

E

Public-private partnerships

■ Introduction

This annexure presents an overview of public-private partnerships (PPPs) in South Africa. It provides data on PPP projects that have been concluded and are in operation as well as a list of projects currently under review.

The National Development Plan prioritises investment in water, energy, telecommunication, transport and social infrastructure to grow the economy and reduce inequality and unemployment. The plan states that infrastructure investment as a percentage of GDP needs to grow to 30 per cent in 2030. While government has made progress towards this target, with infrastructure investment at 19.5 per cent of GDP in 2016, the public sector cannot fund infrastructure alone. Crowding in private-sector investments can bring in the financing needed to meet the National Development Plan's target, while contributing to improved decision making and more rigorous assessment and accountability in infrastructure projects.

The difference between PPPs and traditional government infrastructure projects

A PPP is defined as a contract between a public-sector institution and a private party, where the private party performs a function that is usually provided by the public sector and/or uses state property in terms of the PPP agreement. Most of the project risk (technical, financial and operational) is transferred to the private party. The public sector pays for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments. In a traditional government project, the public sector pays for the capital and operating costs, and carries the risks of cost overruns and late delivery.

■ Regulation of PPPs

The Public Finance Management Act (1999) regulates national and provincial PPPs (Treasury Regulation 16). All institutions undertaking such partnerships require approval from the National Treasury in four phases (feasibility study, procurement, value for money and final PPP agreement). All PPPs also go through regulatory tests to check compliance before they are implemented. These three tests assess value for money, affordability and risk transfer.

■ PPP projects in operation

Table E.1 shows a list of 33 completed PPP projects undertaken since this type of partnership was first introduced in South Africa in 1998. The total value of all projects amounts to R89.3 billion. There are various types of PPP projects based on the contractual arrangements involved, including:

- Design, finance, build, operate and transfer (DFBOT)
- Design, finance and operate (DFO)
- Design, build, operate and transfer (DBOT)

- Equity partnerships
- Facilities management projects.

Of the 33 PPP projects, 25 are DFBOT projects, four are DFOs, two are DBOTs, one is an equity partnership and one is a facilities management project.

These projects include hospitals, transport and roads, tourism and head office accommodation projects. They have been funded through a combination of equity, debt and, in some instances, government capital contributions. Most of these projects are already operational, with a few having reached the end of their project term. In some instances, project durations have been extended.

Table E.1 List of PPP projects concluded in South Africa

Project name	Government institution	Type	Date of close ¹	Duration	Financing structure	Project value R million	Form of payment
Transport							
SANRAL N4 East Toll Road	SANRAL	DFBOT	Feb-1998	30 years	Debt: 80% Equity: 20%	3 200	User charges
SANRAL N3 Toll Road	SANRAL	DFBOT	Nov-1999	30 years	Debt: 80% Equity: 20%	3 000	User charges
SANRAL N4 West Toll Road	SANRAL	DFBOT	Aug-2001	30 years	Debt: 80% Equity: 20%	3 200	User charges
Northern Cape fleet	Northern Cape Department of Transport, Roads and Public Works	DFO	Nov-2001	5 years	Equity: 100%	181	Unitary payment
Chapman's Peak Drive Toll Road	Western Cape Department of Transport	DFBOT	May-2003	30 years	Debt: 44% Equity: 10% Govt: 46%	450	User charges and guarantee
Fleet management	Eastern Cape Department of Transport	DFO	Aug-2003	5 years	Debt: 100%	553	Unitary payment
National fleet management	Department of Transport	DFO	Sep-2006	5 years	Equity: 100%	919	Service fee
Gautrain Rapid Rail Link	Gauteng Department of Public Transport, Roads and Works	DFBOT	Sep-2006	20 years	Debt 11% Equity: 2% Govt: 87%	31 800	User charges and patronage guarantee
SANRAL Gauteng Freeway Improvement Plan Toll Road	SANRAL	DFBOT	Oct-2007	20 years	Debt: 100%	20 000	User charges
Water and sanitation							
Dolphin Coast water and sanitation concession	Kwa-Dukuza Local Municipality	DFBOT	Jan-1999	30 years	Debt: 21% Equity: 18% Govt: 61%	130	User charges
Mbombela water and sanitation concession	Mbombela Local Municipality	DFBOT	Dec-1999	30 years	Debt: 40% Equity: 31% Govt: 29%	189	User charges
Correctional services							
Mangaung and Makhado maximum security prisons	Department of Correctional Services	DFBOT	Aug-2000	30 years	Debt: 88% Equity: 12%	3 600	Unitary payment
Information technology							
Information systems	Department of Labour	DFBOT	Dec-2002	10 years	Equity: 100%	1 500	Unitary payment
Social grant payment system	Free State Department of Social Development	DFO	Apr-2004	3 years	Equity: 100%	260	Unitary payment
Office accommodation							
Head office accommodation	Department of Trade and Industry	DFBOT	Aug-2003	25 years	Debt: 80% Equity: 8% Govt: 12%	870	Unitary payment
Head office accommodation	Department of International Relations and Cooperation	DFBOT	Jan-2005	25 years	Debt: 81% Equity: 19%	1 959	Unitary payment
Head office accommodation	Department of Education	DFBOT	Aug-2009	27 years	Debt: 90% Equity: 10%	512	Unitary payment
Head office accommodation	Department of Environmental Affairs	DFBOT	May-2012	25 years	Debt 49% Equity: 15% Govt: 36%	2 731	Unitary payment
Head office accommodation	Statistics South Africa	DFBOT	Mar-2014	24 years	Debt 54% Equity: 9% Govt: 37%	2 533	Unitary payment
Head office accommodation	City of Tshwane	DFBOT	Mar-2015	25 years	Debt: 86% Equity: 14%	2 005	Unitary payment
Head office accommodation	Department of Rural Development	DFBOT	May-2017	27 years	Debt: 54% Equity: 10% Govt: 36%	3 991	Unitary payment

