D

2023 BUDGET REVIEW

PUBLIC-SECTOR INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIPS UPDATE

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PUBLIC-SECTOR INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIPS UPDATE

INTRODUCTION

This annexure reviews planned public infrastructure spending and associated reforms and provides an update on the status of major capital projects.

The economic recovery plan announced in October 2020 links infrastructure investment and related institutional reforms to support higher economic growth. Government is working on several reforms to strengthen public investment management and the associated value chain. Many of these involve pooling resources with the private sector in blended finance initiatives aimed at funding and implementing infrastructure projects more effectively. The reforms include improving the operations of the Infrastructure Fund, enhancing infrastructure monitoring and reporting (including on contingent liabilities), improving the public-private partnership (PPP) regulatory framework, and building a strong project pipeline. A comprehensive project pipeline appears at the end of the annexure.

The difference between public-sector infrastructure, PPPs and blended finance 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 by 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 instances where the public sector asset has the potential to raise revenue – such as a toll road or a rail link – the private party would be responsible for these services through a user-pays PPP. 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.

In this annexure, blending is defined as the strategic use of limited funds from the fiscus to mobilise financing from multilateral institutions, development finance institutions and the private sector to enhance the development impact of infrastructure.

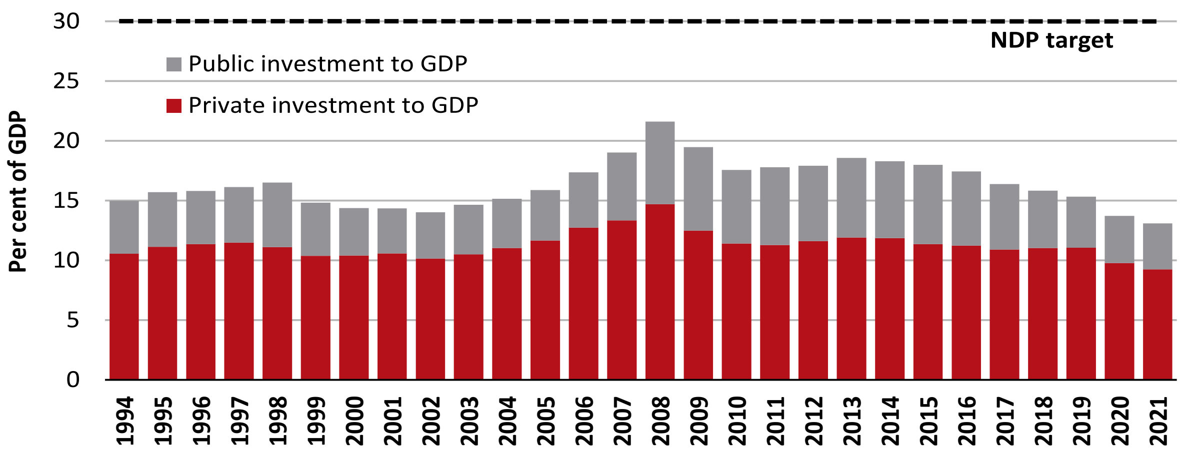
TRENDS IN PUBLIC- AND PRIVATE-SECTOR INVESTMENT

To grow the economy and reduce unemployment and poverty, capital investment by the public and private sectors, which amounted to 13.1 per cent of GDP in 2021, needs to significantly increase. Over the past decade, weak growth, rising spending pressures, inefficient delivery and the financial support provided to state-owned companies have constrained government's ability to invest in new infrastructure. Private-sector investment has also fallen for a variety of reasons. As a result, total capital investment has been adversely affected.

Between 2011 and 2021, public-sector capital investment averaged 5.6 per cent of GDP, while private capital investment averaged 11 per cent of GDP (Figure D.1). Total investment is well below the National Development Plan target of 30 per cent – and has been declining since 2015. To reach this target, public-sector investment in infrastructure would need to grow from 3.8 per cent of GDP in 2021 to 10 per cent of GDP by 2030, while private-sector investment would need to grow from 9.3 per cent of GDP in 2021 to 20 per cent in 2030. Moreover, poor value for money has tended to characterise many public investment projects, illustrating weaknesses in planning, procurement, construction and operational management of projects.

PUBLIC-SECTOR INFRASTRUCTURE AND PUBLIC-PRIVATE PARTNERSHIPS UPDATE

Figure D.1 Public- and private-sector capital investment as a share of GDP, 1994–2021*



**All GDP data in this annexure is recalculated in line with Statistics South Africa's 2021 rebasing and benchmarking exercise. It is therefore not directly comparable with GDP data from earlier budget documentation.*

Source: Reserve Bank

PUBLIC-SECTOR INFRASTRUCTURE SPENDING HIGHLIGHTS

Table D.1 summarises government's infrastructure spending plans for the next three years, combining infrastructure spending estimates at national, provincial and local government level, including state-owned companies and other public entities. Public-sector infrastructure spending over the 2023 medium-term expenditure framework (MTEF) period is estimated at R903 billion. State-owned companies continue to be the largest contributor to capital investment, spending a projected R302.1 billion over the next three years. Provinces are expected to spend R209.8 billion on infrastructure over the same period, while municipalities are forecast to spend R190.3 billion.

