

# **Infrastructure 2020: Building beyond the bailout**

**December 2013**

## Table of contents

Key recommendations	i
1. Introduction to Infrastructure 2020	1
2. Rationale for continued infrastructure investment	2
2.1 Capital expenditure in context	2
2.2 Benefits of capital expenditure in the medium and long-term	3
2.3 Benefits of capital expenditure in the short-run	6
2.4 Infrastructure 2020: Ibec's ambition for Irish infrastructure	6
3. Principles for project selection	9
3.1 Prioritisation process	9
3.2 Short-term impact	9
3.3 Providing a long-term vision	10
4. Funding & delivery mechanisms	13
4.1 PPP should be the key delivery mechanism	13
4.2 Sources of external finance	13
5. Institutional issues	15
5.1 Need for a new National Spatial Strategy	15
5.2 Need to address issues in infrastructure delivery	16

## Key recommendations

### Ibec's five key recommendations for infrastructure investment are:

- 1. Government should aim to spend 4% of GDP per annum on capital expenditure by the year 2020:** Since 2008 infrastructure expenditure has fallen significantly. In the period since 2008 capital expenditure has made up over 70% of total expenditure cuts of €7.7 billion. Ibec believes the Irish economy can grow at an average rate of 3-4% per year, over double the EU average, for the next 20 years. In this context the Irish state should look to confront serious long-term competitiveness and demographic challenges by spending 4% of GDP on infrastructure development by 2020. This is below peak values of just over 5% and comparable to levels last seen in the early part of the last decade. This commitment will guarantee that we do not repeat the mistakes of previous economic downturns when cutbacks in capital expenditure led to the development of bottlenecks which proved costly to overcome in subsequent years.
- 2. Government should develop an infrastructure 2020 strategy:** Government should begin work on a comprehensive medium-term plan for the country's capital needs beyond 2016; with specific focus on a new National Spatial Strategy and infrastructure plan to 2020. The current capital expenditure framework until 2016 is necessarily cautious; by 2016, however, the plan will result in the vast majority of the capital budget being spent on maintaining existing capital stocks. The new infrastructure plan for 2020 must be more ambitious in order to avoid a loss of international competitiveness and serious demographic pressures on infrastructure over the next 20 years.
- 3. Government must embrace innovative funding sources:** Public private partnerships (PPP) should be the key delivery mechanism for infrastructure funding. Diversification of funding streams must occur and Government must be ambitious in availing of external sources (e.g. EU/European Investment Bank, institutional lenders such as pension funds etc) to fund infrastructure delivery over the lifetime of the current capital programmes and in planning for subsequent initiatives. Non-exchequer finance is a valuable source of foreign direct investment.
- 4. Ensure effective delivery of projects:** The infrastructure delivery process in Ireland should be streamlined. Delays due to planning or the public procurement process can undermine confidence in Irish projects, potentially damaging Ireland's reputation as a place in which to do business. All unnecessary non-construction costs and delays should be rationalised. A project pipeline containing clear timelines should be produced and regularly updated. The planning process should be reformed to take into account economic and strategic considerations.
- 5. Designate a Government champion for infrastructure:** There are too many departments responsible for infrastructure policy, early project development and subsequent delivery. Government should formally assign responsibility for infrastructure to an existing minister. This would ensure better co-ordination and integrated delivery of spatial and infrastructure planning across all elements of the State. This minister would also take the lead in championing investment in Irish infrastructure internationally.

## **1. Introduction to Infrastructure 2020**

Business needs the right conditions to flourish and investment in physical capital is a key building block for sustainable economic growth. While immediate capital projects may be driven according to short-term priorities such as economic impact, we must also realise that Ireland is not in the same position it was when the public capital programme for 2012 to 2016 was developed. This is confirmed by Government making additional infrastructure announcements to the programme announced in November 2011. The Irish economy is on a recovery path and we must plan accordingly.

Ireland still needs investment in infrastructure and such investment needs to support both our ambitions for the Irish economy and future demographic challenges. If we adapt our successful 1990s growth model, Ibec believes the Irish economy can grow at an average rate of 3-4% per year, over double the EU average, for the next 20 years. Business can generate the balanced economic growth needed to create jobs, overcome our debt burden and deliver the prosperity, public services, and quality of life to which this country can legitimately aspire to. There is no reason why Ireland cannot be one of the EU's most prosperous and successful regions and the best country in the world in which to do business.

Government should immediately begin working on a comprehensive medium-term plan for the country's capital needs beyond 2016 up to and including 2020. As part of this Infrastructure 2020 strategy for investment Government should commit to spending 4% of GDP per annum on capital expenditure by the year 2020.

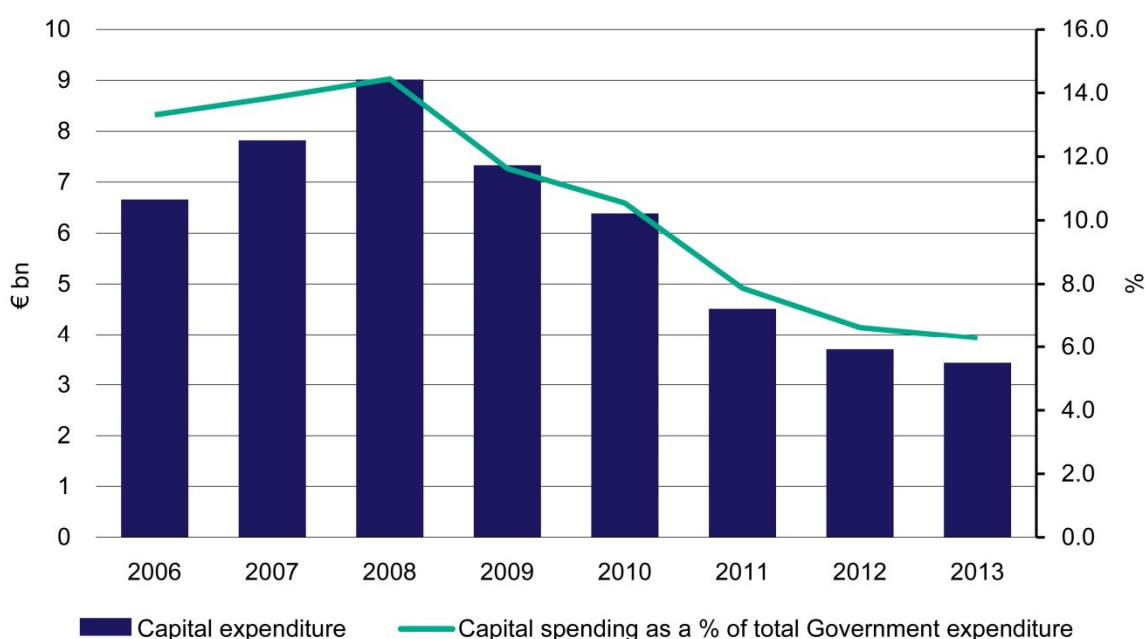
In delivering Infrastructure 2020 Government should formally assign responsibility for infrastructure to an existing minister. This would ensure better co-ordination and integrated delivery of spatial and infrastructure planning across organs of the State. There may be obstacles that need to be addressed but there are solutions available. Government must provide a proactive and coordinated response to project selection and financing. The opportunities to finance projects through non-Exchequer funding sources are increasing by the day. The current and future capital programmes must account for this. Also, given the long lead times involved in capital projects, Ireland should begin in earnest the development of the successor to the existing capital programme, one that will support more effective regional development. In short, now is the time to start building beyond the bailout.

