

# Singapore ITE College West PPP

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The Institute of Technical Education (ITE) College West project has set a new standard in Singapore as the first availability-based social infrastructure PPP project to reach financial close.

The scheme pushes the frontiers of project finance in Southeast Asia as the first PPP to close with a majority of foreign sponsors and a club of five international banks. Prior to this deal, Singapore had no template contracts for in place PPP projects.

It is hoped that despite challenging market conditions, the project has set a precedent that will be adopted and become standard as the PPP market matures and starts to develop across the rest of Asia.

## Background

The ITE is a statutory board of the Singapore Ministry of Education and is the principal provider of technical education and training in Singapore.

It forms an integral part of the mainstream national education and training system and takes in 25 per cent of secondary school leavers.

Under its "One ITE System, Three Colleges" governance and education model, ITE embarked on a programme of consolidating its multiple campuses into three "mega-campuses" across Singapore. The first campus - ITE College East - was traditionally procured and became operational in January 2005.

In December 2005, the institute started planning for the procurement of its second campus in Choa Chu Kang - the ITE College West.

The procurement process for this project was divided into two stages - pre-qualification and invitation to tender (ITT).

The first stage saw the release of the pre-qualification document in July 2006 and responses were received in August 2006, resulting in a shortlist of three pre-qualified bidders.

The shortlist includes:

- **Gammon Capital:** Gammon Construction (a JV between Balfour Beatty and Jardine Matheson)
- **Babcock & Brown,** Kajima and Serco Guthrie
- **VisionOne** consortium - United Engineers, SMC, ALSOP, CPG Consultants and Obayashi

The second stage started with the issue of the ITT document to the three pre-qualified bidders on 27 October 2007.

Detailed evaluation of the technical, financial and commercial/legal aspects resulted in the appointment of the Gammon Capital consortium as preferred bidder in November 2007. Gammon Capital is jointly owned by Balfour Beatty and Jardine Matheson.

The **Gammon Capital** consortium includes:

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- Gammon Capital - equity sponsor
- Gammon - construction
- UGL PREMAS - facilities management (FM)
- DP Architects - architect

HSBC acted as financial adviser to the sponsor, Allen & Overy was legal adviser, while PwC was tax adviser.

#### The Project

The College West scheme will see the consolidation of ITE's five existing "West campuses" into one single new mega-campus. The project requires the DBFO of the new ITE College West under a 27-year contract and includes the construction of technical education and ancillary facilities over a two-and-a-half year period.

Gammon Capital will provide all FM services under the PPP contract for the 25-year operating period.

The new campus - with a net present value of US\$387 million - is scheduled to become operational in July 2010.

The new 114,480m<sup>2</sup> campus will include three key schools for 7,200 full time students and 8,100 part time students.

The three schools are:

- School of Business and Services
- School of Electronics and Info-Communications Technology (ICT)
- School of Engineering

ITE is providing land at a nominal cost to Gammon Capital through the sub-lease, with a head lease between the Singapore Land Authority and ITE.

The construction programme started in December 2007, prior to contract award, to mitigate the risks of delays to operations commencement in July 2010, in order to meet the inflexible school term start date - showing the cooperation and trust between ITE and Gammon Capital.

The use of an independent tester is unusual in the Singapore context for public procurement. ITE and its advisers progressed significantly in developing the scope for an independent tester, which is widely used internationally in PPPs.

PwC acted as financial adviser to the authority, Linklaters Allen & Gledhill provided legal advice and Davis Langdon & Seah was technical adviser.

#### Financing

Despite the credit crunch and deteriorating ability of many banks to provide funding, there was a sustained level of interest in the project from the lenders, and a number of banks expressed keen interest in funding the PPP.

Gammon Capital ran a funding competition to ensure a competitive funding structure and banks were engaged on an exclusive basis and were selected on the basis of pricing and experience.

The funding competition resulted in the selection of a club of five international lenders comprising:

- HSBC
- SMBC
- Dexia
- DZ Bank
- Bank of Tokyo Mitsubishi UFJ

Gammon selected banks that had familiarity with and knowledge of risk transfers inherent in a PPP transaction and the ability to leverage existing PPP experience in more mature markets to facilitate negotiations.

