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

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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:
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\textsuperscript{st} half]
  - Lowest volume in a decade (€6 billion)
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
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.
<table>
<thead>
<tr>
<th>Project/Stage Of Project Cycle</th>
<th>Pre-Tender</th>
<th>Procurement</th>
<th>Construction</th>
<th>Operation</th>
<th>Stimulus Projects</th>
<th>Total</th>
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<tbody>
<tr>
<td>Roads</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>10</td>
<td>3</td>
<td>14</td>
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<td>Courts</td>
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<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Arts</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td></td>
<td>1</td>
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<tr>
<td>Primary Care</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>30</td>
<td>30</td>
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<tr>
<td>Pathology</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Water</td>
<td>-</td>
<td>8</td>
<td>1</td>
<td>2</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Wastewater</td>
<td>-</td>
<td>16</td>
<td>15</td>
<td>24</td>
<td></td>
<td>55</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>1</strong></td>
<td><strong>26</strong></td>
<td><strong>16</strong></td>
<td><strong>43</strong></td>
<td><strong>38</strong></td>
<td><strong>123</strong></td>
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</tbody>
</table>
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)

- Competition
- **Risk Transfer**
- Output Specification
- Cost of Borrowing
- Transaction Costs
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
Irish Experience – Public Finances
Most PPPs are off-balance sheet.

<table>
<thead>
<tr>
<th>Department/Agency</th>
<th>No. of Projects</th>
<th>Expenditure to Date (€)</th>
<th>Outstanding Commitment (€m)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>5</td>
<td>255</td>
<td>1,078</td>
<td>1,333</td>
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<tr>
<td>Courts Service</td>
<td>1</td>
<td>59</td>
<td>567</td>
<td>627</td>
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<tr>
<td>OPW</td>
<td>1</td>
<td>95</td>
<td>658</td>
<td>753</td>
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<tr>
<td>NRA</td>
<td>10</td>
<td>1,285</td>
<td>1,689</td>
<td>2,974</td>
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<tr>
<td>Environment &amp; Local Gov.</td>
<td>20</td>
<td>648</td>
<td>37</td>
<td>685</td>
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<tr>
<td>Total</td>
<td>37</td>
<td>2,342</td>
<td>4,029</td>
<td>6,408</td>
</tr>
</tbody>
</table>
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 3rd 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