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# 2024 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 provides a review of planned public infrastructure spending and broader infrastructure reforms, including updates on the public-private partnership (PPP) regulatory framework amendments and the status of major capital projects.

Government seeks to facilitate a shift in the quantity and quality of infrastructure delivery by mobilising private-sector financing and technical expertise at scale. Several reforms are under way 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 PPP regulatory framework, reviewing the institutional arrangements to fast-track delivery of strategic infrastructure, improving the operations of the Infrastructure Fund, enhancing infrastructure monitoring and reporting (including on contingent liabilities), 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.

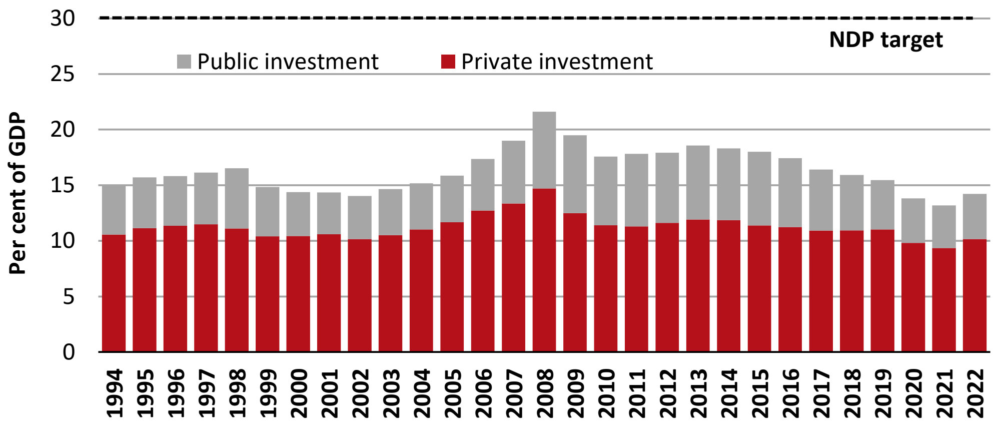
In this annexure, blending is defined as the strategic use of limited funds from the fiscus to mobilise financing from multilateral institutions, development finance institutions and the private sector to enhance the development impact of infrastructure.

## TRENDS IN PUBLIC- AND PRIVATE-SECTOR INVESTMENT

In 2022, both public- and private-sector investment increased as a percentage of GDP. Public-sector capital investment increased from 3.8 per cent in 2021 to 4.1 per cent in 2022, while private-sector capital investment rose from 9.3 per cent to 10.2 per cent of GDP. Yet, much faster growth is needed to expand the economy and reduce unemployment and poverty.

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. Between 2012 and 2022, public-sector capital investment averaged 5.4 per cent of GDP, while private capital investment averaged 10.9 per cent of GDP (Figure D.1). Higher total investment, measuring 14.2 per cent of GDP in 2022, remains well below the National Development Plan target of 30 per cent. To reach this target, public-sector investment in infrastructure would need to grow to 10 per cent of GDP by 2030, while private-sector investment would need to grow to 20 per cent in 2030. Bridging the infrastructure investment gap requires developing innovative approaches to leverage private-sector finance, making the necessary regulatory changes and improving infrastructure planning across government to build a pipeline of projects. To unlock this potential, government has initiated broad reforms in infrastructure provision, discussed later in the annexure, to support economic recovery.

**Figure D.1 Public- and private-sector capital investment as a share of GDP, 1994–2022***




**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 at national, provincial and local government level, including state-owned companies and other public entities. Public-sector infrastructure spending over the 2024 medium-term expenditure framework (MTEF) period is estimated at R943.8 billion. State-owned companies continue to be the largest contributor to capital investment, spending a projected R374.7 billion over the next three years. Provinces are expected to spend R183.7 billion on infrastructure over the same period, while municipalities are forecast to spend R213.8 billion.

Public housing built through the *human settlements development grant* in provinces is expected to total R43.7 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 81.4 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 15.7 per cent of the total, with the two largest sectors, health and education, contributing 4.3 per cent and 6 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 that promote sustained economic growth. Higher and more effective infrastructure spending is central to this plan.

