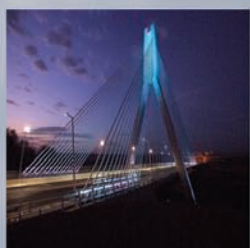


Annual Report 2006



National Development Finance Agency

Moving forward

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**National Development
Finance Agency**

Mr Brian Cowen TD
Tánaiste and Minister for Finance
Government Buildings
Upper Merrion Street
Dublin 2

28 June 2007

Dear Tánaiste

I have the honour to submit to you the Report and Accounts of the National Development Finance Agency for the year from 1 January 2006 to 31 December 2006.

Yours sincerely

Michael J Somers
Chairman

Board Members



Dr Michael J Somers -
(Chairman)



Anne Counihan -
(Chief Executive)



Mr Adrian J. Kearns -
(Chief Executive)

Michael J. Somers (Chairman)
Chief Executive
National Treasury Management Agency

Anne Counihan (Chief Executive)¹
Director of Legal & Corporate Affairs
National Treasury Management Agency

Adrian J. Kearns (Chief Executive)
Director of HR¹
National Treasury Management Agency



Mr Fred Barry



Mr Liam Berney



Ms Ann Fitzgerald

Fred Barry
Chief Executive
National Roads Authority

Liam Berney²
Industrial Officer
Irish Congress of Trade Unions

Ann Fitzgerald
Executive Chairperson
National Consumer Agency



Mr Stewart Harrington



Mr Tony Jones



Mr Peter McManamon

Stewart Harrington
Director
Killeen Properties Limited

Tony Jones
Business Consultant

Peter McManamon
Chairman
Ceva Inc

The Board met on six occasions during 2006.

¹ Anne Counihan – Chief Executive Officer to 9 February 2007.

The Minister for Finance appointed Adrian J. Kearns to the Board on 10 February 2007.

The Board appointed him as Chief Executive Officer on 1 March 2007

² Appointed on 13 November 2006 on a non-statutory basis pending the passing of legislation increasing the size of the Board





I Overview

The National Development Finance Agency (NDFA) provides financial advice to State Authorities undertaking major infrastructure projects since 2003. More recently, its remit has been extended to undertake the procurement and delivery of Public Private Partnership projects outside the local authority and transport sectors. A summary of the role and functions of the NDFA is in Appendix 1.

During the past year there were two significant developments for the NDFA:

- The **National Development Finance Agency (Amendment) Act 2007**, provides for the NDFA to be a centre of expertise for procuring Public Private Partnerships (PPPs).
- The Government launched in January 2007, a new **National Development Plan 2007–2013** involving public investment projects of almost €80 billion. The Plan provides for over €13 billion in PPP funded public investment projects. The financial advice of the NDFA will be sought for all projects valued at more than €20 million, PPP and otherwise.

Substantial progress was made during the year on a wide variety of projects in which NDFA is involved either as financial adviser or procurement authority. These include the Criminal Courts Complex, the National Conference Centre, school building, housing and transport.



II Progress on Projects referred to the NDFA

A. Projects Closed

Justice, Equality & Law Reform Criminal Courts Complex

The Criminal Courts Complex PPP project reached contract close in April 2007 with the Preferred Bidder, Babcock & Brown. This is a €120 million state-of-the-art facility to accommodate all criminal courts currently located in various sites within and around the Four Courts. The building will stand as a landmark civic building whose design and appearance will make a significant contribution to the architecture of Dublin.





II Progress on Projects referred to the NDFA

The Complex will provide:

- 22 courts in circa 25,000 square metre area
- 100 secure holding cells
- Jury assembly area and jury rooms
- Facilities for the public, witnesses, vulnerable witnesses, victims, defendants and the media
- Facilities for the judiciary, barristers and solicitors
- Consultation rooms
- Library
- Accommodation for the Bar Council

The NDFA prepared a financial model for the project and facilitated the risk workshop, both of which were inputs in compiling the public sector benchmark.

There was substantial market interest in this project with eleven Expressions of Interest received in June 2005. Three short-listed tenderers were invited to submit tenders in respect of this Project. Following a comprehensive evaluation process, Babcock & Brown were selected as the Preferred Bidder. The NDFA also managed the financial aspects of the detailed negotiations with Babcock & Brown.

The procurement of the project reached commercial, legal and financial close in April 2007. The complex will be designed, built, operated, maintained and financed by the PPP company. The project is expected to be fully operational in 2009.

II Progress on Projects referred to the NDFA

Arts, Sport & Tourism National Conference Centre



The National Conference Centre PPP project reached contract close in April 2007 with the preferred bidder Spencer Dock International Conference Centre Consortium. This €210 million tourism infrastructure project will be a modern, purpose-designed facility located in Dublin and will help Ireland to reach its full potential in the hugely valuable international conference market. It is being procured by PPP and will provide a landmark building consisting of:

- A main conference auditorium with a minimum capacity of 2,000 delegates in plenary session
- A banqueting hall for 2,000 persons
- An exhibition hall
- A business and communications centre

The Spencer Dock International Conference Centre (SDICC) Consortium (a consortium including Treasury Holdings and John Sisk & Son Limited) was announced as the Provisional Preferred Tenderer for this project in November 2005. The PPP company will be responsible for designing, building, operating, maintaining and financing the Centre.

This was a long and complex procurement and the NDFA provided the financial and risk services required to advance the project through its various stages. The procurement of the project reached commercial, legal and financial close in April 2007.

II Progress on Projects referred to the NDFA

Lansdowne Road



This project is to redevelop the site into a 50,000 capacity all-seater stadium, which will be a world-class sporting facility.

The budgeted cost of the stadium is €365 million. Of this, €191 million is being provided by the State, on foot of which the Government asked NDFA to review the updated revenue projections by the Irish Rugby Football Union and the Football Association of Ireland in respect of the project. The NDFA issued its advice to the Department of Arts, Sport and Tourism in May 2007.

II Progress on Projects referred to the NDFA

Roads



N7 Limerick Southern Ring Road

The N7 Limerick Southern Ring Road PPP scheme achieved financial close with the preferred tenderer, the DirectRoute consortium, in August 2006. The project will incorporate an immersed tube tunnel crossing of the River Shannon. The estimated value of this project is €570 million. DirectRoute is required to design, build, maintain, operate and finance the scheme.

N6 Galway to Ballinasloe

The N6 Galway to East Ballinasloe project extends 57.6 km, commencing in Galway and terminating in Roscommon.

The Invitation to Negotiate tenders were received in May 2006 and on the 13 December 2006 the NRA appointed ICON consortium as the preferred tenderer. Financial close was reached in April 2007.

M3 Clonee / Kells

This project, which includes bypasses of Dunshaughlin, Navan and Kells, involves the construction of a 47 km stretch of motorway, 2 km of dual carriageway and 10 km of single carriageway. The scheme also includes a 3.5 km N52 bypass of Kells and 15 km of link roads.

