

PPP QUARTERLY

PUBLIC PRIVATE PARTNERSHIPS

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Innovative infrastructure and service delivery for national and provincial government

This issue of PPP QUARTERLY focuses on four sectors currently undertaking innovative PPP work in South Africa: hospital co-location projects in the Free State, eco-tourism initiatives, provincial road reconstruction in the Western Cape, and fleet management in the Northern Cape. A new feature is Newsflash, which includes updates to Treasury guidelines and dates for forthcoming training. The regular table 'PPP Projects in Progress' appears on the back page.

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HOSPITAL CO-LOCATION

The provision of hospital services is demonstrating a valuable dovetailing of public sector needs and capacity with private sector interests.

The private sector has already exploited the market of fully insured private patients by means of a countrywide network of private hospitals. In order to grow further, the private sector must target partially insured or uninsured patients. The provision of lower cost, high quality hospital services is a prerequisite for servicing such a market.

The public sector, on the other hand, has had to restructure its hospital services from the apartheid era. This has required rationalisation of services and a radical change in budget allocations for maintenance and operation.

Bloemfontein provides a good example of this situation. Universitas Hospital, located on the upmarket western side of the city, has excellent infrastructure and a good maintenance record. It also has two unutilised 30-bed wards and a number of unused facilities, including theatres. Pelonomi Hospital is located to the south-east of the city and historically served township residents. It was built in 1964 and requires upgrading in many areas, the most important of which is the refurbishment of an entire 7-storey block that is currently unusable. Pelonomi also has spare capacity for 150 ward beds, offices and consulting rooms, 16 ICU/High Care units, two operating theatres, and for services such as radiology and physiotherapy.

The use of these existing facilities by the private sector would result in substantial cost savings compared to building a new hospital, and would allow the private sector access to hitherto unexploited markets. For the Free State Health Department (FSHD) it is an opportunity to leverage private finance to assist in redressing the maintenance backlog at Pelonomi Hospital and securing a revenue stream for future projects.

Assisted by Transaction Advisors Credit Agricole Indosuez and Naudee Attorneys, the FSHD has prepared a Request for Proposals (RFP) that requires pre-qualified consortia to bid for the use of redundant facilities at both hospitals in return for the upgrading of public hospital facilities at Pelonomi and payment of an additional monthly fee.

The structuring of the project required considerable attention to determining the optimal transfer of risk and structuring a payment mechanism to ensure that compensation is made for risk transferred. A comprehensive draft project agreement has been given to bidders to ensure that these issues are adequately understood before proposals are submitted.

The receipt of bids from private sector consortia on 15 June 2001 is eagerly awaited, as the responses will determine how this new approach to co-location partnerships could roll out in other provinces.

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Newsflash

- ▲ The National Treasury's **PPP Guideline Manual** has been launched. This practical set of documents is available in hard copy from the NBI and from the Treasury, and is also available on www.treasury.gov.za. It will be regularly updated by the PPP Unit, so watch the website for notices of replacements or additions.
- ▲ The **National State Tender Board (STB)** has issued a circular (No 3 of 2001) stating that national departments will no longer have any direct contact with STB on PPP transactions. During the procurement phase, departments will send all submissions for approval to the PPP Unit. A copy of the circular is available on www.treasury.gov.za.
- ▲ The **Treasury Guidelines on Preparing 2002 Budget Submissions**, published April 2001, has a separate schedule for PPPs. While compiling budget submissions, departments will now have to present spending related to PPPs separately for approval. These guidelines are available on www.treasury.gov.za.
- ▲ The **Treasury Regulations** of the **Public Finance Management Act** were amended in Government Gazette No 22219, in April 2001. These amendments include some important procedural changes to Chapter 16 which governs the procurement of PPPs. Find the new Treasury Regulations on www.treasury.gov.za and update your PPP Manual accordingly.
- ▲ The NBI PPP Resource Centre and the Treasury PPP Unit held a successful two-day **PPP Foundation Training Course** in April 2001. Places on future courses are in high demand, and the June 2001 course is already full. Bookings for the courses running **10-11 September** (in Gauteng) and **20-21 November** (in Durban) should be made soon to avoid disappointment. Cost is R500 per person plus travel and accommodation. Contact Ms Faye Dolley at the NBI: Tel 011-482 5100 Fax 011-482 5507/8 or e-mail faye@nbi.org.za.

