



Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

An Ghníomhaireacht Airgeadais d'Fhorbairt Náisiúnta
National Development Finance Agency

OVERVIEW – FINANCING THE ‘NEW’ PUBLIC CAPITAL PROGRAMME

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Agenda

- Trend in investment globally & in Ireland
- Trend in level of capital stock in Ireland
- New capital spending programme?
- Funding market for PPPs and concessions
- Balance sheet treatment
- Conclusion



Trend in investment globally & in Ireland

“The persistence of lackluster growth and weak demand has left companies in Europe, the United States, and other major economies reluctant to invest. Household investment is also down as high costs put home ownership out of reach for a large part of the population. And fiscal worries have led governments to implement austerity policies.”

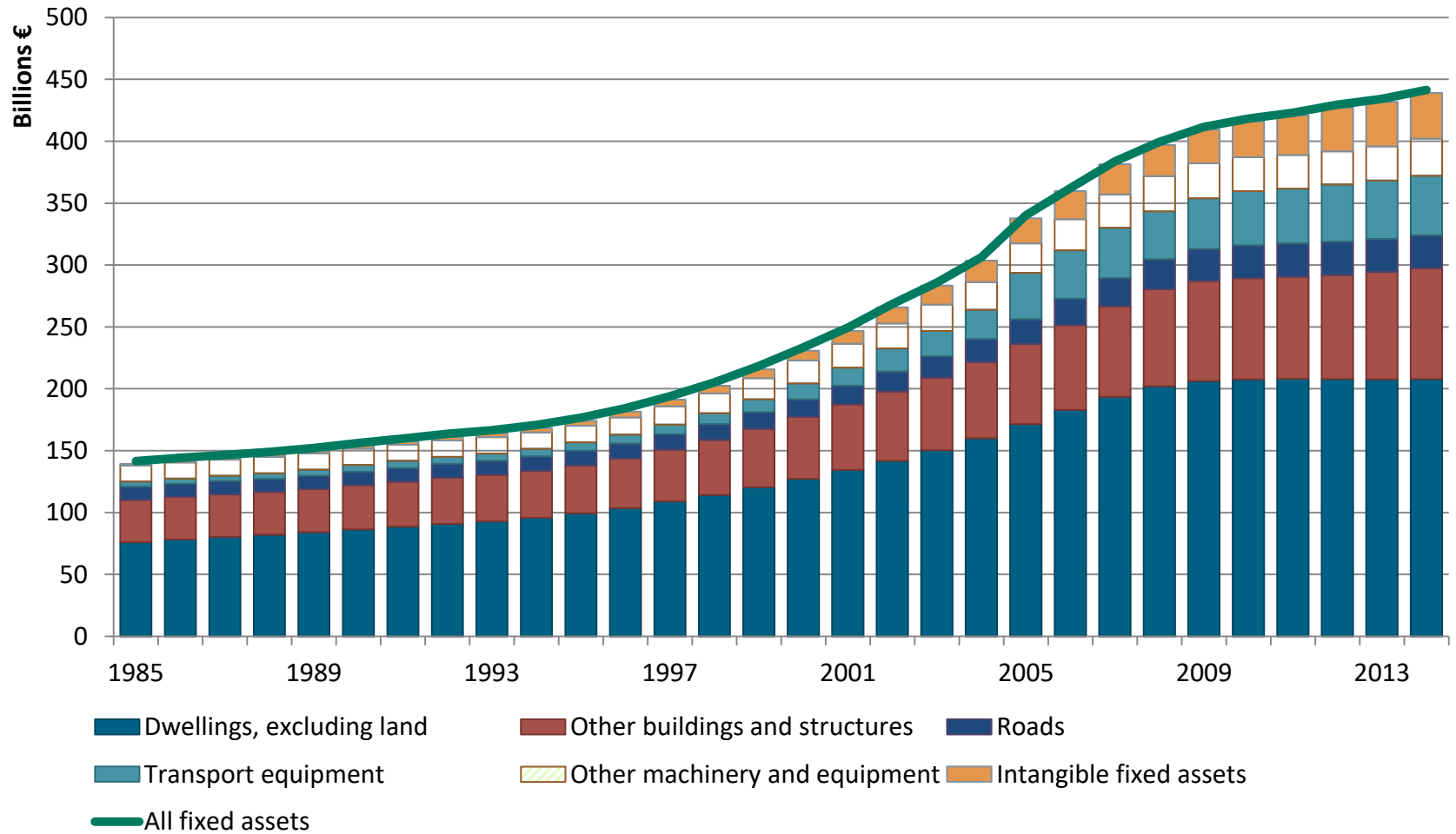
Opening paragraph in report prepared by McKinsey Global Institute – April 2016 – entitled: Secular Stagnation and Low Investments.