**Table D.1 Public-sector infrastructure expenditure and estimates**

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | MTEF |
|---|---|---|---|---|---|---|---|---|
| R billion | Outcomes | | | Revised estimate | Medium-term estimates | | | Total |
| Energy | 30.0 | 35.5 | 38.7 | 54.8 | 58.5 | 70.5 | 74.8 | 203.8 |
| Water and sanitation | 29.5 | 30.6 | 35.4 | 43.8 | 53.2 | 57.6 | 50.1 | 160.9 |
| Transport and logistics | 58.6 | 65.9 | 86.4 | 97.4 | 106.4 | 115.1 | 118.4 | 340.0 |
| Other economic services | 6.9 | 21.8 | 18.9 | 23.5 | 20.3 | 21.4 | 21.7 | 63.4 |
| Health | 14.7 | 16.4 | 11.9 | 14.5 | 13.4 | 13.6 | 13.9 | 40.8 |
| Education | 14.2 | 14.5 | 21.1 | 20.8 | 20.1 | 17.8 | 18.4 | 56.4 |
| Human settlements[1] | 13.3 | 13.4 | 14.3 | 13.8 | 14.2 | 14.7 | 14.9 | 43.7 |
| Other social services | 4.1 | 2.2 | 3.3 | 3.2 | 2.6 | 2.2 | 2.3 | 7.0 |
| Administration services[2] | 12.1 | 12.0 | 9.0 | 9.0 | 8.9 | 9.4 | 9.5 | 27.8 |
| **Total** | **183.4** | **212.3** | **238.8** | **280.7** | **297.5** | **322.2** | **324.1** | **943.8** |
| National departments | 11.4 | 12.5 | 13.2 | 16.5 | 14.3 | 13.0 | 13.8 | 41.1 |
| Provincial departments | 51.8 | 57.7 | 60.1 | 63.9 | 63.4 | 60.0 | 60.4 | 183.7 |
| Local government | 55.6 | 62.1 | 64.7 | 68.4 | 67.9 | 71.3 | 74.5 | 213.8 |
| Public entities[3] | 8.8 | 20.2 | 26.8 | 29.8 | 32.7 | 37.4 | 41.3 | 111.4 |
| Public-private partnerships | 4.9 | 6.5 | 6.0 | 6.3 | 6.3 | 6.4 | 6.4 | 19.1 |
| State-owned companies[3] | 50.8 | 53.4 | 67.9 | 95.7 | 112.9 | 134.2 | 127.7 | 374.7 |
| **Total** | **183.4** | **212.3** | **238.8** | **280.7** | **297.5** | **322.2** | **324.1** | **943.8** |

*1. Human settlements includes public housing and bulk infrastructure amounting to R43.7 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 R139.1 billion. The projects are expected to create about 20 000 jobs during construction and 14 000 jobs during the operational phases. Details on some of the projects are provided below.

The second phase of the Lesotho Highlands Water Project, which has an estimated capital investment of R42.1 billion, is expected to be completed in 2028. The Trans-Caledon Tunnel Authority (TCTA) has raised about R20 billion from the Development Bank of Southern Africa, the African Development Bank and the New Development Bank, among others. Construction is under way for the three main contracts (the Polihali Dam, the transfer tunnel from Polihali to Katse Dam and the Senqu Bridge).

The second phase of the Mokolo-Crocodile River Water Augmentation Project has an estimated capital investment of R12.3 billion and is expected to be completed in 2028. Funding proposals from development finance institutions and capital markets have been evaluated and negotiations of loan agreements with preferred funders are at an advanced stage. Construction is expected to start by July 2024.

The uMkhomazi water augmentation project has an estimated capital investment of R25 billion and construction is expected to be completed in 2032. The National Treasury approved an application for R12 billion through the Budget Facility for Infrastructure (BFI) to improve affordability of the project. Credit enhancement mechanisms are being used to crowd in private-sector investment. The institutional arrangements and water supply agreements are being negotiated.

