RBS closes twin prison PFI

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UK Prison PFI debt is back on the market after a relatively long period out of the limelight. Royal Bank of Scotland (RBS) has led two identical prison deals, which closed one after the other in quick succession. The Ashford and the Peterborough prison projects were completed with the same parties on both transactions ? a consortium comprising Sodexho Alliance, Interserve and RBS. The deals are the first prison PFIs done in two years, although the deals are part of a continuous programme brought about to upgrade an overstretched system. There are currently 75,000 UK prisoners and an overspill of thousands.

The Ashford/Peterborough prisons will fulfill part of this need for the prison service. Both deals were awarded by the Secretary of State for the Home Office. However, all negotiations were conducted through HM Prison Service.

The Ashford prison financing closed first. Documents were signed on 23 December 2002. RBS led the financing on the £64.75 million ($103 million) deal, which featured a 90/10 debt to equity ratio. £58.75 million debt was provided solely by RBS over 25 years. RBS also put up a third of the £6 million equity bridge alongside Interserve and Sodexho. The prison is ground-breaking in the sense that it is the first women's-only PFI prison. It also includes a mother and baby unit. The project includes design, construction and financing for the 450-bed building.

At £89.85 million, Peterborough is the slightly bigger deal. It is an 840-bed mixed prison which also includes a mother and baby unit, split into 480 beds for men and 360 for women. The project allows for the provision of custodial services and documents were signed on 17 February 2003. RBS provided £82.35 million as debt on 25-year terms and again, injected a third of the £7.5 million equity alongside Sodexho and Interserve.

RBS has treated the projects as identical but separate. Both have concession of about 27 years and Peterborough closed rapidly after Ashford. Bankers put it down to the teams staying together and adhering to the precedent of Ashford.

The two projects have one quite central concern: if lenders use duplicate project documents, and a problem occurs on one deal, both will probably fail. So was the double risk a problem?

?It was a matter of a number of internal conversations?, says Cameron Smith, energy, transport and infrastructure solicitor at Ashurst Morris Crisp, advisor to the consortium. ?Risk analysis was raised early on in the process. It's a fair point to make, and certainly if a contractor went bust, it would affect both projects. But this is a theoretical risk and we can only manage it if it happens.?

The number of prison PFI deals has been limited, but dealflow steady, in recent years. The whole process generally takes much time, although team players tend to be working from a small and specialised field, so the same banks, advisors and lawyers crop up fairly often in the sector.

This said, the prison PFI process is one of the most standardised of all sectors ? although tailored very slightly on a deal-by-deal basis out of necessity ? including hospitals, schools and accommodation. Again this is because there is a relatively small pool of team players, since prison deals are specialised. This pool of players could broaden in time with a possibility of room for bond financing in the sector. This has not been done yet and could be a future alternative route to bank financing, say those involved in the deal.

Both Ashford and Peterborough documentation was based heavily on the Onley prison PFI deal, which closed more than two years ago but has proved to be successful.

The future for prison PFI, say industry sources, looks positive. Smith says: ?There is a huge incentive to develop prisons ? publicly or privately ? as there is such a need for them. But there are significant commercial advantages to having private sector involvement. Prisons financed this way tend to come in on time and on budget, as highlighted in the recent NAO Report. It's by far the better way of developing ? and operating ? prisons. I can only speculate but I would assume that deal flow will continue at a good pace.?

RBS would also have gained an advantage in being both funder and shareholder, and was able to manage the possibly oppositional roles comfortably. Bill Mackintosh, of the RBS Infrastructure team, worked on both deals, and says, ?we view these as well structured deals that fit well alongside our existing portfolio of investments and senior debt commitments.? As far as the future of prison PFI is concerned, he says, ?we're told that the next round of prison deals is ready come to the market ? we believe these will be PFI transactions.?

Ashford Prison

Status: closed 23 December 2002

Size: £64.75 million

Location: Ashford, Middlesex, UK

Description: PFI funding of a women-only prison ? the first of its kind in PFI

Sponsors: Interserve, Sodexho Alliance and RBS equally

Equity: £6 million in the form of an equity bridge

Debt: £58.75 million

Lead arranger: RBS

Lawyers to the sponsors:

Ashurst Morris Crisp

Lawyers to the lender: Norton Rose

Financial adviser: PwC

Operator: UK Detention Services

Construction contractor:

Interserve Project Services

Insurance adviser: Willis

Peterborough Prison

Status: closed 17 February 2003

Size: £89.85 million

Location: Peterborough, UK

Description: PFI funding of a mixed 840-bed prison

Sponsors: Interserve, Sodexho Alliance, RBS

Equity: £7.5 million split equally between the sponsors

Debt: £82.35 million

Lead arranger: RBS

Lawyers to the sponsors:

Ashurst Morris Crisp

Lawyer to lender: Norton Rose

Financial adviser: PwC

Operator: UK Detention Services

Construction contractor:

Interserve Project Services

Insurance adviser: Willis