

Bassetlaw grouped schools PFI, UK

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Transform Schools – the PFI consortium made up of Balfour Beatty and Innisfree – has closed one of the UK's largest grouped school projects to date, the ambitious £135m Bassetlaw in the English Midlands, writes Edward Berry.

The North Nottinghamshire project was Transform School's fourth major school deal – following similar deals in Stoke, Rotherham and North Lanarkshire – working with many of the same arrangers and advisers as on the previous deals.

Although the project could never be described as groundbreaking it involved purely new-build school facilities with some attached community leisure facilities which added a certain complexity to the scheme.

Background

Bassetlaw district covers an area of 246 square miles in the north of Nottinghamshire and has two main population centres at Worksop and Retford.

Worksop has suffered economic decline in recent decades following the closure of coal mines and the loss of support industries while the traditional market town of Retford – like many other rural communities – has also been through tough times due to a lack of investment, creaking transport infrastructure and a decline in population.

The primary aim of the schools PFI scheme – the second such deal in Nottinghamshire – is to raise the standard of teaching and learning in the area and to increase the achievement of all pupils between the ages of 11-18.

In December 2001, Nottinghamshire County Council applied successfully for £66.6m (US\$117m) worth of PFI credits for the first larger phase of the two-part PFI scheme.

In March 2003, the local authority failed to obtain as many PFI credits from the central government for Phase 2 than it had hoped to pick up – just £60m (US\$106m) – so had to go back to the drawing board with its schools at Worksop, Bircotes and Harworth.

A revised programme was drawn up minus Bircotes and Harworth Community School.

Because the PFI funding can only be used for providing school facilities, Bassetlaw District Council decided to fund leisure centres for the use of the wider communities in Worksop and Retford.

Councillor Mike Quigley MBE, leader of Bassetlaw District Council says: 'The new leisure centres will mean that our residents will be able to spend more of their recreational time in Bassetlaw.

'Our young people will have extended opportunities to participate in a whole range of sport and leisure options and residents of all ages can have easy access to the social and health opportunities offered by the new centres.'

Just over one year later, in September 2005, Transform Schools – Balfour Beatty's PFI education group with joint investor Innisfree – was awarded the 25-year grouped schools PFI project by NCC.

The project

The project involves the construction of five new secondary schools, a new special school, two new centres for post-16 education in Retford and Worksop and two new leisure centres for Bassetlaw District Council.

The first phase of the project which is to come on stream by 2006 includes:

Retford Oaks High School (new-build, single site) Elizabethan High School (new-build, single site) the reconstruction of Tuxford Comprehensive on its existing site St Giles Special School (new-build, sharing the site with Retford Oaks)

Phase 2, which will be complete by September 2007 comprises:

the redevelopment of the site of Valley School, Worksop rebuild of Portland School, Worksop on the current site two Post-16 centres in Worksop and Retford (new-build) two leisure centres in Worksop and Retford (new-build)

Construction work for the project will be carried out by Balfour Beatty subsidiaries – a Balfour Beatty Construction and Balfour Kilpartick JV – which was advised by law firm Pinsent Masons.

Graham Alty, partner in the Pinsent Masons construction and engineering transactional team, tells IJ News: ‘This was an interesting project as there were two separate authorities with interest in the schools and leisure elements of the scheme.

‘It was important to ensure that the deal reflected the long-term requirements of both authorities while at the same time containing adequate safeguards for the private sector.’

Another Balfour Beatty subsidiary – Haden Building Management – will undertake the project’s facilities management. The FM element includes maintenance, catering, cleaning and grounds maintenance. The contract is estimated to be worth in excess of £100m (US\$175.8m).

Transaction

Having pipped a Bilfinger Berger consortium to the post, Transform Schools achieved financial close with the three MLAs and a large group of advisers by 12 July 2005.

The secret to the relatively speedy close to the deal was that the three MLAs – DEPFA Bank, Dexia and the Royal Bank of Canada (RBC) – are all experienced at bank-financed school deals.

Dexia has previously done deals with Balfour Beatty while RBC and the same legal team helped Transform Schools close the landmark £150m (US\$265m) North Lanarkshire Schools deal – the first bond-financed project in the school sector – just a month before Bassetlaw closed.

Ben Cashin, a director of infrastructure finance at RBC, tells IJ News: ‘As always with these deals there was pressure to close the deal as soon as possible because the local authorities have a March end of year.

‘With North Lanarkshire we’d been through a lot of issues, but this wasn’t the sort of deal where massive issues cropped up and derailed the project – it was a relatively smooth deal.’

The three MLAs provided a 25-year senior debt facility of £130m (US\$239m), which includes a £113m (US\$200m) term loan, a £14m (US\$24.8m) equity bridge loan and a £3m (US\$5.31m) standby loan – a facility which would provide liquidity to the concessionaire for the operating period if there is a sudden change in law.

Balfour Beatty and Innisfree are investing an equal sum of equity – £7m (US\$12.3m) – into the project. The debt equity ratio is 89:11.

The Leisure centres are being funded by a direct capital contribution of £10m (US\$17.7m) from the local authority.

The Legal and financial advisers to Transform School were Tods Murray and Macquarie respectively while McGrigors acted as the arranger’s legal adviser.

The local authority was advised by Abros (financial) and Eversheds (legal)

Conclusion

This was one of the largest grouped schools PFI projects to close in the UK and the fourth such deal that was closed by Transform Schools. It involved many of the advisers and banks that have worked together on a number of deals and seemed to close with relative ease.

After the initial set-back from the loss of anticipated PFI credits, the local authority dusted the project off and wheeled it out in a different format to include more social aspects and guarantee public funding.

As one of the last of the conventional grouped secondary school PFIs to close in England, it will now make way for the Building Schools for the Future programme and it will be interesting to see whether that proves to be as attractive to the banking community as its forerunner.

Project at a glance

Project name	Bassetlaw Grouped Schools Project
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Location	Nottinghamshire, UK
Description	The project will involve four new secondary schools, a new special school and two new centres for post-16 education in Retford and Worksop and a new secondary school in Tuxford. It will also create two new leisure centres for Bassetlaw District Council.
Sponsors	Transform Schools(Balfour Beatty / Innisfree)
Operator	Haden Building Management
EPC Contractor	Balfour Beatty
Total project value	£135m (US\$239m)
Total equity	£14m (US\$24.8m)
Equity breakdown	50/50 Balfour Beatty and Innisfree
Total senior debt	£130m (US\$239m)
Tenor	25 years
Debt senior debt breakdown	£113m (US\$200m) term loan£14m (US\$24.8m) equity bridge loan£3m (US\$5.31m) standby facility
Senior debt pricing?	Not disclosed
Debt:equity ratio	89:11
Mandated lead arrangers	DEPFA BankDexia Public Finance BankRoyal Bank of Canada Europe
Participant banks	None
Legal advisor to sponsor	Tods Murray

Financial advisor to sponsor	Macquarie
Legal advisor to banks	McGrigors
Legal advisor to government	Eversheds
Financial advisor to government	Abros
Date of Financial Close	12 July 2005

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