Forming PPPs to fund and develop climate – resilient infrastructure within the country

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Overview

1. Importance of assets in the public sector.
2. Service delivery challenges in our country.
3. Root causes for the infrastructure challenges.
4. Six what (s) of asset management.
5. What is Advanced Asset Management?
6. Defining climate resilient infrastructure.
7. Climate resilience principles.
8. Understanding PPPs in SA.
9. Resilience intervention points and relevant concepts within the PPP project cycle.
10. Critical Path – Proposed Solutions.
11. Required management thought patterns.
12. Required management commitments.

Service delivery challenges

- Failing infrastructure.
- Lack of developmentally oriented infrastructure planning.
- Reactive infrastructure maintenance.
- Inadequate controls over key service delivery projects and contracts management, resulting in delayed implementation and achievement of service delivery targets.
- Inadequate controls over completeness of revenue.
- Inadequate controls over demand management/project pipeline and credit control.

Root Causes for the challenges

- Lack of Infrastructure Masterplans that supports the National Development Plan/Provincial and Metro/District Growth Plans aligned to Strategic plans and IDP of municipalities.
- Lack of customised infrastructure operational and maintenance plans in line with the asset design and construction.
- Lack of planned infrastructure maintenance, budgets and/or funding options.
- Lack of co-ordination and communication between the relevant sector departments and municipalities.

Root Causes for the challenges

- Non-strategic project pipelines.
- Ineffective asset management processes within the public sector.
- Fraud and Corruption.
- Inadequate clean administration/governance practices.
- Ineffective Management approaches and/or processes.

Six (6) What's of Asset Management - Vanier, D.J., NRCC, 2000

- What do we own?
- What is it worth?
- What is its condition?
- What is the backlog maintenance?
- What is the remaining service life?
- What do you fix first?

What is advanced Asset Management?

Making the
right decision / adopting the right solutions at
the
right time for the
right cost
for the right reasons
Across our whole portfolio of assets as just part of the business strategies.

'Making good investment decisions'

What is a Climate resilient infrastructure?

The Global Center on Adaptation (GCA) Knowledge Module on Public-Private Partnerships (PPPs) for Climate-Resilient Infrastructure Handbook refers to climate-resilient infrastructure in two ways:

1. **Resilient infrastructure** – (also termed resilience of infrastructure) Infrastructure that is **planned**, **designed**, **built**, **operated**, and **maintained** in a way that **anticipates**, prepares for, and **adapts** to **changing climate conditions**. It can also **withstand**, **respond to**, and **recover rapidly from disruptions** caused by these **climate conditions**. For example, developing **drainage systems to ensure that a road network does not experience washouts**.
2. **Infrastructure for resilience** – (also termed resilience through infrastructure) Infrastructure put in place primarily **to increase the resilience of a targeted community** or **asset** by **reducing exposure** and **vulnerability** to a climate hazard or **increasing the adaptive capacity of the community or asset**. For example, a coral reef restoration to mitigate the risk of tidal/coastal flooding.

Climate resilience principles

The same handbook refers to the following climate resilience principles:

1. Maximize the positive impact of infrastructure to achieve sustainable growth and development.
2. Raise economic efficiency in view of life-cycle cost.
3. Integrate environmental considerations in infrastructure investments.
4. Build resilience against natural disasters or other risks.
5. Integrate social considerations into infrastructure investment.
6. Strengthen infrastructure governance.

Understanding PPPs in SA

1. Concept of PPPs.
2. Characteristics of a PPP.
3. Misconceptions about PPPs.
4. Defining PPP.
5. When is PPP appropriate i.e. Key Success Factors for PPP.
6. Overview of the PPP legislation in SA.

Understanding PPPs in SA

PPP concept:

- Simply put, a PPP is a procurement choice that is available to the public sector.
- However, a PPP is not the short-term outsourcing of a public function to a private party. Rather, PPPs are long-term contracts between the public and private sector that require risk transfer to the private party.
- In addition, within a PPP, the private sector's role goes beyond normal aspects such as the design and construction of infrastructure, extending into areas such as project financing, staffing and the operation of specific assets.
- The private party then receives payment for this full set of services rendered.

Understanding PPPs in SA

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Key characteristics of PPPs

- A long-term contract between the public and private sector for a clearly defined project (contracts are typically, 5 to 30 years in duration).
- Includes private sector involvement in design, construction, financing and implementation.
- The private party sources most or all of the finance required.
- Payment to the private party occurs based on agreed upon outputs, related to the provision of services and/or infrastructure.
- Requires the transfer of risks from the public to the private sector.

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PPPs Misconceptions:

- A simple outsourcing of functions.
- A donation by a private party for a public good.
- The privatization of state assets and/or liabilities.
- A way of avoiding payment for capital projects. Rather, PPPs allow the procuring institution to spread payments for large projects over the project's lifetime.
- A solution option. Rather, a PPP is a procurement choice that may assist in achieving a desired solution.

