

MINISTRY OF FINANCE  
SINGAPORE

**PUBLIC PRIVATE  
PARTNERSHIP  
HANDBOOK**

EXECUTIVE SUMMARY

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AUGUST 2004

# INTRODUCTION

Public Private Partnership (PPP) is a new approach that Government is adopting to increase private sector involvement in the delivery of public services.

PPP is part of the Best Sourcing framework, where the public sector will engage private sector providers to deliver those services which the private sector can provide more effectively and efficiently.

**Through PPP, the public sector seeks to bring together the expertise and resources of the public and private sectors to provide services to the public at the best value for money.**

**Fundamentally, with PPP, the public sector will focus on acquiring services at the most cost-effective basis, rather than directly owning and operating assets.**

The private sector will have the flexibility to innovate and propose solutions, e.g. in terms of the design of facilities, systems and work processes, use of equipment, and allocation of manpower and other resources, to best meet the needs of the users.

Under PPP, the private sector can look forward to providing a wider range of services over a longer contract period (usually between 15 and 30 years, though in particular cases it could be only 7 to 10 years) to the public sector.

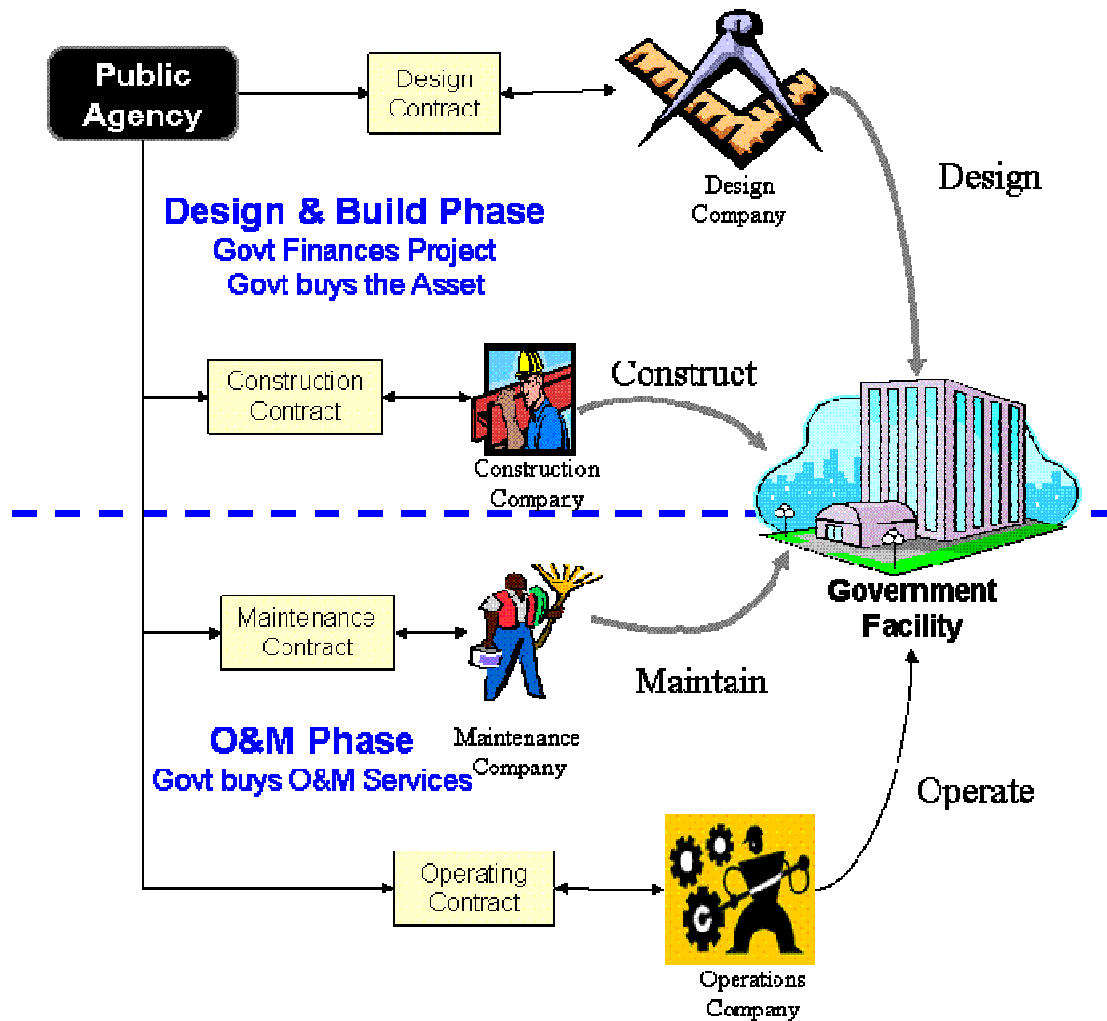
There are many possible PPP models, including joint-ventures, strategic partnerships to make better uses of government assets, Design-Build-Operate, Design-Build-Finance-Operate, and so on.

