

Netherlands Ministry of Finance Redevelopment PPP

Ayse Yildizoglu

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The government of the Netherlands reached financial close with the Safire consortium on the Netherlands first of its kind, and largest ever €175 million (US\$230m) PPP scheme to renovate and operate the ministry of finance main building at The Hague on 11 December

The scheme precedes a wave of DBFMO accommodation PPP schemes planned by the the government buildings agency or Rijksgebouwdienst (RGD).

The agency has already issued tenders for tax offices in Groningen and Doetinchen and the Rotterdam Airport Detention Centre. While the ministry of defence has tendered its first PPP - the Kromhout Barracks in Utrecht.

However the PPP market has a mixed record. The use of private finance by other government agencies since has been more limited with only one school, one waste project and three transport deals signed to date.

Tellingly, the new headquarters will also house remnants of the Kenniswijk - the PPP knowledge and guidance body created in 1999 which was incorporated into the MoF as the 'Public Private Partnership and Asset Management' department in September last year - a move seen by many as a retrograde step.

The lack of progress is understandable. In the absence of any significant government spending deficit, there are few budgetary drivers to adopt PPP so advocates must argue for the mechanism on ideological grounds or prove efficiencies on a case-by-case basis - through the Public Private Comparator (PPC).

Previous PPPs - such as the Groene Hart hospital PPP scheme - have been abandoned owing to lack of political will, despite scoring well on the PPC.

Hence the Ministry of Finance offered to rebuild the ministry as a PPP to prove the method could save money and would liberalise the market by allowing the private sector in to a public sector dominated infrastructure market.

Even though the Dutch ministry of finance lacks the power of the UK Treasury - a success in its own backyard would make a strong political point backing PPP.

Transaction

The pilot scheme - the first office buildings PPP in The Netherlands - has a 26 year contract term not including two years for construction and comprises the renovation and redevelopment of the 66,000 square metres building, which includes office space for 1,750 employees.

As well as the former 'Public Private Partnership and Asset Management' department, the building will house the PPP Task Force or Bouwend Nederland and several other departments.

The Safire consortium beat off competition from Royal BAM-ING and Heijmans-Imtech led consortia in February 2006.

The Safire consortium includes:

- ABN AMRO - 85 per cent
- Burgers Ergon - 5 per cent
- ISS Facility Services - 5 per cent
- Strukton - 5 per cent

Strukton is the building contractor, GTI is subcontracted and will provide all electric installations, Burgers Ergon will provide all mechanical installations and ISS will be responsible for the facilities management.

In the run up to financial close Burgers Ergon agreed to a €70m (US\$91m) takeover by construction rival - and unsuccessful bidder - Heijmans allowing the latter to pursue its objective of becoming a key player in the PPP concessions market.

Strukton - as partner in TalentGroep - also won in December 2004 the first and only other accommodation project PPP awarded to-date, the Montaigne secondary education college in Ypenburg.

Construction is scheduled to be completed at the end of 2008 / beginning of 2009.

Financing

The scheme is also the largest PPP to date in the Netherlands and was tendered in August 2004 with a provisional capital value of €190 million (US\$226m) which reduced to €173 million (US\$220m).

The government of the Netherlands signed a concession agreement with the Safire consortium in November 2006 for the scheme a month ahead of financial close which took place on December 11 2006.

The deal has a total debt of €105m (US\$138m) for which Fortis has been selected facility agent and lead arranger, and the Nederlandse Waterschapsbank is providing a capital adequacy-exempt loan after completion of the building work.

The value of the scheme is €173 million (US\$228m) and the capex is €102.5m (US\$134.6m).

The full funding requirement is €114m (US\$150.4m), which is a total of €105m (US\$138.5m) debt and €9.12m (US\$12m) equity. The debt: equity ratio is 92:8.

The €105m senior debt is a 26 year facility and includes a term loan, a zero solvency bridge loan, an equity bridge loan and a debt service reserve facility.

ABN Amro had originally fully underwritten the debt at BAFO in January 2006. After a funding competition, the consortium selected Fortis as MLA and agent for the full senior debt financing in November 2006.

Fortis underwrote the senior debt on a take and hold basis with no syndication to follow.

Allen & Overy acted as legal adviser to the bank and the consortium. ABN Amro has acted as financial adviser to the consortium.

Conclusion

The close of the Ministry of Finance building in the Hague offers grounds for hope in a market which has been sluggish

since its inception in 1999.

The willingness of the Government Buildings Agency and latterly the Ministry of Defence to procure PPP pilots is an encouraging sign and a wave of accomodation PPPs could offset a comparative decline in transport PPP.

Despite a number of high-profile projects notably the HSL-Zuid light rail - the Second Coentunnel deal appears to be floundering on a lack of political will.

While the Ministry of Finance has demonstrated its own commitment to PPP through the redevelopment of its own buildings, it still seems to lack the power and political support to catalyse the uptake of PPP around the rest of the government.

The project at a glance

Project Name	Netherlands Ministry of Finance Redevelopment
Location	The Hague, The Netherlands
Description	A pilot scheme to renovate and operate the Ministry of Finance main building at The Hague
Sponsors	The Safire consortium including: • ABN Amro • Burgers Ergon • ISS Facility Services • Strukton
Project Duration (Including construction)	28 years
Construction Stage	2 years
Total Project Value	€173 million (US\$228m)
Full funding requirement	€114m (US\$150.4m)
Total equity	€9.12m (US\$12m)
Equity Breakdown	• ABN Amro - 85 per cent • Burgers Ergon - 5 per cent • ISS - 5 per cent • Strukton - 5 per cent
Total senior debt	€105m (US\$138.5m)
Capex	€102.5m (US\$134.6m)
Senior debt breakdown	It is a 26 year facility and includes a term loan, a zero solvency bridge loan, an equity bridge loan and a debt service reserve facility.
Debt:equity ratio	92:8
Mandated lead arrangers	Fortis
Participant banks	Nederlandse Waterschapsbank will provide a zero solvency loan after completion
Legal Adviser to sponsor	Allen & Overy
Financial Adviser to sponsor	ABN Amro
Legal adviser to banks	Allen & Overy
Technical adviser to banks	Royal Haskoning
Financial adviser to government	KPMG
Date of financial close	11 December 2006

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