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Australia's Royal Adelaide Hospital PPP

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Even though Australia is one of most mature PPP markets, a healthcare deal of the size and scope of new Royal Adelaide Hospital (RAH) does not come often. The A$2.9 billion (US$3.1 billion) project is expected to radically overhaul the existing Royal Adelaide Hospital (RAH) - built first in 1840 - into a larger, technologically advanced entity in the south of the country.

The new hospital, which is scheduled to finish construction by 2016-2017, is said to be South Australia's biggest hospital project and one of the largest hospital PPP deals procured in the country yet.

While the project has taken about three years from when it first hit the market in 2008 to its financial close in June this year, it is testimony to the strong and thorough PPP market players in Australia who supported the project through the height of the global financial crisis.

Australia has had a good record of closing other big ticket deals during the financial crisis as well. In 2009 it closed one of the world's largest - and most energy efficient - reverse osmosis desalination plants, the US$3.9 billion Victorian Desalination plant. The project stood out as perhaps the most impressive example of co-operation between a procuring authority and lenders to find an acceptable financing solution in the teeth of the most challenging market conditions [Projects Database].

Artist's impression of the East Plaza at New RAH © SA Health

Earlier this month, the government also closed the A$1.38 billion (US$1.47 billion) Gold Coast Rapid Transit project, which stands as only the second availability-based transport project in Australia [Transactions Database]. The first one being the Peninsula Link PPP project.

The new RAH, meanwhile, bodes well for both the Australian market and global hospital infrastructure, in terms of what hospitals must look like in the next decade. Infra experts are also of the opinion that since both Victoria and New South Wales have recently seen a change in government and old political parties have come back into power after 14-15 years, projects like Royal Adelaide will restore their confidence in PPP and help fight off the bad publicity that PPP has received in the Australian media over the past couple of months.

Background and the Project

While plans to build the new RAH under a PPP model were in the pipeline since 2007, the government of South Australia first released the tender for the project in early 2008.

The project received bids from three consortia and while a Plenary Group-led consortium withdrew from the process, competition between the final two consortia remained intense with SA Health Partnership finally bagging the project in December 2010 [Transactions Database].

The consortium comprises:

- Leighton Contractors
- Macquarie Capital
- Hansen Yuncken
- Spotless

Torrens Health Partnership including Bilfinger Berger, RBS and Bovis Lend Lease was the other team part of the final two bidding round.

PPP projects typically take about two years to close in Australia from release of the Invitation for Expressions of Interest, however there are sometimes exceptions depending on the quality of proposals received, affordability issues, the delivery timetable set for the project and any government approval processes that must be complied with.

In new RAH's case the stage from PB to contract close was longer than has been seen on some other projects due to the fact that the project had to receive Development Approval from the the Development Assessment Commission (DAC) in South Australia after PB but prior to Financial Close (a process that can take up to three months).

The project broadly involves a new 800-bed hospital (700 multi-day beds and 100 same-day beds) with 100 per cent overnight single patient rooms. More operating theatres, intensive care beds and emergency care capacity will be added to the new hospital. The hospital is expected to see more than 80,000 admissions per year.

The hospital will have 172,000 m^2 of fully-enclosed space and also return three hectares of rail yards to the Parklands. RAH will also incorporate teaching and research facilities which will also be co-located with the new South Australian Health and Medical Research Institute, making the health precinct the hub of medical research in the state.

Artist's impression of the New RAH Entry Cloister View from the Main Entrance © SA Health

Healthcare PPPs are gathering steam in Australia with another A$2 billion - Sunshine Coast University Hospital - project back on track with procurement and the A$630 million (US$667.5 million) Bendigo Hospital project which was given the government go-ahead to be procured as a PPP earlier this month.

According the South Australian government's Treasury figures, the Health budget for 2010-11 was A$4.5 billion (US$4.8 billion). By 2036, the state's population is expected to top 2 million, and by 2016 nearly ten per cent of South Australians will be over 75 years old and so investment in healthcare infra today seems to be an essential need.

Construction on the project is set to start in late 2011 and is scheduled to be completed between 2016-2017.

In-terms of financing while the project included a plan vanilla combination of debt and equity, it was successful in bringing together a club of fourteen banks both domestic and international to provide senior debt to close the landmark deal.

Financing

A group of fourteen banks came together to provide debt to the project. A senior debt package of A$2.6 billion (US$2.8bn) was arranged by the banks along with US$396 million in equity provided by the sponsor SA Health Partnership.

The bank debt has a tenor of seven years and there maybe an element of refinancing at the end of that period.