- Investment Gap in Europe
- Juncker Plan



Trend in Capital Stock levels in Ireland

Net Capital Stock held at end-year



Source: CSO

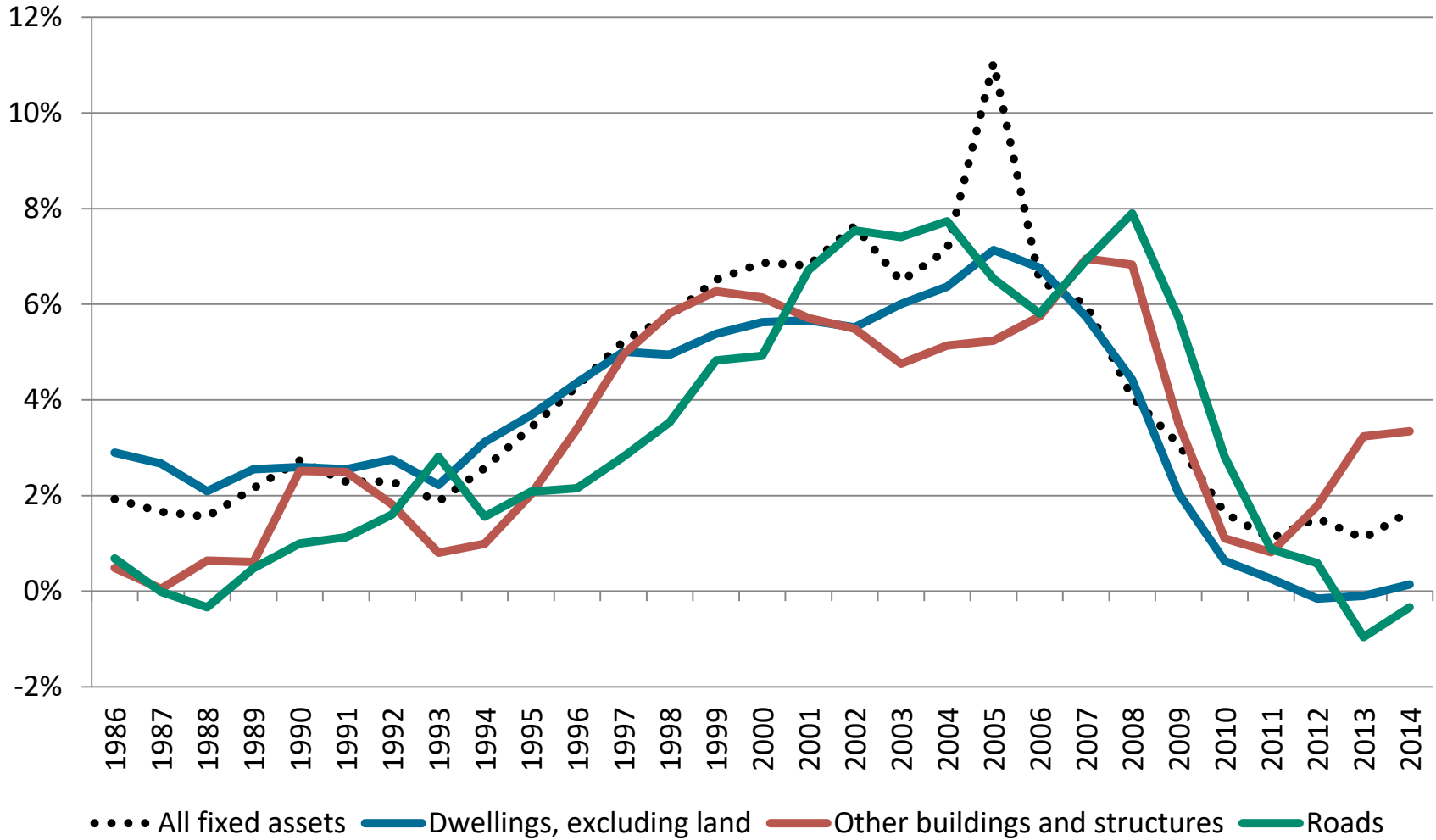


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The slowdown is clear from annual growth rates

