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# Municipal Infrastructure Investment Unit (MIIU) Final Completion Report

## Volume 2 Annexes

**APRIL 2006**

This publication was produced for review by the United States Agency for International Development. It was prepared by Mark Brown and Laila Horton, Planning and Development Collaborative International, Inc. (PADCO).



# **Municipal Infrastructure Investment Unit (MIU) Final Completion Report**

## **Volume 2 Annexes**

This report was prepared by PADCO's contract with USAID No 674-C-00-02-00007-00 under USAID/South Africa's Strategic Objective No. 6: Increased Access to Shelter and Environmentally-Sound Municipal Services to Historically Disadvantaged Populations (HDPs)

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### **DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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**Standard Grant Agreement**

Block C – Level U1  
Samrand Development Building  
Samrand Avenue,  
Centurion  
0046

P O Box 8151  
Midrand  
1685  
Tel: (011) 313-3413 Fax: (011) 313-3358  
Home page: <http://www.miiu.org.za>



\*CEO\*  
\*Client\*  
\*address\*  
\*city\*  
\*postalcode\*  
\*date\*

Our ref      \*ProjectId\*  
Contact      \*ProjectManager\*  
                 \*PMemail\*  
                 \*PMcontact\*

Dear \*CEO\*

**Grant agreement for \*Project\* project**

Your letter requesting assistance and subsequent conversation with ourselves refers.

We are pleased to offer \*Client\* technical and financial assistance for the above project on the terms and conditions set forth in the attached agreement.

The signing of this agreement must be authorised by a Council Resolution worded as follows:

*The Council resolved to:*

1. *Authorise the Municipal Manager to perform all acts and sign all documents that may be necessary in connection with the application; and*
2. *Bind itself to the provisions of an MIIU Grant Agreement;*

The agreement must be signed and dated by the Accounting Officer on pages 7 and Annexure C in the designated spaces, all other pages of the agreement and annexure must be initialled on the bottom right corner. Two witnesses must fill-in their full names and sign in the designated space, they too must also initialled all other pages of the agreement and annexure on the bottom right corner. A disbursement option (A or B) must be selected in Annexure B by crossed-out and initialled the inapplicable disbursement option. Physical address details must be completed on page 6.

A certified copy of the resolution, together with two original signed copies of the agreement should to delivery to the writer. A signed original will be returned for your records.

Yours sincerely

Danai Magugumela  
Chief Executive Officer

**AGREEMENT**  
**between the**  
**Municipal Infrastructure Investment Unit**  
**of the Government of South Africa**  
**and**  
**\*Client\***  
**for the provision of MIIU grant funding**  
**in support of Project Preparation Assistance**

This is an agreement between the Municipal Infrastructure Investment Unit (MIIU) of the Government of South Africa, and the \*Client\*, a “local government” under South African law, in furtherance of the role of the MIIU to encourage and optimise investment in local government services by providing grant funding to local authorities to hire technical assistance expertise from the private sector for the project described below, and in furtherance of the role and responsibility of the \*Client\* to provide municipal services to its constituents.

It is hereby agreed as follows:

1. DEFINITIONS AND HEADINGS

1.1. In this agreement, unless the contrary appears from the context, the following words have the meanings as stated:

- |                              |   |
|------------------------------|---|
| 1.1.1. “Recipient”           | *Client*  |
| 1.1.2. “MIIU”                | The Municipal Infrastructure Investment Unit of the Government of South Africa (Registration Number M98/0055340/08) |
| 1.1.3. “Parties”             | The Recipient and the MIIU  |
| 1.1.4. “Project”             | The *Client*’s *Project* project as described in more detail in Annexure A attached hereto                          |
| 1.1.5. “Funds”               | The financing granted in Clause 3.  |
| 1.1.6. “Project Manager”     | A person nominated in writing by the Recipient to act on its behalf in respect of the Project                       |
| 1.1.7. “Transaction Advisor” | A person appointed in writing by the Recipient to   |



provide assistance in carrying out the Project, paid with the Funds

1.2. The agreement shall be interpreted according to the following provisions, unless the context requires otherwise:

1.2.1. The headings of clauses, sub-clauses and annexures are included for convenience only and shall not affect the interpretation of the agreement;

1.2.2. References to the provisions of any law shall include such provisions as amended, re-enacted or consolidated from time to time in so far as such amendment, re-enactment or consolidation applies or is capable of applying to the agreement;

1.2.3. Reference to 'the agreement' shall include the agreement and its annexures, as amended, varied, novated or substituted in writing from time to time;

1.2.4. Words importing the singular shall include the plural and vice versa, and words importing either gender or the neuter shall include both genders and the neuter, and 'person' shall include both corporeal and incorporeal entities;

## 2. ROLES AND RESPONSIBILITIES OF THE PARTIES

2.1. To ensure that the purposes of the grant of Funds are accomplished, the parties shall:

2.1.1. Periodically and at the request of either Party:

2.1.1.1. Exchange views with regard to the progress of the Project, and the performance of their respective obligations under this Agreement as well as other matters relating to the purposes of the grant of Funds; and

2.1.1.2. Furnish each other with all such information as may be reasonably requested with regard to the progress of the Project and the general status of the Funds;

2.1.2. Promptly inform each other of any fact which interferes with, or threatens to interfere with, the progress of the Project, the accomplishment of the purposes of the Funds, any related matter, and in particular the performance by either Party of its obligations under this Agreement;

2.1.3. Jointly determine the Terms of Reference, Scope of Works, Request for Proposals and any other requirement to be considered in awarding the Transaction Advisor contract to be financed by the Funds;

2.1.4. Jointly determine the technical, financial, and organisational requirements in respect of managing the Project, in order to ensure that the Project is undertaken in an efficient and timely manner.

2.2. The Recipient shall:

- 2.2.1. Grant representatives of the MIIU the opportunities reasonably necessary to monitor the progress of the Project, for purposes relevant to the proper use of the Funds. MIIU reserves the right to withhold payment of the Funds in the event of underperformance.
- 2.2.2. In addition to the amount made available by this Agreement, be responsible for the provision of the co-financing necessary for the successful execution of the Project, as set out in Annexure B, including Funds to be supplied by third parties as reflected in that Annexure.
- 2.2.3. Be responsible for the management and maintenance of work carried out within the context of the Project, provided that the MIIU shall be consulted in this regard.
- 2.2.4. Consult with MIIU in relation to any amendment, variation, novation or substitution of the Transaction Advisor's Terms of Reference, Scope of Works.
- 2.2.5. Ensure that the procurement of Transaction Advisor's contemplated by this grant of Funds is conducted in accordance and compliance with section 217 of the Constitution, the Preferential Procurement Policy Framework Act, the Broad-Based Black Economic Empowerment Act, Code of Good Practice for Black Economic Empowerment in Public-Private Partnerships, and with the following procedures:
  - 2.2.5.1. Invite participation on equal terms from natural persons and bodies corporate respectively resident and registered in South Africa, possessing relevant expertise and skills;
  - 2.2.5.2. Constitute a competent panel of persons to adjudicate the bids and invite MIIU to participate in the adjudication and evaluation of bids. MIIU shall reserve the right to be present at the adjudication, and shall retain the right to veto the proposed award of tender;
  - 2.2.5.3. Adjudicate and evaluate the bids for Transaction Advisor in strict accordance with the evaluation criteria set out in the Request for Proposals; and
  - 2.2.5.4. Obtain MIIU formal ratification of the evaluation before proceeding to appoint preferred Transaction Advisor.
- 2.2.6. Ensure that the Transaction Advisor to whom the contract is awarded carries insurance appropriate to the activities to be conducted, and remains so insured throughout the duration of the contract;
- 2.2.7. Maintains records adequate to identify the activities carried out by means of the Funds granted, and furnish MIIU with all such information, such as progress reports, concerning implementation of the Project;
- 2.2.8. Submit a statement reasonably acceptable to MIIU, certified on behalf of the Recipient, reflecting the expenditure incurred under the consultant contract within 6 (six) months

after the end of each financial year of the Recipient during which a drawing is made on the Funds;

- 2.2.9. Apply the Funds in accordance with Annexure B;
  - 2.2.10. Preserve all documents and accounting records pertaining to the Project up to the expiry of a period of 3 (three) years after completion of the Project, and allow the MIIU, at MIIU's cost, to have such documents and records audited by a person or persons nominated by MIIU;
  - 2.2.11. Make available for review by MIIU all reports produced as a result of regular required government auditing requirements;
  - 2.2.12. Provide MIIU the opportunity to be present when findings from the Project are submitted to Council for the purposes of adoption by council resolution;
  - 2.2.13. Undertake that, in the event of the Project recommending investigation into Municipal Service Partnerships as an external service delivery option, the Recipient shall consider the option, although without obligation to pursue it.
- 2.3. MIIU shall use its best endeavours to make technical assistance available to the Recipient within the limits of its resources and upon such terms and conditions as agreed to by the Parties when the need for such assistance is identified by the Parties in terms of the provisions of clauses 2.1.3, 2.1.4, 2.2.3, 2.2.4 and 2.2.5, supra.