Public housing built through the *human settlements development grant* in provinces is expected to total R45.9 billion. Although these assets are transferred to homeowners, this spending is a substantial government contribution to the built environment. Spending on economic infrastructure, mainly by state-owned companies, accounts for 78.3 per cent of the medium-term estimate. These funds are used to expand power-generation capacity, upgrade and expand the transport network, and improve sanitation and water services. Social services infrastructure accounts for 17.6 per cent of the total, with the two largest sectors, health and education, contributing 5 per cent and 7 per cent respectively.

To help close the gap between available public resources and the growing infrastructure need, government's economic recovery plan includes immediate measures to boost investor confidence and longer-term reforms to promote sustained economic growth. Higher and more effective infrastructure spending is central to this plan.

Table D.1 Public-sector infrastructure expenditure and estimates

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	MTEF
	Outcomes			Revised estimate	Medium-term estimates			Total
Energy	26.2	30.0	35.5	38.7	39.8	51.1	67.0	157.8
Water and sanitation	22.5	29.5	30.6	36.1	40.8	44.9	46.9	132.5
Transport and logistics	70.5	58.6	65.9	90.8	97.5	119.9	133.7	351.1
Other economic services	5.7	6.9	21.8	23.5	22.7	21.2	21.2	65.2
Health	12.2	14.7	16.4	14.2	14.1	14.0	14.6	42.8
Education	17.4	14.2	14.5	21.4	18.0	21.7	20.8	60.6
Human settlements[1]	20.9	13.3	13.4	14.3	14.9	15.1	15.8	45.9
Other social services	4.7	4.1	2.2	3.6	3.2	3.0	3.1	9.3
Administration services[2]	7.4	12.1	12.0	12.5	12.5	12.2	13.1	37.8
Total	**187.4**	**183.4**	**212.3**	**255.2**	**263.6**	**303.2**	**336.3**	**903.0**
National departments	13.8	11.4	12.5	17.4	15.3	20.2	19.0	54.6
Provincial departments	61.0	51.8	57.7	67.1	69.3	69.1	71.4	209.8
Local government	41.2	55.6	62.1	62.8	61.4	63.0	65.9	190.3
Public entities[3]	14.5	8.8	20.2	29.5	31.2	41.7	51.6	124.4
Public-private partnerships	5.6	4.9	6.5	7.1	7.1	7.3	7.5	21.9
State-owned companies[3]	51.2	50.8	53.4	71.3	79.3	101.9	120.9	302.1
Total	**187.4**	**183.4**	**212.3**	**255.2**	**263.6**	**303.2**	**336.3**	**903.0**

1. Human settlements includes public housing and bulk infrastructure amounting to R45.9 billion over the MTEF period
2. Administration services include infrastructure spending by the departments of International Relations and Cooperation, Home Affairs, and Public Works and Infrastructure, and Statistics South Africa and their entities
3. Public entities are financed by capital transfers from the fiscus and state-owned companies are financed from a combination of own revenue and borrowings
Source: National Treasury

SECTOR UPDATES

Water and sanitation

In the water sector, government is prioritising 11 strategic projects with an estimated value of R115 billion. The projects are expected to create about 20 000 jobs during construction and 14 000 jobs during operation.

The second phase of the Lesotho Highlands Water Project, which has an estimated capital investment of R39.3 billion, is expected to be completed in 2028. The Trans-Caledon Tunnel Authority (TCTA) has raised about R15 billion from the Development Bank of Southern Africa, the African Development Bank and the New Development Bank to continue construction on the project. The two main construction tenders (the Polihali Dam and transfer tunnel from Polihali to Katse Dam) were awarded in October 2022 and construction is under way.

The TCTA will continue implementing the Berg River-Voëlvlei Augmentation Scheme and phase 2 of the Mokolo-Crocodile River water augmentation project. The Berg River-Voëlvlei Augmentation Scheme has an estimated capital investment of R1.1 billion and is expected to be completed in 2026. Its long-term funding is contingent on the conclusion of water supply agreements with water user associations. The Mokolo-Crocodile River project has an estimated capital investment of R12.3 billion and is expected to be completed in 2028.

Funding is being raised through development financing institutions and the open market. Construction will take place after negotiations with the preferred funders.

The uMkhomazi water project has an estimated capital investment of R23.2 billion and is expected to be completed in 2029. The environmental authorisations for the Smithfield Dam and bulk raw water conveyance infrastructure are in place. The National Treasury approved a funding request through the Budget Facility for Infrastructure (BFI) and negotiations over the institutional arrangements and water supply agreements are in progress.

