

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

Eoin Reeves,  
Privatisation and PPP Research Group,  
Department of Economics,  
University of Limerick.

Nevin Economic Research Institute, Jan. 2013

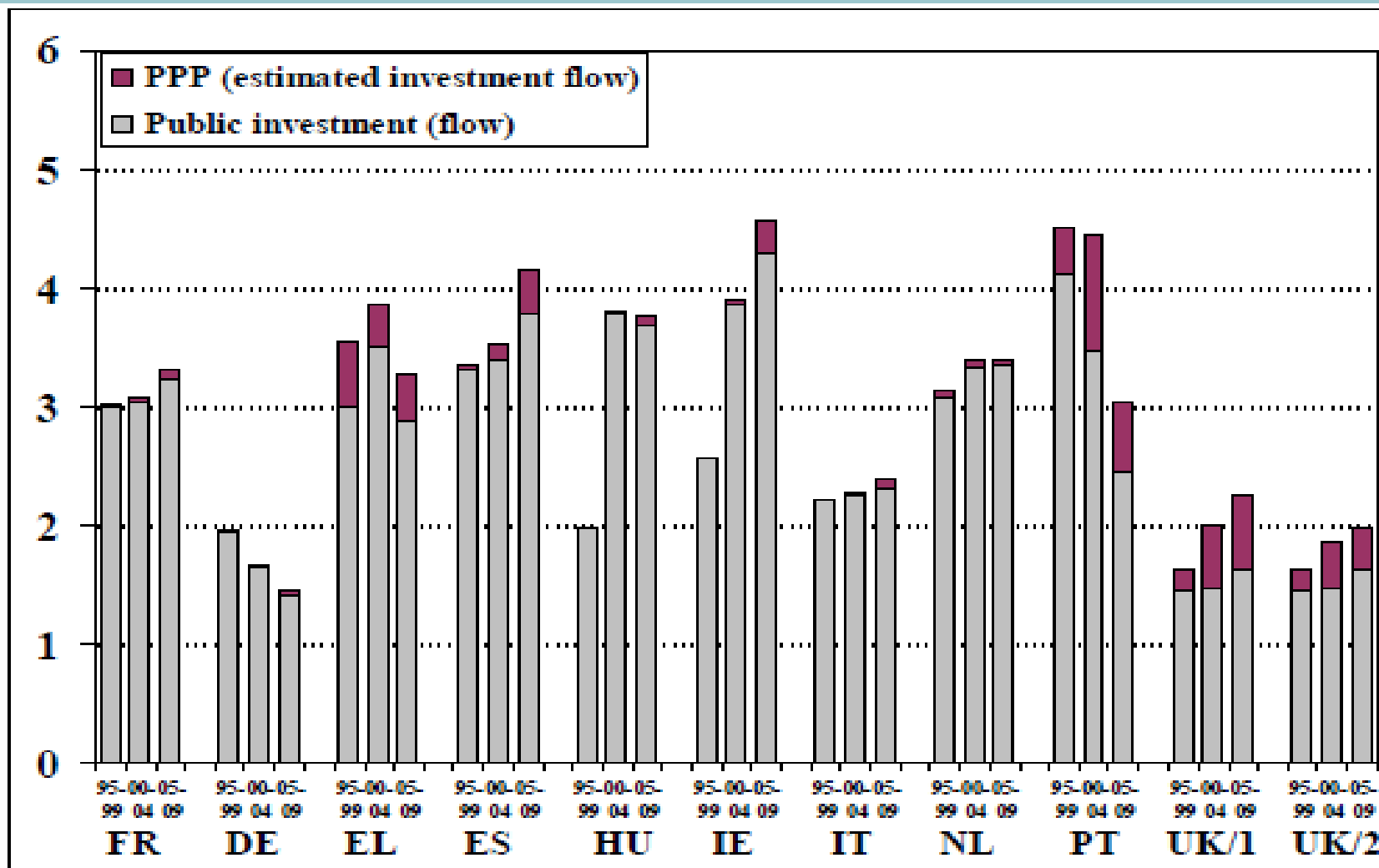
# What are PPPs?

- Focus on PPPs as Long Term Infrastructure Contracts (LTICs) .
- PPPs are a **procurement model** for the provision of infrastructural assets and related services.
- **Integrated** model normally combining the *Design, Build, Operate and Finance (DBOF)* elements of asset based-service.
- Context – Problems with traditional procurement.

