



# BUNDLING

## FPU Factsheet 5

Bundling is the grouping of projects or services within one project structure in a manner which enables the group to be financed as one project. The key benefits are that this allows small projects to be financed by increasing the overall debt within the bundle to an economic level and allows the various projects to cross collateralise each other. Key issues are that the cashflows from the project are robust (a single cash flow is often preferred) and the liabilities of each party, particularly those of the public sector partners, are adequately addressed in the event of, for example, partial or full termination.

### Details:

#### Why consider bundling?

Capital markets funding will tend to concentrate on larger projects and is therefore not available as an option for smaller projects. Smaller projects will be seen as less cost effective as they do not benefit from economies of scale. The transaction costs on projects with a capital value of around £10m can be disproportionately high and severely affect return and value for money.

Bundling projects can provide cashflows sufficient to provide a reasonable return after operating and debt service costs are addressed. It can also spread the risk for funders between different projects and locations.

Smaller projects that would not be economically viable individually may be when bundled.

#### Benefits to the Public Sector

Property Management

- Single contract for construction, hard and soft FM
- Simplified monitoring
- Simplified payment

#### Project Management

- Effective use of resources, one project team, one set of advisers
- Simplified chain of reporting/command

#### Improved VFM

- Economies of scale
- Replicability
- Economies through innovative finance e.g. bonds financing tends to be suited to larger deals

#### Considerations

Bringing projects together for financing may well require further investigation as the following issues will need to be considered: partial completion or termination of the project; compatibility of facilities and services; geographical constraints; different commencement times that need funding to be available at different times.

- Different Commencement Times

If projects have staggered commencement times the project company will not want to borrow until funding is needed. This could happen when planning permission is delayed on one of the sites in a multi-site project.

- Partial Completion

If one part of the project is completed before the others then the project company and the public sector will want services to start in that area first before the other areas are completed.



- **Partial Termination**

The project may falter in one area e.g on one site in a multi-site project. This does not necessarily mean that the whole project is not viable. The viable parts could still go ahead. The project company would need to ensure that the funders were in agreement and that the financial viability of the overall project was not affected.

- **Variations**

Bundled projects may be more prone to variation or changes and additional debt may need to be raised to cover this.

Each of these complexities needs to be addressed in both the Project and Financing Documentation.

### Refinancing

Projects can be considered for refinancing – this is particularly true of projects where construction has been completed and certain risks have passed. A more favourable rate of financing can be negotiated. Consideration could be given to bundling projects for refinancing to provide a larger debt. This allows alternative methods of financing to be considered. Construction companies could refinance to provide them with an exit strategy once the project is up and running.

FPU05

October 2003