



ANNUAL REPORT 2007



National Development Finance Agency

BUILDING THE FUTURE

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**National Development
Finance Agency**

Mr. Brian Lenihan TD
Minister for Finance
Government Buildings
Upper Merrion Street
Dublin 2

27 June 2008

Dear Minister

I have the honour to submit to you the Report and Accounts of the National Development Finance Agency for the year from 1 January 2007 to 31 December 2007.

Yours sincerely

Michael J Somers
Chairman

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BOARD MEMBERS



Dr Michael J. Somers
(Chairman)



Anne Counihan
(Chief Executive)



Mr Adrian 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 Kearns (Chief Executive)²

Director of HR
National Treasury Management Agency



Mr Fred Barry



Mr Liam Berney



Ms Ann Fitzgerald

Fred Barry

Chief Executive
National Roads Authority

Liam Berney

Industrial Officer
Irish Congress of Trade Unions

Ann Fitzgerald

Chief Executive Officer
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 four occasions during 2007.

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

² The Minister for Finance appointed Adrian Kearns to the Board on 10 February 2007. The Board appointed him as Chief Executive Officer on 1 March 2007.



OVERVIEW

The National Development Finance Agency (NDFA) has been providing financial advice to State Authorities undertaking major infrastructure projects since 2003. To date, a total of 121 projects have been referred for financial advice to the NDFA. It has completed its advice on 38 projects with a combined capital value of €6 billion, 21 of which are Public Private Partnerships (PPPs).

More recently, its remit was extended to undertake the procurement and delivery of PPPs in all sectors apart from transport and local government. Essentially, the NDFA's purpose is to provide a central and enduring professional expertise to State Authorities for public infrastructure projects. A summary of its role and functions is in Appendix 1.

During 2007, there were a number of significant developments for the NDFA:

1 Following the passing of the National Development Finance Agency (Amendment) Act 2007, which gave statutory authority for the establishment of a **centre of expertise** for procuring PPPs, the pace of referral of PPP projects to NDFA has quickened – as has progress with the projects themselves. In response to its extended role as procuring authority, a technical project management group has been established within the NDFA to manage all aspects of procurement within its remit.

The technical project management group is responsible for coordinating all inputs that contribute to the procurement, construction monitoring and the hand-back phases of the PPP project. It maintains the NDFA's ongoing liaison with the State Authorities in keeping with the NDFA's policy of close co-operation and information exchange with the sponsoring Department. Organised along sector lines, this group has already been successful in attracting to it experienced and professional project managers drawn largely from the private sector.

This new function complements and works in conjunction with the financial and risk advisory functions already established within the NDFA.

2 In 2007, NDFA completed its advice in relation to ten projects:

- Criminal Courts Complex
- National Conference Centre (Convention Centre Dublin)
- Lansdowne Road
- O'Devaney Gardens
- Spencer Dock Social and Affordable Housing
- Wexford County Council Loan

- M50 Extension
- M3 Clonee – Kells
- N6 Galway – Ballinasloe
- N7/N8 Portlaoise – Cullahill

These projects have a combined capital value of €2.6 billion. During the past twelve months or so, some of the larger projects have made a significant visual impact on the Dublin skyline. The Convention Centre Dublin at Spencer Dock occupies a commanding position on the quays. The Criminal Courts Complex is already a growing landmark at the entrance to the city from the Phoenix Park and the rapid progress in the redevelopment of Lansdowne Road Stadium is increasingly obvious.

3 The NDFA continues to provide financial advice on a number of high profile projects. Among these are Thornton Hall Prison, Metro North, Metro West and Motorway Service Areas on the M1 and M4. In addition, the NDFA is working closely with Dublin City Council and other local authorities on a number of social and affordable housing regeneration schemes, as well as a number of projects in the waste and water sectors.

