



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 as well as a list of projects currently under review.

The National Development Plan states that infrastructure investment as a percentage of GDP needs to grow from 21 per cent in 2015 to 30 per cent by 2030. This requires the public and private sectors to work together to fund and build infrastructure. Greater use of PPP financing can contribute to better decision-making, discipline, accountability and rigor in the planning and assessment of 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.

■ PPP projects in operation

Table E.1 shows a list of 31 concluded PPP projects undertaken since this type of partnership was first introduced in South Africa in 1998. The total value of all projects amounts to R65.3 billion. Within the PPP model, there are various types of projects based on the contractual arrangements involved, including:

- Design, finance, build, operate and transfer (DFBOT) projects
- Design, finance and operate (DFO) projects
- Design, build, operate and transfer (DBOT) projects
- Equity partnership projects
- Facilities management projects.

Of the 31 PPP projects, 23 are DFBOT projects, three are DFOs, three 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. The projects have been funded through a combination of equity, debt and in some instances, government capital contributions. The majority of these projects are operational, with a few that have 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	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 Dept of Transport, Roads and Public Works	DFO	Nov-2001	5 years	Equity: 100%	181	Unitary payment
Chapman's Peak Drive Toll Road	Western Cape Dept of Transport	DFBOT	May-2003	30 years	Debt: 44% Equity: 10% Govt: 46%	450	User charges and guarantee
Fleet management	Eastern Cape Dept of Transport	DFO	Aug-2003	5 years	Debt: 100%	553	Unitary payment
National fleet management	Dept of Transport	DFO	Sep-2006	5 years	Equity: 100%	919	Service fee
Gautrain Rapid Rail Link	Gauteng Dept of Public Transport, Roads and Works	DFBOT	Sep-2006	20 years	Debt 11% Equity: 2% Govt: 87%	31 800	User charges and patronage guarantee
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	Dept of Correctional Services	DFBOT	Aug-2000	30 years	Debt: 88% Equity: 12%	3 600	Unitary payment
Health							
Inkosi Albert Luthuli Hospital	KwaZulu-Natal Dept 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 Dept of Health	DFBOT	Nov-2002	16.5 years	Equity: 100%	81	User charges
State Vaccine Institute	Dept of Health	Equity partnership	Apr-2003	4 years	Equity: 100%	75	Once-off equity contribution
Humansdorp District Hospital	Eastern Cape Dept of Health	DFBOT	Jun-2003	20 years	Equity: 90% Govt: 10%	49	Unitary payment
Phalaborwa Hospital	Limpopo Dept of Health and Social Development	DFBOT	Jul-2005	15 years	Equity: 100%	90	User charges
Western Cape Rehabilitation Centre and Lentegeur Hospital	Western Cape Dept of Health	Facilities management	Nov-2006	12 years	Equity: 100%	334	Unitary payment
Polokwane Hospital renal dialysis	Limpopo Dept of Health and Social Development	DBOT	Dec-2006	10 years	Equity: 100%	88	Unitary payment
Port Alfred and Settlers Hospital	Eastern Cape Dept 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 Dept of Finance, Economic Affairs, Tourism	DFBOT	Dec-2001	30 years	Equity: 100%	25	User charges
Cradle of Humankind Interpretation Centre Complex	Gauteng Dept 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 Govt	DFBOT	Jul-2005	30 years	Equity: 100%	40	User charges

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

Project name	Government institution	Type	Date of close	Duration	Financing structure	Project value R million	Form of payment
Information technology							
Information systems	Dept of Labour	DFBOT	Dec-2002	10 years	Equity: 100%	1 500	Unitary payment
Social grant payment system	Free State Dept of Social Development	DFO	Apr-2004	3 years	Equity: 100%	260	Unitary payment
Office accommodation							
Head office accommodation	Dept of Trade and Industry	DFBOT	Aug-2003	25 years	Debt: 80% Equity: 8% Govt: 12%	870	Unitary payment
Head office accommodation	Dept of International Relations and Cooperation	DFBOT	Jan-2005	25 years	Debt: 81% Equity: 19%	1 959	Unitary payment
Head office accommodation	Dept of Education	DFBOT	Aug-2009	27 years	Debt: 90% Equity: 10%	512	Unitary payment
Head office accommodation	Dept 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

