of tenders;
- Financial advice on operational PPPs; and

- Liaison, negotiation and arrangement of miscellaneous debt funding from multilateral agencies such as the European Investment Bank ("EIB") and the Council of Europe Development Bank ("CEB").

Some examples of current projects where the NDFA is currently acting as financial adviser in the non PPP area include:

- Providing financial advice to various local authorities seeking to develop land banks into social housing or mixed tenure housing;
- Providing financial advice to the Department of Housing, Planning, Community and Local Government ("DHPCL") in relation to a number of social housing initiatives, including a 'mortgage to rent' scheme and social housing leases targeted at private investors ('enhanced leases');
- Reviewing financial elements of prequalification submissions for the Nationwide Narrowband Secure Managed Digital Radio Network Services on behalf of the Office of Government Procurement ("OGP"); and
- Facilitating funding from EIB in the form of a 25 year €490m exchequer loan to support construction of the new National Children's Hospital. EIB funding allows the State to diversify its sources of funding and is more cost-effective than alternative sources of funds, including borrowing on the sovereign bond markets.

A full list of current financial advisory projects excluding those relating to PPPs is set out in appendix 4.

In addition to the above, the NDFA is financial adviser to Transport Infrastructure Ireland in relation to its second roads PPP programme, which are currently at either operational or advanced construction stage.

PPP delivery role

The NDFA has procured a number of projects in partnership with the Department of Education and Skills, the Courts Service and the Health Service Executive, providing technical and financial expertise. The agency also provides contract management services during the construction phase of all of these projects and this contract management service is extended to the operations phase of certain education projects. These projects are listed in appendix 2 including a status update since the projects were referenced in the C&AG Report (figure 4.1). Newer projects not included in figure 4.1 of the C&AG Report, together with the NDFA's current role in respect of other PPPs are listed in appendix 3.

As set out below there are four PPPs currently being procured by NDFA at or near construction stage and one at or near market stage. In total, there were 28 live construction sites across the country in 2017 with a typical daily workforce across all sites of circa 3,000 workers.

Primary Care Centres PPP: Ireland's first healthcare PPP, involving the development of 14 new primary care centres across the country reached financial close in 2016; seven of these new centres have been completed with four more to follow in the next month and the remaining three during the first half of 2018.

Courts PPP: Construction continues across this project which involves the development of new courthouses and the refurbishment and extension of existing courthouses in seven locations; five of the courthouses have been completed with the remainder to follow during 2018.

Schools PPP Bundle 5: This project, providing 4,870 student places reached financial close in 2016 and construction was ongoing through 2017. On 15 January 2018, a liquidator was appointed to UK infrastructure company Carillion PLC. A subsidiary company of Carillion PLC, Carillion Private Finance, is a 50% shareholder of the PPP Consortium, InspiredSpaces ("PPP Co") that was awarded the contract for this PPP. Carillion Private Finance is not in liquidation. The other 50% shareholding is held by Dutch Infrastructure Fund. The PPP Co, is currently working closely with the funders to finalise their proposed 'rectification plan'. Key to the finalisation of the 'rectification plan' is identifying the contractors who will complete the outstanding works (due to the liquidation of Carillion Construction Ltd) and replace the previous Facilities Management provider (due to the liquidation of Carillion AMBS). To this end, the PPP Co has commenced a tender process for the replacement works and services contracts. The PPP Co is targeting all six buildings to be operational for the beginning of the coming school year with the most advanced schools, Coláiste Raithín in Bray and Loreto College in Wexford, to be delivered earlier in the summer.

Grangegorman DIT PPP: Financial close is expected on this project shortly. As noted in the C&AG Report this project was delayed by a High Court procurement-related challenge which was successfully defended. Significant advancements have been made on the project since the publication of the Report, including securing commercial and EIB funding, advancing legal documentation and finalising technical matters to achieve financial close.

Social housing PPP programme: The NDFA is procuring a social housing PPP programme comprising the development of up to 1,500 housing units as three ‘bundles’ of sites. Two of these bundles have now reached market stage. In mid-2017 the European Investment Bank announced its approval of a framework loan of €160m over 25 years to provide financing for the three social housing PPP bundles.

The NDFA has also delivered on behalf of the Department of Education the construction of 15 Exchequer-funded schools and is currently in the construction phase of a 16th school.

At the request of the Department of Education and Skills, the NDFA has taken over the contract management of the operations of all operational PPP schools. At the end of 2017 the NDFA was managing the contracts for five bundles of schools projects covering 27 schools. Working under a Service Level Agreement, the support provided involves monitoring the relevant PPP companies in the performance of their obligations under the PPP contract, ensuring that the long-term value in these contracts is captured. NDFA also provides certain contract management services for the Convention Centre Dublin.

In terms of new projects, the NDFA is collaborating closely with the Courts Service, the Health Service Executive and the Department of Education and Skills in the development of the next wave of PPP projects which includes student accommodation, third level institutions, community nursing units, and Supreme and family law courts.

2. Developments since the C&AG Report

The C&AG Report chapter on PPPs was based on certain information available up to July 2017. Updates on key areas that might be of interest to the Committee include:

- Updates on the status of projects referenced in figure 4.1 of the Report are included in appendix 2.
- Updates on the status of other PPP projects with NDFA engagement, some of which were referenced elsewhere in the Report are included in appendix 3.
- The NDFA anticipates supporting a number of the projects noted within the *National Development Plan 2018 – 2027* published in February 2018.

3. Appendices

Appendix 1: National Development Finance Agency mandate

Appendix 2: Update on PPP projects in development at July 2012, status of projects advised by NDFA at March 2018

Appendix 3: Update on other PPP projects with on-going NDFA role at March 2018

Appendix 4: List of NDFA Financial Advisory Projects March 2018

Appendix 1: National Development Finance Agency mandate

The NDFA's mandate is set out in the National Treasury Management Agency (Amendment) Act 2014 and includes:

(a) providing advice to any State authority of the optimal means of financing the cost of public investment projects in order to achieve value for money,

(b) providing advice to any State authority on all aspects of financing, refinancing and insurance of public investment projects to be duly undertaken by means of public private partnership arrangements or within the public sector,

(c) entering into a public private partnership arrangement with a view to transferring the rights and obligations under such an arrangement to any State authority,

(d) acting as agent for any State authority in connection with the entry or proposed entry by that State authority into a public private partnership arrangement, or

(e) to enter into any arrangement or contract to procure as agent for the Minister for Education and Skills any public investment project in relation to a school, educational facility or other building or structure, including the financing, management, design and construction of such building or structure, as that Minister may from time to time designate.

In performing its functions the NDFA complies with guidelines and instructions issued by the Minister for Public Expenditure and Reform. The latest Ministerial guidelines for the NDFA issued in 2015 include administering PPP contracts over their contract life on the request of the relevant Minister.

Appendix 2: Update on PPP projects in development at July 2012, status of projects advised by NDFA at March 2018

Project status at July 2012 [1]	Status at July 2017 [1]	NDFA role [2]	Status at 15 March 2018 [2]
Schools Bundle 4 **At market stage**. Six schools on five sites in Clare, Cork, Kildare, Louth and Tipperary.	**Operational**. Scope reduced from six to four schools. Four post-primary schools in operation in Clare, Cork, Louth and Tipperary. Service had commenced in all four schools by May 2016.	Procurement & contract management (C, O)	All schools in operational phase with contract management support being provided by NDFA.
Schools Bundle 5 **At market stage**. Five schools and one further education college on four sites in Wexford, Wicklow, Meath and Carlow.	**In construction**. Contract agreed in July 2016. Service commencement expected in three schools by the end of 2017 and the remaining three schools in early 2018.	Procurement & contract management (C,O)	The schools were 90% complete in mid Jan 2018 when the liquidation was announced of Carillion PLC, including two subsidiaries: Carillion Construction Ltd and Carillion AMBS. A further subsidiary, Carillion Private Finance, is one of two PPP Consortium shareholders but is not in liquidation. Under the terms of the contract the PPP Co and funders are devising a ‘rectification plan’ to replace Carillion Construction Ltd and Carillion AMBS entities and ensure completion of the project to the State’s satisfaction. No payments will be made until the schools are completed and operational.
Grangegorman DIT campus **Pre-market stage**. Construction of central and east quads.	**Preferred bidder stage**. Following an unsuccessful challenge by an underbidder, the project is now proceeding to contract stage.	Procurement & contract management (C)	Financial close targeted shortly; commercial and EIB funding in place.
Galway City Bypass **Pre-market stage**.	**Not progressed as PPP**. Legal proceedings mainly related to planning approval delayed the project. A new Galway City Ring Road is at design and environmental evaluation stage. If the new project proceeds, it is intended that it would be directly funded by the Exchequer.	N/a	
N11 Arklow-Rathnew and Newlands Cross **Preferred tenderer stage**. Award of contract due by end-2012.	**Operational**. Upgrades to the N11 and Newlands Cross were procured under a single contract and were operational in July 2015 and November 2014, respectively.	Financial adviser	Financial advice provided on ad hoc basis in operational stage.
N17/N18 Gort to Tuam **Preferred bidder.**	**In construction**. Contract awarded in April 2014. Expected to be operational by the end of 2017.	Financial adviser	Financial advice provided on ad hoc basis in operational stage.
M11 Gorey to Enniscorthy **Market stage.**	**In construction**. Contract awarded in October 2015. Expected to be operational in 2019.	Financial adviser	Financial advice provided on ad hoc basis in construction stage.

Project status at July 2012 [1]	Status at July 2017 [1]	NDFA role[2]	Status at 15 March 2018[2]
N25 New Ross Bypass Market stage.	**In construction**. Contract awarded in January 2016. Expected to be operational in 2019.	Financial adviser	Financial advice provided on ad hoc basis in construction stage.
Primary Care Centres Pre-market stage. 20 primary care centres, in two bundles of 10.	**In construction** (one bundle of 14 centres). Contract agreed May 2016. All centres expected to be operational by 2018.	Procurement & contract management (C)	7 primary Care centres are operational with 4 more due in the next month and the remaining 3 centres due by mid- 2018.
Garda divisional headquarters Pre-market stage.	**Not procured as PPP**. Buildings in Dublin (Kevin Street), Galway and Wexford were since procured through traditional Exchequer funding model. They are currently under construction and expected to be completed between the end of 2017 and early 2018.	N/a	
State Pathology Building	**Not procured as PPP.** As it was considered that the complex nature of the building may not have attracted suitable interest in the market. The project became operational in 2016. The cost is being shared between the Department of Justice and Equality and Dublin City Council.	N/a	
Courts Bundle Pre market stage. Refurbishment and extension of courthouses in Cork, Mullingar and Waterford, and new courthouses in Drogheda, Letterkenny, Limerick and Wexford.	**In construction**. Contract awarded in December 2015. Service commenced in Drogheda Courthouse in June 2017. Construction is expected to be completed in 2018.	Procurement & contract management (C)	5 courthouses are operational with the remaining 2 courthouses due during 2018.

[1] **Source: C&AG Annual Report 2016 Chapter 4 Overview of Public Private Partnerships**
[2] **Updated by NDFA March 2018**

[C- Construction stage; O – Operational stage]

Appendix 3: Update on other PPP projects with on-going NDFA role as of March 2018

Project status at March 2018	NDFA role
Social Housing PPP – Bundles 1 and 2 **At market stage**. Bundle 1, comprising 6 sites, is in procurement with tenders due for submission in mid -2018. Bundle 2, comprising 8 sites commenced procurement in early 2018.	Procurement & contract management (C)
Social Housing PPP – Bundle 3 **Pre-market stage**. The Department of Housing, Planning and Local Government are to confirm the sites for inclusion in this bundle.	Procurement & contract management (C)
Third level PPPs – two bundles **Pre-market stage**. In October 2017 DoES announced 11 third level projects to be procured across 2 bundles.	Procurement & contract management (C)
Grangegorman DIT student accommodation **Pre-market stage**. Provision of 1,200 student accommodation places. To progress to procurement phase shortly as a concession PPP.	Procurement & contract management (C)
Health PPP - Community Nursing Units **Pre-market stage**. Project initiation document was issued by the HSE in December 2017 and governance discussions are currently underway with the HSE.	Procurement & contract management (C)
Justice PPP - Hammond Lane **Pre- market stage.** Planned development of large courts complex (including Supreme Court, Family Law Courts, Children's Court and Courts Service office). Procurement of legal and technical advisers underway.	Procurement & contract management (C)
Poolbeg Dublin Waste to Energy PPP **At operational stage.** NDFA issued its value for money opinion just prior to financial close in September 2014. Successful refinancing in 2017 with saving of over €8m to the State.	Financial adviser
Schools PPP Bundles 1,2,3 **At operational stage.** 18 schools in total procured by NDFA and now in operations stage with contract management provided by NDFA.	Procurement & contract management (C, O)
Pilot Schools PPP **At operational stage.** 5 schools in total in operations stage with contract management provided by NDFA.	Contract management only (O)
National Conference Centre PPP **At operational stage.** NDFA has a financial advisory role on this project and since 2016, at the request of the OPW has been providing and contract management services role.	Financial adviser and contract management element (O)

[C- Construction stage; O – Operational stage]

Appendix 4: List of NDFA Financial Advisory Projects March 2018

Department of Housing, Planning, Community and Local Government
Social Housing Initiatives Limerick Regeneration
South Dublin County Council (SDCC)
Kilcarbery Grange
Dublin County Council (DCC)
New mixed tenure developments Charlemont Redevelopment
Westmeath County Council (WCC)
New mixed tenure development
Office of Public Works (OPW)
Forensic Science Laboratory Convention Centre Dublin
Department of Health / HSE
National Forensic Mental Health Services (NFMHS) (formerly Central Mental Hospital)
Department of Education & Skills
Traditional Build Projects
Department of Transport, Tourism & Sport
Luas BXD (City Centre Link) Páirc Uí Chaoimh
Department of Communications, Climate Action & Environment
National Broadband Plan *(limited role; KPMG and other specialists are the commercial advisers)*
Department of Public Expenditure and Reform - Office of Government Procurement
Secure Digital Radio Network Services
Other Financial Advice
EIB funding for traditional projects (Exchequer funded) EIB funding for PPP projects

National Development Finance Agency

Value for Money Assessment
Post FC Update

March 2009

Schools Bundle 1 PPP Project

Important Notice

In preparing this report the NDFA have relied upon and assumed, without independent verification, the accuracy and completeness of any information provided to us either from publicly available sources or from the Tenderers, and the NDFA accept no liability or makes no representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information contained herein.

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1 Introduction

1.1 Introduction to Value for Money Report

The Department of Finance guidance document "Value for Money and the Public Private Partnership Procurement Process" (October 2007) sets out the four formal Value for Money ("VFM") tests that must be carried out in the PPP procurement process. This report focuses on the fourth and final VFM test, which is completed just prior to Financial Close, whereby a VFM test is carried out a) to examine the effect of any negotiated changes in the contract terms when the Project has been procured using the Negotiated Procedure, and b) to assess the impact of any changes in the interest rate (s) and/or discount rate.

The purpose of this report is to set out the VFM position for the Schools Bundle 1 PPP Project ("the Project"). The VFM test carried out in this report is between the Final Bidder's Financial Model (the "Final BFM") for the Project, which has been agreed following negotiations with the Preferred Tenderer ("PT") and following any model audit changes, and the updated Public Sector Benchmark ("PSB") model. The Final BFM has been updated with the latest estimate of EURIBOR interest rates to generate an estimate of the final Unitary Charge to be paid by the Authority. It is the Net Present Value of this final Unitary Charge that is used in the analysis in this report.

The report will firstly outline the steps involved in the Value for Money Assessment Process (See Section 2), secondly the report will explain the detailed costings in the Public Sector Benchmark (See Section 3), thirdly, the PPP procurement process for the Project will be outlined including a summary of the major tender developments which took place during the procurement process (See Section 4). Finally Section 5 will deal with the VFM Assessment for this Project and in particular the factors contributing to VFM generated.

A detailed costing exercise was performed in relation to each of the procurement options, both PPP and traditional, including consideration of the monetary costs and benefits associated with each, and the risks and uncertainties inherent in each option. The report considers whether the PPP option followed has generated VFM for the public sector in comparison to that offered by the alternative traditional procurement option.

Although this VFM Report can be read as a stand-alone document, it is recommended that the Price Change Report be read in advance of this report.

1.2 Project Background

On 29 September 2005 the Minister for Education and Science announced plans to provide 23 new post-primary schools and 4 new primary schools under a major €300 million expansion of the Government's Public Private Partnership ("**PPP**") Programme from 2006 to 2009. The projects targeted for delivery involve new schools in rapidly developing areas, the replacement of existing schools and new accommodation for schools formed by the amalgamation of existing schools.

