

PPP QUARTERLY

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Innovative infrastructure and service delivery by South African national and provincial government

INKOSI ALBERT LUTHULI HOSPITAL PPP REACHES FINANCIAL CLOSURE



PPP UNIT
NATIONAL TREASURY
SOUTH AFRICA



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After five months of negotiation between the KwaZulu-Natal Department of Health (DoH) and the preferred private partner, Impilo Consortium, this landmark PPP contract was signed on 6 December 2001.

The agreement secures the provision and maintenance of specialised medical equipment and certain hospital upgrade and facilities management over a 15-year concession period.

The net present value of the PPP, plus retained DoH costs, is just over R5 billion, giving value for money of R370 million over the Public Sector Comparator (PSC) calculated during the feasibility study.

Total project costs include facilities management opex and capex, medical equipment and IT capex and maintenance, equipment and IT refreshments via a sinking fund, insurance, VAT on payments to the PPP, a return on equity for the shareholders, and the redemption of project debt.

This pioneering South African PPP was conceptualised in 2000, and the provincial DoH had submitted a detailed feasibility study to the National Treasury PPP Unit for approval to proceed to procurement by the end of that year. Approval was granted by 20 December 2000.

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Assisted by the PPP Unit and their Transaction Advisors (EC Harris, PriceWaterhouseCoopers, Hiltron and Gobodo, and White & Case), the DoH evaluated highly competitive bids from four short-listed consortia.

In March 2001, Impilo Consortium – consisting of Siemens (medical equipment service suppliers), AME (IT systems suppliers), Drake & Scull (facilities management service suppliers), Vulindlela (BEE partners and medical equipment and IT systems suppliers) and Mbekani and Oname (BEE partners and facilities management service providers) – was selected as preferred bidder, and entered into negotiations with the DoH. Treasury approval for the signing of the contract was given in September 2001.

Rand Merchant Bank (RMB) is the financial advisor and lead arranger for Impilo Consortium.

As a rigorously designed project, an essentially self-monitoring penalty system ensures that any deviation from full service provision by Impilo is reflected in a series of payment deductions.

Although the Inkosi Albert Luthuli Hospital was built under a separate contract, Impilo has agreed to manage the required remedial works, along with their initial commissioning programme. Once the remedial works are completed, Impilo will not be entitled to make any claim against the DoH on any grounds, including the fitness of the premises for the conduct of project operations. This represents significant transfer of project operational risk, particularly since Impilo played no role in the original design or construction of the hospital. □

Northern Cape leads on PPP fleet deal closure

The Northern Cape Department of Transport has achieved financial closure on its path-finding PPP Fleet Management project. It signed the R37 million per annum five-year contract with Pemberley Investments (Pty) Ltd (made up of Imperial (Pty) Ltd and Afrika Kosini) on 31 October 2001. This important project guarantees appropriate quality, maintained vehicles for official use by Northern Cape departments within the province's approved government transport budget. The deal sets sound standards for the unfolding of PPP fleet projects throughout the country, with the Free State and the Eastern Cape already underway with fleet project preparation.



FOUNDING PPP UNIT HEAD TAKES UP WORLD BANK JOB

The founding head of the National Treasury's PPP Unit, Michael Schur, moved to Washington in November to join the Private Sector Advisory Services component of the World Bank. He was head of the dynamic PPP Unit from May 2000 until October 2001. His farewell was attended by 80 top bankers, lawyers, advisors and officials in the PPP business. In a departing note he said:

'South Africa has all the right ingredients for a successful PPP programme. It has a simple but user-friendly regulatory framework, well-developed financial and capital markets, a tradition of efficient private sector service provision, and considerable infrastructure and basic services backlogs. The programme is off to a great start and will undoubtedly grow from here.'

Aijaz Ahmad, an internationally experienced public-private sector advisor for over ten years, currently on contract to the PPP Unit, has been appointed acting unit head until a suitable full-time replacement can be found. The Treasury has allocated the senior management post of Deputy-Director General for this important position.



Mr Aijaz Ahmad,
Acting Head PPP Unit
National Treasury

A FLAGSHIP PPP GOVERNMENT OFFICE BUILDING PROJECT: DEPARTMENT OF TRADE AND INDUSTRY (DTI) CAMPUS, PRETORIA

The Department of Trade and Industry (DTI) 25-year master concession for the design, construction, life-cycle management and financing of a multi-purpose trade and industry campus has made substantial progress. A mix of asset management and support services is included in the concession.

The department initiated the project in January 2001, the PPP feasibility study was approved by the National Treasury in August, and the project is already in the Request for Proposals (RFP) phase. Final bids are due in January 2002.

The campus will house the DTI and a number of institutions which report to the Minister of Trade and Industry. It will be located on a 4ha site on Nelson Mandela Drive, under an agreement with the Tshwane Metro Council.

