

Partnerships UK

Refinancing

Javier Encinas

March 2009

What is refinancing?

During the life of a project the contractor may wish to:

- Replace
- Augment
- Change the structure of
- Change the nature of terms of
 - the financial structure put in place at financial close

Where such restructuring or changes:

- Increase or accelerate distributions to investors, or
- Reduce investors commitments to the project

The effects are referred to as refinancing gains



Factors which could give rise to a Re-financing Gain

- Maturing PFI market
- End of construction phase
- General fall in market interest rates



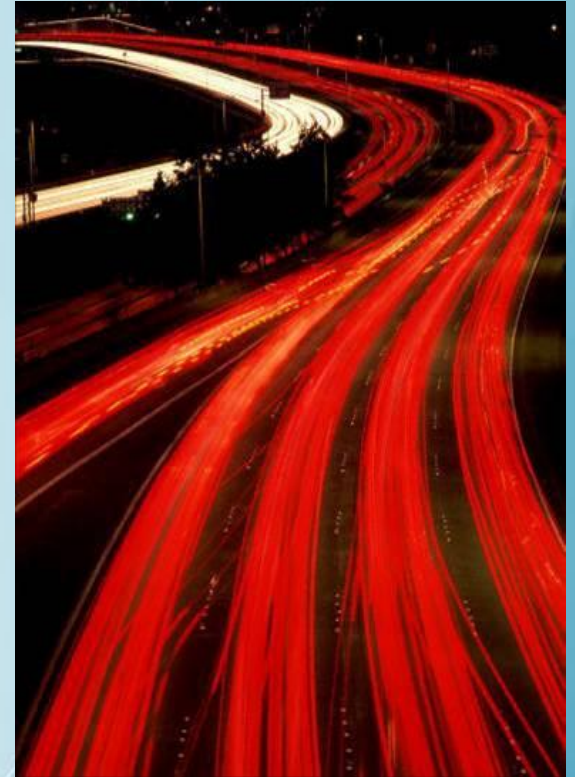
Public Sector Position

- PFI is a standardised and mature market that has been developed by the Public Sector so allows gains to be secured through cheaper debt funding.
- Refinancing should be of benefit to both the authority and contractor so proposals should be welcomed and considered positively.
- PFI is a partnership between Public and Private Sectors so sharing structure is appropriate.



Issues to be considered by the Authority

- Is there an increased risk facing the authority?
- Is this commensurate with the reward?
- The effect on the financial stability of the contractor?
- The authority's consent should be forthcoming where its share of the gain is reasonable compensation for the increased risk it is being asked to bear e.g. Contracting with a more highly-g geared counter-party.
- HM Treasury – Application Note- Value for Money in Refinancing
- Refinancing Taksforce through OTF

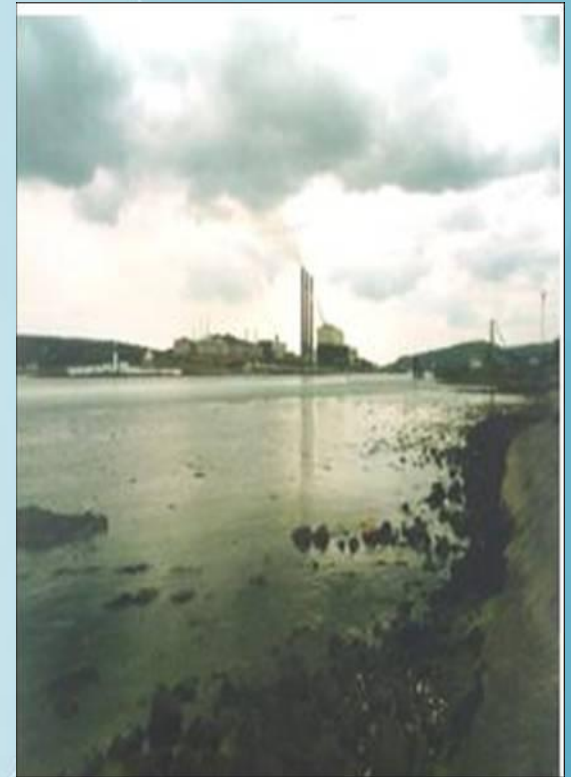


Calculation of Re-financing Gain

Derived from changes in distributions projected to take place after the refinancing by comparison with the position immediately before the refinancing

Positive/negative changes in distributions should be discounted to their NPV at refinancing date.

Discount rate to be used is the original base equity IRR since this is the rate they would be earning from capital invested in the project.



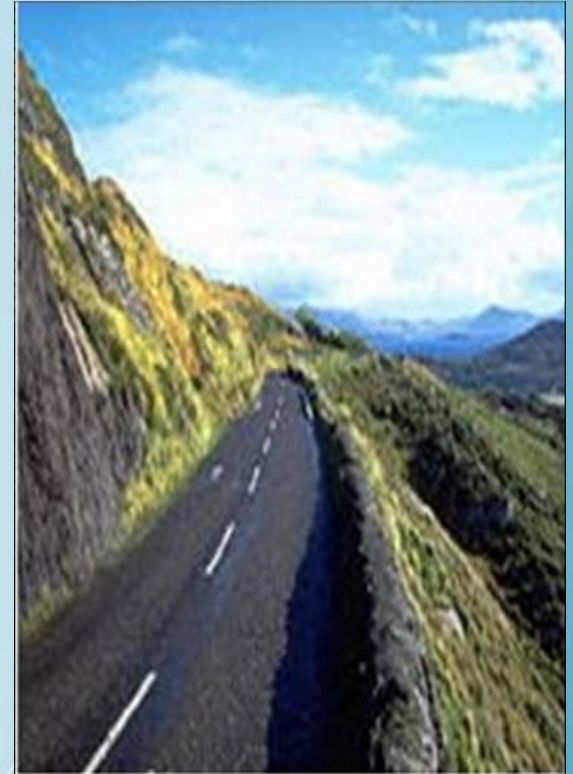
How are the gains shared?

PFI transactions signed before 30 September 2002 are subject to 'The Code': 30:70 sharing of gain to authority and contractor respectively

PFI transactions signed between October 2002 and October 2008 are subject to OGC revised guidance: 50:50 sharing of gain

PFI transactions signed after October 2008:

- 50:50 sharing of the first million of gains,
- 60:40 sharing of the next two million in the taxpayers' favour
- 70:30 sharing of anything above that in the taxpayers' favour



Payment

Authority's share should be taken either as:

- i. A cash sum at time of refinancing
- ii. A reduced unitary charge
- iii. Combination of (i.) & (ii.) above

Authority may elect to receive its share of gain through increasing scope of services.



PUK's Refinancing Taskforce

PUK's Refinancing Taskforce has been established as a centre of expert advice to educate departments on refinancing issues and assist them on transactions.

It provides:

- Helpdesk support
- Guidance and codes of conduct
- Trainings



Javier.Encinas@partnershipsuk.org.uk

www.partnershipsuk.org.uk