Each PPP project is unique. There is no one single PPP model that is suitable for all PPP projects. The public sector and private sectors have to work closely together to determine the optimal scope of collaboration in each PPP project to the benefit of members of the public who use the services, the government and the private sector.

# HOW IS PPP DIFFERENT?

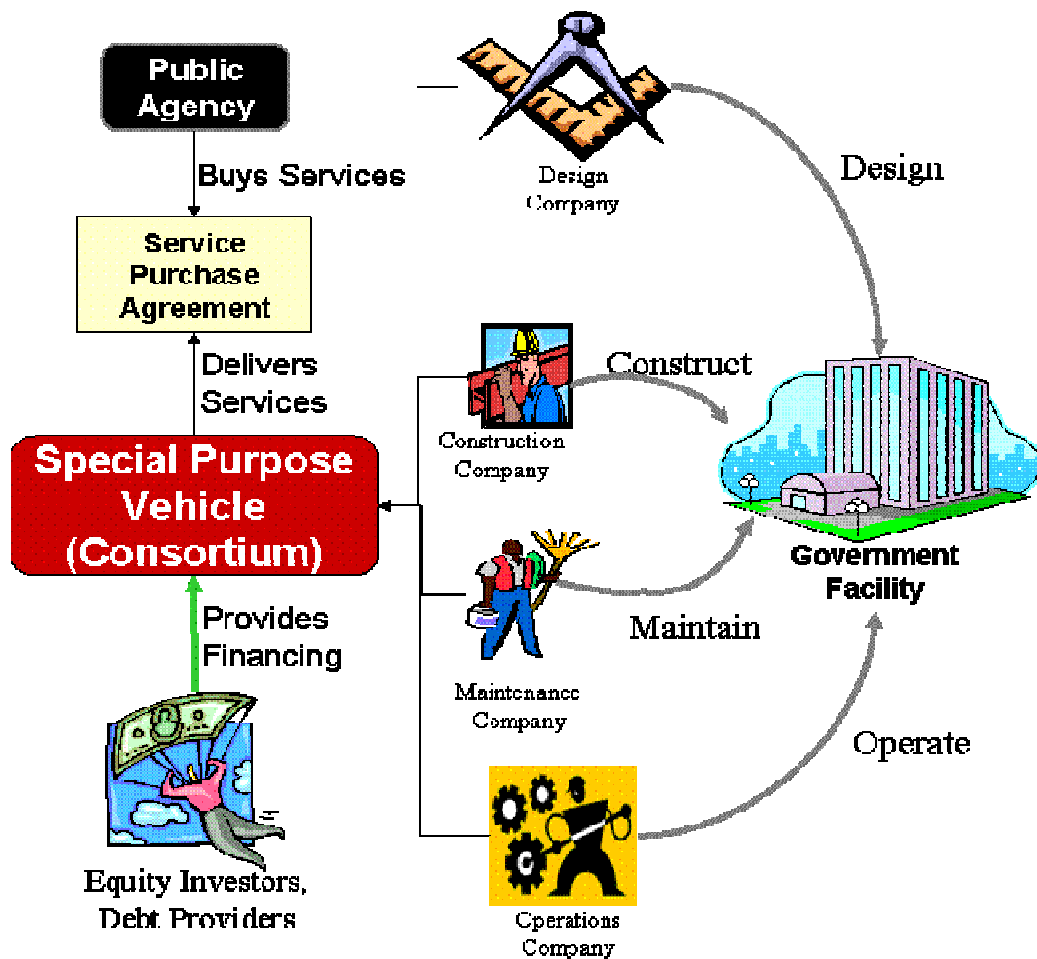
Traditionally, the public sector has tended to engage the private sector merely to construct facilities or supply equipment. The public agencies will then own and operate the facilities or equipment or engage separate maintenance and operations companies to operate the facilities and equipment to deliver the services to the public.

