

Project Red Dragon

Project Red Dragon is a good example of how PFI applies to defence very straightforwardly for support services that are away from the front line. The Defence Aviation Repair Agency (DARA), the UK government's agency for the repair and maintenance of military aircraft, needs an advanced aircraft maintenance facility worth £80m. Initial capital costs and the nature of the service made it ideal PFI material.

The facility, referred to as Project Red Dragon, will establish a state-of-the-art "Super Hangar" within a 100-acre site on the existing RAF St Athan base, near Cardiff, Wales. It will house DARA's head office and consist of a 48-bay maintenance hangar with full support facilities to repair military jets.

In February 2003, the British Government named an Equion led consortium as preferred bidder to finance, design and construct the facility. The consortium consists of Equion (a division of John Laing), Laing O'Rourke and Emcor Facilities Services.

Senior debt was provided by Barclays Bank and Macquarie Bank advised the consortium on funding. The total capital value of the project is about £80m and is fully funded by the loan. DARA have no obligation to pay for the facility until it becomes operational. Work began in March 2003 and construction is due to completed in November 2004. Once completed, DARA will enter into a lease for the facility making fixed payments for its occupancy. The Special Purpose Vehicle (Equion) will service debt from these payments. DARA's lease is for 125 years with various breakage options.

Background and rationale

DARA was created in April 1999 by merging the RAF and Naval aircraft repair organisations Maintenance Group Defence Agency (MGDA) and the Naval Aircraft Repair Organisation (NARO). It delivers one-stop-shop aerospace support not only to the Ministry of Defence (MoD) but also to foreign governments and industry. DARA is the largest government-owned aerospace repair facility in Europe, employing over 4,000 staff. All DARA staff are currently located on four sites in the UK: St Athan; Fleetlands at Gosport,

Hampshire; Almondbank in Perthshire, Scotland and Sealand in Flintshire, North Wales. DARAs head office is located at St Athan, which has been the primary location for the servicing and maintenance of the RAFs aircraft since 1938.

With production facilities spread across a thousand acres, its large size rendered it both uneconomic and unsuitable for today's aircraft maintenance, repair and overhaul (MRO) requirements. DARA St Athan currently carries out its MRO business from 13 locations across the site.

Project Red Dragon was set up to look at the issues concerning the outdated facilities. DARA conducted a series of studies into building design costs and efficiency and environmental issues, which suggested an investment to upgrade facilities was needed.

DARA received ministerial approval in January 2002 to proceed with the procurement process.

The Project

There are three elements to the project: the building of the facility for DARA; the rationalisation of the MoD's continued requirement for the site; and the creation of an Aviation Business Park by the Welsh Development Agency (WDA).

The projects are independent, but mutually supportive, in that DARAs new-build proposal stands in its own right while the facility will be the cornerstone upon which the WDA creates its aerospace centre. The contract was awarded to Equion and was signed in February 2003. Ove Arup and Partners are responsible for design on the facility in conjunction with HLN Architects with Laing O'Rourke carrying out the construction. Construction is due to be completed in November 2004.

Once completed, DARA will enter into a lease for the facility making fixed payments for its occupancy. The SPV will service debt from these payments. DARA's lease is for 125 years with various breakage options.

EMCOR will provide management for the facility, including the design, build and installation of mechanical and electrical systems,

then the ongoing maintenance of these services and the provision of integrated facilities management.

The aircraft hangar will occupy 45,000 square metres and will consist of a 48 bay fast-jet, deep maintenance hangar with full support facilities. The design will be able to accommodate a wide range of military and civil aircraft including C130, A320 and B737 aircraft. The design is also flexible enough to allow for future changes in service requirements.

Steve Hill, DARAs Chief Executive, explained the benefits. "This new facility at St Athan will provide us with the excellent, modern facilities we need to accommodate a broad range of military and commercial aircraft. The flexible design concept means that DARA will be able to meet both the MoD's and potential commercial clients' needs at a much reduced cost. Consolidating all our interests into a single purpose-built hangar means we can continue increasing efficiency, further reduce our turn round times and offer greater cost savings to our customers," he said.

As the project is part of the WDAs proposed Aviation Business Park, DARA is able to receive a facility that takes it off the MOD estate. RAF Athan will no longer be owned by the MoD, but owned by the aerospace park and the WDA. That gives DARA flexible terms for occupancy for the new facility and will open up development opportunities, thereby boosting the local economy.

Financing

Barclays Bank provided £80m of senior debt and confirmed it was currently going through a syndication process.

One unusual element of the deal is 100 per cent financing, which relates to the strength of the underlying covenant. The ability of the transaction to be done through 100 per cent debt provided significant cost savings in terms of the occupancy costs going forward.

Ernest & Young were financial advisors to DARA. Alastair Campbell, Assistant Director, Structured Finance, told Infrastructure Journal the 100 per cent financing was a principal attraction as it is a rental arrangement that DARA has entered into rather than being performance-based going forward. Sydney-

based Macquarie Bank advised the Equion consortium on funding. Legal advisors to Laing O'Rourke were London based Denton Wild Sapte and legal advisors to Barclays were London-based DLA.

Risks

The main risk for the project is completion risk as no income is produced until the facility is in operation next year.

There have also been doubts over their future of the project amid reports that the Government was considering contracting out some repair work to another party, thereby threatening hundreds of jobs.

The MoD said it remains committed to the project. A review was being conducted with a decision to follow and the MoD also confirmed a study, known as the End to End Review, was taking place into the work of support services for the armed forces.

Conclusion

The aerospace industry has had success in South Wales. Along with DARA, key employers in the region are British Airways and GE Aircraft Engines. The WDA recognised this area of strength and wanted to promote it.

The project has been positive in terms of cooperation with regional development agencies to develop the best offer for what is effectively one of Wales' largest employers.

DARA said Project Red Dragon will significantly improve its future competitive abilities across much wider markets. Its goal is to secure a modern production facility for maintenance on the existing fleet of aircraft and for civil aviation companies and other aviation business to use the services.

Ernst & Young's Campbell said there has been substantial international interest in the facility itself and also the potential for the development around it. "I think it certainly will secure a much stronger position for the aerospace industry going forward with the cooperation of two government departments (MoD and WDA) to reach that objective. It also brings each department's skills used to their own benefit in that the WDA has much more understanding of regional development and property development skills for

promoting the aerospace park going forward and attracting more employers,' he said.

The standardisation of PFI deals, coupled with the MoD's experience in procurement and project management makes UK-based support service deals very solid, as the 100 per cent financing reflects

Frederic Blanc-Brude – Infrastructure Journal November 2003