### 3. MIIU GRANT FUNDS

- 3.1. MIIU shall make available to the Recipient on the terms and conditions set forth in this Agreement, an amount not exceeding, in the aggregate, R \*MIUGrantNumber\* (\*MIUGrantWord\*). This amount is expected to cover \*GrantPercentNumber\*% (\*GrantPercentWord\* percent) of the total costs of the Project excluding VAT. The Recipient will be responsible for the balance of the Project costs, estimate to be R \*MuniContrNumber\* (\*MuniContrWord\*), and all VAT.
- 3.2. MIIU shall pay the proceeds of the Funds to and on the order of the Recipient in such disbursements, at such times, and on such terms and conditions as set forth in Annexure B attached hereto.
- 3.3. The Funds shall be utilised exclusively for the purpose of the Project as set out in Annexure A, and the Recipient shall ensure that any provisions contained in Annexure A are complied with.
- 3.4. The Recipient shall furnish MIIU with particulars regarding officials authorised to apply for withdrawals on its behalf.
- 3.5. The Recipient may by notice to MIIU cancel any undrawn portion(s) of the Funds provided that such cancellation shall not jeopardise the proper completion of the Project.

3.6. If MIIU reasonably concludes, after consultation with the Recipient, that any portion(s) of the Funds will not be required to finance the Project, MIIU may by notice to the Recipient, terminate the right of the Recipient to make drawings in respect of such undrawn portion(s).

#### 4. PAYMENTS

4.1. All payments to or by the Parties under this agreement shall be effected in South African Rand.

4.2. All payments under this agreement to Recipient shall be effected to the credit of such banking account(s) of the Recipient as the Recipient may from time to time direct, in writing.

4.3. Payments in terms of the agreement shall be effected without deduction for and free from any taxes, charges, fees, or other costs whatsoever.

#### 4.4. SUSPENSION AND TERMINATION

MIIU shall be entitled to suspend withdrawals from the Funds or to terminate this agreement, in the event, and for so long as, the Recipient fails to comply with any provision of this agreement after having given the Recipient 30 (thirty) days written notice to comply, and the Recipient thereafter continuing to remain in default, in which latter event the full amount previously withdrawn by Recipient shall be due, owing, and payable to MIIU.

#### 5. DISCLAIMER

MIIU shall not accept any responsibility for claims, losses, or damages to the extent caused or contributed to the Recipient by any errors, omissions, or negligent acts associated with or arising out of the services performed by the Transaction Advisor, its agents, employees or subcontractors.

#### 6. DISPUTE RESOLUTION

6.1. Should any dispute arise between the Parties with regard to the interpretation, the carrying into effect and implementation of any one or more of the provisions of this agreement, any of the rights and obligations of either party arising from the agreement, the termination or purported termination of, or arising from the termination of, or the rectification or proposed rectification of the agreement, or out of pursuant to this agreement, or any other matter which in terms of this agreement requires agreement by the parties, the parties shall, in the first instance, attempt to come to an agreement in relation to any such dispute by consultation and negotiation in good faith.

6.2. In the event that the parties, after consultation and negotiation, are unable to come to an agreement, then either party may give written notice to the other party of its intention to cancel the agreement

#### 7. NOTICES

7.1. The parties choose as their respective domicilium citandi et executandi for all purposes of the giving of notices and the serving of any process, and for any other purpose arising from the agreement as follows:

7.1.1. In the case of MIIU, addressed to the Chief Executive Officer, and received at:

Physical address: Block C, Samrand Development Building  
Samrand Avenue  
Centurion  
0046

Postal Address: P.O. Box 8151  
Halfway House  
1685

Telefax Number: 011 313 3358

7.1.2. In the case of the Recipient and received at the offices of the Recipient's Municipal Manager at the following address:

Physical address:

Postal Address: \*address\*  
\*city\*  
\*postalcode\*

Telefax Number: \*faxnumber\*

7.2. A notice shall be deemed to have been duly given:

7.2.1. On delivery, if delivered to any party's physical address in terms of this clause 8.1; or

7.2.2. On despatch, if sent to any party's then telefax number in terms of clause 8.1 as confirmed by telefax confirmation printout;

7.3. Either party may change its address to any physical address and telefax number (in the Republic of South Africa) for this purpose, by notice in writing to the other party.

## 8. ENTIRE CONTRACT

This contains the entire agreement between the Parties, and no representations, warranties, undertakings, or promises of whatever nature which may have been made by any of the Parties, their agents or employees, other than those herein contained, shall be binding or enforceable against them.

## 9. VARIATION

No amendment of, or addition to this Agreement shall be valid unless the same has been reduced to writing and signed by or on behalf of the Parties.

## 10. WAIVER & INDULGENCES

The non-enforcement of any provision of this Agreement or any indulgence which either Party may grant to the other shall be without prejudice to the rights of such first-mentioned Party to insist upon strict compliance by such other Party with all the provisions of this Agreement or to enforce its right in respect of which such indulgence was granted.

For the Recipient, thus done and signed at

on the \_\_\_\_\_ day of \_\_\_\_\_ 2005

as witnesses:

1

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(name in full)

2

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(name in full)

\_\_\_\_\_  
For and on behalf of the Recipient,  
duly authorised thereto (in terms of  
Annexure C attached hereto)

For the MIIU, thus done and signed at

on the \_\_\_\_\_ day of \_\_\_\_\_ 2005

as witnesses:

1

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(name in full)

2

\_\_\_\_\_  
(signature)

\_\_\_\_\_  
(name in full)

\_\_\_\_\_  
For and on behalf of MIIU,  
duly authorised thereto

**ANNEXURE A**  
**PROJECT DESCRIPTION**

\*ProjectDescription\*

## ANNEXURE B

### APPLICATION AND SOURCE OF FUNDS STATEMENT

#### ***Terms and Conditions of Disbursement:***

Disbursement is subject to submission to the MIIU of a written statement approved by the Recipient or its authorised representative. The written statement shall be submitted using a format approved by MIIU. Submission of invoices to MIIU shall be done in a way that is consistent with the schedule of deliverables and corresponding payments called for in the Transaction Advisor's contract between the Recipient and the Transaction Advisor hired to carry out the Project. Accordingly, the written statement shall include the following information:

- Description of the completed deliverable (e.g., a report);
- Cost of the deliverable, as agreed to in the original consulting contract;
- Start/finish dates of the work involved in producing the deliverable;
- Identification of consultants involved; and
- Schedule of remaining deliverables and costs.

Note that MIIU funds may not be used to pay Value Added Tax (VAT). The Transaction Advisor carrying out the work paid for with these funds should include VAT in their invoices to the Recipient. The Recipient should pay for these services, including VAT, but then may reclaim VAT. In a letter to MIIU, dated 29 March 1999, the Commissioner for the South African Revenue Service has said

"The payment of grants from the grant fund to municipalities does not have any VAT-consequences as these payments constitute neither supplies nor consideration for supplies. Where these funds are used by the municipalities to pay for services supplied by consultants, the municipalities will be entitled to deduct input tax in respect of these services to the extent that these services will be used in the course of making taxable supplies."

#### ***Terms and Conditions of Cost-Sharing:***

MIIU and the Recipient agree to share the total costs of this Project, which are expected to be at R \*TotalCostNumber\* (\*TotalCostWord\*) excluding VAT. Cost-sharing will be performed on an invoice-by-invoice basis, with MIIU providing its \*GrantPercentNumber\*% (\*GrantPercentWord\* percent) apportioned contribution for each invoiced amount excluding VAT, but limited to a total maximum amount of R \*MIIUGrantNumber\* (\*MIIUGrantWord\*), as indicated in Clause 3.1. MIIU will also pay all costs associated with the participation of its employees in the Project.

Likewise, the Recipient will provide an apportioned contribution, plus all VAT. The Recipient contribution toward the total costs of the Project is estimated to be R \*MuniContrNumber\* (\*MuniContrWord\*) excluding VAT, or \*MuniPercentNumber\*% (\*MuniPercentWord\* percent) of the total cost excluding



VAT. The Recipient should determine the VAT cost associated with the Project and provide an appropriate budget for these.