## Conventional Procurement Model



With PPP, the public sector will move away from owning and operating facilities, to purchasing services directly from the private sector.

### PPP-DBFO Model



Typically, the private sector PPP provider:

- Raises financing from equity investors or debt providers, e.g. banks.
- Designs the facilities, equipment and work processes that provides services to the public or to the Government.
- Builds the facilities needed to meet the public sector's requirements.
- Operates and maintains all the facilities and equipment needed to deliver the required services.
- Identifies opportunities for the Government to share the use of the facilities with other users to reduce the total cost to the public sector.
- Operates commercial facilities that can generate third-party revenue to reduce total project cost.

# WHY PPP?

**PPP offers a win-win-win solution for the members of the public, the public sector and the private sector.**

*For members of the public:*

- PPP brings together the expertise of the Government and the private sector to meet the needs of the public effectively and efficiently. PPP projects will be structured to deliver public services that can better meet the needs of the public without compromising the necessary quality or service standards.

*For the public sector, PPP can provide better value for money through:*

- Private Sector Innovation, particularly by tapping on the flexibility of the private sector in facilitating innovation and searching for new and better ways to provide services.
- Optimal Whole lifecycle costing by contracting out the design, build, maintain and operate phases to the same private company (or consortium), which will optimise the project cost over the entire contract length of 15 to 30 years.
- Better asset utilisation by sharing Government assets/facilities with third-party users.
- Optimal sharing of responsibilities between the public and private sector, such that each party is responsible for activities that it can best manage.

*For the Private Sector, PPP offers more business opportunities.*

- The private sector will be engaged to deliver more services which were traditionally performed in-house by public agencies (e.g. design, operations and maintenance services).
- The private sector has greater room to innovate and offer efficient solutions for public services.

## **WHERE WILL PPP BE USED?**

**As a rule, the Government will apply PPP only to large value projects whose capital value exceeds S\$50 million. For a start, public sector agencies will explore the use of PPP in sectors with successful examples of PPP in other countries.**

These include:

- Sports facilities.
- Incineration plants, water and sewerage treatment works.
- Major IT infrastructure projects.
- Education facilities, including student accommodation facilities.
- Hospitals and polyclinics.
- Expressways.
- Government office buildings.

