

Water PPPs in South Africa – past and present

What has worked and what has not?

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Background on South African PPPs

Worldwide experience indicates the requirements that must be met before a government can successfully use PPPs to procure public services infrastructure. South Africa has met these requirements

- A detailed legislative framework in place
 - Public Finance management Act
 - Treasury Regulation 16
 - Municipal Finance Management Act
 - Local Government Municipal systems Act
 - Municipal PPP Regulations
- A functioning judicial/legal system
- Capacitated, enthusiastic government officials
- Demonstrated capable private sector interest; and
- An enabling PPP framework
 - PPP Manual
 - Standardized PPP Provisions
 - Municipal Service Delivery and PPP Guidelines
 - Tourism toolkit

Background on South African PPPs

- The South African PPP Team has closed 26 projects in these sectors:
 - Health Care, including medical equipment installation, operation and maintenance, hospital co-location, provision of renal dialysis services and hospital refurbishment, maintenance and operation at various hospitals
 - Office Accommodation, for the financing, design, construction, maintenance and operation of office accommodation facilities for government departments
 - Toll Roads, for commercial and tourism activities (Chapman's Peak)
 - Social Grant distribution
 - Fleet Management, for the provision and maintenance of motor vehicle fleets for government departments
 - IT, for the provision of maintenance and upgrading of IT equipment for government departments
 - World Heritage Site, for the design, construction, maintenance and operation of the Cradle of Humankind World Heritage Site
 - Rapid Rail, for the partial finance, design, construction, maintenance and operation of the Gautrain Rapid Rail System
 - Municipal water services – two of the oldest PPPs in South Africa

- A Public-Private Partnership is –
 - A *CONTRACT* between a public sector entity and a private sector service provider whereby –
 - The Private Party performs a public sector entity function and/or uses state property, or both, in accordance with output specifications, where there is –
 - A substantial transfer of financial, technical and operational risk to the Private Party and the
 - Private Party benefits through payments by the public sector entity and/or user fees and the
 - Public sector entity is the purchaser of the services or the enabler of the project



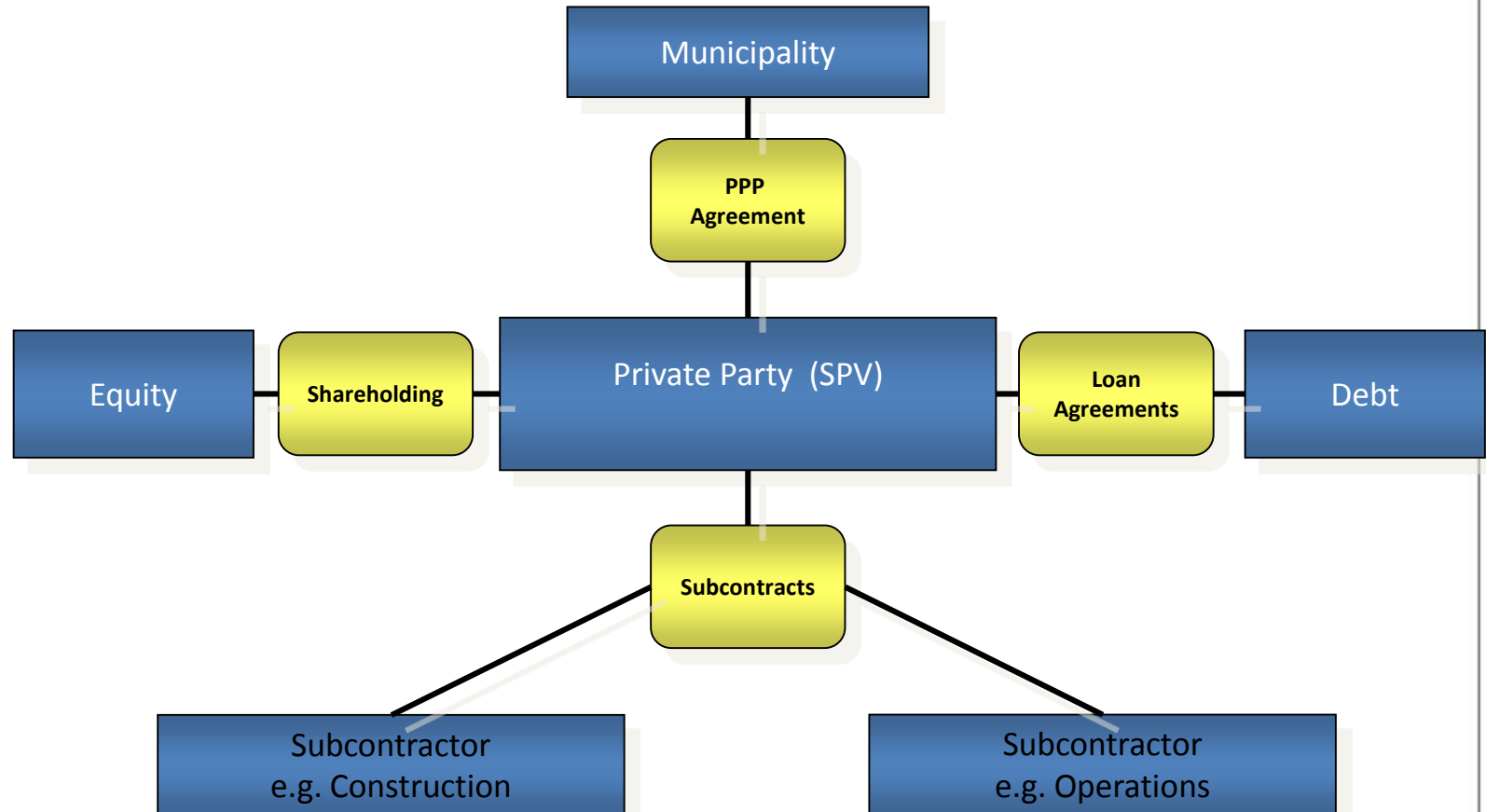
Similar to the now familiar PPP project cycle for national and provincial government, the Municipal Finance Management Act's PPP regulations, promulgated on 01 April 2005, provide a clear PPP path for municipalities to follow.