The recipient is obliged to select either Disbursement Option A or B instructing the MIIU on how to disburse its apportioned contribution of the total project costs on the submitted invoices.

(The Recipient must delete the option NOT applicable, and initial beside the deletion).

**Disbursement Option A:**

MIIU shall upon receipt of a duly approved invoice consistent with the schedule of deliverables pay its apportioned contribution excluding VAT, directly into the designated banking account of the Recipient;

or

**Disbursement Option B:**

MIIU shall upon receipt of a duly approved invoice consistent with the schedule of deliverables and a written instruction from the recipient authorising the MIIU to pay its apportioned contribution excluding VAT, directly into the designated banking account of the appointed Transaction Advisor.

A variation to the selected option shall only be considered by the MIIU upon written request from the recipient.

Should the recipient fail to select any of the above options, MIIU reserves the right to disburse payment of its apportioned contribution at its discretion.

The Recipient will also supply and compensate all of its employees who participate in the Project on its behalf, as well as contribute funds necessary to cover all costs associated with the efforts of its employees to ensure that all the terms and conditions of this agreement are met, including appropriate costs for necessary office space and equipment, transportation, secretarial services, legal advisory services, and other specialist services required by the Recipient, over and above the basic technical assistance required to complete the Project.

Should the Project described in this agreement be completed successfully, and MIIU and the Recipient agree on the need to move on to the next phase of work, as described above in Annexure A, the share of total project costs to be paid by the Recipient may increase, subject to MIIU cost-sharing guidelines. Accurate cost estimates for this final phase will depend on the work of the first two phases.

It is also likely, however, that if a public-private partnership contract is successfully concluded, a significant portion of this final cost-sharing contribution by the Recipient may be recovered by the Recipient in the form of a "success fee" paid by the private partner.

## ANNEXURE C

### AUTHORISATION – RECIPIENT

By resolution of the Council of \*Client\* taken on [ d ][ d ][ m ][ m ][ y ][ y ][ y ][ y ], the Accounting Officer (Municipal Manager) has been duly authorised to perform all acts and sign all documents that may be necessary in connection with the Application by \*Client\* for grant funding for technical assistance to the Municipal Infrastructure Investment Unit (MIIU). This resolution also binds council to the provisions of the Grant Agreement attached hereto.

Signed on behalf of the \*Client\* in his/her capacity as Accounting Officer (Municipal Manager)

Date:

---

Signature of signatory:

---

Name of signatory:

---

(See Attached Council Resolution)

**Annex A8  
Standard Amendment to Grant Agreement**

**AMENDMENT TO AGREEMENT**

**between**

**The Municipal Infrastructure Investment Unit (MIIU)**

**and**

**Name of Municipality**  
**for the provision of MIIU grant funding**  
**in support of Technical Assistance**

Whereas, in **mm/yy**, the Municipality, and the MIIU, did execute an agreement for the provision of project preparation assistance to the Municipality, which assistance was funded in part by the MIIU (“the Agreement”); and

Whereas, project preparation assistance was thereafter provided to the Municipality for technical and institution evaluations as identified in Annexure A to the Agreement; and

Whereas, the parties agree that Municipality had agreed to fund **R\_\_\_\_\_ (\_\_\_%)** + all VAT amounts towards the Feasibility Study, with MIIU paying **R\_\_\_\_\_ (\_\_\_%)** VAT exclusive.

Whereas, **(describe, scope of work remaining or the additional work that needs to be completed)** it is expected that an additional budget of **R\_\_\_\_\_** is required to cover the outstanding costs. The extent of these activities, and the cost implication thereof were not clearly estimable at the time of signing the MIIU grant agreement with the Municipality.

Now, therefore, it is hereby agreed that Annexure B, be AMENDED with the following:

1. The top-up funds for the outstanding work to be invoiced within this phase are estimated at **R\_\_\_\_\_** total, excluding VAT.
2. Cost-sharing between MIIU and the Municipality remains at **\_\_\_** and **\_\_\_**. MIIU are therefore responsible for **R\_\_\_\_\_ (\_\_\_%** of the total) and the Municipality for **R\_\_\_\_\_ + all VAT** amounts.
3. **Name of Municipality** remains responsible for all VAT amounts invoiced by the consultant. All other terms and conditions of the Agreement shall remain in full force and effect.

THUS DONE AND SIGNED by the parties and witnessed as follows:

for **Name of Municipality**:

\_\_\_\_\_  
Signature                      Date                      Place                      Witness

for the **Municipal Infrastructure Investment Unit**

\_\_\_\_\_  
Date                      Place                      Witness

**Annex A.9**  
**Standard Request for Proposal**  
**For Transaction Advisory Services**  
**(Non-Sector Specific)**

**Request for Proposal  
for transaction advisory services  
to the  
\*Client\***

**for the preparation of a  
\*feasibility study\*  
(in terms of the section 78 of the Municipal Systems Act  
and section 120 of the Municipal Finance Management  
Act)**

**Sponsored by the  
Municipal Infrastructure Investment Unit**

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# 1 Introduction

The \*Client\* has received a grant from the Municipal Infrastructure Investment Unit (MIIU), and intends to apply this grant to eligible payments under this contract. As the entity providing funds to pay for this study, it is the policy of the MIIU to require that the local government benefiting from MIIU grants, as well as transaction advisor under MIIU-financed contract, observe the highest standard of quality and ethics during the selection and execution of such contract. Accordingly, MIIU reserves the right to withdraw its funding at any stage, if MIIU determine that those standards have been or are likely to be compromised.

The \*Client\* now invites proposals, through this Request for Proposal (RFP), to provide a \*feasibility\_study\*, in terms of the Municipal Systems Act (MSA) and Municipal Finance Management Act (MFMA), as described in the Scope of Work and Deliverables included in section 3 and 4 below. The proposal will be the basis for contract negotiations and ultimately a contract with the selected firm.

A transaction advisor will be selected using the procedures described in this RFP.

The Project shall begin no later than 15 days after Notice to Proceed.

You must familiarise yourself with local conditions and take them into account in preparing your Proposal.

Please note that (i) the costs of preparing the proposal and of negotiating the contract are not reimbursable as a direct cost of the project; (ii) the \*Client\* is not bound to accept any of the Proposals submitted; and (iii) the decision to award a contract is based on both capabilities and cost portions of the proposal.

It is unlikely that any one firm has all the expertise needed to carry out every aspect of the work proposed in this RFP. Bidders are strongly encouraged to form consortia, with sufficient and appropriate BEE component, in providing the broad-based services required by this RFP.

Note that a firm which has been engaged by \*Client\* to provide transaction advisory services for this Project, and any of its affiliates, shall be disqualified from providing goods or works or services related to any eventual project that may result, directly or indirectly, from these consulting services.

Summary of key dates:

Date of issuance	*Issue*
Compulsory briefing session	11:30 on *MeetingDate*
Deadline for questions	12:00 noon on *Question*
Closing date	12:00 noon on *CloseDate*

Your proposal must be hand delivered or couriered to the \*Client\* tender box, no later than 12:00 noon on \*CloseDate\*. Facsimiles will not be accepted.



## 2 Background

This section of the RFP is developed by Project Manager and Client. It should cover the following points and describe the particular nuances of the project:

- Context
- Overarching principles and vision of the \*Client\*
- Background to the development of the service eg: solid waste
- MSP & PPP framework
- Stakeholders
- Existing arrangements
- Constraints
- Dependencies
- Critical success factors
- Project plan

### **3 Scope of work**

The scope of work for the transaction advisor shall be carried out in three phases. This RFP only covers the first two phases. Any reference to phase three is only provided for information. The scope of work for phase three, if required, may be awarded through a separate RFP.

#### **3.1 Phase 1: Preliminary feasibility study**

The transaction advisor will be required to produce a preliminary *\*feasibility\_study\** using public sector comparator models. The preliminary feasibility study must also comply with requirements of MSA section 78(1). The preliminary feasibility study must enable *\*Client\** to understand and determine:

- Strategic outline and objectives
- High level technical options
- Preliminary affordability limits
- Public provisioning risks and their costs;
- Due diligence iro section 78(1)
- Achievability

Section 4 below sets out the deliverables required of the transaction advisor for the preliminary feasibility study.

