

DEPARTMENT OF WATER AFFAIRS & FORESTRY



**ROAD MAP TO INFORMATION
ON
MUNICIPAL SERVICE PARTNERSHIPS**

1. INTRODUCTION

There are numerous options available to WSA's in municipal service partnerships (MSP's). An MSP involves a contractual arrangement with a service provider other than the WSA itself. Such contractual arrangements for water service delivery may be:

- (1) A public-private partnership – a contract between a WSA and an individual or privately owned or controlled partnership, company, trust or other for profit legal entity
- (2) a public-public partnership – a contract between a WSA and any public sector entity, including another council or a parastatal; or
- (3) a public-CBO/NGO partnership – a contract between a council and a not-for-profit non governmental organisation(NGO) or community- based organisation (CBO)

(Ref 20: Municipal Service Partnerships Green Paper)

Other contract forms look primarily at Infrastructure Delivery including ISD, sustainability factors and a limited O&M until a suitably enabled WSP is available to take over. In WSP's the infrastructure delivery and the ongoing water service provision portions of water services become blurred and may be in a single contract.

Most long term contracts require some form of partnering arrangement (Public – Private or Public – Public Partnership (PPP) to define the Implementing Authority's (IA's) obligations and how these should be handled.

2. WEBSITE ROADMAP

Various web sites have information on Municipal Service Partnerships. Some key sites are referenced here:

Department of Provincial and Local Government	http://www.local.gov.za/
National Treasury (PPP unit)	http://www.treasury.gov.za/
Municipal Infrastructure Investment Unit	http://www.miiu.org.za/
National Business Initiative	http://www.nbi.org.za/

3. NATIONAL TREASURY

The National Treasury has a PPP unit within it which produces various documentation. Herewith is an extract from their web page that gives details of some of the documentation that may be obtained from them:

- Public private partnerships manual
- Strategic Framework
- Treasury Regulations
- Project Finance

- Transaction Advisors – Guidelines
- Feasibility Study – Guidelines
- Request for Proposals – guidelines
- Unsolicited Proposals – guidelines
- Tender board Procedures

4. MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT

The MIIU is conceived as a five year intervention to develop a market for technical assistance for project preparation in the sphere of municipal infrastructure and services. Its scope of activities include:

- Provision of grant funding to local authorities on a cost sharing basis to hire expertise for project preparation assistance from the private sector (up to the Request For Proposals, evaluation, negotiation, or initial implementation stages).
- Assistance to local authorities in the process of hiring private sector consultants.
- Assistance to local authorities with the management of contracts with the private sector.
- Marketing and publicity of the MIIU's services

These activities will be undertaken with local authorities that are developing project proposals involving private sector investment. The investments can take any of a broad range of forms, including, but not exclusively:

- Private sector financing of municipal debt.
- Contracting out of the management of ongoing services.
- Concessions to operate the local authority's assets over a defined period.
- Contracts requiring the private sector to Design, Build, Finance and Operate assets to deliver services for the local authority.
- Privatisation of assets and services.

5. DEPARTMENT OF LOCAL AND PROVINCIAL GOVERNMENT

The Department of Local and Provincial government web site provides all local municipal legislation and other information

6. OPTIONS AVAILABLE TO LOCAL GOVERNMENT

The following gives a brief list of the options available to local government. The pages have been abstracted from the Municipal Investment Infrastructure Unit web site

6.1 Corporatisation

A municipality forms a separate legal corporate entity to manage municipal service provision. The municipality continues to own the enterprise, but it operates with more of the freedom and

flexibility generally associated with a private sector business. A "Section 21 Company" is one of a variety of possible forms of corporatisation.

6.2 Public-Public Partnerships

A municipality enters into an agreement with another public entity for municipal service provision. A variety of contracting forms and compensation schemes are possible.

6.3 Municipal Debt Issuance

A municipality issues bonds to raise capital directly from private investors to finance the capital costs of building or expanding an infrastructure system. The municipality maintains total control of the project, and bears all associated risks. The issuance process is usually facilitated by underwriting firms, (public or private banks) and may also involve financial advisory service providers. Typical duration of debt: 10 – 20 years.

6.4 Service Contract

A municipality pays a fee to a private firm to provide specific operational services such as meter reading, billing and collection, and operating facilities. The typical duration: 1 – 3 years.

6.5 Management Contract:

A municipality pays a fee to a private firm to assume overall responsibility for operation and maintenance of a service delivery system, with the freedom to make day-to-day management decisions. Typical duration: 5 years.

6.6 Lease Contract:

The private firm rents facilities from the municipality and assumes responsibility for operation and maintenance. The lessee finances working capital and replacement of capital components with limited economic life, but not fixed assets, which remain the responsibility of the municipality. Typical duration: 10 years.

6.7 Concession:

A private firm handles operations and maintenance and finances investments (fixed assets) in addition to working capital. Assets can be owned by the firm or the municipality for the period of the concession. Where assets are owned by the firm, they will be transferred to the municipality at the end of the concession period. The project is designed to generate sufficient revenues to cover the private firm's investment and operating costs, plus an acceptable rate of return. Typical duration: 15+ years.

6.8 Build-Operate-Transfer (BOT)

A form of concession, with an emphasis on construction of new stand-alone systems. The municipality may or may not receive a fee or share of profits. Typical duration: 15+ years.

6.9 Full Privatisation

A municipality sells off an asset to a private sector firm.