The second phase of the Olifants River Water Resources Development Project has an estimated capital investment of R25 billion and is expected to be completed in 2030. The Department of Water and Sanitation has appointed Lebalelo Water User Association to implement this phase.

The Mzimvubu Water Project has an estimated capital investment of R14.7 billion and is expected to be completed in 2030. The Department of Water and Sanitation has undertaken a technical review to reconfigure the project. In the meantime, funding has been made available to build advance works like access roads and water supply.

The Berg River-Voëlvlei Augmentation Scheme has an estimated capital investment of R1.1 billion and is expected to be completed in 2027. Water supply agreements between the Department of Water and Sanitation and municipal and irrigation users have been signed. Funding proposals from financing institutions have also been evaluated by the TCTA and loan negotiations are at an advanced stage. Professional service providers are being procured and tenders for construction contractors are expected to go out in 2024, for construction to start by the middle of 2025.

## Energy

The overarching Independent Power Producer Procurement Programme has resulted in agreements for more than 8 000 megawatts (MW) of new generation capacity, totalling more than R270 billion in investment.

Seven of the 11 preferred bidders under the Risk Mitigation Independent Power Producer Procurement Programme had signed agreements for projects totalling 578 MW by the end of December 2023.

The fifth bid window of the Renewable Energy Independent Power Producer Procurement Programme focused on onshore wind and solar photovoltaic (PV) projects. In November 2021, 25 preferred bidders were announced, with projects totalling 2 583 MW in generation capacity and investment of about R50 billion. Twelve of these projects, totalling 1 234 MW, had reached commercial close by December 2023.

The sixth bid window resulted in the procurement of 1 000 MW of solar PV from six preferred bidders. The projects are expected to reach commercial close by June 2024 and the total investment is expected to be about R15 billion. Grid constraints prevented the allocation of any wind projects.

The seventh bid window of the Renewable Energy Independent Power Producer Procurement Programme was launched in December 2023 for 5 000 MW of new generation and storage capacity, alongside the second bid window for 615 MW of battery storage capacity and the first bid window for 2 000 MW under the Gas Independent Power Producer Procurement Programme. These programmes aim to alleviate electricity supply constraints, support economic recovery, reduce the use of diesel-based peaking electrical generators and support broad-based black economic empowerment initiatives. It is anticipated that they will be awarded during 2024/25 and result in total investment of over R180 billion between 2026 and 2029, provided by private-sector investors. However, low grid capacity will affect where projects are located and when they become operational, especially for renewable energy.

Four preferred bidders were announced in December 2023 under the first bid window for 513 MW of battery storage capacity. These projects, which are expected to result in investment of about R11 billion, are expected to reach financial close by the second quarter of 2024.

The previous Embedded Generation Investment Programme, SIP20c, was amended in December 2022 to include all embedded generation projects with a value above R1 billion (about 50 MW and above). More than 100 private-sector-driven projects with a total capacity of 9 000 MW have been identified by the Minerals Council South Africa. Three large qualifying embedded generation projects from mining houses have already been registered as strategic integrated projects and are receiving support from Infrastructure South Africa, with more to be registered. These registered projects have an investment value of more than R40 billion.

## 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. Five projects worth about R2.5 billion have been completed, including the N1 Windburg Interchange to Windburg Station in the Free State, the N1 Musina Ring Road in Limpopo, the N1 Polokwane Eastern Ring Road Phase 2 in Limpopo, the N1 Ventersburg to Kroonstad in the Free State, and the N2 Mtunzini Toll Plaza to Empangeni T-Junction in KwaZulu-Natal.

Under Project Ukuvuselela, the Gauteng-Eastern Cape high-capacity rail freight corridor for automotive volumes was gazetted in December 2022. The project is a catalyst for a R16 billion investment by Ford Motor Company SA in the City of Tshwane and will facilitate the upgrading of the port of Gqeberha. The project aims to stimulate the automotive industry, which has been negatively affected by capacity constraints in the port of Durban and poor performance on the ConCor rail link. The high-capacity rail freight line is an expansion of the existing SouthCor rail infrastructure, which extends from Waltloo and Kaalfontein in Gauteng to Gqeberha through the Free State and the Eastern Cape.