The debt is split between the lenders as follows:

- ANZ – US$273 million
- NAB – US$273 million

- HSBC – US$227.5 million
- ING – US$227.5 million
- WestLB- US$227.5 million
- Crédit Agricole – US$227 million
- Intesa San Paolo – US$217.6 million
- BBVA –US$204.7 million
- Lloyds –US$182 million
- Société Générale – US$182 million
- DBS Bank – US$136.5 million
- Santander – US$136.5 million
- Bank of Ireland – US$91 million
- ICBC Asia- US$91 million
- Investec – US$68 million

The debt:equity ratio stood at 88:12 with margins geared in the region of 200-300 bps.

Richard Cooper, head of origination, Infrastructure - Asia Pacific for National Australia Bank who worked on the deal says that both foreign and domestic banks have had a good appetite for Australian PPP deals. "The Australian market has a good risk profile and delivery record for projects. Lots of banks have been looking to build their business post the global financial crisis and there is fair amount of appetite for PPP debt," he added.

The project costs became a topic of political discussion in the country because it started out to be an A$1.7-1.9 billion deal, however at financial close it went upto A$2.9. The project authority claims that the total capital cost is higher than their first estimate primarily because of the cost of risk and advanced information and communication technologies (ICT) being deployed in the new hospital building.

Cooper agrees and says that the inclusion of better ICT systems is expected to make the new hospital one of the most digitally advanced ones in the country. Throughout the rest of the construction and operation period of the project, integration between the state and the ICT provider Hewlett Packard will remain key for the project.

Among the many technology aspects one is leading edge technology incorporated in the design so supplies can be efficiently moved around using automated guided vehicles and automated ordering systems, reducing the time clinical staff spend on paperwork. Also electronic tagging of biomedical and other clinical equipment will be enabled allowing hospital staff to quickly and easily locate equipment.

While there were rumours that the government provide some funding for the project, in the end banks and sponsor's equity together covered the costs of the project.

RAH which is a 35-year concession project will be handed over to the state after 30 years. Post construction the government will pay an average A$397 million (US$420 million) a year for 30 years to the sponsor who will be responsible for the non-clinical costs of running and maintaining the hospital. Repayments won’t start until 2016 when the new hospital is built and certified as ‘fit for purpose’.

Conclusion

RAH is another example of Australia's solid PPP market mechanisms and the burgeoning healthcare PPP space. While new deals are still slow to enter the market, which is the case with PPPs in most mature markets, old projects that were delayed or halted due to the financial crisis are back into action in the country.

RAH will be instrumental in providing advanced health care services to Australians while also being a good example for hospital PPP procurement for the rest of the world.

As Cooper explains banks are keen to be involved with essential infrastrture like healthcare and education in the country. He also says that since the PPP model is well accepted for infra procurement in Australia market, a good pipeline of deals can be envisioned for the future with strong bank support.

Multibillion dollar projects do carry higher risks and bidding costs for investors, however Australia's strong platform for the delivery of PPPs is hopeful of maintaining demand in future too.

Project at a glance

Project Name	Royal Adelaide Hospital PPP
Location	Adelaide, Australia
Description	The project broadly involves a new 800-bed hospital (700 multi-day beds and 100 same-day beds) with 100 per cent overnight single patient rooms. More operating theatres, intensive care beds and emergency care capacity will be added to the new hospital. The hospital is expected to see more than 80,000 admissions per year.
Sponsors	SA Health Partnership Consortium: • Leighton Contractors • Macquarie Capital • Hansen Yuncken • Spotless
Total Project Value	US$3.1 billion
Total equity	US$396 million
Total senior debt	US$2.8 billion
Senior debt breakdown	• ANZ – US$273 million • NAB – US$273 million • HSBC – US$227.5 million • ING – US$227.5 million • WestLB- US$227.5 million • Crédit Agricole – US$227 million • Intesa San Paolo – US$217.6 million • BBVA –US$204.7 million • Lloyds –US$182 million • Société Générale – US$182 million • DBS Bank – US$136.5 million • Santander – US$136.5 million • Bank of Ireland – US$91 million • ICBC Asia- US$91 million • Investec – US$68 million
Debt:equity ratio	88:12
Legal adviser to sponsor	Freehills
Financial adviser to sponsor	Macquarie
Legal adviser to banks	Allens Arthur Robinson
Project Management adviser to authority	Arup
Local legal adviser to government	Clayton Utz
Financial adviser to government	Ernst & Young

Technical adviser to government	Sg2
Date of financial close	6 June 2011