BUILDING ON RECOVERY

Infrastructure and Capital Investment Plan 2016-2021

Briefing Note on the Transport Aspects of the new Capital Investment Plan

Overview

The Government's new six year capital investment plan was published on 29 September and provides for a total public investment of €42 billion over the period 2016 to 2021. This comprises direct Exchequer capital spending of €27 billion, investment by State bodies from their own resources/borrowing of €14.5 billion and €0.5 billion of public private partnership (PPP) investment. The total package represents over 3.5% of GNP and is estimated to support more than 45,000 construction-related jobs.

Transport Provision

The allocation of capital funding for transport is guided by the recommendations of the strategic investment framework for land transport *Our Transport Future,* published earlier this year by the Department of Transport, Tourism and Sport, which identifies three broad priorities for investment:

- Maintaining and renewing strategically important elements of the existing transport system.
- Addressing urban congestion.
- Improving the efficiency and safety of existing transport networks.

Although the plan covers the six year period 2016 to 2021, it contains a seven year Exchequer capital envelope for transport of €9.6 billion up to 2022. Transport will account for some 29% of total Exchequer capital spending but only 5% of total spending by State bodies from their own resources/borrowing up to 2021.

Of the €9.6 billion total, €6 billion is being allocated to roads and €3.6 billion to public transport. Within these overall totals there are small provisions for smarter travel and carbon reduction measures (€100 million) and regional airports (€28 million).

Transport spending under the plan is significantly back-loaded, rising from €939 million in 2016 to €1927 million in each of the years 2021 and 2022. In other words, about 40% of the total will be spent in the final two years of seven.

There is a welcome increase in Exchequer capital investment up to 2021, coming after a sharp decline in spending since 2008. The total Exchequer capital provision for the Department of Transport, Tourism and Sport, which included small provisions for tourism and sport, was set at €938 million in the Revised Estimates Volume for 2015. The comparable figure will increase to €1039 million in 2016 and reach €2 billion in 2021. This represents a more than doubling of spending by the end of the plan period but is still some way short of the €3 billion peak reached in 2008. However the increases are quite modest in the first four years of the plan, with the total still only reaching €1238 million in 2019.

These figures have to be seen in the context of the analysis in the strategic framework for land transport *Investing on our Transport Future*. This stated: "Restoring transport investment levels to our historic long-run average of 1.1% to 1.15% of GDP would equate to annual investment of over €2 billion, based on 2014 GDP." It also said that a conservative estimate of steady state maintenance costs was €1.6 billion per annum, €1.3 billion of which would come from the Exchequer. This is the amount we should be spending annually to maintain and renew our existing transport network so as to keep it in a satisfactory state.

Roads Investment

The plan provides for total capital spending of €6 billion on roads over the seven years to 2022, with €4.4 billion being spent on the maintenance and renewal of the existing road network and €1.6 billion on new works. The Institute has been calling for some time for substantially increased resources to be devoted to protecting the existing transport network by timely spending on maintenance and renewal and the commitment to this in the new plan is most welcome. According to a statement from the Minister, road spending will have reached the required "steady state" to protect existing investment by 2020, while by 2022 significant progress will have been made in "tackling bottlenecks and pinch points across the road network". While this is true, it takes no account of the substantial investment backlog that has developed as a result of the sharp cutbacks in expenditure since 2009.

The new projects to be undertaken include:

N4 Collooney to Castlebaldwin
N5 Westport to Turlough
M7 Naas to Newbridge Bypass widening
N8/N25 Dunkettle Interchange
N22 Ballyvourney to Macroom
N56 Dungloe to Glenties
N56 Mountcharles to Inver road
Sallins Bypass
Moycullen Bypass
New bridge and approach roads over the Garravogue River in Sligo
Upgrading of roads into Grange Park Business Park in West Dublin to provide access to a number of global industries.

Three projects already announced under the existing PPP programmes will be completed:

N17 Gort to Tuam – already underway
M11 Gorey to Enniscorthy
N25 New Ross Bypass.