## Digital infrastructure

The digital infrastructure sector consists of 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 increase the availability and use of earth observation data. The South African National Space Agency launched the Space Weather Centre (with a project value of R107.5 million), which provides 24/7 space weather forecasting and alerts to Africa.

In addition, the agency signed an agreement with the National Aeronautics and Space Administration (NASA) to use the Matjiesfontein ground station for its upcoming Artemis programme. The Matjiesfontein ground station, which is a key component of the Space Infrastructure Hub, will host NASA's Lunar Exploration Ground Sites antenna, which will be used for deep space communication as part of the Artemis programme.

## Agriculture and agro-processing

In partnership with multilateral development banks, 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 to develop two agri-parks in the Free State and the North West. These pilot studies will be used to champion the revitalisation of the Rural Infrastructure Agri-Parks Programme and facilities to support access to fresh produce and other markets.

To help improve rural employment, support industrialisation by smallholder farmers and support economic development in rural areas, the department will continue to implement the agri-parks model, which creates socioeconomic infrastructure including farmer production support units, agri-hubs and irrigation schemes. The model will create capacity in agro-processing and industrialisation value chains for broad-based job creation and market access. The department aims to coordinate 62 infrastructure projects at an estimated cost of R2.1 billion over the MTEF period.

## Human settlements

The human settlements portfolio has 17 strategic integrated projects: six integrated residential development programmes, nine social housing projects, and two high-impact private-sector-led developments. Together, these projects have a total investment value of R143 billion and will provide housing for over 150 000 people. The portfolio is projected to create over 285 000 jobs during development.

In Gauteng, eight projects within the portfolio have delivered just over 7 000 housing units to date. Four of the nine social housing projects have completed construction, resulting in the creation of 573 social housing units. Three other social housing projects are under construction and are expected to be completed in 2024. To fund the large-scale bulk infrastructure required, government is exploring alternative blended finance models to reduce pressure on the fiscus and provide additional support to municipalities.

To promote the development and delivery of spatially integrated human settlements, the Department of Human Settlements will finalise 15 integrated plans over the medium term to guide the implementation of projects within the 136 nationally declared priority development areas. In collaboration with provinces and municipalities, the department will deliver 129 663 subsidised houses and issue 36 046 title deeds to beneficiaries from low-income households, through an allocation of R44 billion to the *human settlements development grant*. A further R27.8 billion is allocated to the *urban settlements development grant* for metropolitan municipalities to implement bulk and related infrastructure projects.

## PUBLIC-SECTOR INFRASTRUCTURE REFORMS

Over the past few years, the National Treasury has led reforms to strengthen the identification and prioritisation of projects, project planning and appraisal, funding, procurement and implementation readiness of the infrastructure project pipeline.

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. The National Treasury is leading the review of the setup of the institutional value chain; the DPWI is developing the second phase of the National Infrastructure Plan, focusing on distributed infrastructure aimed at making services more accessible to businesses and communities; 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.

### Review of South Africa’s infrastructure delivery ecosystem

The National Treasury is leading a new initiative to review the institutional arrangements for strategic infrastructure with the aim of fast-tracking the delivery of projects. This also includes developing an overarching public investment management (PIM) policy, which will establish a comprehensive, effective and efficient approach to public investment including PPPs and other blended finance projects. The expected outcomes are clearer institutional arrangements to deliver strategic infrastructure and a streamlined PIM system leading to a stronger pipeline of credible infrastructure projects; faster, more efficient and cost-effective delivery of infrastructure; and greater access to various forms of financing, including more private-sector investment. These measures are also expected to unlock prioritised PPP projects, including those that embed blended financing mechanisms, such as social infrastructure projects.

### 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.

## Budget Facility for Infrastructure

The BFI is a multi-disciplinary facility for large infrastructure projects to be appraised, evaluated and linked to the budget system for the allocation of resources. It brings together experts across government to make recommendations on the technical feasibility and readiness of infrastructure projects. By improving the planning, technical assessment, budgeting and execution of large infrastructure projects, the BFI supports quality public investments. The facility has helped build a pipeline of projects that have undergone rigorous technical analysis.

