# Bendigo Hospital PPP

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The AU$630 million (US$600m) Bendigo Hospital Project is smaller than some of the recent hospital PPP's in Australia. It maybe destined to be remembered chiefly because of a brief legal problem with the lead member of the winning consortium, Lend Lease, which may not be relevant for future projects. However, it did cause a stir at the time, and delayed the project for a short while.

Otherwise, the project moved through the phases of procurement relatively smoothly.

The purpose of the project is to build the following:

- a new hospital with 372 acute inpatient beds
- 80 acute same day beds
- 80 psychiatric inpatient beds
- 10 operating theatres
- a new integrated regional cancer centre with 26 chemotherapy places
- a satellite dialysis facility with 16 places
- diagnostic, outpatient, staff, education, administration, public and back of house spaces in the new hospital to complement the above

This amounts to a near doubling of the existing hospital, with the total number of beds rising from 369 to 618. Operating theatres will also increase from six to 10, and radiotherapy bunkers from two to four (expandable to six).

## Procurement

The state government first provided AU$2 million to help plan for a new hospital in 2006, and a service plan was developed the following year. In 2009 the government provided AU$55 million to pay for the enabling works, which would be completed by December 2012. Then in May 2010 the state government committed AU$473 million to the project in its budget, and this was increased by AU$102 million following the state election that year. The government then announced its plans to procure a hospital by public-private partnership in late 2010, and an Expression of Interest process happened in late 2011. A Request for Proposal was sent to four shortlisted groups in June last year, and less than a year passed from this point to financial close, which was achieved on 29 May.

This still represented a slight slip in the schedule. As of November 2011, a preferred bidder was supposed to be announced in 2012, with construction due to start in December, and the hospital to open in 2016.

Four consortia responded to the EOI request in October 2011. These were:

- Commonwealth Bank of Australia/BBPI/Leighton Contractors
- Capella/Lend Lease/Spotless
- Macquarie/John Holland/Acciona/Serco
- RBS/Thiess/Medirest

In February 2012, the government selected two bidders for its shortlist. These were:

- Intecare - John Laing/Theiss/RBS/Theiss Services
- Exemplar - Capella Capital/Lend Lease/Siemens/Spotless Services

The Government prepared the detailed request for tender documents for the two bidding parties, and they were initially given six months to respond to the RFP, to develop their own vision for the new hospital. The winning bidder would design, construct, finance and maintain the project. Clinical services will continue to be delivered publicly, however, in line with the Partnerships Victoria framework.

## Hold-up

However, it was not until April 2013 that a preferred bidder, Exemplar, was named.

The cause of the hold-up was a union-friendly deal signed between Lend Lease and the Construction Forestry Mining and Energy Union in September 2012. The agreement, signed after Lend Lease workers struck, included an employment security clause, five per cent pay rises, and a bonus scheme.

This contradicted rules brought in in the state of Victoria in July of that year. Specifically, the agreement contained clauses that the company would directly employ staff in certain positions, consult with the union on labour hire, agree to organisers coming on site to resolve disputes, and fly the union flag on cranes.

Because of this, Lend Lease was banned from the government’s tender list in December, which was challenged by the union in the federal court. Around this time it also became known that the Exemplar bid was “materially ahead” of the rival bid from Intercare.

However, Lend Lease was eventually reinstated on the basis that the tender process for the hospital started before the state guidelines were brought in. After Exemplar was named preferred bidder, in April, the federal judge found in favour of the union, upholding its claims and finding that the state had breached the law in attempting to exclude Lend Lease. The state has yet to decide whether to appeal the decision.

## Financing

Arranging financing was swift after Exemplar was named as preferred bidder. The government had committed 75 per cent of the project cost post-completion, which made sourcing finance relatively easy. “There certainly wasn’t a capacity issue in the market. It was not hard to source the debt, just expensive,” said a source close to the process. The government’s commitment to 75 per cent of the cost It’s worth mentioning that this process took place the same time as the financing for the much larger port privatization transaction in New South Wales, concerning AU$5.07 billion of debt and four of the same banks.

Nevertheless, US$804.34 million was raised for the hospital project, across four term loans. Three of these were for construction facilities and the fourth, of US$10.63 million, was a six-year loan for the debt service reserve account (DSRA) facility. The construction facilities were all priced the same. The largest, of US$561 million, was provided by a club of eight banks, for five years. The largest tickets, of US$92 million, were taken by DBS Bank and BOSI. They were joined by ANZ and NAB, plus Siemens, which also provided 50 per cent of the equity (the other 50 per cent was provided by Lend Lease). The other three loans (two smaller loans totaling US$230 million) plus the DSRA were provided by NAB, ANZ, Mizuho and CIBC World Markets, for six years.

There was also a separate associated transaction regarding health accommodation at the site. Structured as a 30-year lease, this residential project has an estimated value of A$20 million. No debt was involved, and the sponsor, HRL Morrison, provided all of the equity.

The same month the project closed, Partnerships Victoria announced a new set of PPP guidelines, some of which will be relevant to new social PPP projects in the state. These include a scoping ladder, a flexibility to consider modified financial structures, most likely with a varying capital contribution from the state depending on the amount of risk the private sector is willing to take. Unsuccessful bidders may see some of their costs reimbursed. It also looks at expanding the PPP model to cover more services.

So the next social project is likely to build on the Bendigo Hospital project but to have some different aspects. This evolutionary model will be demonstrated next by the Ravenhall Prison PPP,  for which the selection process has just kicked off.

**Advisory roles**

KPMG provided financial and commercial advice to the authority, legal advice was given by Clayton Utz, and technical advice was provided by Davis Langdon.

On the sponsor side, financial advice was given by Capella Capital, and legal advice by DLA Piper.