



GUIDELINE ON BUDGET SUBMISSIONS FOR LARGE STRATEGIC INFRASTRUCTURE PROPOSALS

April 2021

INTRODUCTION

The Budget Facility for Infrastructure (BFI) was introduced in 2016 as a reform to the budget process. It supports the execution of national priority projects and programmes by establishing specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending. As directed by Cabinet, National Treasury is working jointly with other stakeholders to support the development of a robust pipeline of infrastructure projects. The aim is to support quality public investments through robust project appraisal, effective project development and execution and sustainable financing arrangements.

The call for submissions has been divided into two parts as follows:

A. 2021 Adjustments Budget: Submissions from public institutions¹ in support of large infrastructure projects and/or programmes that require budget allocations in the 2021/22 Adjustment Budget are invited. The proposal should consist of a primary submission and supporting documentation. The closing date for submissions is 31 May 2021.

B. 2022 MTEF: Submissions from public institutions in support of large infrastructure projects and/or programmes that require budget allocations in 2022/23 and over the MTEF are invited. The proposal should consist of a primary submission and supporting documentation. The closing date for submissions is 30 June 2021.

The facility will only consider submissions from public institutions in respect of infrastructure proposals that are:

1. Clearly identified as a national priority by the Presidential Infrastructure Coordinating Commission and designated as Strategic Integrated Projects with written support from the relevant national department(s).
2. Very large (a minimum total project cost of R1 billion for projects and R3 billion for programmes) and strategic interventions. These are interventions that imply a significant commitment of fiscal resources and which will have substantial long-term impacts on economic growth, social equity and employment creation.

¹ Public institutions include National, Provincial, Municipal spheres of government as well as Public Entities.



3. Projects and programmes to be submitted must be in the following sectors: Energy, Water and Sanitation, Transport, Communications, Human Settlements, Agriculture and Agro-processing, Health, Education and Municipal infrastructure.

Smaller capital projects, programmes or asset acquisitions that are below the specified threshold (R1 billion for projects and R3 billion for programmes) will not be considered by the facility, and should form part of the institution's main budget submission in terms of the main MTEF guidelines available at <http://www.treasury.gov.za/publications/guidelines> that will be published later this year. Further guidance on planning and budgeting for capital spending is provided in National Treasury's *Capital Planning Guidelines*, available on the same page.

Public institutions that require guidance in preparing the submission pack for the projects/programmes should contact: infrastructure@treasury.gov.za

The facility will conduct a rigorous independent appraisal of the technical merits of the submission. This will assess the proposal's alignment with national priorities, value-for-money, socio-economic rationale, affordability, risk profile and readiness for implementation.

- i) For proposals submitted **for the 2021 Adjustments Budget**, the facility will prepare a recommendations report for consideration by the relevant budget committees and approved by the Minister of Finance in line with section 30(2)(b) of the PFMA and section 6(1)(b) of the Appropriation Act 2021.
- ii) For proposals submitted **for the 2022 MTEF**, the facility will prepare a recommendation report for consideration by the Medium Term Expenditure Committee (MTEC) and the Ministers' Committee on the Budget (MINCOMBUD). The project sponsor will be invited to engage on the draft recommendations report before it is presented to MTEC.

All proposals that require direct budget support in both the 2021 Adjustments Budget and the next fiscal year (2022/23) must be shovel ready (immediate procurement, contracting and construction). Their appraisal and evaluation will be subject to the specific requirements outlined below.

Any queries in respect of these guidelines can be addressed to infrastructure@treasury.gov.za

PRIMARY SUBMISSION

The primary submission is a concise summary of the proposal not longer than 20 pages. It is a high-level business case that clearly explains how the proposal meets the criteria of being a national priority, the problem that the intervention intends to address, the alternatives that have been considered to solve the problem, and the assumptions, constraints, risks, costs, and timeframes associated with implementing a chosen solution. It should also include a written recommendation for support from the relevant national department.



Proposals that fail to complete the primary submission in terms of the guidance provided in this note will not go through the technical assessment process and funding will not be considered for such proposals.

The primary submission should be an overview of the following elements which are described in more detail in the next section.