# Today's Presentation

- Focus on Ireland.
  - PPP officially adopted since 1999.
  - More PPP on the way....
- First look at PPP activity internationally.
  - Popular in UK, Europe, Canada, Australia, South Africa
  - Growing in popularity in USA.
  - Focus on Europe.

**Government investment and PPPs :**  
**(averages 1995-1999, 2000-2004 and 2005-2009, in per cent of GDP).**  
**Source: Kappeler and Nemoz (2010)**



# Global Financial Crisis and PPP

- Credit crunch.
- Collapse of 'monoline' industry.
- Closure of 'wrapped bond market'.
- Europe – Slowdown in PPP activity.
- 2012 [1<sup>st</sup> half]
  - Lowest volume in a decade (€6 billion)
  - 1/3 of volume in 2007.

# PPP in Ireland

- Pilot Programme 1999.
- Huge enthusiasm among policy makers.
- Proposed PPP programme expanded year-on-year.
- Pre-crisis –
  - Multi-Annual Capital Investment Framework 2008-12: PPP accounts for 16% of planned investment.
- Over 100 PPP projects at various stages of life cycle.
- Examples of PPP projects completed.....



Limerick Tunnel



Clareville Wastewater Treatment Plant





Cork Music School



Criminal Courts Complex - Dublin



**National Conference Centre, Dublin**

# Since the Current Economic Crisis

- 24 projects cancelled since crisis.
- Stimulus plan in July 2012 adds 38 PPPs.
- See next table.

