

Southmead Hospital PFI

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The financial close of the Southmead Acute hospital in the south-west of England was remarkable for several reasons - not least the speed of its procurement in such a constrained market.

While this can be put partly down to political considerations great credit must go to all the project stakeholders at delivering such a complex project within 45 months. - the second fastest procurement of a UK PFI hospital.

Furthermore it serves to illustrate the market's willingness to get on board deals that are well structured, have a sensible balance of risk, and are delivered by a strong sponsor - in this case Carillion [\[Projects Database\]](#).

The first of four major hospital projects in the pipeline to make it to financial close the project it is also one of the largest social infra deals in the UK to receive support from the European Investment Bank (EIB).

Background

The project first came to market in May 2007 - the largest scheme to be procured under the so-called 'smart' PFI model.

The system - advocated by the Royal Institute of British Architects (RIBA) - sees much of the design put in place before the project is put out for tender.

In May Bristol NHS Trust shortlisted three consortia from the four groups that expressed interest in the scheme.

The shortlisted teams were:

- Carillion and Building Design Partnership
- Catalyst and Jonathan Bailey
- Skanska and NGM

Catalyst pulled out of the running before the shortlist was announced in early December, claiming that it did not have sufficient time to compile its bid - a common criticism by sponsors when 'Smart PFI' is employed.

Final bids from the remaining bidders were submitted in February and in March Carillion were named as preferred bidder.

The project then reached financial close 11 months later with a club of five commercial banks providing the senior debt alongside the EIB.

Early works and site preparation began in August 2009 ahead of major construction beginning during Q2 2010.

The Project

The DBFOM project will see a new 800-bed facility built in Bristol, south-west England. Serving the areas of Bristol, North Somerset and South Gloucestershire the new facility will merge existing acute facilities at Frenchay and Southmead.

The concession includes the provision and maintenance of a new building and refurbishment of existing acute and community hospital facilities as well as associated information management and technology (IM&T) infrastructure.

The new facility will have more single rooms than any other NHS hospital in the country increasing privacy and reducing the risk of infection. There will be 20 per cent more intensive care and high dependency beds.

There will also be 2,700 car parking spaces in total across the hospital site.

Financing

The EIB declared its support for the project in October 2007 - being willing to provide up to 50 per cent of the project senior debt.

Despite rumours a bond solution was being sought to provide at least part financing for the project RBS and Lloyds Banking Group were appointed by Carillion as steering banks to form a club in July 2008.

A club of five banks in addition to EIB was eventually put together to provide total senior debt of £627 million.

The MLAs and their tickets were:

- EIB - £250 million
- Lloyds Banking Group - £150 million
- RBS - £75 million
- NAB - £51 million
- Credit Agricole CIB - £51 million
- Société Générale - £50 million

The commercial banks package also includes a change in law facility of £14 million and an EBL of £94 million by the commercial lenders on a pro rata basis which is being retired post construction by the equity partners.

The project's equity was divided as follows:

- Uberior Investments (formerly part of HBOS now Lloyds Banking Group) - 50 per cent - £47 million
- Carillion Investments - 50 per cent - £47 million

The margins on the debt started at Libor +230bp, falling to Libor +215bp post construction before stepping back up Libor +260bp.

The debt service cover ratio was 1.18 stepping up to 1.20 post construction, over a 30-year tenor. The debt:equity ratio was 84:16 (excluding the EIB loan, EBL and change in law facility).

Lyn Oliver, Director at Carillion, commenting on the financing, said: "We were required us to do a lot of work looking at a range of financing solutions of which the majority were not viable at the time but we needed to demonstrate to the Treasury that we had considered all options.

"The Bond deal required us to be AAA rated in order to secure investors, yet work with the rating agencies to secure this level of shadow rating would have required the deal structure to be changed and affordability to be severely tested.

"We then had to move to a bank only solution in the summer of 2009 unsure whether we could definitely raise all the finances in the banking market. The second wave funding competition in November proved that the markets had radically improved and we were eventually massively over-subscribed.

"However there was a long period over the summer when we were not certain this would be the case."

Future Developments

Despite cross-party commitment in the UK to health spending the flow of large scale hospital projects has slowed considerably.

Southmead was one of four major hospital projects to be announced in 2007 - however it is as yet the only project to reach financial close.

The next scheme in the project pipeline - The Royal Liverpool Hospital [\[Projects Database\]](#) - is due to come to market in April 2011 after a series of delays while Sandwell [\[Projects Database\]](#) and Papworth [\[Projects Database\]](#) have struggled with planning issues.

Local authorities have moved more towards building smaller scale integrated health centres under the Local Improvement Finance Trust (LIFT) initiative rather than replacing the large scale facilities built at the turn of the 19th century.

Indeed LIFT has moved beyond its initial remit of small scale community centres to providing mass health provision within an LEP framework. A prime example of this is Bristol LIFT [\[Projects Database\]](#) worth £48 million - which will provide a range of health care services and coincidentally is located in the same county as Southmead.

Conclusion

Given the market in which it was financed, Southmead can justifiably be seen as a triumph given the speed of its procurement and the competitive funding terms agreed.

Andrew Hall, RBC Capital Markets, financial adviser to the authority said: "It's a further illustration of the availability of long term bank debt for deals that are well structured, have a sensible balance of risk, and are delivered by strong sponsors.

"The presence of the EIB was of course enormously helpful, but to be oversubscribed on such a quantum of commercial facilities, with that tenor on the term loan, is a fantastic achievement."

"The time from OJEU to financial close is also noteworthy, particularly given the volatility of the funding market over that period."

While a combination of changing priorities for the health sector and funding constraints mean that it is unlikely that large scale hospital developments will form a significant part of health procurement in the medium term a steady pipeline of deals with perhaps one project closing a year is not wholly unrealistic.

The project at a glance

Project Name	Southmead Hospital PFI
Location	Bristol, south-west England, UK
Description	800 bed DBFOM acute hospital facility Serving the areas of Bristol, North Somerset and South Gloucestershire.
Sponsors	Carillion
Project Duration (Including construction)	30 years
Total Project Value	£600 million
Total equity	£94 million
Equity Breakdown	Uberior Investments (formerly part of HBOS now Lloyds Banking Group) - 50 per cent - £47 million Carillion Investments - 50 per cent - £47 million
Total senior debt	£627 million
Senior debt breakdown	EIB - £250 million Lloyds Banking Group - £150 million RBS - £75 million NAB - £51 million Credit Agricole CIB - £51 million Société Générale - £50 million
Senior debt pricing	Starting at Libor +230bp, falling to Libor +215bp post construction before stepping back up Libor +260bp
Debt:equity ratio	84:16
Multilateral agency loans	EIB - £250 million
Mandated lead arrangers	Lloyds Banking Group RBS NAB Credit Agricole CIB Société Générale
Legal Adviser to sponsor	Linklaters
Financial Adviser to sponsor	HSBC
Legal adviser to banks	Allen & Overy
Legal adviser to government	Bevan Brittan
Financial adviser to government	RBC Capital Markets

Technical and commercial adviser to
government

Integrated Building Services (part of WSP) alongside NBBJ Architects.

Date of financial close

25 February 2010

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