## 2. Rationale for continued infrastructure investment

### 2.1 Capital expenditure in context

Between 2008 and 2013 voted Government expenditure fell by 12.5% as the state addressed the continued need to reduce Government expenditure. As a result Ireland has successfully met all the fiscal targets under the EU-IMF loan programme and in 2012 delivered a deficit of 7.6% of GDP, a full percentage point below the target of 8.6%. Despite the continued need to tightly control Government expenditure, in the post-bailout period Government will have greater flexibility in its fiscal decision making. In this context there are some very good reasons why investment in infrastructure should return to the fore in Government thinking.

**Figure 1: Government capital expenditure 2006 – 2013**



Since 2008 voted capital expenditure fell by over 60%. It dropped from 14.4% of total voted Government expenditure to only 6.3%. From 2008 to the end of 2013 gross public expenditure was cut by €7.8 billion, the capital programme cuts have accounted for €5.5 billion of this. Cuts to capital expenditure will ease off from 2013, with Government committed to spending €3.25 billion on capital projects in each of 2014, 2015 and 2016. These figures will remain broadly steady as a proportion of overall Government expenditure but will fall as a percentage of GDP due to growing economic output.

**Table 1: Government capital expenditure commitments**

Year	Capital expenditure(€bn)	% of GDP	% of Gross Govt expenditure
2012	3.9	2.4	5.8
2013	3.4	2.0	4.9
2014	3.3	1.9	4.9
2015	3.3	1.8	5.0
2016	3.3	1.7	5.1

**Figure 2: General Government gross fixed capital formation and depreciation**

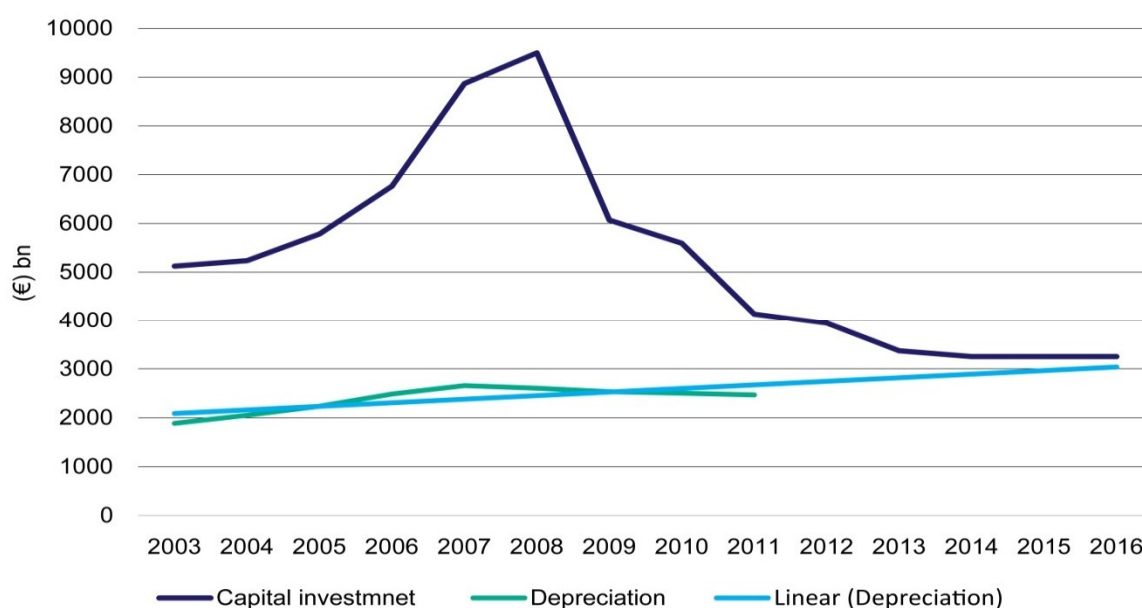


Figure 2 displays Government investment and capital depreciation from 2003 until 2016 given current capital expenditure projections (Table 1). The convergence of current planned Government capital outlays with the depreciation of existing capital stock will result in a situation where, by 2016, the majority of the capital budget is taken up by maintenance of existing infrastructure rather than expanding infrastructure provision. The Government acknowledged this limited ambition in its medium-term infrastructure plan with the key focus of public capital expenditure being on “protecting the value of our existing investments”. In this context Ireland needs greater diversification in its non-Exchequer funding sources if it is to remain competitive in the long-term. These private sector funding models need to be fully integrated into long-term national infrastructure planning with Government showing clear ambition to embrace new ideas and alternative funding sources.

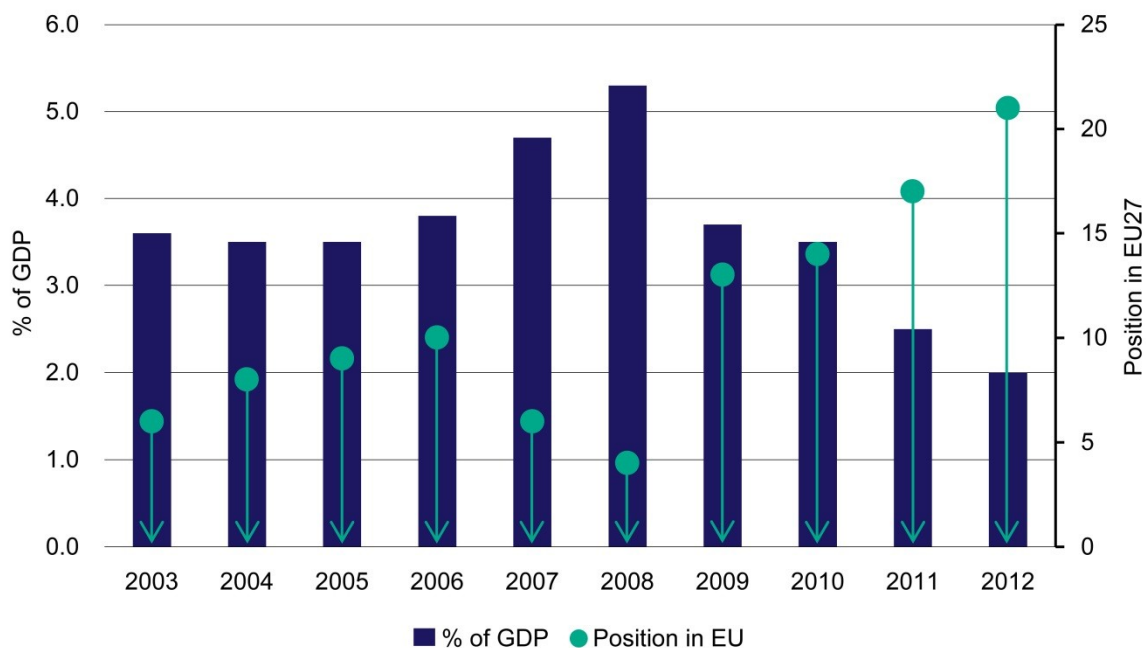
## **2.2 Benefits of capital expenditure in the medium and long-term**

### **Economic competitiveness**

Although economic activity has fallen sharply during the recession, future demand for infrastructure should remain a key medium-term concern for Government particularly in the post-bailout period. Experience of the 1980s should serve as a reminder of the long-term effects of a lack of infrastructural investment in the face of an economic downturn. Cuts in capital expenditure then left Ireland with a large infrastructure deficit. The very significant infrastructure development in the last decade notwithstanding, the gap has been slow to close; even as Ireland invested heavily in infrastructure, so did most other economies. Even at the height of investment spending in 2008 Ireland was just 4<sup>th</sup> of the EU27 countries in capital spending as a % of GDP.

