‘Infrastructure and the Economy: How Infrastructural Investment can fuel the Recovery: A UK and Irish Perspective’

Summary Note of the Expert Seminar

17 June 2020

Introduction:

This is a report of the expert seminar 'Infrastructure and the Economy: How Infrastructural Investment can fuel the Recovery: A UK and Irish Perspective', which took place on Wednesday 17 June 2020, facilitated by the British Irish Chamber of Commerce Infrastructure Committee. The event occurred in the midst of the Covid-19 outbreak, which had effectively halted the world's economy for the first time in living memory. Governments around the world responded with unprecedented emergency aid and stimulus packages to ensure that the recession does not transition into a global depression. The purpose of this Seminar was to evaluate if investing in infrastructure can be an effective means to get a nation's finances back on track after a recession. In addition, this Seminar considered the role of private sector financing for national projects – and the most appropriate mechanism for private investment.

The Seminar was opened by Sean Finlay, Chair of the British Irish Chamber of Commerce Infrastructure Committee, who outlined the objectives of the Seminar and set the context for the discussion. Sean outlined that during the 'Great Recession', the Government slashed capital expenditure in order to get the Government finances under control. Sean reminded attendees that Ireland had a National Development Plan and Planning Framework incorporated into 'Project Ireland 2040', and that that the Committee had been generally supportive of the Plan. Sean then explained to participants that this Seminar was divided into two segments:

i. **How Infrastructural Investment can fuel the Recovery.** The goal of this panel was to consider the potential macroeconomic benefits from increasing infrastructure investment and to evaluate what public projects should be prioritised.

ii. **Financing Public Infrastructure: The Role of the Private Sector.** The goal of Panel 2 was to consider and discuss the role of private sector financing for national projects and to evaluate the various mechanisms for private investments.

Panel 1 Participants:

- Professor John FitzGerald, Economist, Research Affiliate ESRI, Honorary Fellow, Trinity College Dublin
- Javid Khaliq, Business Unit Director - Energy & Utilities, Mace
- Cathal Marley, Chief Executive Officer, Ervia
- Caroline Spillane, Director General, Engineers Ireland

Topics Included:

Capacity of the State to Invest in Infrastructure: The 'Great Recession' vs. 'the Pandemic'

The 'Great Recession' put far more pressure on the exchequer than this time. Even the worst projections of €30bn are half of what was spent during the financial crisis. Unlike the 'Great Recession', the external conditions for borrowing are fundamentally different. Ireland is currently borrowing at close to 0% interest in the debt markets whereas in 2010 the rate of interest on Irish debt was so high that formal assistance was required from the Troika (ECB, EU, IMF). The Government's priority thus far has been to insulate workers from the worst economic effects of the crisis. However, depressed consumer confidence has meant that the stimulus for households is not getting into the economy. A stimulus release will come when consumers feel confident enough to spend.

Stimulating the Economy Now:

There has been a significant collapse in infrastructural investment in the economy. The State has the borrowing capacity to engage in a wide-ranging stimulus programme to spur on economic activity. Therefore, the State must intervene to offset the fall in private sector development and investment. Infrastructural expenditure from the exchequer will fuel the recovery by creating jobs right through the supply chain and would have an immediate impact. Failure to invest in areas such as water, gas and public transport will stifle the economy's capacity to grow.

Addressing the Infrastructural Deficit:

Ireland already has a major infrastructural deficit that needs to be addressed. The State has the borrowing capacity to engage in a wide-ranging infrastructural programme. In recent years, Ireland has invested in areas such as gas, water, and wastewater infrastructure however, it has not been of the scale needed. These are also projects that are shovel ready.

Capacity to Deliver Infrastructure:

While Ireland may have the resources and the ambition to deliver its national infrastructure programme, there may not be the capacity to achieve it. The Government needs to pay due regard to skills shortages. According to Engineers Ireland, nine out of ten engineering leaders list 'skills shortages' as a barrier to growing their workforce.

Project Ireland 2040

Project Ireland 2040 incorporates Ireland's National Development Plan and Ireland's National Planning Framework. This is a plan that has a long-term vision coupled with committed financing of outlined projects. Previously we had plans without money or money without detailed plans. For the first time we have both and the principles of Project Ireland 2040 should be adhered to.

State of Ireland's Infrastructure

Half of engineers say it is inadequate for development. During the last recession, not only did Ireland underinvest, it did not keep existing infrastructure up to standard. Investment needs to be maintained not just for new projects but for maintaining national infrastructure. One example given was that Dublin does not have enough water, the capability to treat the water or alternatives of supply.