The National Development Finance Agency (the "**NDFA**") is acting as agent for the Department of Education and Science (the "**DOES**") in the procurement of the schools to be delivered via a PPP approach. The NDFA will hand back the Project to the Department of Education and Science once the schools have been constructed and are ready to commence service.

The first bundle of schools to be delivered by PPP was announced in November 2005. The selection process for the schools was based on the DOES criteria for the prioritisation of school replacement and construction. The first bundle comprises the replacement of six existing post primary schools, with four new schools located on three sites, two in Portlaoise and one in each of Ferbane and Banagher. The Project will be carried out as a design, build, finance and maintenance contract (**"DBFM contract"**) with a concession period of 25 years.

The schools chosen for replacement are the following:

- ***St. Mary's CBS and Scoil Chriost Ri Portlaoise*** are both currently located on separate sites in the town of Portlaoise. They are to move to a shared new site on the outskirts of the town.

- ***Gallen Community School*** is made up of the former St. Josephs & St. Saran's Secondary School and Ferbane Vocational School.

- ***Banagher College - Colaiste na Sionna*** is an amalgamation of St. Rynagh's Vocational School and La Sainte Union Secondary School.

1.3 Schools Bundle 1 Procurement

Between November 2005 and September 2006, the DoES and NDFA undertook pre-procurement work, including producing an Output Specification for the Project and preparing a Public Sector Benchmark, securing Outline Planning Permission for the schools and dealing with all policy issues in relation to the Project. The Project was handed over to the NDFA for procurement on 26 September 2006.

The NDFA dispatched a notice to the Official Journal of the European Union (**"OJEU"**) inviting expressions of interest for the first bundle of schools on 27 September 2006. Nine expressions of interest were received by the NDFA.

Following a full technical, financial and legal evaluation of these pre-qualification submissions, three consortia were shortlisted for the Project. These were

- BAM;
- Hochtief / Sisk and;
- Macquarie Partnership for Ireland and Pierse Construction.

Tender documents were issued in March 2007 to each of these shortlisted candidates. A tender consultation and query process followed with each Tenderer up to July 2007 when full tender submissions were received from each of the consortium named above.

Over the following three months a detailed evaluation took place of all the financial, legal and technical aspects of the Tenders received and a number of rounds of clarifications were issued to bidders to assist DOES, NDFA and their advisors in these evaluations.

In September 2007 Macquarie Partnership for Ireland (**"MPFI"**) was found to have submitted the most economically advantageous tender (**"MEAT"**) and MPFI was selected as Preferred Tenderer in September 2007 and accepted this appointment by the adoption of a Preferred Tenderer's letter in October 2007.

Following their appointment, the Preferred Tenderer discussions have focused on developing certain technical, legal and financial aspects of the Project. A number of significant developments took place during the procurement process and these have been explained in Section 4.

1.4 PPP Payment Mechanism Structure

The Project is being carried out on the basis of a DBFM contract. The length of the concession will be the design and construction period plus 25 years from the commencement of services for each school. The quantum of the Unitary Charge receivable has been bid by the Tenderer. The key features of the payment mechanism associated with the Project are as follows:

- The PPP Co will be entitled to receive an annual payment ("the Unitary Charge") from the DOES from the date on which the services commence for each school until the end of the 25 year contract period paid on a monthly basis;
- The Unitary Charge for each payment year shall be subject to indexation on an annual basis; and
- The Unitary Charge will be reduced in the event of poor performance or unavailability with increased penalties imposed at critical times.

1.5 VFM Conclusion

A summary comparison of the monetary costs and benefits associated with the traditional procurement and PPP option is set out in the table below. The figures are rounded to the nearest €m and expressed in NPV terms. A detailed analysis of this table below is carried out in Section 5.

The lower cost associated with the Final BFM compared with the cost under traditional procurement as represented by the updated PSB demonstrates that on a monetary basis alone, when compared on an all risks inclusive basis, the PPP option represents better VFM.

The level of VFM offered by the PPP option over the traditionally procured option cannot be attributed to one single factor but rather is generated from a combination of having a competitive bidding strategy, competitive pricing and risk management. The pricing advantage gained from these factors more than outweighs the private sector financing costs associated with the Project.

The PPP Co.'s solution includes a long term debt funding solution. Interest is rolled up during the construction period before being fully amortised over the course of the concession following a sculpted amortisation profile that will be set at Financial Close to match expected cash-flows. The risk of movements in the EURIBOR rate on the cost of this financing is borne by the Authority from the bid submission date to Financial Close. Set out in the table below is a comparison of the updated PSB to the Final BFM both before and after the estimated EURIBOR adjustment at Financial Close.

VFM Comparison: Traditional versus PPP Procurement

Traditional Procurement	NPV €'m	PPP	NPV €'m
Base Costs (including VAT):			
Capital Costs	59.8	Unitary Charges (VAT inclusive) post EURIBOR	130.3
Life Cycle Costs	23.4		
Operating Costs	29		
Maintenance Costs	12.1		
Special needs Unit	9.3		
Total Non-Risk adjusted cost to the Authority	**133.6**		
Total Risk Costs	16.9		
Total Risk adjusted cost to the Authority	**150.4**	**Total Risk adjusted cost to the Authority**	**130.3**
Less incremental cash flows to Public Sector (VAT)	(20.8)	Less incremental cash flows to Public Sector (VAT)	(10.3)
Total Ex VAT Risk adjusted cost to the Public Sector	**129.6**	**Total Ex VAT Risk adjusted cost to the Public Sector**	**120.0**
Change in Discount Rate and Timing Adjustments[1]	(5.2)	Change in Discount Rate and Timing Adjustments	(12.4)
Revised total Risk adjusted cost to the Authority[2]	**124.4**	**Revised total Risk adjusted cost to the Authority (Final BFM post EURIBOR Adjustment)[3]**	**107.6**
		Less Corporation Tax	**(0.6**
Revised total Risk adjusted cost to the Authority	**124.4**	**Revised total Risk adjusted cost to the Authority post Corporation Tax**	**107.0**

[1] See Section 5.3

[2] Based on a discount rate of 6.20% and a discount base date of 31 March 2009

[3] Based on a discount rate of 6.20% and a discount base date of 31 March 2009

Based on an evaluation of the monetary costs and benefits associated with each option the PPP option represents VFM to the public sector.

Due to the credit crisis senior debt pricing by funders has increased significantly during the PT Period with the final margins of 2.25% during the construction period and 2.0% -2.2% during the operation period being used in the Bidder's funding structure. These reflect the most competitive financing terms available in the current market.

As part of the revised funding terms negotiations, the Authority sought and reached agreement with the Bidder to recover 100% of any improvements in bank margins from the revised banking terms to the terms as originally included in the July 2007 submission in the event of a refinancing at a later stage in the Project when banking terms may improve. These higher margins have been offset by falling EURIBOR rates from 5.02% as at July 2007 to 3.6075% at Financial Close.

2 Value for Money Assessment Process

2.1 Overview

In order to assess VFM, the cost of procuring the Project on a traditional basis which includes the associated risks retained by the public sector is estimated in a PSB model. This is then compared to the PPP tendered prices to assess which offers better VFM.

The PSB is in effect a benchmark against which the Tenders from the private sector are assessed. It is an estimate of the cost to the public sector of procuring the services set out in the PPP contract employing a traditional public sector procurement process, in which the public sector would retain managerial responsibility and significant exposure to risk. Traditional Procurement means a competition to engage a private sector contractor to design and build ("D&B") the Schools, with the DOES responsible for funding and arranging for ongoing maintenance of the Schools.

The manner by which the PSB is prepared is detailed in Section 3.

2.2 Stages of VFM Assessment

As set out in the Department of Finance guidance "Value for Money and the Public Private Partnership Procurement Process" (October 2007) VFM comparisons are undertaken at the different stages of the competition as outlined below in order to ensure the rationale remains for continuing with the PPP procurement.

Prior to these tests the Government decided to proceed with a schools programme employing the PPP approach and this was announced in 2005.

The ***first*** formal PPP Value for Money test is a qualitative one. Project characteristics that are likely to provide VFM are assessed, such as, sufficient scale, potential for risk transfer to the private sector, potential to be output based and potential for revenue generation.

The ***second*** formal VFM test is carried out when the PSB for the Project has been compiled and prior to the initiation of tendering.

Some of the issues that were considered qualitatively in the first PPP VFM test are then quantified in the PSB, which represents the cost of traditional procurement including quantification of the risks associated with the Project. The PSB provides a basis for assessing whether the level of risk transfer using a PPP arrangement is likely to be sufficient to justify the additional cost of private finance.

A shadow bid financial model is also prepared, which represents the Authority's best estimate of the costs and revenues that could reasonably be expected to be incurred/generated by a private sector entity having taken into account the transfer of risks in the model contract. This financial model effectively represented the Authority's best estimate of a PPP Tender.

The ***third*** formal value for money test, which takes place at the tender evaluation stage is to compare the highest ranking bid to the PSB, allowing for the differing impact of taxes, etc., in order to quantitatively assess whether the highest ranking bid offers a VFM solution.

On receipt of the ITN Tender submissions, the NDFA carried out a detailed evaluation of all the bids and scored and ranked the bids accordingly. After the evaluation was completed and before the announcement of the preferred bidder the bids were compared to the PSB to help assess, from a purely quantitative perspective, whether it has the potential to deliver VFM.

This comparison assessed whether there would be a reasonable probability that, following the due diligence, negotiation and review of the Tender, VFM would be obtained through the PPP option and that it would therefore be justified to incur further costs continuing the competition on this basis.

The ***fourth*** formal value for money test is completed just prior to Financial Close. This report seeks to outline the results of this final test which is carried out a) to examine the effect of any negotiated changes in the contract terms when the Project has been procured using the Negotiated Procedures, and b) to assess the impact of any changes in the interest rate(s) and/or discount rate.

The updated PSB is then compared to the agreed Final BFM to assess, which option offered better VFM. This analysis is detailed in Section 5.

2.3 Changes prior to Financial Close

No changes are expected to the costs between the agreement of the Final BFM and Financial Close, except changes due to Interest Rate Risk as noted below. Details of the development of the ITN BFM to the Final BFM can be reviewed in the Price Change Report.

2.4 Interest Rate Risk

The Authority takes the risk of changes in interest rates (changes in EUR mid-swap curve) between the date of Tender submission and Financial Close, subject to the satisfactory benchmarking of interest rates at Financial Close.

Based on the underlying interest rates as benchmarked during the "Dry-Run" process (as detailed in the Model Optimisation and Financial Close protocols) prior to the Financial Close, an indicative quantification of the value of the change in interest rates is c. €9.1m in NPV terms (to the Authority's benefit).

This estimated movement is predominantly as a result of the senior loan market EURIBOR interest rate moving from 5.02% to 3.6075%.

Following a review of the Final BFM incorporating the above interest rates as benchmarked during the Dry-Run process, there is an improvement in VFM associated with the Project. Interest rates are not expected to change significantly between now and Financial Close such that the Project would not represent VFM.

3 Public Sector Benchmark

3.1 Methodology

The PSB represents the DOES' estimate in NPV terms of the risk adjusted whole life cost of delivering the Schools under traditional procurement.

It is presented as a single monetary value that represents the full estimated cost, taking income and risks into account, to the Sponsoring Agency of delivering the Project using "traditional" public sector procurement. This single monetary value is underpinned by a financial model and other relevant supporting documentation. The PSB must comprehensively address all costs, income and risks that the private sector will be invited to tender for in the PPP contract.

In the second quarter of 2006, DOES and Healy Kelly Turner Townsend ("HKTT") commenced the preparation of the estimated costs for the PSB based on the Project scope and output specification for the Project.

The PSB includes capital costs based on the DOES standard school building costs derived from the design and build programme being procured traditionally by DOES. Recurring costs including operating, maintenance and life cycle costs were sourced from HKTT based on their industry costs data base. These costs were benchmarked to both Irish and UK market data.

Two risk workshops were held in March and May 2006. These were used to firstly identify possible risks and secondly to determine their probability of occurrence and their severity in terms of cost and time impact should they occur. HKTT then quantified these risks and the individual risk costs are linked to the level of capital and recurring costs assumed in the PSB.

The PSB was approved by DOES Management Advisory Committee ("MAC") in August 2006, prior to issuing the OJEU notice. A letter of handover of the Project was sent by DOES to NDFA indicating that the PSB had been signed off by MAC, the output specification for the Project were prepared to the satisfaction of DOES and all policy issued had been resolved.

During the procurement process but prior to the receipt of Tender submissions the DOES introduced a policy requirement for Special Needs Units into all four schools. This was unforeseen and the PSB had to be adjusted to include the SNUs. The updated PSB was approved by DOES in June 2007.

In order to be able to ensure that the financial models underpinning both the PSB and the highest ranking bid are comparable, the Tenderers for the Project were required to use the same base dates, discount rates, timing of cash flows, inflation and interest rates at a selected time and date in their ITN submissions. A nominal discount rate, which provides a proxy for the Government cost of borrowing, and a long run 2% annual inflation rate (based on the long-run ECB target rate) was prescribed by the NDFA. A discount rate of 4.75% (nominal) was used at the ITN and PT stage. The discount rate and Project timeline assumptions are updated prior to Financial Close in order to update the PSB for the fourth VFM test.

The detailed assumptions underlying the PSB are set out in a separate report.

3.2 Identification of Monetary Costs and Benefits

The PSB consists of an assessment of the total costs that would be incurred in the provision of an asset and the level of service specified by the PPP contract. The main costs are:

3.2.1 Base costs

The public sector's estimate of the costs it will incur to construct on a design and build basis, maintain and manage the infrastructure over the period of the contract in accordance with the performance specification as set out in the PPP contract, before allowing for contingencies or risks. For this Project this includes construction costs for the buildings, physical education hall, external works, pitches, abnormal site costs, professional fees, in additional to furniture and equipment costs, operating, maintenance and lifecycle costs.

3.2.2 Retained risks

These risks, by their nature, always rest in any procurement scenario with the public sector

3.2.3 Risks retained under traditional procurement but transferred under PPP

These are applied to the base costs to reflect an appropriate allowance for the additional costs which can be expected to arise as a consequence of the risks associated with the Project. To ensure that the comparison with private sector Tenders for the PPP Project is carried out on a like for like basis, allowances are only included for the risks that the Sponsoring Agency is transferring to the private sector.

3.3 Identification of Non Monetary Costs and Benefits

As noted above, the PSB does not include a quantification of the following non-monetary costs and benefits, which are nonetheless an important consideration in assessing the true cost of a Project to the public sector:

3.3.1 Macro Benefits

The PSB has not attempted to value the benefit to the economy generally of additional post primary schools being delivered by the PPP Project. However, the Project will deliver a purpose built modern school accommodation that will provide suitable and sufficient accommodation and facilities to support effective teaching for the schools identified in the first bundle. In addition construction jobs will be provided for the period the schools are being built.

3.3.2 Residual values for the infrastructure assets

The asset is returned to the DOES at the end of the contract at no cost and in the condition specified by the hand back requirements in the contract, which is assumed to be the same under public and private alternatives. The requirement to achieve these standards is expected to act as an incentive to adhere to high levels of performance in respect of services and maintenance.

3.4 Identification of Risks and Uncertainties

3.4.1 Principles of Risk Assessment for the PSB

The base costs of the Project are the minimum costs that will be incurred in order to construct the Project. Risk costs represent that element of costs that may or may not happen. This means that all PSB costs are broken into two components of a known quantity and unknown amount. For the purpose of agreeing the PSB capital budget estimate, the process of a risk workshop was used to attempt to quantify the "unknown amount". A set of standard statistical assumptions was employed in the risk workshop to model this element of the PSB which are detailed in the PSB Assumptions Report.

3.4.2 Identification and Categorisation of risk

The main categories of risks are identified below.

- Planning and legislative risk;
- Design Risk;
- Construction Risk;
- Operating Risk;
- Demand Risk;
- Financial Risk;
- Political, Regulatory and Legislative Risk;

3.4.3 Analysis of Risk Costs in PSB

A summary of the NPV of the risk costs is included in the table overleaf. The value of the risk costs are dependant on the level of capital and recurrent costs.

Risk Costs	EX VAT NPV €m's
Planning and legislative risk	[redacted]
Design Risk	[redacted]
Construction Risk	[redacted]
Lifecycle & Project Risk	[redacted]
Operating Risk	[redacted]
Financial Risk	[redacted]
NPV Total Risks Costs	**14.9**
NPV of DOES approved PSB	**121.9**
Risk Costs as % of Project NPV (CapEx and OpEx)	**14%**
Additional SNU budget (including risk)	7.7
NPV of revised DOES approved PSB	**129.6**

As highlighted in the table above, the most significant risks relate to construction, design and operating risk. The estimated risk of capital costs increasing beyond tender estimates is not unexpected - traditionally procured projects are generally typified by cost increases and claims which result in actual capital costs being significantly greater than estimated.