Energy

Three energy projects have been gazetted: the Risk Mitigation Power Purchase Procurement Programme, the Small Independent Power Producer Programme and the Embedded Generation Investment Programme. Private-sector investors will provide the investment capital. As outlined in the 2022 Budget, the programmes aim to alleviate the current electricity supply constraints, support economic recovery, reduce the use of diesel-based peaking electrical generators and support broad-based black economic empowerment.

The Risk Mitigation Power Purchase Procurement Programme – sponsored through the Department of Mineral Resources and Energy and implemented through the Independent Power Producers Office – involves the development, installation and operation of up to 1 996 megawatts (MW) of dispatchable new generation capacity and an investment of about R40 billion. The first three projects reached commercial close in July 2022 and are expected to be operational in November 2024. The remaining eight projects are expected to reach financial close by July 2023 and to start operating between March 2024 and March 2025.

The fifth bid window of the Renewable Energy Independent Power Producer Procurement Programme for 1 600 MW of onshore wind and 1 000 MW of solar photovoltaic (PV) power was launched in April 2021. Twenty-five preferred bidders were announced in October 2021, with projects totalling 2 583 MW in generation capacity and an investment of about R50 billion. Three of these projects have reached commercial close, while a further 16 projects are scheduled to close by the end of March 2023, after which they will move to implementation.

The sixth bid window was launched in April 2022 for 2 400 MW, and was subsequently increased to 4 200 MW. It resulted in the procurement of 1 000 MW of solar PV from six preferred bidders. These projects are scheduled for commercial close by the end of May 2023 and they are expected to be operational by May 2025. The total investment associated with these projects is about R15 billion. Grid constraints prevented the allocation of any wind projects. A request for proposals for the seventh bid window will be issued in the first half of 2023/24, subject to grid availability.

The Embedded Generation Investment Programme involves the development, installation and operation of solar PV and wind generation projects through subordinated loans and broad-based black economic empowerment funding. The Development Bank of Southern Africa is considering various project proposals. To date, 200 MW of solar PV projects located in the Western Cape and KwaZulu-Natal have been approved under the programme. An additional nine projects are at the due diligence stage and forecast to reach financial close in 2023/24.

Transport and logistics

The transport sector gazetted 16 strategic integrated projects in 2020. The South African National Roads Agency Limited is improving the capacity of several routes on toll and non-toll networks. Eleven projects with a combined value of about R20 billion have been prioritised and will create nearly 10 000 jobs during construction. Six projects to the value of R20 billion are under construction, including the N3 Cato Ridge to Dardanelles, N3 Dardanelles to Lynnfield Park, N3 Ashburton to Murray Road, N2 EB Cloete Interchange, N2 Mtentu Bridge and N2 Msikaba Bridge.

The Small Harbours Programme seeks to revitalise 13 proclaimed fishing harbours in the Western Cape. The repair and maintenance programme completed in March 2022 created 925 jobs and supported local small, medium and micro enterprises to the value of R116 million. Development studies for Port Nolloth, Port St Johns and Port Edward are being undertaken.

Project Ukuvuselela, the Gauteng–Eastern Cape high-capacity rail corridor for automotive volumes, was gazetted in December 2022 and is in the feasibility stage. The project entails upgrading the rail line from Pyramid Logistics Park in Gauteng to Gqeberha in the Eastern Cape.

Digital infrastructure

The digital infrastructure sector has four strategic integrated projects: the Space Infrastructure Hub, the digitisation of government records, SA Connect Phase 1, and the MeerKAT and Square Kilometre Array (SKA) project.

The national space infrastructure hub is a R4.4 billion project by the South African National Space Agency. It aims to decrease South Africa's reliance on international data on earth observation and global positioning system services and increase the availability and use of earth observation data.

There has been significant progress in the MeerKAT expansion project, which increased the MeerKAT radio telescope from a 64- to an 84-dish array and the virtual baseline diameter from 8 kilometres to 17 kilometres. This expansion will increase the telescope's sensitivity and imaging capabilities and survey speed. The SKA radio telescope has officially entered the construction phase. This will result in job creation and a significant positive impact on the economy of the Northern Cape. The first SKA array dishes are expected to be completed in the first quarter of 2025.

Government is digitising paper records to improve their storage and management. Digital records will allow government to analyse data and gain new insight, ultimately improving the delivery of public services. The Department of Home Affairs aims to digitise and index 350 million records dating back to 1895, including records on birth, marriages, deaths and amendments, and related supporting documents over three years. The programme is expected to create 10 000 jobs over three phases.

Agriculture and agro-processing

This sector is highly dependent on sound transport infrastructure, ports (water and airports), grain storage, long-established cold chain facilities, and well-developed financial services. The sector experiences challenges in accessing funding to develop bankable and properly packaged business cases that can attract domestic and foreign investment.