## **PROTECTING PUBLIC INTEREST**

**The Government is committed to ensuring that public interest is protected in all PPP projects.**

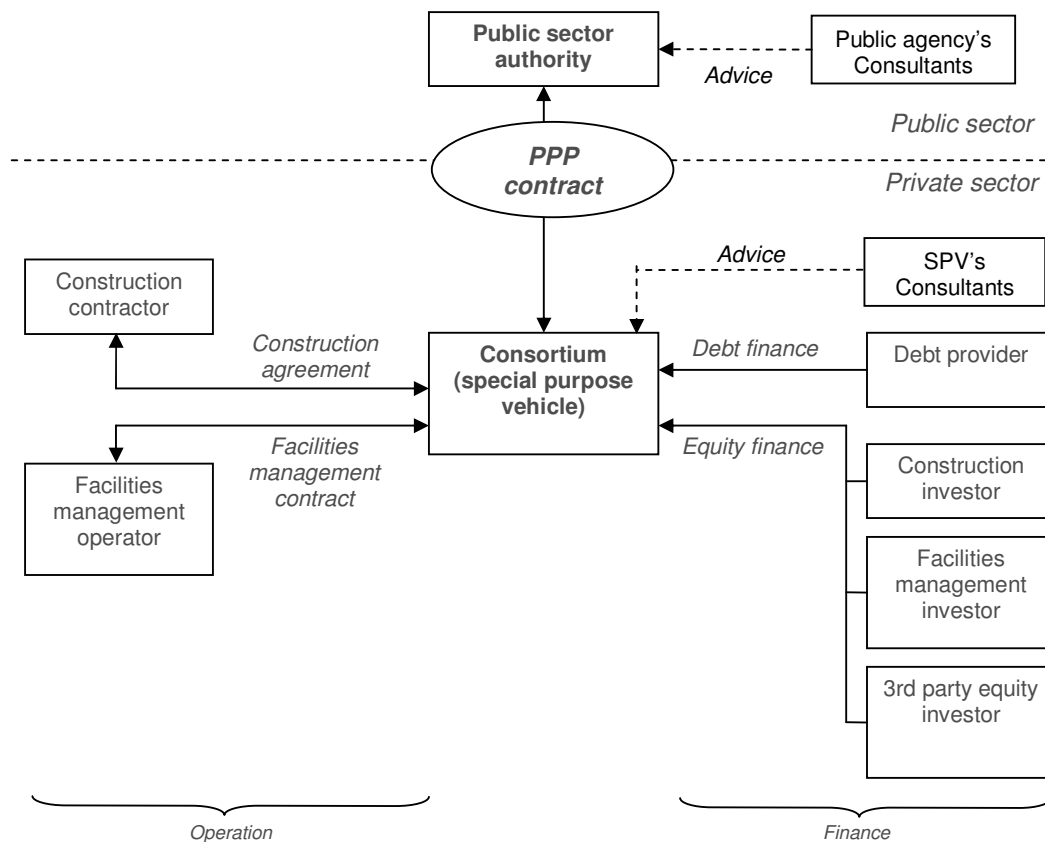
The public sector will ensure that:

- The private providers can meet the public needs effectively;
- There is clear accountability when services are delivered by the private sector and the public knows who to approach for service queries and feedback;
- Public security, health and safety will not be compromised in the PPP projects; and
- Confidentiality of information will be observed. We will protect the personal data and information of the public agency's customers.

# ROLES OF THE PUBLIC AND PRIVATE SECTORS IN PPP PROJECTS

A PPP project involves collaboration between various types of private sector companies and the public agency. The PPP deal should be structured to be mutually beneficial to all the parties involved, with each party taking on the responsibilities which it is best able to manage.

The following chart illustrates the interaction between the various parties in a typical PPP project.



**The public agency as the Purchaser of services will:**

- Specify the required outcomes/outputs
- Avoid specifying the means of the delivering the services
- Monitor the performance of the PPP provider
- Pay the PPP provider when the services are delivered

***Design, Construction, Operations and Maintenance companies as the Service Providers will:***

- Form the Special Purpose Vehicle (SPV) to bid for the PPP project.
- Raise funds to build the asset the SPV needs to deliver the services.
- Propose innovative solutions to meet the public sector's objectives.
- Provide design, construction and operational and maintenance services.
- Supply equipment to deliver the services.
- Use the payment stream from the public agency to pay its debt and equity providers, suppliers and subcontractors.