4 At end of October 2007, the Minister for Finance issued Guidelines to all Government Departments and Agencies regarding the role of the NDFA in the light of the recent NDFA legislation. This Guidance provides an operational framework in which State Authorities can engage with the NDFA in respect of all projects valued over €30 million.

5 In October 2007, the NDFA updated its Template Project Agreement for PPP accommodation type projects. The update reflects developments in the insurance sector and brings the Template Project Agreement in line with current market practice.



PROGRESS ON PROJECTS WHERE NDFA ACTS AS PROCURING AUTHORITY & FINANCIAL ADVISER

Education PPP Programme

Schools PPP Programme: Overview

Plans to provide 23 new post-primary schools and 4 new primary schools through PPP were announced by the Minister for Education & Science in 2006. The NDFA is providing financial advice and is responsible for all aspects of delivering the procurement of the individual projects within this €320 million programme.

The overall objective of the programme is to provide accommodation and facilities which meet the requirements of the Department of Education & Science for the provision of – mainly second-level – education services. 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.

First PPP Bundle of Schools

The First Schools Design Build Finance and Maintain (DBFM) PPP Bundle involves the replacement of six existing schools with four new schools located on three sites: in Portlaoise; Ferbane; and Banagher, Co Offaly. These schools will provide 2,700 pupil places. Having initiated the competition through the Official Journal of the European Union (OJEU) in September 2006, three consortia were invited to submit tenders. The NDFA appointed Macquarie Partnerships for Ireland as the preferred bidder in October 2007. Planning submissions were submitted to both Laois and Offaly County Councils in April 2008 and the contract is expected to achieve financial close in the late summer.

The NDFA will be responsible for the administration of the design and build phase of the PPP contract prior to handing back the finished schools to the Department of Education & Science.

Second PPP Bundle of Schools

A second bundled PPP contract comprising six schools (including one primary school) has been referred to the NDFA by the Department and was released to the market in May 2008. Outline Planning Permission has already been secured on the five sites for:-

- Bantry Community College, Co Cork
- Gaelscoil Bheanntai, Co Cork
- Kildare Town Community School, Co Kildare
- Abbeyfeale Community College, Co Limerick
- Athboy Community School, Co Meath
- Wicklow Town Community College, Co Wicklow

These schools will provide over 4,000 pupil places. This project will be one of the first to be procured by the NDFA using the new competitive dialogue procedure provided for within the most recent EU Directive on public procurement. It is the Agency's expectation that the use of this procedure will reduce the sometimes protracted negotiation stage that can occur under the negotiated procedure that was previously used for PPP procurements.

Following publication of the notice in the OJEU on 20 May 2008, inviting expressions of interest in the project, it is expected that a short-list of three consortia selected to receive tender documents will be announced in the autumn.

Photo: CapDogBlog, flickr.com



Third Level Education PPP Programme

Project planning and pre-procurement activities have now commenced on preparing a €255 million programme of Third Level accommodation projects to be delivered by PPP. The NDFA will provide financial advice on these projects as well as manage their procurement and delivery on behalf of the Minister for Education & Science.

Up to 17 individual development projects across 9 separate campus locations are to be bundled into 3 separate PPP contracts.

First PPP Bundle of Third Level Education Facilities

The First PPP Bundle of Third Level Institutions is planned to comprise library facilities at Cork Institute of Technology, University of Limerick and Limerick Institute of Technology, together with new facilities at Dun Laoghaire Institute of Art, Design & Technology.

Outline planning permissions will be sought during the summer of 2008 for those locations where such permission is not already in place, in advance of the handover to NDFA by the Department. The publication of a notice in the OJEU inviting expressions of interest is expected to take place in the early autumn.

Preparations for the Second PPP Bundle are also now underway and it is expected that this procurement will commence during the first half of 2009.

In total in the Educational Sector, over €1 billion has been designated for investment in PPP projects over the course of the National Development Plan 2007–2013.

