

Asia-Pacific PPP Deal of the Year 2012: Wiri Prison

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New Zealand is only just starting to embrace public-private partnerships as a viable means of procuring infrastructure projects. The Wiri prison project was the first PPP project to be put out to tender in the country and only the second to close. The government of New Zealand had been searching around for a project of reasonable size that would kick-start the market.

The deal is, in part, designed to test the level of sponsor appetite and whether lenders are prepared to stretch themselves in financing new types of assets in an untested jurisdiction. The financing may be influential outside the country, and even the region, because the performance regime employed on Wiri goes beyond what has been seen so far in other jurisdictions.

In Australasia, the focus has been more on the physical infrastructure and the services content is often a secondary consideration, says Duncan Olde, a division director at Macquarie. The particular issue in New Zealand was that we have a high reoffending rate so the government wanted to encourage private sector innovation in rehabilitating prisoners, and a performance regime that reflected that.

To the extent that we could, we borrowed from the UK in understanding Sercos work over there and what had been done in rehabilitating was useful, but this regime goes beyond that, including financial penalties if the sponsors fail to meet custodial or reintegration measures. Trying to finance that, when youre dealing with a pathfinder project to start with, was challenging and was reflected in the funding.

The project entails the development of a new high-security prison in Auckland, under a 25-year design-build-finance-maintain concession. The new prison is designed to house roughly 1,000 male prisoners from Auckland who are currently scattered all around the country. Construction has already started on the project, which will be located next to an existing womens corrections facility and should be operational by 2015.

The project owes its existence to a change of government in New Zealand just over four years ago, when the New Zealand National Party took office and set about developing new methods of attracting private sector funding to infrastructure. The National Infrastructure Unit, which is housed in the countrys Treasury, was set up and new guidelines were introduced to encourage the use of the model on projects that have lifetime costs of over NZ\$25 million (\$21 million).

The Wiri project was the first to emerge out of the evaluation and the New Zealand Department of Corrections tendered the project in December 2010. From the four expressions of interest that were received, the department shortlisted three bidders in February 2011. The only bidder to be cut from the process was a consortium comprising NTC and Haydn & Rollett, advised by Deloitte.

The remaining bidders were GEO Group, Hawkins Construction and Honeywell, advised by Capella Capital; Accident Compensation Corporation, John Laing Investments and Serco, advised by Macquarie; and G4S, Leighton Contractors and Mainzeal, advised by KPMG. The department then issued a request for proposals to the remaining bidders in March,

and they submitted proposals in August.

The grantor named Accident Compensation Corporation, John Laing and Serco preferred bidder in March the following year and the deal closed just over five months later. The requirement for shortlisted consortiums to deliver unconditional, underwritten financings at bid date meant that other than a few minor tweaks to the funding structure there was no delay after the appointment of the preferred bidder.

The deal closed and first drawdown occurred simultaneously in September 2012. The financing took the form of NZ\$320 million in 7-year debt from a group of three lenders BOSI, ANZ and BNZ. BOSI, Lloyds Australasian subsidiary, was brought in to the underwriting group because of its experience with custodial PFI contracts and took the smallest ticket, ZN\$64 million. Both of the local lenders are taking tickets of NZ\$128 million.

The debt is structured as a hard miniperm based on an amortisation profile of 25 years. In Australasia, the depth of the banking and capital markets means that it is unusual for lenders to achieve maturities beyond seven or eight years for either the debt or hedging. The granting authority is sharing part of the risk of base interest rate changes, providing the sponsors with the opportunity to reset the margins over the course of the concession.

The financing is rounded off with \$66.9 million in equity, which comes from four providers Serco, Accident Compensation Corporation, John Laing and InfraRed Infrastructure. Serco sold a large chunk of its equity to InfraRed, and is holding a small share to satisfy the granting authority. InfraRed will acquire the remaining stake from Serco one year into the operational phase.

The deal is a benchmark PPP financing if only because of the contractual emphasis on operational outcomes, which should influence similar concessions elsewhere. The introduction of a draft standard contract, which was unaltered during the tendering phase, could serve also as a spur for other projects and push lenders to dig deep upcoming concessions.

SecureFuture Wiri

Status

Financial close 10 September

Size

NZ\$386.9 million

Description

Financing for the construction of a new prison in the Wiri region of Auckland

Grantor

New Zealand Department of Corrections

Grantors financial adviser

PricewaterhouseCoopers

Sponsors

John Laing Investments, Accident Compensation Corporation, Serco New Zealand, InfraRed Infrastructure

Sponsors financial adviser

Macquarie Capital

Sponsors legal adviser

Russell McVeagh

Lenders

ANZ, Bank of New Zealand, BOS International

Lenders legal advisers

Allens, Mayne Weatherall

Technical adviser

David Langdon

Insurance adviser

Marsh

Model auditor

Mercer

EPC contractor

Fletcher Construction

Maintenance provider

Spotless Facility Services

Operations provider

Serco

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