According to an accompanying statement from the Minister, a number of other projects, targeting bottlenecks in the road network, will be progressed "subject to planning". Examples include:

Shannon Crossing Bridge at Killaloe
Galway City Bypass
Mallow Relief Road
Adare Bypass
Slane Bypass
N28 Cork to Ringaskiddy
N69 Limerick to Foynes
Athy Southern Distributor Road
Portlaoise Southern Distributor Road
Phase 4 of the Dingle Relief Road
Laytown to Bettystown Link Road.

There is a commitment in *Our Transport Future* that the Department, in conjunction with local authorities and Transport Infrastructure Ireland (merger of NRA and RPA), will identify roads of strategic importance. Such roads are likely to receive funding priority under the capital plan.

Public Transport Investment

A total of €3.6 billion is being allocated for public transport over the seven years to 2022. This will provide funding for:

The new Metro North
New and replacement buses
Further upgrading of Quality Bus Corridors
Completion of the Luas Cross City project
Completion of the Dublin City Centre railway resignalling project
The re-opening of the Phoenix Park railway tunnel
The construction of a new central traffic control centre for commuter and intercity rail services
Ongoing maintenance to ensure the safety and efficiency of the railway network.

The first phase of a multi-phase DART expansion programme will begin with the expansion of the DART service to Balbriggan. Design and planning for further phases will be progressed and these include DART services to Maynooth and Hazelhatch. The electrification of these lines is a prerequisite to the possible future construction of the DART Underground tunnel since only electric trains could operate in this tunnel. The Minister announced on 22 September that the tunnel project as originally planned, and for which a Railway Order had been approved, was not proceeding and that it would be re-designed "to provide a lower cost technical solution for the project".

According to the Minister's statement, €2.6 billion of the total will allow investment in essential "steady state" maintenance and asset renewal to keep the public transport system in an adequate condition and fit for purpose, with the result that the system will have reached the required maintenance level by 2020. As with roads, this takes no account of any investment backlogs which have developed since 2009.

No specific mention is made of funding for Bus Rapid Transit and this a matter of serious regret for the Institute which has strongly advocated the development of BRT as a relatively low cost and effective way of increasing the provision of urban public transport. The National Transport Authority, in its *Integrated Implementation Plan 2013-2018*, proposed the provision of three BRT routes in the Greater Dublin Area:

Swords/Airport to City Centre
Blanchardstown to N11 (UCD)
Clongriffin to Tallaght.

It undertook a public consultation on the Swords BRT route in late 2014 but it is now unclear how this project will be impacted by the decision to proceed with a modified version of Metro North. It is also unclear if the plans for the other two BRT routes will now proceed since the capital investment plan only talks of "further upgrading of Quality Bus Corridors".

There is also no mention of the review of rail policy which was referred to in *Our Transport Future* and which is intended to consider the future role of rail transport in Ireland. This review could have significant implications for rail investment, particularly as to where spending should be directed.

Smarter Travel

A provision of €100 million is included for smarter travel and carbon reduction measures. While no details are given, this is likely to continue funding for cycling and pedestrian facilities and for measures to reduce the carbon footprint of transport.

New Metro North

The capital spending plan states that construction of a new metro link between Dublin City Centre and Dublin Airport/Swords will begin in 2021 with a scheduled completion date of 2026/7. This means that most of the expenditure on this project will fall outside the timeline of the new capital plan. Although not stated, the project is likely to be implemented as a PPP. The Railway Order for the existing project will lapse and a new planning and statutory approval process will be required, hence the projected starting date of 2021.

In tandem with the launch of the new capital plan, the NTA published its *Fingal/North Dublin Transport Study: Stage 2 Appraisal Report.* This assessed a range of potential public transport options for the corridor – light rail, heavy rail and bus-based – and recommended in favour of a modified Metro North. The main differences between this proposal and the new project are:

- The replacement of the O'Connell Bridge and Parnell Square underground stations with a single underground station at Upper O'Connell Street.
- Operating at surface level rather than underground through Ballymun. This would remove the cost of both the tunnel and an underground station.
- Smaller stations capable of taking 60 metre trams rather than the 90 metre ones originally planned.
- A one third reduction in the number of trams required arising from the 60 metre tram decision.

