

**Ambac**

Largest Single-Tranche PFI Financing Strengthened by Ambac Financial Guarantee

£579,949,000

Colchester Barracks

Ministry of Defence Accommodation Project

As with other government departments in the U.K., the Ministry of Defence (MOD) has sought to improve fiscal management through developing projects that would be compatible with the country's Private Finance Initiative (PFI). Colchester, a town about 50 miles east of London with a military history dating to Roman times, is home to the 16 Air Assault Brigade including 2 and 3 Para Regiments, major components of the U.K.'s rapid deployment force.

In 1997, the MOD began laying the groundwork for an extensive modernization of Colchester Garrison to improve the quality and increase the efficiency and flexibility of facilities at the site. The MOD structured the transaction as a PFI project drawing on construction and management expertise from the private sector. Financing the project would eventually result in the largest single-tranche financing yet issued in the PFI program.

A consortium of companies-Sir Robert McAlpine Group, Sodexho Alliance S.A., WS Atkins plc and HSBC Infrastructure, all with extensive experience in the PFI market- was formed to redevelop the site. Under a 35-year concession from the MOD, the consortium agreed to provide serviced living and working accommodation for over 3,500 army personnel and nearly 700 civilian staff. The consortium, RMPA Services plc, assembled a team of advisors to structure the financing needed to support the project. As details of the financing took shape, a financial guarantee was sought for the upcoming transaction. Ambac Assurance UK Limited, with extensive experience in both PFI financings and military housing projects (in the U.S.), was selected to be part of the team following a funding competition. Ambac worked closely with the participants to include features in the structure that would help increase the efficiency and reduce the overall size of the debt issue being considered.

An unusual feature built into the deal was the sale, to private developer Taylor Woodrow, of a large parcel of MOD land adjacent to Colchester town centre that was not needed for the extensive modernization project. These complex land sale arrangements will partially fund the project over the five-year construction period.

The number of participants and complexity of the deal brought many challenges that were overcome to enable the financing to close in February 2004. The resulting £580 million financing, fully guaranteed by Ambac and therefore rated triple-A, was the largest single-tranche PFI financing to date and the first public financing for an MOD project under this initiative. Construction commenced in February 2004 and is expected to be completed in 2008.

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