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. Plans to redevelop the site at Earlsfort Terrace, Dublin by way of PPP were announced by the Minister for Arts, Sport and Tourism in 2006. The redeveloped site will provide for a new 2,050 seat concert auditorium, refurbishment and enhancement of the existing 1,000 seat auditorium and a new, smaller hall for approximately 400 persons.

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

The Department, in conjunction with the NDFA and the Commissioners of Public Works, has been developing the documentation for this complex and exciting project since mid-2007. The project was formally handed over to the NDFA for the procurement and delivery stages in May 2008 and a notice inviting expressions of interest was published in the OJEU in the same month. Market launch day took place on 17 June 2008.



Photo: Davida3, flickr.com

Following the expected receipt of expressions of interest in July 2008, a short-list of three consortia selected to receive tender documents will be announced in the autumn.

New National Theatre of Ireland — Abbey Theatre Redevelopment



Photo: Bjuglin, flickr.com

Following the Government decision that a new theatre house for the Abbey Theatre would be located on the site provided by the Dublin Docklands Development Authority at George's Dock, work is now in hand in developing the project as a PPP.

The new development will incorporate a new larger playhouse, a second smaller theatre (the "Peacock") and a studio theatre. There will be improved public facilities, rehearsal rooms, storage, workshops and administrative offices.

The procurement will incorporate an initial, separate international design competition that is to be managed by the Commissioners of Public Works on behalf of the Department of Arts, Sport and Tourism. The NDFA will be responsible for all aspects of the PPP procurement, as well the provision of financial, risk and insurance advice on the project. This project will be handed over to the NDFA after the conclusion of the international design competition.

Justice, Equality & Law Reform

Bundle of Courthouses

This project was referred to NDFA in October 2007 and will be procured by NDFA. It involves the proposed redevelopment of three court locations at Cork, Letterkenny and Limerick. These sites were identified by the Courts Service as requiring upgrading and renewal. The Courts Service has identified preferred options for redevelopment for each site namely to redevelop the existing site for Cork in respect of the Cork District Court and build new facilities on new sites for Letterkenny (District and Circuit courts) and Limerick (District, Circuit and Central Criminal Courts).

The project is currently in the detailed appraisal stage.

Office of Public Works

Decentralised Offices & Courts

Second PPP Decentralised Offices Contract, including Drogheda Courthouse

The NDFA has commenced appraisal, planning and pre-procurement activities in connection with a proposed new courthouse combined with new office accommodation for the Department of Social and Family Affairs in Drogheda. The new office accommodation forms part of the programme of decentralisation and will be one of the largest so far. This is the second PPP contract within the decentralisation programme, the first having been procured by the Commissioners of Public Works, with financial advice from the NDFA.

The Drogheda PPP project is unique for the NDFA in that it brings together two sponsoring authorities within one project – the Commissioners of Public Works and the Courts Service.



The Commissioners of Public Works will be responsible for all matters associated with the technical direction of the project on behalf of the Department of Social and Family Affairs and the Courts Service. The NDFA will be responsible for all aspects of the PPP procurement, as well the provision of financial advice. It is currently planned to initiate the procurement procedures for this project before the end of 2008.

Health Service Executive

National Plan for Radiation Oncology

The National Plan for Radiation Oncology (NPRO) involves the procurement of a network of facilities in the delivery of radiation oncology services in a number of centres in Ireland. The network will consist of the following centres:

- four large centres at St. James's Hospital in Dublin and Beaumont Hospital in Dublin, Cork University Hospital and Galway University Hospital;
- two integrated satellite centres in Waterford and Limerick to be managed by Cork and Galway respectively.

The NPRO comprises two principal workstreams, known as Phases. Essentially, Phase 1 refers to facilities that are to be procured by traditional means and Phase 2 refers to facilities that are to be procured by PPP.

Towards the end of 2007, Professor Tom Keane, National Cancer Control Director, took on the role of Chair of the HSE Project Board on Radiation Oncology, a key part of the governance arrangements for the project.