Planning and Consent System

The Irish Planning system can be slow, cumbersome, expensive, and frustrating for applicants. This is a view shared by many throughout the system from developers and local communities to major investors. There are three pieces of planning legislation that would significantly improve the delivery of infrastructure in Ireland that did not pass the Oireachtas before the dissolution of the last Dáil. These are extremely important: The Housing, Planning and Development Bill 2019, the Water Environment (Abstractions) Bill 2018 and the Marine Planning and Development Management Bill.

Panel 2 Participants:

- Paddy Howard, Department of Public Expenditure and Reform
- Gwyn Llewelyn, Managing Director, Head of Social Infrastructure, KPMG LLP
- Darryl Murphy, Managing Director, Infrastructure, Aviva Investors
- Moray Watt, Partner, QMPF

Moderator: *Angelyn Rowan, Partner, Construction, Projects and PPP, Philip Lee*

Public Private Partnership Models in the UK

Public Finance initiative (PFI) is a longstanding Government procurement policy in the UK aimed at creating public private partnerships (PPPs), where private firms are contracted to deliver public sector infrastructure. In the early 00's, the UK created Local Improvement Finance Trust (LIFT) initiative to support collaborations between local authorities and the National Health Services (NHS), as it was felt that the criteria for PFI was inappropriate for such collaborations.

In 2005, the Scottish Government replaced PFI with the Non-Profit Distributing Model (NPD). In addition, the Scottish Government set up five hub companies to deliver community infrastructure projects using private finance contracts to pay for the assets procured through the hubs. The hub programme involved bundling together similar projects into single contracts. The contracts were modelled on the NPD system and shared out around the country by five regional hub companies called hubcos.

Both the LIFT and HUB models were heavily criticised and failed to meet their off-balance sheet requirements.

Impact of Covid-19 on Public Private Partnerships

In the UK, PFI contracts have generally not triggered a force majeure from obligations due to COVID-19 related issues. General feedback from the UK is that PPP models have been quite resilient, the UK and Scottish Governments have offered additional financial supports for impacted projects. Reports have been that the Covid crisis has actually enhanced the working relationships between the public and private sector partners working in tandem on their respective roles.

Lessons learned from the UK

In the UK, too often Public Private Partnerships turn into a customer type relationship for a procuring authority – everything is stipulated up front in the contract then passed on to a separate department who may not know the intricacies of the contract. It becomes a contractual relationship which doesn't lead to adaptability, it leads to a confrontational relationship as opposed to collaborative one. Joint ventures between a public sector body and a developer are more conducive to a collaborative relationship. In this relationship the public sector representative doesn't just have a seat at the table but is instead involved in the governance of the project.

Delivery Challenges:

PPPs only work if there is capacity in the sector that can take on the risk and workload. Too often, PPPs are a result of the public sector trying to get a project off its balance sheet and offloading the risk. However, if the sector doesn't have the capacity to deliver the project, then leveraging the risk is counterproductive.

Accounting Treatment

A lot of deals seem to get done to drive liabilities off the balance sheet. If that constraint isn't there, then deals may have been done differently.

The Role of the Public and Private Sectors

Historically PPPs have usually occurred when the public sector requires the private sector to fulfil a delivery of a public project e.g. schools, hospitals universities. However, this can be inverted where the public sector has an important role in facilitating project delivery in what has been traditionally a private sector area. This new trend is a disrupter for the sector and could continue for quite some time. It is also seen as a positive development. The Land Development Agency in Ireland is considered a good example of this.

UK and Ireland – A Different Approach

The Irish approach is pragmatic each based on its merits such as for social housing development whereas in the UK it has become highly politicalised and at times it has been toxic. Engagement and communication with the public was poor leading to a distrust in PPP models.

Addressing the Climate Challenge

Private sector infrastructural development can help address this crisis. Fundamentally, there needs to be various models to address the various aspects of the climate crisis. One of the challenges in climate change is the sheer scale of investment needed, the public sector cannot do this alone. This is going to need the right financial and delivery models. There is currently a significant gap in development capital for the green agenda. Governments will need to play a bigger role to kick start some of these new economies.

Project Ireland 2040 and the Private Sector

PPPs will play a role in the delivery of Project Ireland 2040. Value for money will be the key determinant as to whether the Government will pursue a PPP initiative for a national project. Other factors that will determine as to whether a public private partnership model will be utilised include whether it genuinely adds value, it is an efficient use of resources and whether it supports the public sector reform agenda. There are currently a number of PPP projects relating to social housing and education in the pipeline. Ireland now has practical experiences of using PPPs which will stand to it in delivering Project Ireland 2040.