



**An Roinn Caiteachais  
Phoiblí agus Athchóirithe**  
Department of Public  
Expenditure and Reform



**Tionscadal Éireann  
Project Ireland  
2040**

# **MPAG Review Note**

## **Clonburris Abnormal Strategic Infrastructure**

**Preliminary Business Case**

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**Date**

20<sup>th</sup> July 2022

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**Sponsoring Agency**

South Dublin County Council

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**Approving Authority**

Government

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**Day-to-day Approving Authority**

Department of Housing, Local Government and Heritage

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**Note**

The purpose of the Major Projects Advisory Group is to support the application of the Public Spending Code and consider major public investment proposals (in particular in relation to costs, scheduling, delivery and risk) in advance of Government Decision.

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**Documents Considered for Review**

2.\_Clonburris\_URDF\_Prelim\_Business\_Case

3.\_Clonburris\_URDF\_Prelim\_Business\_Case\_Appendices\_Combined

Clonburris SDZ - KPMG PBC Review\_220620

Clonburris PBC Review\_SDCC response to KPMG Queries

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**Date Received by MPAG**

21<sup>st</sup> June 2022

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**Date of MPAG Meeting**

13<sup>th</sup> July 2022

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**Date of MPAG Return**

20<sup>th</sup> July 2022

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## Main Findings and Recommendations

### Main Issues of Concern

1. The Sponsoring Agency and day-to-day Approving Authority should now review the existing cost forecast for the proposal and ensure a realistic cost estimate and contingency, reflective of ongoing issues such as inflation, is established and presented to Government. The current cost forecast for the proposal appears to reflect abnormally low levels of contingency and optimism bias increasing the risks of an understatement of the eventual outturn costs for the proposed infrastructure. The cost envelop must be adequate to deliver the envisaged outcomes with a high level of confidence.
2. There is concern regarding the risk to the private commercial viability of delivering housing in the Clonburris SDZ within the proposed timelines. Given the uncertainty around construction sector inflation, there is a risk that the private developers involved in Clonburris may delay or abandon the development of their respective landholdings.
3. There is a non-negligible risk that the proposal will be challenged under state aid rules. The Sponsoring Agency and day-to-day Approving Authority should highlight the state aid risk to Government and outline appropriate mitigation actions. These actions should be clearly recorded in accordance with specific legal advice applicable to Clonburris.
4. The development agreement between SDCC and the private landowners is critical to the successful delivery of the proposed infrastructure and the overall successful development of the Clonburris SDZ. The Sponsoring Agency must ensure that provisions are included in the development agreement that cover the following:
  - Commitments for the minimum number of housing units that must be delivered by the private landowners for each phase of public infrastructure implemented and delivered.
  - Commitments for each phase of public and community infrastructure provision that must be delivered to enable the minimum level of housing occupancy to be achieved and in line with the SDZ conditions.
  - Arrangements that cover the potential withdrawal of a private landowner from the development including the transfer of lands and commitments to a third party
  - The proportion of any cost overruns that the private landowners will be liable for.
  - Dispute resolution mechanisms between the parties.

5. Due to the incorporation of costs and benefits relating to housing, there are concerns of double counting across business cases and analysis concerning the Clonburris SDZ.

#### **Positive Aspects of the Proposal**

1. The rationale underpinning the investment is sound and the proposal will help address the national issue of an undersupplied housing market.
2. Options for the proposal have been subject to an economic appraisal consisting of a qualitative and quantitative economic analysis.
3. A financial appraisal has been conducted for all shortlisted options.
4. The staged nature of the procurement strategy, where abnormal infrastructure and housing development will progress in tandem, is viewed as a positive development. The establishment of infrastructure delivery frameworks (Contractors & Designers) provides confidence that infrastructure can be delivered to required timelines, meet quality standards and provide visibility of evolving costs.
5. The SDZ process has provided a high level of planning confidence that individual planning proposals will be successful.