Annual change in Net Capital Stock held



•••• All fixed assets — Dwellings, excluding land — Other buildings and structures — Roads



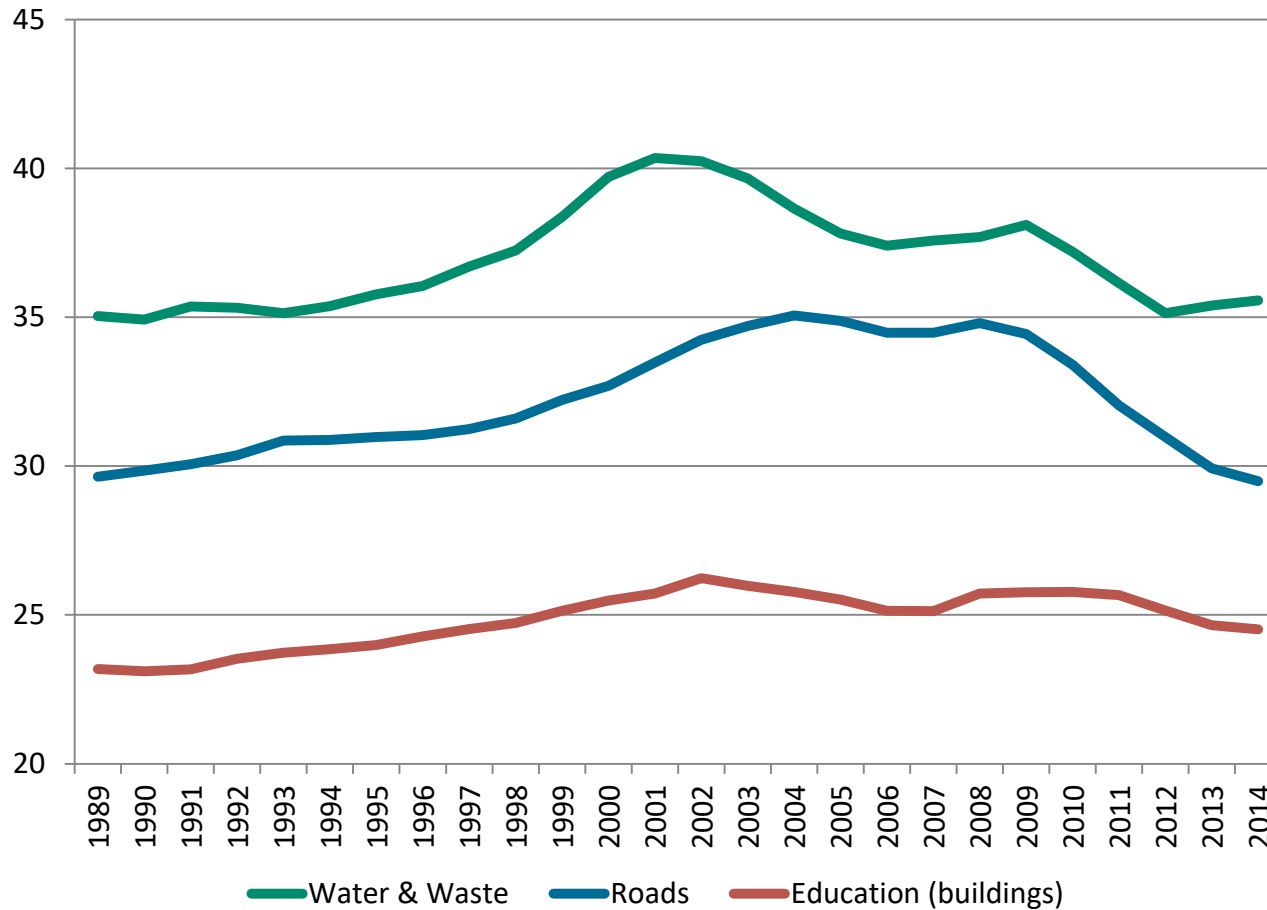
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Source: CSO