3.5 Update of PSB post selection of Preferred Tenderer

Following appointment of the PT, a policy change relating to the Special needs requirements of the DOES was announced in November 2007. This related to a further increase in the size of the Special Needs Units included within the schools from 118m2 to 523m2. The DOES approved an increase to the PSB of €7.7m Ex VAT NPV based on the requirement for increased school sizes to cater for the larger Special Needs units and the associated lifecycle costs.

3.6 Reconciliation of ITN PSB to Updated PSB

Set out in the following table is a reconciliation of the Department of Education and Science approved PSB to the updated PSB to be used in the final Value for Money Test.

It is necessary to establish an updated discount rate appropriate for the Project as part of the final VFM assessment. This results in an updated PSB for VFM assessment but does not change the DOES sanctioned PSB.

It is also necessary to update the discount base date to the revised Financial Close date of 31 March 2009.

PSB	Ex VAT NPV €'m
Capital Costs	52.2
Lifecycle Costs	19.2
Operating Costs	25.0
Maintenance Costs	10.6
Risk Costs	14.9
Total risk adjusted cost to DOES (ITN PSB)	**121.9**
Special Needs Unit Adjustment	**7.7**
Total risk adjusted cost to DOES (SNU adjusted PSB)	**129.6**
Discount rate (6.20%) and Timing Adjustments[4]	**(5.2)**
Final risk adjusted cost to DOES (Final PSB for VfM test)	**124.4**

[4] Timing Adjustments are The Roll Forward of the Construction and Operational Start Dates and the Discount Base Date. These are dealt with in detail under 5.3

3.7 Capital Envelope

The figures below show the BFM's costs which would be used when comparing to the amount available for the project in the Capital Envelope. All figures in the table are stated in Nominal terms.

	PSB	BFM
	Nominal €'m	
Construction Costs	63.5	60.3
Up-Front Costs During Construction	-	0.4
SPV Running Costs During Construction	-	
Lifecycle Costs During Construction	-	-
FM cost during construction		-
Base Capital Costs	**63.5**	**60.7**
PSB Capital Risk Costs	6.3	-
Capitalised Interest and Fees	-	**4.3**
Capital Costs Before VAT	**69.8**	**65.0**
VAT Charge	10.6	9.7
Total Capital Costs inclusive of VAT	**80.4**	**74.7**

The Capital Envelope for the Schools PPP Programme is €300 million and as such the BFM Capital expenditure is under the Capital Envelope Allocation.

4 PPP Procurement Overview

4.1 Process to Date

Section 1.2 Project Background and 1.3 Procurement of Schools Bundle 1 PPP sets out the steps involved in the procurement of this Project from the Minister for Education and Science's announcement in November 2005 through the pre-qualification and ITN processes. This section will elaborate on the more detailed aspects of the process involved in selecting the most economically advantageous tender (**MEAT**).

4.2 Pre-Qualification

An OJEU notice was dispatched to the market by the NDFA with respect to the Project on 27 September 2006 inviting expressions of interests.

Nine parties made submissions for pre-qualification consideration. Each submission was evaluated based on the following criteria:

1. Financial and Economic Standing of the Candidate	30%
2. Technical Capability of the Candidate	70%
Total Marks	100%

Under the first criteria, the financial robustness of the candidate was examined as well as the ability of the candidate to raise finance for projects of similar size and complexity. Under the second criteria, the previous experience of the service providers put forward for this Project were assessed. Based on the submissions received, three candidates were pre-qualified to participate in the tender competition:

- BAM;
- Hochtief /Sisk; and
- Macquarie Partnership for Ireland (MPFI).

4.3 Invitation to Negotiate ("ITN")

The ITN and Project Agreement were issued in March 2007 to each of these shortlisted candidates. A tender consultation and query process followed with each Tenderer up to July 2007 when full tender submissions were received on 27 July 2007 from each consortium above.

4.4 Evaluation Criteria

The ITN set out clearly the evaluation criteria under which the three Tenderers would be evaluated. Using the Negotiated Procedure applicable to public services contracts, the contract is to be awarded to the consortium, which makes the most economically advantageous offer to the Authority, based on an evaluation and ranking of submissions in accordance with the technical, financial and legal criteria set out below.

1. Technical Evaluation	62.5%
2. Financial Evaluation	27.5%
3. Legal Evaluation	10%
Total Marks	100%

4.5 Technical Evaluation

The technical evaluation was split into two areas:

- Design and Construction (34% + 8.5% = 42.5%); and
- Operations (20%).

4.5.1 Design (Marks 34%)

The design evaluation assessed the proposals for each school taking account of the compliance with the requirements contained in the output specification in relation to Architectural Design, Building Services, Environmental Assessment, Civil and Structural Proposals, Furniture, Fixtures and Equipment and Project Management Proposals

4.5.2 Construction (Marks 8.5%)

The construction evaluation involved an assessment of the following key criteria of the submission: Health & Safety; Programme; Commissioning; and the Construction methodology.

4.5.3 Operation (Marks 20%)

The operation and maintenance evaluation assesses the technical proposals that meet the User Requirements in the operation and maintenance of the Project in terms of: Operational Method Statements; Management and Staffing; Quality Standards; Performance Monitoring; Compliance with Health & Safety; and Energy Conservation and Environmental Impact.

4.6 Financial Evaluation

The financial evaluation involved an assessment of the financial proposal in terms of:

4.6.1 NPV Assessment (Marks 25%)

This involves quantifying the NPV of total expected payments requested by the PPP Co from the Authority which includes the NPV of the total unitary charge without any service performance deductions assumed. The lower the NPV the higher the marks awarded.

4.6.2 Financial Robustness (Marks 2.5%)

The financial robustness of proposed financing plan was assessed under a number of criteria set out below. Each Tenderer must achieve a score of not less than 50% of the 2.5% available in order to be considered financially robust. The criteria are as follows;

- the overall feasibility of the proposed financing plan;
- the robustness of the results under a range of sensitivity scenarios;
- the terms and conditions of financing (debt, quasi equity and equity) and the degree of conditionality attached;
- guarantees and other security required to realise financing;
- the level of commitment of shareholders; and
- the level of commitment demonstrated to the proposed financing by the Credit Providers.

4.7 Legal Evaluation

The legal evaluation involved an examination and assessment of the contractual and legal matters arising from each Tender.

4.7.1 Acceptance of Project Agreement (Marks 7%)

The greater the number of amendments, which the Authority believed were unacceptable the more the marks were deducted from the total of 7%.

4.7.2 Principal Sub - Contractors Arrangements (Marks 2%)

Tenders were assessed and evaluated on the proposed draft execution versions of the agreements provided in respect of the Principal Sub - Contractors.

4.7.3 Consortium Arrangements (Marks 1%)

Tenders were assessed and evaluated on the legal adequacy of:

(i) the proposed contracting entity; and
(ii) the ownership structures proposed for the contracting entity, including, in particular, the draft execution versions of the shareholder agreements and any other agreements provided to address the arrangements to be put in place between shareholders.

4.8 Overall Evaluation Process

Based on an evaluation of the ITN submissions received, MPFI was selected by the NDFA in September 2007 as Preferred Tenderer for the Project as it was deemed by the Project Board and approved by the Steering Group as the Most Economically Advantageous Tenderer ("MEAT"). MPFI accepted this appointment by way of accepting the Preferred Tenderer's letter in October 2007.

The results of the technical, financial and legal evaluations resulted in an overall composite score out of 100 for each Tender, with the higher scores given to the more economically advantageous Tenders. Tenders were then ranked in accordance with the scoring methodology outlined in the ITN Evaluation Procedure Document.

Following the competitive tender process, MPFI's Tender was determined to be the Most Economically Advantageous Tender. MPFI was selected as Preferred Tenderer in September 2007.

4.9 Tender Developments during the Procurement Process

The tender process requires the Authority to select the Consortium with the MEAT as the Preferred Tenderer. Following a competitive tender process, the Tender submitted by MPFI was determined to be more economically advantageous than the other Tenderers.

The following paragraphs summarise the main Project developments which have impacted on the tender price in the PT period. These tender developments are analysed in detail in the Price Change Report.

4.10 Special Needs Units

Following selection of the Preferred Tenderer in October 2007 the DOES sought to increase the size of the Special Needs Units in each of the Schools. This change was as a result of a change in DOES policy and the impact of the change was to increase the overall size of the buildings with a consequential increase in the lifecycle and maintenance costs.

This change in the Authority requirements necessitated an increase in the PSB and a detailed costing exercise was performed to determine the impact of the change. The DOES approved an increase of Ex VAT NPV €7.7m to the PSB to reflect the changes. The actual increase in the MPFI offer was Ex VAT NPV €5.9m over their original tender price. As the increase in the MPFI bid was lower than the sanctioned budget it was deemed to offer value for money to the Authority and was accepted.

4.11 Fixed price and CPI swap

Prior to the NDFA granting permission for MPFI to submit Planning Permission for the schools MPFI were required to confirm their tender price was not subject to variation due to changes in the value of the CPI Swap incorporated in their financial structure. Following extensive negotiations MPFI conceded that the price to the Authority would remain fixed and would not be subject to movements in the CPI rates from the bid date to Financial Close. To achieve this, the consortia had to reduce their bid construction costs, development fees and revise the spend profile of the Project to maintain the price to the authority. Following analysis of the proposal the NDFA approved the consortia's proposal and granted permission for the submission of the planning application in April 2008.

4.12 Credit Crisis & Bank funding margins

During the course of the Preferred Tender negotiations the international credit crisis has resulted in a downturn in the international financial sector. There has been a tightening of credit by funders as they restructure their balance sheets and deal with falling asset prices. A number of banks have failed and there have been large rescue packages introduced in a number of countries to stabilise and rescue their banking systems. One of the implications widely reported is the increase in funding costs of banks and also of their funding margins.

In July 2008 MPFI advised the NDFA that their bank funders, Depfa Bank, required increased margins above those offered in the Tender submission. As the credit crisis worsened the German parent company of Depfa Bank (Hypo Real Estate) had to be rescued by the German exchequer. This resulted in Depfa Bank withdrawing as the Project Funder and from the PPP market in general due to its inability to access funds on the money markets.

As a result MPFI was required to run a funding competition to replace Depfa Bank. Following an approach to 20 banks they secured funding from Bank of Ireland.

All price changes were evaluated to confirm that at all times the MPFI submission remained VFM and retained their MEAT status. Details of the movements between the original tender submission and the final PT Financial Model are set out in a separate report entitled "Price Change Report".

4.13 Financial Close

Preparations are now underway to achieve Financial Close with the Preferred Tenderer. The final Project Agreement will incorporate any changes negotiated and agreed since ITN submissions. It is envisaged that all future changes up to the date of Financial Close will be purely clarificatory in nature and will not significantly change the risk profile.

At Financial Close, the financial model submitted by the Preferred Tenderer will be re-optimised for any change in interest rates and the final Tender cost will be determined. The range within which this is expected to fall is outlined in Section 5. This model will have been independently audited prior to Financial Close.

4.14 Financial Close PS

Financial Close was achieved on 6th March 2009 and this document has been updated to reflect the revised actual discount rate and actual EURIBOR effective on the day of financial close. These did not change materially from those rates used in the preparation of this report for the Project Team in advance of Financial Close. The EURIBOR rate had been estimated at 3.71% however it was actually 3.61% at FC. The Discount Rate had been updated to 5.82% prior to Financial Close however it was updated to 6.20% on the day of Financial Close. The Unitary Charge and associated total lifecycle cost was adjusted accordingly.

5 Value for Money Assessment

5.1 Comparison of Monetary Costs and Benefits

Sets out in the table below are the monetary costs and benefits associated with the traditional procurement compared to the PPP option and it indicates that on a monetary basis alone the PPP option represents better VFM. As also mentioned the level of VFM offered by the PPP option over the traditionally procured option cannot be attributed to one single factor but rather is generated from a combination of a competitive bidding strategy, competitive pricing and risk management.

Traditional Procurement	NPV €'m	PPP	NPV €'m
Base Costs (including VAT):			
Capital Costs	59.8	Unitary Charges (VAT inclusive) post EURIBOR	130.3
Life Cycle Costs	23.4		
Operating Costs	29.0		
Maintenance Costs	12.1		
Special needs Unit	9.3		
Total Non-Risk adjusted cost to the Authority	**133.6**		
Total Risk Costs	16.9		
Total Risk adjusted cost to the Authority	**150.4**	**Total Risk adjusted cost to the Authority**	**130.3**
Less incremental cash flows to Public Sector (VAT)	(20.8)	Less incremental cash flows to Public Sector (VAT & Corporation Tax)	(10.3)
Total Ex VAT Risk adjusted cost to the Public Sector	**129.6**	**Total Ex VAT Risk adjusted cost to the Public Sector**	**120.0**
Change in Discount Rate and Timing Adjustments[5]	(5.2)	Change in Discount Rate and Timing Adjustments	(12.4)
Revised total Risk adjusted cost to the Authority[6]	**124.4**	**Revised total Risk adjusted cost to the Authority (Final BFM post EURIBOR Adjustment)[7]**	**107.6**
		Corporation Tax	**(0.6)**
Revised total Risk adjusted cost to the Authority[8]	**124.4**	**Revised total Risk adjusted cost to the Authority post Corporation Tax**	**107.0**

[5] See Section 5.3
[6] Based on a discount rate of 6.20% and a discount base date of 31 March 2009
[7] Based on a discount rate of 6.20% and a discount base date of 31 March 2009
[8] Based on a discount rate of 6.20% and a discount base date of 31 March 2009

5.2 Reconciliation of BFM and PSB from ITN to Financial Close.

In order to complete the analysis of the final Value for Money test it is necessary to update both the BFM and the PSB. The BFM is updated for negotiated price changes, model audit changes, timing updates and discount rate updates. These updates are summarised in the table below.

[redacted]

The PSB must also be updated to take account of actual Project time lines and the updated discount rate.

Change	NPV €'m
Approved PSB at ITN stage	**121.9**
Special Needs Units Bid approved increment	7.7
Revised approved PSB (pre Discount Rate and date update)	**129.6**
Construction / Operation date changes	0.5
Discount Base Date Change (Jan 08 to Mar 09)	6.7
Discount Rate Change (4.75% to 6.2%)	(12.4)
Effect of Construction / Operation date changes, Discount Base date Change and Discount Rate Change,	**(2.2)**
VFM comparison figure	**124.4**

5.3 Discount Rate and Timing Adjustments

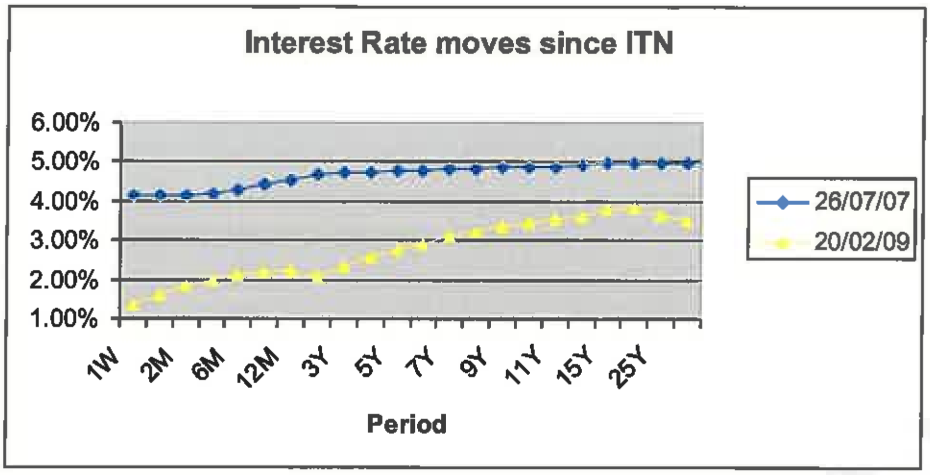
As mentioned in Section 3.1 PSB Methodology the applicable discount rate as used in the ITN submissions was 4.75% nominal and discounts all cash flows in the model to a 01 January 2008 Financial Close date, the Discount Base date. This rate was determined on a date two weeks prior to the date of the submission (June 2007). This rate has not been updated since ITN and continues to be used for the PT submission. The discount rate was updated prior two weeks to Financial Close, to 5.82%, the impact of which is set out above.

A further adjustment in the Construction Start / End dates and Operation Start / End dates was required for all four schools. In addition, the PSB was updated for a revised Discount Base Date of 31 March 2009, (reflecting the new Financial Close date) resulting is an NPV cumulative decrease of €2.2m as shown in the Table above.