In 2022, the Department of Agriculture, Land Reform and Rural Development received a R9.9 million grant from the Middle-Income Country Technical Assistance Fund to prepare feasibility studies to attract finance for development of the Springbokpan and Tshiame Agri-Parks. These pilot studies will be used to champion the revitalisation of the Rural Infrastructure Agri-Parks Programme.

Human settlements

Human settlements projects include six integrated residential development programmes, nine social housing projects and two high-impact privately led developments. These 17 projects, which were gazetted as strategic integrated projects, have a total investment value of R143 billion and will provide housing for over 150 000 people. They are projected to create more than 285 000 jobs during development.

In December 2022, the National Social Housing Programme was added to the strategic integrated projects. The programme includes six social housing projects as part of the Social Housing Regulatory Authority project pipeline targeted at developing 3 349 housing opportunities at an estimated cost of R1.3 billion.

To fund the large-scale bulk infrastructure required for housing, government is exploring alternative blended finance models. Pressure on the fiscus has also resulted in a shift towards leveraging existing grant funding and optimising the private sector’s participation. The Infrastructure Fund and the City of Johannesburg received R2 billion from the BFI, which will be provided in tranches of R385 million in 2023/24, R654 million in 2024/25 and R963 million in 2025/26. Additional details are provided under the Infrastructure Fund section.

PUBLIC-SECTOR INFRASTRUCTURE REFORMS

The National Treasury, the Department of Public Works and Infrastructure (DPWI), Infrastructure South Africa and the Infrastructure Fund are undertaking complementary reforms to strengthen the infrastructure value chain. Initiatives include the National Infrastructure Plan 2050, the BFI and the Infrastructure Fund. The DPWI is developing a comprehensive, focused infrastructure plan; Infrastructure South Africa is working to unblock policy and regulatory obstacles to build a credible and bankable pipeline of projects; the BFI is increasing the rigour in the planning and appraisal of projects; and the Infrastructure Fund is increasing skills and capacity in the structuring of blended finance projects, where most of the financing will come from the private sector.

Department of Public Works and Infrastructure

Infrastructure South Africa, housed within the DPWI, is responsible for coordinating the development, management and monitoring of a comprehensive infrastructure pipeline, and promoting infrastructure investment, with a focus on very large projects. Part of its work involves unblocking policy and regulatory obstacles to investment and facilitating policy certainty to build investor confidence.

Infrastructure South Africa developed the National Infrastructure Plan 2050. This plan supports the implementation of government’s strategic integrated projects to improve economic growth and service delivery. Phase 1 of this plan, which was approved by Cabinet in March 2022, focuses on bulk infrastructure related to energy, water, freight transport and telecommunications. It also strengthens institutional capabilities for delivery, infrastructure financing and the revitalisation of the construction sector. Phase 2 focuses on distributed infrastructure, or interconnected networks, in the major economic sectors of human settlements; municipal electricity, water, sanitation and solid waste; transport; education; and health. There are three cross-cutting sections focusing on digital infrastructure, crime and corruption, and governance of distributed infrastructure delivery. Following public consultation, this phase will be presented for Cabinet approval in March 2023.

Budget Facility for Infrastructure

The BFI is a multi-disciplinary facility that brings together various expertise across government to make recommendations on the technical feasibility and readiness of infrastructure projects. The BFI supports quality public investments by improving the planning, technical assessment, budgeting and execution of large infrastructure projects. The facility has helped build a pipeline of projects that have undergone rigorous technical analysis and ensures that the budgeting and commitment of fiscal resources take place in a transparent manner. Since inception, there have been six BFI windows to support large infrastructure projects.

The facility considers the deployment of blended or hybrid financial solutions comprising a combination of grants, debt and equity sources from public and private institutions, and concessional loans from multilateral development banks. Blended finance projects that need fiscal support are linked to the budget process through the BFI. The budget process ensures the selection of projects that balance boosting economic development, job creation and private-sector investment with the country’s debt-constrained fiscal position.

The sixth window of the BFI has shown that public institutions have built capacity over time to contribute to a strong pipeline of projects that are ready for funding. Through the BFI processes, R2.5 billion was approved for project funding in the 2022 adjustment budget process, while R24 billion was approved in the 2023 MTEF period.

The approved projects and programmes include the Avoca Node development, Lufhereng Mixed Use Development, Drakenstein Local Municipality Sanitation Infrastructure Project, uMkhomazi Water Project – Raw Water Component, Sol Plaatje Local Municipality Integrated Bulk Supply System Intervention, Gauteng Schools Programme, Space Infrastructure Hub, SKA Observatory and SA Connect Phase 2. Some projects, such as Moretele North Klipvoor Bulk Water Supply and

Pilanesberg Bulk Water Supply Scheme: Phase 2, submitted through the Infrastructure Fund and approved for funding, are blended finance projects which are crowding in private-sector capital.

