

Peterborough Hospitals PFI Project

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The latest health project in the UK government's private finance initiative (PFI) programme to reach financial close is the Peterborough hospitals scheme - a complex deal which has taken six years to procure

The project [\[Transactions Database\]](#) - includes the financing, design, construction, and operation of three new hospital buildings on two sites for three separate NHS Trusts in Peterborough in the east of England. Crucially the deal also involved the provision of hospital equipment for the first time.

It is part of the Greater Peterborough Health Investment Plan and the Trusts are acting via a project agreement with a term of 35 years and four months.

Australian property and construction company Multiplex Group in partnership with Macquarie Bank - known as Peterborough (Progress Health) PLC - has signed a £396.2 million (US\$798.4m) (plus £50 million in variation bonds) contract for the healthcare facilities.

This is the first health construction project undertaken by Australia-based construction group Multiplex in the UK. It is also the first hard facilities management (FM) contract the group has signed in the UK. Despite Multiplex's health scheme experience outside of the UK, these two factors add a greater level of risk.

Background

Consultancy services tenders were initially published on OJEU in 2001, followed by a full tender shortly after.

The original legal adviser for the Progress Health consortium, Eversheds was sacked in 2004 and replaced by DLA Piper.

In November 2004 after shortlisting, two strong bids were submitted by Progress Health and Medico - a consortium of Ferrovial, its subsidiary Amey and Shepherd construction advised by Freshfields and CIT Group.

Progress Health was named preferred bidder in March 2005.

In February 2007 the full business case for the Peterborough Health Investment Plan (GPHIP) was approved by the East of England Strategic Health Authority (SHA), allowing the project to proceed to financial close.

The Project

The Progress Health partnership will build a 621-bed hospital, a 102-bed mental health unit and a 34-bed integrated care facility, with Multiplex's FM responsible for maintenance and repairs for the 35-year concession.

The main acute hospital will be built on the existing Edith Cavell site for the Peterborough and Stamford Hospitals NHS Foundation Trust.

The mental health unit will also be built on the Edith Cavell Hospital site for Cambridge and Peterborough Mental Health Partnership NHS Trust.

The integrated care centre will be built on the existing Peterborough District Hospital site for the Greater Peterborough Primary Care Partnership Trust - acting through the Peterborough Primary Care Trust.

All existing buildings on both sites will be demolished and replaced.

The acute facility will comprise:

- two-storey block of hi-tech clinical areas
- five-storey block containing diagnostic treatment centre departments with wards and offices
- women and children's hospital
- support block

This facility will be built south of the current site on a largely greenfield area. The total construction period is 42 months.

The mental health unit will be predominantly single-storey and built north of the Edith Cavell site, over the existing car parks. The overall construction period is 22 months.

The integrated care centre will provide minimal inpatient treatment and services such as:

- general rehabilitation
- diagnostic services
- minor injury care

The construction period for this facility is 21 months.

Demolition and disposal of the existing hospital will be completed outside the project by the ICC Trust.

Construction is expected to commence this month and all facilities will be complete by December 2010.

The existing hospital at the Edith Cavell site will remain operational throughout construction. When the new hospitals are complete, the old hospital will be demolished over a 12 month period by Progress Health and replaced with surface car parking.

After completion of each phase, Progress Health will provide hard and soft FM, lifecycle maintenance, and medical equipment services for 30 years from final completion.

Interim hard and soft FM services at the existing facilities will also be provided from financial close.

Progress Health will subcontract out to third parties, including:

- design and construction contract with Multiplex Construction - guaranteed by Multiplex
- hard FM contract with Multiplex FM - guaranteed by Multiplex
- soft FM contract with Compass Contract Services, trading as Medirest - guaranteed by Compass Group PLC
- medical equipment services contract with Asterol
- core medical equipment will be installed by Asterol under subcontract with the design and construction contractor - guaranteed by its parent, the Brook Henderson Group

Financing

Bonds are valued at £446.2 million (US\$899.1m), including £50 million (US\$101m) variation bonds and were priced on 29 June 2007 at 65 and three quarters bp (0.6575 per cent) over 2032 Gilt reference rate.

Equity contributions not made at financial close are guaranteed by Macquarie Bank for Macquarie and a letter of credit (LoC) from Royal Bank of Scotland Australia for Multiplex.

The project's financial structure is highly leveraged with a ratio of debt to equity at 94:6 - slightly higher than existing rated health projects.

