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Department of Finance Office of the HOD

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Ref No : DOF 14/4/1/1

PROVINCIAL TREASURY CIRCULAR 19 OF 2013: ON POSSIBLE PUBLIC PRIVATE PARTNERSHIP PROJECTS

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (DR NONHLANHLA MKHIZE)
THE ACCOUNTING OFFICER: VOTE 3: FINANCE (MS N.Z. NKAMBA)
THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE & TRADITIONAL AFFAIRS (MR D. MAHLOBO)
THE ACCOUNTING OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT & LAND ADMINISTRATION (MS N.L. SITHOLE)
THE ACCOUNTING OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT & TOURISM (DR D.V. DLAMINI)
THE ACCOUNTING OFFICER: VOTE 7: EDUCATION: (MRS M.O.C. MHLABANE)
THE ACCOUNTING OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR K.M. MOHLASEDI)
THE ACCOUNTING OFFICER: VOTE 9: COMMUNITY SAFETY, SECURITY & LIAISON (MR S.T. SIBUYI)
THE ACCOUNTING OFFICER: VOTE 10: HEALTH (MR R.M. MNISI)
THE ACCOUNTING OFFICER: VOTE 11: CULTURE, SPORT & RECREATION (MS S.P. MJWARA)
THE ACCOUNTING OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS N.L. MLANGENI)
THE ACCOUNTING OFFICER: VOTE 13: HUMAN SETTLEMENTS (MR S. M. MTSWENI)

MUNICIPALITIES

THE ACCOUNTING OFFICER: GERT SIBANDE DISTRICT MUNICIPALITY: (MR C HABILE)
THE ACTING-ACCOUNTING OFFICER: NKANGALA DISTRICT MUNICIPALITY: (MR AG ZIMBWA)
THE ACCOUNTING OFFICER: EHLANZENI DISTRICT MUNICIPALITY: (MR H MBATHA)
THE ACCOUNTING OFFICER: ALBERT LUTHULI LOCAL MUNICIPALITY: (MR VN MPILA)
THE ACCOUNTING OFFICER: DIPALESENG LOCAL MUNICIPALITY: (MR VD NGCOBO)
THE ACCOUNTING OFFICER: GOVAN MBEKI LOCAL MUNICIPALITY: (MR MF MAHLANGU)
THE ACCOUNTING OFFICER: MKHONDO LOCAL MUNICIPALITY: (MR AN MAHLANGU)
THE ACCOUNTING OFFICER: MSUKALIGWA LOCAL MUNICIPALITY: (MR TB DLAMINI)
THE ACCOUNTING OFFICER: PIXLEY KA SEME LOCAL MUNICIPALITY: (MR PB MALEBYE)
THE ACTING-ACCOUNTING OFFICER: DR JS MOROKA LOCAL MUNICIPALITY: (MR ZW MCINEKA)
THE ACTING-ACCOUNTING OFFICER: EMAKHAZENI LOCAL MUNICIPALITY: (MS TJ SHOBA)
THE ACCOUNTING OFFICER: EMALAHLENI LOCAL MUNICIPALITY: (MR G MTHIMUNYE)
THE ACCOUNTING OFFICER: STEVE TSHWETE LOCAL MUNICIPALITY: (MR WD FOUCHE)
THE ACCOUNTING OFFICER: THEMBISILE HANI LOCAL MUNICIPALITY: (MR J SINDANE)
THE ACCOUNTING OFFICER: VICTOR KHANYE LOCAL MUNICIPALITY: (MR RM MAREDI)
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THE ACCOUNTING OFFICER: MBOMBELA LOCAL MUNICIPALITY: (MR X MZOBE)
THE ACCOUNTING OFFICER: NKOMAZI LOCAL MUNICIPALITY: (MR MD NGWENYA)
THE ACCOUNTING OFFICER: THABA CHWEU LOCAL MUNICIPALITY: (MR S MAEBELA)
THE ACCOUNTING OFFICER: UMJINDI LOCAL MUNICIPALITY: (MR P MUTSHIDE)