Interim success in this project is indicated by sound PPP practice:

- DTI recognised the key differences early between 'government office building' PPPs and other 'accommodation' PPPs' eg prisons and hospitals. The latter are heavily predetermined by developed technology and management models that allow many design issues to be left to later stages of a PPP process, even to the implementation stage. On the other hand, the occupants of government buildings, their operations, service delivery markets and stakeholder requirements are not generic.
- These projects are therefore more design-intensive, and require a thorough analysis in the feasibility study of the outcomes effectiveness of the institutions overall, and of their human resources and service delivery cultures in particular.
- DTI allowed for an extra-long Request for Qualifications (RFQ) phase of eleven weeks divided into two phases: a bidder education and consultation phase and a team formation and formal response phase.
- DTI also consulted the prospective bidders closely about empowerment and financing capacity as part of the RFP preparation.
- Any uncertainties about site availability and control have been substantially settled in advance of RFP. Full site control and all zoning and development rights were in place within ten weeks of site selection. Site information, including geo-technical and other studies that would reduce investor uncertainty and ensure tight bid spreads, were done up front. A thorough economic impact analysis was also done.

- A rigorously commercial approach has been adopted, for which end dates are targeted and designed, and the time saved is value for money on a calculated basis. Delays of a week or a month to eighteen months have a real service delivery cost.
- DTI top management appointed a dedicated, full-time project champion at the start, with appropriate authority and a 'can do' approach to problem solving.
- The DTI Director General takes full accounting officer responsibility for the project, as contemplated in the Public Finance Management Act. The National Treasury PPP Unit works closely with the DTI project manager.
- DTI appointed a Transaction Advisor (TA) with lead consultant responsibility for the professional outputs of the entire team. The TA is engaged for the whole PPP cycle, from feasibility, through procurement, to financial closure, under a 'success payment contract' which directly offers incentives for an efficient financial closing. □



DTI Campus Site on Nelson Mandela Drive, Tshwane

NATIONAL AND PROVINCIAL PPP PROJECTS IN PROGRESS: DECEMBER 2001



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This PPP projects table is a regular feature of PPP Quarterly. It updates the status of work-in-progress projects, indicates their managing departments and, where applicable, notes the transaction advisors and private partners.

DEPARTMENT/ PROVINCE	PROJECT	STATUS	TRANSACTION ADVISORS	CONTACT	PRIVATE PARTNER
Dept Labour	IT	Siemens Business Solutions selected as preferred bidder. Final negotiations underway	KPMG	Deon Haasbroek (012) 309-4551	
State Vaccine Institute	Strategic partnership	Awaiting Dept of Health to announce preferred bidder.	PriceWaterhouseCoopers	Gerrit Muller (012) 312-0717	
Dept Foreign Affairs	Head office building	Treasury Authorisation 1 withdrawn. Feasibility study being updated for re-submission	Credit-Agricole Indosuez, Decathlon, and Masons	Luke van Eck – DPW (012) 337-2329	
Dept Education	Head office building	Evaluation Committee decision to introduce the BAFO stage	KPMG and KMMT	Anselm Umoeotok – DPW (012) 337-2292	
Dept Trade & Industry	Head office building	RFP issued. Bids due Feb 2002	Credit-Agricole Indosuez	Peter Aborn (012) 310-1564	
Dept of Transport	Mayibuye Transport Corporation	TA appointed	Deloitte & Touche	André de Vries 082 923-5226	
Dept of Transport	Administration of Adjudication of Road Traffic Offences System	Feasibility study underway	Deloitte & Touche	Themba Nkosi (012) 309-3601	
Dept Water Affairs & Forestry	Working for Water project: secondary industries	Options analysis finalised. Treasury Authorisation 1 given	KPMG, KMMT, Stellenbosch University	Christo Marais (021) 405-2200	
Dept Water Affairs & Forestry	Diepwalle State Forest – Southern Cape eco-educational facility	RFP to be issued Jan 2002	In-house with White & Case	Michael Peter (044) 382-5466	
Dept Water Affairs & Forestry	State forests Mbazwana and Manzengwenya in Maputaland, KZN	RFQ to be issued Feb 2002	PriceWaterhouseCoopers	Maud Dlomo (012) 336-7768	
Dept Arts, Culture, Science & Technology	Robben Island hospitality facilities development	Negotiations with preferred bidder underway	In-house with Mallinicks Attorneys	André Odendaal (021) 959-2935	
Eastern Cape	Bayworld (PE museum, snake park, oceanarium)	TA appointed Dec 2001. Feasibility study underway	Decathlon Continental	Sylvia van Zyl (041) 586-1051	
Eastern Cape Dept Health	Hospital co-location projects	Feasibility studies underway		Dave Collins (012) 312-0663	
Eastern Cape Dept Transport	Fleet management	Feasibility studies underway	Deloitte & Touche	Lize Hoole (012) 309-3832	

