

# Asset funding for service contracts

- introducing the Contractors' Asset Acquisition Program

Nick Hough  
Director, Navy Contract & Asset Financing

Presentation to the Defence + Industry conference; 30<sup>th</sup> June 2011



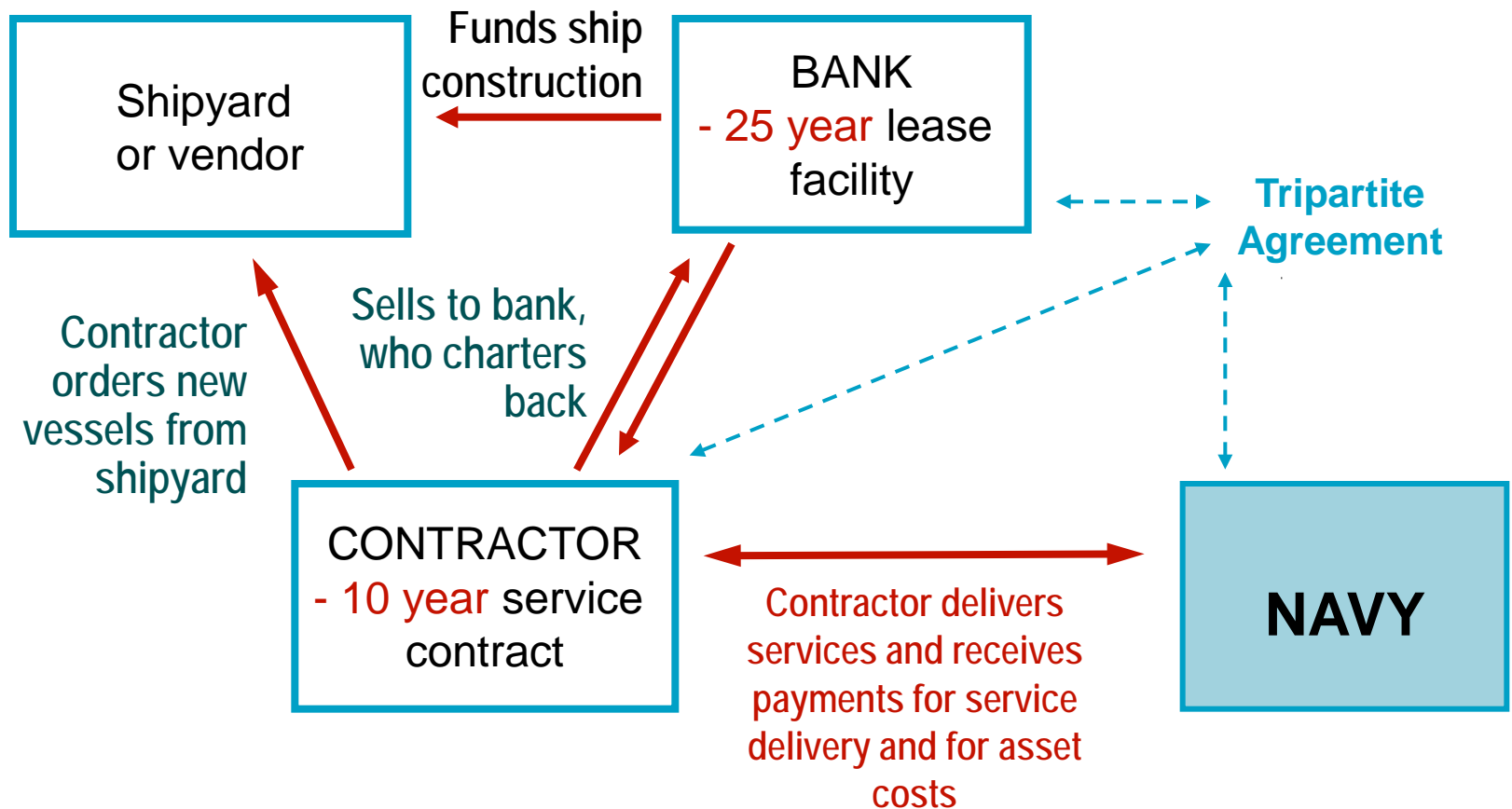
# Why the CAAP was introduced...

- To create a “level playing field” for tenderers and avoid the perceived “incumbent advantage” by industry;
- Enhance contract security by removing concern of sovereign risk and possible contractor defaults;
- CAAP identified the need to break the nexus between the term of service contracts and the constraint of needing match the payment for assets over the same term – which is usually significantly less than their economic life;
  - i.e. the ability to tender for a **5 or 10 year** service contract, still retaining VFM by funding the required assets (ships) over their **20 to 30 year** economic life.

# The five “principles” for the CAAP

■ <b>Transferability</b>	- allows all contracts to be novated to any new or replacement contractor.
■ <b>Flexibility</b>	- contracts and funding able to be cancelled or changed by Defence to meet operational needs.
■ <b>Certainty</b>	- avoid operational risks, allow long term budgeting.
■ <b>Transparency</b>	- Defence can see and consent to all asset price structures and to all Bank transactions.
...which, together, deliver enhanced <b>Value for Money</b> .	

# CAAP – the basic concept...



# Key features are that:

- Defence is **neither** the lessee - nor the lessor via any SPV;
- Defence does **not** place orders on vendors for the assets;
- Contractor selects assets and **warrants** each is fit for intended use;
- The key result of the CAAP structure is that Defence has:  
**“the ultimate control over the acquisition, use and disposition of all assets in the CAAP.”**

# The outcome has been...

- Initiated CAAP tender to banks on the day the GFC started!
- Established a 25 year, \$200 million facility with a AA rated bank, which was committed to commence October 2010;
- Contractor can request leases with up to a 20 year term;
- Fixed interest rate leases available for 1 to 15 year terms;
- Bank provides construction finance and FX capability;
- The first 31 asset lease agreements now in place:
- All the design and documentation for the CAAP was developed in-house - and the IP is able to be used elsewhere by Defence.

For further information on the CAAP, for a copy of this presentation, or to be added to the CAAP mailing list, please contact:

Nick Hough  
Navy Contract & Asset Financing  
Defence Plaza Sydney, 270 Pitt Street,  
Sydney NSW 2000

via e-mail: [\*\*nick.hough@defence.gov.au\*\*](mailto:nick.hough@defence.gov.au)