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PPP Definition:

Under South Africa law a PPP is defined as a contract between a government institution and private party, where:

- The private party performs an institutional function and/or uses state property in terms of output specifications.
- Substantial project risk (financial, technical, operational) is transferred to the private party.
- The private party benefits through unitary payments from government budgets and/or user fees.

Understanding PPPs in SA

Key success factors in set up phase:

- The procuring institution knows exactly what it wants as outcomes of the PPP.
- The PPP process has a dedicated internal champion.
- The PPP process has clear support from the relevant politicians and top public officials.
- The private sector bidders have the capacity, skills and capability to deliver the project.
- The procuring institution has sufficient capacity and budget to oversee the PPP procurement process.
- An effective and transparent stakeholder consultation process is undertaken.

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Key success factors in set up phase continued:

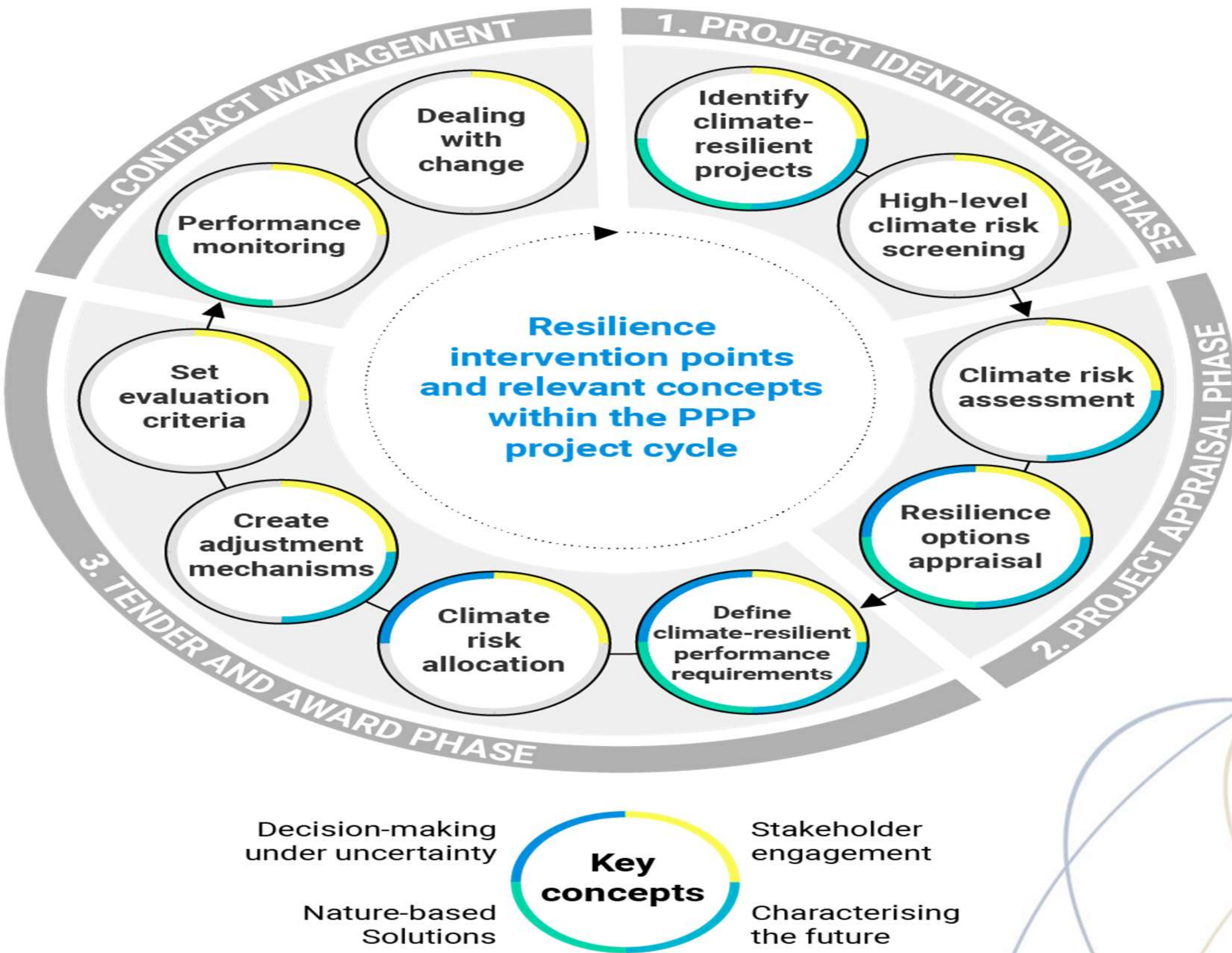
- There are good transaction advisors in place who understand the procuring institution's requirements and service delivery mandates.
- A thorough and rigorous feasibility study is conducted. Based on verified information, the feasibility study indicates that appropriate risk can be transferred to the private sector and that the PPP provides value for money.
- The public sector institution can afford the envisaged fee. In other words, the public sector's budget is able to cover the required payments to the private sector over the project lifetime.
- Payment risk to the private party has been adequately addressed.
- A sufficiently capable project officer is appointed.
- Strong Black Economic Empowerment outcomes are achieved.

