



Department of Finance Welcomes CIC Report

A recent meeting between the Department of Finance and the CIC Task Force has confirmed a positive response from Government in relation to the CIC proposals.

As had been previously advised, the Government has been exploring new ways to fund capital investment. The pension funds industry and other institutional investors represent one possible source of additional private sector funding for Public Private Partnership projects. In this context, the Government very much welcomed the Report from the CIC and the emphasis it gave to accessing new sources of funding for public infrastructure. They confirmed that the CIC Report has been an important spur to work in this area and the overall effort to find alternative and innovative means of funding the investments we need to position Ireland for economic recovery.

The Government is very keen to access and encourage investment by pension funds and others in public infrastructure. The Department of Finance, together with the National Development Finance Agency and others, has been actively engaged with a number of interested private sector parties to work through the details of funding proposals that could potentially help to unlock additional sources of private capital for infrastructure funding. We were advised that these discussions are encouraging.

The Government has now asked the Department of Finance to expedite work on this issue with a view to bringing on new sources of private funding for projects as soon as possible. More than one mechanism is being looked at to encourage and facilitate additional funding from institutional investors.

The key issues for the State are to ensure that the terms are right and in the taxpayer's favour, that value for money is secured and that the private sector shares the appropriate level of risk to minimize the State's exposure to additional borrowing. The challenge they face is to devise an infrastructure financing arrangement that both meets the State's requirements and offers a risk/return profile acceptable to investors.

Achieving an “off balance sheet” status for projects is not the main driver for our capital investment decisions. In capital investment (including privately-financed investment) the priority of the Department of Finance is always to achieve Value for Money for the taxpayer. However, given the current difficult budgetary circumstances which the country faces, they also confirmed a need to minimize the State’s exposure to additional Exchequer borrowing.

Other countries in Europe are also engaged in efforts to secure alternative funding for infrastructure projects. The Department of Finance is continuing to liaise with its European colleagues directly and through the European PPP Expertise Centre as they work through the details of potential funding solutions. The Department is continuously monitoring the endeavours of other EU States to see if their approaches can be applied with benefit in Ireland.

The advantages of accessing additional funding for infrastructure investment were also acknowledged. The Department of Finance shares the CIC view that infrastructure investment helps to create jobs. They acknowledged that the employment impact of construction projects does vary, and that research conducted in this area suggests a range of 8-12 direct jobs created per €1 million invested in infrastructure. They agreed that the directing of additional private sector investment toward infrastructure would also help to further boost Ireland’s public capital stock and so support efforts to increase competitiveness and raise economic growth.

They also reminded the CIC that the Government is continuing to invest substantial Exchequer resources in capital infrastructure, with €7.3 billion allocated for capital projects in 2009 and some €31 billion allocated for the period to the end of 2013. This investment supports a substantial level of employment, while the reductions in tender prices mean that they can do more with less. This year, they will be spending 5% of GNP from the Exchequer on public infrastructure, one of the highest ratios in the EU15 and over the next four years, Exchequer capital investment will amount to an annual average of over 4% of GNP.

Finally, the Department representatives confirmed that they will continue to work with other Departments, the NDFA and other procurement agencies such as the NRA on bringing forward a stream of economically worthwhile projects to access any new funds that may become available. There is a substantial pipeline of projects that could potentially benefit from private financing.

The Department of Finance will continue to keep in contact with the CIC Task Force to provide updates about the progress of this work. Director General, Ciara Murphy has advised that the Task Force were very encouraged by the response from the Department of Finance.