1. A description of the project or programme, project stage and justification of why it is regarded as a national priority.
2. A brief description of the prioritisation and approval process undertaken by the sponsoring institution resulting in the project or programme being a national priority and a clear justification or rationale for the proposal.
3. The objectives, outcomes and targets that the proposal seeks to achieve.
4. A summary of other options that have been considered and could achieve the same objectives, and an explanation of the preferred choice.
5. A social and economic analysis, including estimates of economic costs and benefits associated with the intervention and anticipated social and distributional impacts.
6. A budget statement for the proposal, which includes a financial and funding model, cash flow projections, a statement of capital, maintenance and, operating costs as well as other budget requirements of the intervention over its full lifecycle.
7. The main risks – including technical, financial, economic, social, political and any other risks.
8. The procurement plan associated with the proposal.
9. A statement of institutional and operational readiness to implement the proposal.

SUPPORTING DOCUMENTATION AND DETAILED APPRAISAL BY THE PROJECT SPONSOR

The Public Finance Management Act (PFMA) requires all accounting officers to have a system for properly evaluating major capital projects prior to making final decisions. The Framework for Infrastructure Procurement and Delivery Management (FIPDM) sets out a control framework for infrastructure planning and delivery by prescribing the minimum standards for a concept note, pre-feasibility or a feasibility report. The National Treasury's *Capital Planning Guidelines* provide general guidance on planning and appraising infrastructure proposals.

In line with these requirements, all the documentation and data that supports the project/programme proposal should be attached to the primary submission in electronic format. For projects/programmes that are deemed to be shovel-ready, it is assumed that a feasibility study covering the financial, economic, social and institutional appraisal of the project has been completed and this should be attached to the primary submission. **The supporting documentation cannot substitute for the primary submission.** However, the supporting documentation will also be subject to the assessment process



conducted by the BFI and the primary submission should refer to the supporting documentation, where necessary.

ELEMENTS OF THE PRIMARY SUBMISSION

The primary submission is a concise summary of the proposed project or programme, not longer than 20 pages. It should provide sufficient evidence to support the conclusions and recommendations in the proposal. Assumptions should be presented clearly and transparently. It should provide easy and accessible data sources through which the reader can verify calculations and supporting evidence.

The following elements must be included:

1) DESCRIPTION

The project description is a brief summary of key information that includes the name, location, duration, objective, outputs and other main features of the project. It briefly describes the process followed in ranking and prioritisation of the project/programme resulting in it being a national priority. It should also contain the details of the sponsoring entity (which can be a national department, provincial department, municipality or public entity); the legal mandate under which the implementing institutions operate; the name and contact details of the project officer within the sponsoring entity and the details of other institutions (such as public entities or other spheres of government) involved in the project.

2) JUSTIFICATION

The purpose of the justification statement is to explain the need for the proposal at the highest level in a clear, coherent and logical manner. It should explain why the proposal is a national priority and motivate the justification for shifting resources from other pressing needs to this activity.

The rationale for the intervention includes the following steps:

- The Project Sponsor must first identify and state the problem in a clear and precise manner. A precise definition of the problem that is to be solved by the proposal is vital to the appraisal, planning, implementation and successful completion of the project. This should lead to a clearly identified need that the proposal seeks to address.
- Why the intervention is likely to be cost-effective (i.e. that the benefits of intervention will exceed the costs).
- A description of the potential beneficiaries of the project and an explanation for their selection over others.
- The negative consequences and risks associated with the intervention, as well as the results of not intervening, both of which must be outweighed by the benefits to justify action.



3) OBJECTIVES

This section should clearly set out the desired objectives and outcomes of the intervention. The purpose of this section is to clearly define what successful implementation will look like, by answering the following questions:

- What are we trying to achieve?
- What will be the contribution of the intervention to the economy and society in general?
- What would constitute a successful outcome or set of outcomes?

Objectives should be expressed in general terms so that the range of options to meet them can be considered. Objectives should be defined in such a way that progress toward meeting them can be monitored. Measureable indicators that illustrate when these objectives have been met should be suggested. They should be focussed on the factors that are critical to success, and reflect the eventual benefits to society that the project will generate.

It is also important to identify project outcomes that are directly related to the Project Objective(s). A common mistake made by Project Sponsors is when broad economic impacts are considered in the analysis, which are not directly aligned with the specific objective(s) of the project. While any infrastructure project will create employment, not every project will be economically feasible and, therefore, sustainable. The task is to identify economically feasible projects that will create sustainable employment opportunities. For the purposes of meeting government's socio-economic targets, employment numbers should however be quantified and recorded under employment categories such as "construction", "permanent", "temporary", etc.

The analysis of the objective(s) of the project must include the definition of the outputs that would be produced by the project, the expected outcomes, and how these outcomes will help to achieve the overall objective(s) of the project.