PROGRESS ON PROJECTS WHERE NDFA ACTS AS FINANCIAL ADVISER

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.

The complex will be designed, built, operated, maintained and financed by the PPP company. Construction on this project commenced in April 2007 and is ahead of schedule. The project is expected to be fully operational in 2009.

Arts, Sport & Tourism

National Conference Centre

The National Conference Centre (now known as the Convention Centre Dublin) PPP project reached contract close in April 2007 with the preferred bidder Spencer Dock International Conference Centre Consortium (SDICC). This €210 million tourism infrastructure project will be a modern, purpose-designed facility and will help Ireland to achieve its potential in the valuable international conference market.

SDICC (a consortium including Treasury Holdings and John Sisk & Son Limited) is responsible for designing, building, operating, maintaining and financing the Centre, with a mandate to attract foreign delegates to Ireland. After the 25 year contract term, the facility will revert to the State.

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. Construction commenced in April 2007, is well advanced and the Centre is due to open in 2010.

The New Stadium at 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 approximately €400 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 completed its advice to the Department of Arts, Sport and Tourism in October 2007.

Work on the site began in May 2007. Work is now well underway on the construction of the new stadium which has a proposed completion date of April 2010.



Transport – Railways

Metro North

The 18km Metro North line will connect Swords to St Stephens Green in 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. It is estimated by the Railway Procurement Agency (RPA) that some 34 million passengers a year will travel on the service.

The project is being divided into two contracts. The infrastructure contract will have a design, build, maintain and finance structure and will cover all the infrastructure and rolling stock. The operating contract covers light maintenance and operation of the Metro.

In March 2007, the RPA announced the start of procurement. Four consortia have been shortlisted and they were issued with tender documents in May 2008. The tenders are to be submitted in November 2008. After evaluating the bids, it is expected that two of the consortia will participate in a Best and Final Offer (BAFO) stage in 2009. Signing of the contract is planned for early 2010.

The NDFA has assisted the RPA and its Project Board in the financial evaluation of prospective candidates, the finalisation of the Public Sector Benchmark and is currently assisting with the financial aspects of the tender process.



Metro West

Metro West will run initially as a light railway with the ability to be upgraded if required, and will run on the ground surface. The RPA selected the preferred route corridor for Metro West in July 2007. It will link Tallaght, Clondalkin and Blanchardstown and will provide a fast commuter service to the airport and the city centre via Metro North.

It is intended that Metro West will greatly enhance the connectivity of the whole rail-based public transport network, interchanging with the Luas Red line, the Kildare and Maynooth suburban rail lines and with Metro North.

NDFA are advising the RPA on the financial aspects of this project.

Transport – Roads

M50 Upgrade

The M50 is being upgraded to a three lane motorway along with major interchange improvements. The proposed 24 km upgrade of sections of the M50, under the M50 PPP Contract, is between the existing M1 and the N3 junctions and between the N7 junction and the Sandyford Interchange.

The PPP contract was awarded in September 2007 to M50 (Concession) Limited which comprises FCC Construction S.A. and Itinere Infraestructuras, both major companies from Spain, and PJ Hegarty & Sons from Ireland. The target construction completion date is late 2010.

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

N6 Galway to Ballinasloe

The N6 Galway to Ballinasloe project extends 58 km, commencing in Galway and terminating in Roscommon. The 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.



N7/N8 Portlaoise – Culahill

The M7/M8 Portlaoise–Castletown–Culahill PPP road involves the procurement of sections of the N7 and N8 as a single scheme. Celtic Roads Group was selected as the preferred tenderer in March 2007. The contract was awarded in June 2007.

Motorway Service Areas

Due to the introduction of long lengths of motorways and high quality dual carriageways into the network of national roads, service areas are being provided to cater for road users who wish to rest during their journeys and/or to avail of fuel, toilet and food facilities.