#### **3.2 Phase 2: Final feasibility study**

If, on the basis of the preliminary feasibility study, the Council of *\*Client\** decides to explore the possibility of an external mechanism in terms of MSA section 78(2), and if *\*Client\** requires it, the transaction advisor will be required to produce a final *\*feasibility\_study\** using PPP-reference models. The final feasibility study must also comply with requirements of MSA section 78(3) and MFMA section 120. The final feasibility study must enable *\*Client\** to determine:

- Full project cycle costs
- Final affordability limits
- PPP provisioning risks and their costs
- Optimal value-for-money methods of delivery
- Market assessment
- Achievability & implementation options

Section 4 below sets out the deliverables required of the transaction advisor for the final feasibility study.

#### **3.3 Phase 3: PPP procurement**

If, on the basis of the final feasibility study, the Council of *\*Client\** decides on a PPP solution (an external mechanism) in terms of MSA section 78(4) and the necessary regulatory approval are obtained, and again if *\*Client\** requires it, the transaction advisor will be required to provide the necessary technical, legal and financial advisory support for the procurement of a private partner. This must be in compliance with all elements of the MFMA and MSA.

This component is provided for information only, and will not constitute part of the scope of work of this contract. Phase 3, if required will be bid out separately at a later stage.

## **4 Feasibility study deliverables**

### **4.1 Introduction**

The transaction advisor is required to produce, in close liaison with the \*Client\*, a comprehensive preliminary and final \*feasibility\_study\*.

The feasibility study needs to clearly demonstrate affordability for the full project cycle and propose the optimal value-for-money solution for the \*Client\* to achieve its desired outcomes.

In preparing the feasibility study, the transaction advisor should be guided by the National Treasury's PPP Manual (available on [www.treasury.gov.za](http://www.treasury.gov.za)), the municipal desk of the National Treasury's PPP Unit and MIIU Project Managers.

During the preparation of the feasibility study, the transaction advisor will work in close liaison with senior officials of the \*Client\*. This will require an appropriate level of on-site presence, regular steering committee meetings, information gathering and dissemination workshops, and other facilitation activities.

#### **4.1.1 Presentation of the feasibility study**

The feasibility study, comprising all the below deliverables, must be compiled in a single report in Word format (with relevant annexures and models), and delivered as both electronic and hard copy documents. All financial models must be in Excel format, and clearly set out all assumptions made, sensitivity analyses carried out, and model outputs. Financial models must comply with good practices for financial model design, must be audited and certified free of errors in computation. The financial models must also be sufficiently adaptable for use by others at later stages. The feasibility study must be presented with a thorough executive summary and must be accompanied by a PowerPoint presentation that encapsulates all the key features of the study. The executive summary and PowerPoint presentation must be compiled in such a manner that they can be used by the \*Client\*'s management for decision-making purposes.

Two hard copy documents and two CD (electronic copies of documents) must be delivered to the \*Client\*. MIIU must be supplied with one hard copy documents and one CD (electronic copies of documents).

#### **4.1.2 Submission requirements for the feasibility study report**

If the \*Client\* decides to pursue a PPP solution for the municipal service or function, the feasibility study must be of a standard that will be accepted by National Treasury for the purposes of obtaining an approval. The transaction advisor is therefore advised to be fully familiar with the requirements of the PPP Unit as set out in the National Treasury's PPP Manual.

### **4.2 Preliminary feasibility study**

The preliminary feasibility study shall consist of a report. The contents of this report, shall as a minimum cover the following contents:

#### *Preliminaries*

- Executive summary
- Introduction
- Project background
- Approach and methodology to the feasibility study

#### *Section 1: Needs analysis*

- Institution's strategic objectives

- Budget
- Institutional analysis
- Output specifications

### *Section 2: Solution options analysis*

- Technical, legal and financial options considered
- Evaluation and assessment of each option in respect of the output specifications
- Summary of evaluation and assessment of all options considered
- Recommendation of a preferred option

**NB: Solution options are not internal or external mechanisms (procurement choice).**

### *Section 3: Suitability of internal mechanisms for achieving the output specifications*

- Evaluation and assessment of each internal mechanisms (as per MSA section 76(a)) for achieving the output specifications
- Recommendation of a preferred internal mechanism

### *Section 4: Project due diligence*

- Municipality's capacity and resources
- Legal aspects
  - Use rights
  - Regulatory matters
- Site enablement
- Socio-economic
  - Employment patterns
  - Organised labour
  - Black Economic Empowerment
- any developing trends in the sustainable provision of municipal services generally

### *Section 5: Value assessment – part 1*

- Affordability\*
- Risk assessment
  - Comprehensive risk matrix\* for all project risks (identification of risks and likelihood of occurrence)
  - Summary of the institution's retained and transferable risks
  - Assessment of impacts and financial implication

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\* see glossary

- Scenario development (actual public sector methods of providing the defined output and “reasonably” foreseeable efficiencies that the public sector could make)
- Public Sector Comparator model\*
  - Discussion on direct costs (capital and operational) and indirect cost (capital and operational) and assumptions made on cost estimates
  - Discussion on revenue (if relevant) and assumptions made on revenue estimates
  - Discussion on all model assumptions made in the construction of the model, including inflation rate, discount rate, and budgets
  - Summary of results from the base PSC model: NPV
  - Risks adjustment NPV (retained and transferable)

### *Annexures*

- Annexure 1: Statements for information verification and sign off from each advisor to the project
- Annexure 2: Letter of concurrence from Accounting Officer of institution
- Annexure 3: Risk assessment and comprehensive risk matrix
- Annexure 4: PSC model
- Annexure 5: Document list (list of all documents related to the project, where they are kept, and who is responsible for ensuring that they are updated)
- Annexure 6,7,...: Attach as annexures all other documents that have informed the feasibility study and that are of decision-making relevance to the project.

## **4.3 Final feasibility study**

### *Section 6: Suitability of external mechanisms for achieving the output specifications*

- Preliminary evaluation and assessment of each external mechanisms for achieving the output specifications
- Preliminary evaluation and assessment of external mechanisms
- Recommendation of a preferred external mechanism and/or PPP option

### *Section 7: revision of section 4 (Project due diligence)*

- Number of years for which external provision might be considered
- Projected impacts on municipal staff, assets, and liabilities
- Projected impacts on the IDP
- Projected impacts on the budget over the period during which the external mechanism would be used (including impacts on revenue, expenditure, borrowing, debt and tariffs)
- The strategic and operational benefits of the PPP for the municipality in terms of its strategic objectives
- The nature of the private party's role in the PPP
- The extent to which this role ("both legally and by nature") can be performed by the private party
- The capacity of the municipality to effectively monitor, manage, and enforce the agreement.

- How project will address the needs of the poor
- Approach and methodology for stakeholder consultation
- Views of organised labour
- View of local community

### *Section 8: Value assessment – part 2*

- PPP reference\* for each recommendation preferred option
  - Discussion on costs (direct and indirect) and assumptions made on cost estimates
  - Discussion on revenue (if relevant) and assumptions made on revenue estimates
  - Discussion on all model assumptions made in the construction of the model, including inflation rate, discount rate, depreciation, tax and VAT
  - BEE targets
  - Proposed PPP project structure and sources of funding
  - Payment mechanism
  - Summary of results from the PPP-reference model: NPV
  - Risks adjustment NPV (retained)

### *Conclusions*

- Summary of results: NPV, key indicators
- Sensitivity analyses
- Statement of affordability
- Statement of value for money
- Recommended procurement choice

### *Annexures*

- Update of annexure
- Annexure ....: PPP reference model

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\* see glossary

## 5 Transaction advisor skill, experience, remuneration and management

### 5.1 *Necessary transaction advisor skills and experience*

The transaction advisor will comprise a team, managed by a single lead advisor. The members of the team will have both the skill and experience necessary to undertake the range of tasks set out in this RFP. Each individual on the team must be personally available to do the work as and when required. The lead advisor will be held accountable, in terms of the transaction advisor contract, for ensuring project deliverables and for the professional conduct and integrity of the team.

The skills and experience required in the transaction advisor are as follows:

- Financial analysis and modelling, with relevant PPP and project finance experience
- PPP procurement and structuring
- Legal and legislative understanding, with relevant South African experience in the drafting and negotiating of PPP agreements
- Technical knowledge and skills in planning and management of the service under consideration
- Relevant expertise in set out elements of project
- BEE expertise with relevant PPP experience
- Negotiations
- Contract management
- Project management.

### 5.2 *Remuneration schedule and disbursement arrangements*

The total sum budgeted by the \*Client\* for remuneration of professional services and out-of-pocket expenses under this RFP is R \*Budget\*. Bidders are advised to bid within this figure, and to allocate resources according to the remuneration schedule below. Revealing the cost estimate for the tasks does not mean that bidders should strive to meet the maximum amount.

Remuneration of the transaction advisor will be payable in South African Rands, on a fixed price for each component of work as shown below. The procurement portion (phase three) of the work may or may not transpire at the end of the feasibility study, and should be not be costed at this stage.

