

Walsgrave

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European PPP/Healthcare Deal of the Year 2002

Hospital deals have been the mainstay of UK PFI, and the testing ground for the standardisation of concession contracts. As such, these deals tend towards the vanilla, and project bonds went out with comforting regularity until 2000. Walsgrave marks a rare attempt to expand the boundaries of the possible in healthcare PFI and a strong showing.

Walsgrave marks three important milestones in the sector: it is the first deal to be done with two National Health Service (NHS) Trusts, the first to deal with the thorny question of retention of employment (ROE) contracts, and the first to include provisions for the resupply of medical equipment. The concession awarders are University Hospitals Coventry and Warwickshire NHS Trust and Coventry Primary Care Trust. The first runs a teaching and acute hospital, the second a primary care, including a mental health, unit. The two sponsors are Innisfree (75%), in its largest PFI investment ever, and Skanska BOT (25%) ? a frequent match since the two are pursuing another 6 PFI schemes together. Neither has an extensive soft facilities management capability, so this is subcontracted to ISS Mediclean. This detail is important, since political and managerial pressure has led to pressure on the UK government to clarify the status of non-clinical hospital employees managed by private consortia. Walsgrave was a pilot hospital for the ROE model, and this was the single biggest delay to closing financing. In this instance, affected staff stay within nominal NHS employment, with strict provisions for pension rights and working practices. The final innovative solution is a contract with GE Medical Systems to provide technical refresh ? the replenishment of some of the larger ticket items required for clinical care. The rationale behind this is an effort to cut procurement costs, so that in this respect, as with ROE, the market and government will closely monitor the results. The holders of the 40-year concession have other opportunities to maximise their revenue. These include the ability to build a separate private clinic, to be leased to BMI Healthcare Limited, staff accommodation, and a retail facility to be operated in conjunction with Gentian limited. Financing came through a £407m Index linked bond issue, guaranteed by MBIA, and run by BNP Paribas. The notes carried a 37.5-year maturity, and priced at an attractive 90bp over the relevant benchmark. The financing included £35 million in variation bonds, and its co-bookrunner was Barclays Capital. Financings from Birmingham and Derby (another Skanska/ Innisfree deal) will show which of Walsgrave's lessons have been learned.

Coventry and Rugby Hospital Company PLC

Status: closed 28 November 2002

Location: Coventry, UK

Description: PFI bond financing of NHS health services

Sponsors: Skanska and Innisfree

Debt: £407 million bond

Bookrunner: BNP Paribas

Maturity: June 2040

Coupon: 3.25%

Lawyers to the sponsors: CMS Cameron McKenna

Lawyers to the awarder: Pinsent Curtis Biddle

Lawyers to the lenders: Clifford Chance

Sponsors' financial advisor: Investec European Capital

Government's financial advisor: KPMG

Technical advisory: Faithfull & Gould

Equipment provision/underwriting: GE Medical Systems

Architect: Nightingale Associates

Insurance: JLT Risk Solutions

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