Signs of life in Irish PPP

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In spite of the credit crunch, two schools and a motorway services PPP transaction closed in 2009 and the first half of this year. Irelands banks, exposed to a crumbling property market, together with its government, despite a swingeing austerity programme, have persevered with PPP despite, or perhaps because of, these woes. Bank of Ireland and Allied Irish Banks, both major players in PPP, received bailouts, and the Irish government is a substantial shareholder in both.

But Irelands banks and government are open for new business. Bank of Ireland was mandated lead arranger on all three recent deals, and sole lender on two of them, but more packages of schools and universities are on the way. The main focus of bankers and lawyers is now the bigger projects coming through in the road and rail sectors. Irish lenders will not be able to support these deals on their own, and sponsors hope that some banks that had pulled back from the market will soon be ready to move back into Irish PPP lending.

The biggest upcoming deal is the Dublin Metro Project, which will connect Dublin International Airport with the city centre, where the Railway Procurement Agency (RPA) has shortlisted two consortiums and hopes to reach financial close in 2011. The first consortium is Celtic Metro Group, made up of Barclays Private Equity, OHL, Mitsui, Soares da Costa, Iridium, CAF and MTR. The other is Metro Express, comprising Macquarie Capital, Global Via, Allied Irish, Bombardier and Transdev RATP.

The RPA will award a concession to design, build, finance and maintain the Metro, which will connect to the existing LUAS tram lines and DART (Dublin Area Rapid Transit). The PPP will involve building an 18.8km light rail system, with seventeen stations and 21 trains. The operator of the system will be appointed separately.

The project received a boost in May, when the European Investment Bank approved a Eu500 million ($646 million) loan in advance of the final award. And the international make-up of the two consortiums suggests that a broad group of European, Japanese and North American banks may be willing to participate on the back of their existing relationships with sponsors.

The pipeline of PPP projects is accelerating again, and the Irish government was fortunate that the final projects in the first PPP roads programme had already closed financing before the crunch, after a flurry of contract awards in 2006 and early 2007.

With construction on the last of these roads scheduled for completion this year, the National Roads Authority has now embarked upon the second PPP roads programme, with the objective of delivering new road construction, with a capital value of Eu1 billion, through private sector funding.

Continuing education

The deals that closed during the crunchs aftermath should give bidders comfort that the Irish government will stick with PPP structures. For the first bundle of schools, Macquarie was lead sponsor, in a consortium with Pierse Group (design and build) and Sodexho (facilities management). The design, build, finance and operate concession will run for 25 years on four schools in Laois and Offaly. Bank of Ireland was mandated lead arranger, and eventually provided all the debt, with financial close in March 2009, when global financial markets were still at a low point. And in September of last year

Bank of Ireland also acted as sole lender on a Eu70 million motorway services areas PPP.

The most recent schools deal provided more grounds for optimism. The second schools bundle reached financial close in June, and this time NIBC came in as a second commercial bank lender, alongside Bank of Ireland, and the European Investment Bank came in with half of the Eu100 million in senior debt. We welcome the involvement of EIB and NIBC in this transaction as it demonstrates that the Irish PPP market is very much open for business for international bidders and funders, says Donal Murphy, director, global project finance, Bank of Ireland Corporate Banking.

Schools bundle 2 is being developed by a consortium comprising Macquarie Partnerships for Ireland, Pierse Contracting and John Sisk & Son. Pierse and Sisk will do the construction work. Allen & Overy and McCann Fitzgerald were legal counsel to the lenders. Matheson Ormsby Prentice advised the sponsors. Bankers say that debt pricing was in line with similar PPP projects in the UK. Under the contact the six schools, located in Cork, Limerick, Wicklow, Kildare and Meath will be built and then maintained for a period of 25 years.