This deficit is reflected in a poor perception internationally about the overall quality of Irish infrastructure. The World Economic Forum’s competitiveness report for 2013 ranked Ireland 35<sup>th</sup> in the world and 22<sup>nd</sup> out of the 34 OECD members in terms of quality of infrastructure. Although this ranking has improved significantly in recent years Ireland is now only 21<sup>st</sup> out of 27 EU countries when it comes to Government capital spending on infrastructure relative to the size of its economy. This represents a fall of 17 places in the EU27 in just five years. This lack of infrastructural development relative to other countries risks Ireland being surpassed by competitors and relinquishing hard earned gains in closing the infrastructure gap. Although in recent years many of the cuts in Government capital expenditure were part of a necessary fiscal adjustment, continued subdued levels could substantially harm Ireland’s attractiveness to investors

Figure 3: Government capital expenditure % of GDP v EU27

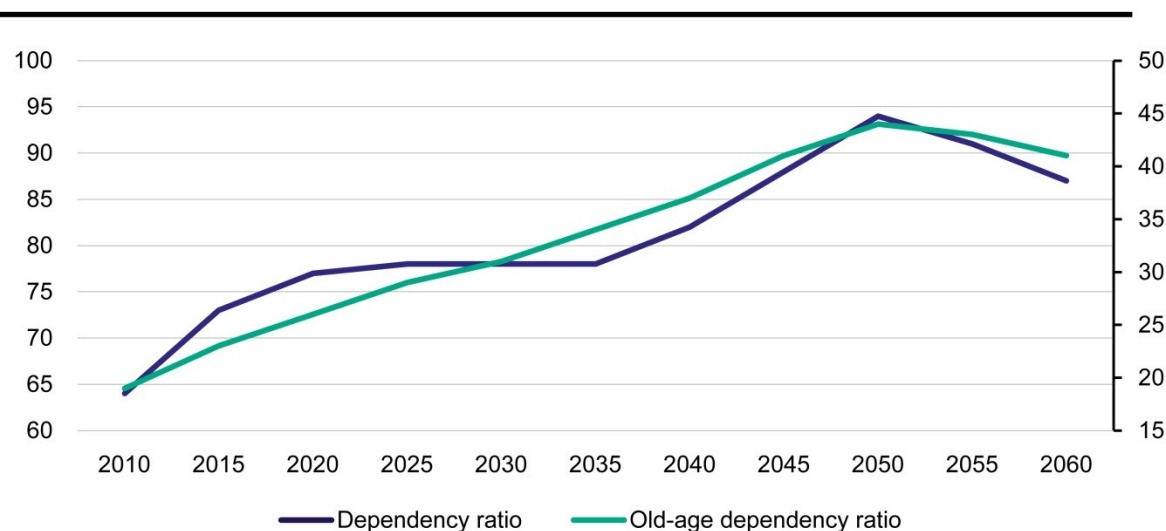


Demographic challenges

An equally pressing concern is the demographic changes Ireland will face over the coming years. Census 2011 outlined that our population grew by 341,000 since 2006, an average annual growth rate of 1.6%. In addition, Ireland has the highest birth rate in the EU at over 17 births per 1000 population. The European Commission’s 2012 ageing report delivered some timely reminders of these long-term challenges. Ireland is expected to see the strongest population growth in the EU up to 2060, with the population increasing to over 5.1 million by 2025 and 6.6 million by 2060 (almost 50%). This is far in excess of the average increase of just 3% projected for the EU-27 as a whole.

Figure 4 displays the estimated dependency ratio (Population under 20 and over 64 as a percentage of the population aged 20-64) and old age dependency ratio (Population aged 65 and over as a percentage of the population aged 20-64) in Ireland from 2010 to 2060. These figures have implications not only for fiscal policy in relation to items such as pensions and retirement but also for infrastructure provision. In addition to increasing population a growing proportion of this population is going to be either too young or old for the labour force meaning growth in demand for infrastructure is going to be placed on a smaller proportion of the overall population. Given these emerging demographic challenges Ibec suggests that it would be prudent to invest in infrastructure over the next decade rather than post 2030 when other fiscal priorities may become more pressing.

**Figure 4: Forecast dependency ratios 2010 to 2060**



A prime example of demographic challenges facing the country's infrastructure stock is in education. Current trends of individuals of school going age will mean increased pressure on capital expenditure in the short-term. Table 2 displays the expected growth in student numbers in Irish schools for 30 years from the end of the current capital expenditure plan in 2016.

**Table 2: School students total (000's) 2010 – 2060**

	2010	2015	2020	2025	2030	2035	2040	2045
<b>Primary</b>	502	569	606	570	530	534	583	635
<b>Lower secondary</b>	175	191	216	237	225	207	205	223
<b>Upper secondary</b>	214	223	247	288	298	282	265	271
<b>Tertiary education</b>	193	184	198	223	254	258	250	242
<b>Total</b>	1,084	1,167	1,267	1,318	1,307	1,281	1,303	1,371

Between 2010 and 2020 Ireland will see an additional 104,000 students in its primary schools with 37,000 of these coming in the 2015 – 2020 period. In addition there will be an extra 50,000 secondary school students in the 2015 – 2020 period and 14,000 additional students at third level. This poses a serious challenge to capital expenditure which focuses on maintenance rather than expansion in the short-term but also in the long-run with school and university capacity needing to increase by over 220,000 over the next 15 years.

#### **Box 1: Investment in Smart Infrastructure**

Government must continue to invest in Ireland's human capital in order to boost national productivity and economic competitiveness. Besides public investment in research, development and innovation, Government must invest in key underpinning education infrastructure (primary, post-primary and higher-education sectors). To date, the Department of Education and Skills has announced 275 major school building projects for the period 2012-2017 (Primary: 106 new schools and 65 large-scale extensions; Second level: 43 new schools and 49 large-scale extensions; Special education: 8 new special schools and 4 extensions).

Not all of the projects will be funded directly by the Exchequer. A contract notice for the procurement of two bundles of six schools each (Bundles 4 and 5) via the public private partnership process was published in June 2013. Furthermore, the Schools PPP Bundle 3 was the first Irish PPP project to achieve financial close since



June 2010. The European Investment Bank (EIB) continues to support education investments in Ireland in addition to other priority sectors through the provision of long-term loans. In the past three years, the EIB has provided approximately €400 million in affordable loans for primary, post-primary and higher-education projects.

The flagship investment in the higher education sector will be the consolidation of the Dublin Institute of Technology in a purpose-built campus at Grangegorman. While the project was initially deferred in the public capital programme for 2012 to 2016, the potential for an initial PPP has been acted upon. On 31 August, the National Development Finance Agency published the Prior Information Notice for the competition for East (College of Arts and Tourism) and Central Quads (Food, Sciences, Health and Engineering) PPP Programme. The contract is expected to be awarded in 2015.