Financial Close Post Script:-. The actual discount rate at FC was updated from 4.75% to 6.20% in this final VfM analysis, further reducing both the NPV of the PSB and of the Unitary Charges based on the discount rate of 5.82% that was used in the pre Financial Close VfM report.

5.4 Interest Rates

As outlined previously in this report, the cost to the DOES under the PPP option will be subject to change in line with movement in the applicable EURIBOR interest rate between submission of the ITN (July 2007) BFM and the Financial Close date March 2009. Long term interest rates have decreased in this time period as the following graph indicates:



Based on recent dry run estimates of the movement in the rates between MPFI and the Authority's advisors, interest rates have decreased by c. 119 bps from ITN. As a result of these rate movements the total cost saving to the DOES will decrease the Project NPV from ~~€123.m to €113.9m~~* as compared to the PSB cost of €127.4m. This resulted in a EURIBOR interest saving of €9.1m

*€130·9m to €121·8m, with the effect of discounting bringing the Project NPV to €115·9m;

5.5 Review of VFM

As the table in Section 1.5 VFM Conclusion indicates, the BFM put forward by the Preferred Tenderer offers better value for money to the public sector than procuring the Project by traditional means.

A review of the key figures arising under both approaches is set out below and to more closely explain how value has been obtained.

Ex VAT NPV	**Revised PSB** **NPV €m**	**MPFI Bid** **NPV €m**	**Difference in MPFI Bid to Revised PSB** **NPV €m**
D&C	**60.6**	**56.2**	**(4.4)**
FM Costs	**34**	**24.0**	**(10.0)**
Lifecycle	**18.4**	**8.8**	**(9.6)**
Debt Finance +commitment fees+ Standby Fees	-	**7.0**	**7.0**
Equity Finance (Sub debt interest, equity bdg interest + Dividends)	-	**6.8**	**6.8**
Deposit Interest Earned at 4.5%	-	**(2.5)**	**(2.5)**
Corporation Tax	-	**0.6**	**0.6**
Other (SPV, Up-Front Costs and Debt Fees)	-	**13**	**13**
Risk	**14.3**	-	**(14.3)**
Total	**127.4**	**113.9**	**(13.5)**

In essence from a VFM perspective, MPFI have been able to price the construction and the operation of the schools (with risks transferred) more keenly than the cost of delivering under traditional procurement including risks retained in that scenario. All of this value is then compared with the higher cost of private sector financing, however that additional cost does not outweigh the benefits that PPP Co brings to the scheme.

5.5.1 Project Cost and Risk

The capital and operating costs (including risk adjustments) compared to the relevant costs of the PT's BFM indicates that the PSB is more expensive for construction and operating costs.

The difference in base costs between the PSB and the Preferred Tender can be attributed to the level of risk built into costs by the Tenderer, reflecting the level of risk transfer to the PPP Co under the PPP Contract. The approach to management and quantification of risk thus differs substantially between the PPP option and the public sector. The risks transferred to the private sector under the PPP option are generally those where it is thought that the private sector is in a better position to control and mitigate the effect of same. However, the private sector will still factor in an allowance for those risks, in their pricing. This will not be explicit but will be subsumed into a combination of the base cost estimate and also the return on the private sector risk capital invested. These figures would indicate that the private sector is better able to deal with and hence price for the risks transferred.

5.5.2 Funding Cost

One of the issues to be considered under PPP is the cost of funds to the private sector. Hence it is relevant to consider the impact that the private sector capital has had on the level of VFM offered in this Project:

Debt

- The debt/equity split proposed by the PT in its financing plan is 89.3% debt and 10.7% quasi equity in the form of Subordinated Debt;

- The lead credit providers involved in this Preferred Tender are Bank of Ireland;

- Senior debt funding of c. €67.8m is to be provided. This is to be sculpted to reflect the payment profile of the Unitary Charge. Senior debt funding will be repaid no less than 6 months prior to the end of the Concession;

- The cost of the senior debt is at a margin of 2%-2.25% over EURIBOR rate; and

- The approximate marginal cost of the finance over the estimated cost of funding the Project using a government bond priced at 5.82% would result in a marginal cost of €1.7m. Thus the increased cost of using the bank debt is 1% of the overall cost.

Equity and Subordinated Debt

- Funding of c. €8.1m is to be provided by the Project Sponsors (100%) through pinpoint Equity and Subordinated Shareholder loans. The Sponsors shareholding will be held by Macquarie and Pierse in accordance with their respective shareholdings;

- The nominal post tax blended equity IRR is 12.95% for the Project as a whole;

- This is a competitive level of equity return given the overall risks in the Project to the PPP Co but in line with other schemes in the Irish market place; and

- This level of required IRR represents a marginal cost of €6.7m in net present value terms to the public sector (over and above the cost of government borrowing at

5.82%). This amounts to a cost of 5% of the overall cost of the Project for the introduction of private sector equity financing.

The additional equity financing costs absorbed within the Preferred Tender is off-set against the level of risk transferred to the Private Sector, ensuring that the Project delivers Value for Money

Miscellaneous

In addition to a consideration of the cost of the Project to the DOES, it is also relevant to consider other incremental cash flows to the public sector arising as a result of this Project being undertaken through PPP. There are three key factors to consider here:

- Tax payable at Investor Level – The PPP Co is structured as a Limited Liability Company, and as such, it is currently liable to corporation tax on profits at the standard rate of corporation tax valued at €1.47m Nominal (NPV €0.6m). This income of the investors is subject to tax following the extraction of funds from SPV Co.

- Rates - It is envisaged that there will be no rates liability in connection with this Project. If any rates liability were to arise, this liability would be the responsibility of the Authority.

- VAT – Based on current VAT estimated within the financial model, the Authority is liable to pay VAT of c. €9.6m. The VAT on Construction will be paid directly to Revenue under the new Reverse Charge mechanism however the VAT on the Unitary Charge will come out of the DOES annual funding.

- Deposit Interest amount of €5.4m in nominal terms is realised for the Authority's account based on a deposit interest rate of 4.5%

5.6 Conclusion on Monetary Factors

As indicated in the introduction, the purpose of this report was to set out the overall need and objectives for the schools and then to determine which option - traditional procurement or PPP - represented better value for money to the public sector.

Part of the rationale put forward for procuring a project through PPP relates to risk transfer. As indicated above, the BFM put forward by the Preferred Tenderer has accepted a high level of risk and priced those competitively compared to the expected position under traditional procurement – which is in itself a justification of the PPP option. However, the key factor which can increase the cost under PPP compared to traditional procurement is the cost of private sector finance. The public sector can borrow at a lower cost (though this risk free rate does not reflect any margin for risk of the project) than the private sector. A review of the cost of funding under the PPP option indicates, however, that this cost is €13.6m in net present value terms. This compares to the overall cost estimate of the Tenderer of €113.9 m for the Project.

As the above factors indicate, an assessment of the level of VFM offered by the PPP option over the traditionally procured option cannot be made based on one single factor but rather must be based on a combination of factors including the range of possible outcomes under a number of different scenarios. The factors giving rise to better VFM under PPP include a combination of a bidding strategy, competitive pricing and new techniques. The pricing advantage gained from these factors more than outweighs the private sector financing costs associated with the Project.

Appendix 1 Summary of Preferred Tenderer's BFM

1.1 Outline of BFM Proposals

The proposals put forward by the Preferred Tenderer in the economically most advantageous tender are summarised below.

1.2 Key Financial Points

The Preferred Tenderer has proposed the following payment mechanism in the Preferred Tender:

Unitary Charge

- Base Date Annual Unitary Charge of c. €8.6m;
- X - factor of c. 36.5%;
- Total Unitary Charge of Ex VAT €113.9.m in NPV terms;
- Total Unitary Charge of Inc VAT €123.5m in NPV terms;

Bidders Returns

- Nominal blended equity IRR is 12.95% and real return to shareholders of 10.74%.
- €8.05 Subordinated Debt
- €50,000 equity

Banking Requirements

- Senior Debt Amount € 67.8m
- Equity Bridge Facility €8.1m
- ADSCR: 1.18
- LLCR: 1.2
- DSRA: three month senior debt repayment
- MRA: 6 year look forward
- Interest on Deposit Rate: 4.58%

National Development Finance Agency

Addendum to Value for Money Report

(Post Financial Close update)

("Addendum")

16 June 2010

Schools Bundle 2 Public Private Partnership ("PPP")

("the Project")

CONTENTS

This Addendum should be read in conjunction with the "Value for Money Report" of 14 May 2010 and the "Addendum to Price Change Report". Defined Terms in this Addendum have the same meaning as given in the "Value for Money Report".

1. OVERVIEW

In accordance with Guidance a preliminary 4th VfM test was completed prior to FC (on 14 May 2010)[1] to estimate VfM so the Project could proceed to FC (which subsequently occurred on 2 June 2010). This Addendum updates the preliminary 4th VfM test using the actual FC Euribor interest rate and discount rate and presents the final VfM testing of MPFI's Tender ("Final 4th VfM Test").

A review of the Capital Envelope comparison test has also been completed to assess the impact of the actual FC Euribor rate on MPFI's capital costs for Capital Envelope comparison purposes.

The Final 4th VfM Test demonstrates VfM has been maintained during the PT period.

The updated Capital Envelope review additionally demonstrates MPFI's capital costs remain within DoES's Capital Envelope. As there has been no change to MPFI's final capital costs inclusive of financing costs during construction[2] the original Capital Envelope comparison remains valid. Refer *Section 4, Table 5* of the *VfM Report*.

2. FC PSB

The Final 4th VfM Test further updates the Updated PSB for the applicable discount rate and discount base date at FC ("FC PSB") to ensure FC PSB remains comparable to MPFI's Tender price[3] at FC. A comparison of these rates is shown in Table 1 below.

Table 1: Updated assumptions at FC

Assumption	Tender Submission	Preliminary 4th VfM Test	The Final 4th VfM Test	Comment
Discount rate	6.12%	6.18%	5.67%	Based on the German Benchmark 20 Year Bond of 4.75% adjusted for Irish credit spread at FC.
FC Date	31 March 2010	2 June 2010	2 June 2010	Unchanged since preliminary 4th VfM Test.
Long term inflation rate	2% p.a.	2% p.a.	2% p.a.	Unchanged since preliminary 4th VfM Test.

The FC PSB is summarised in Table 2 below.

Table 2: FC PSB

FC PSB	Ex VAT NPV €'m
Approved PSB at ITN	**190.2**
Impact of Updated PSB discount rate and timing adjustments	0.2
Impact of FC PSB discount rate adjustment	6.5
FC PSB	**196.9**

[1] Using the discount rate and Euribor rate as at 28 April 2010.
[2] There was no change to MPFIs capital costs since the Capital Envelope comparison at 14 May 2010. While there was a change in the estimated Euribor rate (3.53%) to the FC Euribor rate (3.16%), this did not have a material impact on the financing costs during the 17 month construction period, the decrease being less than €200,000. As the Capital Envelope comparison is based on costs rounded to the nearest €1m this change had no impact on the figures used in the test.
[3] MPFI's FM has also been updated for the FC discount rate and discount base date in Table 1. Refer *Addendum to Price Change Report* for details.

3. FINAL 4th VfM TEST

Table 3 details the Final 4th VfM Test. As can be seen it clearly demonstrates that the Project, procured as a PPP, represents better VfM than the cost of procuring it traditionally, as benchmarked against the FC PSB.

All factors considered in the analysis below are in accordance with the VfM methodology specified in Guidance. MPFI's Fixed Price at Tender submission (1 July 2009), and subsequently updated for approved prices changes to FC (see *"Addendum to Price Change Report"*), is referred to as "FM" for the purposes of this Addendum.

Table 3: Final 4th VfM Test

Traditional Procurement - PSB	NPV €'m	PPP Procurement - Tender Price per FM	NPV €'m
VAT inc. Original PSB	**220.2**[1]	**VAT inc. FM** *(excluding discount rate & timing adj.s)*	**153.5**[1]
Less VAT accruing to Public Sector	(30.0)[2]	Less VAT accruing to Public Sector	(12.2)[2]
Ex VAT Original PSB	**190.2**[3]	**Ex VAT FM** *(excluding discount rate& timing adj.s)*	**141.3**[3]
Discount rate and timing adjustment	6.7[4]	Discount rate & timing adjustment	8.9[5]
Ex VAT FC PSB	**196.9**[6]	**Ex VAT FM**	**150.2**[6]
	-	Less Corporation Tax ("CT")	(0.8)[7]
Ex VAT FC PSB	**196.9**	**Ex VAT adjusted for cost to Public Sector FM**	**149.4**

4th VfM Notes

[1] Vat inclusive PSB includes construction related VAT because at the time it was compiled VAT rules required an Authority to pay construction related VAT directly to its contractor who paid it onwards to Revenue. MPFI FM does not include construction related VAT, as this is now accounted for using the reverse charge method (i.e. the Authority pays directly to Revenue) and therefore this VAT charge is excluded in MPFI's FM.

[2] See 1 above , difference in quantum due to construction VAT payment included under traditional procurement scenario as old VAT payment rules applicable.

[3] Original PSB and FM based on a discount rate of 6.12% and discount base date of 31 March 2010. FM based on FC Euribor rate of 3.16% for commercial debt and 3.05% for EIB debt (excludes EIB 65bps cost of funds margin)

[4] Refer Table 2.

[5] Adjustment due to updating discount rate from 6.12% to 5.67%. and discount base date from 31 March 2010 to 2 June 2010.

[6] FC PSB and FM based on a discount rate of 5.67%, FC date 2 June 2010 and Euribor rate of 3.16% for commercial debt and 3.05 % for EIB debt (excluding EIB 65bps cost of funds margin) (Euribor rate only applicable in FM).

[7] €1.6m nominal CT payable by MPFI over life of Project, converted to NPV utilising a discount rate of 5.67%.and a discount base date of 2 June 2010.

For the Final 4th VfM Test the PPP procurement price is shown net of CT paid by PPPCo to Revenue as this represents the net cost to the Public Sector (i.e. €149.4m versus DoES cost of €150.2m). CT is not deducted from the PSB as traditional procurement does not have discernable ring fenced CT that can be directly attributable to the Project as is the case in a PPP.

National Development Finance Agency

Addendum to Value for Money Report

(Post Financial Close update)

("Addendum")

23 November 2012

Schools Bundle 3 Public Private Partnership ("PPP")

("the Project")

CONFIDENTIAL AND COMMERCIALLY SENSITIVE INFORMATION

CONTENTS

This Addendum should be read in conjunction with the "Value for Money Report" of 02 November 2012 and the "Addendum to Price Change Report". Defined Terms in this Addendum have the same meaning as given in the "Value for Money Report".

1. OVERVIEW

In accordance with Guidance a preliminary 4th Value for Money ("VfM") test was completed prior to Financial Close ("FC") (on 02 November 2012) to estimate VfM so the Project could proceed to FC (which subsequently occurred on 09 November 2012). This Addendum updates the preliminary 4th VfM test using the actual FC base interest rate and EIB reference rate and presents the final VfM testing of BAM's Tender ("Final 4th VfM Test").

The Final 4th VfM Test demonstrates VfM has been maintained during the PT period.

2. Financial Close PSB

The discount rate and discount base date are unchanged from the preliminary 4th VfM test and consequently the PSB at FC ("FC PSB"), as summarised below, is unchanged.

Table 1: FC PSB

FC PSB	Ex VAT NPV €'m
Approved PSB at ITN	**170.5**
Impact of discount rate and timing adjustments	6.4
FC PSB for 4th VfM test	**176.9**

3. FINAL 4th VfM TEST

Table 2 details the Final 4th VfM Test. **As can be seen it clearly demonstrates that the Project, procured as a PPP, represents better VfM (€13.4m) than the cost of procuring it traditionally, as benchmarked against the FC PSB.**

All factors considered in the analysis below are in accordance with the VfM methodology specified in Guidance. BAM's Fixed Price at Tender submission (7 July 2011), and subsequently updated for approved prices changes to FC (see *"Addendum to Price Change Report"*), is referred to as "FM" for the purposes of this Addendum.

Table 2: Final 4th VfM Test

Traditional Procurement - PSB	NPV €'m	PPP Procurement - Price per FM	NPV €'m
VAT inc. Original PSB	**197.0**[1]	**VAT inc. FM**[2]	**174.3**[1]
Less VAT	(26.5)[3]	Less VAT	(9.2)[3]
Ex VAT Original PSB	**170.5**[4]	**Ex VAT FM**	165.1[5]
Discount rate and timing adjustments	6.4	Less Corporation Tax ("CT")	(1.6)[6]
Ex VAT Revised PSB	**176.9**[5]	**Ex VAT FM**	**163.5**
Headroom	**13.4**		

For the Final 4th VfM Test the PPP procurement price is shown net of CT paid by PPP Co. to Revenue as this represents the net cost to the Public Sector. CT is not deducted from the PSB as traditional procurement does not have discernible ring fenced CT that can be directly attributable to the Project as is the case in a PPP.