The Department of Education and Skills will soon tender a third bundle of schools. This bundle originally consisted of seven schools on six sites in Wexford, Waterford, Galway, Westmeath, Leitrim and Donegal, but in September 2009 the Minister for Education and Science approved the inclusion of an eighth school in Limerick. The eight schools are to provide accommodation for roughly 5,560 students.

There is also a separate PPP programme for universities, and financing for Bundle 1 should be in the bank market later this year. The various deals take different approaches to financing, with some bidders being required to put a debt package in place when tendering, and others holding a funding competition post-signing. But lenders will me more enthused by the slate of transport deals.

Second time to step up on roads

There are some very large road and rail projects coming through, including the Dublin Metro and the N17/N18 road in Galway, says Conor Barrett, an associate director, also at Bank of Ireland. In 2008 and 2009 there were a limited number of bank lenders involved in the Irish PPP market, but there is currently a lot of interest from international banks because of these sizeable deals that are on the way.

Between 2003 and 2007, says Barrett, ten road PPPs closed in Ireland, and there are a lot of international banks that already have experience of doing deals in Ireland. Going forward we will see banks that were previously involved coming back into the market. There is also less PPP activity in some other countries, and banks are seeing the steady dealflow in Ireland and are interested in playing a role.

The immediate focus of the main lenders in the market will be on two road deals, which are expected to reach financial close this year. The NRA likes to keep the market aware of what it is doing, and is good at getting its deals done, and all the indications are that the N17/N18 and N11 will reach financial close in 2010, comments a lawyer in Dublin. Roads are part of a major programme, but there are one-off deals in other sectors as well which the market is following such as the concert hall.

There is plenty of interest in the Eu500 million N17/N18 project, which runs 58km from Gort to Tuam and includes the construction of five river bridges and two railway bridges. In late June its deadline for best and final offers was pushed back so as to allow the EIB, which is likely to provide half of the debt, to prepare documentation for both bidders. The bidders are a grouping of BAM PPP/Balfour Beatty Capital and Direct Route, comprising Strabag/John Sisk & Son/Roadbridge/Lagan Construction/AIB. Four consortiums were initially shortlisted. The other two were GASTA Roads (Global Via Infraestructuras, Macquarie Capital Group, P. Elliott & Co, Wills Bros) and Eurolink N17/N18, comprising Cintra and SIAC Construction.

The NRA made the decision to procure the N11 Arklow/Rathnew scheme, along with the Newlands Cross junction upgrade, as a single PPP scheme under the second PPP roads programme, and this includes 16km of newbuild motorway/dual carriageway, a junction upgrade and operation and maintenance of 33km of existing dual carriageway.

In February the procurement process for a new extension to the DART Underground began with the publication of a notice in the Official Journal of the European Union, informing interested parties of the project and inviting market soundings from participants.

This project is viewed as the missing link that will connect all mainline and light rail services in Dublin into an integrated and cohesive network DART, Commuter, Intercity, Luas and Metro. DART Underground will run under the heart of Dublin, through a 7.6km tunnel. It is anticipated that construction work will begin in 2012, with passenger services starting in 2018.

Ireland got to grips with tackling its budget deficit very early on in the financial crisis, and is well ahead of the UK, Germany or Spain with spending cuts, which have even included real wage reductions for public sector workers. The country has yet to see an end to its recession, but has convincingly been able to distance itself from southern European spendthrifts like Greece. Nevertheless Moodys, citing lacklustre growth and the cost of the rescue of its banks, in mid-July downgraded Ireland to Aa1 from Aa2. Moodys cited the governments gradual but significant increase in the debt to GDP ratio and weakening debt affordability (as represented by interest payments versus government revenue). Moodys also pointed to Irelands weakened growth prospects as a result of the severe downturn in the financial services and realm estate sectors and on ongoing contraction in private sector credit.

Ireland is not alone among PPP jurisdictions facing a sceptical analyst community. And against such a background, bringing in private sector capital for major infrastructure projects makes more sense than ever before, especially since large projects are helping keep unemployment down.