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 BFI provides detailed guidance and planning parameters for projects. The National Treasury developed an appraisal and evaluation guideline to complement the work of the BFI. The guideline and associated tools have increased the quality of proposals to the BFI and provided data that incentivises private-sector participation in public-sector infrastructure projects. The facility ensures that the budgeting and commitment of fiscal resources takes place in a transparent manner. Furthermore, the BFI has a comprehensive database of projects and programmes showing their risk and return profiles.

Since inception, there have been seven BFI windows, with R37.6 billion allocated in the last two windows. To improve the preparation and packaging of projects, the BFI has enabled the establishment of project preparation facilities. Projects that require preparation assistance from the BFI are referred to these facilities.

The seventh window of the BFI showed 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, over R4.9 billion was approved for project funding in the 2024 MTEF period. The approved projects and programmes include the Western Cape Rapid Schools Programme and the Olifants Management Model Programme 2B and 2B+.

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 that can be added as a multi-year appropriation schedule in the budget documents.

## Improving transparency in 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 by providing project details so that infrastructure budgets can be analysed and spending can be reviewed across all spheres of government. National government has begun phasing in the reporting model, which will be fully institutionalised by March 2025. Support measures such as training are available to assist government in improving data collection and reporting. Selected municipalities will pilot the use of a customised infrastructure reporting model during 2024/25 before it is rolled out more broadly. From the 2024 MTEF period, public entities will also be required to use this reporting model. When fully functional, the model will 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. Since its establishment, the fund has made significant progress in supporting the financing of infrastructure. To date, it has assisted in packaging and financing 14 blended finance projects and programmes, with a capital value of R57.8 billion. Table D.2 summarises these projects and programmes. Of this, R25.7 billion has been approved through the BFI, R34.5 billion is expected to be raised from the private sector and R6.7 billion is expected from other grants.

This funding support comes in diverse instruments such as grants, mostly for the human settlements, water and sanitation, and student housing projects due to their social nature. The Olifants management model programmes used concessional finance to close the financial viability gap and attract private-sector investment.

To complement the fiscal resources, the Infrastructure Fund is working with project sponsors on 10 projects and anticipates attracting private financing to the value of R25.9 billion.

**Table D.2 Blended finance 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 | 88 | – | 300 | Construction |
| Human settlements | Goodwood Station Social Housing Project | 1 055 | 457 | 152 | – | 305 | Construction |
| Human settlements | Midrand Heights Social Housing Project | 305 | 163 | 64 | – | 99 | 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 |
| Water and sanitation | Olifants Management Model Programme Phase 2B and 2B+ | 95 995 | 9 400 | 4 000 | 4 929 | 471 | Financing |
| Transport | Ports of entry | 6 | 9 100 | – | 9 100 | – | Procurement |
| Student housing | Tshwane University of Technology | 3 500 | 1 089 | 338 | 210 | 541 | Financing and 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 | Financing and awaiting ministerial approval |
| Student housing | Majuba TVET College | 1 500 | 477 | 174 | 103 | 200 | Financing and awaiting ministerial approval |
| **All sectors** | **Total** | | **66 950** | **25 704** | **34 489** | **6 757** | |

*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

In 2022, the National Treasury began implementing recommendations from the comprehensive review of the PPP regulatory framework to the three spheres of government. Recommendations are being implemented to improve the PPP policy, legal and regulatory framework; strengthen institutional arrangements; and improve the reporting of fiscal risks and contingent liabilities. The changes are expected to catalyse higher confidence and investment in PPPs as well as greater private-sector participation.

The National Treasury has drafted amendments to the National Treasury Regulation 16 and the Municipal Regulation 309, which govern PPPs. In this financial year, it will publish these amendments for public comment. The amendments will reduce procedural complexity in PPP implementation by fixing regulatory gaps, streamlining institutional relationships across the PPP project cycle, making it easier for the private sector to engage with investment opportunities, strengthening fiscal risk governance and re-energising the development of a bankable pipeline of transactions to mobilise private capital.