DEPARTMENT/ PROVINCE	PROJECT	STATUS	TRANSACTION ADVISORS	CONTACT	PRIVATE PARTNER
Free State Dept Education	Schools	TA appointed Dec 2001	KPMG	Sandra de Kock (051) 430-8989	
Free State Health Dept	Universitas and Pelonomi Hospitals – co-location	Preferred bidder announced, financial close expected Feb 2002	Credit-Agricole Indosuez and Naudes Attorneys	Gert van Zyl (051) 405-3556	
Free State Dept of Transport	Fleet management	TA appointed	Ernst & Young; Deloitte & Touche	Strover Magamedisa (051) 405-4226	
Gauteng Blue IQ	Hi-speed train	Application made for Treasury approval of feasibility study	Khuthale, Arcus Gibb and Kagiso Financial Services	Gautrans (011) 355-7300	
Gauteng Dept Agriculture, Conservation, Environment & Land Affairs	Cradle of Humankind World Heritage Site	Four pre-qualified consortia announced Dec 2001	PriceWaterhouseCoopers and White & Case	Michael Worship (011) 355-1400	
KwaZulu-Natal Dept Health	Inkosi Albert Luthuli Hospital equipment and maintenance	Financial closure 6 Dec 2001	PWC, White & Case, EC Harris, Aloecap, Hiltron	Herman Conradie (033) 395-2019	Impilo Consortium (Pty) Ltd
KwaZulu-Natal: Ezemvelo KZN Wildlife	Eco-tourism: Vivane resort	Preferred bidder selected	In-house	Alan Marlin (033) 845-1977	
Mpumalanga Dept Finance & Economic Affairs	Eco-tourism: Zithabiseni resort	Bid evaluation underway	White & Case and KPMG	Christabel Hlatshwayo (013) 766-4136	
Northern Cape Dept Transport, Roads	Fleet management	Financial closure Nov 2001	Deloitte & Touche	Tshego Motaung (053) 839-2109	Pamberley Investments (Pty) Ltd
Northern Province Dept Public Works	IT: GIS web-enabled MIS for the province	TA appointed	Anderson Alliance Group	Baldwin Ramasobane (015) 293-9000	
Northern Province Dept Finance Economic Affairs and Tourism	Eco-tourism: Manyelethi Reserve: Pungwe, Khoko Moya, Honeybadger	Financial closure reached Dec 2001	Palaborwa SDI team (DBSA) and White & Case	Charles Maluleke (015) 288-0049	Khoko Moya Wilderness Trail (Pty) Ltd, Tinswala Lodges (Pty) Ltd, Pungwe Game Reserve (Pty) Ltd
Northern Province Dept Health	Emergency vehicles fleet management	TA being appointed	Not yet appointed	John McCutcheon 083 264-0520	
North West Parks & Tourism Board	Eco-tourism: Rustenburg, Boskop Dam, Borakalalo, Oog Malemani	Negotiations underway for Rustenburg; RFPs issued for Boskop, Borakalalo, Oog Malemani	In-house with Busico	Paul Daphne (018) 386-1225	
North West Dept Transport	Bus Transport-NTI	Options Analysis prepared	PriceWaterhouseCoopers and Kwezi Advisors	Teboho Molaba (018) 387-2443	
Western Cape Chapman's Peak Toll Road	Toll road concession	Transaction enters the BAFO stage	Credit-Agricole Indosuez; Jeffares and Green; Hofmeyr, Herbstein & Gihwala; Intertoll (Pty) Ltd	Ben Veldman (021) 483-2427	
Western Cape Dept Health	Hospital co-location projects	Feasibility studies underway. TA appointed Nov 2001	Credit-Agricole Indosuez	Japie Du Toit (021) 483-5844	
Western Cape Nature Conservation Board	Eco-tourism: 15 sites	TA to be appointed Dec 2001	Not yet appointed	David Diatz (021) 483-5356	

PPP websites

World-wide application of PPP can be picked up on the following sites:

www.partnerships.org.uk

This provides up to date information on UK PPPs and project finance deals. PUK was born out of the UK Treasury Task Force which pioneered project finance deals in the UK public service, and now provides PPP consulting services to the public sector.

www.pppcouncil.ca

This site is maintained by the Canadian Council for Public-Private Partnerships.

www.ip3.org

The Institute for Public-Private Partnerships is a Washington based training and consultancy institution working in Africa and the Middle East.

www.ppiaf.org

The Public-Private Infrastructure Advisory Facility is a multi-agency international organisation, which provides technical assistance and promotes policy dialogue on PPPs.

www.privatization.org

The Washington based Privatization Center offers research, how-to guides, case studies to assist government officials in a wide range of sectors and diversity of public-private partnership scenarios.

www.partnerships.vic.gov.au

This site is developed by the Department of Treasury and Finance, State of Victoria, Australia, and contains valuable material on risk allocation, contractual issues and the use of the public sector comparator.

Readers are invited to inform PPPQ of other useful websites for publication in future editions.

PPP FOUNDATION TRAINING 2002

The highly successful two-day PPP Foundation Training course, conducted jointly by the National Treasury PPP Unit and the NBI's PPP Resource Centre, will run again in Gauteng every quarter throughout 2002. Book now to avoid disappointment. Costs are R540 per person plus travel and accommodation.

DATES: • 11 – 12 March 2002 • 4 – 5 June 2002 • 27 – 28 August 2002 • 5 – 6 November 2002

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National Treasury PPP Foundation Course, 10-11 September 2001