In September 2006, the NRA appointed EuroLink as the preferred tenderer. The project achieved financial close in April 2007.

II Progress on Projects referred to the NDFA

Environment and Local Government

Social & Affordable Housing

Contracts were signed in respect of two large Social and Affordable housing projects during the past year:

- Jamestown Road – (€45 million) closed in February 2007, the scheme comprises 240 affordable and 60 private houses.
- O'Devaney Gardens (€180 million) reached financial close in February 2007. It is one the largest of the Dublin regeneration projects and comprises 281 social houses, 250 affordable and 292 private houses.







II Progress on Projects referred to the NDFA

B. Significant Projects Advanced

Justice, Equality and Law Reform

Mountjoy Prison Replacement / Thornton Hall Prison

A new prison will be developed at a site at Thornton Hall, County Dublin with the primary objective of replacing a number of outdated prison establishments at the Mountjoy prison complex, Dublin. The project aims to deliver a modern and operationally cost-effective facility which will provide a range of services and living conditions for offenders comparable with international best practice in the penal area.

The facility will provide accommodation initially for 1,400 adult and juvenile male and female offenders. It will incorporate the most advanced technologies, both in terms of security and building control.

This is a design, build, finance and maintain PPP project. Expressions of Interest were received in April 2006 from six domestic and international consortia. Three tenderers were short listed and invited to submit tenders.

Following a competitive tender process, the Leargas consortium, consisting of Michael McNamara & Co, Barclays Private Equity and Global Solutions Limited, was selected as the preferred tenderer in April 2007. Negotiations are in progress with the Leargas consortium. It is anticipated that contract close will be reached in mid to late 2007.

This project was the first in which the NDFA's Template Project Agreement was used as the basis for preparation of the project agreement. To date, the NDFA has also been involved in reviewing the Invitation to Negotiate documentation, hosting the risk workshop (to produce the Risk Allocation Matrix) and preparing the Public Sector Benchmark for the project. The NDFA has also conducted the financial evaluation of the tenders received. Currently, the NDFA is advising on the financial and risk aspects of the negotiation process.

II Progress on Projects referred to the NDFA

Education

PPP Programme – 27 schools €320 million

On 29 September 2005, the Minister for Education & Science announced plans to provide 23 new post-primary schools and 4 new primary schools through PPP from 2006 to 2009.

The NDFA will be responsible for all aspects of delivering the procurement of these projects in consultation with the Department of Education & Science. The NDFA will hand back the projects to the Department once construction is complete and the buildings are ready to be used.

The overall objectives of the Schools Programme are to provide accommodation and facilities for each of the schools which meet the requirements of the Department for the provision of education services to pupils. This includes the delivery of high quality buildings, an aesthetically pleasing internal and external educational environment, affordable and high quality sporting facilities, all of which will represent value for money for the State.





II Progress on Projects referred to the NDFA

First Bundle of Schools

The First Schools Bundle involves the replacement of six existing schools, with four new schools located on three sites, two in Portlaoise and one in each of Ferbane and Banagher, Co Offaly. These schools will provide 2,700 pupil places. The Project will be carried out as a design, build, finance and operate contract with a concession period of 25 years.

On completion of the Public Sector Benchmark and sign-off on all policy issues and project budgets, the Department of Education & Science formally handed the project over to the NDFA on 26 September 2006. On 27 September 2006, the NDFA issued a notice in the Official Journal of the European Union with respect to the project inviting requests from interested parties to be selected to negotiate with a view to entering into the Project Agreement.

Ten submissions were received from the private sector. These were evaluated and three tenderers were short-listed to proceed to the next stage. The following tenderers (listed alphabetically) pre-qualified:

- BAM PPP
- Hochtief / Sisk
- Macquarie Partnerships for Ireland

In March 2007, the NDFA issued the Invitation to Negotiate and Project Agreement to these short listed tenderers. It is intended bid submissions will be received from these tenderers in mid-July 2007. The NDFA expects to complete the competition in accordance with the indicative timetable as set out below.

Date	Task
March 2007	Issued Tender Invitation Documents
July 2007	Submission for Tenders
August 2007	Appointment of Preferred Tenderer
November 2007	Award of Project Agreement



II Progress on Projects referred to the NDFA

Transport – Roads

The NDFA assisted the National Roads Authority (NRA) on the financial aspects of the following projects which are progressing ahead of schedule:

M8 Rathcormac – Fermoy Bypass

DirectRoute (Fermoy) Ltd was awarded the contract to design, build, operate, maintain and finance the N8 Rathcormac–Fermoy Bypass under a PPP. This project opened on 2 October 2006, eight months ahead of schedule.

Portlaoise – Castletown – Culahill

The M7/M8 Portlaoise–Castletown–Culahill PPP road will involve the procurement of sections of the N7 and N8 as a single scheme. The Invitation to Negotiate submissions were received in July 2006 and, following a Best and Final Offer competition, Celtic Roads Group was selected as the preferred tenderer in March 2007. Contract award is planned for Summer 2007.

Transport - Railways

The NDFA assisted the Railway Procurement Agency (RPA) on the financial aspects of the following projects:

Metro North

The 18km Metro North line will connect Swords to Dublin City Centre, serving Dublin Airport and providing an important commuter link on the north side of Dublin. The Metro is a key element in the creation of a fully integrated rail based public transport network as envisaged in Transport 21. It will interchange with the Luas Red and Green lines as well as the DART and suburban rail services.

An extensive public consultation process commenced in February 2006 on the selection of the route for Metro North. In October 2006, the Railway Procurement Agency (RPA) published the selected route for the Metro North Project. In March 2007, the RPA announced the start of procurement for Metro North. The RPA hopes to have short listed the pre-qualified candidates in Summer 2007.

II Progress on Projects referred to the NDFA

The NDFA is assisting the RPA and its Project Board in the financial evaluation of prospective candidates and the preparation of the Public Sector Benchmark.



Luas Extensions

The NDFA continued to provide financial advice on Luas extension projects, as follows:

Luas Line B1

This is a 7.5 km extension of the Luas Green Line from Sandyford to Cherrywood. It is estimated that more than 50% of the capital cost of the extension will be funded from the private sector through a mixture of levies and other contributions, with the balance coming from State funding.