Support to the lenders came from Ashurst and Wong Partnership acting as legal adviser, Faithful & Gould provided the technical advice, while HSBC Insurance was insurance adviser.

The project's financing manages to tick a number of "first" boxes, including the first project in Singapore to secure the aggressive gearing level of 90 per cent; the use of an equity bridge loan; the first fully-interest rate hedged loan exceeding 20 years; and a contract that is based on availability payments with 100 per cent of payment at risk should the facility become unavailable.

It is the longest fully-interest rate hedged infrastructure loan in Singapore for the entire 26.5-year tenor, with a six-month tail on a sculpted repayment profile. Debt margins were SIBOR+85-95 bps, staggered over the term of the loan (Singapore Interbank Offered Rate).

Pin-point equity has also been injected upfront, while the majority of shareholder funds will be injected as subordinated debt. The subordinated debt will be drawn to repay the EBL.

The subordinated debt carries a real coupon rate and will be repaid on a sculpted basis. The repayment of principal for the subordinated debt will commence on the first payment date after final completion.

The legal framework is new and still developing - the introduction of the PPP Handbook in 2004 - and there are few Singapore precedents.

Financial close on 11 August 2008 was achieved despite an increasingly challenging credit environment in the wake of the sub-prime crisis.

Conclusion

The College West PPP achieved a ground-breaking financing structure for Singapore (and the wider Asian project finance market) despite increasing volatility in the global financial markets.

Overall, the collective experience of Gammon Capital and its lenders in delivering PPP projects globally resulted in a robust, harmonised and deliverable debt solution for the project, providing competitive funding terms.

The pathfinder project is Gammon's first PPP deal, the Singapore government's first PPP and Balfour Beatty's first PPP scheme in Singapore to reach financial close. It is also the first social infrastructure DBFO scheme in south east Asia that closely resembles SoPC3 - the UK standardisation of PFI contracts.

As a signal of more to come, the Singapore government is reviewing another education PPP - the Singapore ITE College Central - the third ITE campus - and a pre-qualification phase is expected as the next stage.

The project at a glance

Project name	Singapore ITE College West PPP
Location	Choa Chu Kang, Singapore
Description	The ITE College West will see the consolidation of ITE's five existing West campuses into the new mega-campus. It requires the DBFO of the new ITE College West under a 27-year contract.
Sponsors	Gammon Capital <ul style="list-style-type: none"><li>Jardine Matheson</li><li>Balfour Beatty</li></ul>
FM provider	UGL Premas
Contractor	Gammon Construction

Authority	Singapore Ministry of Education (MoE)
Project duration	26.5 years
Construction stage	Started in December 2007
Construction duration	3 years
Total project value	£115 million
Total equity	£11.5 million
Equity breakdown	<ul style="list-style-type: none"><li>Jardine Matheson - 50 per cent - £5.75 million</li><li>Balfour Beatty - 50 per cent - £5.75 million</li></ul>
Total senior debt	£103.5 million
Senior debt breakdown	<ul style="list-style-type: none"><li>SMBC - £20.7 million</li><li>BTMU - £20.7 million</li><li>HSBC - £20.7 million</li><li>Dexia - £20.7 million</li><li>DZ Bank - £20.7 million</li></ul>
Senior debt pricing	SIBOR+100bp
Debt:equity ratio	90:10
Mandated lead arrangers	<ul style="list-style-type: none"><li>SMBC</li><li>BTMU</li><li>HSBC</li><li>Dexia</li><li>DZ Bank</li></ul>
Legal adviser to sponsor	Allen & Overy Shook Lin & Bok
Financial adviser to sponsor	HSBC
Legal adviser to banks	Ashurst and Wong Partnership
Technical adviser to banks	Faithful & Gould
Insurance adviser to banks	HSBC Insurance
Legal adviser to the authority	Linklaters Allen & Gledhill
Financial adviser to the authority	PwC
Technical adviser to the authority	Davis Langdon Seah
Insurance adviser to the authority	Aon
Date of financial close	11 August 2008

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