

## How will Ireland deliver the infrastructure that secures our economic future now and into the future?

The Government's 2021 Budget announced in October speaks to a jobs led recovery and additional supports for businesses in Ireland impacted by COVID-19. A €10 billion capital allocation focused on investment in infrastructure announced will see some projects within the National Development being expedited including road, path and cycle infrastructure improvements, grants for minor works and enhancements across schools and investment in Irish Water, this will be a key economic stimulus, creating jobs and in the longer term improving and producing national assets which will enable and support economic growth of Ireland in the future. In addition, the Programme for Government lays out that investment in Infrastructure will be a key part of the Government's plan for economic recovery, with a commitment to bring forward a review and update of the National Development Plan, expected in Q2 2021.

However, the best laid plans do not guarantee that Government's infrastructure ambitions will be fulfilled, and Ireland will face some significant headwinds over the coming months as we rebuild. It will be key for Ireland to fast-track, where possible, these infrastructure projects in order to leverage the immediate economic stimulus. In order to get these projects delivered as efficiently and economically as possible, government should consider and address the following:

1. Private Sector Involvement
2. Collaborative Procurement and Delivery
3. Capacity and experience of public sector to deliver

### Private Sector Involvement

The involvement of the private sector in the delivery of our ambitious National Development Plan (NDP) needs to be strongly considered by the new Government. Constrained finances, particularly as we emerge from the COVID-19 pandemic, will mean that Government will not have deep pockets to fund all these projects in the short to medium term. While the preference for funding these projects, in recent years, has been from the national exchequer, especially given the low rates for Irish government debt over the last number of years, as we enter a new economic realm, utilising private finance could be a useful mechanism for accessing alternative funding to exchequer funding.

In Ireland, private finance has typically been accessed via Public Private Partnerships (PPPs). However, with a significant

programme to deliver, alternative forms of private financing should be considered such as leasing, value capture and via infrastructure bonds. The Programme for Government has committed to reviewing the NDP in the coming months, and it is likely there will be reprioritisation of some projects. When doing so, these projects should be assessed for their suitability for delivery, using these various forms of private finance.

In terms of utilising private finance, government should consider the following characteristics of a project:

- a. The scale, size and operational profile of the project, e.g. will it require significant operation and maintenance post construction?
- b. Could use of the private sector harness innovation, strong commercial management and efficiency in delivery?
- c. Can risks be assigned to the private sector who are better positioned and equipped to manage and mitigate them?

Overall, availability-based PPPs have worked well in Ireland, where value for money has been realised over the construction of assets which have lengthy operational and maintenance lifecycle requirements for which the private sector takes the risk. This has been done successfully, for example in the Schools PPPs, where the private sector party is responsible for the construction, ongoing maintenance and operations of the buildings, while the school's management can focus on the educational needs of the school population.

Lease finance can provide government bodies an opportunity to manage and reduce their capital expenditure output at the outset of a project, enabling them to spread the cost over multiple years. When considering leasing as an option to finance a project, Government should consider the suitability of the project including, for example:

- a. The length of the useful life of the project
- b. Whether the project will maintain value over its useful life due to well-established operating characteristics and maintenance requirements

Leasing has traditionally worked well for the development of power infrastructure, such as power plants, but it is increasingly prevalent in the financing of public transport in recent years. Leasing has been used by some public transport operators who are moving towards renewable energy fuelled fleets, where additional capital investment in charging infrastructure, for example, may be required. In order to minimise capital expenditure, operators are turning to leasing to finance their new fleet, while maintaining their balance sheet to invest in other value-add projects. Additionally, due to their flexibility,

leasing contracts are ideal for constantly renewing fleets and keeping pace with technical progress.

Ireland plans to deliver infrastructure across the island, enabling the development of the regions as well as the Greater Dublin Area. Investment in infrastructure such as MetroLink, broadband and/or enabling infrastructure such as water supply projects, typically tends to increase land values and encourage new property development. In considering the financing of these, Government and/or local authorities should consider value capture mechanisms.