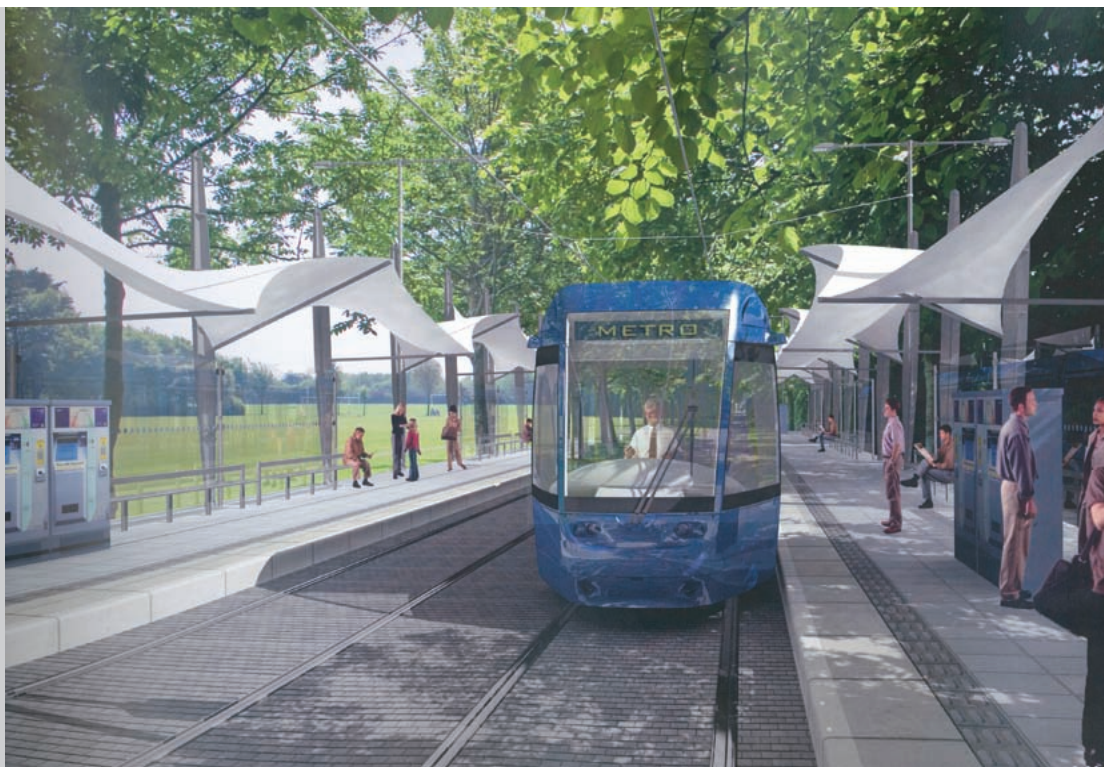
RPA submitted a Railway Order Application in November 2005 followed by a Public Inquiry in March 2006 and the Minister for Transport signed the Railway Order in August 2006. The Railway Order became enforceable in January 2007 and construction of Luas Line B1 has begun.

II Progress on Projects referred to the NDFA

Luas Line C1

This is a 1.5 km extension of the Luas Red Line from Connolly Station to the Point Depot. The cost will be part funded by the collection of levies from developers, with the balance coming from State funding.

The RPA submitted a Railway Order Application in December 2005. A Public Inquiry was conducted in May 2006. The Minister for Transport signed the Railway Order in December 2006 and this became enforceable in February 2007. Plans are currently being made to start the construction of Luas Line C1.





II Progress on Projects referred to the NDFA

C. Significant Projects initiated

Environment and Local Government

Social & Affordable Housing



The NDFA is currently advising Dublin City Council, South Dublin County Council, Kildare County Council, Sligo Borough Council and the Affordable Housing Partnership on the financial aspects of a number of housing projects, which are at various advanced stages of procurement and have been a major success.

The housing projects involve the regeneration of both the social and physical needs of the areas involved and provide new social and affordable housing accommodation with high quality community facilities for the residents. The success of the Fatima Mansions pilot project under Dublin City Council has led to an increase in other councils adopting the PPP method of procurement for redeveloping existing areas as well as developing new sites.

Regeneration projects involve the replacement of older dwellings by greatly enhanced social and affordable homes supported by community facilities including community halls, health centres, crèches, sports facilities, open spaces and transport connections. In return for the opportunity to develop these areas, the private sector developer is allowed to build and sell an agreed number of private homes at market value. In line with Government policy, these projects are being procured in aggregate on a budgetary neutral basis.



II Progress on Projects referred to the NDFA

In November 2006, Dublin City Council, the Department of Environment, Heritage and Local Government and the NDFA hosted an Open Evening for the Dublin City Council Regeneration Projects in City Hall to highlight to the market the extensive pipeline of projects within Dublin City Council. This was very well attended from the construction and development market and responses to bid for the projects has remained strong.

In February 2007, Dublin City Council signed contracts to redevelop O'Devaney Gardens and the development of Jamestown Road. These combined projects will provide over 280 improved social homes, nearly 500 affordable homes and 350 private units supported by community and sports facilities.

In O'Devaney Gardens, Dublin City Council and the O'Devaney Regeneration Board undertook an intensive public consultation process with the local residents, residents from neighbouring communities and local service providers throughout the process to agree designs for the regeneration of the area which originally held 276 flats in 13 blocks. The new O'Devaney Gardens will have social, affordable and private housing alongside a 2,000 square metre Community Building with a rooftop football pitch, a crèche and a youth facility.

The current 'live' projects on which NDFA is currently advising in the housing sector has a combined total value of some €2.75 billion and will involve the creation in total of over 1,700 new social and 2,100 new affordable homes.

To date, Dublin City Council has taken the lead in the provision of social and affordable housing in Ireland. As outlined over in Table 1, they have closed four projects with developers and these are currently in construction. The Council also has an extensive pipeline of projects currently in the market, as set out in Table 2.

II Progress on Projects referred to the NDFA

Table 1: Housing projects that have closed in Dublin City Council

Project	Social	Affordable	Private	Status
Fatima Mansions	150	70	396	The Elliot/Moritz consortium was awarded the contract in June 2004 and the first occupants of the social housing moved in October 2005.
Infirmity Road	-	160	40	Michael McNamara & Co Ltd was awarded the contract December 2005.
O'Devaney Gardens	281	250	292	The Michael McNamara & Co/Castlethorn Consortium was awarded the contract in February 2007.
Jamestown Road	-	240	60	Contract signed with P Elliot in February 2007.

Table 2: Dublin City Council Housing Projects in Procurement

Project	Social	Affordable	Private	Status
St Michael's Inchicore	150	75	480	Preferred Bidder was appointed in January 2007 and contract close is scheduled for early Summer 2007.
Dominick Street	120	-	190	Preferred Bidder approved by Project Board in April 2007.
Bridgefoot Street	-	50	135	Bids were received in April 2007.
Croke Villas	38		100	Tender documents issued to short listed tendering parties in May 2007.
St Teresa's Gardens	300	100	300 (nursing units)	Tender documents issued to short listed tendering parties in May 2007.
Mountainview Court	10	40	40	Expressions of Interest received for this project in May 2007.

II Progress on Projects referred to the NDFA

Arts, Sport and Tourism

National Concert Hall

The National Concert Hall is one of the State's most important cultural institutions, and is the home of the RTÉ National Symphony Orchestra. The Government has approved the redevelopment of the National Concert Hall, by way of PPP, to provide for a new 2,000 seat concert auditorium; refurbishment and enhancement of the existing auditorium with a capacity of around 1,100 persons; and a new hall with a capacity of 400 persons.