### 5.3 *Remuneration schedule*

The following remuneration schedule is set for each part of the contract. Bidders should adhere to these in their proposals, within the total budget given.

Feasibility study

Feasibility study deliverable	Percentage
Phase 1:	
– Completion of sections 1 & 2	20
– Completion of section 3 & 4	17

– Completion of section 5	15
Phase 2:	
– Completion of sections 6 & 7	20
– Completion of sections 8	18
– Completion of final feasibility study report to the satisfaction of MIIU, *Client*, and a favourable decision by National Treasury on s.120(6) approval	10
<b>Total</b>	<b>100</b>

Deliverables completed per the remuneration schedule will be approved by the Municipality’s project officer and MIIU project manager, after which invoices may be submitted for payment as per the remuneration schedule.

#### **5.4 Disbursement arrangements**

Out-of-pocket expenses will be paid by at cost within an agreed ceiling. All claims for travel and other legitimate disbursement expenditure must be pre-approved by the Municipality’s project officer before they are incurred. An email system for these approvals will be set up when the transaction advisor contract is signed. Pre-approved project expenditure on travel outside the province, related reasonable accommodation costs, expenditure on document reproduction, or any other legitimate pre-approved project disbursement expenditure will be reimbursed at cost. Payment will be made within 30 days of receiving approved and substantiated invoices, and does not form part of the remuneration schedule. Bidders are required to propose a ceiling for such disbursements. This ceiling will also be evaluated as part of the price proposal.

#### **5.5 Management of transaction advisor**

The transaction advisor will be appointed by the accounting officer of the \*Client\*.

A project officer will be appointed by the accounting officer to take full responsibility for managing the transaction advisor’s work and for ensuring delivery on the project. The successful bidder will be notified of the project officer details.

The project officer will established a project team to engage regularly with the transaction advisor for efficiently completing the various delivery items. The project team will meet at least monthly and the transaction advisor will report progress to these meetings, as instructed by the project officer.

The project officer will confirm that the transaction advisor has satisfactorily completed each deliverable before invoices can be submitted to for payment.



## 6 Rules of bidding, bid submission requirements and bid evaluation

### 6.1 Rules of bidding

- 1 The transaction advisor must be a single legal entity with all other necessary expertise secured via subcontract, or under a joint venture arrangement. The \*Client\* will enter into a single contract with a single firm for the delivery of the work set out in these terms of reference.
- 2 Tax clearance certificates dated within six months of the closing date of this bid must be submitted by all South African firms submitting bids as part of a consortium or joint venture.
- 3 Bids must be submitted in South African Rands, on a fixed price basis.
- 4 The costs of preparing bids and of negotiating the contract will not be reimbursed.
- 5 \*Client\* is not bound to accept any of the bids submitted, and reserves the right to call for best and final offers from short-listed bidders before final selection.
- 6 \*Client\* reserves the right to call interviews with short-listed bidders before final selection.
- 7 \*Client\* reserves the right to negotiate price with the preferred bidder.
- 8 Firms may ask for clarification on these terms of reference or any of its annexures up to 12:00 noon on \*Question\*. Any request for clarification must be submitted to the project officer. Copies of questions and answers will be emailed to all firms that register at the briefing session, without revealing the identity of the source of the questions.
- 9 \*Client\* reserves the right to return late bid submissions unopened. Late submissions will be accepted only in exceptional circumstances and only within 12 hours of the deadline for the submission of bids and at the discretion of the project officer.
- 10 Firms may not contact the \*Client\* or MIIU on any matter pertaining to their bid from the time when bids are submitted to the time the transaction advisor contract is awarded. Any effort by a bidder to influence bid evaluation, bid comparisons or bid award decisions in any manner, may result in rejection of the bid concerned.

### 6.2 Bid submission requirements

Transaction advisors are required to submit their proposals in two envelopes in the following format:

#### 6.2.1 Envelope 1: Technical and BEE proposals

Titled 'Technical and BEE proposal: Transaction advisor services to \*Client\* for \*feasibility\_study\*'.

This envelope must contain at least the following:

- A covering letter signed by the lead transaction advisor, among others:
  - Accepting the rules of bidding, evaluation of bids, and bid evaluation criteria set out in the RFP
  - Attaching a tax clearance certificate from South African Revenue Services for the lead transaction advisor firm and all South African firms to be subcontracted to it for this assignment, or all South African firms participating in a joint venture for purposes of this bid
  - Providing full contact details for the lead transaction advisor.
- Information on and motivation for the lead transaction advisor, attaching his or her curriculum vitae, and setting out his or her personal, and his or her firm's:

- Suitability for this assignment
- Relevant skills and experience: for each relevant experience cited, outline the precise role the lead transaction advisor played, the role of the firm, contract duration, contract outcomes, and contract value
- Availability to perform the work: this must be substantiated by listing the lead transaction advisor’s other known professional commitments for the forthcoming six months
- Names and BEE status of all proposed team members, and their firms (See Form 1: Composition of proposed consulting team), setting out:
  - The professional role that each person will play in the assignment. This must be cross-referenced to each deliverable and to each specified technical evaluation element set out in the technical scorecard
  - The suitability of each person for the proposed roles in terms of his or her relevant skills and experience
  - The availability to perform the work
  - A half page resumés of each person highlighting responsibilities held for experience relevant to this assignment in the last two years (see Appendix B)
  - The black South African professionals on the team, clearly showing the roles they will play.
- The BEE proposal, setting out:
  - The number and percentage of black professionals playing leading roles in the transaction advisor consortium
  - The percentage of black equity in the companies making up the consortium, with a weighted average calculated on the percentage of work to be performed by each company, presented in the following format: (See forms 2 & 3. The table has been completed with an example.)
  - A credible plan for structuring effective BEE for the PPP, with the necessary skill and experience in the team, substantiated by references.
  - A credible plan for skills transfer within the consortium to directly benefit black professionals inexperienced in PPPs.

● **Table 1: Example of Form 3 - Consortium BEE ownership**

X	80%	15%	12%
Y	10%	50%	5%
Z	10%	100%	10%
Total	100%		27%

Column B must show the percentage of ownership by individuals who are actively involved in the management of the specific company. To verify this, the proposal must be accompanied by supporting documents.

- Project comprehension and project management plan, setting out:
  - The transaction advisor’s understanding of the scope of work, and any proposals for amendments to the scope of work that would enhance desired outcomes
  - How the transaction advisor proposes to manage the set of deliverables outlined in the scope of work
  - A proposed outline work plan with timetable for delivery
  - How the transaction advisor members will be supervised
  - How reporting to the project officer will take place
  - Any innovative ideas for how the whole assignment can best achieve its objectives.
  - This section should not be a regurgitation of the scope of work, an MIIU terms of reference or the PPP manual.

**The technical and BEE envelope must not include any price proposal.**

## 6.2.2 Envelope 2: Price proposal

Titled ‘Price proposal: Transaction advisor services to \*Client\* for \*feasibility\_study\*’.

This envelope must contain:

- Proposed remuneration for professional fees:
  - A remuneration proposal in the remuneration format outlined in 5.3 above, giving professional cost per deliverable item and total for each part as indicated
  - VAT must be specified as a separate total for each component of the feasibility study. While VAT will be paid pro rata for each delivery item in each part of the assignment, it should be indicated as a total sum per part for purposes of this submission.
- Cash flow earmarked for each member of the consortium, indicating how black people will benefit. The fee-sharing structure must reflect the actual work, risk and responsibility assumed by each member.
- An estimation of anticipated disbursement costs per part of work. This information will not be used as a criterion for the evaluation of bids, and the successful bidder will not be held to this amount.
- A marked-up version of the draft transaction advisor contract (attached here as Appendix B), including the proposed remuneration set out in a draft proposed payments schedule to the contract.

## 6.3 Bid evaluation criteria

Evaluation will be based on a point system. The following is the weighting awarded for each element, and the threshold score for each:

Evaluation element	Weighting	Threshold score
Technical proposal	70	50%
BEE proposal	10	60%

Price proposal	20	N/A
Total	100	

The bid which achieves the highest total points out of 100 will be recommended by the bid evaluation panel as the preferred transaction advisor.