Table E.1 List of PPP projects concluded in South Africa (continued)

Project name	Government institution	Type	Date of close ¹	Duration	Financing structure	Project value R million	Form of payment
Health							
Inkosi Albert Luthuli Hospital	KwaZulu-Natal Department of Health	DFBOT	Dec-2001	15 years	Debt: 70% Equity: 20% Govt: 10%	4 500	Unitary payment
Universitas and Pelonomi Hospitals co-location	Free State Department of Health	DFBOT	Nov-2002	16.5 years	Equity: 100%	81	User charges
State Vaccine Institute	Department of Health	Equity partnership	Apr-2003	4 years	Equity: 100%	75	Once-off equity contribution
Humansdorp District Hospital	Eastern Cape Department of Health	DFBOT	Jun-2003	20 years	Equity: 90% Govt: 10%	49	Unitary payment
Phalaborwa Hospital	Limpopo Department of Health and Social Development	DFBOT	Jul-2005	15 years	Equity: 100%	90	User charges
Western Cape Rehabilitation Centre and Lentegeur Hospital	Western Cape Department of Health	Facilities management	Nov-2006	12 years	Equity: 100%	334	Unitary payment
Polokwane Hospital renal dialysis	Limpopo Department of Health and Social Development	DBOT	Dec-2006	10 years	Equity: 100%	88	Unitary payment
Port Alfred and Settlers Hospital	Eastern Cape Department of Health	DFBOT	May-2007	17 years	Debt: 90% Equity: 10%	169	Unitary payment
Tourism							
SANPARKS tourism projects	SANPARKS	DFBOT	Apr-2000	Various years	Equity: 100%	270	User charges
Eco-tourism Manyeleti three sites	Limpopo Department of Finance, Economic Affairs, Tourism	DFBOT	Dec-2001	30 years	Equity: 100%	25	User charges
Cradle of Humankind Interpretation Centre Complex	Gauteng Department of Agriculture, Conservation, Environment and Land Affairs	DBOT	Oct-2003	10 years	Equity: 100% opex Govt: 100% capex	39	User charges
Western Cape Nature Conservation Board	Western Cape Provincial Government	DFBOT	Jul-2005	30 years	Equity: 100%	40	User charges

1. Refers to a phase in which all contract conditions of the financing established between government, private party and lenders is finally closed
Source: National Treasury

Note – Govt: government; Capex: capital expenditure; Opex: operational expenditure; Dept: department; Unitary payments: government payments for infrastructure and related services

Of the R834.1 billion planned for public-sector infrastructure spending over the next three years (see Annexure D), PPP projects account for R18.5 billion – 2.2 per cent of the total public-sector infrastructure budget estimate. Table E.2 shows the unitary payments (government payments for infrastructure and related services) for PPP projects operating over the medium term by sector.