The NDFA is responsible for financial advice to the Department of Arts, Sport and Tourism on the project and is also responsible for its procurement.

Following acquisition of the site at Earlsfort Terrace at the end of 2006, the project team structures have been established by the Department in conjunction with the NDFA and the Office of Public Works (OPW). Work is currently in hand by the Department and OPW in preparing the project documentation required prior to handover to the NDFA for the procurement and delivery stages.





II Progress on Projects referred to the NDFA

New National Theatre of Ireland - Abbey Theatre Redevelopment

Following the Government decision that the new National Theatre of Ireland – to house the Abbey Theatre – will be located on the site provided by the Dublin Docklands Development Authority at George's Dock, the project team structures have been established for this important national cultural project.

As part of its decision, the Government has decided that the redevelopment project is to be procured by means of a PPP. The procurement includes the incorporation of a separate international design competition that is to be managed by the Office of Public Works on behalf of the Department of Arts, Sport and Tourism.

The new development will incorporate a new larger playhouse with full facilities, a second smaller theatre (the “Peacock”) and a studio theatre, providing flexibility of configuration of stage and seating. There will be improved public facilities as well as accommodation for the Abbey Theatre, including much-improved space for rehearsal rooms, storage, workshops and administrative office.

The NDFA will be responsible for all aspects of the procurement of the new theatre up to the point of delivery. The NDFA is also responsible for the provision of financial, risk and insurance advice to the Department of Arts, Sport and Tourism for the PPP procurement.

II Progress on Projects referred to the NDFA

Education & Science

Second Bundle of Schools

On 21 November 2006, the Minister for Education and Science announced the second bundle of schools that will be delivered as part of the Department's Schools PPP Programme 2006-2009. This second project bundle will consist of six schools on five sites and for the first time will include a primary and post-primary school sharing a single campus. These schools will provide over 4,000 pupil places.

A Project Board has been formed for the second bundle and pre-procurement work has commenced in order to bring the project to market in 2007.

It is anticipated that the Department of Education & Science will announce the third bundle by end-2007. All bundles will be run in parallel.



II Progress on Projects referred to the NDFA

Third Level - €255 million

Work has commenced on preparing a large programme of Third Level accommodation projects worth some €255 million. The NDFA will also procure and deliver these projects using the Public Private Partnership (PPP) model.

The use of PPPs to deliver schools and colleges will result in innovative designs and accommodation and will free up principals' and teachers' time to concentrate on teaching.



UCD Gateway Project

In December 2006, UCD launched an architectural competition to develop an internationally recognisable signature image for the Belfield campus. The winning design is expected to be announced mid 2007.

In conjunction with the architectural competition, UCD has commenced a process to acquire a commercial partner who will develop the winning design, which will incorporate a mixed-use development. In addition to a multi-storey car-park, these uses range from new student residential accommodation, university retail uses, medical centre, crèche facility, exhibition centre, offices, art-house cinema/film studies facility, hotel with a spa facility, aparthotel suites, a campus reception/welcome facility and other university executive office and meeting rooms.

In addition to the above, a major new road network, entry regime and significant infrastructural changes are also proposed as part of the development.

The NDFA is lead financial adviser to UCD and is assisting the Project Board in the preparation of a Public Sector Benchmark.



III The National Development Plan (NDP)

Total investment in infrastructure under the NDP and the Multi-Annual Investment Framework over the next seven years (2007-2013) is budgeted at €76.2 billion. Of the €76.2 billion, approximately €11.2 billion will be funded by the private sector via PPPs based on availability payments. These are PPPs funded by the State rather than by user charges to the public, such as road tolling. €1.9 billion has been allocated for PPPs funded by user charges.

There is no limit on projects undertaken by means of PPP where the PPP can be funded entirely by user charges. The Plan acknowledges that PPPs will have an important role to play in its delivery in respect of projects of the right scale, risk and operational profile. The NDFA expects to be responsible for the procurement to delivery stage of all PPP projects that are to be funded by unitary payments from Departmental/Agency Votes other than those procured in the transport sector and by local authorities.

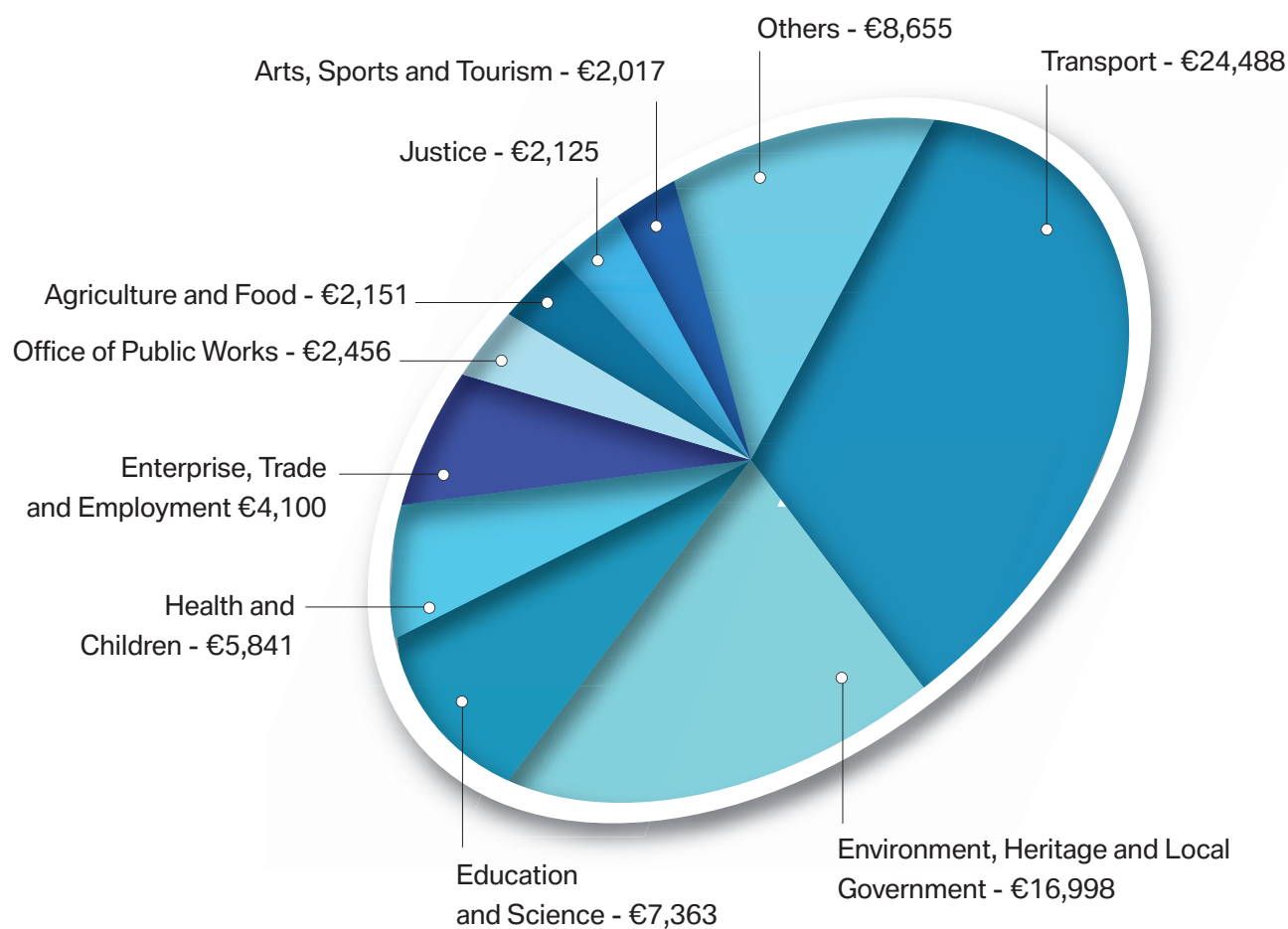
Multi-Annual Capital Investment Framework 2007 – 2013