Remaining life of “public” sector assets

Remaining life = Net capital stock held/average depreciation over last 5 years

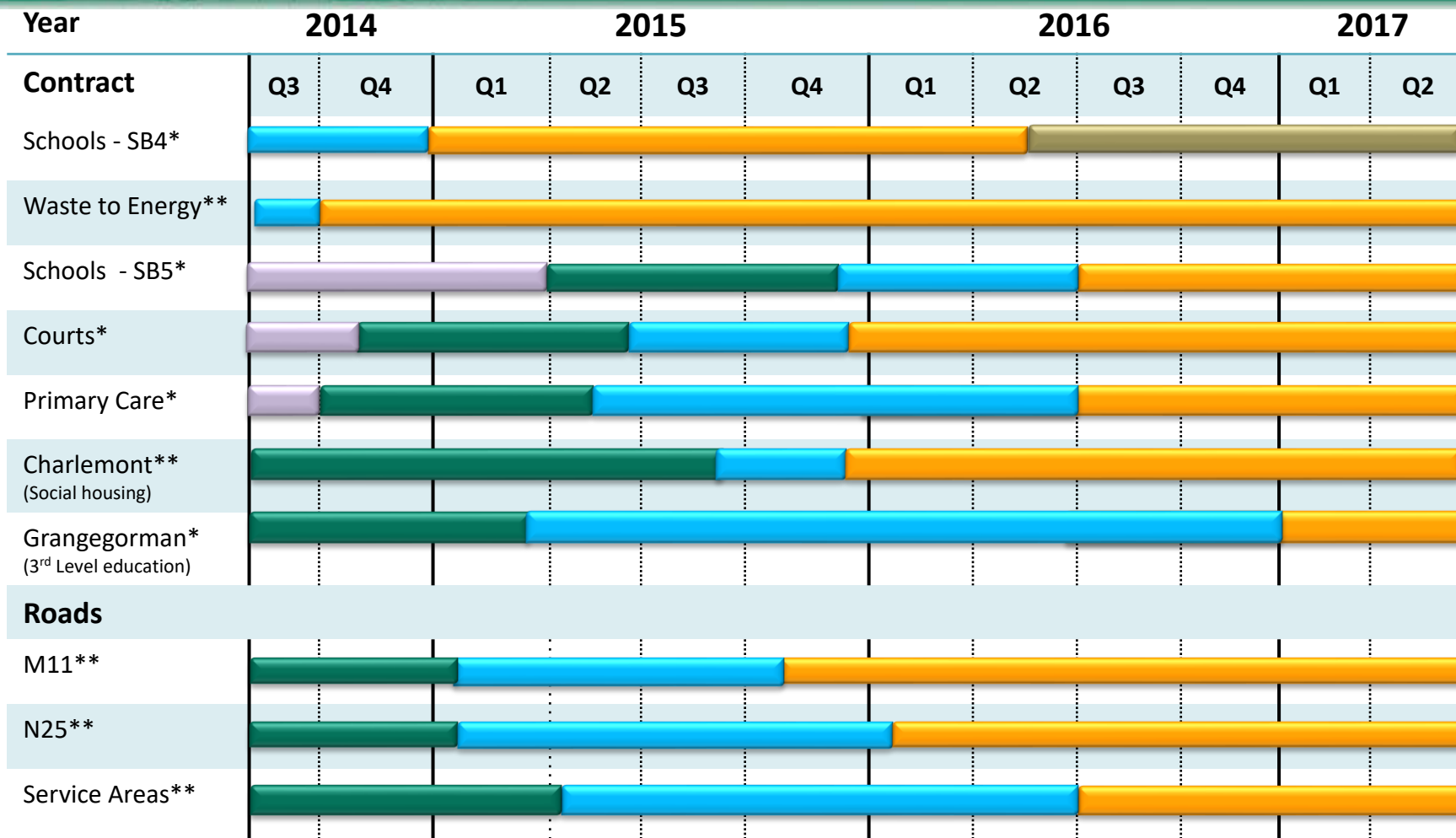


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Existing Programme

Recent PPP Experience - 2012 Stimulus Package (€1.8 billion of projects)



*NDA procured

** NDA financial advisor

Prequal stage

Tender stage

PT/Funding/award

Construction

Operational

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The Public Capital Programme 2016 – 2021 (Oct 2015)

- €27 billion of direct exchequer investment
- €14.5 billion of State owned sector investment
- €950m of privately funded investment