This project relates to the first tranche of three service areas to be procured, two on the M1 motorway near Lusk and Castlebellingham and one on the M4 motorway near Enfield. Each Service Area is intended to include the following facilities:

- fuel facilities;
- convenience shop, restaurant, toilets, showers, tourist information kiosk and inside and outside children's play areas;
- recreation and picnic areas within a landscaped environment;
- segregated parking areas for passenger cars, Heavy Commercial Vehicles (HCV) and coaches;
- each service area will have facilities on both sides of the motorway.

This is a design, build, operate and finance project. The Competitive Dialogue process has commenced with the four consortia in the competition. The planning process has commenced and tenders will be submitted after the granting of planning permission.

Further tranches of Motorway Service Areas are expected to be announced by the National Roads Authority throughout 2008.

Environment, Heritage and Local Government

Wexford County Council Loan

Wexford County Council received approval from Department of Environment, Heritage & Local Government to raise a loan to finance County Council projects. NDFA compiled information received from a number of financial institutions and issued an Opinion Letter to Wexford County Council in December 2007 on the €40 million loan.

Social & Affordable Housing

Contracts were signed in respect of three 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 legal contract 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. At the time of writing this report, Dublin City Council was in discussions with the winning consortium regarding the status of the project in the current environment.

- Spencer Dock (€70 million) – the project includes the construction of 187 social and affordable housing dwellings, community facilities and services for older persons units in Spencer Dock in the Dublin Docklands. Dublin City Council agreed to procure these facilities from Spencer Dock Development Company in 2007. NDFA issued its Value for Money Opinion Letter on this project in December 2007.

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.

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 Fatima Mansions pilot project under Dublin City Council has been a notable success.

The €60 million Croke Villas Housing Project will provide 38 social and 103 private units, commercial units and community facilities. The evaluation of tenders has been completed and the preferred tenderer is to be appointed shortly by Dublin City Council.



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. Following a competitive tender process, the Leargas consortium, consisting of Barclays Private Equity, Global Solutions Limited and Michael McNamara & Co, 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 before end 2008. The Bill to give effect to the planning consent has been approved by the Dáil and the Seanad.

This project was the first in which the NDFA's Template Project Agreement was used as the basis for preparation of the project agreement. 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 negotiations process.

Education

UCD Gateway Project

In December 2006, UCD launched an architectural competition to develop an internationally recognisable signature image for the Belfield campus. The winning architect was announced in July 2007, which is Ingenhoven from Germany. 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. They have completed the Request for Qualification process and short listed five consortia and one reserve.

The NDFA is lead financial adviser to UCD and is assisting the Project Board in the preparation of a Public Sector Benchmark equivalent, which is expected to be approved shortly. Work is continuing on the preparation of the tender documentation.



Communications, Energy & Natural Resources

Metropolitan Area Network 2

This project will enable broadband be brought to a significant number of towns nationwide, which do not have equivalent facilities. The tenders were received in February 2008, and their evaluation is complete, with the financial evaluation having been done by the NDFA. The preferred tenderer was appointed in June 2008.

Office of Public Works

Decentralisation 1 (Carlow, Mullingar and Portlaoise)

NDFA are the financial advisers for the Decentralisation 1 PPP project. Macquarie Partnerships for Ireland were appointed as Preferred Tenderer for this €140 million project in January 2008. Planning permission was applied for all three sites in April 2008. It is expected that financial close will occur in the second half of 2008 post the receipt of planning permission.



NDFA BOARD

The ex-officio Chairman of the Board 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 Kearns, a Director of the National Treasury Management Agency, to the Board to replace Ms Counihan. On 1 March 2007, the Board appointed Adrian Kearns as Chief Executive.

Pending the enactment of the amending NDFA legislation in 2007, three new Board members were appointed, on a non-statutory basis, by the Minister for Finance – two 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 19 June 2008.

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 regard 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 €30 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 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.

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 Centre of Expertise was 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 Abbey Theatre. The NDFA has recently (May 2008) commenced the procurement of the National Concert Hall.