Understanding PPPs in SA

Key success factors in implementation phase:

- The procuring institution has sufficient contract management skills.
- A proper monitoring and evaluation model is in place to ensure strong project outcomes.
- The private sector is incentivized to transfer skills.

Resilience intervention points and relevant concepts within the PPP project cycle



Critical Path – Proposed Solutions

1. Assess the provincial state of infrastructure including key service delivery and revenue generating assets.
2. Identify catalytic projects that will prevent service delivery backlogs from accumulating and protect key revenue generating assets.
3. Prioritize funding the identified assets with strict project management risks management and key controls.
4. Develop and/or review the provincial asset management masterplans for key service delivery assets for alignment with the provincial growth plan:
   - Water infrastructure.
   - Sanitation infrastructure.
   - Storm water infrastructure.
   - Solid waste infrastructure.
   - Road infrastructure.
   - Electricity infrastructure.
   - Transport assets/Fleet particularly solid waste, electricity, water and sanitations operations.

Critical Path – Proposed Solutions

5. Review and/or update Metro/District Infrastructure Masterplans for alignment with provincial masterplans and Metro/district one plans.
6. Identify active and redundant infrastructure projects including designs, that do not align to the infrastructure masterplans and asset management plans.
7. Repurpose funding to the catalytic projects.
8. Review the Metro/district/local government assets management, operations and maintenance plans.
9. Cost the asset management, operations and maintenance plans.
10. Identify key economic zones for private and public investment as per the Spatial Development Framework.
11. Identify funding options and funding mix for the asset management strategies **including PPP as a funding option.**
12. Develop a project prioritization tool that ensures that high impact projects that ensures compliance with legislation, economic development, job creation, sustainable service delivery and financial viability of public sector organizations.

Critical Path – Proposed Solutions

13. Implement strict capital budget reviews to ensure that capex budgets include catalytic projects, including projects as per the prioritization tool.
14. Reject all capital budgets that do not align with the capital budget including operations, repairs and maintenance budgets.
15. Withhold conditional grants where organs of the state including municipalities; approved capital, operations, repairs and maintenance budgets that do not align to the project prioritization tool and catalytic projects.
16. Implement strict capex monitoring controls through CAPEX War rooms including strict payment review controls as part of cost containment measures.
17. Review and monitor implementation of water conservation and demand management plans.
18. Review and monitor implementation of energy efficiency and demand side management plans.

Critical Path – Proposed Solutions

19. Review and monitor implementation of water and electricity distribution losses reduction strategies.
20. Perform security risk assessment for all infrastructure assets including key service delivery and revenue generating assets.
21. Implement cost effective security and safeguarding measures including review of insurance policies.
22. Monitor compliance of public sector institutions including municipalities; with safeguarding measures and insurance terms and conditions to ensure that insurance companies pay in the event of a disaster and/or other risks.

Required Management thought Patterns

1. Understanding that Government is complex.
2. Government is ruled by management efforts not incidents/Crisis.
3. Being proactive in our responses to the needs of our communities/citizens rather than reactive.
4. Understanding the importance of how to design, deliver, evaluate, report on and monitor activities when planning service delivery.
5. The need to plan extensively, closely monitor the execution of the plan and take corrective action timely.
6. The importance of developing meaningful performance indicators.
7. Striking the balance between new service improvements and existing programs.
8. Delivering on time, every time.
9. Understanding that this is **a SHARED RESPONSIBILITY**.

Required Management Commitments

- **People/Citizen focus.**
- **Managing for results.**
- **Responsible spending:**
  - Establishing and maintaining balance between:
    - ❖Investing in service improvement.
    - ❖Maintaining the integrity of existing programs.
    - ❖Developing new programs.
  - Coping with budgetary constraints.
  - Assessing the integrity of the existing programs.
  - Integrating National/Provincial Priorities with specific services needed within the Metro/District/Local Municipalities.

Required Management Commitments

- Linking financial and non-financial performance information with the cost of the actual or expected results.
- Proper risk management.
- Designing, implementing and monitoring adequate internal controls.
- Designing, implementing and monitoring adequate internal controls.
- Producing spending proposals that are well rooted in policy and contributes to achieving objectives in the plans.
- Enforcing public accountability.
- Implementing best management practices.
- Re-allocating funding to maintain integrity of the existing programs for stability and sustainability.

Q & A

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