

7th March 2018

Ms Margaret Falsey
Committee Secretariat
Committee of Public Accounts
Leinster House
Dublin 2

Dear Margaret

I refer to your letter of 27th February 2018 to Secretary General Watt regarding his appearance before the PAC on 22nd March and your request for information in advance of that meeting on PPPs which I now attach.

Yours sincerely



Patricia Scanlon

PA to Secretary General Robert Watt

Department of Public Expenditure and Reform

Financial Information on PPPs

1. Background

A PPP is an arrangement between the public and private sector for the purpose of delivering infrastructure or services which were traditionally provided by the public service. In effect, it is a form of procurement available to the public sector.

PPPs offer an alternative model for delivering infrastructure that can be effective in particular circumstances. However, the long-term nature of the financial commitments arising under PPPs require that the use of such arrangements must be carefully planned in order to ensure that they are used to address infrastructural needs in a manner that is sustainable in the long term and which the public finances can afford, as well as providing value for money for the taxpayer.

The Exchequer incurs a number of different cost arrangements in connection with PPP projects over the lifetime of the arrangement:

- (i) At an early stage in construction or pre-construction, it is often the case that site purchase and enabling works, such as site clearance and necessary infrastructure (e.g. roads), are required to facilitate the project proceeding. These costs tend to be funded directly by the Exchequer, as the most cost efficient option for this phase of the project.
- (ii) On completion of the construction phase by the PPP company, a liability for VAT crystallises (sometimes called bullet VAT payments), which liability is usually funded directly by the Exchequer (again as the most cost effective solution from the State's point of view).
- (iii) The above costs are then followed by the annual unitary payments – legally binding contractual commitments to repay the cost of constructing and maintaining the project, usually paid over a period of about 25 years.

However, costs under (i) and (ii) above would be incurred by the Exchequer irrespective of whether the project being delivered is procured by PPP or by traditional procurement. Therefore this note will focus on the Exchequer cost under (iii) above – the cost of unitary payments to the PPP Company over the lifetime of the PPP contract, following handover of the asset to the public sector.

2. Unitary Payment Costs

Significant infrastructure projects have been completed using the PPP model since the late 1990s, the annual cost of which in terms of the unitary payment charges is now some €260 million in 2018. However, in addition to these projects which are operational, there are a number of further PPP projects in construction, procurement, pre-procurement and early planning stage. The unitary payment charges in respect of these new PPPs will, as they come into service, add to the above figure annually.

Financial responsibility for each individual PPP project rests with the relevant Sponsoring Agency. However, the Department of Public Expenditure and Reform publishes (at www.ppp.gov.ie) a list of PPPs containing financial details collected from the various Sponsoring Agencies on the contractual capital value, unitary payments and future commitments in respect of each individual PPP and concession project which is either operational or in construction (i.e. where contracts have been signed).

The latest aggregate information published on these PPPs, as at end-2016, is as follows:

- Contractual capital value at end 2016: €4.95bn
- Unitary Payments made to 2016: €2.6bn
- Future unitary payment commitments at end 2016: €6.6bn.

A copy of the table from the Department's website is attached at Appendix 1, for reference. This table is currently being updated to reflect the position at end-2017 as part of the data collection process required to input into the CSO's end-March Excessive Deficit Procedure (EDP) returns to Eurostat (also known as the Maastricht Returns), which relates to the position at end-2017, and includes a report on PPPs.

A further, more detailed table, showing the breakdown of the projected future unitary payment costs associated with each of these projects, where contracts have been signed, on an annual basis, will also be compiled as part of the 2018 updating exercise, and this will be made available to the PAC secretariat once it has been prepared and agreed with the relevant Departments and agencies. It will also be published on the Department's website from 2018 onwards.