Table E.2 Unitary payments of PPPs in operation over the MTEF period by sector

R million	2017/18	2018/19	2019/20	2020/21	MTEF
Transport	1 924	2 275	2 387	2 517	7 179
Accommodation	1 106	1 524	1 605	1 700	4 828
Health	1 003	1 016	1 069	1 128	3 213
Correctional services facilities	1 015	1 094	1 052	1 088	3 233
Total	5 047	5 908	6 113	6 433	18 453

Source: National Treasury

Most of the PPPs under way are transport and accommodation projects, with a few in the health and correctional services sectors. Energy and municipal solid waste and accommodation projects are expected to play a larger role in PPPs over the next three years.

PPP contingent liabilities

PPP contingent liabilities are defined as liabilities that government incurs through provisions in a PPP agreement that will only have a financial effect if a contract is terminated. PPP projects involving public-sector unitary payments have contingent fiscal obligations to compensate the private sector if the contract is terminated before its expiry date. However, in some PPPs, where the private sector collects user charges from the public, government usually guarantees a minimum revenue stream, which imposes a fiscal obligation and requires appropriate budget allocations. The National Treasury's four-

stage approval process (discussed above) allows it to ensure that the contingent liabilities in contracts are acceptable.

There are various categories of contingent liabilities, depending on whether the termination is the result of private-sector default, government default or *force majeure* – an event beyond either party's control. Compensation depends on the reason the contract ended, but termination as a result of government default usually results in the greatest compensation. Table E.3 shows potential termination amounts per sphere of government.

Table E.3 Level of potential government contribution to contingent liabilities by category

R million	Termination private party default		Termination force majeure		Termination government default	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
National departments exposure	3 310.9	3 070.5	3 951.6	2 777.9	4 841.5	4 687.6
Provincial departments exposure	4 132.0	3 803.2	2 812.8	2 591.3	5 207.1	4 892.5
Public entities exposure	761.1	557.0	831.9	555.7	874.6	767.0
Municipal exposure ¹	3 148.1	2 675.9	2 669.6	2 269.1	3 954.0	3 360.9
Total	11 352.1	10 106.5	10 265.9	8 194.0	14 877.2	13 708.1

1. Municipalities are an autonomous sphere of government and therefore their liabilities are not part of the fiscus

Source: National Treasury

Contingent liabilities for PPPs as a result of contracts terminating due to government default amounted to R13.7 billion in 2017/18 – decreasing from R14.9 billion in 2016/17. The decrease was largely due to PPP contracts coming to an end, such as the Inkosi Albert Luthuli Hospital project (December 2016) and the Polokwane Hospital renal dialysis project (December 2016). The debt and equity on these projects have been completely paid off, resulting in a decrease in contingent liabilities.

Of the three spheres of government, provincial departments account for the greatest maximum exposure, amounting to R4.9 billion in 2017/18. Head office accommodation projects and the Gautrain Rapid Rail Link project are the biggest contributors to government's exposure to contingent liabilities.

Government manages the risk emanating from PPP contingent liabilities by closely monitoring each party's performance against their contractual obligations and enforcing tight regulatory requirements.

PPP projects under review

Table E.4 provides a pipeline of PPP projects under review. These include extending the Gautrain Rapid Rail network, redeveloping six border posts, constructing offices for seven Eastern Cape departments in Bhisho and installing rooftop solar panels on government buildings in Gauteng. These projects will be subject to the necessary approvals before they are implemented.