The National Treasury is working on various enabling mechanisms to support the legislative amendments. This includes:

- **Policy framework:** The PPP ecosystem is being reviewed as part of a larger reform programme, as discussed above.
- **Strengthening institutional arrangements:** In the 2023 Budget, the National Treasury indicated its intention to establish a centre of excellence by bringing together the PPP unit in the Government Technical Advisory Centre and the Infrastructure Fund housed in the Development Bank of Southern Africa. A business case is being developed for the centre's establishment. The centre will assist institutions with capacity, skills and standardised templates. The National Treasury will strengthen the capacity of the regulatory function, which oversees and approves all PPPs, as this function is important for gatekeeping, timely approvals, transparency and fiscal oversight.
- **Financial support mechanisms:** Options are being reviewed to bridge the affordability gap for PPP projects through budget processes. Funding mechanisms and other interventions need to be in place early to minimise delays in moving projects from contract to financial close.

The following amendments will be issued for public consultation in this financial year:

**Table D.3 Proposed PPP legislative amendments**

| Amendment | Effect of amendment |
|---|---|
| **Create two pathways for PPPs: one for high-value projects and a simplified version for low-value (<R2 billion) projects** | |
| Regulation 16.5: Procurement Treasury Approvals IIA and IIB<br>• Establish a mechanism for exempting low-value projects from the requirement to obtain Treasury Approvals IIA and IIB. | • Reduce the administrative burden on smaller PPP projects.<br>• Accelerate the commencement of smaller PPP projects. |
| **Structure a disclosure regime to identify, manage and report fiscal commitments and contingent liabilities (FCCL) throughout the PPP value chain** | |
| Regulation 16.4: Feasibility study – Treasury Approval I<br>• Provide clear guidelines for the consideration of FCCL during the feasibility study.<br>• Require an FCCL assessment as part of the feasibility study report. | • Start the assessment of FCCL at the feasibility study phase, as the first step to tracking the impact of FCCL in the PPP value chain. |
| Regulation 16.5.4: Procurement<br>• Amend the regulation to continue the FCCL assessment as part of the value-for-money report (Treasury Approval IIB). | • Continues the assessment of FCCL at the value-for- money report phase, as the next step to tracking the impact of FCCL on the project. |
| Regulation 16.6: Contracting PPP agreements – Treasury Approval III<br>• Require an FCCL assessment at the PPP agreement contracting phase and annual FCCL reporting during the term of the PPP agreement. | • Provide for the continued tracking of the FCCL assessment and its impact on the institution during the PPP agreement contracting phase. |
| **Encourage the continuation of projects that meet specific indicators** | |
| Regulation 16.4: Feasibility study –Treasury Approval I<br>• Provide a framework and clear guidance for the continuation of PPP projects at TA I when specific indicators such as value for money, risks transfer, and affordability are met. | • Enhance transparency and responsible decision-making by requiring PPP projects to continue once specific indicators are met. |

**Table D.3 Proposed PPP legislative amendments *(continued)***

| Amendment | Effect of amendment |
|---|---|
| **Streamline the application process to amend PPP agreements** | |
| Regulation 16.8: Amendment and variation of PPP agreements | |
| • Provide clear guidelines to assess the materiality of proposed amendments to PPP agreements so that only significant amendments are approved by the relevant treasury. | • Standardise the assessment and approach to determining the materiality of amendments. |
| **Build procedural efficiencies and accelerate project development** | |
| Regulation 16.10: Exemptions | |
| • Establish a process that describes the application and re-application process for exemptions from Treasury Regulation 16 as well as the reporting obligations for granted exemptions. | • Provide clarity on applying for exemption from the regulation. |
| | • Strengthen oversight and transparency through periodic reporting to the relevant treasury, promoting accountability of the institution with respect to its exemption. |
| **Design a clear framework for unsolicited proposals and make it easier for the private sector to pursue projects under clear rules and incentives** | |
| Regulation 16.11: Unsolicited bid proposals (USPs) | |
| • Establish rules and guidelines governing USPs in relation to PPP projects, separately from the existing National Treasury Practice Note No.11. | • Ensure the entire value chain is regulated in relation to USPs for PPP projects. |
| • Provide a clear and standardised regulatory framework for processing USPs in relation to PPP projects by setting out the submission process and how these proposals are processed, evaluated and accepted. | • Clarify the roles, responsibilities and incentives for proponents of USPs. |
| • Provide for clear guidelines on the procurement of the USP PPP projects and the reintegration of a USP into the ordinary operation of Treasury Regulation 16. | • Provide clear management and oversight rules for accounting officers and treasuries. |