We must continue to support research and development infrastructure across the higher education institutions. Funding need not necessarily come directly from the Exchequer. In its Agenda 2020 strategy Science Foundation Ireland has set itself the objective of leveraging greater contributions from international sources (e.g. EU) and from industry. For example, such an approach may be essential in establishing at least one major test bed in Ireland from 2014 onwards, which will raise Ireland's international scientific reputation as well as being another potential mechanism to attract new industry investment to the country.

### **2.3 Benefits of capital expenditure in the short-run**

The returns on infrastructure investment in terms of productivity and competitiveness take time to materialise. Aside from the medium-to-long-term demographics and competitiveness considerations outlined above, the prioritisation of infrastructure investment increases economic activity and leads to immediate job creation. Employment in the construction sector is now down over 60% on its pre-recession peak; over 170,000 less people work in the construction industry than in 2007. Construction is a sector with not only high labour intensity but also high unemployment.

The Construction Industry Council estimates that the labour intensity associated with capital projects is approximately eight to twelve jobs for every €1 million invested. Which means current levels of planned capital expenditure will support 40,000 jobs through to 2016. Although it is unlikely to be a panacea for unemployment in the sector as there is currently a large resource of unemployed and underemployed workers available in the Irish economy; investment in infrastructure will support construction workers who were most affected by the economic crisis. This is particularly important given the incidence of long-term unemployment and the prospect of a long-term 'lock-in' effect taking place where individuals are permanently scarred by unemployment.

Finally, Ireland now has considerable systemic knowledge of infrastructural works in terms of project management, public-private partnerships and building and architectural expertise. A further substantial decline in investment activity risks this institutional knowledge being degraded and lost, causing bottlenecks in future years when investment inevitably picks up in response to demand.

Although we accept that the monetary value of infrastructure expenditure had to be cut given the constraints on the Exchequer, the substantial falls in construction prices should enable Government to utilise this stock of knowledge to protect the volume of investment. The Society of Chartered Surveyors (SCSI) tender price index shows that by the first half of 2013 construction tender prices were close to 1999 levels having fallen by 29% since the 2007 peak. If Government can leverage resources (we present our suggestions for financing investment later in the document), infrastructure projects represent better value for money at present than in over a decade.

Aside from going ahead with key investments in new projects, maintaining the existing infrastructure stock is also important. Infrastructure stock which is not properly maintained will deteriorate, resulting in unnecessary replacement costs in the future. It is clear that adequate resources need to be invested in maintenance to ensure that the state derives maximum value from previous expenditures. In addition, regular maintenance also helps smooth out the cyclical nature of the construction sector by providing a more regular and dependable revenue stream.

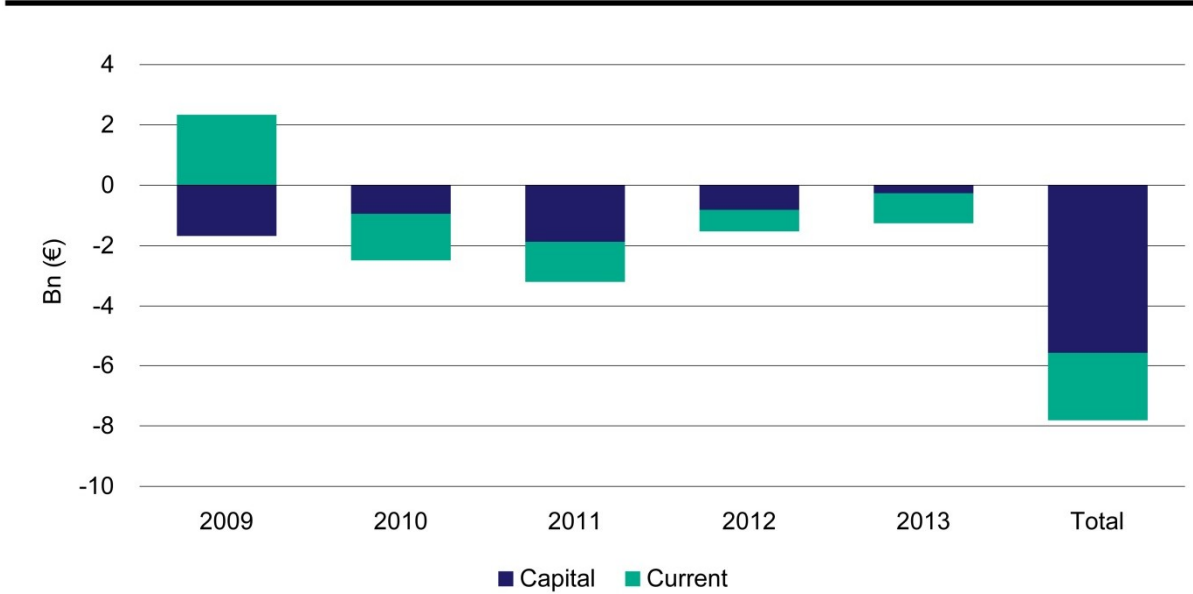
### **2.4 Infrastructure 2020: Ibec's ambition for Irish infrastructure**

In the 1990s lack of investment in infrastructure left a rapidly expanding economy with severe bottlenecks in some areas. These were overcome in the middle part of the last decade through a process of rapid and expensive infrastructure growth. Since 2008, however, infrastructure expenditure has fallen significantly. In the

period since 2008 capital expenditure has made up over 70% of total expenditure cuts of €7.7 billion. This has led to a situation where over 60% of the infrastructure budget in 2011 was spent on maintenance of existing capital rather than new projects. If this trend continues under the current plan then by 2016 between 90% and 95% of capital expenditure will be on maintenance.

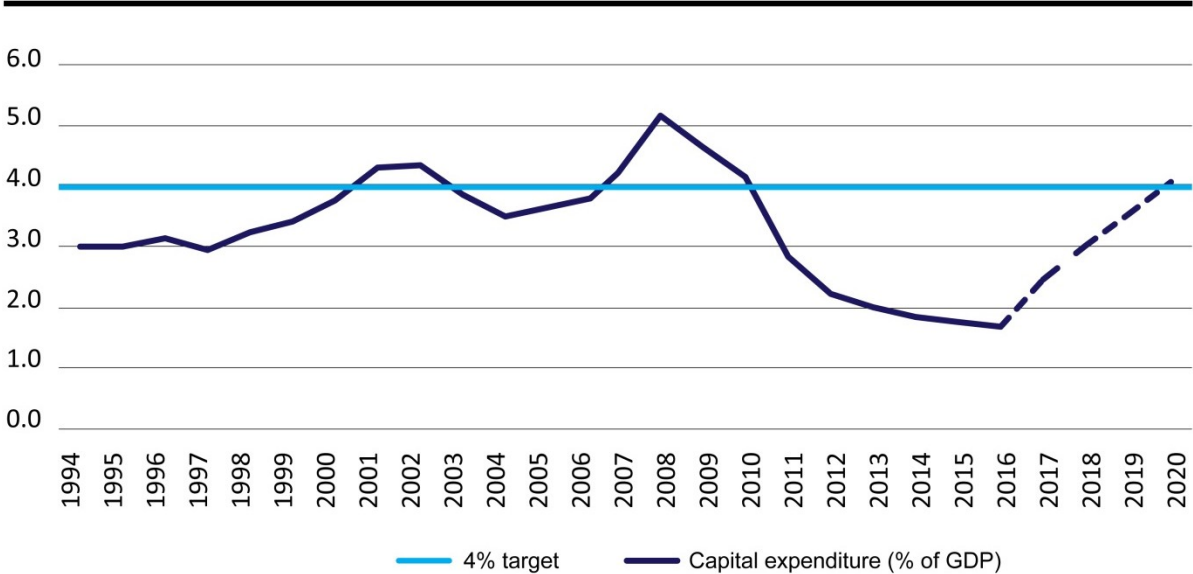
Cuts in recent years may have been necessary given fiscal circumstances, however, demographic and competitiveness pressures mean that a new approach is needed in the period between 2016 and 2020. In this context Ibec believes a comprehensive medium-term analysis of infrastructure needs and a plan for delivery is necessary.