In compliance with the PPPFA, the BEE component of a transaction advisor bid will constitute 10% of the bid evaluation weighting, with the price and technical elements constituting the remaining 90%. A minimum threshold of 40% of the total BEE points will be set and a minimum threshold of 50% of the total technical points will be set. The technical, BEE and price elements are each scored out of 100 points, and the scores achieved (if they meet the thresholds), calculated into the bidder's overall score using the following formula:

$a * (\text{technical score}/100) + b * (\text{BEE score}/100) + c * (\text{price score}/100) = d$ <p>where:</p> <ul style="list-style-type: none"> <li>a is the weighting for technical (70%)</li> <li>b is the weighting for BEE (10%)</li> <li>c is the weighting for price (20%), and</li> <li>d is the total score achieved by the bidder.</li> </ul>
--

The calculation of price points will be done using the prescribed price formula set in the regulations to the PPPFA.

The technical and BEE proposal will be evaluated according to the criteria and thresholds set in the technical and BEE scorecards, as follows:

*Technical scorecard*

Technical proposal		Scoring (for whole or each sub-element where applicable)	Maximum points	
1	Financial analysis and project finance	Excellent = 8		16
	- Skills	Acceptable = 4	8	
	- Relevant experience	Poor =0	8	
2	Legal	Excellent = 8		16
	- Skills	Acceptable = 4	8	
	- Relevant experience	Poor =0	8	
3	Technical skills appropriate to the project	Excellent =8		16
	- Skills	Acceptable =4	8	
	- Relevant experience	Poor =0	8	

4	PPP procurement and structuring: Relevant experience and track record	Excellent =8 Acceptable =4 Poor =0		8
5	Negotiations: Relevant experience and track record	Excellent =8 Acceptable =4 Poor =0		8
6	Other skills and relevant experience	Excellent =8 Acceptable =4 Poor =0		8
7	Quality of project comprehension demonstrated in proposals	Excellent =8 Acceptable =4 Poor =0		8
8	Quality of proposed work plan, project management approach and timetable for the project	Excellent =10 Acceptable =5 Poor =0		10
9	Lead transaction advisor's availability for the work	Excellent =10 Acceptable =5 Poor =0		10
	Total technical points			100
	Minimum threshold for technical			50

### *BEE scorecard*

BEE proposal		Scoring	Weighting	Points total
1	The percentage of Black People playing leading professional roles in the Transaction Advisor consortium	25% - 35% = 3 >35% = 5	6	30
2	The percentage of black equity in the Transaction Advisor consortium	25% - 35% = 3 >35% = 5	6	30
3	A credible plan for structuring effective BEE for the PPP, with necessary skill and experience in the team	Poor plan, poor skill & experience = 1 Incomplete plan,	4	20

		limited skill & experience = 2 Credible plan, skill & experience = 5		
4	A credible plan for skills transfer within the consortium to directly benefit Black professionals inexperienced in PPPs (may specify targeting of Black People within a geographic area)	Poor plan = 1 Incomplete plan = 2 Credible plan = 5	4	20
	Total BEE points			100
	Minimum threshold for BEE			60

## 6.4 *Bid evaluation*

A bid evaluation panel will be established by the \*Client\* comprising senior officials of the \*Client\* and the MIIU. The panel will evaluate all transaction advisor bids received by the deadline, according to the criteria indicated here. It will make a recommendation to the \*Client\* tender committee on the appointment of the preferred transaction advisor.

The bid evaluation panel reserves the right to call bidders to complete any outstanding elements of their bids, make presentations of their bids, and/or present best and final offers if required.

The decision of the \*Client\* accounting officer will be final.

The price proposal envelopes of each bid received will be locked away until the technical and BEE proposals have been evaluated by the bid evaluation panel. The price proposals of only those bids whose technical and BEE proposals meet or better the technical and BEE threshold scores set out in the bid evaluation criteria will be considered. The price proposal envelopes of those bids that do not meet the technical and BEE threshold scores will not be opened and will not be further considered for selection.

Any bid which fails to submit any element of the bid submission requirements set out above may, at the discretion of the bid evaluation panel, be rejected as unsuitable for evaluation, and will therefore not be further considered.

## 6.5 *Compulsory briefing session*

The \*Client\* will hold a briefing session. All potential transaction advisors are required to attend and to register their interest in submitting bids. The list of attendees will be circulated to all present to encourage the formation of appropriate consortia. No party registering interest is, however, bound to submit a bid.

Date: \*MeetingDate\*

Time: 11:30

Venue: \*briefing\_session\_venue\*

Please confirm attendance by email to: \*PM\_email\_address\*

## 6.6 *Address and deadline for submission of bids*

Bids by transaction advisors must be submitted in a single sealed envelope, containing the two, separate sealed envelopes required.

The envelope must be marked: 'Transaction advisor services to \*Client\* for \*feasibility\_study\*'.  
The bid must be hand delivered to:

The bid box

Attention: \*PM\_name\*

\*Client\*

\*physical\_address\*

By no later than 12:00 noon on \*CloseDate\*

The \*Client\* will record all bids received by the deadline.

## Appendix A: Forms of proposal

It is compulsory to submit the following forms of proposal both in hard and electronic copy (Excel format). Proposals that do not contain completed forms of proposals may be rejected.

Black persons refers to natural persons of African, coloured and Indian decent of either sex who where holder of South African citizenship on or before April 1994.

### *Form 1: Composition of proposed consulting team*

A table containing a minimum of the following information must be prepared and submitted with the proposal:

Team members names	ID Number	Firm	Black persons (Y/N)	Project role

### *Form 2: BEE ownership per firm*

A table containing a minimum of the following information must be prepared and submitted with the proposal:

Name of partner/proprietor/shareholder	ID number	Firm	SA Citizenship (Y/N)	Black persons (Y/N)	% ownership

The above table should summarise the total ownership in the hands of Black persons for each firm.

### *Form 3: Consortium BEE ownership*

If the bidder in a consortium of firms, the following information should be supplied:

Name of Firm and registration numbers	Number of persons resourced on this project	Percentage of total reimbursement accruing to that consortium member (A)	Percentage of black equity in that consortium member (B)	Calculated % black equity in consortium (A) x (B)




## Appendix B: Guidance for Transaction Advisors’ on the preparation of proposals

It is a common complaint that local government procurement takes too long. Often the cause of delay is poor quality proposals, which result in an increase in the time required to vet proposals and concerns around the transaction advisors’ understanding and ability of deliver.

This section is intended to guide and assist TA proposal team to put together higher quality proposals that will reduce the time required to vet proposals and award tenders.

### *Recommended contents of Technical and BEE proposals*

- i. Cover letter  
{Ensure that the letter includes all the information required and is sign by a duly authorised officer of the lead partner }
1. Our understanding of your requirements  
{A concise description of your understanding of the clients requirements, identifying key work packages and deliverables and methods }
2. Our credentials  
{Credentials of the firm/consortium cross-reference with short resume of individual team members. If the credential is not directly related to this project (ie PPP feasibility study), demonstrate how the skill and experience are directly transferable – See: Recommended layout of credential }
3. Our team  
{Short resume of all team members. If team member does not have directly experience related to this project (ie PPP feasibility study), demonstrate how the team member’s skill and experience are directly transferable – see Recommended layout of half page resume }
4. Proposed methodology, approach and project plan  
{Concise description of methodologies to be used in managing the project, people and activities. Describe your approach to developing the work packages, concisely but with sufficient detail to demonstrate your expertise. Describe a realistic and achievable project plan with measurable milestone and resourcing }
5. Annexures  
{the following can be included in the annexures }
  - a. Short profile on firm/consortium
  - b. tax clearance certificates
  - c. BEE proposal, plans and forms

### *Recommended layout of credentials:*

Client	Nelson Mandela Metropolitan Municipality	Engagement date	1 Nov 2004 – 3 March 2005
Client reference	Mr Ali Said (082 330 9823)	Contract value	R 1,300,000
Team	Joe Bloggs (see page 9), A N Other (see page 12), ... <b>(Only list team members that</b>		

	<b>will be used in this proposal)</b>
<i>Project Description</i>	
<p>Feasibility study for NMMM hazardous waste site ito MSA s.78 and MFMA s.120. We did the usual stuff for a feasibility study, council has considered the draft report and has submitted to NT for approval.</p> <p>The project was sponsored by MIIU, Dr James Leigland was the project manager</p>	