*Source: National Treasury*

## CONTINGENT LIABILITIES

The private sector will generally participate in public-sector projects where there is potential for a good return on their investment or where these projects can be supported by government guarantees. Most national and provincial PPPs are guaranteed by the Minister of Finance and create a contingent liability. Contingent liabilities are incurred if the contingency is likely to occur and the amount of the liability can be reasonably estimated. 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 ensures that contingent liabilities arising from contracts are acceptable and monitors these liabilities using a four-stage approval process. The legislative amendments to Regulation 16 will strengthen the reporting requirements and compliance relating to fiscal risks and contingent liabilities.

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.4 shows potential termination amounts for national and provincial departments and public entities. Total contingent liabilities amount to R14.2 billion for 2023/24.

**Table D.4 Contingent liabilities by category[1]**

| R million | Termination for private party | | Termination for force majeure | | Termination for government default | |
|---|---|---|---|---|---|---|
| | 2022/23 | 2023/24 | 2022/23 | 2023/24 | 2022/23 | 2023/24 |
| National departments' exposure | 2 880.9 | 2 722.3 | 3 262.3 | 3 093.2 | 3 882.9 | 3 832.7 |
| Provincial departments' exposure | 1 030.9 | 455.1 | 687.7 | 709.6 | 3 307.0 | 2 720.7 |
| Public entities' exposure | 255.4 | 217.1 | 216.5 | 184.1 | 320.7 | 272.6 |
| **Total** | **4 167.2** | **3 394.5** | **4 166.5** | **3 986.9** | **7 510.6** | **6 826.0** |

*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 R7.5 billion in 2022/23 to R6.8 billion in 2023/24. 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 R3.8 billion in 2023/24. 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

The COVID-19 pandemic demonstrated the importance of monitoring fiscal risks and contingent liabilities as projects that relied on steady growth in their business models, particularly in the tourism and transport sectors, experienced steep revenue reductions. This in turn caused the responsible department or private partner involved to seek financial assistance from national government. This experience 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.

The legislative amendments outlined above enable the reporting and monitoring of these fiscal risks and contingent liabilities. The National Treasury will provide the necessary templates and training to enable institutions to report regularly on their financial commitments and contingent liabilities from PPP projects.

## PPP projects going to the market

There has been an uptake of PPPs in 2023/24, with 15 projects at the inception phase and 19 projects at the feasibility study phase. Six projects have completed feasibility studies and 10 projects are ready to start the procurement process. This demonstrates public-sector institutions' continued interest in the PPP market. Given the budget constraints, the PPP mechanism offers an alternative option for institutions to tap into private-sector financing and expertise.

Additionally, the amendments to the PPP regulatory framework will enable greater private-sector participation in public-sector infrastructure projects by reducing the procedural complexity in implementing PPPs. The creation of two pathways for PPPs, one for high-value projects and a simplified version for low-value projects, will incentivise the commencement of smaller PPP projects.

Brief details on some notable projects are outlined below.

*Redevelopment of ports of entry project*

The project aims to reduce delays experienced by passengers and vehicles at six inland borders that South Africa shares with its neighbouring countries. This will facilitate the efficient movement of goods to improve regional trade. The Department of Home Affairs will enter into a PPP agreement with a private party to design, build, operate and finance the redevelopment of six ports of entry: Beitbridge – Zimbabwe, Lebombo – Mozambique, Maseru Bridge – Lesotho, Kopfontein – Botswana, Ficksburg – Lesotho and Oshoek – Eswatini.

A request for proposals was published on 3 September 2023 inviting the private sector to submit bids by 4 March 2024.