Figure 5: Contributions to public expenditure reductions



Ibec believes that the Irish state should look to confront long term competitiveness and demographics challenges by committing to spending 4% of GDP to infrastructure development by 2020. This is below peak values of just over 5% and comparable to levels last seen in the early part of the last decade. Investing in infrastructure at this level to 2020 will be at the high end among European countries, this is, however, a necessity given that Ireland faces unique and large demographic pressures with a population expanding much quicker than comparable countries. This commitment will also guarantee that we do not repeat the mistakes of previous economic downturns where cutbacks in capital expenditure lead to the development of bottlenecks which proved costly to overcome in future years.

Figure 6: Capital expenditure as % of GDP and Ibec ambition to 2020



This plan would require comprehensive analysis of needs and a commitment to focus on long term infrastructure challenges along with embracing non-exchequer financing sources and championing Ireland as a location for FDI in infrastructure. It would also be best served by being a coherent part of overall medium-term economic and spatial strategies.

### 3. Principles for project selection

#### 3.1 Prioritisation process

At a time of scarce resources project prioritisation becomes more important than during times when the State is running a fiscal surplus, so one must establish a hierarchy of priorities to aid in project selection. In terms of assessing the value of a particular project, a number of factors should be taken into account. Essentially, these criteria can be divided into short and long-term factors. While, given the current economic situation, weight should be given to short-term benefits of infrastructure investment; Government's plans must primarily prioritise the long-term needs of the State

In the past cost-benefit analyses were produced on all major infrastructure projects, but these happened very much in isolation from each other and did not necessarily provide like-for-like information to aid in project selection. Ibec has in the past argued that business cases or cost-benefit analyses should be done in a systematic and comparable manner across the entire public capital envelope and, crucially, must be central to the project prioritisation process. The newly introduced public spending code, which commits Government to producing a cost-benefit analysis of all annual current and capital expenditures over €20 million, is a step in the right direction regarding the evaluation of public expenditure outcomes. Relevant bodies must, however, make such evaluations transparent, comparable across state bodies and publicly available in a timely manner (with due regard for the tendering process).

#### 3.2 Short-term impact

The immediate impact on the economy during the construction phase is among the short-term factors that should be taken into account. The domestic employment impact varies across projects, and given the high level of construction unemployment, projects with a higher domestic employment content per euro invested should be given priority. Construction sector employment will never return to peak levels, but is at present below the equilibrium level. Given the human capital destruction that commonly follows prolonged spells of unemployment, there is a strong case for the employment impact to be taken into account in project evaluation.

Project deliverability and planning issues will also have a significant impact on the short-to-medium-term economic impact. Given that part of the rationale to continue with public infrastructure investment is to provide a boost for the domestic economy, the timeliness of the project is a crucial short-term factor. Moreover, there is also a strong rationale to carry on with the completion of current projects, such as parts of the motorway network, and complete networked infrastructure works. This fairly modest spend will help unlock the full potential of what in many cases has been a substantial investment over the lifetime of the entire project.

#### Box 2: Investment in transport infrastructure

The development of facilities at our key strategic airports is of fundamental importance to the State. This should include progressing planning for further necessary development, including additional runway capacity at Dublin Airport in the medium-term. Airport capacity plays a key role in facilitating competition between airlines and affects the diversity of routes available. Considering the number of airports on the island of Ireland, Ibec believes that the enhancement of existing airports with a national strategic role should be prioritised. In this context an important development will be delivery of Government plans to establish Shannon Group plc, a new State-owned commercial company, which merges the Shannon Airport Authority and Shannon Development.

The publication of the National Ports Policy earlier this year, set out a framework of major Irish trading ports as key nodes in the international logistics chain. Major ports of national significance have produced their own strategic plans to guide future development of these key infrastructure assets, including Dublin, Cork and Shannon Foynes. It is important that the Government supports the minimisation of supply chain costs and a commercial policy that generates a return on capital employed that is sufficient to remunerate past investments and allows for future investment in port infrastructure.

There is inadequate road access to a number of ports, potentially affecting future commercial development. Forfás in its 2009 'Assessment of Port Services Issues for Enterprise' stated '*internal road and rail access remains an issue for enterprise in getting their goods to overseas markets.*' Shannon Foynes is one of Ireland's busiest trading ports but road access is substandard. Road improvement plans on the N20, N21 and N69 national road corridors do not adequately recognise the role of this port. Rosslare Europort is also currently served by a single carriageway section of the N11, this is insufficient to serve a port of its standing into the future.

Access to the Port of Cork is also currently inadequate. Given the location of the port, the strong industrial base in its environs and having regard to the fact that Ringaskiddy is an IDA 'Strategic Site' under the strategic sites initiative, the improvement of the N28 should be accelerated. The National Roads Authority should be directed to produce an action plan to significantly improve the current level of accessibility to the State's ports via national roads.

Government should also seek to innovate by creating opportunities for Irish industry to remain competitive through facilitating greater efficiency in the road freight sector. Measures may be needed in the medium-term to address projected traffic congestion on strategic route corridors such as the M50 motorway. On an island which is primarily reliant on road transport, any move to address congestion through road charging targeted at freight transporters will undermine the competitiveness of the Irish economy. All future policy and regulatory changes which could have an impact on the road freight industry should be considered from the point of view of cost and benefit.

Ireland's public transport networks have benefitted from substantial investment over the last decade. Investment in Luas infrastructure, train and bus fleets, rail capacity improvements, as well as the construction of new lines has been of benefit, resulting in substantial improvements to the level of service enjoyed by passengers. Ibec supports the timely delivery of Luas Cross City project and the other projects included in the NTA's 2013 draft Implementation Plan for the Greater Dublin Area. Projects should be subject to funding priority being determined on the basis of cost benefit analysis. Proposed investment in projects such as the Phoenix Park Tunnel and Bus Rapid Transit to Dublin Airport may provide short to medium-term transport solutions. The delivery of projects such as Metro North and DART Underground remain merited ambitions.

In an environment where the fiscal room to manoeuvre is constrained the importance of non-Exchequer sources of financing is highlighted. The availability of non-Exchequer sources of finances, for instance from the EIB, the project bonds initiative and PPPs, should form a key selection criterion. Using external funding will enable the state to spread limited resources over a greater number of projects, maximise the stimulus impact by pulling in money from outside Ireland and minimise the risk on the sovereign. Finally, in some cases the private sector will be able to deliver the required infrastructure, but this requires a proactive approach from the state in the form of regulation and licensing. This is, for instance, the case with the utilities sector.