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

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.

The project management group will coordinate the technical, financial and legal inputs that contribute to the procurement, the construction monitoring and the hand-back 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.

The NDFA also provides services, including:

- 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
- 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

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. In October 2007, the NDFA revised the Template Project Agreement to take into account changes in the Insurance market. Currently the NDFA are undertaking a complete review of the Template Project Agreement to reflect recent changes in the UK Treasury's publication "Standardisation of PFI Contracts" (SoPC 4) based on recent UK PFI experience and to incorporate the experience gained from recent PPP projects in Ireland. The revised version will become available in Quarter 3 2008.

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 sectors 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.

The Template Project Agreement is reviewed on a regular basis to reflect market changes and lessons learned from previous PPP projects. The NDFA is also continuing to standardise other key PPP documentation. These reviews will lead to further efficiencies in the tendering process.

APPENDIX 3

List of State Authorities

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

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 2007 and 2006 are as follows.

	2007	2006
	€	€
Fees & Expenses of Board	84,000	71,859
Audit Fees	<u>6,000</u>	<u>5,500</u>
	<u>90,000</u>	<u>77,359</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 2007 amounted to €4,354,451 (2006: €3,078,733). 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 2007

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BOARD MEMBERS AND OTHER INFORMATION

Board Members

Michael J. Somers – Chairman

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 Kearns was appointed Chief Executive Officer on 1 March 2007.

STATEMENT OF AGENCY'S 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
24 June 2008



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

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 NTMA").

The NTMA has taken steps to ensure an appropriate control environment with respect to the NDFA by:

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

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

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

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 NDFA which are borne by the NTMA other than NDFA Board costs;
- 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.

Key Control Procedures (contd.)

The NTMA 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 NDFA is exposed, and annual internal audit plans are based on this analysis. At least annually, the Internal Auditor provides the NTMA and the NDFA Board 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 NTMA'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 NTMA 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. In addition a member of NDFA Board sits on the NTMA Audit Committee representing the NDFA's Boards interests and he keeps the NDFA Board informed of such matters as are relevant to the NDFA.

Annual Review of Controls

For the year ended 31 December 2007, the Internal Auditor has conducted a review of the effectiveness of the system of internal financial controls and has reported this to the NDFA Board.



Michael J. Somers
Chairman
National Development Finance Agency
24 June 2008



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

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 2007 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.

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 2007 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 Buckley
Comptroller and Auditor General
30 June 2008

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 has been 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. The National Development Finance Agency (Amendment) Act 2007 which assigned 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 2007.

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.

INCOME & EXPENDITURE ACCOUNT

for the year ended 31 December 2007

	Notes	2007 €	2006 €
Income	1	1,967,862	77,359
Project fees and expenses	2	(1,877,862)	–
Transfer to Administration Account	3	(90,000)	(77,359)
Net Income for the period		Nil	Nil



Michael J. Somers
Chairman
National Development Finance Agency
24 June 2008



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

The statement of accounting policies and notes 1 to 11 form part of these accounts.

ADMINISTRATION ACCOUNT

for the year ended 31 December 2007

	Notes	2007 €	2006 €
Transfer from Income & Expenditure Account	3	90,000	77,359
Administration expenses of Agency	4	(90,000)	(77,359)
Net income\expenditure		<u>Nil</u>	<u>Nil</u>



Michael J. Somers
Chairman
National Development Finance Agency
24 June 2008



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

The statement of accounting policies and notes 1 to 11 form part of these accounts.