PUBLIC ENTITIES

THE CHIEF EXECUTIVE OFFICER: MPUMALANGA ECONOMIC GROWTH AGENCY (ADV. B. MKHIZE)
THE CHIEF EXECUTIVE OFFICER: MPUMALANGA GAMBLING BOARD (MR B. MLAMBO)
THE CHIEF EXECUTIVE OFFICER: MPUMALANGA TOURISM & PARKS AGENCY (MR B.J. MODIPANE)
THE CHIEF EXECUTIVE OFFICER N: MPUMALANGA REGIONAL TRAINING TRUST (MR N.D. MOROPANE)

OFFICE OF THE AUDITOR-GENERAL: MPUMALANGA (MS S. LUBAMBO)

PROVINCIAL TREASURY CIRCULAR NO: 19 OF 2013 ON POSSIBLE PUBLIC PRIVATE PARTNERSHIP PROJECTS

1. PURPOSE

The purpose of this circular is to present Accounting Officers (AOs) of Departments, Municipal Managers and Chief Executive Officers of Public Entities with an opportunity to contribute in the identification of possible PPP projects in their institutions.

2. SUMMARY

The Department of Finance together with National Treasury made a presentation to the Provincial Management Committee (PMC) on the 13 May 2013 on PPPs, their benefits, success stories, and generally the entire concept.

Based on the presentation a resolution was made by PMC that the Provincial Treasury should facilitate a process which will result in presentation to the Provincial Government on possible PPP projects for acceptance.

3. DISCUSSION

The Mpumalanga Provincial Government (MPG) has in 2006 with an Executive Council resolution approved a Provincial Policy Framework on Public Private Partnership. This development is based on Treasury Regulations 16 of the PFMA which deals directly with Public Private Partnerships. Defining PPP as an agreement between an institution and a private party in terms of which-

- The private party undertakes to perform an institutional function on behalf of the institution for a specified or indefinite time,
- The private party receives a benefit for performing the function, either by way of: compensation from a revenue fund,
- charges or fees collected by the private party from users or customers of a service provided to them; or
- a combination of such compensation and such charges or fees;
- The private party is generally liable for the risks arising from the performance of the function,
- Depending on the specifics of the agreement, state facilities, equipment or other state resources may be transferred or made available to the private party,

The objective of this framework is to assist departments, municipalities and public entities to ensure that there is proper planning based on acceptable feasibility studies to lead to value for money, affordability and the transference of risk to the private party who has the ability to manage the risk, mobilize human capital, and private sector capital to complement Government.

In the past the Provincial Treasury supported possible projects on Government fleet, Revitalisation of Dying Town Mine mainly Pilgrims Rest and the Graskop Resort.

Currently, the Provincial Treasury is supporting exploration of possible PPP projects which includes on Government Complexes at Bohlabela and Gert Sibande district as well as the Mpumalanga Tertiary Hospital.

BENEFITS OF PUBLIC PRIVATE PARTNERSHIPS (PPP)

The following constitutes benefits;

PPPs leverage private party capital to fund infrastructure

In the most common form on a PPP, the private party will use its own money to build infrastructure on behalf of government. Due to the fact that the private party usually uses loans, it becomes an incentive to complete the infrastructure on time and within budget, PPPs leverage private sector skills

In handing over certain responsibilities for a project, the procuring institution is using a range of skills offered by the private party. These include all the skills required in the development or upgrading of infrastructure, project management skills, contract management skills, and, if a service is being procured, particular service skills. Because of the acute skills shortage in South Africa, this is a particularly important criterion for choosing a PPP.

The procuring institution needs to reflect honestly on its own track record of project delivery. Has it been able to deliver services on time and in budget? Does it have the necessary project management skills? If the institution is procuring a project requiring specialist skills, the private party which has these skills could supplement the institution's existing in-house skills. Where the institution does not yet have the skills, the PPP can contribute to skills transfer and capacity building. Part of the PPP contract should also involve the private party transferring appropriate skills to the procuring institution.