However, in addition to these projects - which are either operational or in construction - as noted above, there are a number of further PPP projects in procurement, pre-procurement

and/or early planning stage for which no contract has yet been concluded, and so future unitary payment charges have not yet been determined/agreed. These projects include:

- Grangegorman DIT Project, expected to reach construction stage very shortly;
- 3 Social Housing PPP Bundles of c€100 million each, to deliver c500 social housing units in each bundle;
- a €200m Higher Education PPP programme to deliver projects across 11 Institutes of Technology;
- a €150 million community nursing home PPP bundle; and
- a €150m Justice project, including Courts and Garda Station projects.

The aggregate cost of the unitary payment charges in respect of these further new PPPs, once fully operational, is projected to be in excess of €100 million annually by 2023, or over €2.8 billion in aggregate over the period 2020-2047. Details of the projected unitary payments in respect of these projects will be included in the table published on the Department's website as the contracts for these projects are signed.

Taking account of these PPPs yet to be delivered, when all of the current approved PPPs are operational, the total cost of unitary payments is expected to exceed €410m by 2023. If no new PPP arrangements were to be entered into, beyond those projects which have already been announced and committed to, the Exchequer is expected to be required to continue to pay:

- an average of about €410m per annum (partly indexed for inflation) in PPP unitary payments for the following 12 years, from 2024 until 2035;
- followed by an average of about €320m for the following 7 years, from 2036 until 2042;
- after which the path to zero unitary payments will still take another 11 years until 2053.

This is a significant ongoing financial commitment, which will absorb a significant amount of the discretionary capital expenditure allocation of some Departments for each of these years, before any decisions on the funding of new capital projects can be considered.