# 1. Background

1.1 The Clonburris Abnormal Strategic Infrastructure (ASI) is a programmatic proposal for delivering the enabling infrastructure that will allow for the development of the Clonburris Special Development Zone(SDZ) to deliver large-scale public and private housing, located between Lucan and Clondalkin in County Dublin. Key outputs of the programme of investment include:

- Eight kilometres of new streets with cycle lanes, footpaths and landscaping
- A network of cycle and pedestrian ways
- Two new bridges over the Grand Canal
- Four new bridges over the railway line
- Utilities related infrastructure for local water, electricity and telecom systems
- Public amenities including parkland and community facilities

1.2 South Dublin County Council (SDCC) is acting as Sponsoring Agency for the programme and will oversee the activities of Clonburris Infrastructure Limited (CIL) which will be responsible for delivering the strategic infrastructure required. CIL is a joint venture between three private landowners who have holdings alongside SDCC in the Clonburris landbank. These three private landowners are:

- Cairn Homes Properties Limited (“Cairn”)
- Kelland Homes Limited and Sordino Limited (together “Kelland”)
- Clear Real Estate Holdings Limited (“Quintain”)

1.3 The stated estimated total cost for the programme is €285.18m. Of the total costs, €280.30m is being incurred by the parties directly funding the programme. The remaining €4.88m of estimated costs is related to a water pumping station and will be incurred by Irish Water.

1.4 The central Benefit-Cost Ratio (BCR) is 1.8 which is based on costs which will be incurred by the Exchequer. However, when private developer costs are included, which are presumably required to realise the full benefits of the scheme, the BCR for the proposal falls to 1.0.

1.5 It is envisioned that all infrastructure will be delivered by 2028. The proposed infrastructure and amenities will be delivered on a phased basis which is aligned with the delivery schedule for housing.

- 1.6 The key outcomes for the proposed programme of investment include:
- Enabling the development of between 7,730 and 11,098 new housing units. SDCC has outlined a desired delivery target of 8,714 units
  - Recreational and open spaces for residents
  - Improved transport connectivity for residents and nearby communities
  - Improved access to educational and community facilities
  - Increased access and opportunities for employment
  - Good public realm for residents
- 1.7 The Sponsoring Agency is seeking Decision Gate 1 approval for the programme's Preliminary Business Case. This will allow the Sponsoring Agency to begin submitting relevant programme elements for Decision Gate 2 according to planned phasing and delivery requirements of the programme.
- 1.8 The ASI programme is one of a number of public capital investment proposals concerning the Clonburris SDZ. Separate business case material are being developed for these proposals including the development of publicly developed social and affordable housing units.

## 2. Case for Change

### Investment Rationale

- 2.1 **The rationale underpinning the investment is sound and the proposal will help address the national issue of an undersupplied housing market.** In order to unlock the housing development potential of the Clonburris Strategic Development Zone (SDZ), additional roads, active travel infrastructure and utilities must be developed. The cost of this infrastructure makes private delivery of housing unfeasible and therefore public funding for the infrastructure is required to correct this market failure. Reasonably detailed demand analysis has been conducted which supports the proposed level of housing units in the SDZ.

### Objectives

- 2.2 **Not all objectives and related outcomes are fully attributable to the infrastructure being proposed.** Five strategic objectives are presented in the business case. The objectives are linked to the rationale for investment and demonstrate some use of SMART objective principles. It has been noted that a number of objectives share similar desired outcomes and in relation to housing delivery, are not directly attributable to the delivery of infrastructure.

### Options

- 2.3 **There is no consideration of alternative approaches to delivering the infrastructure.** The options presented in the business case pertain to the various housing densities that can be supported by the infrastructure. However, it is noted that the SDZ planning arrangements largely determines the enabling infrastructure on the site. It is important that such constraints around the options analysis for the scheme are clearly highlighted in material presented to Government and in future iterations of the proposal's business case documentation.

### Lessons Learned

- 2.4 **It is not clear from the documentation the extent that lessons learned from other similar schemes, including those funded through the Local Infrastructure Housing Activation Fund (LIHAF) have been considered.** Lessons learned have been taken from the nearby development of the Adamstown Strategic Development Zone. These lessons have informed the establishment of CIL as a Special Purpose Vehicle (SPV) to deliver the required enabling infrastructure. It is important that the Sponsoring Agency continues to examine lessons learned from a wide range of similar proposals to inform the development of the enabling infrastructure in Clonburris.

