

PPP QUARTERLY

PUBLIC PRIVATE PARTNERSHIPS

March 2001

Innovative infrastructure and service delivery for national and provincial government.

PPP PROJECTS UNDERWAY

This issue of *PPP Quarterly* brings readers insight into three current PPP projects which are underway in the IT, health, and education sectors. It also sets out the PPP training programme for 2001/2002 and invites early bookings by senior officials for these valuable courses.

PPP Quarterly is securing sponsorship from private sector companies to cover the costs of publication. This issue is sponsored by the LawGibb Group, which has provided an article on the role of the engineer in PPPs.

In order to give a snap-shot of where there is significant work-in-progress on PPP projects, *PPP Quarterly* will regularly publish a table, briefly indicating the nature of each project, its status, managing department, and where applicable, the transaction advisors and the selected private partner.

| Department/Province | Project | Status | Transaction Advisors |
|--|---|---|--|
| Dept Labour | IT | Treasury Authorisation I given Bidders proposals due April 2001 | KPMG |
| State Vaccine Institute | Strategic Partnership | Pre-qualified bidders | PricewaterhouseCoopers |
| Dept Environmental affairs and Tourism | Harbour Management | Transaction Advisors terms of reference to be issued in March 2001 for Options Analysis | |
| Dept Foreign Affairs | Head Office | Feasibility Study underway | Credit-Agricole, Decathlon, and Masons |
| Dept Education | Head Office Building | RFQ issued January 2001 | KPMG and KMMT |
| Dept Land Affairs | Electronic Deeds Registration System | Transaction Advisors bids received 2 March 2001 | |
| KwaZulu-Natal | Inkosi Albert Luthuli Hospital | RFP issued January 2001 | Ezempilo Consortium |
| Northern Cape | Fleet Management | Treasury Authorisation I given RFP being prepared | Deloitte and Touche |
| Free State | Schools | Pre-feasibility study being completed | KPMG/CFBT |
| Free State | Universitas Hospital | RFP to be issued February 2001 | Credit Agricole Indosuez |
| Eastern Cape | Hospital co-location projects | Feasibility Studies underway | Various |
| Western Cape | Hospital co-location projects | Feasibility Studies underway | Various |
| Western Cape | Chapman's Peak Toll Road | Options Analysis completed | Credit Agricole Indosuez |
| Western Cape | Working for Water: secondary industries | Transaction Advisors being appointed | |
| Gauteng | Hi-speed train | Feasibility Studies underway | Khuthele/ Arcus Gibb |
| Northern Province | Eco-tourism: Manyalethi and Letaba | Preferred bidders selected: contracts to be negotiated | Palaborwa SDI team and White&Case |
| Mpumalanga | Zithabiseni resort | RFP to be issued in March 2001 | Busico and White & Case |
| North West | Eco-tourism: Rustenburg reserve | Bidders' proposal due May 2001 | Busico |
| KwaZulu-Natal | Eco-tourism: Vivane resort | Bidders' proposals due March 2001 | |



PPP UNIT
NATIONAL TREASURY



RESOURCE CENTRE
A project of the NBI

INKOSI ALBERT LUTHULI HOSPITAL

The Inkosi Albert Luthuli Central Hospital (IALCH) is an 846-bed, referral-only hospital situated in Durban, with a catchment area of all of KwaZulu-Natal and at least 50 percent of the Eastern Cape. It is one of 10 designated central hospitals in the country.

The hospital buildings are now complete and ready for the installation of equipment.

The KwaZulu-Natal Department of Health, in conjunction with the Provincial Treasury, embarked on a process whereby the hospital equipment, IT system and most non-core functions would be procured in the form of a PPP. Facilities management and outsourcing of all non-medical functions, including catering and laundry services, is to be included in the PPP.

The project's time objective is that the first patient will be admitted in July 2001. The tight programme required the co-operation of all parties and parallel tasking where possible.