 - ▶ Phase 2 PPP €300m (Nov 2014)
 - ▶ Phase 3 PPP €500m
 - ▶ User charge concession programme €150m
- 3.5% of GNP each year between 2016 - 2021



Phases 2 & 3 indicative project values

Growth in Accommodation PPP pipeline funding allocation

Project	Ex VAT Indicative Capital costs €'m	Ex VAT Indicative Capital costs €'m
NDFA procured and financial advisory		800
Social Housing programme (1,500 units) (2 - 3 bundles)	300	
3 rd level institutions	200	
Justice (Garda, Courts)	150	
Health	150	
NDFA financial advisory		150
Grangegorman Student accommodation concession	150	
Total		950



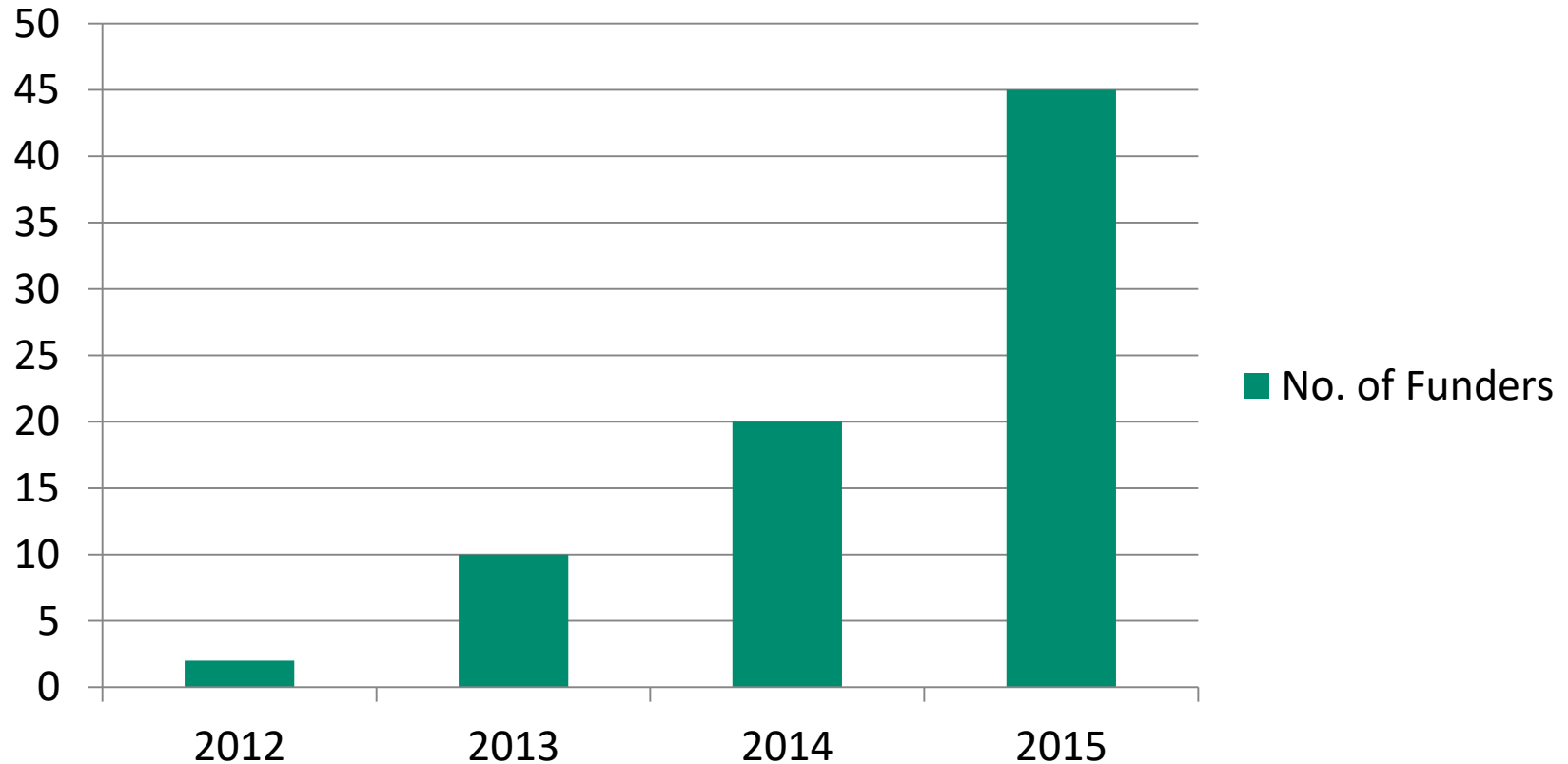
New capital spending programme?