## 3. Value for Money

### Economic Appraisal

- 3.1 **Options for the proposal have been subject to an economic appraisal consisting of a qualitative and quantitative economic analysis.** A cost-benefit analysis (CBA) has been prepared for the shortlisted options. Option 4 has been selected as the preferred option despite having a marginally lower BCR than option 3. This preferred selection has been made based on commercial viability considerations (balance of unit types, houses and apartments) which indicated that it was more feasible for private landowners to deliver a lower density of development than that envisioned under option 3.
- 3.2 **The main BCR for the proposal that should be presented to Government is 1.0.** The BCR for option 4 is 1.8 when only public funding is considered. However, as private costs must be incurred to deliver the full extent of the proposal and realise associated benefits the BCR of 1.0 generated in sensitivity testing is a more appropriate metric to present for the proposal. It is recognised that there are limitations to the CBA approach for this type of proposal and the

BCR is not fully reflective of the benefits that can be generated through the provision of enabling infrastructure for large scale housing provision.

**3.3 Due to the incorporation of costs and benefits relating to housing, there are concerns of double counting across business cases and analysis concerning the Clonburris SDZ.**

It has been noted that some of the benefits and costs included in the CBA for the ASI proposal are relevant to a separate proposal for the development of social and affordable housing in the Clonburris SDZ. These benefits and costs must be excluded from any CBA undertaken for the social and affordable housing to ensure the analysis remains as accurate as possible.

#### **Financial Appraisal**

**3.4 A financial appraisal has been conducted for all shortlisted options.** NDFA's nominal discount rate of 1.78% has been applied. Option 4 provides the best financial return for all parties when the number of housing units delivered is considered.

**3.5 Inflation poses a threat to the financial viability of private housing development and the costs relating to the proposed infrastructure.** Financial sensitivity analysis has been undertaken by the Sponsoring Agency which indicates that the preferred option still provides a positive return when higher rates of inflation over those used in the base case are assumed.

## **4. Feasibility**

#### **Cost Forecast**

**4.1 The stated estimated cost for the proposal currently stands at €280.3m which includes a 10% contingency and is based on 2021 prices.** The Sponsoring Agency is requesting €186.3m from the URDF and a further €18.8m has been committed from the NTA. The remaining €73.4m of required funding will be provided by the private landowners. The main cost forecast for the proposal does not reflect the most recent rates of inflation. The Sponsoring Agency has indicated in sensitivity analysis that costs may increase by 15-20% if current market conditions persist beyond 2022.

**4.2 The Sponsoring Agency and day-to-day Approving Authority should now revise the existing cost forecast for the proposal.** Cost forecasts should be revised to ensure a realistic cost estimate and contingency, that is reflective of risks and uncertainties such as inflation, is established and presented to Government. The current cost forecast for the proposal is likely a significant understatement of the eventual outturn costs for the proposed infrastructure within a complex and challenging site.

**4.3 It is highly likely that under the existing cost forecasts additional funding will need to be sought to complete the programme of works.** If the existing cost forecast is not revised, it is highly likely that the Sponsoring Agency will have to seek additional funds from the URDF or other Exchequer sources as well as trying to secure additional funding commitments from



the private partners of CIL. This creates additional risks for the proposal in terms of potential delays to the implementation schedule due to the necessity to secure additional funds as well as reducing the proposal's overall value for money.