	€ Million
Transport	24,488
Environment, Heritage & Local Government	16,998
Education & Science	7,363
Health & Children	5,841
Enterprise, Trade & Employment	4,100
Office of Public Works	2,456
Agriculture & Food	2,151
Arts, Sport & Tourism	2,017
Justice Equality & Law Reform	2,125
Others	8,655
Total	76,194

Source: National Development Plan 2007 - 2013

III Multi-Annual Capital Investment Framework 2007 - 2013

Summary Chart of Expenditure by Department (€m)



Given the increasing level of capital expenditure by the State, the NDFA will have a key role in providing advice to the State Authorities on the procurement and optimal financing of projects.



IV NDFA Board

The Board of the NDFA

The Board of the NDFA was extended by the addition of three ordinary Board members under the amending legislation enacted in April 2007. The Board consists of a Chairman and seven ordinary members.

The ex-officio Chairman is the Chief Executive of the National Treasury Management Agency. The Minister for Finance appoints the ordinary members for a five-year term. The Board appoints one of its members, other than the Chairman, to be Chief Executive Officer of the NDFA. In February 2007, Anne Counihan resigned from the Board of the NDFA and as Chief Executive. On 10 February 2007, the Minister appointed Adrian J. Kearns, a Director of the National Treasury Management Agency, to the Board to replace Ms Counihan. On 1 March 2007, the Board elected Adrian J. Kearns as Chief Executive.

Pending the enactment of the amending legislation, two new Board members were appointed, on a non-statutory basis, by the Minister for Finance in November 2005 and one in November 2006. The new Board members were: Fred Barry, the Chief Executive of the National Roads Authority; Stewart Harrington, a Director of Killeen Properties Limited; and Liam Berney, Industrial Officer with the Irish Congress of Trade Unions. The expansion of the Board recognises the increased role and responsibilities of the NDFA in infrastructure development in Ireland.

The Chairman and the Chief Executive Officer of the NDFA are required to give evidence to the Committee of Public Accounts of Dáil Éireann. Such evidence covers the regulation and propriety of all transactions of the NDFA, the cost-effectiveness and efficiency of the NDFA, and the systems, procedures and practices employed by the NDFA. Evidence was given to the Committee on 9 March 2006.

The Chief Executive and the Board would like to express their appreciation for the efforts of all staff involved in the NDFA's operations.





Appendix 1

National Development Finance Agency – Role and Functions

The NDFA was established in January 2003 to provide financial advice to State Authorities undertaking major infrastructure projects, whether by means of Public Private Partnerships (PPPs) or traditional procurement.

In undertaking this work, the NDFA must comply with all Ministerial guidelines and instruction. Before providing advice, the NDFA must have regards to ministerial policy directions and policy guidelines issued to State Authorities.

The NDFA's role in delivering major capital programmes is to enable the Government to apply commercial standards in evaluating financial risks, costs and options associated with projects thereby ensuring that the best financing package is availed of in each instance.

Prior to the establishment of the NDFA, there was no established project finance expertise available to the Government. Instead, groups of consultants and other experts were brought together to advise on individual projects. On completion of each project, the project team was discontinued and the body of knowledge, including its expertise within the public service, was largely lost.

State Authorities are obliged to seek the NDFA's advice on all financial issues arising from any project, or group of projects, with a capital value in excess of €20 million.

The NDFA has the legal authority to borrow and advance up to €5 billion in respect of projects approved by any State Authority, to form companies for the purposes of financing a public investment project and to advance moneys to such companies. So far it has not been required to provide funding directly.

In July 2005, the Government established a "Centre of Expertise" within the NDFA to undertake the procurement and delivery of projects initially on behalf of the Departments of Health & Children, Justice, Equality & Law Reform and Education & Science.

This initiative is aimed at supporting the delivery of PPPs for capital infrastructure projects, by consolidating the skills and capacity required to support PPP procurement. The NDFA has been carrying out this new role on an interim, non statutory basis since July 2005. The NDFA is responsible for the procurement of new PPP projects in the Central Government area that will be paid for directly from the Exchequer, and for handing them over to the relevant Minister when the project asset has been delivered.



Appendix 1

National Development Finance Agency – Role and Functions

The first projects referred to the NDFA Centre of Expertise were from the Education and Science area. The NDFA is in the process of procuring, in accordance with the Department of Education and Science's plans, 23 new post-primary schools and four new primary schools through PPP.

The governing legislation for the expansion of the NDFA was enacted on 10 April 2007 as the National Development Finance Act (Amendment) Act 2007, confirming the role of the NDFA as the PPP Centre of Expertise for the State.

In parallel with this, the remit of the of the Centre of Expertise has been extended to include a wider range of State Authorities: for example, in early 2007 the Centre of Expertise commenced pre-procurement work on behalf of the Department of Arts, Sport & Tourism for the National Concert Hall and Abbey Theatre.

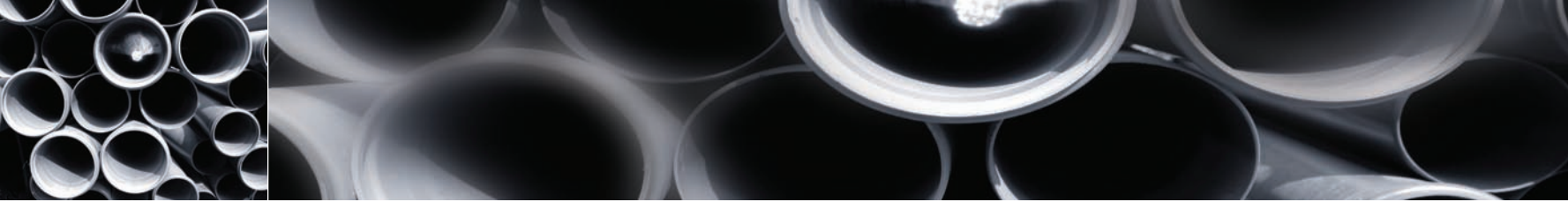
The Act also increases the number of Board members of the NDFA from a Chairperson and four ordinary members to a Chairperson and seven ordinary members.