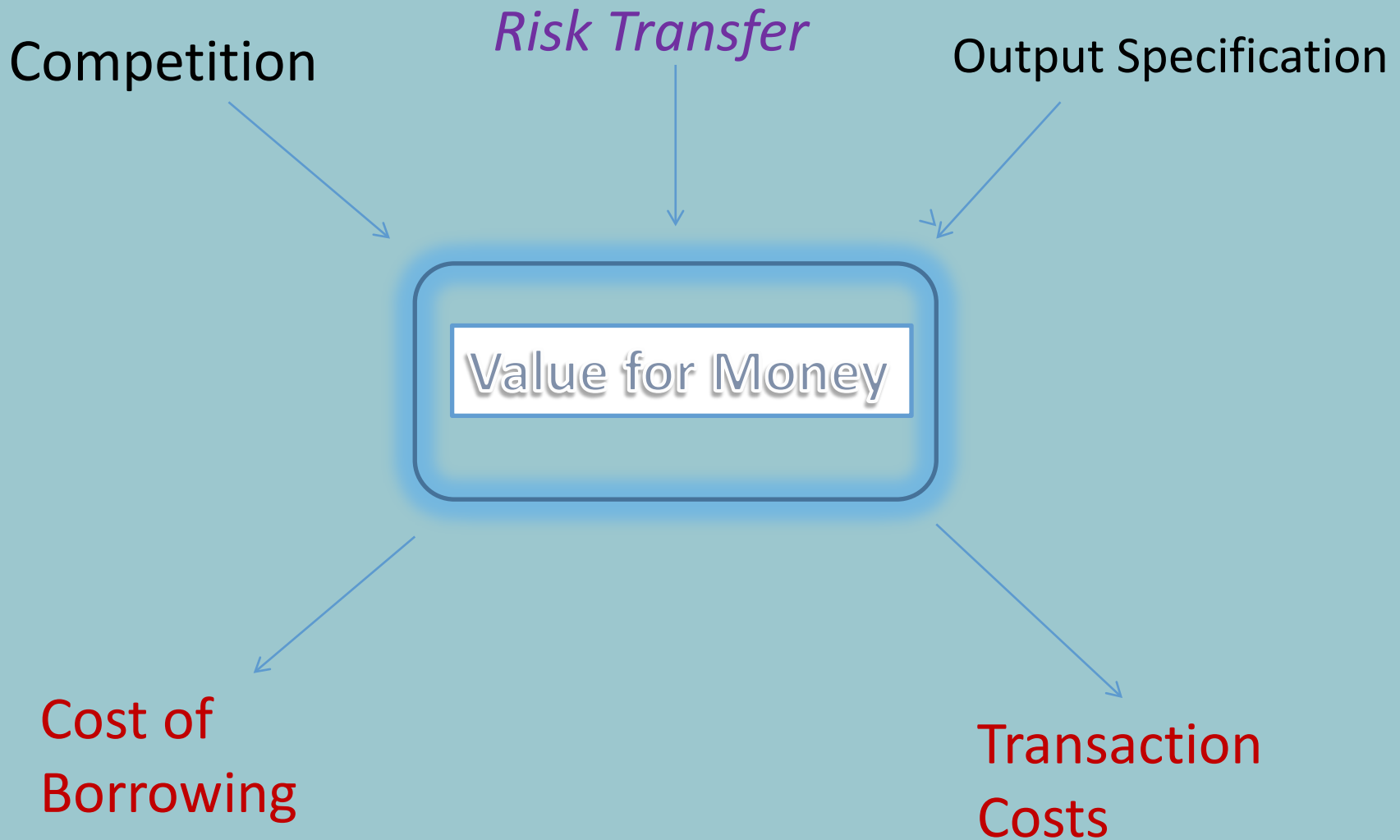
# Number of PPP Projects Sept. 2012

Project/ Stage Of Project Cycle	Pre- Tender	Procure- ment	Construction	Operation	Stimulus Projects	Total
Roads	0	1	0	10	3	14
Courts	0	0	0	1	1	2
Education	0	0	0	5	3	8
Arts	0	0	0	1		1
Primary Care	-	-	-	-	30	30
Pathology	-	-	-	-	1	1
Water	-	8	1	2	-	11
Wastewater	-	16	15	24		55
<b>Total</b>	<b>1</b>	<b>26</b>	<b>16</b>	<b>43</b>	<b>38</b>	<b>123</b>

# Examining PPP Procurement

- **Economic Objectives**
  - Economic (Allocative) Efficiency
  - Technical Efficiency – Value for money
  - Transaction Cost Efficiency
- In practice Value for Money (VFM) is the stated objective.
- How may PPP offer better VFM compared to traditional procurement?

# Drivers and **Obstacles** to Value for Money (VFM)



# Other Criteria for Examining PPP

- PPP and Public Finances
  - Off-balance sheet financing.
  - Buy now pay later.
  - Liabilities still exist.
- PPP and Governance
  - Legitimacy, Accountability, Transparency.
  - Governance of the PPP decision including VFM assessment
  - Governance of contractual relations



# Irish Experience - Governance

- **Accountability and Transparency**
  - VFM tests not made public.
  - Contracts not made public.
  - Public Accounts Committee frustrated.
- **The PPP Decision – VFM Assessment**
  - Some evidence – Schools and Water Services
- **Managing Contractual Relations**
  - Some evidence on schools C&AG (2006), Reeves (2008).

# Irish Experience – Public Finances

Most PPPs are off-balance sheet.

Department/ Agency	No. of Projects	Expenditure to Date (€)	Outstanding Commitment (€m)	Total
Education	5	255	1,078	1,333
Courts Service	1	59	567	627
OPW	1	95	658	753
NRA	10	1,285	1,689	2,974
Environment & Local Gov.	20	648	37	685
<b>Total</b>	<b>37</b>	<b>2,342</b>	<b>4,029</b>	<b>6,408</b>

# Irish Experience – Value for Money

- **First Schools Contract:**
  - Predicted Cost Savings – 6%
  - C&AG says 8% - 13% more expensive.
- **Water Services:**
  - VFM Assessments – VFM of 4.5% (6 PPP contracts)
  - Quality of VFM assessments questionable.
  - Consultation leads to different conclusions.
  - PPP is still the only game in town in water sector.
- **No consideration of transaction costs!**

# Comments on Risk Transfer and Competition for Contracts

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

# Conclusions I

- Irish Policy makers must recognise the problems and limitations of PPP.
- **Major re-vamp of PPP in UK (Dec. 2012).**
  - Government to take minority equity stakes
  - Transparency measures e.g. assessment of PFI liabilities in Whole of Government Accounts
  - Reduce services included in PPP contracts (e.g. cleaning) to give public sector flexibility to make changes.
  - Reduce the extent of risk transfer (e.g. some construction risks and 'required insurances').

## Conclusions II

- We know very little about PPP in Ireland.
- **Transparency is easily improved –**
- *“Consistent and timely budget reporting on anything that smells remotely like a P3”* (Vining and Boardman (2008)).
- Public availability of all VFM Tests and contracts.
- Sealing of provisions decided by neutral 3<sup>rd</sup> party.

# Conclusion III

- VFM is important but *caveat emptor* should apply!
- Transaction costs cannot be ignored.  
→ Governments should be wary of projects exhibiting high asset specificity, complex and uncertain.
- Yes, there is an irony!
- The goal is to minimise Total Social Costs