# £160 million refinancing of Swindon hospital

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After a two-year stalemate in UK hospital refinancing Bank of Scotland and the THC Swindon consortium have reached financial close on the £160 million (US$300m) refinancing of Swindon hospital

It is a crucial breakthrough. After the publication of a series of reports by the National Audit Office since 2004, hospital refinancing deals were frozen as the government sought to clamp down on extended deal tenors and newspapers latched on to private finance 'cashing in' on hospitals.

the deal was closed by a similar team to the one acting on the Limerick road tunnel deal - Bank of Scotland, MBIA, Citigroup and repeats the Limerick deal's conduit vehicle structure.

**Background - Hospital Refinancing**

The two and half year wait for a hospital refinancing has its roots in the deals arranged at some of the UK's first hospital PFIs.

The refinancing of Norwich hospital in 2003 - along with that of Darent Valley hospital - sparked off the reaction to NHS refinancing, after the Octagon consortium faced accusations of not having guaranteed a fair share of the deal to the trust.

Octagon received £76 million from the deal. For the refinancing, Octagon issued a single tranche of around £300 million of fixed rate, amortising sterling bonds guaranteed by FSA and expected to be rated AAA/Aaa by Standard & Poors and Moody's respectively. Barclays Capital and HSBC were joint lead managers and bookrunners.

Octagon shared around 30 per cent - £34m (US$61m) of its total refinancing gain with the Trust in accordance with the voluntary code for sharing refinancing gains on early PFI deals which the Treasury had negotiated with the private sector in 2002.

In return Octagon extended its initial contract with the hospital from 30 to 35 years and increased the trust's compensation liabilities in the event of termination.

The atmosphere has continued to sour. In 2005 the deal was heavily criticised by a National Audit Office Report and along with a report into the refinancing of the Darent Valley hospital - preceded Treasury refinancing guidelines which had the affect of a virtual shutdown on NHS refinancing.

The Norfolk and Norwich PFI Hospital refinancing came under fire again in May this year, as The UK Parliament's spending watchdog, the Public Accounts Committee, released a highly critical report about the private sector gains in the deal. The gains by the Octagon consortium were described as 'unacceptable, even for an early PFI deal'.

The Committee of Public Accounts' chairman, MP Edward Leigh, then said that the refinancing of the Norfolk and Norwich PFI hospital project lined the pockets of the investors in Octagon, the private sector consortium involved in the project.

While fierce criticism confronted this kind of deal, HBOS Treasury Services, Bank of Scotland Corporate, MBIA and Freshfields were working hard on the refinancing of the Swindon hospital.

The refinancing structure was ready in April 2006 with all the parts involved working towards the definitive signing of the deal. They then made a common decision to delay it after the last report from the Public Accounts Committee embittered the debate.

**The project**

The consortium - named The Hospital Company Swindon & Marlborough (THC) - originally awarded the contract to a contract to design, build, maintain and operate non-clinical services in October 1999 by the Swindon and Marlborough NHS Trust.

The THC consortium comprises:

- Carillion Private Finance Limited - 33 per cent
- Canary UK Infrastructure Ltd (owned by the Secondary Market Infrastructure Fund) - 33 per cent
- UME Investment Co Ltd - 33 per cent

The 30-year DBFO project included the Great Western Hospital, a new acute general hospital at Commonhead near Swindon.

However, in October 2003, the project agreement was amended under an agreed variation with the trust to provide for an additional Diagnostic Treatment Centre ("DTC") alongside the main hospital buildings.

The acute hospital was officially completed in November 2002 and the DTC followed in February 2005.

**Refinancing**

HBOS Treasury Services acted as sole arranger for the deal. MBIA was the monoline and Citicorp Trustee Company was the trustee.

The transaction - which involves an asset-backed commercial paper conduit structure - resembles the structure of the Limerick tunnel financing that Bank of Scotland closed on 18th August 2006.

The conduit structure combines the benefit of cheaper debt in the capital markets with the flexibility of the banking markets. Cheaper debt is obtained by using low cost asset-backed commercial paper funding via a conduit that purchases privately placed floating-rate notes.

To refinance the existing debt of £159 million (US$300m) the project company issues asset-backed commercial papers (ABCPs) that have a 2029 maturity.

The conduit vehicle - called Landale - invested in the ACPBs, which are wrapped by MBIA and therefore rated AAA/Aaa.

To fund its purchase of the notes, the conduit vehicle issues commercial papers (CP) and places them on the market. BoS Corporate is providing backstop liquidity lines in case of market.

The CPs are revolving short-term notes that the conduit can revolve every three or six months as an example. The first due date for the short term notes could be January. The structure allows the conduit to refinance its CP debt by issuing more notes.

In the original transaction, some swaps were involved in the debt. On cancellation of the previous bank debt the existing swaps are renovated rather than terminated. This renewal of the swaps is done with a combined index-linked and fixed rate method.

The ABCPs are arranged by HBOSTS with the insurance of MBIA and have a coupon of less than 50bp excluding the monoline's premium.

The conduit structure resembles the one used for the financing of the Limerick road tunnel project which closed in August. That project too involves use of an asset-backed commercial paper conduit structure developed by HBOSTS and Bank of Scotland Corporate to fund PPP projects.

The pricing benefit for the project company is generated through the use of low cost ABCP funding via a conduit which has purchased privately placed fixed-rate (construction phase) and Irish CPI-linked (operations phase) notes.

The Limerick tunnel deal involves construction and all the linked risks, and it saw EIB and Bank of Scotland arranging a debt component. Bank of Scotland also arranged an equity bridge and in addition there was a mezzanine loan provided half by Meridiam and half from Allied Irish Bank (AIB).

The process for that deal needed funding up from the commercial paper. The funding was then processed this through the conduit vehicle - still wrapped by MBIA. The money goes into the project at around 60bp all-in.

On the legal side, Freshfields Bruckhaus Deringer advised MBIA, Bank of Scotland Corporate, HBoS Treasury Services and Citicorp Trustee Company. Nancy Eller of CMS Cameron McKenna advised the THC consortium and Bevan Brittan advised the Trust.

**Conclusion**

The transaction adds novelties to the market together with the Limerick road tunnel deal - particularly the use of conduit structures and ABCPs and the combination of cheaper debt raised through the capital markets and the flexibility of the banking market.

Being the first refinancing since the Norfolk and Norwich hospital and Darent Valley hospital transactions, closed at the end of 2003, it also raises the possibility that the two-year stall in UK healthcare refinancing might be coming to a close.

**The project at a glance**

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|---|---|
| Project Name | Swindon hospital refinancing |
| Location | Swindon, UK |
| Description | refinancing - after addition of a Diagnostic Treatment Centre ("DTC") |
| Sponsors | The Hospital Company Swindon & Marlborough (THC) |
| Project Duration (Including construction) | 30 years |
| Construction Stage | completed |
| Senior debt refinancing | US$300 million |
| Refinancing instruments | asset-backed commercial paper placed on a conduit vehicle<br>revolving commercial papers issued by the conduit |
| Asset-backed notes pricing | sub 50bp |
| Asset-backed notes maturity | 2029 |
| Mandated lead arrangers | HBoS Treasury Services |
| Participant banks | Bank of Scotland corporate, MBIA (monoline wrap), Citicorp (Trustee) |
| Legal adviser to the banks | Freshfields Bruckhaus Deringer |
| Legal adviser to the consortium | CMS Cameron McKenna |
| Legal adviser to the trust | Bevan Brittan |

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