The advantages of PPP procurement were identified by the KwaZulu-Natal Department of Health as:

- Transferring responsibility for all non-core functions to the private sector
- Transferring responsibility for the cyclic planned replacement and maintenance of medical equipment and IT systems to the private sector partner
- Smoothing the public sector cashflow by funding the equipment refreshment through a sinking fund over the project life cycle
- Transferring a substantial quantum of risk to the private sector.

The staffing and operation of the medical facilities remain the responsibility of the KwaZulu-Natal Department of Health.

Cooperation in project planning between the KwaZulu-Natal Department of Health, the National Department of Health and the Provincial Treasury has been a model for inter-departmental relations.

In order to comply with the PPP life-cycle Treasury authorisations, the provincial departments have maintained a close working relationship with the PPP Unit in the National Treasury.

The KwaZulu-Natal Department of Health appointed as its transaction advisors, the Ezempilo Consortium consisting of PricewaterhouseCoopers, Gobodo, Hiltron, EC Harris/SAICOG and White & Case. These transaction advisors prepared a feasibility study, which contained an options analysis, a demonstration of value for money and a means of ensuring project affordability.

The selection of the preferred option was done through a "value for money" comparison where a Public Sector Comparator (PSC) was constructed to model the actual costs, including risk costs, which would be incurred in conventional public sector procurement and management (including refreshment and maintenance of equipment and facilities). This PSC was then compared to the estimated cost of PPP procurement.

At the same time that treasury authorisation was being obtained for the outcome of the feasibility study, a pre-qualification of bidders was proceeding. A total of 23 pre-qualification documents were received. A panel consisting of national and provincial treasury representatives, provincial and national health officials as well as international health and PPP experts, selected five bidders to proceed to the stage where proposals are submitted.

The Request for Proposals (RFP) was issued in early January 2001 and financial closure is planned for April 2001.

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PPP TRAINING COURSES: 2001 and 2002 FOR NATIONAL AND PROVINCIAL DEPARTMENTS

There is a need to build the skills and capacity of South Africa's national and provincial departments and other public institutions governed by the Public Finance Management Act, in order to bring about innovative, affordable and cost-effective PPP projects, which improve public service delivery and foster sound public infrastructure development.

The PPP Unit in the National Treasury and the NBI's PPP Resource Centre have embarked on a joint initiative to run a two-year programme of regular PPP training courses for national and provincial government officials.

PPP Foundation Training

The anchor of the 2001–2002 programme will be a regular, two-day course, conducted every quarter, which provides a foundation for officials to understand PPPs and to apply Treasury's Guidelines to their project circumstances. This course will be structured around a generic PPP project life cycle, unpacking the various stages and approvals of a typical PPP. It will give participants both the conceptual underpinnings they require, and practical assistance through the use of role-plays and case studies.

Materials will be based on the Treasury Guidelines on PPPs, which have recently been produced as a Manual for officials and other role-players. This will constitute the 'text book' for the course. Lecturers will be from both South Africa and abroad.

Content will cover:

- PPP concept and context
- South African regulatory framework
- Project life cycle
- Preparing a feasibility study
- Negotiating a PPP contract
- Project finance
- Managing transaction advisors
- Labour law and PPPs
- Legal and contractual issues
- Appropriate risk transfer
- SA and international case studies

Foundation Training Schedule

Each PPP Foundation course will run for two full days, and each can accommodate 40 participants only. The dates for 2001 are as follows, and final dates for 2002 will be confirmed in forthcoming issues of PPP Quarterly.

| 2001 | Location | 2002 | Location |
|-----------------|--------------|----------|--------------|
| 10-11 April | Johannesburg | February | Johannesburg |
| 04-05 June | Cape Town | May | Cape Town |
| 10-11 September | Johannesburg | August | Johannesburg |
| 20-21 November | Durban | November | Durban |

Sector-specific training workshops

These will be one- or two-day workshops, organised as the needs arise, anticipating four such workshops per annum. Content will be determined by emerging sectoral needs. The workshops will ensure inter-departmental and inter-provincial participation by officials and other stakeholders, and will draw on sector-specific international expertise. The aim is to maximise sector-specific PPP collaboration and to avoid costly project errors through the sharing of experience and best practice. Sector workshops are likely to be planned during 2001 by the PPP Unit for eco-tourism, schools and IT, and the Unit will assist the Dept. Health with a training workshop on hospital PPPs.