Project sponsors must show that the objective(s) align with the organisation's priorities and aspirations, the sector development plan, and the other development strategies. This alignment is commonly demonstrated through the use of Specific, Measurable, Achievable, Relevant, and Time-Bound (SMART) indicators.



4) SUMMARY OF OPTIONS CONSIDERED

This section should describe the options that were considered during the development of the proposal. The purpose of options appraisal is to develop a cost-effective solution that meets the objectives of government. Creating and reviewing options helps decision-makers understand the potential range of solutions that may be considered.

An options analysis involves the identification and analysis of various strategies that can be used to achieve the project's objective(s). An options analysis is used to assess and compare the identified options based on specific criteria. The project sponsor should, for every option, answer a range of questions such as:

- Did the options analysis consider a reasonable range of alternatives available to address the core problem?
- Are the options' cost estimates accurate and reasonable?
- Was operation and maintenance costs (O&M) of different options considered in selecting the preferred alternative?
- Is the proposed technical solution practically implementable, sustainable, and does it provide a solution to the stated problem?
- Are there significant adverse environmental and social consequences of the proposed solution? Can they be mitigated, and at what cost?
- Are there sufficient human and administrative resources to deliver the project and assure adequate operation of the facilities?
- Is the implementing authority capable of delivering the project within time, scope and budget?
- Are there any legal barriers that may jeopardize project implementation or operations?

The objective of assessing the various options is to ensure that the best strategy is adopted to meet the objective(s) of the project.

Each alternative should be clearly described together with a summary of its associated advantages and disadvantages and a quantification of the preliminary costs and benefits of each option relative to the objectives of the proposal. The summary should explain why the preferred option meets the objectives more effectively than other options, and how the preferred option gives the best value-for-money for government. Evidence contained in the supporting documentation should be summarised and referenced to support the argument that the preferred solution is the best solution.

5) OVERVIEW OF SOCIO-ECONOMIC ANALYSIS

In order to justify fiscal support, a credible analysis of social and economic benefits and costs is essential. This section of the primary submission is likely to be the most extensive. It provides information that enables the assessment of welfare changes due to the project and estimation



of the project's impact on all segments of the society via the calculation of economic performance indicators such as the Economic Net Present Value (ENPV), the Economic Rate of Return (ERR) and Cost-Effective Ratios (CER).

From the Government's perspective, the viability of an infrastructure project is determined based on its economic benefits and costs, rather than solely on the results of a financial analysis. However, the financial analysis provides the basis for the economic appraisal of a project and should be conducted in a way that allows the consistent conversion of the financial cash flows of a project into its economic resource flows of costs and benefits. Only projects that are economically feasible and cost-effective will be considered.

The alternatives identified in the options analysis must be subjected to a Cost Benefit Analysis (CBA) and/or Cost Effectiveness Analysis (CEA) to assess their economic viability. The overview of this analysis should be provided in the supporting documentation, which should be summarised and referenced to support the proposal. Major costs and benefits should be described, and the values attached to each clearly shown, rather than netted off in the analysis.

A CBA seeks to establish whether a particular investment is the most efficient use of society's resources. It does this by identifying and quantifying the costs and the benefits to society in a manner that enables comparison of different options. A CBA is employed when the costs and the benefits of the project can be monetised.

On the other hand, there are projects where the objective is to select the investment or a combination of investments that will deliver a specific quantity of a good or service at minimum cost. In these cases, there is either a policy commitment to deliver a certain quantity of the service or the value of the output to the consumers has been determined to be greater than the expected costs. In other circumstances, when it is challenging to measure the benefits of a project in monetary terms yet from a social perspective, there is a goal to supply the service, such as for some health projects, the CEA analytical tool is employed.

It is assumed that one or other of these approaches has been undertaken, and the purpose of this section is to provide an overview of this analysis in a clear, logical and concise narrative.

This analytical summary should cover the following aspects:

- The main economic costs and benefits to government and society, taking into account the full impacts on South African citizens over the full lifecycle of the assets that will be created.
- In addition to taking into account the *direct* effects of the interventions, the wider *indirect* effects on the economy and society should be clearly specified and reviewed. Where these



indirect factors result in quantifiable impacts – for instance environmental costs – these should be included in the appraisal.