Currently, infrastructure allocations in the MTEF period are only visible and assured for a three-year period. From a risk allocation perspective, fiscal support to a blended finance project should ideally be transparent and assured over the project life cycle. Through the BFI process, a multi-year appropriation mechanism is being considered which can be added as a multi-year appropriation schedule in the budget documents.

Supporting resilient infrastructure investments

The National Treasury recognises the risks from climate change and is working with partners to ensure that infrastructure investments are climate-resilient. It supports metros to strengthen climate resilience in the design and preparation, packaging and financing of some of their projects. These projects include renewable and alternative sources of energy storage in Buffalo City and Johannesburg, integrated waste management in eThekwini and flood management and river rehabilitation in Cape Town, Ekurhuleni, Tshwane and Mangaung. The technical assistance provided has highlighted lessons and opportunities for leveraging private investment in these types of projects.

While fiscal resources for capital projects are limited, there are established and emerging sources of concessional and private funding as well as advisory support that metros can tap into for these projects. This experience is shaping ongoing reforms that guide land development policies, infrastructure project delivery and partnerships with the private sector, including the recently reviewed municipal PPP framework.

Improving transparency on infrastructure delivery and reporting

The National Treasury extended the scope of the infrastructure reporting model from April 2021 to include national government. The model aims to enhance transparency and uniformity on infrastructure budget analysis and spending reviews across the spheres of government. To improve consolidation of reporting on project details for national government, infrastructure data is being collated. The National Treasury will start in-depth monitoring and analysis of capital expenditure for national government from 1 April 2023. Support measures such as training are available to assist government in improving data collection and reporting.

In addition, the local government component of the infrastructure reporting model is being tested. By the end of 2024, the model is expected to be fully functional to reflect project information for capital budgets for the three spheres of government and across sectors.

Infrastructure Fund

The Infrastructure Fund’s role is to maximise the cost-effective participation of private-sector investors in government projects while facilitating early financial closure. The fund has been operating for two years and is now fully capacitated to develop blended financing solutions with government and the private sector. Since inception, the fund has helped to package and approve 13 blended finance projects and programmes to the value of R48.8 billion. These projects are summarised in Table D.2 and discussed in more detail below. The BFI approved R21.7 billion, or 44.4 per cent of aggregated capital costs, for the 13 projects. In addition, the Infrastructure Fund has developed bridging loan facilities for the social housing programme to address the lack of available financing in the market and a concessional loan facility for the flagship uMkhomazi water project to enhance its viability and sustainability.

Table D.2 shows the combined fiscal resources of R28.4 billion approved through the BFI and other grants for these projects. To complement these resources, the Infrastructure Fund is working with project sponsors to ensure that all projects can attract private financing from financiers such as development finance institutions, commercial banks, institutional investors and multilateral development banks.

Flowing from the PPP review discussed below, government is expediting the reforms required to create a centre of excellence. This centre will, as part of its mandate, enable the Infrastructure Fund to crowd in private-sector investment. The National Treasury is reviewing the institutional arrangements for the Infrastructure Fund to ensure it can effectively deliver its mandate.

The human settlements projects listed in Table D.2 account for about R9.1 billion and are expected to provide about 35 496 units. The Hospital Street and Goodwood Station social housing projects and the Lufhereng mixed-use development programme are under construction. The social housing projects target low-income households with incomes ranging from R1 850 to R22 000 per month. The broader Lufhereng programme will lead to further investments in the area: government supported R3.4 billion in bulk infrastructure development to complement R4.3 billion from the City of Johannesburg. Together, this funding is expected to unlock up to R18.3 billion in human settlement developments and ancillary social and commercial facilities.

The student accommodation projects will cost R3 billion and deliver an estimated 9 500 beds when completed. They await ministerial approvals and the resolution of intergovernmental challenges before they can begin.

Table D.2 Other major public-sector infrastructure projects

Sector	Project name	Quantity[1]	Capital costs (R million)	Approved BFI (R million)	Private-sector funding (R million)	Other grants/ equity (R million)	Progress to date
Human settlements	Hospital Street Social Housing Project	1 056	388	82	–	306	Construction
Human settlements	Goodwood Station Social Housing Project	1 055	457	121	–	336	Construction
Human settlements	Midrand Heights Social Housing Project	305	163	82	–	81	Due diligence
Human settlements	Greenfields Estate (Mohlakeng x16) Social Housing Project	1 080	416	20	–	396	Due diligence
Human settlements	Lufhereng Mixed Use Development Project	11 000	7 700	3 400	2 150	2 150	Construction
Water and sanitation	Phase 1: Olifantspoort and Ebenezer Water Supply Programme	20 075	4 600	1 400	2 000	1 200	Procurement
Water and sanitation	Phase 1: uMkhomazi Water Augmentation Project	300 000	24 000	12 000	12 000	–	Procurement
Water and sanitation	Moretele North Klipvoor Bulk Water Supply Scheme	15 330	5 200	1 900	2 600	700	Procurement
Water and sanitation	Pilanesberg Bulk Water Supply Scheme	45 990	2 900	1 800	1 100	–	Procurement
Student housing	Tshwane University of Technology	3 500	1 089	338	210	541	Awaiting ministerial approval
Student housing	University of KwaZulu-Natal	3 000	973	200	188	585	Awaiting council approval
Student housing	Gert Sibande TVET College	1 500	504	188	109	207	Awaiting ministerial approval
Student housing	Majuba TVET College	1 500	477	174	103	200	Awaiting ministerial approval
All sectors	**Total**		**48 866**	**21 705**	**20 460**	**6 701**	