CHAPMAN'S PEAK DRIVE

Cape Town's magnificent nine kilometre Chapman's Peak Drive was closed to traffic after a devastating fire on the mountain caused large amounts of rock, soil and debris to fall onto the road in January 2000. There have also been five reported fatalities on the drive since 1987. This scenic route for tourists, commuters, cyclists and runners is now to be comprehensively upgraded through a PPP.

The Provincial Administration of the Western Cape (PAWC) decided on a PPP in order to leverage private finance, to obtain private sector innovation in design, and to transfer the risk of constructing and operating a particularly tricky mountain road to an organisation capable of optimal risk management. This high profile project will be the first PPP provincial road in South Africa.

The PAWC appointed a consortium of professionals, led by project finance experts Credit Agricole Indosuez, to carry out an options analysis to identify the preferred project structure, before conducting a feasibility study and procuring the PPP through a competitive tender process.

The options analysis considered a comprehensive range of technical and financial options for the reopening of the drive and a concession form of contract with a private sector partner was chosen by PAWC. The feasibility study, which includes a detailed financial model, has been completed and was submitted to the provincial and national treasuries for approval in April.

The programme aims to pre-qualify bidding PPP consortia by end June 2001, with project proposals submitted and evaluated by the end of September 2001. This exceptionally tight schedule is required to facilitate financial closure by the end of 2001 and to have the Argus Cycle Tour and Two Oceans Marathon back on Chapman's Peak Drive by 2003.



ECO-TOURISM PPPs

South Africa's tourism sector is likely to receive a significant boost with the increasing availability of spectacular state-owned conservation properties for eco-tourism concessions.

In revenue-generating PPPs of this kind, the private sector is granted rights to utilise the state asset commercially in return for payment of a regular fee to government and the generation of quantifiable benefits to the public over the life of the project.

If these eco-tourism deals are well structured, they will bring a range of developmental benefits, including:

- a new revenue stream, which can be directed to conservation efforts
- savings to the public sector through shifts in management and risk
- job creation, rural skills development, and local business expansion
- improved rural infrastructure
- black economic empowerment in tourism business
- increased foreign exchange income to SA

Key provisions of the PPP eco-tourism deals currently taking shape are:

- The publication of the draft concession contract along with the RFP, to clarify government's conditions to prospective bidders up front.
- The negotiation of the contract with all registered bidders before the bid submission deadline so that the contract is close to final when bids are received.
- The contract makes provision for a fixed annual concession fee payable regardless of turnover, and a fixed percentage of annual audited turnover, with the greater of these two amounts being the sum payable by the concessionaire each year. This ensures that the public sector secures a fixed lease income while also being able to benefit from the growth of the business over time.
- Contract provision for substantial risk transfer to the private party in respect of construction, maintenance and operation of the resorts.
- Clear quantification of the public entity's obligations to ensure affordability.
- Performance bonds in place to secure the value of the infrastructure to high standards to the end of the contract.
- Clear termination compensation provisions in the event of concessionaire default, public entity default, force majeure or voluntary termination.
- Significant black ownership and management in the bidding consortia; and the targeting of local black businesses for the operator's own outsourcing deals.
- Emphasis on retention of existing staff and their skills development.
- Establishment of local liaison committees (involving the company, the public entity and representatives from surrounding communities) for ongoing management of the partnership throughout the concession period.

The many PPP eco-tourism deals emerging throughout the country vary greatly in investment value, type and scale. Some attract foreign investors, others attract national tourism operators, while some are best suited to a range of SMME-type partners. The National Treasury's PPP Unit is currently developing a data bank of structured contract provisions appropriate to this range of scenarios, which can be applied by the relevant public entities as required.

NORTHERN CAPE FLEET MANAGEMENT

Public sector fleet management in South Africa is attracting wide private sector interest. The Northern Cape province learnt this recently when, with the assistance of transaction advisors Deloitte & Touche, the province issued an RFP for Outsourcing of Fleet Vehicles (Government Garage).

The RFP drew enthusiastic response from highly qualified local and international firms with proven fleet management experience in metropolitan municipalities, parastatals (Telkom), national departments (Water Affairs & Forestry, Transport, Labour, Health, among others), and from Lesotho and Botswana. This broad-based expertise bodes well for the Northern Cape, whichever company is selected as the service provider.