Table E.4 Pipeline of PPP projects under review

Project name	Implementing agent	Project description	Current status
Transport			
Extension of the Gautrain Rapid Rail	Gauteng Department of Roads and Transport	Expansion of the existing Gautrain rail network	Feasibility
Gautrain: Acquisition of additional rolling stock	Gauteng Department of Roads and Transport	Procurement of 48 additional coaches and expansion of depot facility to accommodate increased demand and ease constraint capacity	Feasibility
Tshwane fleet management	City of Tshwane	Provision of fleet services for the City of Tshwane	Complete
De Aar Logistics Hub	Northern Cape Department of Transport, Safety and Liaison	Provision of a sustainable transport network for the transportation of freight/products by small miners and farmers	Feasibility
Western Cape regeneration programme	Western Cape Department of Transport and Public Works	Lease of underutilised commercial properties in Cape Town CBD to the private sector for a period of 50 years	Procurement
Border posts	Department of Home Affairs	Redevelopment of 6 border posts	Feasibility
Procurement of emergency towing vehicles	Department of Transport	Procurement of 2 emergency towing ocean vessels	Feasibility
Health			
Tri-generation Chris Hanu Baragwanath Hospital	Gauteng Department of Infrastructure Development	Installation of tri-Generation plants at the Chris Hanu Baragwanath Hospital to reduce dependence on the national grid	Procurement
Northern Cape renal dialysis	Northern Cape Department of Health	Refurbishment, staffing and equipping hospitals in Kimberley, Upington and Springbok with renal dialysis units	Procurement
Energy			
Rooftop solar project	Gauteng Department of Infrastructure Development	Installation of solar panels on Gauteng Provincial Government buildings	Procurement
Office accommodation			
Kopanong Precinct	Gauteng Department of Infrastructure Development	Construction of the Gauteng provincial government to consolidate administration function of 19 buildings in the Johannesburg CBD	Feasibility
KwaZulu-Natal Government Precinct	KwaZulu-Natal Department of Public works	Construction of an office precinct for KZN provincial departments in Pietermaritzburg	Procurement
Bhisho Office Precinct	Eastern Cape Department of Roads and Public Works	Construction of offices for 7 Eastern Cape departments in a single location in Bhisho	Procurement
Innovation Hub	Gauteng Department of Economic Development	Development of a science park where entrepreneurs will network and exchange ideas	Procurement
Ekurhuleni Precinct	Ekurhuleni Metro Municipality	Consolidation of the municipality's various service-delivery departments into a centralised municipal office	Feasibility
New municipal office project	Bitou Local Municipality	Consolidation of the municipality's various service-delivery departments into a centralised municipal office	Procurement
Head office accommodation	Department of Science and Technology	Design and construction of new building and refurbishment of an existing building	Feasibility
Water and sanitation			
KwaDukuza waste services	KwaDukuza Local Municipality	Collection and disposal of 603 559 cubic meters of solid waste from an estimated 54 888 households	Procurement
Solid waste diversion and beneficiation opportunities	Nelson Mandela Bay Municipality	Development of waste management infrastructure to treat waste for beneficial reuse or sale	Procurement
Mossel Bay regional landfill facility	Eden District Municipality	Development of a solid waste and landfill management facility	Procurement
Polokwane sanitation project	Polokwane municipality	Increase wastewater treatment capacity	Feasibility
Education			
Gauteng schools programme	Gauteng Provincial Government	Design and construction of new schools	Feasibility
Ikusasa	Department of Higher Education	Student Financial Aid Programme	Feasibility

Source: National Treasury

■ PPP project outlook

South Africa has considerable experience in establishing successful PPPs, with a sound regulatory framework in place to ensure transparency, manage risk and secure returns for private investors. The discipline and rigorous planning associated with PPPs have benefited the procurement of the largest public-sector infrastructure projects in the Renewable Energy Independent Power Producer Procurement Programme and of rolling stock for the Passenger Rail Agency of South Africa.

Despite the success of the PPP model in South Africa, the number of new project transactions has declined over the past six years, decreasing from an estimated R10.7 billion in 2011/12 to R5 billion in 2017/18, mainly as a result of delays and cancelled projects in the health and security sectors. In addition, increasingly restrictive international regulatory requirements on banks are limiting their ability to provide debt funding. However, based on the projects currently at an advanced planning stage, PPP transactions are expected to increase from R5 billion in 2017/18 to R6.4 billion in 2020/21.

To increase the PPP project pipeline, the National Treasury is considering ways to streamline the implementation of such partnerships, reduce the time it takes to complete project planning, and ease the regulatory regime so that it is less cumbersome for both the private sector and government. In addition, the National Treasury has partnered with local and international development finance institutions to explore alternative and diverse infrastructure funding options to encourage private-sector participation. This could increase the pool of funds available and help lower project costs.

Government recently introduced a facility for large and strategic infrastructure projects, which will encourage the use of hybrid financial solutions comprising a combination of grants, debt and equity sources from public and private institutions, and concessional loans from multilateral development banks. Through this facility, government will grow a pipeline of infrastructure projects in which private companies can invest.

The National Treasury acknowledges that, in order to build a credible pipeline of PPP projects, government must be able to effectively manage and implement such projects. The pipeline signals government's intentions to the private sector so that companies can plan their investments over the long term and be assured of an appropriate return on that investment. To bridge the skills and capacity gap, the Government Technical Advisory Centre conducts free quarterly PPP training (see <https://www.gtac.gov.za/ppp-training#>).