The revised project will have a design capacity of 9900 passengers per direction per hour compared with a projected peak loading of 6245 in the year 2033. The design capacity of the original Metro North to be 8000 initially, rising over time to around 20000.

Metro North is estimated to cost €2.4 billion exclusive of VAT which is probably of the order of €1 billion lower than the original project. This is still a very large and expensive project when set against total transport investment of €9.6 billion over seven years. However, if it is implemented as a PPP a significant portion of the total cost of the project will be borne initially by the private sector and repaid by the Exchequer in the form of annual payments over a period of 25/30 years. Properly structured, this expenditure would be off the Government's balance sheet and would spread part of the funding requirement over a long period. The downside is that the annual payments under the PPP would pre-empt a significant proportion of future transport expenditure for a generation.

Regional Airports

A provision of €28 million is included in the plan for regional airports. This will be used to fund safety and security enhancements at regional airports "to ensure connectivity for balanced regional development". This is in line with the policy set out in A *National Aviation Policy for Ireland* published earlier this year.

North South Transport

There are a number of references to North-South transport projects in the new capital plan:

- The A5 (Derry) road project is currently under review and once the planning, timing and costs associated with the project are settled the Government will consider the funding implications. The Government gave a financial commitment to the original project under the St Andrew's Agreement but this was set aside at the height of the crisis in the public finances.
- The upgrading of the Enterprise trains on the Dublin-Belfast service is nearing completion.
- The Government remains committed to the concept of the Narrow Water Bridge linking counties Louth and Down.

While there is soothing language about these projects there is no commitment to funding beyond that already provided for the Enterprise upgrade.

Non-Exchequer Investment

The capital plan indicates that there will be a third **PPP programme** involving €500 million worth of projects. There appear to be no immediate plans for further transport PPPs beyond the three road projects mentioned earlier in this note and already committed under the first PPP programme. Road projects form a major part of the €6 billion worth of public infrastructure already delivered using PPPs. As mentioned earlier, it is likely that the new Metro North will be delivered as a PPP but it is probably too early to give any commitment in this regard.

The capital plan draws attention to the level of future Exchequer financial commitments in respect of PPPs. Combining existing PPPs and those under development, the Exchequer will see its financial commitments in respect of PPP payments rise from €225 million this year to €380 million in 2021. The Exchequer is committed to pay an average of over €360 million per annum between 2022 and 2035 and €280 million per annum up to 2042 and it will be 2052 before all payments cease. Both the financial commitment and the timescale will increase as new PPPs are developed and these figures take no account of the amount of upfront Exchequer funding provided for PPP projects to finance planning, land acquisition and so on. Because of the extent to which PPPs pre-empt future public expenditure, the capital plan states that in future the total cost of PPPs, including the upfront direct Exchequer costs, will be capped at 10% of total annual Exchequer capital spending.

The **Ireland Strategic Investment Fund**, a sovereign wealth fund created from the former National Pension Reserve Fund, will invest €7.5 billion over the period of the capital plan. The Fund has a mandate to achieve a commercial return on its investments and to support economic activity in Ireland. The Fund will seek private partners for its investments in order to realise a total investment of some €15 billion. Transport is one of the sectors identified for potential investment but this would have to be on the basis of providing a commercial return. One area where this may apply is port investment.

The proceeds of the sale of the State's shareholding in Aer Lingus are being invested in a **Connectivity Fund** which will be a sub-portfolio of the Ireland Strategic Investment Fund. It will operate on a commercial basis and support projects with a connectivity theme, such as the development of ports and airports. Again the emphasis will be on achieving a commercial return on any investment made.

European loan financing will continue to be available for transport projects. The **European Investment Bank** has a strong track record of providing loan financing for transport projects in Ireland. It has played a vital role in PPP projects where its participation can offer significant comfort to private investors. The EIB and the European Commission have established the **European Fund for Strategic Investment** to mobilise private funding for strategic investments. Transport is one of the areas that could be a beneficiary of the Fund.

October 2015

The opinions expressed in this briefing note are those of the author and do not necessarily represent the views of the Institute.