1. The quantity for human settlements and student accommodation is in units, while the quantity for water and sanitation is in megalitres per annum

Source: Infrastructure Fund Unit and Project Preparation Division

PUBLIC-PRIVATE PARTNERSHIPS

Implementing recommendations from the PPP review

As outlined in the 2022 Budget, the National Treasury is implementing recommendations from a comprehensive review of the PPP regulatory framework applicable to the three spheres of government. The changes are expected to enhance application and practice, which in turn will support higher confidence and investment in PPPs.

Implementation began in 2022 and will continue over the next year. The recommendations require changes to National Treasury Regulation 16 and Municipal Regulation 309, which govern PPPs. To guide the scope of work, an implementation plan has been formulated with workstreams covering each of the reform areas. The workstreams have been prioritised by importance and urgency, with implementation timeframes ranging from 0 to 6 months up to 12 months. In the coming year, progressive implementation of the following workstreams will continue:

- **Policy framework:** An overarching policy that mainstreams PPPs in a fiscally prudent manner and defines the PPP ecosystem, including a conducive environment, will be formulated. In tandem, a policy on unsolicited proposals will be developed.
- **PPP legal and regulatory framework:** The procurement process of PPPs will be simplified and expedited through legislative changes. The new Public Procurement Bill is expected to be tabled in Parliament in March 2023 once all other legislative processes are finalised. Once enacted, it will enable the repeal of National Treasury Regulation 16 and Municipal Regulation 309. Simplifying the procurement processes, while retaining the National Treasury's role of assessing affordability and value for money will result in an improved pipeline of PPP projects.
- To manage the fiscal risk and contingent liabilities related to PPPs, the new PPP regulations will enable the National Treasury to set up two frameworks for PPPs – one for high value projects and a simplified version for low value (below R1 billion) projects. These will be accompanied by the development of sectoral regulatory frameworks where needed, initially focusing on key sectors such as energy, water and transport.
- **Strengthening institutional arrangements:** The concept documents on transforming the PPP unit and the Infrastructure Fund at the Development Bank of Southern Africa into a centre of excellence are being finalised, with implementation steps to follow. The centre of excellence will assist institutions with capacity, skills and documentation, enabling them to access and learn from standardised template documents based on knowledge acquired from previous feasibility studies, procurement documentation and PPP agreements. This should reduce the time it takes for a PPP project to reach financial closure.
- A dedicated regulatory unit for PPPs is being established in the National Treasury. This will enable the National Treasury to fast-track the provision of legislated approvals for national and provincial departments, and views and recommendations for municipalities.
- **Improving the quantification of fiscal risks and contingent liabilities:** A framework will be put in place to assess fiscal risks, manage contingent liabilities and report on PPPs and blended projects.
- **Financial support mechanisms:** To bridge the affordability gap for PPP projects, financial support mechanisms through the BFI will be considered with further assessments on fiscal affordability through the budgeting process.

Implementing recommendations for the municipal PPP framework

The 2022 Budget also included recommendations from the review relating to municipal PPPs. These recommendations included amending the Municipal Systems Act (2000) and the Municipal Finance Management Act (2003) to streamline and simplify consultation requirements, and issuing directives to improve guidance and clarity for priority use cases.

To facilitate the implementation of municipal recommendations, the following actions will be prioritised over the next 12 months.

Amendments to the legal and regulatory framework

Once enacted, the Public Procurement Bill will trigger the review of regulations falling under the abovementioned legislation to streamline and simplify consultation requirements.

Issuing directives

Pending changes to legislation, directives will be issued to guide interpretation of the application of “external mechanism” in section 78 of the Municipal Systems Act in the event of priority use cases and clarify the application and interpretation of other relevant legislative provisions and regulations per priority use case. The priority use cases include build-operate-transfer contracts for water reuse, wastewater treatment and desalination; embedded energy generation from rooftop solar, both photovoltaics and water heating; and municipal power purchase agreements for the supply of renewable energy.

Providing dedicated support to procuring institutions

The National Treasury will facilitate the establishment of a municipal PPP championing body to proactively facilitate a municipal PPP project pipeline. It will also develop standard documents and templates for the implementation of priority programmes.