PPPs can be good for project planning

The PPP regulations require managers to go through a careful planning process centered around the project feasibility study. So PPPs are a good way for government institutions to plan projects, aligning them with their strategic delivery responsibilities using well developed business plans.

The private sector takes financial risk over the lifecycle of the project

Sometimes the private party's pricing structures in a PPP may seem more expensive than traditional procurement. A reason for this is that in calculating and designing its pricing, the private party is including the cost of the risks that it will be managing for the entire duration of the project.

In some traditional procurement, not all the risks and their associated costs are reflected in a contractor/service provider's upfront pricing. Rather, the procuring institution will be responsible for any unforeseen delays or hindrances and for any failure on its part to deliver the anticipated services, and it will be penalised accordingly.

Risks are allocated to the party best able to manage a particular risk

PPPs are designed so that risks are allocated to the party best able to manage them. For example, if the private party has the right skills to manage a project over the long term and the procuring institution does not, it makes sense for the private party to take on the risks associated with project delivery.

PPPs deliver budgetary certainty

When the PPP agreement is signed, the future cost of a PPP project is clear: the procuring institution will receive specific outputs at specific costs and will budget accordingly. In traditional procurement on the other hand, the costs of completing the project and maintaining the assets in the future are not certain, and are the responsibility of the procuring institution. Also, many institutions do not budget appropriately for the maintenance and operating costs of their asset

The public sector pays only when services are delivered

In a PPP, the procuring institution pays only when the private party starts to deliver the services. For example, if the private party is late, the institution does not pay, which means that the taxpayer does not carry the cost for a service that is not happening. The method of payment is carefully linked to the quality of services being provided. If services are not being delivered to the institution's satisfaction and in line with the PPP agreement, the private party may also be liable to pay penalties. So it is in the private party's interest to deliver quality services on time, which in turn benefits the end-user.

PPPs force the public sector to focus on outputs and benefits from the start

When the procuring institution is working out what it needs to deliver and is considering a PPP as a possible vehicle, it has to specify the outputs of a service, and not concentrate so much on how the service is going to be delivered. The institution therefore focuses on service levels and the successful private party bidder is responsible for designing the details of the project.

The quality of service has to be maintained for the duration of the PPP

The private party has to maintain the same standard of service delivery for the duration of the contract. This can contrast strongly with traditional procurement, when the condition of an asset declines as the asset gets older and so the service levels decline over time.

Specialist skills are developed and transferred to the public sector

In a competitive environment, it is in the interests of the private sector to proactively develop skills that will benefit the project and the procuring institution. The PPP contract will specifically require skills to be transferred to the public sector.

PPPs encourage the injection of private sector capital

The use of borrowed private sector capital for a project means that the lenders of the capital will apply rigorous measures to make sure that a project is viable and stays on track. These include a due diligence and rigorous monitoring and control mechanisms throughout the project.

project. In addition, returns on debt and equity are only secured if a project is successfully completed and operating properly. This provides an incentive to the private party to implement and manage the project well.

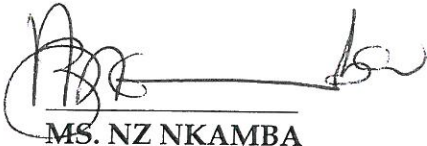
GUIDANCE ON THE IDENTIFICATION OF POSSIBLE PPP PROJECTS

In the identification of possible PPP projects institutions are required to use their strategic plans and integrated development plans wherein its projects on infrastructure determine the availability of land, budgeting considerations such as multi-year financial provisions.

SUBMISSION OF POSSIBLE PPP PROJECTS

All institutions identified in terms of this circular are requested to submit the required information to the Provincial Treasury by the 10 July 2013. Upon receipt of this submission the Provincial Treasury will perform the necessary assessments and where required provide assistance in preparations and planning.

With regards,



MS. NZ NKAMBA

HEAD OF DEPARTMENT

DATE: 2016/2013