Costs

Participants are required to cover the costs of their transport and accommodation, plus a small registration fee of R500 per two-day course/workshop. The costs of lecturers, materials and course facilities will be covered by sponsorship, donor funding, the NBI and the National Treasury.

Bookings

Bookings can be made by e-mail, telephone or fax to: NBI PPP Resource Centre, Ms Faye Dolley at the NBI, Telephone: (011) 482-5100; Fax: (011) 482-5507/8; e-mail: faye@nbi.org.za

PUBLIC PRIVATE PARTNERSHIPS – THE ROLE OF THE ENGINEER



SPONSORSHIP ARTICLE:

The need for private sector participation in the public infrastructure investment is widely accepted globally by Governments and societies driven by the need to supplement taxes raised, and providing an increased social program in the most cost effective and efficient way.

The international LAWGIBB Group has vast experience in private finance initiatives and has successfully transferred this skill to their South African arm, ARCUS GIBB.

Three key roles of the engineer exist in PPPs:

- The engineer acts for Government and Project Sponsors to determine Project viability and to prepare business prospectus and tender documents.
- He/she adjudicates offers and recommends on awards, and monitors quality and compliance. ARCUS GIBB has been involved in advisory services to the National Roads Authority on unsolicited bids.
- Also provides services to Concessionaires and Contractors in preparing innovative solutions to tender, revenue forecasts and risk analysis, and design and supervision services during construction. ARCUS GIBB has provided design services to Murray & Roberts on the Bloemfontein Prison.
- And finally acts for Investors and Lenders, auditing project income and cost projections, and assessing risk positions throughout the project lifecycle. ARCUS GIBB has been involved with a range of bankers on the N4-Maputo, N3-Durban and N4-Platinum, and Durban South Wastewater Treatment Works.

ARCUS GIBB has responded well to the challenges of these new delivery systems, and in so doing, is meeting its obligations and responsibilities to society.

DEPARTMENT OF LABOUR IT SYSTEMS

In January 2000, the Department of Labour embarked on an ambitious PPP project, which is aimed at replacing and upgrading all of its IT/IS systems throughout the country. Like many government departments, it has faced increasing difficulties in providing IT services capable of supporting its key functions. The PPP project was therefore designed to address, *inter alia*, the following:

- a shortage of experienced and suitably qualified IT staff (currently entailing the use of expensive contract resources);
- significant increases in demand, particularly with regard to the Unemployment Insurance Fund and the Compensation Fund;
- a lack of integration particularly between the Department of Labour, the Compensation Fund and the Unemployment Insurance Fund, leading to operational inefficiencies;
- a potential exposure to fraud and misuse through the lack of integration; and
- an inability to support the extensive re-engineering plans of the Department, which include the introduction of a Call Centre; customer-focused local service centres (possibly involving the use of ATM technology) and integration between its different services.

The Department, in conjunction with its PPP advisors, KPMG and KMMT, prepared a Feasibility Study for the project, which was the first of its kind to be produced under the auspices of the Public Finance Management Act (PFMA) PPP Treasury Regulations. The Feasibility Study demonstrated that:

- significant operational benefits could be derived from an investment in IT/IS. Over and above efficiency savings within the Department, the scheme also provides for greater integration between systems, and delivers a substantially enhanced and more accessible service to members of the public. The total contract amounts in excess of R1bn;
- the project represents potential Value for Money (VFM) to the Department, with the cost of the investment re-cooped through the savings generated from using less contract resource;

- additional VFM savings were possible through the use of a PPP mechanism. These savings derive from the ability of the private sector to take maximum advantage of economies of scale and through the integration between IT procurement and operation with the improving efficiencies of the Department's business processes; and
- it was possible to fund the annual unitary payments to the PPP provider within the existing resources of the Department.