*Recommended layout of half page resumes:*

<i>Name:</i>	Joe Bloggs	<i>Project role:</i>	Financial modelling workstream leader
<i>Professional qualifications:</i>	BSc (Eng), MBA,	<i>Black person:</i>	Y
<i>Employer:</i>	HP Consulting	<i>Rate:</i>	R 400/h
<i>Professional resume:</i>			
<p>Joe will lead the financial modelling workstream, he has extensive skills and experience in financial analysis and modelling and has participated in several successful transactions where his skills and expertise in this area were utilised; such as the 2010 world cup bid, GauTrain bid for XYZ, feasibility study for NMMM hazardous waste, preparation of financial forecasts for ABC operational expansion project, ...(refer to our credentials pages 5 and 7)</p> <p>Joe is well versed in best practise spreadsheet design and development methodologies, spreadsheet auditing, project finance modelling, valuations, risk identification and modelling, and project management. He is familiar with PSC and PPP-reference methods, and affordability, risk-transfer and VfM concepts. He will manage a team of two modellers and will perform the spreadsheet audit.</p> <p>Joe is also a civil engineer with several years experience in design, construction, operation, maintenance and management of landfill and waste collection operations gained in the public and private sector. This comprehension will enable our team to develop sensible and insightful PSC and PPP-reference models.</p>			

## Appendix C: Glossary of terms

<p>Public Sector Comparator (PSC)</p>	<p>The PSC is a hypothetical, risk-adjusted costing of the output specification with the local authority as the supplier. The PSC has the following characteristics:</p> <ul style="list-style-type: none"> <li>It is expressed in net present value (NPV) terms;</li> <li>It is based on recent actual public sector method of providing the required output specifications; and</li> <li>It takes full account of direct and indirect costs; and</li> <li>It takes full account of the risks which would be encountered by an internal mechanism.</li> </ul> <p>The public sector comparator serves the following purposes:</p> <ul style="list-style-type: none"> <li>To determine if the project is affordable to the local government entity by ensuring full life cycle costing at an early stage;</li> <li>As a means of testing whether a PPP is viable and demonstrated Value for Money;</li> <li>As a management tool during the project to communicate with partners on such key aspects as output specifications and risk allocation; and</li> <li>As a means of encouraging broader competition by creating greater confidence in the bidding process.</li> </ul>
<p>PPP reference</p>	<p>The PPP reference model is a hypothetical, risk-adjusted costing of the output specification with the private sector as the supplier</p>
<p>Affordability</p>	<p>Affordability is a measure of whether the total life cycle cost of the project can be accommodated within the local authority budget, given its existing commitments.</p>
<p>Value for Money</p>	<p>VfM is the measure of net benefit of the PPP reference over the PSC.</p>
<p>Output specification</p>	<p>The output specification sets out the range of services/requirements that the local authority is seeking to procure and the performance levels required for each of those services</p>
<p>Risk matrix</p>	<p>A listing of the various risks and uncertainties to which particular project options are exposed, together with an assessment of the likelihood of their occurring and the financial or other impact on the outcome of the project.</p> <p>For example: demand risk (the risk that demand for the service is lower than planned); construction risk (the risk that the construction of the physical assets is not completed on time, to budget and to specification); maintenance risk (the risk that the costs of keeping the assets in good condition vary from budget); operational risk (the risk that operating costs vary from budget, that performance standards slip or that the service cannot be provided as per output specs); and force majeure risk.</p>

## **Annex A.10**

### **Standard Request for Proposal for Water Advisory Services**

Pursuant to the provisions of the Municipal Systems Act

#### **OVERVIEW**

##### Introduction

The Municipal Systems Act 2000 (MSA) Section 77 requires municipalities to “review and decide on mechanisms to provide a municipal service”. Although not specifically stated in Section 77, the implications of Sections 77 through 81 are clear that only those municipalities with the service authority need perform a Section 78 review, since they are the only municipalities who can decide on a service provision mechanism. Therefore the following terms of reference (TOR) should be seen as applicable only to those municipalities having the service authority for water and sanitation.

The Municipal Structures Act can assign the Water and Sanitation Authority to either a District Municipality (DM) or a Local Municipality (LM). Where the DM performs the Section 78 review but must assess provider capacity in each B municipality within its Authority jurisdiction. It must then decide how best to ensure provision of the service and may delegate service provision to the B municipality. In some instances the DM is assigned the Service Authority over most but not all B municipalities within its municipal boundary. If a single B municipality has been given the authority in a DM having authority over the remaining B municipalities, that single B must do its own Section 78 assessment since it, and it alone has the authority to select a provider mechanism. Examples of single B municipalities having the authority function are Richards Bay and Newcastle in KZN.

Although the following TOR can be applied to either case, a DM or B municipality, the Section 78 review in a DM will be more complex since it must assess the Status Quo in all B municipalities within its jurisdiction.

#### **PHASE 1: Section 78(1) and (2)**

##### ➤ **CURRENT STATUS QUO OF SERVICE DELIVERY**

- A. To investigate the status quo of the Water and Sanitation services in the areas encompassing each of the Category B local municipalities (**please list**) within the District Jurisdiction of “The Municipality”. Information on service coverage, demographics, physical assets, organizational structure, staffing, legal issues and costs of services to be included.
- B. To provide a professional opinion on the status quo, namely the state of the service and its assets, human resources capability, financial performance and the legal and policy environment.
- C. To report, as required by legislation, on the immediate and long term implications of continuing with service provision through an internal mechanism (Municipal Systems Act and Municipal Structures Act).
- D. To make a preliminary list of alternative external delivery mechanisms for the service to be analyzed in detail after the council has rendered a decision to do so.

## ➤ ANALYSIS OF STATUS QUO

The consultants shall look critically at, and provide professional comment on, the assembled information in the light of current developments in local government and service provision in South Africa and elsewhere. This part of the investigation is designed to give “The Municipality” a clear assessment of the challenges it faces, and a preliminary indication of the likelihood of the municipality being able to obtain the optimal internal<sup>1</sup> mechanism in the short term as described in section 79. Having reviewed the status quo report and internal options the municipality may decide on an internal option or before deciding may authorise assessment of external options in phase 1.

### **PHASE 2 : Section 78 (3)**

- E. To notify and consult stakeholders, including the local community (ies), of the intention to explore external options for service delivery.
- F. To analyse the most feasible delivery options (subjecting each option including a public public option to the same scrutiny as the internal service as identified in Phase 1(A)), and, identify and report on associated legal, regulatory, institutional and risk issues.
- G. To undertake financial analyses, financial scenarios and sensitivity models, for the short-listed options (as identified in Section 76(b)). The consultant shall clearly disclose the benchmarks applied as the optimal solution. To demonstrate the service’s future financial sustainability, including debt service, depreciation, and replacement fund requirements if the service were to be optimally provided; meet projected demand, at appropriate alternative levels of service, and be affordable.
- H. To recommend the most feasible option and outline the way forward: Steps required and envisaged time frames for implementation of recommendations. Present findings and recommendations to Council and other stakeholders to enable decisions about the way forward.

### **Phase 3 IMPLEMENTATION OF EXTERNAL MECHANISM**

- I. To prepare a quote for assisting the Council with implementing the particular decision (project preparation).

## **PHASE 1 INTERNAL MECHANISMS**

### **PART A: Status Quo in Service Delivery**

The consultants shall conduct this investigation in sufficient depth to meet the requirements of the Municipal Systems Act and other relevant legislation, and, to provide sound analyses for decision-making purposes. As far as possible use is to be made of existing drawings, maps, service records, meter records, demographic information, consultants’ reports, and other data. “The Municipality” will provide access to all available relevant records. Where information gaps are significant, the consultant

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<sup>1</sup> Optimal – optimal internal solution which is the consultant’s assumptions about what would be an optimal service delivery solution by the council itself, given industry benchmarks and local conditions i.e. optimal is not ideal or perfect, it is what would be an appropriate internal solution.

is required to identify the gaps and estimate resources to obtain the missing data. The municipality shall review the request. **NOTE: DWAF schemes, transferred and to be transferred, are to be included in this assessment. (Direct and indirect costs and benefits associated with the internally provided service).**

## **A1. Develop A Financial Model**

A financial model capable of dealing with inputs and evaluation of the base case<sup>2</sup> against the optimal internal mechanism<sup>3</sup>. The financial model shall include the following:

- a) Growth in demand for the service;
- b) Existing and proposed tariff structure(s);
- c) Free basic water policy;
- d) Factor in indigence policy;
- e) Capital structure; debt and equity; sources of funds;
- f) Potential Government support;
- g) Potential donor or other funding which may be provided;
- h) Tax consequences and tax avoidance options;
- i) Future cost of each service, and rate of return to the service provider;
- j) Existing debt.

In particular, the model shall also be able to handle the following sensitivity analysis variables:

- Different service levels in different geographic areas of the region;
- Alternative financing strategies;
- Time frames from five years (say a management contract) to 30 years (say a concession);
- Impact of different tariff structures and strategies; and
- Risk of different levels of collectability.
- Sensitivity analyses: change of demand, drought, affordability, availability of grants and interest rate fluctuations.