***Equity investors and Debt providers as the Private financiers will:***

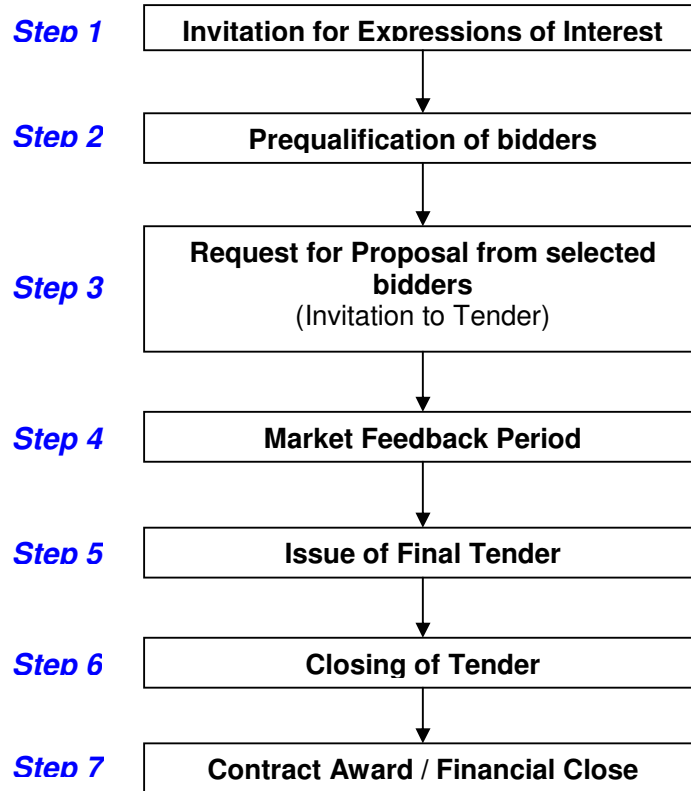
- Carry out due diligence on the SPV's technical capability and financial standing and examine if its business plans are robust.
- Invest in the SPV (Equity Investors).
- Lend to the SPV (Debt Providers).
- Oversee the SPV to ensure that services delivered meets performance standards.

***Consultants (if necessary) as the Advisors will:***

- Help the public agency structure a PPP tender; or
- Help the potential private provider work out a viable PPP proposal.
- Help to highlight the best practices to adopt or the pitfalls to avoid when preparing for a PPP deal.

# PPP PROCUREMENT PROCESS

The public agency will normally identify the appropriate private sector provider through the tendering procedures as shown below.



The public agency will generally adopt a two-stage tender, involving a pre-qualification invitation for Expression of Interest and a final request for proposal/tender from the pre-qualified bidders.

**The public agency will do a thorough evaluation of the proposals, taking into account the quality of the solution proposed by the PPP bidders, and their capabilities and financial soundness.**

A key difference between the PPP procurement process and conventional government procurement is in Step 4: **Market Feedback Period**. This Market Feedback Period is for:

- Pre-qualified PPP bidders to provide feedback and seek clarification on the PPP tender.

- Pre-qualified PPP bidders to raise suggestions and discuss them with the public agency.
- Pre-qualified PPP bidders to discuss the tender with its partners and financiers.
- Pre-qualified bidders to bring up queries which they have received from their financiers and request for changes to the tender to make the PPP deal bankable.
- The public agency to revise the tender conditions and specifications (if necessary) to ensure that the PPP deal is beneficial to both public and private sectors.

## CONCLUSION

PPPs mark an exciting improvement to the way the government delivers public services. By tapping more on private sector innovation, resources and capability, PPPs can, when structured properly, give rise to better and mutually beneficial outcomes for the public sector, the private sector and the public.

For more information on PPP, please refer to the PPP Handbook, which describes in greater detail:

- How to structure a PPP deal that is beneficial to the public sector, the private sector and members of the public;
- How the PPP procurement process will be conducted; and
- How to build and sustain a collaborative partnership between the public and private sector in a PPP project.