### **3.3 Providing a long-term vision**

It is understandable, given the shock the economy has sustained over the course of the recession that much of the focus is on the here-and-now. However, to ensure sustained and balanced economic growth, Government must begin to identify the long-term infrastructure demands of the economy and plan accordingly. Improving the competitiveness and productivity of the entire economy as well as facilitating demographic change will be key to ensuring the long term health of the economy, so prioritisation of projects to be delivered over the 2016-2020 period must balance between the current short-term constraints and the long-term needs of the economy.

Table 3 presents a summary of Ibec's priorities for project selection.

**Table 3: Summary table of project selection priorities**

<b>Criterion</b>	<b>Key issues</b>
<b>Current and future demand for infrastructure</b>	Population growth Existing bottlenecks Export growth
<b>Short-term economic impact</b>	Labour intensity of project Proportion of employment in Ireland Time to get project on stream Completion of a larger project
<b>Optimising benefit of existing infrastructure</b>	Completion of networks and networked projects Remedying design flaws in existing infrastructure Preventing obsolescence of infrastructure projects already completed
<b>Availability of external finance</b>	Public-private partnerships European Investment Bank funding Reputational cost of project abandonment Capacity of the private sector to deliver the project
<b>Medium to long-term needs of the economy</b>	Impact on Ireland's cost base Improves productive capacity of the economy Investment in areas of strategic economic importance
<b>National, EU &amp; International obligations</b>	EU legal requirements Meeting Ireland's environmental/energy targets

Projects should be prioritised according to the impact they have on reducing Ireland's cost base (which remains high in many areas), enhancing the economy's productive capacity by removing bottlenecks or expanding infrastructural capacity to facilitate demographic change. Investment in strategic infrastructure may also be necessary to facilitate Ireland's compliance with binding national, EU and international obligations and targets to 2020. In particular, in the areas of energy, water and waste Ireland faces significant challenges that require existing investment programmes to be maintained and in some instances expanded. Failure to meet these obligations may have the immediate impact of significant fines for the state, with long-term reputational and possible environmental damage.

### **Box 3: Energy, waste and water**

A range of EU directives and regulations on climate change mitigation, promotion of renewable energy sources and completion of the internal energy market are driving strategic infrastructure investments on the island of Ireland, both by network operators and by private sector developers. Such projects are typically funded by end-users rather than by the Exchequer. However, the risk-evaluation and subsequent selection of projects by developers is heavily influenced by energy policy decisions (e.g. renewable energy feed-in tariffs) or by regulatory decisions with commercial implications (e.g. allowed network charges, terms for connection offers, wholesale market bidding rules, dispatch principles and constraint/curtailment rules).

EirGrid's electricity transmission network investment programme, as outlined in Grid 25, aims to maintain system security on the island while facilitating a rapid expansion of wind generation capacity. Recent experience illustrates, however, that the progress of urgently-needed projects can be frustrated by local objections, despite the provisions of Planning and Development (Strategic Infrastructure) Act, 2006.

The International Energy Agency's Ireland 2012 Review identified improved security of gas supply as a key policy issue for Government. This could be delivered by a range of strategic infrastructure, including new indigenous sources or storage reservoirs. The monetization of such projects could involve complex regulatory decisions, possibly in multiple jurisdictions, for which a robust framework remains to be put in place. Similar issues are also

potentially relevant for investment in infrastructure for other transport and heating fuels, whether fossil or biomass.

Compared to other EU countries, Ireland is richly endowed with water resources, potentially contributing to its attractiveness as a location for inward investment. However, the infrastructure for provision of water and wastewater services has been chronically underfunded across the country, with adverse implications for operational efficiency and water quality. Greater Dublin, in particular, urgently needs investment. This will involve the construction of strategic infrastructure that crosses between river basins.

In part, these are the symptoms of a fragmented water planning regime. It is possible that the funding issue can be mitigated through a gradual transition to a unitary water authority. It is important for central Government to ensure that Irish Water is able to deliver essential expenditure on supply security while maintaining the quality of water services, particularly to manufacturing industry. The proposed 'free allowance' for domestic dwellings will significantly limit the twin objectives of promoting conservation and generating the required finance to support infrastructure investment through the user-pays principle.

Ireland remains heavily dependent on landfill. In order to comply with the EU's Waste Framework Directive, there is an urgent need to invest in treatment technologies further up the waste hierarchy. The private sector has long been expected to deliver such infrastructure, but progress has been repeatedly frustrated by a lack of policy clarity. The Department of Environment, Community and Local Government (DECLG) new waste framework and the progressive increases in the landfill levy are helpful developments. Progress on Dublin Waste to Energy PPP project remains to be seen.

A comparison against other EU member states suggests considerable potential for other commercially available technologies, notably anaerobic digestion with the option of combined heat and power. This has the potential to produce clean renewable energy (biogas, methane or electricity) from domestic and agricultural waste streams. Installations are typically on a scale that would not qualify for the strategic infrastructure fast-track procedure but cumulatively they could make an important contribution to national waste and energy targets. Besides planning and community acceptance issues, anecdotal evidence strongly suggests that the current regime of equipment grants and other financial supports is insufficiently attractive to deliver more than a fraction of the national potential.

## **4. Funding and delivery mechanisms**

Although Government must remain the main funder of national infrastructure projects there is a need to embrace a greater diversity of funding and co-funding options. Commitment to funding models PPP has been uneven in the past and greater buy-in is needed from all stakeholders in order to substantially increase the level of private sector funding in infrastructure provision. Ireland needs greater diversification in its non-Exchequer funding sources and these need to be fully integrated into long-term national infrastructure planning.

### **4.1 PPP should be the key delivery mechanism**

National efforts to tackle our economic difficulties have bolstered confidence in the international marketplace and hence have made PPP a viable model once more. Government needs to be ambitious in delivering a programme of infrastructural investment and PPP will increasingly offer a cost effective means of spreading public funding over a greater number of projects. In Ireland, PPP has been used as an active and successful model to date in the transport, education and civic building sectors. All projects procured to date through this model in Ireland have been delivered on or ahead of time and with no cost overrun exposure to the public sector.

Reputational issues are intimately linked with access to external funding. High profile cancellations, such as Thornton Hall, and deferral of projects, such as Metro North, do not help market confidence in this regard. Infrastructure investment is a global marketplace and our Irish projects compete for interest from contractors, investors and funders from across the globe. Ireland is a very small market player internationally and companies may become reluctant to bid for Irish projects if Government is seen to behave in an inconsistent manner. Reputational damage from project abandonment may also have a negative impact of the availability of external finance for infrastructure investment, where interested parties simply move on to the next strong viable opportunity.

