

Royal School of Military Engineering

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This PPP deal - Royal School of Military Engineering (RSME) - to provide a blend of accommodation and military training services saw the project architects reinvent the wheel in a masterful way to achieve financial close on a deal that had no commercial lending.

RSME is an operating division within the Army Recruiting & Training Division that is responsible for the recruitment and training of all officers and soldiers.

This transaction, between the Ministry of Defence (MoD) and Holdfast - a consortium led by Babcock & Brown and Carillion - was designed to enhance training for the RSME at sites in Kent, Hampshire and Oxfordshire.

It is a 30-year PPP worth £3 billion to improve essential training and make significant investments in soldier accommodation - delivering 1,700 new bed spaces.

From January 2009, military trainers will oversee private sector experts who will teach Royal Engineers skills such as bricklaying, construction and plumbing.

The changes also include the relocation of two units from Medway to Bicester. The land released will allow the development of a new, sustainable community as part of the Thames Gateway Regeneration Initiative.

Financing

The Project was originally intended to be a standard project finance transaction with majority senior bank debt funding. However, budgetary constraints within the MoD led to the deal being restructured so that all capital expenditure are funded directly by the MoD, with the payments based on the equivalent of loan draw down certificates. Equity was injected upfront to fund the payment of bid costs.

The key challenge came in negotiating how the equivalent of lender's rights, such as step-in and controls on decisions, were adjusted to take into account the implicit conflict of interest (with the authority also acting as the lender), while maintaining materially the same commercial risk transfer on which Holdfast was selected.

This structure is thought by many to be a new way to deliver and fund future PPP deals.

On top of developing a new financial structure, the size and complexity of the deal itself made the successful close a great achievement:

- capital value of \$480m
- project value of \$4,500m
- mixture of new build and refurbishment of retained estate
- training element, with associated complex risk pass downs and performance and payment mechanisms

The £300 million (US\$548.36m) RSME PPP was 100 per cent debt financed by the MoD and will cost up to £2.7 billion over the 30-year concession period.

Unusually for a MoD PPP [[Projects Database](#)], there are no banks involved in the transaction. A source close to the deal told IJ News that this was an attempt to make the project "more affordable".

The £17.4 million (US\$31.8m) equity has been invested as follows by the Holdfast Training Services (HTS) shareholders:

- Babcock Defence Services (part of Babcock International Group) - £11.9 million
- Carillion - £5.5 million
- Government support totals £282.6 million (US\$516.55m).

Over the first seven years of the contract, Carillion will design and build the refurbished and new facilities, worth £300 million in capital work, while Babcock & Brown will provide training and training support, plus hard and soft FM services.

The capital spend figure on Single Living Accommodation (SLAM) new build and refurbishment is £152.5 million - not including lifecycle cost over the 30 years.

Babcock is further supported by the following sub-contracts:

- Mid Kent College - delivery of training
- TQ Education and Training - delivery of training
- ESS UK Defence (part of Compass Group) - soft FM services

The project includes the new-build and refurbishment of the RSME military school and the building of new accommodation for 1,700 soldiers.

The new MoD facilities will be located at:

- Medway, Kent - 400
- Minley, Hampshire - 1,000
- Bicester, Oxfordshire - 300

The contract is a training PPP scheme and involves the release of land that forms part of the Thames Gateway development project. A section will move from Medway to Bicester, freeing up land that will be developed by Defence Estates.

The changes include the relocation of the following two units:

- Defence Explosive Ordnance Disposal School (DEODS)
- National Search Centre (NSC)

CMS partner Frank Dufficy said: "The training services element forms the main part of the proposed project spend. This is the first MoD PPP contract where the training services element, rather than equipment or accommodation, forms the bulk of the services to be delivered.

"Also from a contract method perspective, this is the first PPP contract based on SoPC version 4, without commercial funding, to have achieved completion in the UK."

CMS acted as legal adviser to the consortium, while RBC Capital Markets was its financial adviser. PwC provided financial advice to the MoD, Addleshaw Goddard was legal adviser, while IBM was ICT adviser.

The lead-in period with services delivered by Babcock is due to start in January 2009.

The project reached financial close on 30 August 2008.

The project at a glance

Project Name	MoD Royal School of Military Engineering (RSME) PPP
Location	Kent, Hampshire and Oxfordshire, England, UK
Description	New-build and refurbishment of the RSME military school and the building of new accommodation for 1,700 soldiers
Sponsors	Holdfast Training Services (HTS): <ul style="list-style-type: none">• Babcock Defence Services (part of Babcock International Group)• Carillion
Operator	Babcock & Brown
Contractor and designer	Carillion
Authority	UK Ministry of Defence (MoD)
Training delivery	Mid Kent College TQ Education and Training
Soft FM Provider	ESS UK Defence (part of Compass Group)
Project Duration	30 years
Construction Stage	Seven years
Lead-in period	Services delivered by Babcock due to start January 2009
Total Project Value	£300 million (US\$548.36m)
Total equity	£17.4 million (US\$31.8m)
Equity Breakdown	Babcock Defence Services - £11.9 million Carillion - £5.5 million
Debt breakdown	100 per cent provided by the MoD
Debt:equity ratio	93:7
Government support	£282.6 million (US\$516.55m)
Legal Adviser to sponsor	CMS
Financial Adviser to sponsor	RBC Capital Markets
Legal adviser to MoD	Addleshaw Goddard
Financial adviser to MoD	PwC
ICT adviser to MoD	IBM
Date of financial close	30 August 2008

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