- Where appropriate, the appraisal should reflect the monetary value of costs and benefits based on market prices, and also indicate the best alternative uses that the goods or services could be put to (the opportunity cost). The assumptions used to quantify costs and benefits in monetary terms should be clearly stated. Costs and benefits for which there is no market price should also be clearly specified and explained.
- The distributional impacts where appropriate to indicate who gains or losses from the implementation of the proposal. This involves identifying how the costs and benefits accrue to the different groups affected by the project. A proposal may have differing impacts according to age, gender, ethnic group, health, skill, or location. These effects should be stated and quantified wherever feasible.
- The assumptions used to arrive at the quantities underlying the appraisal. These assumptions need to be scrutinised and tested to ensure that the proposal remains viable even when project circumstances vary or change.

The valuation of costs or benefits should be expressed in present value terms as opposed to 'nominal terms' or 'current prices'. The assumptions used to arrive at these values should be disclosed. A social discount rate of 10 per cent should be used to discount the economic values into present values. This rate, also known as the Economic Opportunity Cost of Capital (EOCK)² can be used across all sectors regardless of the project/programme.

As part of the socio-economic analysis, the Project Sponsor should, answer a range of questions such as:

- Is the methodology selected for economic evaluation appropriate for this category of projects?
- Did the economic analysis consider all major externalities such as social, climate change, gender, etc.?
- Have economic indicators (ENPV, ERR, Cost Effectiveness Ratio) been calculated considering correct categories of costs and benefits?
- Is the project economically viable (i.e. $ENPV > 0$, $ERR > EOCK$)?

² The Economic Opportunity Cost of Capital (EOCK) was calculated based on research conducted by the National Treasury by taking a weighted average of the rates of the following: forgone marginal return on private investment; cost of foregone consumption (domestic savings) and marginal cost of additional borrowing from abroad.



6) **BUDGET STATEMENT**

The affordability of options should always be considered when appraising proposals. In addition to the analysis of socio-economic costs and benefits, the primary submission should include the following financial statements which are essential in order to plan for budget allocations over the full lifecycle of the intervention. All of these financial statements should be stated over the full useful life of the asset in current prices (i.e. nominal rand) using clearly specified rates of inflation to escalate costs.

- a) **An expenditure statement.** This should detail all the payments that will be required to deliver the project/programme. The expenditure statement should cover all capital payments involved in the construction of the asset and financing charges associated with funding the proposal. It should detail the maintenance (annual and periodic upgrades required) and operating payments associated with running the asset over its useful life, including labour costs, machinery and equipment, utilities and expected maintenance costs of the asset. These payments would include any costs that will be borne by any government or public institution, whether or not they are directly involved in planning or executing the proposal. In particular, expenditure implications for other spheres of government or public entities should be clearly specified.
- b) **A funding statement.** This should show all the resources that will be mobilised to implement the proposal and support the operation of the asset over its full lifecycle. This might include resources redirected from within the department's baseline, additional resources transferred from the fiscus (such as grants), partners and external organisations providing the resources (and in some cases cash) required, and user charges or other forms of funding internal to the project itself. Any debt (including concessional loans) or equity obligations or leasing arrangements that the project sponsor intends to mobilise in favour of the project must be clearly disclosed in the funding statement, together with their terms and provisions.
- c) **A cash-flow statement.** A comprehensive account of the annual inflows and outflows of cash associated with the proposal as a result of capital, operations and financing activities over the full lifecycle of the asset.
- d) **A contingent liability statement.** Some proposals expose the government/fiscus to contingent liabilities – that is commitments to future expenditure if certain events occur. Any guarantees, provisions or other obligations that could give rise to fiscal liabilities in the future as a result of some explicit contractual eventuality should be fully disclosed. The contingent liability statement should give details of all explicit liabilities that will accrue to government that includes external financing whether the external finance is in full or in part or as part of a blended financing arrangement. It should also describe what contingent liabilities might arise and a description of the possible consequences.



As part of the budget statement, the Project Sponsor should, answer a range of questions such as:

- Does the project generate financial revenues?
- Was affordability analysis carried out to ensure that the project is affordable?
- Is the project financially sustainable, i.e. are financial revenues sufficient to finance the operations and maintenance expenditures?
- If not sustainable, is there a plan to meet cash flow requirements for the periods where cash flow is negative?
- Is there a proposal for a PPP procurement modality?

7) RISK STATEMENT AND SENSITIVITY ANALYSIS

Risk analysis is concerned with the identification of a project's risk variables, the analysis of the impacts of these risk variables on the project, and the interpretation of the results in the presence of uncertainty. In appraisals, it is likely that there will be differences between what is expected, and what eventually happens, because of the complexities of delivering these projects as well as biases inherent in the appraisal, and risks and uncertainties that materialise.