CONTINGENT LIABILITIES

Government incurs contingent liabilities if the contingency is likely to occur and the amount of the liability can be reasonably estimated. Most national and provincial PPPs are guaranteed by the Minister of Finance and create a contingent liability. The materialisation of such liabilities – and their costs – can have a significant impact on institutions’ budgets. It is important to disclose all contingent liabilities as they can affect the public finances.

The National Treasury uses a four-stage approval process to ensure that contingent liabilities arising from contracts are acceptable and monitors these liabilities on an ongoing basis.

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 the party’s control. Compensation depends on the reason the contract ended, but termination due to government default usually results in the greatest compensation. Table D.3 shows potential termination amounts for national and provincial departments and public entities. Total contingent liabilities amount to R15.8 billion for 2022/23.

Table D.3 Public-sector infrastructure expenditure and estimates

R million	Termination for private party		Termination for force majeure		Termination for government default	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
National departments' exposure	2 580.3	2 880.9	3 400.5	3 262.3	3 893.0	3 882.9
Provincial departments' exposure	1 773.6	1 030.9	805.7	687.7	3 629.3	3 307.0
Public entities' exposure	300.4	255.4	254.8	216.5	377.3	320.7
Total	**4 654.3**	**4 167.2**	**4 461.0**	**4 166.5**	**7 899.6**	**7 510.6**

1. Municipalities are an autonomous sphere of government so their liabilities are not part of the fiscus
Source: National Treasury

Estimated contingent liabilities for PPPs that are likely to accrue to government if contracts are terminated due to government default have decreased from R7.9 billion in 2021/22 to R7.5 billion in 2022/23. This decline was expected as government continues to pay off debt and equity owed to the private sector and as contract terms of PPP projects end. National departments account for the greatest exposure, amounting to R3.9 billion in 2022/23. 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 regulatory requirements.

Improving the quantification of fiscal risks and contingent liabilities

Since the onset of COVID-19, projects reliant on steady growth in their business models, particularly in the tourism and transport sectors, have experienced steep revenue reductions, causing the responsible department or private partner involved to seek financial assistance from national government. This has highlighted the need for the National Treasury to better understand and manage fiscal risks in externally financed public projects. Identifying, assessing, managing and reporting fiscal risks and contingent liabilities have become critically important for both designing new project financing methods and monitoring and reporting on the existing portfolio.

In 2023/24, the National Treasury will issue a guidance note and a standard reporting template for fiscal commitments and contingent liabilities to help public institutions report on their PPPs. It will roll out training on how to use these tools.

MAJOR CAPITAL PROJECTS

Infrastructure Fund project pipeline

Table D.4 outlines potential blended finance projects under consideration for the Infrastructure Fund pipeline. These include building the Lanseria wastewater treatment works, building the Ngqura manganese export terminal, expanding Cape Town’s container terminal and building the student housing infrastructure programme (Cluster 1 and 3). Overall, the pipeline has a consolidated capital cost of R83.6 billion.

Table D.4 Projects at advanced stages of preparation

Project name	Project description	Estimate of potential total investment (R million)	Progress to date
Lanseria Wastewater Treatment Works	The project entails the planning, design and implementation of the Lanseria wastewater treatment works and associated bulk outfall sewer. The objective is to construct and commission a module of 50 megalitres/day (Ml/d) as part of a programme to deliver 150 Ml/day	3 400	Feasibility studies completed
Olifants Management Model Programme	Development of raw water and potable water pipelines in five phases to deliver 250 Ml/d. The project will benefit municipalities, industries and mines	24 900	Phases 2B and 2B+ have completed project preparation activities. BFI application is being packaged for the social component. Other phases are under preparation
One-Stop Border Posts	To modernise border post infrastructure to ensure efficient movement of goods and people through six inland border posts	9 100	Feasibility studies completed. Supplementary studies under way. The request for proposal was submitted in March 2022 and resubmitted in December 2022
Ngqura Manganese Export Terminal Project	Development of a world-class 16 million ton per annum (mtpa) manganese export facility at the port of Ngqura to complement 6mtpa from port of Saldanha to cater for projected demand of 22mtpa	10 000	Feasibility studies completed
Cape Town Container Terminal Expansion Project	Phase 2 was to increase the landside terminal capacity to 1.4 million twenty-foot equivalent units (TEUs) per annum, to match the "waterside" capacity. Part of the Phase 2 work was completed in 2009. This increased the landside terminal capacity from 800 000 to 1 million TEUs and was grouped as Phase 2A of the project	1 800	Feasibility studies completed
Student Housing Infrastructure Programme (Cluster 1 and 3)	The programme seeks to ensure that housing is developed into an attractive and reliable asset class for potential investors and to attract greater sources of financing into this market	5 200	Feasibility studies completed. Resolving legal arrangements with Department of Higher Education and Training

