

**Ambac**

# Guaranteed Financing for Military Housing Marks Largest Single PFI Contract to Date

Ambac's PFI and Military Housing Expertise Help in Structuring Deal

£730,000,000

**Allenby & Connaught PFI Project**

Ministry of Defence Accommodation Project

In 1999, the UK government's Strategic Defence Review identified a range of projects to improve the country's military facilities and support. Key among these projects is the refurbishing and expansion of housing for military personnel. The largest of these, the Allenby & Connaught project, aims to provide living and working accommodations for 15,700 military personnel— approximately 20% of the UK Army's full-time soldiers— at six garrisons southwest of London.

As part of the country's Private Finance Initiative (PFI), the Ministry of Defence entered a 35-year agreement with two major contractors, Kellogg, Brown & Root UK Limited and Carillion plc, to build and operate housing and related services. This highly significant project is the largest single PFI contract ever awarded and financed. To help strengthen the deal, the participants sought triple-A financial guarantees for the fixed rate senior financing.

Ambac, with extensive experience in military housing transactions, including the UK government's earlier military facilities project at Colchester, was asked to insure half the £1.46 billion senior debt issued for the project. In addition to its related experience, Ambac was well acquainted with the project participants, KBR and Carillion, who formed an SPV, Aspire Defence plc, to finance the transaction.

Because of the size of the project, the length of the service agreement, and the fact that over 30% of the building activity would involve new facilities, the issuer (Aspire) needed flexibility to raise funds in the future, if needed. As a result, the financing includes variation bond facilities that allow for an additional £235 million of debt to be issued later in the construction period. This variation debt includes a committed guarantee from Ambac, ensuring that any additional debt will carry a triple-A rating, the highest available.

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