4th VfM Notes

[1] VAT inclusive PSB includes construction related VAT. This is not included in the FM as it is paid separately to the Unitary Charge, on a reverse charge basis. Construction related VAT under the PPP procurement (c. €14.4m) is payable directly by the Authority to Revenue.

[2] VAT inc. FM incorporates changes to the Tender Price during the PT Period as detailed in Price Change Report (including discount rate and FC date).

[3] See 1 above, difference in quantum due to construction VAT payment included under traditional procurement scenario but not reflected in the FM as it is paid separately on a reverse charge basis.

[4] Original PSB based on a discount rate of 6.88%.

[5] FC PSB and FM based on a discount rate of 6.65%, FC date 9 November 2012 and a base interest rate of 2.12%.

[6] €4.4m nominal CT payable by BAM over life of Project, converted to NPV using 9 November 2012 FC date and discount rate of 6.65%.

National Development Finance Agency

Value for Money Assessment

February 2009

Schools Bundle 1 PPP Project

Important Notice

In preparing this report the NDFA have relied upon and assumed, without independent verification, the accuracy and completeness of any information provided to us either from publicly available sources or from the Tenderers, and the NDFA accept no liability or makes no representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information contained herein.

Table of Contents

1 Introduction

1.1 Introduction to Value for Money Report

The Department of Finance guidance document "Value for Money and the Public Private Partnership Procurement Process" (October 2007) sets out the four formal Value for Money ("VFM") tests that must be carried out in the PPP procurement process. This report focuses on the fourth and final VFM test, which is completed just prior to Financial Close, whereby a VFM test is carried out a) to examine the effect of any negotiated changes in the contract terms when the Project has been procured using the Negotiated Procedure, and b) to assess the impact of any changes in the interest rate (s) and/or discount rate.

The purpose of this report is to set out the VFM position for the Schools Bundle 1 PPP Project ("the Project"). The VFM test carried out in this report is between the Final Bidder's Financial Model (the "Final BFM") for the Project, which has been agreed following negotiations with the Preferred Tenderer ("PT") and following any model audit changes, and the updated Public Sector Benchmark ("PSB") model. The Final BFM has been updated with the latest estimate of EURIBOR interest rates to generate an estimate of the final Unitary Charge to be paid by the Authority. It is the Net Present Value of this final Unitary Charge that is used in the analysis in this report.

The report will firstly outline the steps involved in the Value for Money Assessment Process (See Section 2), secondly the report will explain the detailed costings in the Public Sector Benchmark (See Section 3), thirdly, the PPP procurement process for the Project will be outlined including a summary of the major tender developments which took place during the procurement process (See Section 4). Finally Section 5 will deal with the VFM Assessment for this Project and in particular the factors contributing to VFM generated.

A detailed costing exercise was performed in relation to each of the procurement options, both PPP and traditional, including consideration of the monetary costs and benefits associated with each, and the risks and uncertainties inherent in each option. The report considers whether the PPP option followed has generated VFM for the public sector in comparison to that offered by the alternative traditional procurement option.

Although this VFM Report can be read as a stand-alone document, it is recommended that the Price Change Report be read in advance of this report.

1.2 Project Background

On 29 September 2005 the Minister for Education and Science announced plans to provide 23 new post-primary schools and 4 new primary schools under a major €300 million expansion of the Government's Public Private Partnership (**"PPP"**) Programme from 2006 to 2009. The projects targeted for delivery involve new schools in rapidly developing areas, the replacement of existing schools and new accommodation for schools formed by the amalgamation of existing schools.

The National Development Finance Agency (the **"NDFA"**) is acting as agent for the Department of Education and Science (the **"DOES"**) in the procurement of the schools to be delivered via a PPP approach. The NDFA will hand back the Project to the Department of Education and Science once the schools have been constructed and are ready to commence service.

The first bundle of schools to be delivered by PPP was announced in November 2005. The selection process for the schools was based on the DOES criteria for the prioritisation of school replacement and construction. The first bundle comprises the replacement of six existing post primary schools, with four new schools located on three sites, two in Portlaoise and one in each of Ferbane and Banagher. The Project will be carried out as a design, build, finance and maintenance contract ("**DBFM contract**") with a concession period of 25 years.

The schools chosen for replacement are the following:

- ***St. Mary's CBS and Scoil Chriost Ri Portlaoise*** are both currently located on separate sites in the town of Portlaoise. They are to move to a shared new site on the outskirts of the town.

- ***Gallen Community School*** is made up of the former St. Josephs & St. Saran's Secondary School and Ferbane Vocational School.

- ***Banagher College - Colaiste na Sionna*** is an amalgamation of St. Rynagh's Vocational School and La Sainte Union Secondary School.

1.3 Schools Bundle 1 Procurement

Between November 2005 and September 2006, the DoES and NDFA undertook pre-procurement work, including producing an Output Specification for the Project and preparing a Public Sector Benchmark, securing Outline Planning Permission for the schools and dealing with all policy issues in relation to the Project. The Project was handed over to the NDFA for procurement on 26 September 2006.

The NDFA dispatched a notice to the Official Journal of the European Union ("**OJEU**") inviting expressions of interest for the first bundle of schools on 27 September 2006. Nine expressions of interest were received by the NDFA.

Following a full technical, financial and legal evaluation of these pre-qualification submissions, three consortia were shortlisted for the Project. These were

- BAM;
- Hochtief / Sisk and;
- Macquarie Partnership for Ireland and Pierse Construction.

Tender documents were issued in March 2007 to each of these shortlisted candidates. A tender consultation and query process followed with each Tenderer up to July 2007 when full tender submissions were received from each of the consortium named above.

Over the following three months a detailed evaluation took place of all the financial, legal and technical aspects of the Tenders received and a number of rounds of clarifications were issued to bidders to assist DOES, NDFA and their advisors in these evaluations.

In September 2007 Macquarie Partnership for Ireland ("**MPFI**") was found to have submitted the most economically advantageous tender ("**MEAT**") and MPFI was selected as Preferred Tenderer in September 2007 and accepted this appointment by the adoption of a Preferred Tenderer's letter in October 2007.

Following their appointment, the Preferred Tenderer discussions have focused on developing certain technical, legal and financial aspects of the Project. A number of significant developments took place during the procurement process and these have been explained in Section 4.

1.4 PPP Payment Mechanism Structure

The Project is being carried out on the basis of a DBFM contract. The length of the concession will be the design and construction period plus 25 years from the commencement of services for each school. The quantum of the Unitary Charge receivable has been bid by the Tenderer. The key features of the payment mechanism associated with the Project are as follows:

- The PPP Co will be entitled to receive an annual payment ("the Unitary Charge") from the DOES from the date on which the services commence for each school until the end of the 25 year contract period paid on a monthly basis;
- The Unitary Charge for each payment year shall be subject to indexation on an annual basis; and
- The Unitary Charge will be reduced in the event of poor performance or unavailability with increased penalties imposed at critical times.

1.5 VFM Conclusion

A summary comparison of the monetary costs and benefits associated with the traditional procurement and PPP option is set out in the table below. The figures are rounded to the nearest €m and expressed in NPV terms. A detailed analysis of this table below is carried out in Section 5.

The lower cost associated with the Final BFM compared with the cost under traditional procurement as represented by the updated PSB demonstrates that on a monetary basis alone, when compared on an all risks inclusive basis, the PPP option represents better VFM.

The level of VFM offered by the PPP option over the traditionally procured option cannot be attributed to one single factor but rather is generated from a combination of having a competitive bidding strategy, competitive pricing and risk management. The pricing advantage gained from these factors more than outweighs the private sector financing costs associated with the Project.

The PPP Co.'s solution includes a long term debt funding solution. Interest is rolled up during the construction period before being fully amortised over the course of the concession following a sculpted amortisation profile that will be set at Financial Close to match expected cash-flows. The risk of movements in the EURIBOR rate on the cost of this financing is borne by the Authority from the bid submission date to Financial Close. Set out in the table below is a comparison of the updated PSB to the Final BFM both before and after the estimated EURIBOR adjustment at Financial Close.

VFM Comparison: Traditional versus PPP Procurement

Traditional Procurement	NPV €'m	PPP	NPV €'m
Base Costs (including VAT):			
Capital Costs	59.8	Unitary Charges (VAT inclusive) post EURIBOR	132.0
Life Cycle Costs	23.4		
Operating Costs	29		
Maintenance Costs	12.1		
Special needs Unit	9.3		
Total Non-Risk adjusted cost to the Authority	**133.6**		
Total Risk Costs	16.9		
Total Risk adjusted cost to the Authority	**150.4**	**Total Risk adjusted cost to the Authority**	**132.0**
Less incremental cash flows to Public Sector (VAT)	(20.8)	Less incremental cash flows to Public Sector (VAT)	(10.2)
Total Ex VAT Risk adjusted cost to the Public Sector	**129.6**	**Total Ex VAT Risk adjusted cost to the Public Sector**	**121.8**
Change in Discount Rate and Timing Adjustments[1]	(2.2)	Change in Discount Rate and Timing Adjustments	(7.9)
Revised total Risk adjusted cost to the Authority[2]	**127.4**	**Revised total Risk adjusted cost to the Authority (Final BFM post EURIBOR Adjustment)[3]**	**113.9**
		Less Corporation Tax	**(0.6)**
Revised total Risk adjusted cost to the Authority	**127.4**	**Revised total Risk adjusted cost to the Authority post Corporation Tax**	**113.3**

[1] See Section 5.3
[2] Based on a discount rate of 5.82% and a discount base date of 31 March 2009
[3] Based on a discount rate of 5.82% and a discount base date of 31 March 2009

Based on an evaluation of the monetary costs and benefits associated with each option the PPP option represents VFM to the public sector.

Due to the credit crisis senior debt pricing by funders has increased significantly during the PT Period with the final margins of 2.25% during the construction period and 2.0% -2.2% during the operation period being used in the Bidder's funding structure. These reflect the most competitive financing terms available in the current market.

As part of the revised funding terms negotiations, the Authority sought and reached agreement with the Bidder to recover 100% of any improvements in bank margins from the revised banking terms to the terms as originally included in the July 2007 submission in the event of a refinancing at a later stage in the Project when banking terms may improve. These higher margins have been offset by falling EURIBOR rates from 5.02% as at July 2007 to 3.831%.

2 Value for Money Assessment Process

2.1 Overview

In order to assess VFM, the cost of procuring the Project on a traditional basis which includes the associated risks retained by the public sector is estimated in a PSB model. This is then compared to the PPP tendered prices to assess which offers better VFM.

The PSB is in effect a benchmark against which the Tenders from the private sector are assessed. It is an estimate of the cost to the public sector of procuring the services set out in the PPP contract employing a traditional public sector procurement process, in which the public sector would retain managerial responsibility and significant exposure to risk. Traditional Procurement means a competition to engage a private sector contractor to design and build ("D&B") the Schools, with the DOES responsible for funding and arranging for ongoing maintenance of the Schools.

The manner by which the PSB is prepared is detailed in Section 3.

2.2 Stages of VFM Assessment

As set out in the Department of Finance guidance "Value for Money and the Public Private Partnership Procurement Process" (October 2007) VFM comparisons are undertaken at the different stages of the competition as outlined below in order to ensure the rationale remains for continuing with the PPP procurement.

Prior to these tests the Government decided to proceed with a schools programme employing the PPP approach and this was announced in 2005.

The ***first*** formal PPP Value for Money test is a qualitative one. Project characteristics that are likely to provide VFM are assessed, such as, sufficient scale, potential for risk transfer to the private sector, potential to be output based and potential for revenue generation.

The ***second*** formal VFM test is carried out when the PSB for the Project has been compiled and prior to the initiation of tendering.

Some of the issues that were considered qualitatively in the first PPP VFM test are then quantified in the PSB, which represents the cost of traditional procurement including quantification of the risks associated with the Project. The PSB provides a basis for assessing whether the level of risk transfer using a PPP arrangement is likely to be sufficient to justify the additional cost of private finance.

A shadow bid financial model is also prepared, which represents the Authority's best estimate of the costs and revenues that could reasonably be expected to be incurred/generated by a private sector entity having taken into account the transfer of risks in the model contract. This financial model effectively represented the Authority's best estimate of a PPP Tender.

The ***third*** formal value for money test, which takes place at the tender evaluation stage is to compare the highest ranking bid to the PSB, allowing for the differing impact of taxes, etc., in order to quantitatively assess whether the highest ranking bid offers a VFM solution.

On receipt of the ITN Tender submissions, the NDFA carried out a detailed evaluation of all the bids and scored and ranked the bids accordingly. After the evaluation was completed and before the announcement of the preferred bidder the bids were compared to the PSB to help assess, from a purely quantitative perspective, whether it has the potential to deliver VFM.

This comparison assessed whether there would be a reasonable probability that, following the due diligence, negotiation and review of the Tender, VFM would be obtained through the PPP option and that it would therefore be justified to incur further costs continuing the competition on this basis.

The ***fourth*** formal value for money test is completed just prior to Financial Close. This report seeks to outline the results of this final test which is carried out a) to examine the effect of any negotiated changes in the contract terms when the Project has been procured using the Negotiated Procedures, and b) to assess the impact of any changes in the interest rate(s) and/or discount rate.

The updated PSB is then compared to the agreed Final BFM to assess, which option offered better VFM. This analysis is detailed in Section 5.

2.3 Changes prior to Financial Close

No changes are expected to the costs between the agreement of the Final BFM and Financial Close, except changes due to Interest Rate Risk as noted below. Details of the development of the ITN BFM to the Final BFM can be reviewed in the Price Change Report.

2.4 Interest Rate Risk

The Authority takes the risk of changes in interest rates (changes in EUR mid-swap curve) between the date of Tender submission and Financial Close, subject to the satisfactory benchmarking of interest rates at Financial Close.

Based on the underlying interest rates as benchmarked during the "Dry-Run" process (as detailed in the Model Optimisation and Financial Close protocols) prior to the Financial Close, an indicative quantification of the value of the change in interest rates is c. €9.1m in NPV terms (to the Authority's benefit).

This estimated movement is predominantly as a result of the senior loan market EURIBOR interest rate moving from 5.02% to 3.83%.

Following a review of the Final BFM incorporating the above interest rates as benchmarked during the Dry-Run process, there is an improvement in VFM associated with the Project. Interest rates are not expected to change significantly between now and Financial Close such that the Project would not represent VFM.

3 Public Sector Benchmark

3.1 Methodology

The PSB represents the DOES' estimate in NPV terms of the risk adjusted whole life cost of delivering the Schools under traditional procurement.

It is presented as a single monetary value that represents the full estimated cost, taking income and risks into account, to the Sponsoring Agency of delivering the Project using "traditional" public sector procurement. This single monetary value is underpinned by a financial model and other relevant supporting documentation. The PSB must comprehensively address all costs, income and risks that the private sector will be invited to tender for in the PPP contract.

In the second quarter of 2006, DOES and Healy Kelly Turner Townsend ("HKTT") commenced the preparation of the estimated costs for the PSB based on the Project scope and output specification for the Project.

The PSB includes capital costs based on the DOES standard school building costs derived from the design and build programme being procured traditionally by DOES. Recurring costs including operating, maintenance and life cycle costs were sourced from HKTT based on their industry costs data base. These costs were benchmarked to both Irish and UK market data.

Two risk workshops were held in March and May 2006. These were used to firstly identify possible risks and secondly to determine their probability of occurrence and their severity in terms of cost and time impact should they occur. HKTT then quantified these risks and the individual risk costs are linked to the level of capital and recurring costs assumed in the PSB.

The PSB was approved by DOES Management Advisory Committee ("MAC") in August 2006, prior to issuing the OJEU notice. A letter of handover of the Project was sent by DOES to NDFA indicating that the PSB had been signed off by MAC, the output specification for the Project were prepared to the satisfaction of DOES and all policy issued had been resolved.

During the procurement process but prior to the receipt of Tender submissions the DOES introduced a policy requirement for Special Needs Units into all four schools. This was unforeseen and the PSB had to be adjusted to include the SNUs. The updated PSB was approved by DOES in June 2007.

In order to be able to ensure that the financial models underpinning both the PSB and the highest ranking bid are comparable, the Tenderers for the Project were required to use the same base dates, discount rates, timing of cash flows, inflation and interest rates at a selected time and date in their ITN submissions. A nominal discount rate, which provides a proxy for the Government cost of borrowing, and a long run 2% annual inflation rate (based on the long-run ECB target rate) was prescribed by the NDFA. A discount rate of 4.75% (nominal) was used at the ITN and PT stage. The discount rate and Project timeline assumptions are updated prior to Financial Close in order to update the PSB for the fourth VFM test.