In view of the new procurement responsibilities assigned to the NDFA under the Act, a technical project management group has been established as a new function within the NDFA that will take the lead on project delivery once it has been handed over to the NDFA by the relevant State Authorities. This new function complements the financial and risk advisory functions already established within the NDFA.

Centre of Expertise Projects

The relevant State Authorities retain responsibility for all aspects of the assessment and approval of each project, including the decision on the procurement method and finalisation of consultations with all key stakeholders. The NDFA undertakes the procurement of a project after all policy issues are cleared, output specifications are set and the Public Sector Benchmark and budget for the project has been signed off by the State Authority. The NDFA continues to act as financial and risk advisers to State Authorities during the appraisal and planning stages.

In fulfilling its new role as a procuring authority, the NDFA will coordinate the management of the Centre of Expertise projects through its project management group. The NDFA is continuing to build up its resources and expertise in technical project management in line with increases in the number of projects handed over to it for procurement. In addition, the NDFA also hires expertise as required for additional legal, technical, planning and evaluation services on a project-by-project basis to assist in the efficient delivery of these projects.



Appendix 1

National Development Finance Agency – Role and Functions

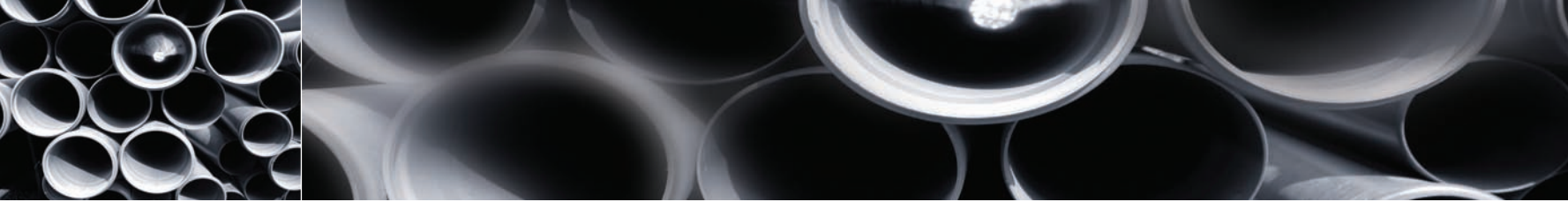
The project management group will coordinate the technical, financial and legal inputs that contribute to the procurement, the construction monitoring and the handback phases of the PPP project, and will maintain the NDFA's ongoing liaison with the State Authority, in keeping with the NDFA's policy of close co-operation and information exchange with the sponsoring Department, Office or Agency.

- financial, risk and insurance advice
- preparing contract documents
- going to tender for the project
- pre-qualification of bidding consortia
- evaluation of tenders
- selection of preferred bidders
- contract negotiations
- signing the contracts on behalf of the Government Department
- monitoring the construction of the project
- administering the contract to “turnkey stage” and hand-back over a staged transition period to the Sponsoring Agency

Miscellaneous advice

The NDFA may also give once-off advice, on request, in respect of existing infrastructure facilities. For example, following a request from the Department of Finance, the NDFA reviewed financing arrangements for an outstanding loan in respect of the Midlands prison in Portlaoise. In accordance with the NDFA's advice, a new financing package was put in place in December 2006, leading to an Exchequer saving of approximately €0.8 million.

In performing its duties, the NDFA is required to have due regard to the guidance and directions issued by the Minister for Finance in relation to the financing and procurement of public investment projects, in particular *the Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector* (2005), *the National Procurement Policy Framework* (2005), *the Guidelines for the Provision of Infrastructure and Capital Investments through Public Private Partnerships* (2006) and *the Framework for Public Private Partnerships* (2001).



Appendix 2

Template Project Agreement and Standardisation of Documents

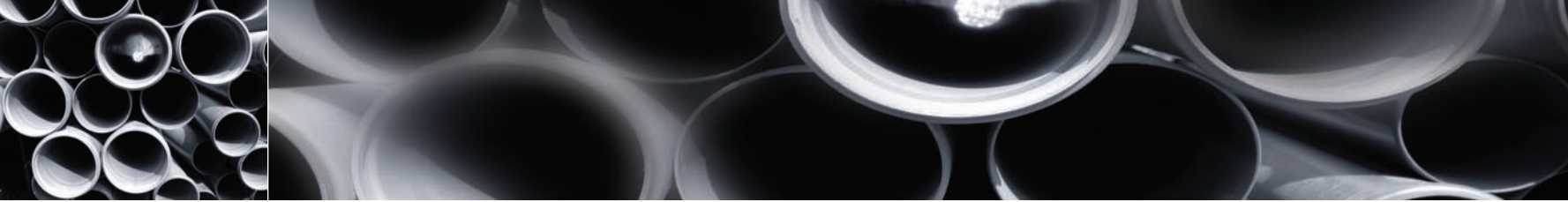
During 2006, the NDFA published its Template PPP Project Agreement in respect of accommodation projects involving unitary payments from the exchequer.

The Template Project Agreement includes a Risk Allocation Matrix specifying which risks are transferring entirely to the private sector, which risks remain with the State and which risks are shared. Each risk is allocated to the party best able to manage it thus ensuring optimum Value for Money on each project for the State. For example, where a finalised deal is being refinanced on more favourable financing terms, the allocation of savings made between the public and private sectors have historically been the subject of protracted negotiations and the State has not always received the optimal share of savings. The Template Project Agreement provides that the State should always receive a minimum of 50% of any such savings.

The document has been welcomed by both private and public sector as it represents a fair and commercial allocation of risk between the parties, representing value for money for the State and a manageable deal for the private sector. Standardisation of such complicated documentation has many benefits:

- it represents the commercial arrangement that the State is prepared to enter into and the private sector is prepared to accept;
- it reduces the need for negotiation on relatively settled issues and therefore reduces bidding time and costs;
- it reduces the amount of time and cost involved in banks' due diligence as they become familiar with the document.

A key sign that a PPP market is reaching maturity is the development of standard documentation. The NDFA is continuing to standardise other documentation such as the guidelines for the preparation of the Output Specifications and Prequalification and Invitation to Tender documents. It intends to publish these documents in 2007.