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 R947.2 billion planned for public-sector infrastructure spending over the next three years (see Annexure D), PPP projects account for R16.5 billion – 1.7 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	2016/17	2017/18	2018/19	2019/20	MTEF
Transport	1 903	2 001	2 120	2 129	6 250
Health	992	1 003	1 016	1 016	3 034
Correctional services facilities	1 008	1 015	1 028	1 100	3 143
Accommodation	938	1 115	1 308	1 624	4 047
Total	4 840	5 134	5 471	5 869	16 473

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 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 the provisions in the PPP agreement, but will only have a financial effect if a contract is terminated. PPP projects where a unitary payment is to be made by a public-sector institution create 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.

There are various categories of contingent liabilities, depending on whether the termination is the result of private-sector default, government default and *force majeure* – an event beyond either party's control. The compensation depends on the reason the contract ended, but contract 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 Contingent liabilities by category

	Termination private party default		Termination force majeure		Termination government default	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
R million						
National departments exposure	1 848.9	3 310.9	5 383.1	3 951.6	3 872.8	4 841.5
Provincial departments exposure	4 669.3	4 132.0	3 237.4	2 812.8	5 498.7	5 207.1
Public entities exposure	850.7	761.1	965.7	831.9	965.7	874.6
Total	7 368.8	8 204.0	9 586.1	7 596.4	10 337.1	10 923.2

Source: National Treasury

Government's contingent liabilities for PPPs emanating from termination due to government default amounted to R10.9 billion in 2016/17 – an increase from R10.3 billion in 2015/16. The increase was largely due to liabilities in national government as a result of the new Statistics South Africa building and the Department of Environmental Affairs building that have recently been completed and were not included in 2015/16.

Of the three spheres of government, provincial departments account for the greatest maximum exposure, amounting to R5.2 billion in 2016/17. From a project point of view, the Gautrain Rapid Rail Link project continues to have the highest exposure.

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 outlook

Despite the success of the PPP model in South Africa, the number of new project transactions has declined over the past five years, decreasing from an estimated R10.7 billion in 2011/12 to R4.8 billion in 2016/17, mainly as a result of delays and cancelled projects in the health and security sectors. However, based on the projects currently at an advanced planning stage, PPP project transactions are expected to increase from R4.8 billion in 2016/17 to R5.9 billion in 2019/20.

To increase the PPP project pipeline, the National Treasury is considering ways of streamlining the implementation of such partnerships and at the same time, reduce the time it takes to complete project planning. In addition, the National Treasury has partnered with local and international development finance institutions to explore the development of alternative infrastructure funding while diversifying sources of funding to encourage private-sector participation. This would increase the pool of funds available and could help lower project costs.

PPP projects under review

Table E.4 provides a pipeline of PPP projects under review. These projects are currently under review and 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
Solid waste			
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
Ikusasa	Department of Higher Education	Student financial aid programme	Feasibility

Table E.4 Pipeline of PPP projects under review (continued)

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	Procurement
De Aar Logistics Hub	Northern Cape Department of Transport, Safety and Liaison	Provide 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	Leasing underutilised commercial properties in Cape Town CBD to the private sector for a period of 50 years	Procurement
Rehabilitation/upgrading of 6 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
Office accommodation			
National Metrology Institute of South Africa laboratories and equipment	National Metrology Institute of South Africa	Construction of a new building to provide laboratories and equipment to meet technical specifications	Feasibility
Department of Rural Development head office accommodation building	Department of Rural Development	Construction of office accommodation to consolidate operations of 6 buildings into a single location	Financial closure
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
Health			
Tri-generation Chris Hani Baragwanath Hospital	Gauteng Department of Infrastructure Development	Installation of tri-generation plants at the Chris Hani 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	Installation of solar panels on Gauteng provincial government buildings	Procurement
Education			
Ikusasa	Department of Higher Education	Student financial aid programme	Feasibility

Source: National Treasury

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