*Gautrain Rapid Rail Link System*

The Gautrain Rapid Rail Link System is an 80-kilometre rapid rail system in Gauteng, linking the cities of Johannesburg, Tshwane and Ekurhuleni. The current Gautrain concession ends in March 2026. The provincial government intends to implement new arrangements to ensure continuity of the current service while improving the quality, affordability, accessibility and sustainability of the system.

The National Treasury has approved the procurement documents, and the request for proposals was issued in November 2023.

*Inkosi Albert Luthuli Central Hospital*

The Inkosi Albert Luthuli Central Hospital is an 846-bed referral hospital that serves the whole of KwaZulu-Natal and part of the Eastern Cape by providing medical services. The 15-year PPP agreement is coming to end and the provincial government is undertaking a new PPP arrangement to ensure continuity of the current service while making improvements to the system. The project will reach financial closure in 2024/25.

## MAJOR CAPITAL PROJECTS

### Infrastructure Fund project pipeline

Table D.5 outlines possible blended finance projects under consideration by the Infrastructure Fund. Most of these projects will be submitted for funding consideration to the BFI. If approved, the BFI may provide gap funding or structure other financing instruments for them.

**Table D.5 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 Ml/day (Ml/day) as part of a programme to deliver 150 Ml/day | 3 400 | Finalising feasibility study |
| Alternative Waste Treatment Technology | The project aims to divert at least 500 000 or 31 per cent of the 1.6 million tonnes of municipal solid waste that is produced in Johannesburg per year for disposal at landfill sites | 5 200 | Finalising feasibility study |
| 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 | Finalising feasibility study |
| Cape Town Container Terminal Expansion Project | Phase 2 was to increase the landside terminal capacity to 1.4 million twenty-foot equivalent unit (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 | Finalising feasibility study |
| Student housing Infrastructure Programme (Cluster 1 and 3) | The programme seeks to ensure that student 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 | Finalising feasibility study |
| **Total** | | **25 600** | |

**Table D.5 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 metro in KwaZulu-Natal. It consists of the Brickworks, Northfield and Caneridge developments with an intention to provide for industrial and social housing needs in the area | 12 000 | Advanced project preparation |
| Nelson Mandela Bay N2 Nodal | The programme is situated in the western areas of Gqeberha along the N2 node in the Eastern Cape. It consists of residential and non-residential components and bulk services to be delivered around the Baywest Mall. It will deliver a mix of land uses including residential units across different market segments (fully subsidised to upper-middle range private developments), large-scale retail and commercial facilities | 19 700 | Early project preparation |
| Southern Farms Human Settlements Project | The development has capacity to deliver a smart city with 11 014 dwelling units for over 8 000 poor families and 3 000 middle-class families, retail facilities, transport hub, offices, hotel, light industrial centre, agricultural area, recreational area, educational facilities and health facilities | 9 700 | Finalising feasibility study |
| **Total** | | **67 000** | |

**Table D.5 Projects at advanced stages of preparation *(continued)***

| Project name | Project description | Estimate of potential total investment (R million) | Progress to date |
|---|---|---|---|
| Leeuwpoort Integrated Human Settlements Project | The project is in a 1 300 hectare (ha) 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 | Finalising feasibility study |
| First Land Mixed Use and Agri-hub | The project is a mixed-use development by Atterbury, which aims to develop a state-of-the-art fresh produce hub and agri-hub for Gauteng | 10 762 | Finalising feasibility study |
| Eskom Just Transition Programme – Transmission | The project aims to construct more than 5 800 km of transmission infrastructure around the country by 2031 | 131 000 | Early 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 |
| Tygerberg Central Hospital | Construction of an 893-bed hospital | 5 200 | Procurement |
| **Total** | | **189 762** | |

*Source: Infrastructure Fund Unit and Project Preparation Division*

## Pipeline of other major public-sector projects

Table D.6 summarises other major public infrastructure projects, some of which are public-private partnerships.

**Table D.6 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 |
| 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 in various 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 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 | Procurement | 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.6 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 sections of 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 Transit System in Cape Town | Implementation | Expansion of the MyCiTi Bus Rapid Transit system in Cape Town | 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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