BALANCE SHEET

31 December 2007

	Notes	2007 €	2006 €
Assets			
Debtors	5	674,139	26,026
Liabilities			
Creditors	6	674,139	26,026
Total Assets less Liabilities		Nil	Nil
Representing			
Accumulated Reserves	8	Nil	Nil



Michael J. Somers
Chairman
National Development Finance Agency
24 June 2008



Adrian J. Kearns
Chief Executive Officer
National Development Finance Agency

The statement of accounting policies and notes 1 to 11 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Income

	2007 €	2006 €
Reimbursement from State Authorities of advisory expenses	1,877,862	—
Central Fund (note 7(a))	<u>90,000</u>	<u>77,359</u>
	<u>1,967,862</u>	<u>77,359</u>

2. Project fees and expenses

Under the National Development Finance Agency (Amendment) Act 2007, fees and expenses incurred by the Agency in the performance of its financing and advisory functions in relation to specific public investment projects are charged to expenditure.

	2007 €	2006 €
Consultancy fees	1,340,107	—
Legal fees	<u>537,755</u>	<u>—</u>
	<u>1,877,862</u>	<u>—</u>

3. Transfer to Administration Account from Income & Expenditure Account

This amount of €90,000 represents the amount required to cover certain administration costs of the Agency.

4. Administration Expenses

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

	2007 €	2006 €
Fees & expenses of the Board	84,000	71,859
Audit fees	<u>6,000</u>	<u>5,500</u>
	<u>90,000</u>	<u>77,359</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 €4,354,451 (2006 €3,078,733). 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.

4. Administration Expenses (Contd.)

The total cost of the operation of the Agency in the year was €6,322,313 (2006: €3,156,092), funded as follows:

	2007 €	2006 €
Project fees and expenses, recharged to State Authorities	1,877,862	—
Administration fees and expenses charged by the Agency to the Central Fund	90,000	77,359
Administration fees and expenses borne by the NTMA and charged to the Central Fund	<u>4,354,451</u>	<u>3,078,733</u>
	<u>6,322,313</u>	<u>3,156,092</u>

5. Debtors

	2007 €	2006 €
Receivable from State Authorities	580,155	—
Receivable from the NTMA	82,484	—
Central Fund	<u>11,500</u>	<u>26,026</u>
	<u>674,139</u>	<u>26,026</u>

6. Creditors

	2007 €	2006 €
Amounts due to Central Fund (note 7(b))	483,631	—
Consultancy and legal fees payable	117,930	—
Professional Services withholding tax payable	66,578	—
Accrued Expenses	<u>6,000</u>	<u>26,026</u>
	<u>674,139</u>	<u>26,026</u>

NOTES TO THE ACCOUNTS (CONTD.)

7. Central Fund

(a) The Administration expenses of the NDFA are drawn from the Central Fund. The accounts are prepared on an accruals basis. The Central Fund Income is reconciled to cash drawn for expenses as follows:

	2007 €
Amounts drawn from Central Fund	104,526
Decrease in Central Fund debtor	<u>(14,526)</u>
Administration Expenses (Note 4)	<u>90,000</u>

(b) Amounts are advanced from the Central Fund to fund the payment of external advisory fees and expenses incurred by the Agency in the performance of its financing and advisory functions in relation to specific public investment projects. These fees and expenses are reclaimed from State Authorities and the amounts advanced are repaid to the Exchequer. The movement in amounts advanced to the NDFA during the period is explained as follows:

	2007 €
Amounts advanced during the period	1,487,335
Amounts repaid during the period	<u>(1,003,704)</u>
Amounts due to Central Fund at end of period (Note 6)	<u>483,631</u>

8. Accumulated Reserves

	2007 €	2006 €
Net income for the period	—	—
Closing balance	<u>Nil</u>	<u>Nil</u>

9. Contingent liabilities

The National Development Finance Agency had no contingent liabilities at 31 December 2007.

10. Related parties

Minister for Finance

The members of the Board of the National Development Finance Agency as given on page 3, 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 in 2007. Following the amendment of the Act, all directors serving on an interim non-statutory basis were appointed as ordinary members of the Board on 2 May 2007.

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.

National Treasury Management Agency

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 NTMA").

11. Approval of Financial Statements

The financial statements were approved by the Board on 21 February 2008.

NOTES



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Finance Agency**

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