But instead of 'Treasury approvals' as required under the Public Finance Management Act, the MFMA requires Treasury 'views and recommendations' on the feasibility study, the procurement documentation and the terms of the negotiated PPP agreements prior to signature.

Here are the regulated steps which the municipality must follow



Typical PPP Structure



Municipal PPP Requirements

- Legislative framework – MFMA Chapter 11 §120 – feasibility study requirements
- MFMA §33 – contracts longer than 3 years
- MFMA Municipal PPP Regulations
- Municipal Systems Act, part 2 of Chapter 8, provision of services
- *Municipal Service Delivery and PPP Guidelines*, providing guidance on all of the above.
- *In contrast to national or provincial PPPs, National Treasury only provides “views and recommendations” and NOT approvals*

- Two of the oldest PPPs of any sort in South Africa
- Both were developed after competitive tender in 1999, prior to the passage of the MFMA, MSA and the Municipal PPP Regulations
- 30 year contracts – until 2029
- Act as the municipality's "water department" by providing potable water treatment, wastewater treatment, reticulation, billing and collecting revenues from their respective customers, with specified rental revenues paid to each municipality
- Now, both are operated by the same private sector company

Mbombela Concession overview

- Main purpose – expand basic services to previously disadvantaged areas, improve service levels and operate and maintain existing water and sanitation services
- Scope of Works include “source to tap” water services, including capital investment, sewage collection, treatment and disposal. Customer services and revenue collection also provided.
- Performance monitored through KPAs and KPIs and the Concession Monitoring Office of the Mbombela Local Municipality

Mbombela Water Services Concession

- Concession serves about half of the total population of Mbombela
- Concession area is 406 km²
- Financed by DBSA – R71.3 million
- Potable water demand 76MI/day, WWTW 44 MI/day
- 5 water treatment works, 3 wastewater treatment works
- 92 reservoirs, 42 water pump stations, 30 sewage pump stations
- 27 000 billed customers
- Staff complement -- 242
- Both PPPs have received “Blue Drop” and “Green Drop” awards by operating the potable water and wastewater treatment facilities in accordance with international standards

Mbombela Water Services Concession

- Free Basic Water policy adopted in 2003 necessitated a supplemental agreement which increased the Municipality's Equitable Share and reduced electricity and rental charges
- Concession Agreement has a five year review period, during which capital works programmes, revenue collection and tariff adjustments are discussed
- Latest review (SA 4) establishes new KPIs for—
 - Service Delivery Improvement
 - Demand Management
 - Capital Investment
 - Asset Management
 - Collection efficiency
 - B-BBEE and skills development
 - Regulatory compliance – blue, green drop



What has worked and what has not?

- What has worked –
 - Capacitated management of water services
 - Significantly reduced water service backlogs
 - Top quality operation of WTW and WWTW plants
 - Most customers have 24 hour supply
 - Employee training and retention good
 - Nelspruit-generated revenues support water services to other parts of Mbombela
 - MIG grant implementation has been excellent
 - Water services tariffs are comparable with other SA municipalities
 - 5 year review exercise has proven an excellent means of ensuring optimal water services

- What has not worked
 - Achieving 24 hour coverage has been complicated
 - The change in law requiring free basic water has curtailed or reduced the amount of revenue available for system expansion
 - Contentious matters involving the Bushbuck Ridge Water Board have taken a long time to resolve
 - Non-revenue water, while still a concern, has improved significantly recently
 - There was a period of time when the municipality's contract management function was weak; however, that situation has improved markedly in the past five years.
 - Little or no oversight by national government agencies, due primarily to the lack of capacity to undertake oversight

Current Pending municipal water services PPPs

- Richards Bay
 - Potable water and wastewater treatment services
 - Feasibility study underway – nearly complete
- Bloemfontein
 - Potable water and wastewater treatment services
 - Progress has been impeded by necessity to resolve certain issues relating to the water board
- Polokwane
 - Regional wastewater treatment facility
 - TVR I received.
 - Asbestos pipe replacement
 - Assessing whether to proceed as a PPP

Conclusions

- Water Services PPPs face a number of challenges –
 - Sufficient revenue generation
 - Free basic water
 - Equitable Share inadequacy
 - There must be a “core” constituency that will permit a sustainable project
 - Few municipalities other than Metros have that sustainability potential
 - Lack of capacity in the municipal executive to monitor the implementation of a water services PPP
 - Unremitting opposition from municipal unions
 - Changing political situation

Conclusions

- The current drought only exacerbates the lack of capacity among the municipalities to effectively provide water services
- The NBI is to be commended for providing this opportunity to discuss the water services challenges in South Africa today
- Perhaps an outcome may be –
 - A greater understanding of the complexities of the current situation
 - The laying aside of purposeful misunderstandings that prevent a meaningful discourse
 - Some motivation to take decisive action

THANK YOU!

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