Investment opportunities will increase over the coming years for the right type of projects. It is crucially important for Government to publish and maintain a PPP project tracker. Such a pipeline of projects will provide certainty to the market by presenting clear timelines for delivery of capital projects (e.g. procurement procedure, anticipated financial close, commencement of construction etc). This gives contractors notice of when they will be required to mobilise their teams and will result in competitive bidding processes. The €1.4 billion Phase One Public Private Partnership programme, supplemented by the June 2013 announcement of an additional €250 million PPP project pipeline, is a start but additional market confidence and support more generally for the PPP programme can be achieved through:

- All capital projects identified by Government should be mandated to be considered for procurement under a PPP-type structure. The cost of procuring the project traditionally and as a PPP should be compared on a like for like comparison (e.g. the cost of private finance versus the cost of Government borrowing);
- Ireland has previously used the PPP approach for the development of large infrastructure and facilities; Government should consider the use of PPPs for smaller projects too. Smaller value projects could be bundled together into a single procurement and projects could be bundled across sectors;
- Detail the sources of funding for both new and existing projects;
- Outline the procurement approach, whether traditional or PPP;
- Take necessary steps to reduce cost and time of bidding;
- Include projects that are currently being procured through PPP for completeness and monitoring of delivery;
- Present Government's annual budget allocation to PPP projects. Government should define an annual PPP spend (e.g. a percentage of the total voted spend per annum). Greater clarity is needed on how PPPs are dealt with in budget allocations (capital versus revenue spend).

### **4.2 Sources of external finance**

External finance should be recognised as a valuable source of inward investment, which in turn will assist in further boosting the attractiveness of Ireland as a location to do business. The September 2013 high-level mission led by Minister of State Brian Hayes to London to promote infrastructure investment opportunities should



be replicated. On-going engagement needs to occur with international banks as well as institutional lenders from the pension and insurance sectors. The capacity of domestic banks to lend into Irish projects remains limited compared to five years ago. Bank of Ireland is providing backing for both the recently closed N7/N11 project and the Schools PPP Bundle 3 project. Government should also explore investment potential from Irish pension funds (€70 billion held in Irish pension funds).

It should be noted that Government has also taken a number of steps in providing additional sources of funding on commercial terms to support productive investment in the economy. This includes the establishment of the Ireland Strategic Investment Fund (ISIF) comprising the €6.4 billion discretionary portfolio of the National Pension Reserve Fund (NPRF) and empowering the New Economy and Recovery Authority (NewERA) to support investment in key infrastructure projects in water, energy and next-generation telecommunications sectors. The necessary statutory basis for NewERA and ISIF is currently progressing through the Oireachtas and is expected to be completed by the end of 2013. Despite this the NPRF has already supported recent infrastructure investments. For example, the NPRF is providing a stand-by credit facility on the N7/N11 roads PPP project.

We should also look to European sources for funding mechanisms. Ireland needs to build on its track record of successfully utilising cohesion funding to support economic development during the next round of funding 2014-2020. The EIB is a potential source of funding for long-term capital investment in line with EU 2020 priorities. All options to attracting EIB financial support should be pursued by Government. This includes seeking investment from the Joint European Support for Sustainable Investment in City Areas (JESSICA) financial instrument. The national feasibility study identified opportunities for Ireland in the Resource Efficiency and Innovation thematic areas. The EIB is considering alternative approaches to financing investment in infrastructure including a project bond initiative, which would provide a mechanism by which international investors could obtain an additional level of comfort in investing in Irish infrastructure projects. It should be noted that the National Development Finance Agency is conducting discussions with the Council of European Development Bank regarding potential support for public infrastructure projects with a social vocation (e.g. justice).

Government has undertaken significant work to identify appropriate funding sources for infrastructure investment. Diversification of funding streams must occur and Government should consider the following mechanisms to support infrastructure delivery over the lifetime of the current capital programmes and in planning for subsequent initiatives:

- **Direct capital investment:** where total Government-funded projects are the only feasible option, investment in economic infrastructure that supports growth and competitiveness should be prioritised;
- **Co-funding:** use traditional funding for a portion of the scheme, enabling Government to attract private funding for the balance;
- **Institutional lenders:** explore sources of debt finance from institutional lenders in the pensions and insurance sectors to fund investment options to invest in Irish infrastructure projects (€70 billion held in Irish pension funds);
- **Innovative financing structures:** new structures are being considered in the marketplace to address the decline of the monolines. Private sector entities such as Hadrian's Wall Capital and also the EIB are considering offering support to different tranches of debt to de-risk the senior debt element;
- **EU support:** align infrastructure priorities with the EU2020 strategy and examine possible funding from European Institution sources (e.g. under Multiannual Financial Framework 2014-2020). EIB investments generally reflect European Commission priorities;
- **Ireland Strategic Investment Fund:** the €6.4 billion discretionary portfolio of the National Pension Reserve Fund is to be used for support commercial investment in the economy to support economic activity and employment through the ISIF;
- **NewERA:** support for infrastructure investment in the utilities' sector (water, energy and telecommunications);
- **Sale of state assets:** proceeds arising from the sale of state assets should be re-invested in infrastructure and not used for debt restructuring. For example, part-funding the construction of the new National Children's Hospital from the upfront payment received for the twenty-year exclusive license to operate the National Lottery in Ireland.

## 5. Institutional issues

The rationale for infrastructure investment and principles for project selection were set out in the first two chapters of this submission. Government needs to build on the momentum in its existing capital expenditure programme, whilst at the same time planning for infrastructure investment beyond 2016. However, Ireland does not have a single national infrastructure authority, which can easily provide this function.

### 5.1 Need for a new National Spatial Strategy

At present, there are too many separate departments responsible for policy, early project development and project delivery. An inter-departmental group should be established with the express provision of preparing the next public infrastructure programme. This committee should be supported through the allocation of special responsibility for infrastructure provision to a ministerial portfolio. For example, the Junior Minister at the Department of Finance is also the Junior Minister at the Department of Public Expenditure and Reform, which covers Exchequer allocations, external finance, public procurement and the Office of Public Works (Government estate, flood works etc). A ministerial lead for infrastructure could drive consensus, while at the same time assist in the prevention of current institutional barriers to delivery (see Section 5.2).

A new National Spatial Strategy is urgently needed and should lead to more effective regional development. The new strategy needs to take into account the current economic context and prioritise development initiatives for most effective growth. The current strategy covering the period 2002-2020 has failed to provide its stated objective of achieving a better balance of social, economic and physical development across Ireland, supported by more effective and integrated planning. It has proven to be too broad in its scope and was susceptible to political interests (e.g. decentralisation). It designated too many gateway cities and hub towns (23 urban centres) which removed the potential to have a small number of strong urban centres that could generate sufficient economic and commercial synergies to act as a counter weight to Dublin in terms of size, infrastructure, population and other resources.

The new spatial strategy should provide a coherent spatial blueprint to guide economic and physical development across the island. Prioritisation should be given to effective regional development (see Box 4), including the development of the Atlantic Corridor and a new city region connecting Cork and Limerick. The new plan should also guide regional population growth in order to maximise the State's return on capital investment in transport, water services, health and education infrastructure. The strategy should facilitate urban regeneration in brownfield sites in our major cities in particular in Cork, Limerick, Galway, Waterford and the docklands area of Dublin. Above all, a new long-term spatial strategy would provide the necessary strategic input into future capital expenditure programmes and regional planning guidelines.

#### Box 4: Regional dimension

Government needs to advance a new regional development and renewal agenda linked with effective funding and delivery structures that have the capacity to provide uplift for those parts of the country that are acknowledged to be lagging behind Dublin and the Eastern region in terms of both the share of population growth, economic development and job creation.

Economic development services in our view can be more effectively delivered at a regional level and should be brought within the jurisdiction of the proposed new regional authorities (eight regional authorities and two assemblies will be replaced by just three regional assemblies with a wider range of strategic functions and overall membership reduced from 290 to 62). This structure should have a role in determining the location and scale of any business infrastructure (business parks, enterprise centres) proposed by local authorities and this activity should only proceed in the public sector domain where there is unambiguous evidence of market failure.

