



KPMG Opening Statement

Good afternoon Chair and committee members. My name is Michele Connolly and I am the Head of Corporate Finance in KPMG, Ireland. I am the KPMG lead partner on the National Broadband Plan. Joining me today are my colleagues, Robert Costello and Chris Rainbird, Directors on my team.

In this opening statement I provide some background on KPMG. I will then take you through the scope of our engagement followed by a summary of some key aspects of our advice.

I am a Chartered Accountant by background and a partner in KPMG since 2005. I lead our Government and Infrastructure practice here in Ireland. For over 20 years' I have provided financial and commercial advice to public and private sector bodies on major infrastructure projects in Ireland and overseas.

From a telecoms perspective, the team have advised on a range of projects both in Ireland and internationally including similar broadband projects in Northern England, Scotland, Northern Ireland and Australia.

We were appointed in December 2014, following a competitive tendering process, as financial and procurement advisers on the National Broadband Plan. Our scope of advice was split into three phases:

Phase 1 during which KPMG advised on the ownership options, funding, governance and the financial appraisal of the project.

Phase 2 involved the State-Aid processes which were led by PwC with Mason Hayes & Curran which we supported.

Phase 3 was the procurement phase, during which KPMG provided advice on the design of the procurement process, commercial deal structure, commercial contract terms and negotiations, funding requirements and the process from pre-qualification to contract award together with a range of other ad-hoc matters. Analysys Mason is the technical adviser on the procurement and Mason Hayes & Curran the legal adviser.

I will now describe in more detail some of the key areas of our advice.

Ownership

I'll turn first to the ownership question. Our 2015 Ownership Report examined five main options that were identified as potential vehicles for delivering the Government's National Broadband Plan Intervention Strategy.

The report provided both a financial and a non-financial appraisal of various ownership options. It recommended the option where the private sector design, build, finance, operate and own the infrastructure as the preferred option. We refer to this as Gap Funding. This option was assessed as the least expensive in monetary terms and ranked highest on deliverability of the non-financial objectives.

There were a variety of reasons for this recommendation. Some of the over-riding ones were that where the private sector owns the infrastructure, they are:



- incentivised from a commercial perspective to continue to invest and upgrade the infrastructure; and
- to continue to drive additional usage from the infrastructure indefinitely.

That in turn drives additional economic benefit to Ireland. That could be achieved under other options but it would be through a contractual obligation which is not as strong as a commercial imperative.

Under the recommended option, the State transfers significant downside risk to the private sector such as technological obsolescence and long term renewal of the asset whilst retaining upside through a variety of financial sharing mechanisms over the life of the contract.

Procurement

I shall turn next to some key aspects of our role during the procurement:

As you are aware, shortly before detailed solutions were to be submitted Siro withdrew from the procurement. The Department received detailed solutions from the two remaining Bidders (Granahan McCourt and eir) in September 2017.

In their detailed solution submissions, both of the Bidders that remained in the procurement projected significantly higher levels of subsidy than the Department's budget model.

The Department made the decision to reappraise the Project in accordance with the Public Spending Code and asked KPMG to assist.

The reappraisal identified a long list of eight options. We made a recommendation to the Department that the current approach should continue. This recommendation was made based on re-assessing the then current situation against the same criteria as the original Ownership report.

Following the eir withdrawal from the process, the Department then requested KPMG to undertake a review of the available procurement options at that point.

That review concluded that the current process should continue but came with a clear recommendation on initiatives to include to address the lack of competitive tension.

That report also considered the methodology for how we would assess whether a bid received in a single bidder situation was acceptable to meet the requirements under the Public Spending Code.

The final tender was received in September 2018. The overall finding of the tender evaluation completed by KPMG and Analysys Mason was that the final tender was now capable of satisfying the Departments requirements as set out in the tender documentation.

A tender evaluation considers how well the bid meets the requirements of Government. That is different from the Cost Benefit analysis as prepared by PwC which compares costs to economic benefits delivered.



I shall now turn to the concept of Value for Money.

In light of the fact that two Bidders withdrew from the procurement process before final tender, it has obviously not been possible to compare the final tender received to any competing bid which is the traditional means of assessing Value for Money.

Using the methodology set out previously, additional detailed analysis was set out by KPMG (with support from Analysys Mason) to inform the Department's consideration of whether the final tender submitted by the remaining Bidder was an acceptable outcome for Government, by reference to the Public Spending Code.

This analysis looked at varying means by which to verify or benchmark key components and assumptions in the tender and concluded that the Bidder's final tender pricing is higher than expected in some key areas. The detailed technical assessment undertaken by Analysys Mason concluded that the Bidder proposed a technical solution that is capable of delivering on Government's requirements.

Each of the areas of difference between the Bidders key assumptions and the Departments was then considered to ensure the Department was adequately protected should its' assumptions prove to be more accurate than the Bidder's. In a number of areas we made additional recommendations to try and further enhance the relevant contractual provisions in favour of the Department.

However a contract is only effective if it is appropriately adhered to and implemented by both parties. We have made a series of recommendations throughout this report as to the level of effort and skills required to monitor and oversee the various contractual provisions.

Close

This has been a protracted procurement process to this point, however that is reflective of the complexity of the infrastructural deficit the project is trying to address. It is a large complex project with significant inherent risks. It has also had to address varying challenges along the way.

The level of detailed work that was undertaken at key stages to assess and reassess the optimal route forward as circumstances changed, has been significant.

The solution on the table now, which is more expensive than originally envisaged, has been assessed as capable of delivering on Government's requirements. It is underpinned by a contract that if implemented and monitored appropriately, should provide Government with mechanisms to exercise oversight over the deployment and long term operation of the network, to share in certain upsides and to limit the downsides of the project.

I am now happy to take any questions on advice we have provided.