The bonds will be listed on the LSE and the ISIN number is XS0308856276. The bond has a coupon of 5.58 per cent and the maturity of bonds is set for 30 September 2042.

The bond received a monoline guarantee from FGIC, which recently also acted on the Pinderfields and Pontefract deal.

On the back of the monoline guarantee, Standard & Poor's has assigned its preliminary 'AAA' long-term insured debt rating on:

- liquidity facility
- change-in-law facility (CiLF)
- swap facility (provided by ABN Amro Bank)

The underlying long-term ratings on the proposed debt are all 'BBB'.

The debt and all the facilities have also been assigned preliminary recovery ratings of '2', reflecting expectations of substantial (70 per cent - 90 per cent) recovery of principal in the event of a default.

The project makes use of liquidity and change-in-law facilities instead of cash reserve accounts.

The project is also exposed to increased labour costs, and more than 35 years of capital-replacement costs.

Construction risk is partially mitigated by an 18 per cent (£60 million) LoC provided by ABN Amro and a LoC equivalent to 20 per cent of the annual hard FM fee and a cash reserve equivalent to 20 per cent of the annual hard FM fee.

There is a lifecycle reserve, and a 12-year guarantee from the construction contractor for latent defects. Multiplex's construction liability is limited only on termination to 55 per cent of the construction contract sum.

Conclusion

In terms of innovations this was the first project to involve all three different NHS groups - an NHS Foundation Trust, a Primary Care Trust and an NHS Trust.

This is also the first bond deal to finance the procurement of medical equipment out of the main facility.

The Treasury has wanted the financing of medical equipment to be a part of the full PFI package. Although the six year procurement period for the hospital suggests this process has not been as seamless as Whitehall would have hoped.

The letter of credit facility agreement provided by ABN Amro for construction security is also worth taking note of as an innovative move.

These three innovations make the deal interesting, but complicated.

The main risk factors related to the issuer include the usual risks associated with PFI.

This includes the construction works risk, which is left with the subcontractors. Construction is on a fixed price and time scale. Hard and soft FM services again will be subcontracted.

The medical equipment needs to be maintained through the life of the deal, but will also be subcontracted.

Mark Dooley, executive director and head of social and public infrastructure for Macquarie said: 'The PFI bonds market is generally strong at the moment, but not immune from recent tremors in global credit markets'.

In the last month Macquarie was involved with both the Forth Valley and North Staffordshire PFI hospital projects, reflecting a healthy number of projects coming to close. However, these projects have all taken some time to reach this stage.

On paper there are a reasonable number of PFI health projects in the pipeline, but they are being released into the market slowly.

It has taken two-and-a-quarter years for this project to reach financial close from the preferred bidder stage. This is perhaps due to the complex and innovative nature of one of the UK's largest health PFI projects.

The project at a glance

Project Name	Peterborough Hospitals PFI
Location	Edith Cavell Hospital site and Fenland Wing of the Peterborough District Hospital, Peterborough, Cambridgeshire, East of England, UK
Description	The design, construction, and operation of three new buildings on two sites for three separate National Health Service (NHS) Trusts as part of the Greater Peterborough Health Investment Plan
Sponsors	Macquarie Peterborough Holding Ltd (70 per cent) and Multiplex Infrastructure UK (30 per cent)
Operator	Peterborough (Progress Health) PLC
Project duration	35 years and four months
Construction stage	Starts in July 2007
Total project value	£396.2 million (plus £50 million in variation bonds)
Total equity	£23.8 million
Equity breakdown	Macquarie - majority 16.7 million Multiplex - minority 7.1 million
Total senior debt	£372.4 million
Bond pricing	65 and three quarters bp over 2032 Gilt reference rate
Debt:equity ratio	94:6
Monoline insurer	FGIC UK Limited
Lead manager	ABN Amro
Co-lead managers	RBS and Barclays Capital
Bond trustee	ABN Amro Trustees
Principal paying agent	ABN Amro Bank
Legal adviser to sponsor	Lovells
Financial adviser to sponsor	Macquarie
Legal adviser to banks	Allen & Overy
Financial adviser to banks	Faithful + Gould
Legal adviser to NHS Trust	DLA Piper
Financial adviser to NHS Trust	PwC
Technical adviser to NHS Trust	IBS
Architects and lead designers	Nightingale Associates - Tribal Group PLC
Date of financial close	4 July 2007 - pricing complete on 29 June 2007

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