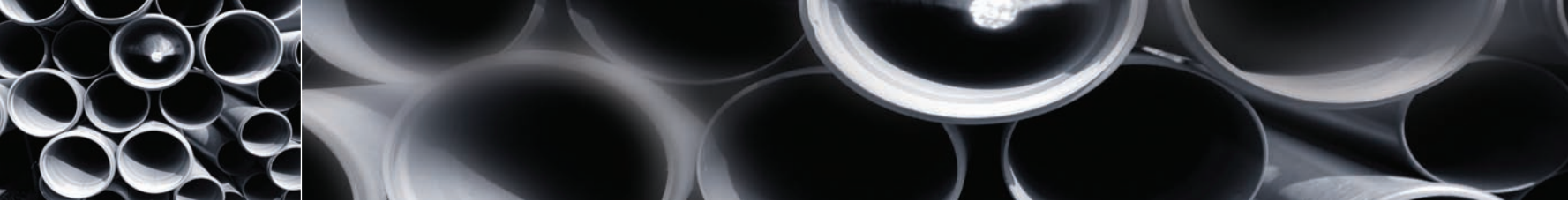


Appendix 3

The following is a list of the State Authorities that currently are obliged to consult the NDFA under the National Development Finance Agency (Amendment) Act 2007, in respect of major public investment projects. The list has been extended since the Act was passed and may be further extended by the Minister for Finance.

State Authorities as listed in the Schedule to the NDFA (Amendment) Act 2007:

1. A Minister of the Government
2. A local authority
3. The Commissioners of Public Works in Ireland
4. The National Roads Authority
5. The Health Service Executive
6. A university within the meaning of the Universities Act 1997, other than Trinity College and the University of Dublin
7. The Dublin Institute of Technology
8. A college within the meaning of section 2 of the Regional Technical Colleges Act 1992
9. A vocational education committee within the meaning of section 7 of the Vocational Education Act 1930
10. Courts Service
11. A harbour authority within the meaning of the Harbours Acts 1946 to 1976
12. Bus Átha Cliath – Dublin Bus
13. Bus Éireann – Irish Bus
14. Córas Iompair Éireann
15. The Railway Procurement Agency
16. Digital Hub Development Agency
17. Any public authority standing prescribed by order under section 22



Financial Statements

The NDFA provides advice to State Authorities on the procurement, delivery and financing of projects. However, these projects remain on the balance sheet of the relevant Department and do not appear in the NDFA's accounts. The allocations for the relevant Departments for PPP projects are found above in the multi-annual allocations.

Section 20 of the National Development Finance Agency Act, 2002 obliges it to keep, in such form, as may be determined by the Minister for Finance, all proper and usual accounts. The accounts have to include a separate account of the administration fees and expenses incurred by the NDFA in the performance of its functions. However, as explained above, the staff who work on NDFA matters are exclusively employed by the National Treasury Management Agency.

The administration expenses incurred by the NDFA in 2006 and 2005 are as follows:

	2006	2005
	€	€
Fees & Expenses of Board	71,859	32,128
Audit Fees	5,500	4,800
	<u>77,359</u>	<u>36,928</u>

In addition to the above expenses, the administrative costs incurred by the National Treasury Management Agency in the performance of the NDFA's functions in 2006 amounted to €3,078,733 (2005: €2,758,892). These costs are included in the administration expenses of the National Treasury Management Agency and are charged on the Central Fund. The NTMA does not seek reimbursement of these costs from the State Authorities.

Financial Statements of the National Development Finance Agency for the Year Ended 31 December 2006

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Statement on the System of Internal Financial Control	39
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Board Members and Other Information

BOARD MEMBERS

Michael J. Somers – Chairman
Anne Counihan* - Chief Executive Officer
Adrian J. Kearns* – Chief Executive Officer
Fred Barry***
Liam Berney**
Ann Fitzgerald
Stewart Harrington***
Tony Jones
Peter McManamon

AUDITORS

Comptroller & Auditor General
Dublin Castle
Dublin 2

* Anne Counihan served as Chief Executive Officer to her retirement from the Board on 9 February 2007.
Adrian J. Kearns was appointed Chief Executive Officer on 1 March 2007.

** Appointed on 13 November 2006, on an interim non-statutory basis, appointed on statutory basis on 2 May 2007.

*** Appointed on 23 November 2005, on an interim non-statutory basis, appointed on statutory basis on 2 May 2007.

833.22	-3.21	(0.99%)
8,212.30	-0.32	(5.32%)
3.00	+9.73	(0.02%)
83.12	+2.09	(1.87%)
63.98	+9.32	(1.56%)
234.22	+0.32	(0.32%)
2.32	-0.21	(3.10%)
24.13	+3.33	(0.32%)
74.75	+0.32	(2.23%)
89.43	+4.10	(1.93%)

Statement of Agency Responsibilities

The Agency is required by the National Development Finance Agency Act, 2002 to prepare financial statements in respect of its operations for each financial year.

In preparing those statements, the Agency is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate;
- disclose and explain any material departure from applicable accounting standards.

The Agency is responsible for keeping in such form as may be approved by the Minister for Finance all proper and usual accounts of all moneys received or expended by it and for maintaining accounting records which disclose with reasonable accuracy at any time the financial position of the Agency.

The Agency is also responsible for safeguarding assets under its control and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Michael J. Somers
Chairman
National Development Finance Agency



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

26 June 2007

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Statement on the System of Internal Financial Control

Responsibility for system of Internal Financial Control

On behalf of the National Development Finance Agency (“the NDFA”), we acknowledge the responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

Key Control Procedures

In accordance with Section 11 of the National Development Finance Agency Act, 2002 the NDFA performs its functions through the National Treasury Management Agency (the Agency).

The Agency has taken steps to ensure an appropriate control environment by:

- clearly defining management responsibilities;
- establishing formal procedures for reporting significant control failures and ensuring appropriate corrective action.

The Agency has established processes to identify and evaluate certain risks by:

- identifying the nature, extent and financial implication of risks facing the Agency including the extent and categories which it regards as acceptable;
- assessing the likelihood of identified risks occurring;
- assessing the Agency’s ability to manage and mitigate the risks that do occur;
- assessing the costs of operating particular controls relative to the benefit obtained.

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Statement on the System of Internal Financial Control

Key Control Procedures (continued)

The system of internal financial control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

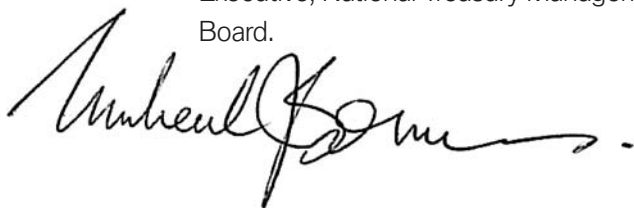
- a comprehensive budgeting system for the administration costs of the Agency ;
- regular reviews of periodic and annual financial reports which compare financial performance against forecasts;
- setting targets to measure financial and other performance;
- formal management disciplines.

The Agency has an internal audit function, which operates in accordance with the Framework Code of Best Practice set out in the Code of Practice on the Governance of State Bodies. The work of internal audit is informed by analysis of the operational risks to which the Agency is exposed, and annual internal audit plans are based on this analysis. At least annually, the Internal Auditor provides the Agency with a report of internal audit activity. The report includes the Internal Auditor's opinion on the adequacy and effectiveness of the system of internal financial control.