- 4.4 **The cost contingency for the proposal is considered low for the stage of the proposal's development.** The Sponsoring Agency have noted that the cost contingency reflects the maturity of design for certain elements of the infrastructure such as the south link road as well as the level of site investigation works that have taken place, along with ownership of the land which automatically facilitates wayleaves and easements.
- 4.5 **The standard rate of 10% contingency applied across all classes of infrastructure in the proposal is considered inappropriate.** Different contingency rates should be applied given the long implementation period, the potential for higher than expected rates of inflation, the different risk profiles associated with the different classes of infrastructure and the noted complexities of the Clonburris site. Both KPMG as the external reviewers and DHLGH have also expressed concerns over the proposed cost contingency for the programme of works being proposed.
- 4.6 **It is unclear why the lowest optimism bias rate of 4% is being applied in the analysis.** This optimism bias rate used is based on UK appraisal guidance for non-standard building projects. The use of an optimism bias rate for a non-standard building projects is questionable given that optimism bias rates are available for standard and non-standard civil engineering projects<sup>1</sup> which are likely to be more appropriate in the context of the proposed infrastructure in Clonburris. The selected optimism bias rate is therefore considered inappropriate. Notwithstanding the project type used to select the range of optimism bias uplifts, using the lowest available uplift does not adequately reflect the design maturity and complexity of the overall proposal.
- 4.7 **The Sponsoring Agency should consider the use of other cost forecasting methodologies in the next stages of the project lifecycle.** The use of cost forecasting methodologies such as Reference Class Forecasting (RCF) should be considered for the development of the infrastructure costs in the next stages of the project lifecycle.
- 4.8 **The Sponsoring Agency should reassess the base cost at future decision gates, ensuring that the base cost is independently verified.**

#### **Schedule**

- 4.9 **Further detail should be provided on the implementation and delivery schedules for the proposal.** The envisioned delivery date for the final elements of the ASI proposal is 2028.

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<sup>1</sup> <https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

Further detail on the phased delivery timelines for the proposed infrastructure and the alignment with delivery timelines for the housing units as well as any delivery timelines set out in the SDZ provisions (e.g. community infrastructure, housing occupations) should be included in future iterations of business case documentation.

### **Risk**

- 4.10 **There is significant concern regarding the risk to the private commercial viability of delivering housing in the Clonburris SDZ within the proposed timelines.** Given uncertainty around construction sector inflation, there is a risk that the private developers involved in Clonburris may delay or abandon development of their respective landholdings. Commercial feasibility considerations may also incentivise the private landowners to reduce the overall density of development which threatens the return on public investment in the enabling infrastructure and the achievement of outcomes set out in housing strategies and policy. The development agreement between the Sponsoring Agency and the private developers should include provisions that explicitly link minimum housing delivery targets for the private developers and the level of public investment in the enabling infrastructure.
- 4.11 **There is a non-negligible risk that the proposal will be challenged under state aid rules.** The Sponsoring Agency is aware of this risk and has sought qualified legal advice on the matter. The legal advice received suggests that proposal will not be in breach of state aid rules as long as the infrastructure delivered is not commercially exploited. The transfer of private land to SDCC will take place to allow for full public ownership of the infrastructure to avoid state aid issues. DHLGH have also indicated that the URDF is compliant with state aid rules. However, noting that the private delivery of housing in the Clonburris SDZ is unfeasible in the absence of publicly funded infrastructure, a risk remains that the proposal will be challenged on the grounds that the publicly funded infrastructure confers a commercial advantage to the private landowners involved. The Sponsoring Agency and day-to-day Approving Authority should clearly highlight the state aid risk to Government and outline appropriate mitigation actions.

### **Benefits Realisation**

- 4.12 **Greater clarity is required on the housing delivery targets associated with the phased delivery of infrastructure.** South Dublin County Council have indicated that the proposed infrastructure will facilitate the minimum delivery of 8,714 housing units. As the infrastructure will be delivered on a phased basis, it is important to clearly identify the minimum number of housing units each phase of infrastructure will deliver, and clearly link housing occupation targets to infrastructure provision. This information should be provided to Government in advance of Decision Gate 1 approval and be clearly reflected in the documentation for each piece of infrastructure submitted at Decision Gate 2 and Decision Gate 3.
- 4.13 **Any change in the proposed level of development from the minimum target indicated should be clearly highlighted as individual elements of the ASI scheme progress through the approval process.** The Sponsoring Agency has specified a target of 8,714

housing units to be delivered in the Clonburris SDZ. It is noted that additional housing units may be delivered depending on future market conditions and the overall commercial feasibility of increasing the density of the development in the SDZ.

