

Newham BSF Phase I

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17/02/2010

The closing of phase one of Newham's Building Schools for the Future (BSF) project is arguably one of the most remarkable project financing stories of the past 18 months in the UK social infrastructure arena.

That a £200 million PFI/D&B hybrid project could close without an MLA in place is a testament to the creativity and determination of those working on the project - not to mention a little luck.

The scheme is also significant for heralding a new entrant to the BSF market - Aviva - that, with hindsight, seems a natural fit for such projects given its desire for long-term deals with stable rates.

The Laing O'Rourke-led Newham Learning Partnership was named as contractor on the 25 year concession in March 2008 - seeing off a challenge from Skanska. The project will see a total rebuild of four schools with the refurbishment of a further nine in the East London borough.

Background

The project was brought to market in the summer of 2006 with three teams shortlisted for the project just over six months later in January 2007 [\[Projects Database\]](#)

The shortlisted bid teams were

- Laing O'Rourke
- Miller Construction
- Skanska

The Laing O'Rourke bid - Newham Learning Partnership - was subsequently named as preferred bidder for the project in March 2008, seeing off a strong challenge from Skanska.

Newham Learning Partnership also includes:

- Building Schools for the Future Investments
- London Borough of Newham
- RM

The deal was delayed when the project's original MLA - Dexia - withdrew from the project due to an inability to commit to a long-term funding solution. At the time, the bank's involvement in UK PPP was in jeopardy and there were fears that the London office was going to be closed.

However, due to practically all the due diligence necessary to reach financial close having already been completed, the project team was able to reach commercial close on the project's PFI element while keeping construction on schedule by virtue of an 'enhanced' lump sum D&B contract.

This device - funded by the London Borough of Newham and the Department for Children, Schools and Families - set up a detailed methodology ensuring that PFI procedures would take place allowing the project to be converted into a PFI at a later stage.

A new funding competition was undertaken that was subsequently won in June by Aviva which - as previously mentioned - was a new entrant to the market.

"We were actively looking to expand and develop a presence in the BSF market," says Toby Stokes, part of Aviva's project finance team. "It was just a matter of finding the right deal at the right pricing."

Senior debt for the project's first phase was £55 million, with a further £5 million in subordinated debt.

The Project

The project will see a total of four schools rebuilt and the refurbishment of a further nine over three phases.

The complete list of schools included in the programme are:

Phase one:

- Little Ilford (PFI)
- Lister (PFI)
- Brampton Manor (D&B)
- Sarah Bonnell (D&B)

Subsequent phases will include the following schools:

- Rokeby (PFI)
- Stratford (PFI)
- Eastlea (D&B)
- Forest Gate (D&B)
- Langdon (D&B)
- Plashet (D&B)
- Royal Docks (D&B)
- St Angela's (D&B)
- St Bonaventure's (D&B)

The construction design and methodology for the project is straightforward and conventional. Furthermore, the phasing of school commissioning should help to balance the construction programme, and mitigate the risks relating to transition to operations.

Financing

The financing underwent significant changes in order to reach financial close, with the original PFI element of the project changing from a D&B contract into a PFI concession - dubbed the "Newham flip".

The debt's pricing moved from LIBOR based to a fixed rate funding solution at an all-in rate of 6.19 per cent with the tenor increasing from 15 to 25 years.

At FC, the pricing was circa 100bp - equivalent to 180bp - cheaper than other BSF deals reaching financial close at the time.

"What we offer is not a bank product which, arguably, makes it more difficult for authorities to do a like-for-like comparison between us and many of our competitors. However, as we have shown - we are competitive," adds Stokes.

The project's £5 million equity tranche was split as follows:

- Laing O'Rourke - 68 per cent
- RM - 12 per cent
- Building Schools for the Future Investments - 10 per cent
- London Borough of Newham - 10 per cent

Future Developments

Aviva doubled the number of BSF projects on its balance sheet a matter of weeks after closing Newham with the completion of Lewisham BSF [\[Transactions Database\]](#).

The company continues to look at a range of UK PPP projects - including BSF - and expects to grow its balance sheet substantially over the coming 2-3 years.

Stokes certainly believes the future is bright: "Breaking into existing relationships is difficult. However, the competitiveness of our products coupled with a history of deliverability gives us confidence for the future.

"Market conditions have provided assistance but we have not been given a free run."

Colin McConaghy, an associate at Bevan Brittan, who acted for the sponsor believes that the project was a "groundbreaking deal" and an undoubted success.

As regards BSF, the number of projects coming to market since 2008 has increasingly moved towards incorporating a D&B element, a trend which is likely to continue given the expected reduction in central government funding over the coming years.

Conclusion

The advent of the so-called 'Newham Flip' has the potential to become a tool for any project that finds itself in a situation where it becomes necessary to begin interim works while a lender is sought.

However, the tool is unlikely to enter widespread use.

The withdrawal of an MLA in such circumstances was the result of extraordinary market conditions that are unlikely to be repeated on such a scale in the near future.

Of far greater significance is the entrance of Aviva to the BSF market.

As a lender with impressive pension annuity commitments, it is in the lender's interest to pursue long-term investments to invest in projects which have predictable returns.

This appears to be the lender's first steps on a road that could easily see it stake a larger claim on the UK PPP financing market.

Project at a glance

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| Project Name | Newham BSF, Phase I |
| Location | Newham, East London, UK |
| Description | The construction or refurbishment of up to 13 schools in the borough |
| Sponsors | Newham Learning Partnership - with Laing O'Rourke, RM Building Schools for the Future Investments and the London Borough of Newham |
| Project Duration (Including construction) | 25 Years |
| Construction Stage | 3 years |

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| Total Project Value | £60 million (PFI element) |
| Total equity | £5 million |
| Equity Breakdown | Laing O'Rourke - 68 per cent RM - 12 per cent Building Schools for the Future Investments - 10 per cent London Borough of Newham - 10 per cent |
| Total senior debt | £60 million |
| Senior debt breakdown | £55 million senior debt + £5 million subordinated debt |
| Senior debt pricing | Fixed rate funding solution of 6.19 per cent |
| Debt:equity ratio | 92:8 |
| Mandated lead arranger | Aviva |
| Legal Adviser to sponsor | Bevan Brittan and CMS |
| Financial Adviser to sponsor | KPMG |
| Legal adviser to banks | Mills & Reeve |
| Legal adviser to government | Dickinson Dees |
| Financial adviser to government | Navigant Consulting |
| Technical and commercial adviser to government | Currie & Brown |
| Date of financial close | 23 June 2009 PFI - 9 January 2009 D&B |

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