TABLE 4
EXCHEQUER FUNDED FINANCIAL COMMITMENTS UNDER PUBLIC PRIVATE PARTNERSHIPS AND CONCESSION PROJECTS

Department/Agency	Project Classification	Operational From	Contractual Value (€m)	PPP Unitary Payments to End 2016 (€m)	Projected Future PPP Unitary Payments in NOMINAL Terms (€m)	Other PPP Payments, where available (€m)	Projected Total Cost of all PPP Payments (€m)	Year of Final Payment	PPP Company
Health									
Primary Care Bundle	DBFM	Phased from Q3 2017	140.0	-	422.3	35.5	457.8	2042	Healthcare Centres PPP Limited
OPW									
National Conference Centre	DBFOM	Aug-10	189.8	269.2	477.3	32.9	779.4	2035	Spencer Dock Convention Centre Dublin Ltd
Judice									
Criminal Courts Complex	DBFOM	Nov-09	132.4	149.7	455.9	17.9	623.5	2035	PPP CCC Partnership Ltd. Managed by amber Infrastructure Ltd.
Courts Bundle	DBFOM	2017	149.9	-	562.8	20.9	383.7	2042	BAM PPP P3GM consortium
Total Justice			282.3	149.7	818.7	38.8	1,007.2		
Education*									
5 Pilot Schools	DBFM	2002	63.7	161.3	129.1	TBC	290.4	2027	Schools Public/Private Partnership (Ireland) Ltd
National Maritime College	DBFM	2004	51.4	112.3	75.5	TBC	187.8	2029	Focus Education (NMC) Ltd.
Cork School of Music	DBFM	2007	49.3	85.4	137.0	TBC	222.4	2032	CSM PPP Services Ltd
Schools Bundle 1	DBFM	2010	59.9	63.7	181.9	TBC	245.6	2035	MPII Schools 1 Ltd
Schools Bundle 2	DBFM	2011	81.7	75.7	266.7	TBC	342.4	2036	Pymble Schools Ltd
Schools Bundle 3	DBFM	2013	100.0	55.4	355.0	TBC	410.4	2039	BAM PPP Ltd
Schools Bundle 4	DBFM	2016	61.3	14.0	205.3	TBC	219.3	2041	BAM PPP Ltd
Schools Bundle 5	DBFM	2017	90.9	-	268.5	TBC	268.5	2043	Inspired Spaces Consortium
Total Education			558.2	567.8	1,619.0	0.0	2,186.8		
Transport Infrastructure Ireland (TII)									
M3 Clonee Kells**	DBFOM	Jan-10	521.2	395.7	266.7	43.9	706.3	2052	Eurotek Motorway Operations (M3) Ltd
Limerick Tunnel**	DBFOM	Jul-10	382.5	220.6	32.8	28.2	281.6	2041	DirectRoute (Limerick) Ltd
M50 Upgrade	DBFOM	Sep-10	219.1	148.7	720.6	78.3	947.6	2042	M50 (Concession) Ltd
N11 Arklow/Rathnew (incl N7 Newlands Cross)	DBFOM	July-15 N11 & Nov-14 N7	131.2	20.8	437.2	23.7	481.6	2040	N11 Arklow Rathnew PPP Limited
M17/E Gort / Tuam***	DBFOM	Dec-17	271.3	-	926.2	40.6	966.9	2042	Direct Route (Tuam) Ltd
M11 Gorey / Lismaccolly***	DBFOM	Jul-19	234.5	-	488.2	32.1	520.3	2044	Gorey to Lismaccolly M11 PPP Limited
N25 New Ross***	DBFOM	2019	150.6	-	317.1	21.5	338.5	2044	New Ross N25 Bypass Designated Activity Company
Total TII PPP			1,910.3	785.7	3,188.8	268.3	4,242.8		
M4 Killock Kiaregal	Concession	Dec-05	301.8	168.2	5.4	5.7	179.3	2033	Eurotek Motorway Operations (M4) Ltd
M1 Dundalk	Concession	Sep-05	112.6	0.0	3.1	3.9	7.0	2034	Celtic Roads Group (Dundalk) Ltd
M8 Fermoy	Concession	Oct-06	182.7	134.3	15.7	1.8	151.7	2024	DirectRoute (Fermoy) Ltd
N25 Waterford	Concession	Oct-09	262.3	155.1	39.3	2.4	196.8	2027	Celtic Roads Group (Waterford) Ltd
N6 Galway Ballinasloe	Concession	Dec-09	297.8	300.3	51.6	19.7	371.5	2035	N6 (Concession) Ltd
M7/R Portlaoise	Concession	May-10	300.1	72.4	7.7	5.6	85.7	2023	Celtic Roads Group (Portlaoise) Ltd
MSA	Concession	Sep/Oct-10	62.7	47.1	-	-	47.1	2010	Superstop Ltd
Total TII Concession			1,519.9	877.3	122.7	39.1	1,039.1		
Dublin City Council									
Dublin Waste to Energy	Concession	2017	346.0	-	-	-	-	2062	Covanta
Total PPP			3,080.6	1,772.4	6,526.2	375.5	8,674.0		
Total Concession			1,865.9	877.3	122.7	39.1	1,039.1		
Total			4,946.5	2,649.6	6,648.9	414.6	9,713.1		

*Education figures to be validated.

**The "Other PPP Payments, where applicable" includes payments made under the traffic guarantee contract mechanism on the Limerick Tunnel and the M3 Clonee Kells PPP Contracts. The nominal value of remaining payments as at 31 December 2016 does not include any amounts for future payments under this mechanism.

***"Other PPP Payments, where applicable" includes provision for reverse charge VAT payments (approx. €90million) on schemes at construction at end 2016.

Notes

1. Estimates of future nominal committed payments are calculated on an assumed future annual inflation of 2 per cent per annum.
2. PPP Unitary expenditure by TII relates to construction and operation payments in the case of toll concession schemes and availability payments for non toll schemes.
3. Other PPP expenditure on TII schemes relates to reverse charge VAT and VAT on Availability Payments, enabling works, authority variations and traffic guarantees (in case of Limerick Tunnel and Clonee-Kells).
4. A review of "Other PPP Payments" is currently being undertaken by the Dept. of Education and figures will be provided following completion of the review. Total PPP cost figures are also subject to change in that context.
5. PPP Unitary Payments by Education are inclusive of VAT payments in respect of the Operation and Maintenance of the projects.
6. Rounding effects totals