- 4.14 **The Sponsoring Agency must highlight any dependencies and potential risks that exist between the projects that form the ASI proposal and the other projects required under the SDZ arrangements.** The SDZ arrangements for Clonburris requires additional community infrastructure and amenities such as schools to be developed that are outside the scope of the Abnormal Strategic Infrastructure programme. The Sponsoring Agency have noted that these projects are being progressed and the first school required under the SDZ conditions has secured planning permission. However, more detail is required on how these out of scope projects may impact on the delivery of the ASI and housing.

## 5. Implementation

### Governance and Assurance Framework

- 5.1 **It was noted that a number of important governance details such as the ownership and management of the infrastructure and the funding drawdown mechanisms of the URDF were not discussed in adequate detail in the business case.** The Sponsoring Agency and day-to-day Approving Authority must ensure all relevant information is presented.
- 5.2 **The development agreement between SDCC and the private landowners is critical to the successful delivery of the proposed infrastructure and the overall successful development of the Clonburris SDZ.** The Sponsoring Agency must ensure that provisions are included in the development agreement that cover the following:
- Commitments for the minimum number of housing units that must be delivered by the private landowners for each phase of public infrastructure implemented and delivered.
  - Commitments for each phase of public and community infrastructure provision that must be delivered to enable the minimum level of housing occupancy to be achieved.
  - Arrangements that cover the potential withdrawal of a private landowner from the development including the transfer of lands and commitments to a third party.
  - The proportion of any cost overruns that the private landowners will be liable for.
  - Dispute resolution mechanisms between the parties.
- 5.3 **Both the Sponsoring Agency and day-to-day Approving Authority must be satisfied that an appropriately detailed development agreement between the parties involved in CIL**

**is in place before any public funding is committed.** Failure to have an appropriate development agreement greatly increases risks around the achievement of desired outcomes and value for money.

### **Planning**

- 5.4 **The SDZ status of the Clonburris land bank minimises risks associated with the planning process.** However, the Sponsoring Agency has noted that certain developments including residential developments with 500 or more units will need to submit a planning application to An Bord Pleanála. The extent that such applications will be required for developments in the Clonburris SDZ should be outlined and indicative schedules provided. Any specific risks and respective mitigation actions associated with these applications should be identified.

### **Procurement and Commercial Strategies**

- 5.5 **A number of procurement frameworks will be established to deliver the proposed infrastructure.** A number of procurement approaches are proposed including the use of Competitive Procedure with Negotiation (CPWN). KPMG in their external review of the proposal have noted that the use of CPWN may increase risks around the programme schedule. The Sponsoring Agency and day-to-day Approving Authority must ensure that proposed procurement approach for the individual infrastructure elements minimises risks and delivers value for money.
- 5.6 **There needs to be clear linkages between the performance targets within the infrastructure contracts and the development agreement to ensure the public infrastructure provision is aligned to the housing delivery, and vice versa.** The staged nature of the procurement strategy, where abnormal infrastructure and housing development will progress in tandem is viewed as a positive development in this regard.

## 6. Evaluation

- 6.1 **More detailed and specific KPIs are required to ensure accurate monitoring and evaluation of the proposal can take place in the event it is implemented.** This includes indicators that clearly link the composition and number of units delivered with each delivered phase of the proposed infrastructure.
- 6.2 **Monitoring of market appetite will be an important consideration over the course of implementing the programme.** Regular reviews of the appetite for development among the private landowners should be conducted to ensure there is a sufficient pipeline of housing units to follow each phase of public investment in the proposed enabling infrastructure.
- 6.3 **It is recommended that regular reports on the progress and costs of the programme be submitted to the day-to-day Approving Authority.** The Sponsoring Agency has a responsibility to keep the day-to-day Approving Authority regularly informed on the progress of the programme of proposed works. Progress reports should include an overview of any benefits realised to date (including housing delivery and occupancies, community infrastructure), updates to programme risks and the overall value for money the programme has achieved.