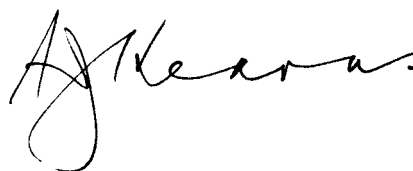
The Agency's monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the internal auditor (currently PricewaterhouseCoopers), the executive managers within the Agency who have responsibility for the development and maintenance of the financial control framework, and comments made by the Comptroller and Auditor General in his management letter or other reports.

Annual Review of Controls

For the year ended 31 December 2006, the Internal Auditor has conducted a review of the effectiveness of the system of internal financial controls and has reported this to the Chief Executive, National Treasury Management Agency who is also the Chairman of the NDFA Board.



Michael J. Somers
Chairman
National Development Finance Agency



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

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Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

I have audited the financial statements of the National Development Finance Agency for the year ended 31 December 2006 under the National Development Finance Agency Act 2002.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Accounting Policies, the Income and Expenditure Account, the Administration Account, the Balance Sheet and the related notes.

Respective Responsibilities of the Agency and the Comptroller and Auditor General

The Agency is responsible for preparing the financial statements in accordance with the National Development Finance Agency Act 2002, and for ensuring the regularity of transactions. The Agency prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Agency are set out in the Statement of Agency's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

I review whether the Statement on Internal Financial Control reflects the Agency's compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

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Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Agency's affairs at 31 December 2006 and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by the Agency. The financial statements are in agreement with the books of account.



John Purcell
Comptroller and Auditor General

28 June 2007

833.22	+3.21	(0.99%)
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Accounting Policies

Background

The National Development Finance Agency (the “NDFA”) was established by order of the Minister for Finance on 1 January 2003 under the National Development Finance Agency Act, 2002.

In July 2005, the Government decided to centralise in the NDFA all the procurement delivery skills needed for Public Private Partnership (“PPP”) project procurement in designated areas, initially commencing with a programme of PPP projects in the Justice, Health and Education areas. The NDFA will be given a mandate to procure the projects on behalf of the designated State authorities (with input from the sponsoring Government Department to extent considered necessary) and to hand them over to the relevant Government Department after construction is complete. The NDFA will undertake the procurement after all policy issues are cleared, output specifications are set and the Public Sector Benchmark for the project has been signed off by the sponsoring Government Department. Legislation to assign these additional functions to the NDFA was enacted on 10th April 2007.

The significant accounting policies adopted in respect of the National Development Finance Agency are as follows: -

Basis of Preparation

The financial statements have been prepared in accordance with the National Development Finance Agency Act, 2002 in a format approved by the Minister for Finance.

The financial statements summarise the transactions and financial position of the National Development Finance Agency.

Reporting Period

The reporting period is the year ended 31 December 2006.

Reporting Currency

The reporting currency is the euro, which is denoted by the symbol €.

Income Recognition

Income is accounted for on an accruals basis.

Expenses

Expenses are accounted for in the year in which they fall due.

Expenses incurred in respect of the administration of the Agency are charged to the Administration account.

Fees and expenses incurred in respect of the Agency’s financing and advisory functions are charged to the Income and Expenditure account.

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74.75	+0.32	(2.23%)
89.43	+4.10	(1.93%)

Income and Expenditure Account

for the year-ended 31 December 2006

	Notes	2006 €	2005 €
Income	1	77,359	36,928
Transfer to Administration Account	2	<u>(77,359)</u>	<u>(36,928)</u>
Net Income for the period		<u>-</u>	<u>-</u>



Michael J. Somers
Chairman
National Development Finance Agency



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

26 June 2007

The statement of accounting policies and notes 1 to 9 form part of these accounts.

Administration Account

for the year-ended 31 December 2006

	Notes	2006 €	2005 €
Transfer from Income & Expenditure Account	2	77,359	36,928
Administration expenses of Agency	3	<u>(77,359)</u>	<u>(36,928)</u>
Net income\expenditure)		<u>Nil</u>	<u>Nil</u>



Michael J. Somers
Chairman
National Development Finance Agency



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

26 June 2007

The statement of accounting policies and notes 1 to 9 form part of these accounts.

Balance Sheet

31 December 2006

	Notes	2006 €	2005 €
Assets			
Debtors	4	<u>26,026</u>	<u>4,800</u>
Liabilities			
Creditors	5	<u>26,026</u>	<u>4,800</u>
Total Assets less Liabilities		<u>Nil</u>	<u>Nil</u>
Representing			
Accumulated Reserves	6	<u>Nil</u>	<u>Nil</u>



Michael J. Somers
Chairman
National Development Finance Agency



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

26 June 2007

The statement of accounting policies and notes 1 to 9 form part of these accounts.

Notes to the Accounts

1. Income

	2006	2005
	€	€
Central Fund	<u>77,359</u>	<u>36,928</u>

2. Transfer to Administration Account from Income & Expenditure Account

This amount of €77,359 represents the amount required to cover the administration costs of the Agency.

3. Administration Expenses

The Administration expenses of the Agency are detailed below on an accruals basis:

	2006	2005
	€	€
Fees & Expenses of Board	71,859	32,128
Audit Fees	<u>5,500</u>	<u>4,800</u>
	<u>77,359</u>	<u>36,928</u>

In addition to the above expenses, the administrative costs incurred by the National Treasury Management Agency in the performance of the NDFA's functions amounted to € 3,078,733 (2005 € 2,758,892). These NTMA costs are included in the administration expenses of the National Treasury Management Agency and are charged on the Central Fund. The NTMA does not seek reimbursement of these costs from the State Authorities.

Notes to the Accounts

4. Debtors

	2006	2005
	€	€
Central Fund	26,026	4,800

5. Creditors

	2006	2005
	€	€
Accrued Expenses	26,026	4,800

6. Accumulated Reserves

	2006	2005
	€	€
Net income for the period	-	-
Closing balance	Nil	Nil

7. Contingent liabilities

The National Development Finance Agency had no contingent liabilities at 31 December 2006.

8. Related parties

Minister for Finance

The members of the Board of the National Development Finance Agency as given on page 37, were appointed by the Minister for Finance under section 12 of the Act or on an interim non-statutory basis pending the amendment of the Act.

Under section 7 of the Act the Minister may guarantee the repayment of borrowings of the Agency or any special purpose company formed by the Agency in the performance of its activities. No such guarantees have been given during the period.

9. Approval of Financial Statements

The financial statements were approved by the Board on 21 May 2007

National Development Finance Agency

Treasury Building
Grand Canal Street
Dublin 2
Ireland

Telephone 353 1 664 0800

Facsimile 353 1 676 6582

Email info@ndfa.ie

Web www.ndfa.ie



**National Development
Finance Agency**