The detailed assumptions underlying the PSB are set out in a separate report.

3.2 Identification of Monetary Costs and Benefits

The PSB consists of an assessment of the total costs that would be incurred in the provision of an asset and the level of service specified by the PPP contract. The main costs are:

3.2.1 Base costs

The public sector's estimate of the costs it will incur to construct on a design and build basis, maintain and manage the infrastructure over the period of the contract in accordance with the performance specification as set out in the PPP contract, before allowing for contingencies or risks. For this Project this includes construction costs for the buildings, physical education hall, external works, pitches, abnormal site costs, professional fees, in additional to furniture and equipment costs, operating, maintenance and lifecycle costs.

3.2.2 Retained risks

These risks, by their nature, always rest in any procurement scenario with the public sector

3.2.3 Risks retained under traditional procurement but transferred under PPP

These are applied to the base costs to reflect an appropriate allowance for the additional costs which can be expected to arise as a consequence of the risks associated with the Project. To ensure that the comparison with private sector Tenders for the PPP Project is carried out on a like for like basis, allowances are only included for the risks that the Sponsoring Agency is transferring to the private sector.

3.3 Identification of Non Monetary Costs and Benefits

As noted above, the PSB does not include a quantification of the following non-monetary costs and benefits, which are nonetheless an important consideration in assessing the true cost of a Project to the public sector:

3.3.1 Macro Benefits

The PSB has not attempted to value the benefit to the economy generally of additional post primary schools being delivered by the PPP Project. However, the Project will deliver a purpose built modern school accommodation that will provide suitable and sufficient accommodation and facilities to support effective teaching for the schools identified in the first bundle. In addition construction jobs will be provided for the period the schools are being built.

3.3.2 Residual values for the infrastructure assets

The asset is returned to the DOES at the end of the contract at no cost and in the condition specified by the hand back requirements in the contract, which is assumed to be the same under public and private alternatives. The requirement to achieve these standards is expected to act as an incentive to adhere to high levels of performance in respect of services and maintenance.

3.4 Identification of Risks and Uncertainties

3.4.1 Principles of Risk Assessment for the PSB

The base costs of the Project are the minimum costs that will be incurred in order to construct the Project. Risk costs represent that element of costs that may or may not happen. This means that all PSB costs are broken into two components of a known quantity and unknown amount. For the purpose of agreeing the PSB capital budget estimate, the process of a risk workshop was used to attempt to quantify the "unknown amount". A set of standard statistical assumptions was employed in the risk workshop to model this element of the PSB which are detailed in the PSB Assumptions Report.

3.4.2 Identification and Categorisation of risk

The main categories of risks are identified below.

- Planning and legislative risk;
- Design Risk;
- Construction Risk;
- Operating Risk;
- Demand Risk;
- Financial Risk;
- Political, Regulatory and Legislative Risk;

3.4.3 Analysis of Risk Costs in PSB

A summary of the NPV of the risk costs is included in the table overleaf. The value of the risk costs are dependant on the level of capital and recurrent costs.

Risk Costs	EX VAT NPV €m's
Planning and legislative risk	[redacted]
Design Risk	[redacted]
Construction Risk	[redacted]
Lifecycle & Project Risk	[redacted]
Operating Risk	[redacted]
Financial Risk	[redacted]
NPV Total Risks Costs	**14.9**
NPV of DOES approved PSB	**121.9**
Risk Costs as % of Project NPV (CapEx and OpEx)	**14%**
Additional SNU budget (including risk)	7.7
NPV of revised DOES approved PSB	**129.6**

As highlighted in the table above, the most significant risks relate to construction, design and operating risk. The estimated risk of capital costs increasing beyond tender estimates is not unexpected - traditionally procured projects are generally typified by cost increases and claims which result in actual capital costs being significantly greater than estimated.

3.5 Update of PSB post selection of Preferred Tenderer

Following appointment of the PT, a policy change relating to the Special needs requirements of the DOES was announced in November 2007. This related to a further increase in the size of the Special Needs Units included within the schools from 118m2 to 523m2. The DOES approved an increase to the PSB of €7.7m Ex VAT NPV based on the requirement for increased school sizes to cater for the larger Special Needs units and the associated lifecycle costs.

3.6 Reconciliation of ITN PSB to Updated PSB

Set out in the following table is a reconciliation of the Department of Education and Science approved PSB to the updated PSB to be used in the final Value for Money Test.

It is necessary to establish an updated discount rate appropriate for the Project as part of the final VFM assessment. This results in an updated PSB for VFM assessment but does not change the DOES sanctioned PSB.

It is also necessary to update the discount base date to the revised Financial Close date of 31 March 2009.

PSB	Ex VAT NPV €'m
Capital Costs	52.2
Lifecycle Costs	19.2
Operating Costs	25.0
Maintenance Costs	10.6
Risk Costs	14.9
Total risk adjusted cost to DOES (ITN PSB)	**121.9**
Special Needs Unit Adjustment	7.7
Total risk adjusted cost to DOES (SNU adjusted PSB)	**129.6**
Discount rate (5.82%) and Timing Adjustments[4]	(2.2)
Final risk adjusted cost to DOES (Final PSB for VfM test)	**127.4**

[4] Timing Adjustments are The Roll Forward of the Construction and Operational Start Dates and the Discount Base Date. These are dealt with in detail under 5.3

3.7 Capital Envelope

The figures below show the BFM's costs which would be used when comparing to the amount available for the project in the Capital Envelope. All figures in the table are stated in Nominal terms.

	PSB	BFM
	Nominal €'m	
Construction Costs	63.5	60.3
Up-Front Costs During Construction	-	0.4
SPV Running Costs During Construction	-	
Lifecycle Costs During Construction	-	-
FM cost during construction		-
Base Capital Costs	**63.5**	**60.7**
PSB Capital Risk Costs	6.3	-
Capitalised Interest and Fees	-	**4.3**
Capital Costs Before VAT	**69.8**	**65.0**
VAT Charge	10.6	9.7
Total Capital Costs inclusive of VAT	**80.4**	**74.7**

The Capital Envelope for the Schools PPP Programme is €300 million and as such the BFM Capital expenditure is under the Capital Envelope Allocation.

4 PPP Procurement Overview

4.1 Process to Date

Section 1.2 Project Background and 1.3 Procurement of Schools Bundle 1 PPP sets out the steps involved in the procurement of this Project from the Minister for Education and Science's announcement in November 2005 through the pre-qualification and ITN processes. This section will elaborate on the more detailed aspects of the process involved in selecting the most economically advantageous tender (**MEAT**).

4.2 Pre-Qualification

An OJEU notice was dispatched to the market by the NDFA with respect to the Project on 27 September 2006 inviting expressions of interests.

Nine parties made submissions for pre-qualification consideration. Each submission was evaluated based on the following criteria:

1.	Financial and Economic Standing of the Candidate	30%
2.	Technical Capability of the Candidate	70%
	Total Marks	100%

Under the first criteria, the financial robustness of the candidate was examined as well as the ability of the candidate to raise finance for projects of similar size and complexity. Under the second criteria, the previous experience of the service providers put forward for this Project were assessed. Based on the submissions received, three candidates were pre-qualified to participate in the tender competition:

- BAM;
- Hochtief /Sisk; and
- Macquarie Partnership for Ireland (MPFI).

4.3 Invitation to Negotiate ("ITN")

The ITN and Project Agreement were issued in March 2007 to each of these shortlisted candidates. A tender consultation and query process followed with each Tenderer up to July 2007 when full tender submissions were received on 27 July 2007 from each consortium above.

4.4 Evaluation Criteria

The ITN set out clearly the evaluation criteria under which the three Tenderers would be evaluated. Using the Negotiated Procedure applicable to public services contracts, the contract is to be awarded to the consortium, which makes the most economically advantageous offer to the Authority, based on an evaluation and ranking of submissions in accordance with the technical, financial and legal criteria set out below.

1.	Technical Evaluation	62.5%
2.	Financial Evaluation	27.5%
3.	Legal Evaluation	10%
	Total Marks	100%

4.5 Technical Evaluation

The technical evaluation was split into two areas:

- Design and Construction (34% + 8.5% = 42.5%); and
- Operations (20%).

4.5.1 Design (Marks 34%)

The design evaluation assessed the proposals for each school taking account of the compliance with the requirements contained in the output specification in relation to Architectural Design, Building Services, Environmental Assessment, Civil and Structural Proposals, Furniture, Fixtures and Equipment and Project Management Proposals

4.5.2 Construction (Marks 8.5%)

The construction evaluation involved an assessment of the following key criteria of the submission: Health & Safety; Programme; Commissioning; and the Construction methodology.

4.5.3 Operation (Marks 20%)

The operation and maintenance evaluation assesses the technical proposals that meet the User Requirements in the operation and maintenance of the Project in terms of: Operational Method Statements; Management and Staffing; Quality Standards; Performance Monitoring; Compliance with Health & Safety; and Energy Conservation and Environmental Impact.

4.6 Financial Evaluation

The financial evaluation involved an assessment of the financial proposal in terms of:

4.6.1 NPV Assessment (Marks 25%)

This involves quantifying the NPV of total expected payments requested by the PPP Co from the Authority which includes the NPV of the total unitary charge without any service performance deductions assumed. The lower the NPV the higher the marks awarded.

4.6.2 Financial Robustness (Marks 2.5%)

The financial robustness of proposed financing plan was assessed under a number of criteria set out below. Each Tenderer must achieve a score of not less than 50% of the 2.5% available in order to be considered financially robust. The criteria are as follows;

- the overall feasibility of the proposed financing plan;
- the robustness of the results under a range of sensitivity scenarios;
- the terms and conditions of financing (debt, quasi equity and equity) and the degree of conditionality attached;
- guarantees and other security required to realise financing;
- the level of commitment of shareholders; and
- the level of commitment demonstrated to the proposed financing by the Credit Providers.

4.7 Legal Evaluation

The legal evaluation involved an examination and assessment of the contractual and legal matters arising from each Tender.

4.7.1 Acceptance of Project Agreement (Marks 7%)

The greater the number of amendments, which the Authority believed were unacceptable the more the marks were deducted from the total of 7%.

4.7.2 Principal Sub - Contractors Arrangements (Marks 2%)

Tenders were assessed and evaluated on the proposed draft execution versions of the agreements provided in respect of the Principal Sub - Contractors.

4.7.3 Consortium Arrangements (Marks 1%)

Tenders were assessed and evaluated on the legal adequacy of:

(i) the proposed contracting entity; and
(ii) the ownership structures proposed for the contracting entity, including, in particular, the draft execution versions of the shareholder agreements and any other agreements provided to address the arrangements to be put in place between shareholders.

4.8 Overall Evaluation Process

Based on an evaluation of the ITN submissions received, MPFI was selected by the NDFA in September 2007 as Preferred Tenderer for the Project as it was deemed by the Project Board and approved by the Steering Group as the Most Economically Advantageous Tenderer ("MEAT"). MPFI accepted this appointment by way of accepting the Preferred Tenderer's letter in October 2007.

The results of the technical, financial and legal evaluations resulted in an overall composite score out of 100 for each Tender, with the higher scores given to the more economically advantageous Tenders. Tenders were then ranked in accordance with the scoring methodology outlined in the ITN Evaluation Procedure Document.

Following the competitive tender process, MPFI's Tender was determined to be the Most Economically Advantageous Tender. MPFI was selected as Preferred Tenderer in September 2007.

4.9 Tender Developments during the Procurement Process

The tender process requires the Authority to select the Consortium with the MEAT as the Preferred Tenderer. Following a competitive tender process, the Tender submitted by MPFI was determined to be more economically advantageous than the other Tenderers.

The following paragraphs summarise the main Project developments which have impacted on the tender price in the PT period. These tender developments are analysed in detail in the Price Change Report.

4.10 Special Needs Units

Following selection of the Preferred Tenderer in October 2007 the DOES sought to increase the size of the Special Needs Units in each of the Schools. This change was as a result of a change in DOES policy and the impact of the change was to increase the overall size of the buildings with a consequential increase in the lifecycle and maintenance costs.

This change in the Authority requirements necessitated an increase in the PSB and a detailed costing exercise was performed to determine the impact of the change. The DOES approved an increase of Ex VAT NPV €7.7m to the PSB to reflect the changes. The actual increase in the MPFI offer was Ex VAT NPV €5.9m over their original tender price. As the increase in the MPFI bid was lower than the sanctioned budget it was deemed to offer value for money to the Authority and was accepted.

4.11 Fixed price and CPI swap

Prior to the NDFA granting permission for MPFI to submit Planning Permission for the schools MPFI were required to confirm their tender price was not subject to variation due to changes in the value of the CPI Swap incorporated in their financial structure. Following extensive negotiations MPFI conceded that the price to the Authority would remain fixed and would not be subject to movements in the CPI rates from the bid date to Financial Close. To achieve this, the consortia had to reduce their bid construction costs, development fees and revise the spend profile of the Project to maintain the price to the authority. Following analysis of the proposal the NDFA approved the consortia's proposal and granted permission for the submission of the planning application in April 2008.

4.12 Credit Crisis & Bank funding margins

During the course of the Preferred Tender negotiations the international credit crisis has resulted in a downturn in the international financial sector. There has been a tightening of credit by funders as they restructure their balance sheets and deal with falling asset prices. A number of banks have failed and there have been large rescue packages introduced in a number of countries to stabilise and rescue their banking systems. One of the implications widely reported is the increase in funding costs of banks and also of their funding margins.

In July 2008 MPFI advised the NDFA that their bank funders, Depfa Bank, required increased margins above those offered in the Tender submission. As the credit crisis worsened the German parent company of Depfa Bank (Hypo Real Estate) had to be rescued by the German exchequer. This resulted in Depfa Bank withdrawing as the Project Funder and from the PPP market in general due to its inability to access funds on the money markets.

As a result MPFI was required to run a funding competition to replace Depfa Bank. Following an approach to 20 banks they secured funding from Bank of Ireland.

All price changes were evaluated to confirm that at all times the MPFI submission remained VFM and retained their MEAT status. Details of the movements between the original tender submission and the final PT Financial Model are set out in a separate report entitled "Price Change Report".

4.13 Financial Close

Preparations are now underway to achieve Financial Close with the Preferred Tenderer. The final Project Agreement will incorporate any changes negotiated and agreed since ITN submissions. It is envisaged that all future changes up to the date of Financial Close will be purely clarificatory in nature and will not significantly change the risk profile.

At Financial Close, the financial model submitted by the Preferred Tenderer will be re-optimised for any change in interest rates and the final Tender cost will be determined. The range within which this is expected to fall is outlined in Section 5. This model will have been independently audited prior to Financial Close.

5 Value for Money Assessment

5.1 Comparison of Monetary Costs and Benefits

Sets out in the table below are the monetary costs and benefits associated with the traditional procurement compared to the PPP option and it indicates that on a monetary basis alone the PPP option represents better VFM. As also mentioned the level of VFM offered by the PPP option over the traditionally procured option cannot be attributed to one single factor but rather is generated from a combination of a competitive bidding strategy, competitive pricing and risk management.

Traditional Procurement	NPV €'m	PPP	NPV €'m
Base Costs (including VAT):			
Capital Costs	59.8	Unitary Charges (VAT inclusive) post EURIBOR	132.0
Life Cycle Costs	23.4		
Operating Costs	29.0		
Maintenance Costs	12.1		
Special needs Unit	9.3		
Total Non-Risk adjusted cost to the Authority	**133.6**		
Total Risk Costs	16.9		
Total Risk adjusted cost to the Authority	**150.4**	**Total Risk adjusted cost to the Authority**	**132.0**
Less incremental cash flows to Public Sector (VAT)	(20.8)	Less incremental cash flows to Public Sector (VAT & Corporation Tax)	(10.2)
Total Ex VAT Risk adjusted cost to the Public Sector	**129.6**	**Total Ex VAT Risk adjusted cost to the Public Sector**	**121.8**
Change in Discount Rate and Timing Adjustments[5]	(2.2)	Change in Discount Rate and Timing Adjustments	**(7.9)**
Revised total Risk adjusted cost to the Authority[6]	**127.4**	**Revised total Risk adjusted cost to the Authority (Final BFM post EURIBOR Adjustment)[7]**	**113.9**
		Corporation Tax	**(0.6)**
Revised total Risk adjusted cost to the Authority[8]	**127.4**	**Revised total Risk adjusted cost to the Authority post Corporation Tax**	**113.3**

[5] See Section 5.3

[6] Based on a discount rate of 5.82% and a discount base date of 31 March 2009

[7] Based on a discount rate of 5.82 % and a discount base date of 31 March 2009

[8] Based on a discount rate of 5.82% and a discount base date of 31 March 2009

5.2 Reconciliation of BFM and PSB from ITN to Financial Close.

In order to complete the analysis of the final Value for Money test it is necessary to update both the BFM and the PSB. The BFM is updated for negotiated price changes, model audit changes, timing updates and discount rate updates. These updates are summarised in the table below.