The Feasibility Study was approved by the National Treasury in early August 2000, allowing the Department to proceed to the next stage of the procurement process.

Through a detailed short-listing process, five private sector IT/IS providers have been identified as capable of meeting the requirements of the project. These are: the Siemens Business Services Consortium; the Re a Fenya Consortium; the Telkom Alliance; Persetel Q Data Africa and the Direlang Consortium. Following approval of the Feasibility Study, detailed tender documents, including a draft contract and IT/IS Output Requirements, were issued on 8 December 2000.

Due to the size of the project, and in order to ensure that the Department of Labour will be presented with the most competitive and comprehensive bids possible, the bid process allows for significant interaction with bidders. This interaction will lead to bidders inputs being accommodated, where appropriate, in the final Request for Proposals (RFP) documents.

It is envisaged that bidders proposals will be submitted in April 2001. The evaluation period, in which the Department of Labour, KPMG and KMMT, State Information Technology Agency (SITA) and National Treasury will work closely together, will culminate in selecting a preferred bidder by July 2001. It is planned that the contract be signed in October 2001, after a detailed contract negotiation process.

This project represents a landmark for PPPs in South Africa for several reasons. It is one of the first projects to proceed under the new PPP Regulations, and it is also the first IT PPP – often acknowledged as the most difficult types of PPPs – in the country.

NEW HEAD OFFICE FOR THE DEPARTMENT OF EDUCATION

The Department of Education (DoE) is aiming to re-align its current accommodation resources with its long-term strategic and operational objectives. One of the key elements within the overall transformation programme for the Department is the conversion of the whole of the Head Office building to "open plan" office space in appropriately structured layout.

The Department of Education, together with the Department of Public Works (DPW) has appointed transaction advisors KPMG to assist them in the preparation of an options analysis and feasibility study to address their needs.

A number of deficiencies have been identified with regard to the current accommodation facilities. These include:

- The split of staff and functions across a number of sites, floors and sections hinders the effective operation of the DoE. All the sites housing the DoE are, however, within walking distance of each other.
- The current buildings provide insufficient parking spaces for staff, therefore staff and visitors are required to make use of public parking which is not always close to the office, increasing the risk of theft and muggings.
- The privately-owned DoE's Head Office in Schoeman Street is reaching the end of its original life expectancy of 15 years.
- Current average space per person in the building is very much above norms of DPW and international standards.

- The structure of the current Head Office building does not lend itself to open plan office accommodation. At present relatively large separate offices dominate the DoE's office accommodation. This reflects the culture of the previous administration and is seen to be a major obstacle to the creation of a new culture, because of the way it encourages feeling of separateness and mitigates against people working together in teams.

A number of options were considered in order to address these deficiencies and each option was evaluated against its ability to support the overall objectives of the Department as well as its financial viability. The options included refurbishing the existing buildings, renting a new building, or building a new purpose built facility.

The preferred option in terms of qualitative and quantitative criteria, involves the building of a purpose-built facility within the Pretoria CBD, incorporating facilities for an open-plan working environment.

The Feasibility Study has demonstrated that the net cost of this option using a Public Private Partnership (PPP) can be delivered within current financial allocations. This is achieved by consolidating accommodation expenditure of the four buildings into one, by improving efficiencies, and by providing facilities to the Department that it has previously had to pay for, such as conference facilities.

It is anticipated that a Request for Qualifications (RFQ) document will be issued shortly; that the Request for Proposals (RFP) will be published in April 2001; a preferred bidder selected by September 2001; and that a contract will be signed by January 2002.