Source: Infrastructure Fund Unit and Project Preparation Division

Table D.4 Projects at advanced stages of preparation *(continued)*

Project name	Project description	Estimate of potential total investment (R million)	Progress to date
eThekwini Avoca Node Phase 2	The programme is located on a 350-hectare site in the northern corridor of the KwaZulu-Natal metro. It consists of the Brickworks, Northfield, and Caneridge developments and will provide for industrial and social housing needs	12 000	Advanced project preparation
Leeuwpoort Integrated Human Settlements Project	The project is in a 1 300-hectare site with a variety of land uses including mixed-income residential, industrial, commercial, open space, education and other amenities. It is in Ekurhuleni across three sub-township extensions: Rieger Park, Park Dene and Sunward Park	15 600	Advanced project preparation
Six water and sanitation projects	To improve the integrity of the bulk water and sanitation infrastructure in selected priority district municipalities, to improve supply reliability	1 600	Feasibility studies being completed
Total		**83 600**	

Source: Infrastructure Fund Unit and Project Preparation Division

Pipeline of other major public-sector projects

Table D.5 summarises other major public infrastructure projects, some of which are public-private partnerships.

Table D.5 Other major public-sector infrastructure projects

Project name	Project stage	Project description	Estimated project cost
Salvakop Precinct PPP Project	Feasibility	Collaborative project between the three spheres of government to build four government headquarters, commercial buildings and a shelter for the vulnerable	R18 billion
Gauteng Schools PPP Programme	Feasibility	Construction, expansion, refurbishment and facilities management of 64 schools in Gauteng	R4.7 billion
Inkosi Albert Luthuli Central Hospital PPP Project	Procurement	Design, construction, operation and provision of ICT equipment	R10.4 billion
Renewable Energy for Public Buildings	Procurement	Procurement of renewable energy and energy efficiency for public buildings	R55 billion
Kopanong Precinct PPP Project	Procurement	Construction of Gauteng Provincial Government office to consolidate administration function of 19 buildings in the Johannesburg CBD	R6.5 billion
Rural Bridges Programme	Feasibility	Construction of rural bridges invarious parts of the country	R7.8 billion
KwaMashu Wastewater Treatment Works	Feasibility	Design, finance, build and operate wastewater treatment works in KwaMashu, eThekwini Municipality	R1.2 billion
City of Cape Town Water Desalination	Feasibility	Desalination of sea water for bulk and reticulation	R2.5 billion
Comprehensive Urban Management Programme	Feasibility	Improvement and maintenance of public spaces in various cities and towns to promote economic growth	R3.3 billion
Limpopo Central Hospital PPP Project	Implementation	Construction of a new 488-bed central hospital in Polokwane, which will form part of an academic health complex attached to the University of Limpopo’s medical school	R4.5 billion
Boegoebaai Port and Rail Development PPP Project	Feasibility	Port and rail development in Boegoebaai in the Northern Cape	R13 billion
Gauteng Rapid Rail Network Extension Parts 1 and 2 (Gautrain 2) PPP Project	Feasibility	A two-phase extension of the existing Gautrain rail system	R65.4 billion
Midvaal Electricity Distribution Project	Procurement	Refurbishment and expansion of the existing distribution lines owned by the municipality	R1 billion

Table D.5 Other major public-sector infrastructure projects *(continued)*

Project name	Project stage	Project description	Estimated project cost
Solar Water Initiatives	Feasibility	Rollout of solar water heaters across the residential market through partnering with the insurance industry and banks	R6.8 billion
National Roads Programme – upgrades to existing non-concession national toll roads	Feasibility	Major upgrades to various sectionsof the N1, N2 and N3	R22 billion
Small Harbours Development Programme	Implementation	Upgrading and refurbishment of 12 proclaimed fishing harbours in the Western Cape, and nodal-based refurbishment and development of new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal	R7.1 billion
Expansion of the MyCiTi Bus Rapid Transport System in Cape Town	Implementation	Expansion of the MyCiTi bus rapid transit system network to areas including Langa, Mitchells Plain and Khayelitsha	R7.1 billion
Tygerberg Hospital	Implementation	Construction of a 550-bed regional hospital	R4.2 billion
Klipfontein Hospital	Implementation	Construction of a new hospital to replace the GF Jooste Hospital	R4.3 billion
Bravos - Berg River Voëlvlei Dam Pipeline (Western Cape)	Construction	Construction of a weir and abstraction works with a pump station on the Berg River, with a 6.3-km-long pipeline to the Voëlvlei Dam	R1 billion
Vaal River System Phase 2	Construction	Bulk water infrastructure development	R32 billion
Makhulu Crocodile Water Project	Feasibility	Bulk water infrastructure development	R15 billion
Olifants Economic Development Project	Various stages	Bulk water infrastructure development	R20 billion

Source: National Treasury

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