[redacted]

The PSB must also be updated to take account of actual Project time lines and the updated discount rate.

Change	NPV €'m
Approved PSB at ITN stage	**121.9**
Special Needs Units Bid approved increment	7.7
Revised approved PSB (pre Discount Rate and date update)	**129.6**
Construction / Operation date changes	.5
Discount Base Date Change (Jan 08 to Mar 09)	6.7
Discount Rate Change (4.75% to 5.82%)	(9.4)
Effect of Construction / Operation date changes, Discount Base date Change and Discount Rate Change,	(2.2)
VFM comparison figure	**127.4**

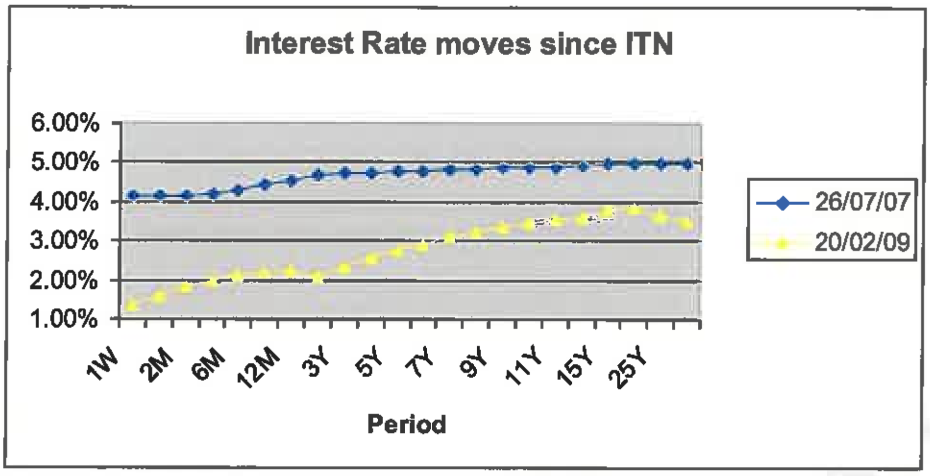
5.3 Discount Rate and Timing Adjustments

As mentioned in Section 3.1 PSB Methodology the applicable discount rate as used in the ITN submissions was 4.75% nominal and discounts all cash flows in the model to a 01 January 2008 Financial Close date, the Discount Base date. This rate was determined on a date two weeks prior to the date of the submission (June 2007). This rate has not been updated since ITN and continues to be used for the PT submission. The discount rate was updated prior two weeks to Financial Close, to 5.82%, the impact of which is set out above.

A further adjustment in the Construction Start / End dates and Operation Start / End dates was required for all four schools. In addition, the PSB was updated for a revised Discount Base Date of 31 March 2009, (reflecting the new Financial Close date) resulting is an NPV cumulative decrease of €2.2m as shown in the Table above.

5.4 Interest Rates

As outlined previously in this report, the cost to the DOES under the PPP option will be subject to change in line with movement in the applicable EURIBOR interest rate between submission of the ITN (July 2007) BFM and the Financial Close date March 2009. Long term interest rates have decreased in this time period as the following graph indicates:



Based on recent dry run estimates of the movement in the rates between MPFI and the Authority's advisors, interest rates have decreased by c. 119 bps from ITN. As a result of these rate movements the total cost saving to the DOES will decrease the Project NPV from ~~€123.m to €113.9m~~* as compared to the PSB cost of €127.4m. This resulted in a EURIBOR interest saving of €9.1m

*€130·9m to €121·8m, with the effect of discounting bringing the Project NPV to €113·9m,

5.5 Review of VFM

As the table in Section 1.5 VFM Conclusion indicates, the BFM put forward by the Preferred Tenderer offers better value for money to the public sector than procuring the Project by traditional means.

A review of the key figures arising under both approaches is set out below and to more closely explain how value has been obtained.

Ex VAT NPV	Revised PSB NPV €m	MPFI Bid NPV €m	Difference in MPFI Bid to Revised PSB NPV €m
D&C	60.6	56.2	(4.4)
FM Costs	34	24.0	(10.0)
Lifecycle	18.4	8.8	(9.6)
Debt Finance +commitment fees+ Standby Fees	-	7.0	7.0
Equity Finance (Sub debt interest, equity bdg interest + Dividends)	-	6.8	6.8
Deposit Interest Earned at 4.5%	-	(2.5)	(2.5)
Corporation Tax	-	0.6	0.6
Other (SPV, Up-Front Costs and Debt Fees)	-	13	13
Risk	14.3	-	(14.3)
Total	127.4	113.9	(13.5)

In essence from a VFM perspective, MPFI have been able to price the construction and the operation of the schools (with risks transferred) more keenly than the cost of delivering under traditional procurement including risks retained in that scenario. All of this value is then compared with the higher cost of private sector financing, however that additional cost does not outweigh the benefits that PPP Co brings to the scheme.

5.5.1 Project Cost and Risk

The capital and operating costs (including risk adjustments) compared to the relevant costs of the PT's BFM indicates that the PSB is more expensive for construction and operating costs.

The difference in base costs between the PSB and the Preferred Tender can be attributed to the level of risk built into costs by the Tenderer, reflecting the level of risk transfer to the PPP Co under the PPP Contract. The approach to management and quantification of risk thus differs substantially between the PPP option and the public sector. The risks transferred to the private sector under the PPP option are generally those where it is thought that the private sector is in a better position to control and mitigate the effect of same. However, the private sector will still factor in an allowance for those risks, in their pricing. This will not be explicit but will be subsumed into a combination of the base cost estimate and also the return on the private sector risk capital invested. These figures would indicate that the private sector is better able to deal with and hence price for the risks transferred.

5.5.2 Funding Cost

One of the issues to be considered under PPP is the cost of funds to the private sector. Hence it is relevant to consider the impact that the private sector capital has had on the level of VFM offered in this Project:

Debt

- The debt/equity split proposed by the PT in its financing plan is 89.3% debt and 10.7% quasi equity in the form of Subordinated Debt;

- The lead credit providers involved in this Preferred Tender are Bank of Ireland;

- Senior debt funding of c. €67.8m is to be provided. This is to be sculpted to reflect the payment profile of the Unitary Charge. Senior debt funding will be repaid no less than 6 months prior to the end of the Concession;

- The cost of the senior debt is at a margin of 2%-2.25% over EURIBOR rate; and

- The approximate marginal cost of the finance over the estimated cost of funding the Project using a government bond priced at 5.82% would result in a marginal cost of €1.7m. Thus the increased cost of using the bank debt is 1% of the overall cost.

Equity and Subordinated Debt

- Funding of c. €8.1m is to be provided by the Project Sponsors (100%) through pinpoint Equity and Subordinated Shareholder loans. The Sponsors shareholding will be held by Macquarie and Pierse in accordance with their respective shareholdings;

- The nominal post tax blended equity IRR is 12.95% for the Project as a whole;

- This is a competitive level of equity return given the overall risks in the Project to the PPP Co but in line with other schemes in the Irish market place; and

- This level of required IRR represents a marginal cost of €6.7m in net present value terms to the public sector (over and above the cost of government borrowing at

5.82%). This amounts to a cost of 5% of the overall cost of the Project for the introduction of private sector equity financing.

The additional equity financing costs absorbed within the Preferred Tender is off-set against the level of risk transferred to the Private Sector, ensuring that the Project delivers Value for Money

Miscellaneous

In addition to a consideration of the cost of the Project to the DOES, it is also relevant to consider other incremental cash flows to the public sector arising as a result of this Project being undertaken through PPP. There are three key factors to consider here:

- Tax payable at Investor Level – The PPP Co is structured as a Limited Liability Company, and as such, it is currently liable to corporation tax on profits at the standard rate of corporation tax valued at €1.47m Nominal (NPV €0.6m). This income of the investors is subject to tax following the extraction of funds from SPV Co.

- Rates - It is envisaged that there will be no rates liability in connection with this Project. If any rates liability were to arise, this liability would be the responsibility of the Authority.

- VAT – Based on current VAT estimated within the financial model, the Authority is liable to pay VAT of c. €9.6m. The VAT on Construction will be paid directly to Revenue under the new Reverse Charge mechanism however the VAT on the Unitary Charge will come out of the DOES annual funding.

- Deposit Interest amount of €5.4m in nominal terms is realised for the Authority's account based on a deposit interest rate of 4.5%

5.6 Conclusion on Monetary Factors

As indicated in the introduction, the purpose of this report was to set out the overall need and objectives for the schools and then to determine which option - traditional procurement or PPP - represented better value for money to the public sector.

Part of the rationale put forward for procuring a project through PPP relates to risk transfer. As indicated above, the BFM put forward by the Preferred Tenderer has accepted a high level of risk and priced those competitively compared to the expected position under traditional procurement – which is in itself a justification of the PPP option. However, the key factor which can increase the cost under PPP compared to traditional procurement is the cost of private sector finance. The public sector can borrow at a lower cost (though this risk free rate does not reflect any margin for risk of the project) than the private sector. A review of the cost of funding under the PPP option indicates, however, that this cost is €13.6m in net present value terms. This compares to the overall cost estimate of the Tenderer of €113.9 m for the Project.

As the above factors indicate, an assessment of the level of VFM offered by the PPP option over the traditionally procured option cannot be made based on one single factor but rather must be based on a combination of factors including the range of possible outcomes under a number of different scenarios. The factors giving rise to better VFM under PPP include a combination of a bidding strategy, competitive pricing and new techniques. The pricing advantage gained from these factors more than outweighs the private sector financing costs associated with the Project.

Appendix 1 Summary of Preferred Tenderer's BFM

1.1 Outline of BFM Proposals

The proposals put forward by the Preferred Tenderer in the economically most advantageous tender are summarised below.

1.2 Key Financial Points

The Preferred Tenderer has proposed the following payment mechanism in the Preferred Tender:

Unitary Charge

- Base Date Annual Unitary Charge of c. €8.6m;
- X - factor of c. 36.5%;
- Total Unitary Charge of Ex VAT €113.9.m in NPV terms;
- Total Unitary Charge of Inc VAT €123.5m in NPV terms;

Bidders Returns

- Nominal blended equity IRR is 12.95% and real return to shareholders of 10.74%.
- €8.05 Subordinated Debt
- €50,000 equity

Banking Requirements

- Senior Debt Amount € 67.8m
- Equity Bridge Facility €8.1m
- ADSCR: 1.18
- LLCR: 1.2
- DSRA: three month senior debt repayment
- MRA: 6 year look forward
- Interest on Deposit Rate: 4.58%

National Development Finance Agency

Value for Money Report

May 2010

Schools Bundle 2 Public Private Partnership ("PPP") ("the Project")

CONTENTS

1 EXECUTIVE SUMMARY

The Department of Finance ("DoF") guidance document *"Value for Money and the Public Private Partnership Procurement Process"* (October 2007) ("Guidance") sets out four formal Value for Money ("VfM") tests that must be carried out in the PPP procurement process (refer *Appendix I* for details).

Macquarie Partnership for Ireland ("MPFI") was selected as Preferred Tender ("PT") for the Project on 25 September 2009 (appointment accepted by MPFI on 8 October 2009) and at Tender evaluation the 3rd VfM test was completed which demonstrated MPFI's Tender price offered VfM.

This report addresses the 4th VfM test required by Guidance and which must be completed prior to Financial Close ("FC")[1] in order to:

a) examine the effect of any negotiated changes in the contract terms when the Project has been procured using the Negotiated Procedure; and

b) assess the impact of any changes in the reference interest rate (Euribor) and/or discount rate.

The 4th VfM test involves a comparison of the PT's financial model, submitted at Tender submission and updated for any Authority approved price changes following PT appointment, to the Public Sector Benchmark ("PSB"). In the 4th VfM test both the PSB and PT's financial model are additionally being updated for the prevailing discount rate and target FC date (2 June 2010 in this instance).

The 4th VfM test has now been completed and demonstrates VfM has been maintained during the PT period.

An updated capital envelope review has also been performed to take account of MPFI's final capital costs which additionally confirmed MPFI's capital costs remain within the Department of Education and Skill's ("DoES") capital envelope for the Schools Programme (the "Capital Envelope").

This report should be read in conjunction with the *"Price Change Report"* which summarises the Authority approved price change since MPFI's appointment as PT.

[1] A preliminary 4th VfM test is completed prior to FC using an estimate of the likely price changes to FC, so that the Project can proceed to FC. At FC when the final discount rate and Project Euribor will be known the test is finalised. An addendum will be issued to this report detailing these final figures following FC.

2 THE UPDATED PSB

The PSB was approved by DoES Management Advisory Committee ("MAC") on 1 April 2008, prior to issuing the OJEU notice for the Project. A report *"2nd Bundle of Schools Public Sector Benchmark ("PSB") Assumptions underlying the PSB"* was prepared providing full details on the PSB assumptions.

In order to ensure the PSB and Tender price are comparable, Tenderers were required to use Authority prescribed dates for target FC, discount rate and inflation rates in their Tenders. The 4th VfM test is performed at FC using updated FC date and discount rates. A comparison of these rates is shown in Table 1 below.

Table 1: Updated assumptions at FC

Assumption	Tender Submission	FC	Comment
Discount rate	6.12%	6.18%	Based on the German Benchmark 20 Year Bond of 4.75% adjusted for Irish credit spread at 17 June 2009 (2 weeks prior to Tender submission) and at 28 April 2010 (as a proxy for the likely prevailing rate at FC).
FC Date	31 March 2010	2 June 2010	3 month delay to FC due to planning delays and MPFI's commercial negotiations with the banks.
Long term inflation rate	2% p.a.	2% p.a.	ECB target rate unchanged from Tender submission to FC.

The approved PSB has accordingly been amended to reflect these changes in assumptions ("the Updated PSB"), so that an accurate comparison on a like for like basis can be made between it and the final Tender price at FC in the 4th VfM test.

The Updated PSB is summarised in Table 2 below.

Table 2: Updated PSB

The Updated PSB	Ex VAT NPV €'m
Approved PSB at ITN	**190.2**
Impact of discount rate and timing adjustments	0.2
Updated PSB for 4th VfM test[2]	**190.4**

3. THE 4th VfM TEST

3.1 The 4th VfM test

Table 3 details the 4th VfM test. As can be seen it clearly demonstrates that the Project, procured as a PPP, represents better VfM than the cost of procuring it traditionally, as benchmarked in the Updated PSB. All factors considered in the analysis below are in accordance with the VfM methodology specified in Guidance. MPFI's Tender price at Tender submission (1 July 2009), and subsequently updated for approved prices changes to FC (see *"Price Change Report"*), is referred to as "FM" for the purposes of this report.

[2] To be finalised at FC and included in an addendum to this report.

Table 3: 4th VfM test

Traditional Procurement - PSB	**NPV €'m**	**PPP Procurement - Tender Price per FM**	**NPV €'m**
VAT inc. Original PSB	**220.2**[1]	**VAT inc. FM** *(excluding discount rate & timing adj.s)*	**160.0**[1]
Less VAT accruing to Public Sector	(30.0)[2]	Less VAT accruing to Public Sector	(15.2)[2]
Ex VAT Original PSB	**190.2**[3]	**Ex VAT FM** *(excluding discount rate & timing adj.s)*	**144.8**
Discount rate and timing adjustments	0.2[4]	Discount rate and timing adjustments	0.5[5]
Ex VAT Updated PSB	**190.4**[6]	**Ex VAT FM**	**145. 3**[6]
	-	Less Corporation Tax ("CT")	(1.0)[7]
Ex VAT Revised PSB	**190.4**	**Ex VAT adjusted for cost to Public Sector FM**	**144.3**

4th VfM Notes

[1] Vat inclusive PSB includes construction related VAT because at the time it was compiled VAT rules required an Authority to pay construction related VAT directly to its contractor who paid it onwards to Revenue. MPFI FM does not include construction related VAT, as this is now accounted for using the reverse charge method (i.e. the Authority pays directly to Revenue) and therefore this VAT charge is excluded in MPFI's FM.

[2] See 1 above , difference in quantum due to construction VAT payment included under traditional procurement scenario as old VAT payment rules applicable.

[3] Original PSB and FM (excluding discount rate & timing adjustments) based on a discount rate of 6.12% and Euribor rate of 3.53% for commercial debt and 3.61% for EIB debt (Euribor rate only applicable in FM)

[4] Refer Table 2.

[5] Refer Section 5.7 "*Price Change Report"*

[6] Updated PSB and FM based on a discount rate of 6.18%, FC date 2 June 2010 and Euribor rate of 3.53% for commercial debt and 3.61% for EIB debt (EURIBOR rate only applicable in FM)

[7] €1.7m nominal CT payable by MPFI over life of Project, converted to NPV using 2 June 2010 FC date and discount rate of 6.18%.