We believe that this proposed structure, in addition to the governance proposals for Dublin and Cork, has the potential to deliver a comprehensive regional governance model and presents an opportunity to enhance regional governance by building on the experience and knowledge gained through the operation of Regional Authorities in the physical planning domain. Ibec favours that the regional assemblies provide a link with the existing NSS framework (and successor initiatives), including the introduction of a funding mechanism for regions along the lines of the previous Gateways Innovation Fund, as well as design and implementation of funding strategies under the EU Structural Funds and ERDF. Regional assemblies (along with local authorities) will link with, or where appropriate report to the Department of Jobs, Enterprise and Innovation and relevant agencies (e.g. Enterprise Ireland and IDA) in the performance of functions relating to economic development.

North-South cooperation on infrastructure provision should also be considered. According to the scoping study, *Delivering a prosperity process: opportunities in North/South public service provision* (May 2012), the economic and political rationale for both administrations are 'broadly similar: the reduction of public expenditure in response to record debt levels; the encouragement of additional private sector activity; and the promotion of exports'. Planning for new projects or upgrades to existing infrastructure should be examined from an intra-island and inter-regional basis. While there have been initial, collaborative approaches in transport (e.g. A1/N1 cross-border dual carriageway), areas to consider for joint-infrastructure co-operation include:

- Regional development;
- Tourism;
- Health services;
- Education;
- Energy; and
- Water.

## 5.2 Need to address issues in infrastructure delivery

The need to address the inefficiencies in infrastructure delivery has never been greater. Of critical importance will be the rationalisation of unnecessary non-construction costs and delays (e.g. procurement process; planning; land acquisition etc). These not only threaten desired efficiency outcomes and value-for-money but the impact of stop-start projects on the market cannot be underestimated. Project delay can also affect market confidence and be interpreted as Government stalling or withdrawing its support for a particular project or commitment to infrastructure investment in general.

Public procurement is frequently highlighted as a barrier to effective infrastructure delivery. Government should examine and rectify problems in the procurement process in order to reduce delays and additional costs. This includes the pre-procurement, procurement and post-procurement phases. Government must also take into consideration the impact that the replacement of the current procurement directives (Directive 2004/17/EC and Directive 2004/18/EC) as well as the adoption of a directive on concessions will have on the delivery on infrastructure projects in Ireland. The area of concessions was until now only partially regulated at European level. Government will need to pay careful attention during the transposition process to avoid potential complications and delays to what are already complex public sector procurements.

Work is underway in terms of tackling some of the issues through standardised construction contracts and the Construction Contracts Bill, currently progressing through the Oireachtas. A number of improvements are being introduced to the procurement process for PPP projects. This includes reducing the time from preparing a project and launching the competition to time of award from an average of 21 months to 15 months. Also, in order to boost the attractiveness further the Department of Public Expenditure and Reform is expected to introduce partial reimbursement of bid costs for the three shortlisted bidders and the preferred bidder in the unlikely event that a PPP contract is cancelled at that stage.

The existing structure of the planning regime in Ireland has significant financial and resource implications for those charged with delivering essential infrastructure. Unnecessary delays due to the planning process typically add up to a year to the procurement process for a project. There must be greater certainty in the expected planning process timelines (e.g. set timelines should be adhered to), transparency around the entire planning process and better interaction between the myriad of bodies involved in granting approval to commence construction of strategic infrastructure. The planning process should not be a source of additional risk for much needed infrastructure projects.

Government is in the process of taking a number of steps to address problems with the planning process. It is to introduce a new Planning Bill and is committed to establishing the Office of the Planning Regulator, which will carry out independent appraisal of all relevant statutory plans (e.g. local area plans, development plans, regional planning guidelines etc). An Bord Pleanála has also improved its timeliness with regard to decision making through the appointment of additional board members and by implementing reduced quorums. An Board is currently reviewing mechanisms to improve the Strategic Infrastructure process. Nevertheless, a number of process rigidities constraining infrastructure delivery remain.

Essential reforms include:

- The Planning and Development (Strategic Infrastructure) Act, 2006, should be amended to include priority projects (it was amended in 2010 to include large healthcare facilities) such as schools building programmes, large-scale renewable energy projects etc. For example, as recommended in the IEA's 2012 Review, Government should further enhance the consultation, planning and consenting process, with an emphasis on balancing the concerns of local communities with the economic, social and security benefits of proposed critical energy infrastructure projects.
- It is vital that proposals that may bring investment are processed as quickly as possible. The Department of the Environment, Community and Local Government should issue guidance to planning authorities on the significance that should be accorded to economic considerations in the making of planning decisions (this is the case in Northern Ireland for example);
- Greater interaction between planning authorities, the Department and the EPA in terms of IPPC licensing and foreshore licensing. Regulation of development on the Foreshore is a critical issue in need of reform. Work on a new Foreshore Bill is on-going but the process has been very slow to date. The current framework does not enable the full economic potential of our marine resources to be realised;
- Identify areas for rationalisation or duplication reduction during the planning process. For example, the acknowledgement of a 'social licence' being needed by energy infrastructure developers should not entail acceptance of unduly burdensome planning procedures or vexatious delaying tactics by other stakeholders. In this context, the potential for joint oral hearings on specific projects involving a number of granting authorities (e.g. An Bord Pleanála, EPA etc) should be examined.

**Ibec Head Office**

84/86 Lower Baggot Street  
Dublin 2  
T: + 353 1 605 1500  
E: [membership@ibec.ie](mailto:membership@ibec.ie)  
W: [www.ibec.ie/membership](http://www.ibec.ie/membership)

**Galway**

Ross House  
Victoria Place  
Galway  
T: + 353 91 561109  
E: [west@ibec.ie](mailto:west@ibec.ie)  
W: [www.ibec.ie/west](http://www.ibec.ie/west)

**Cork**

Knockrea House  
Douglas Road  
Cork  
T: + 353 21 4295511  
E: [cork@ibec.ie](mailto:cork@ibec.ie)  
W: [www.ibec.ie/cork](http://www.ibec.ie/cork)

**Ibec Europe**

Avenue de Cortenbergh  
89, Box 2  
B-1000 Brussels  
BELGIUM  
T: + 32 (0)2 512.33.33  
F: + 32 (0)2 512.13.53  
E: [europe@ibec.ie](mailto:europe@ibec.ie)  
W: [www.ibec.ie/europe](http://www.ibec.ie/europe)

**Limerick**

Gardner House Bank Place  
Charlotte Quay Limerick  
T: + 353 61 410411  
E: [midwest@ibec.ie](mailto:midwest@ibec.ie)  
W: [www.ibec.ie/midwest](http://www.ibec.ie/midwest)

**Donegal**

3rd Floor, Pier One Quay Street  
Donegal Town Donegal  
T: + 353 74 9722474  
E: [northwest@ibec.ie](mailto:northwest@ibec.ie)  
W: [www.ibec.ie/northwest](http://www.ibec.ie/northwest)

**Waterford**

Business Park Cork Road  
Waterford  
T: + 353 51 331260  
E: [southeast@ibec.ie](mailto:southeast@ibec.ie)  
W: [www.ibec.ie/southeast](http://www.ibec.ie/southeast)