

ITE College West, Singapore

Singapore's first social infrastructure PPP:
Inspiring generations with a campus of tomorrow



One of the world's most prosperous countries, the Republic of Singapore can boast a per capita Gross Domestic Product rivaling that of leading Western European countries. Its richest resource: a bright, literate population trained in skills relevant to the country's growing economy.

The Institute of Technical Education (ITE) plays no small role in providing a wealth of talent to Singapore's international businesses. A post-secondary institution, ITE is well known for its broad-based, multi-disciplinary curriculum and "hands-on, hearts-on, minds-on" approach to education.

The jewel in its crown: a new technical college campus equipped to scale and adapt to an ever-changing education environment. Planning for the new campus started in December 2005 with completion slated for the summer of 2010. The new ITE College West campus will accommodate 7,200 full-time and 8,100 part-time students with a slate of state-of-the-art workshops, laboratories, lecture theatres, and more.

While ITE successfully employed a traditional construction process to complete its first consolidated campus—ITE College East—in 2005, building ITE College West broke new ground in more ways than one. It was among the first social infrastructure Public Private Partnership (PPP) projects in Asia, and the first one to successfully reach financial close in Singapore.

Our challenge: Be flexible and deliver on budget

From the very beginning, ITE turned to PwC's Capital Projects and Infrastructure practice for guidance on navigating the complexity of the "Design, Build, Finance and Operate" (DBFO) PPP project. PwC, acting in the capacity as financial advisor, led the consortium, including legal advisors and technical advisors. Together, the PwC-led advisory team had the skills and experience ITE needed to successfully help them complete Singapore's first social infrastructure PPP project.

"A PPP is a complex instrument with potential pitfalls that can create delays and run up costs, if not procured effectively and appropriately" said PwC CP&I Leader for Singapore Mark Rathbone. On the nearly \$400 million ITE College West project, simply keeping on top of all the moving pieces would be a challenge of monumental proportions—particularly given the project's aggressive timeline.

Out of the gate, the PwC-led advisory team helped ITE narrow down the field of bidders, consortiums comprised of companies specializing in finance, construction, architecture, and facilities management. ITE wanted the design's function and aesthetic to dazzle as well as to deliver the economies PPPs are known for. Bidders had to strike the right balance of each capability while proving they were financially solvent, could bear construction risks, offer competitive pricing, and were trustworthy partners for a long-term facilities operation.

Over the course of a year, PwC worked with a short list of bidders to refine project requirements. The team also worked with various government stakeholders—including the Ministry of Education, the Ministry of Finance, the Land Transport Authority, the Housing Development Board, and the Singapore Land Authority—on a range of issues. "It was a very detailed, robust process that required us to interface at all different levels with our client and stakeholders, from chairmen to teachers. Everyone had ideas on what they wanted out of the school," observed Rathbone.

Keeping ahead of a moving target

Throughout the process, the PwC-led advisory team continued to demonstrate the responsiveness that initially attracted ITE. “We had to respond with a great deal of flexibility and speed to the different ideas presented by stakeholders, as well as offer very strong and good advice to enable ITE to make the key decisions to move the project forward.” Rathbone recalled.

On a project of this size and scope, pinning down the design proved to be a challenge. ITE wanted to be able to make minor changes to the design as the project progressed without going through a rigid contractual revision process. “ITE was not ready to commit fully to all the spaces and specs,” explained Rathbone. “Our response was to work with ITE and the preferred bidder to generate ideas around integrating flexibility into the design.”

The collaboration paid off when the concept of “white boxes” was born. Rathbone continued: “We built into the ITE contract with the preferred bidder, the notion that a portion of the space would remain unspecified in the contract stage. A certain amount of money was set aside to accommodate changes during construction. It was quite unique.”

Getting it done, creatively

Before the financial close, the PwC-led advisory team had another opportunity to find a creative, flexible solution to a challenging problem. Construction on the ITE College West campus had to be completed and ready for student use by July 2010, but fluctuating commodity prices were threatening to stall the financial close. If the preferred bidder didn’t commence preparatory construction work by December 2007, the project was in danger of missing its target completion date.

PwC introduced a plan to draw up a separate contract, called Pre-contract or Advanced Works, allowing the preferred bidder to prepare the site by demolishing

existing structures, site clearance, piling, and more before the financial close. “It took a lot of explaining because the concept was novel to the team in Singapore,” Rathbone commented. “But in the end, it was an absolutely critical move. Without it, the preferred bidder would have struggled to meet the project deadline within the agreed construction budget.”

The structure of the financing itself was another impressive success for the groundbreaking project. With PwC’s help, the ITE College West PPP achieved an exceptionally well structured deal that included a 26 and a half-year tenor loan at notably low margins of between 85 and 95 basis points—loan rates above the Singapore Interbank Offered Rate (SIBOR). Moreover, these interest rates were fully hedged, so the transaction was protected from interest rate fluctuation. Such a financing structure was unprecedented in the Singapore market, while the use of an equity bridge loan lowered the cost of capital for the government (debt being less expensive than equity). Thus it became a win-win for both the public and private sides of the transaction.

With the innovative contracts in place and financing structured, all that was left was the close. But time was of the essence. The credit market was drying up; the financial pressures mounting that would show themselves only a few weeks later when Lehman Brothers fell and markets collapsed. Yet because the PPP deal was so well executed, banks sustained interest. In August 2008, the deal closed and construction began in earnest the next day.

A brighter future is at hand

Fast forward two years later and construction on ITE College West is nearly complete. In a few short weeks, the campus will come alive with students who will receive expert technical instruction in state-of-the-art facilities, including a fully operational training hotel. “It’s looking very, very good,” Rathbone said with a smile. “The ITE College West project was one of the best I’ve worked on in my entire career. It was a fantastic deal—and the best part is that our client is happy.”