For the 4th VfM test the PPP procurement price is shown net of CT paid by PPPCo to Revenue as this represents the net cost to the Public Sector (i.e. €144.3m versus DoES cost of €145.3m). CT is not deducted from the PSB as traditional procurement does not have discernable ring fenced CT that can be directly attributable to the Project as is the case in a PPP.

3.2 Review of VFM factors

A review of the key costs arising under the traditional and PPP approaches (i.e. the updated PSB v FM) is summarised in Table 4. This demonstrates how VFM has been obtained across the key cost categories relevant to the Project.

Table 4: Comparison of Updated PSB to FM

Cost Category	**Updated PSB Ex VAT nominal €'m**	**MPFI FM Ex VAT nominal €'m**	**Difference Ex VAT nominal €'m**	**VFM**
Construction costs including risk	106.9	81.7	(25.2)	
Facility Mng. costs including risk	147.9	74.1	(73.8)	
Lifecycle costs ("LCC") including risk	71.5	29.9	(41.6)	
Other (SPV, Up-Front Costs and Debt Fees)	-	26.3	26.3	
Debt finance costs	-	75.8	75.8	
Equity finance costs	-	34.1	34.1	
Deposit interest	-	(2.5)	(2.5)	
Corporation Tax & Irrecoverable VAT	-	2.0	2.0	
Unallocated Finance Risk	5.4	-	(5.4)	
Total	**331.7**	**321.4**	**(10.3)**	
Corresponding Ex VAT NPV	***190.4***	***144.3***	***(46.1)***	√

The key VfM drivers are as follows:-

- Facilities Management costs, where MPFI has been able to achieve significant savings (c.€74m) compared to DoES estimates (and as was costed in the PSB) of its cost to manage the same facilities for;
- Additionally MPFI been able to achieve material savings in construction & LCC and risk over the cost estimates approved by DoES for a traditional procurement and as included in the PSB. We believe the deflation that occurred in the general building sector during 2008 and 2009 is the key factor driving this. The PSB was compiled before any significant deflation took place in the sector;
- The cost of private sector financing[3] has not been overly onerous and accordingly has not outweighed the pricing benefits noted above, finalised debt terms are actually marginally more favourable than those estimated in the Authority Generated Term Sheet and indicative EIB terms and as used in the ITN evaluation; and

3.3 Non Monetary Costs and Benefits

Guidance specifies that the 4th VfM test is a purely quantitative comparison and therefore no qualitative benefits have been presented in the earlier analysis.

However it should be noted that the Project will deliver purpose built modern school accommodation to support effective teaching in the Project schools. The economic benefits of this will have been considered in the project appraisal stages of the Project.

4 CAPITAL ENVELOPE

As required by Guidance, once it has been determined that a project achieves VfM the Sponsoring Agency must ensure that the terms of its delegated sanction are adhered to and that the capital cost of the project is consistent with the Capital Envelope allocation available to the Sponsoring Agency, if it is to award the contract to the highest ranking Tender.

DoES's Capital Envelope is available to it on an overall schools programme basis and not further allocated by DoES on a bundle by bundle basis. Therefore as this is only the second bundle in the schools programme the Capital Envelope does not represent a constraining factor in moving to contract award.

Table 5 details this Capital Envelope analysis, comparing MPFI's capital costs at FC to the Capital Envelope. This represents the final Capital Envelope review for the Project and supersedes the review done at Tender evaluation and detailed in the ITN "*Schools PPP Programme Bundle 2 tender Evaluation Financial Assessment Report*".

[3] Refer to ITN *"Financial Assessment Report"* and *"Price Change Report"* for details on financing costs.

Table 5: Capital Envelope comparison

Cost Category	**MPFI at FC Nominal Capital Costs[4] €'m**
Construction Costs	66
Construction Professional fees	5
Construction insurance	1
Furniture and equipment	11
Up-Front Costs (SPV costs)	7
Base Capital Costs	**90**
Interest rolled-up during construction	4
Capitalised financing costs	3
Capital Costs before VAT	**97**
VAT Charge (Fees & Upfront costs)	1*
VAT Charge (Construction self accounted/paid already by Authority)	9*
Total Capital Costs inc. VAT	**107**
Capital Envelope: Schools Programme	300
Capital Envelope utilised SB1	(73)
Capital Envelope available for SB2	**227**
Capital Envelope surplus post SB2	**120**
***BDO estimate of VAT payable on Tendered construction costs, used as a proxy for this analysis.**	

As can be clearly seen in Table 5 the Project is comfortably within the Capital Envelope allocation available to DoES.

5 CONCLUSION

The Project demonstrates clear potential to achieve VfM for DoES. Additionally the capital cost of the Project is consistent with the Capital Envelope allocation available to DoES.

On the basis that the terms of DoES delegated sanction are adhered to the contract can be awarded to MPFI.

[4] As detailed in the "*Price Change Report*" MPFI adjusted the FM for actual/final capital costs pre FC so that debt drawdown can be correctly assessed. Any movement in costs does not impact the final UC and NPV and is entirely for MPFI's account. Shown above are the final costs as adjusted by MPFI.

Appendix I
VFM Assessment Methodology

PSB as VFM tool

The PSB is the benchmark against which the VFM of PPP Tenders is assessed. It is an estimate of the cost to the public sector of procuring the services set out in the PPP contract employing a traditional public sector procurement process, in which the public sector retains managerial responsibility and significant exposure to risk.

DoES confirmed that its traditional procurement approach for the Project would involve awarding a design and build contract for the Schools, with DoES maintaining responsibility for ongoing lifecycle management and maintenance of the Schools, thereafter.

Stages of VFM Assessment

Guidance requires four VFM comparisons at different stages of the procurement process to ensure the rationale for continuing with the PPP procurement remains after each test.

1. The ***first*** formal PPP VFM test is a qualitative one. Project characteristics that are likely to provide VFM are assessed, such as, sufficient scale, potential for risk transfer to the private sector, potential to be output based and potential for revenue generation.

2. The ***second*** formal VFM test is carried out when the PSB has been compiled and prior to commencement of procurement. Some of the issues that were considered qualitatively in the first VFM test are quantified in the PSB. The PSB provides a basis for assessing whether the level of risk transfer using a PPP arrangement is likely to be sufficient to justify the additional cost of private finance.

   At this stage a Shadow Bid Model ("SBM") is also prepared, which represents the Authority's best estimate of a PPP Tender. The PSB is then compared to the SBM to assist in determining if the Project has the potential to deliver VfM in procurement.

3. The ***third*** formal VfM test takes place at ITN evaluation and compares actual Tenders to the PSB, allowing for the differing impact of taxes, in order to quantitatively assess whether Tenders have the potential to delivery VFM.

   This comparison assesses whether there would be a reasonable probability that, following the due diligence, negotiation and review of the Tender, VFM can be achieved and therefore if it is reasonable to incur the further costs of continuing the competition.

4. The ***fourth*** formal VfM test is completed just prior to FC to take account of changes that occurred during the PT period as outlined in the Executive Summary.

National Development Finance Agency

Value for Money Report

November 2012

Schools PPP Programme - Bundle Three
(the "Project")

National Development
Finance Agency

CONTENTS

1 EXECUTIVE SUMMARY

The Department of Finance ("DoF") guidance document *"Value for Money and the Public Private Partnership Procurement Process"* (October 2007) ("Guidance") sets out four formal Value for Money ("VfM") tests that must be carried out in the PPP procurement process (refer to *Appendix I* for details).

A consortium led by BAM PPP ("BAM") was selected as Preferred Tender ("PT") for the Project on 19 September 2011 (appointment accepted by BAM on 29 September 2011) and at Tender evaluation the 3rd VfM test was completed which demonstrated that BAM's Tender price offered VfM.

This report addresses the **preliminary** 4th VfM test required by Guidance and which must be completed prior to Financial Close ("FC")[1] in order to:

a) examine the effect of any negotiated changes in the contract terms when the Project has been procured using the Negotiated Procedure; and

b) assess the impact of any changes in the base interest rate and/or discount rate.

The 4th VfM test involves a comparison of the PT's Tender financial model updated for any Authority approved price changes following PT appointment, to the Public Sector Benchmark ("PSB"). In the 4th VfM test both the PSB and PT's financial model are additionally being updated for the prevailing discount rate and target FC date (9 November 2012 in this instance).

The 4th VfM test has now been completed on the basis of an estimated base interest rate and discount rate, and demonstrates VfM has been maintained during the PT period.

This report should be read in conjunction with the *"Price Change Report"* which summarises the Authority approved price changes since BAM's appointment as PT.

[1] *A preliminary 4th VfM test is completed prior to FC using an estimate of the likely price changes to FC, so that the Project can proceed to FC. At FC when the final discount rate and base interest rate are known, the test is finalised. An addendum will be issued to this report detailing these final figures following FC.*

2 THE UPDATED PSB

The PSB was approved by DoES Management Advisory Committee ("MAC") on 6 July 2010, prior to issuing the OJEU notice for the Project. A report *"Schools PPP Programme, Schools Bundle 3- Public Sector Benchmark ("PSB"), Assumptions underlying the PSB"* was prepared providing full details on the PSB assumptions.

In order to ensure that the PSB and Tender price are comparable, Tenderers were required to use Authority prescribed dates for target FC, discount rate and inflation rates in their Tenders. The 4th VfM test is performed at FC using the updated FC date and discount rates. In addition, the standard VAT rate was amended between Tender submission and FC and the PSB has been updated to reflect the new rates. A comparison of these rates is shown in Table 1 below.

Table 1: Updated assumptions at FC

Assumption	Tender Submission	FC	Comment
Discount rate	6.88%	6.65%	Discount rates as at 22 June 2011 (2 weeks prior to Tender submission) and at 26 October 2012 (FC rate).
FC Date	1 January 2012	9 November 2012	Delay to FC due to planning delays and negotiations regarding the financing structure.
Long term inflation rate	2% p.a.	2% p.a.	ECB target rate unchanged from Tender submission to FC.
Standard VAT rate	21%	23%	While updated, does not impact VfM test

The approved PSB has accordingly been amended to reflect these changes in assumptions (the "Updated PSB"), so that an accurate comparison on a like for like basis can be made between it and the final Tender price at FC in the 4th VfM test.

The Updated PSB is summarised in Table 2 below.

Table 2: Updated PSB

The Updated PSB	Ex VAT NPV €'m
Approved PSB at ITN	**170.5**
Impact of discount rate and timing adjustments	6.4
Updated PSB for 4th VfM test[2]	**176.9**

3. THE PRELIMINARY 4th VfM TEST

3.1 The Preliminary 4th VfM test

Table 3 overleaf details the 4th VfM test. **It clearly demonstrates that the Project, procured as a PPP, represents better VfM (€7.9m) than the cost of procuring it traditionally, as benchmarked in the Updated PSB.** All factors considered in the analysis below are in accordance with the VfM methodology specified in Guidance. BAM's Tender price at Tender submission (5 July 2011) updated for approved price changes to FC (see *"Price Change Report"*) is referred to as "FM" for the purposes of this report.

[2] *To be finalised at FC and included in an addendum to this report*

Table 3: 4th VfM test

Traditional Procurement - PSB	NPV €'m	PPP Procurement - Price per FM	NPV €'m
VAT inc. Original PSB	**197.0**[1]	**VAT inc. FM**[2]	**179.9**[1]
Less VAT	(26.5)[3]	Less VAT	(9.3)[3]
Ex VAT Original PSB	**170.5**[4]	**Ex VAT FM**	170.6[5]
Discount rate and timing adjustments	6.4	Less Corporation Tax ("CT")	(1.6)[6]
Ex VAT Revised PSB	**176.9**[5]	**Ex VAT FM**	**169.0**

4th VfM Notes

[1] VAT inclusive PSB includes construction related VAT. This is not included in the FM as it is paid separately to the Unitary Charge, on a reverse charge basis. Construction related VAT under the PPP procurement is payable directly by the Authority to Revenue.

[2] VAT inc. FM incorporates changes to the Tender Price during the PT Period as detailed in Price Change Report (including discount rate and FC date).

[3] See 1 above, difference in quantum due to construction VAT payment included under traditional procurement scenario but not reflected in the FM as it is paid separately on a reverse charge basis.

[4] Original PSB (excluding discount rate & timing adjustments) based on a discount rate of 6.88%.

5 Updated PSB and FM based on a discount rate of 6.65%, FC date 9 November 2012 and a base interest rate of 2.35%.

[6] €4.4m nominal CT payable by BAM over life of Project, converted to NPV using 9 November 2012 FC date and discount rate of 6.65%.

For the 4th VfM test the PPP procurement price is shown net of corporation tax paid by PPP Co. to Revenue as this represents the net cost to the Exchequer. There is no corresponding adjustment to the value of the PSB as corporation tax is not directly payable by the public sector and will therefore not be included in the PSB.

3.2 Review of VFM factors

A review of the key costs arising under the traditional and PPP approaches (i.e. the updated PSB vs FM (Model No. 7 of Oct 12)) is summarised in Table 4. This demonstrates how VFM has been obtained across the key cost categories relevant to the Project.

Table 4: Comparison of Updated PSB to FM (Model No. 7 of Oct 12)

Cost Category	Updated PSB Ex VAT nominal €'m	BAM FM Ex VAT nominal €'m	Difference Ex VAT nominal €'m	VFM
Construction costs including risk	94.0	100.0	6.0	
Facility Mng. costs including risk	170.2	95.7	(74.5)	
Lifecycle costs ("LCC") including risk	55.0	22.7	(32.3)	
Other (SPV, Up-Front Costs and Debt Fees)	-	23.7	23.7	
Debt finance costs	-	99.6	99.6	
Equity finance costs	-	54.5	54.5	
Deposit Interest	-	(7.9)	(7.9)	
Corporation Tax ("CT")	-	4.4	4.4	
Unallocated Financial & Legislative Risk	7.7	-	(7.7)	
Total	**326.9**	**392.7**	**65.8**	
Corresponding Ex VAT NPV	***176.9***	***170.6***	***(6.3)****	√

** Figure includes impact of CT (€1.6m NPV) – which was netted off for purposes of 4th VfM test under Table 3 above*

The key VfM drivers are as follows:-

- Facilities Management costs, where BAM has been able to achieve significant savings (c.€51m) compared to the DoES estimate (as was costed in the PSB) of the cost of managing the same facilities;

- Additionally BAM has been able to achieve material savings in LCC compared to the cost estimates approved by DoES for a traditional procurement and as included in the PSB;

- While the cost of private sector financing[3] has outweighed in nominal terms the Facilities Management and LCC pricing benefits noted above, the fact that the PPP procurement allows the capital and upfront costs to be spread out over the 25 year life of the Project means that BAM's Tender is cheaper than the PSB in NPV terms. It should also be noted that the average annual interest cost of the BoI and EIB bank debt (6.28% p.a. assuming a 2.35% base interest rate) is only 0.36% higher than the cost of the 25 year amortising sovereign bond recently issued by the NTMA (5.92% p.a., issued 20 September 2012), i.e. the cost of private finance, which includes project risks, is only marginally higher than what it would cost the State to borrow to fund the Project upfront.

3.3 Non Monetary Costs and Benefits

Guidance specifies that the 4th VfM test is a purely quantitative comparison and therefore no qualitative benefits have been presented in the earlier analysis.

However it should be noted that the Project will deliver purpose built modern school accommodation to support effective teaching in the Project schools. The economic benefits of this will have been considered in the project appraisal stages of the Project.

4 CONCLUSION

The Project demonstrates clear potential to achieve VfM for DoES.

On the basis that the terms of DoES delegated sanction are adhered to, the contract can be awarded to BAM.

An addendum to this report will be prepared post FC which will record the actual UC and NPV achieved at FC, following the final base interest rate and discount rate update.

[3] Refer to ITN *"Financial Assessment Report"* and *"Price Change Report"* for details on financing costs

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   At this stage a Shadow Bid Model ("SBM") is also prepared, which represents the Authority's best estimate of a PPP Tender. The PSB is then compared to the SBM to assist in determining if the Project has the potential to deliver VfM in procurement.

3. The ***third*** formal VfM test takes place at ITN evaluation and compares actual Tenders to the PSB, allowing for the differing impact of taxes, in order to quantitatively assess whether Tenders have the potential to delivery VFM.

   This comparison assesses whether there would be a reasonable probability that, following the due diligence, negotiation and review of the Tender, VFM can be achieved and therefore if it is reasonable to incur the further costs of continuing the competition.

4. The ***fourth*** formal VfM test is completed just prior to FC to take account of changes that occurred during the PT period as outlined in the Executive Summary.