Value capture schemes secure and recover a portion of the benefits/value delivered by public investments, operating under the assumption that public investment results in increased valuation of private land and real estate. By “capturing” the subsequent increase in value, Government can recuperate funds. This is most commonly done via land value taxes, but other mechanisms include levies on developments, sale of public land at enhanced prices, joint ventures with land adjoining public lands and/or joint venture structures that allow the public sector to share the risk and reward of the investment.

### **Collaborative Procurement**

The NDP includes some large and complex projects which will take a number of years to plan, design and construct, such as MetroLink and the Water Supply Project (Shannon pipeline), but which are key to shoring up Ireland’s future economic growth and development.

Collaborative procurement and delivery methodologies should be, and are being, explored for projects of this scale and size with significant complexity, for example, MetroLink which is being delivered across a large geographical and highly-populated area. For such projects, it is often hard to allocate risk to appropriate parties and collaboration between the public sector client and contractors can result in more efficient, higher-quality outcomes and value for money for the State.

Internationally, public procuring authorities are moving towards Early Contractor Involvement (ECI) project delivery methodologies, which facilitate the implementation of innovative, efficient, value-adding solutions through building trust-based cooperation between clients (public sector) and contractors. Leveraging the knowledge and experience of the contractors around buildability, construction methods, materials and local practice at the pre-construction phases (design and planning) can help optimise the design process, enable the contractor to develop a more accurate price based on

a properly scoped design, and result in more cost and delivery certainty with less contract variations.

In the UK, the development of the New Engineering Contract (NEC) suite of contracts has supported the move towards more collaborative procurement and delivery methodologies. We are beginning to see Irish procuring authorities consider these forms of contracts as they deliver large projects and/or programmes of projects. Internationally, alliancing and/or partnerships are being used, which involve the formation of relational project delivery arrangements between the client (public sector) with the contractor participants (typically design and construction contractors), where the parties work together as an integrated collaborative team to make shared unanimous decisions about the delivery of the project with shared risk and reward.

### **Capacity and Experience to Deliver**

Government will need to consider the capacity and experience of the various government and public bodies to establish, plan, procure and manage the delivery of projects. The NDP is an ambitious plan that aims to deliver more than €16 Billion of projects over a 10-year timeline, and while the projects within the plan may be revised or re-prioritised, it remains apparent that the next Government is committed to a significant spend across infrastructure over the coming years. One of the constraints in getting these projects to market and moved through the pre-construction process efficiently will be the capacity and experience of public sector bodies who are busy delivering their business as usual activities.

Often organisations who are tasked with delivering a large capital project or programme will need to stand up an entire team of specialists from planners, designers, procurement experts, project managers etc. While large capital projects are typically run over a number of years, the resource requirements will change over the project lifecycle and therefore hiring permanent staff may prove financially unsustainable for the public sector.

The appointment of a delivery partner, who often integrates into the client team, can be a more efficient way of standing up an organisation quickly, which has the necessary skills and experience, and which can manage the delivery of the projects from cradle to grave. This is becoming a common practice internationally, for public sector bodies who want to expedite the delivery of projects, while using more innovative forms of procurement such as ECI and alliancing. This has been seen in the development of Crossrail in the UK as well as the new Western Sydney Airport.

## Conclusion

While the road ahead for Ireland will be far from smooth, we do need to develop and expand our national infrastructure if we are to stimulate the economy and veer Ireland out of a prolonged recession. While the Government has been decisive and swift in announcing significant additional investment in the July Stimulus Package, there will need to be continued and consistent investment over the coming years. With that investment, Government will need to be resourceful and consider the inclusion of the private sector in delivery. In order to avoid the mistakes of the past, they will need to consider the procurement and delivery methodologies used and how delivery will be managed and overseen from a public sector perspective. The Programme for Government is ambitious and one which we must persevere with.



## CONTACT

Julia Ann Corkery  
EY Ireland

[Julia.Ann.Corkery@ie.ey.com](mailto:Julia.Ann.Corkery@ie.ey.com)  
[www.ey.com/ie/](http://www.ey.com/ie/)