



National Treasury

Budgeting guidelines for infrastructure and capital projects

Online appendix to the 2009 MTEF guidelines

May 2008

Overview

In preparing budget submissions for the 2009 medium-term expenditure framework (MTEF) all infrastructure and capital funding requests are to be motivated separately from other proposals.

Infrastructure and capital funding requests will be appraised by the capital budgets committee (CBC),¹ a subcommittee of the Medium Term Expenditure Committee (MTEC). These proposals, along with supporting documentation, must be submitted by **14 July 2008** to allow the CBC sufficient time for review.

In general, the CBC will seek to determine whether funding is consistent with the prescribed guidelines and the departmental strategic plan; quantify the likely financial, economic, social and environmental impacts; define risks and their mitigation; and assess the appropriateness of proposed funding arrangements.

Classification of projects and programmes

All infrastructure projects or programmes must be classified in one of three categories:

- **Mega** projects or programmes, estimated to cost more than R300 million per year for a minimum of three years, or a total project cost of R900 million or more. All projects that extend beyond the MTEF period fall into this category. These projects require a detailed feasibility study and receive a rigorous CBC review.
- **Large** projects or programmes, estimated to cost between R50 million and R300 million per year within a given MTEF. These also require detailed information, preparation and a feasibility study, which are subject to thorough scrutiny by the CBC.
- **Small** projects or programmes, estimated to cost less than R50 million per year.

Funding motivation

Extension of existing projects or programmes

Funding for existing projects or programmes is based either on the need to complete or to extend an initiative. Where many common small projects (under R50 million) exist, these may be grouped together and categorised as an infrastructure programme requiring extension. Ongoing infrastructure transfers to public agencies, entities and other spheres that require further support may also be motivated under this category.

New projects and programmes

New small projects (under R50 million) that are not part of an existing programme may be grouped together and proposed as a new infrastructure programme. All such new initiatives require an appraisal, which will vary in complexity depending on the project or programme.

¹ The capital budgets committee (CBC), an interdepartmental task team, evaluates funding requests for individual infrastructure/capital projects and programmes of departments and state-owned entities. It makes recommendations to MTEC.

Project concept note

A project concept note is required for all projects or programmes to be appraised. The note should serve as the front cover for supporting documentation, presented as follows:

1	Project name and location:
2	Type of project:
3	Brief description of the project:
4	Project stage:
5	Estimated construction duration (months):
6	Estimated project cost:
7	Outline needs analysis:
8	Outline different options considered:
9	Outline economic and social benefits:
10	Outline funding sources that have been considered:

Identifying costs

Departments must take into account the extent to which projects incur costs over a period of time. Costs should reflect the value of resources displaced (i.e., opportunity cost to society) as a result of the project. Departments must identify and calculate all costs associated with the planned investment, including:

- Capital or construction costs (e.g., land, buildings, equipment, labour, consultancy fees, contractors and any other pre-production expenses)
- Annual operating costs (e.g., purchases of additional equipment, personnel costs, loan repayments and associated interest, and any other operational costs) and maintenance.

In addition, all **non-quantifiable** costs should be listed and described as a matter of public reference.

Appraisal process for infrastructure and capital projects

Departments and entities are responsible for the initial appraisal of projects and programmes. The CBC reviews appraisals submitted and makes recommendations in an environment of competing requests and scarce resources. The onus is on departments to provide suitable detail and ensure that feasibility studies and other supporting documents are comprehensive, realistic and complete.

Project appraisal is necessary for a number of reasons:

- To develop and formulate potential projects precisely and concisely
- To avoid badly planned projects (“white elephants”)
- To encourage identification of risks and formulation of mitigation strategies
- To promote transparency.

Below are some of the requirements that departments need to fulfil in their proposals for mega and large projects. In general, a submission should be presented as a discussion, with supporting graphs and tables where statistical information requires illustration. Each mega or large project requires a separate submission, which should include:

Needs analysis

Demonstrate why the project is required and whether it is aligned to the strategic objectives of an institution. The following aspects need to be considered:

- The statistical trends and key indicators in the relevant area of service delivery that point to the need or increased demand at this time.
- The extent and urgency of the need and the consequences if the need is not met. How are people/users currently coping?
- The proportion of the need the request is intended to fulfil, and how long it will be operational.
- The proposed outputs and outcomes. What will be built or procured, how many people will it serve and for how long?
- Demonstrate that the project/programme fits with your overall departmental strategic plan or infrastructure delivery plan, which should also be supplied.

Options analysis

Identify and examine alternative ways of meeting the need. Explain why the proposal under consideration was selected as the preferred option and why others were rejected.

Cost-benefit analysis

Estimate the equivalent money value of the benefits and costs of a project to society to establish whether it is worthwhile. Include:

- The build-up of all costs, present and future, and their underlying assumptions, including escalations due to inflation, exchange rates and tender estimation²
- The estimates of all revenues (if relevant)
- The proposed/perceived economic and social benefits of the project or programme, present and future, and all assumptions made
- A *net present value* analysis on costs and revenues outlining all assumptions made, including financial and social discount rates.

Lifecycle costs and affordability

- Discuss the operational implications of the infrastructure or capital acquisition on the budget of the department/entity in future years. Is this affordable and sustainable? What are the implications for other spheres of government?
- If funding is required for a public entity, demonstrate why this should be funded by taxpayers and not the users.

Implementation readiness

- Indicate the stage of the project (identification, feasibility, design, tender, construction, etc).
- State the proposed target date to begin construction and the estimated duration of construction. Outline the implementation schedule.

² See subsection on “Identifying costs” on the previous page.

- Define the intended implementation agents (e.g. public works, own department, private sector) for the various stages (design, construction, project management, monitoring, etc.)
- Discuss the level of planning already undertaken/achieved and what still needs to be done. Also indicate if there are other stakeholders.
- Outline the risks and possible constraints faced in the delivery of the project.

Funding and approvals

- State whether this type of infrastructure generates ongoing user revenue. Does a trading account exist for this purpose?
- Discuss the funding sources that have been considered and outline the contributions from each. If relevant, why was a public-private partnership not considered?
- List all approvals and permissions obtained for the project, including environmental impact assessments.