Qualitative analysis assesses the project's risks during project preparation and appraisal and uses a relative or descriptive scale to measure the probability of a risk event occurring. Quantitative risk analysis takes into account the fact that circumstances may occur, which result in future (actual) benefits/outcomes and costs being different from the expected values. This potential variance is a function of the chance that an actual value will differ from the expected value and the associated consequences. Risks should be quantified (where possible) as the product of:

- The likelihood of the risk impacting upon estimated project costs or benefits; and
- The consequence (i.e. the quantum difference between estimated and risk-adjusted values).

The main risks – including technical, financial, economic, social and political risks – that are anticipated by the project sponsors should be clearly stated. The risk statement should approximate the financial impact that these factors could have on project costs and revenues. It should also assign a probability of an event occurring and provide details of the mitigating actions that could manage the risk.

Sensitivity Analysis is a way of methodically testing how responsive a project's selection criteria (NPV, ENPV or any other relevant criterion) is to a change in key project variables. Sensitivity analysis enables an examination of how sensitive the financial and economic outcomes are to specific assumptions made in the project evaluation. The sensitivity of the economic analysis and financial statements to changes in key economic variables should also be considered. This



includes assumptions on the key variables which may include exchange rates, interest rates, economic growth, population growth and demand for services.

Many parameters are affected by optimism bias – appraisers tend to overstate benefits, and understate timings and costs, both capital and operational. Appraisers should be alert to these biases and make explicit adjustments to counter it. Sensitivity analysis should be used to test the robustness of assumptions about operating costs and expected benefits. Where possible, adjustments should be empirically based, (e.g. using data from past projects or similar projects elsewhere), and adjusted for the unique characteristics of the project in hand.

As part of the risk and sensitivity analysis, the Project Sponsor should, answer a range of questions such as:

- Did sensitivity analysis consider major risk variables?
- Is the proposed risks prevention and mitigation strategy adequate?
- Is there an overall high probability of achieving the objective(s) of the project?
Have the necessary steps been taken to mitigate risk and allocate residual risks appropriately?

8) PROCUREMENT STATEMENT

The Procurement Strategy details the project needs, procurement planning requirements, preparation of specifications/requirements, budgeting, selection, contract award and contract management. Further, the statement should include the rationale for adopting a particular procurement option

The general principles of a Procurement Strategy are:

- i. Best value for money;
- ii. Fairness, integrity and transparency;
- iii. Effective competitive process;
- iv. Cost-effectiveness; and
- v. Alignment with the interests of the government

9) INSTITUTIONAL AND OPERATIONAL READINESS

Sufficient capacity to deliver the project on time, on budget and to specifications should be demonstrated. An institutional arrangement that is conducive to effective delivery is critical. The analysis should demonstrate that the institutions responsible for implementation, including project management, and operational responsibility will be appropriate to the task.

Key questions that should guide the preparation of this section include:

- Has the technical and legal due diligence been undertaken?



- Are there suitable incentives or penalties in place to ensure delivery?
- Are there any major statutory or regulatory constraints that may prevent efficient project implementation and/or operation?
- Are there any jurisdictional conflicts between government entities/institutions that need to be resolved before the project can proceed to implementation?
- Are land rights secured? If not, is there a detailed plan on how it will be secured?
- If the project involves multiple public institutions, is there a stakeholder coordination plan?
- Does the Project Sponsor/Implementing Institution have a good record of successful delivery of projects of similar nature?
- Are there any other constraints that may prevent efficient project implementation or operation?
- Are there necessary health and safety plans?
- Can funds for the project be secured?
- What is the current financial position of the executing and operating institution(s)?
- What is the governance structure within the institution in relation to the proposed project and have arrangements to promote good governance by all implementing parties been put in place?
- Have the human resources requirements for the successful delivery of the project been clearly outlined including the following:
 - a) Capacity constraints relating to the project team and the technical advisors and a plan to address such constraints over the project's life; and
 - b) Envisaged strategy for skills transfer from the technical advisors to the project team.
 - c) The implementing institution's project officer and team, including names of the team members, allocated roles within the project, relevant skills and brief CV's;
 - d) Appointed technical advisors, including allocated roles within the project, relevant skills, and brief CV's, and;
 - e) Budget available for project management.
 - f) Is there an adequate monitoring and evaluation plan for the project?

[END]