- “Increased capital investment in transport, broadband, education, health and flood defences.”
- “Significant increase and expedite the delivery of social housing units,…”



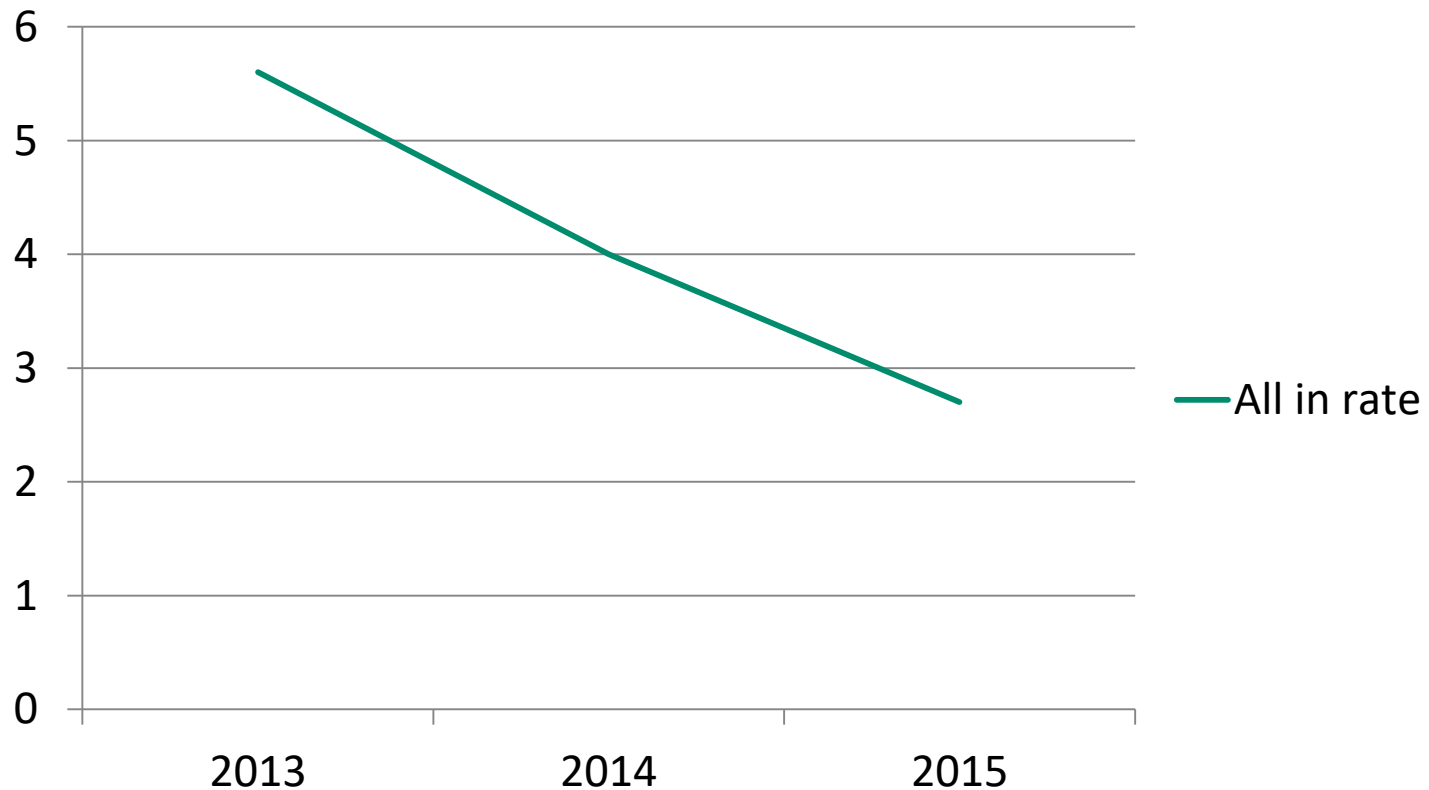
Funding Market for PPPs

Private Sector Finance – Funder Interest in Irish PPPs 2012 to present



Funding Market for PPPs

Trend in Irish PPP Debt Funding Costs



Funding Market for PPPs

Funder Mix

Project	Bank	Institutional	EIB
N11 / N7 Arklow Rathnew, New' Cross	√		√
N17 N18 Gort to Tuam	√	√	√
Schools 4	√		
M11 Gorey Enniscorthy		√	√
N25 New Ross Bypass		√	√
Courts	√	√	
Primary Care	√	√	√



EIB Exchequer funding

Project funding raised from EIB to the Irish Exchequer;

- Irish School Programme I - €100m
- Irish Water Investment Programme - €100m
- Irish School Programme II - €100m
- Dublin LUAS Cross City - €150m
- Irish Water Investment Programme – B - €100m
- Irish Flood Prevention Programme - €200m



Balance Sheet Treatment

Risk Transfer and Balance Sheet Treatment

Eurostat balance sheet rules apply: Must effect genuine risk transfer to private partner e.g. payment at risk.

Achieved in ‘availability model’ by transfer of Construction and Availability Risk

- ▶ ***Construction Risk*** *Fixed price construction contract, with late delivery penalties*
- ▶ ***Availability Risk*** *Unitary Charge deductions if accommodation not available or services not performed to standard*
- ▶ ***Hand back Risk*** *Accommodation must be returned to a pre-defined standard*



VFM Overview

Value for Money Tests

First Test

(Qualitative)

- Is PPP procurement viable?
- Undertaken at detailed appraisal stage (pre PSB).

Second Test

(Qualitative)

- Given PSB, should project should still proceed as a PPP?
- Undertaken following preparation of PSB.

Third Test

(Quantitative)

- Does highest ranking tender bid have potential to deliver VfM?
- Undertaken following receipt of tenders.

Fourth Test

(Quantitative)

- Do post preferred tender period changes (e.g. interest rates, programme) ensure VfM is still being achieved?
- Undertaken just prior to financial close.

Conclusion

- Gap in Investment
- Severe Fiscal constraints
- Historically low funding costs
- High interest in investing in Ireland
- VFM test rigour
- PPPs present an opportunity to fund LT infrastructure competitively and facilitate social and economic development

For worthwhile and well defined projects – need to test if
PPP/Concessions are feasible