The Northern Cape fleet of 990 vehicles is characterised by the following:

- A large number of older vehicles, many in an advanced state of use.
- A great deal of time, money and labour devoted to keeping vehicles on the road, distracting government from its core functions.
- Impact of vast distances between population centres.
- Exposure to vehicle abuse and fuel fraud through inappropriate monitoring.
- The necessity to rationalize and 'right size' the fleet, without compromising on serving the transport needs of government.

The province began with a feasibility study to assess various PPP options. The results indicated that significant operational benefits can be achieved through a combination of leasing a reduced number of new vehicles of all types, and establishing decentralised maintenance capabilities in the population centres of the province, with the private sector operator accepting full responsibility for care, maintenance, and availability of the vehicles.

The project represents potential value for money to the provincial government, with the cost of the outsourcing being recouped through savings generated from having fewer vehicles used in a more cost-effective manner, with greater availability of use.

Importantly, the PPP can be funded entirely through the budget, thus meeting the critical affordability criterion.

The province is currently adjudicating the bids received. Depending on the length of negotiations that follow the selection of a preferred bidder, financial closure is targeted for July 2001.

NATIONAL AND PROVINCIAL PPP PROJECTS IN PROGRESS: JUNE 2001

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
Dept Labour	IT	Bidders' proposals being evaluated. Financial closure target: December 2001	KPMG
State Vaccine Institute	Strategic partnership	RFPs issued. Closing date for proposals: 29 June 2001	PriceWaterhouseCoopers
Dept Social Development	IT	Feasibility study to be completed end June 2001	Deloitte Consulting
Dept Environmental Affairs & Tourism	Harbour management	Terms of reference being drafted for Transaction Advisors	
Dept Foreign Affairs	Head Office Building	Feasibility study approved end April 2001	Credit-Agricole Indosuez, Decathlon, and Masons
Dept Education	Head Office Building	Short-listed bidders identified. RFP being prepared	KPMG and KMMT
Dept Trade & Industry	Head Office Building	Feasibility study completed June 2001	Credit-Agricole Indosuez
Dept Land Affairs	Electronic deeds registration system	Transaction Advisors appointed. Options analysis begins June 2001	Tsa Mafatshe Consortium
KwaZulu-Natal	Inkosi Albert Luthuli Hospital	Negotiations with preferred bidder. Financial closure target: June 2001	Ezempilo Consortium
Northern Cape	Fleet management	Bidders, proposals being evaluated. Financial closure target: July/August 2001	Deloitte & Touche
Free State	Schools	Terms of reference being drafted for Transaction Advisors	
Free State	Universitas and Pelonomi hospitals	Bids due 15 June 2001. Financial closure target: Nov 2001	Credit-Agricole Indosuez and Naudes Attorneys
Eastern Cape	Hospital co-location projects	Feasibility studies underway	
Western Cape	Hospital co-location projects	Feasibility studies underway	
Western Cape	Chapman's Peak Drive	Pre-qualifications by end June 2001; bids evaluated by end Sept 2001; financial closure target: December 2001	Credit-Agricole Indosuez
Western Cape	Working for Water: secondary industries	Transaction Advisors appointed	KPMG, KMMT, Stellenbosch University
Gauteng	High-speed train	Feasibility studies underway	Khuthele, Arcus Gibb and Kagiso Financial Services
Northern Province	IT	Terms of reference being drafted for Transaction Advisors	
Eastern Cape	Bayworld (museums, oceanarium, snake park), Port Elizabeth	Terms of reference being drafted for Transaction Advisors	
Northern Province	Eco-tourism: Manyelethi and Letaba Ranch	Preferred bidders selected. Financial closure due June 2001 for Pungwe, Khoko Moya, Honey Guide, North Letaba	Palaborwa SDI team and White & Case
Mpumalanga	Eco-tourism: Zithabiseni resort and Mabusa Reserve	RFP and draft contract issued May 2001	White & Case
North West	Eco-tourism: Rustenburg reserve	Bidders' proposal received May 2001	Busico
KwaZulu-Natal	Eco-tourism: Pongolapoort house-boats	RFP being drafted	
KwaZulu-Natal	Eco-tourism: Vivane resort	Bidders' proposals due June 2001	
KwaZulu-Natal	Eco-tourism: Greater St Lucia Wetland Park.	Expressions of Interest received May 2001 iro 14 sites	White & Case
Western Cape	Eco-tourism: 13 sites	Terms of reference being drafted for Transaction Advisors	

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