Clearly, while this is a financial model, it will be modified to take account of the special characteristics that are particularly relevant to the municipal area. The outputs from this model will be used to assess the financial viability of the preferred options and their respective impacts on service delivery and the municipal budget. The model should be adaptable to analysis of both Phase1 and Phase 2 scenarios.

## **A2. Service Coverage & Demographics**

The Consultant will review, extract and update present documentation relating to the IDP, WSDP, Municipal Water Sector Plans, DWAF infrastructure audit, sustainability audit, policy framework transfer agreements, WSP Agreements and any other documentation relevant. This assessment is of service coverage for both water supply and sanitation services, which includes:

- a) The number of households currently receiving water supply services, noting the percentage receiving metered services.

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<sup>2</sup> Base case = status quo.

<sup>3</sup> Such a model should be able to be used if the process proceeds to consider external service delivery options, so that the municipality is equipped to make the comparison of information across all options, in the model

- b) An estimate of households in the service delivery area not currently receiving water supply.
- c) The current number of commercial, industrial, and publicly owned water service recipients, noting the percentage receiving metered services.
- d) An estimate of the commercial, industrial, and publicly owned establishments, if any, not currently receiving water supply.
- e) The number of households currently receiving sewerage services.
- f) An estimate of the number of households in the service delivery area not currently receiving sewerage services.
- g) The current number of commercial, industrial, and publicly owned sewerage service recipients.
- h) An estimate of the current number of commercial, industrial, and publicly owned establishments not receiving sewerage services.
- i) Income distribution of households receiving and not receiving water and sanitation services.
- j) Growth projections for population, commerce, industry and other types of consumer.
- k) Preparation of a systems coverage map showing the geographic distribution of residential areas receiving and not receiving water and sanitation services and income distribution, or other household economic indicators, to the extent readily known.

Information acquired from this exercise is to provide an overview of the existing service; coverage, coverage deficiencies, and serve as inputs into recommended levels of service and needed infrastructural extensions and service installations. NOTE: DWAF schemes, transferred and to be transferred, are to be included in this assessment. **(Direct and indirect costs and benefits associated with the internally provided service).**

### **A3. Physical assets**

The Consultant will assess all assets used to provide the service, listed and unlisted assets, of “The Municipality”. Whenever possible, project team members who have worked in the area previously as well as consulting reports and internal studies that may be made available by the Municipality are to be used as sources of information.

After asset assessment, a desktop exercise is to be undertaken to obtain an approximate present value of the assets. The asset assessment is to provide the following:

- a) Present day value.
- b) Estimated remaining life.
- c) Condition and need for rehabilitation.
- d) Estimated cost of rehabilitation.

Use will be made of the knowledge of the “The Municipality” officials as well as any reports that may be made available to determine the age and condition of the system components such as pump stations, pipelines, reticulation systems, equipment, vehicles, etc., which make up the asset register for the water and sanitation system. Where necessary, limited visual inspections are to be performed to confirm the condition of assets. Any reports on non-compliance with distribution system influent and wastewater treatment effluent quality standards should also be reviewed.



Based on A2 and A3 above, the output of this determination will be an identification of the rehabilitation, replacement and additional construction needs. Additionally, the estimated remaining life span of existing assets is necessary to assist the municipality with capital expenditure planning, and identification of ideal O&M and capital budget requirements in each financial year (short, intermediate and long term planning.) For the water supply and sanitation system, the Consultant will perform a water balance, to (the extent that data exists) include the following:

- a) Water supplied
- b) Water distributed and metered
- c) Water used for fire protection
- d) Non-revenue water (water produced by the system, but for which revenue is not realised)
- e) Wastewater collected and treated
- f) Wastewater reused (if applicable)
- g) Wastewater discharged

To the extent that data exists, the determination of current water balance is to be compared to historical records to assess any deterioration of service provision, as an indicator of rehabilitation needs, where applicable. Data gained is also to be applied in calculating the cost to the municipality of water losses (UAW). The consultant shall present his/her opinions regarding the municipality's capacity to manage and reduce UAW. **NOTE: DWAF schemes, transferred and to be transferred, are to be included in this assessment.**

#### **A4. Organisational structure & staffing**

The Consultant will review the efficiency of the existing structure of "The Municipality" water and sanitation service departments and the number of employees, their positions and job descriptions. This exercise is to assess for each service, the efficiency of staffing levels, current and future, and the overall cost/benefit as to the service coverage and demographics. If deficiencies or excesses are recognized, in relation to generally accepted benchmarks, the Consultant is to recommend an optimal organizational staffing plan, its cost/savings, and, other benefits gained by inclusion or elimination of additional professionals, skilled and/or unskilled employees. The consultant shall also be required to take a view on the DWAF and or other standards adopted above.

The Consultant will identify all outstanding service contracts directly related to the delivery of water and sanitation services and report on key features such as contract period, performance indicators and incentive structure if any. The cost/benefit of said contracts are to be noted and indicated in cost of service analyses.

The Consultant will identify all union agreements with "The Municipality" that may impact upon service delivery internally, the possible selection of external service delivery alternatives, and quantify said impacts.

**NOTE: DWAF schemes, transferred and to be transferred, are to be included in this assessment.**

#### **A5. Costs of the service**

**NOTE: DWAF schemes, transferred and to be transferred, are to be included in this assessment.**

### **A5.1 Operating Costs**

Review and update as necessary the last full cost of services assessment prepared by "The Municipality", for both water service and sanitation, including:

- a) Direct labour costs
- b) Indirect labour costs
- c) Direct and indirect administrative staff costs
- d) All shared staff costs
- e) Overhead expenses related to the enterprise (including rental of office space, heating, lighting, and water)
- f) Vehicles
- g) Plant, facility, and system maintenance and operating costs, excluding labour and indirect costs
- h) Chemicals, supplies, fuels, and other consumable items
- i) Existing supplier and service contracts.

If the municipality both purchases and supplies internally bulk water, a preliminary comparison of cost will need to be undertaken. Explore, cursorily, the impact of total municipal supply upon the municipal budget and tariff structure. All the above is to be performed using information relating to the existing service and extrapolated to reflect optimal service delivery cost (A1-A4 above).

### **A5.2 Debt Service Costs**

The Consultant will assess the debt on previous capital expenditures for these services as well as the estimated debt retirement dates for each loan. Specifically, the Consultant will quantify:

- a) All external municipal loans outstanding at the end of the last Fiscal year, with some component attributable to the water/sanitation service--the estimated amount of the loan attributable to the service should be indicated, along with the estimated amount of debt service attributable to the service;
- b) All internal loans attributable to the water/sanitation service, including the number, total value, and the debt service paid during the previous Fiscal Year;
- c) Bank overdrafts attributable to the water/sanitation service, including the total amount of such overdrafts at the end of the last Fiscal Year, as well as the total interest on that overdraft paid during the last Fiscal Year; and
- d) Total debt service paid during the previous Fiscal Year (a+b+c);
- e) The impact of any financial liability in the form of security, guarantees etc.

With information acquired during A1-A4, debt service scenarios for an optimized service should also be provided.

### **A5.3 Service System Revenue Generation**

The Consultant will assemble information on revenues generated by the water/sanitation system, including:

- a) Current tariff structure
- b) Total amount billed for service provision (from residential and non-residential customers);
- c) Total amount collected for service provision (from residential and non-residential customers) for the current year together with past trends;
- d) The percentage of the amount uncollected that the city regards are "bad debt" (for residential and non-residential customers), with information on how bad debt is defined; The Consultant must motivate its views on current bad debt levels and age analyses of debt greater than ninety days to be earmarked i.e. provide a motivation as to why bad debt is at the level reflected.
- e) Information on collection levels, i.e. income distribution, affordability and willingness to pay;
- f) Other sources of income e.g. direct subsidies, cross-subsidies, transfers;

g) Sources of funds that have been utilized for capital expenditure.  
Use previously collected information to extrapolate the necessary level of income for an optimized internal service.

#### **A5.4 Deficit/surplus**

**NOTE: DWAF schemes, transferred and to be transferred, are to be included in this assessment. Analyses are to address pre, current and post DWAF transfer scheme's impact on the Municipal budget.**

If the service system, when fully ring-fenced in an accounting sense, operates at a deficit, indicate sources of operating funds other than system revenues, including (but not limited to):

- a) Intergovernmental transfers for operating expenses (amount of total used for water/sanitation);
- b) Supplements to the General Fund from other Service Accounts (amount of total used for water/sanitation); and
- c) Supplements to the General Fund from the Rates Account (amount of total used for water/sanitation).

If the service system operates to produce a surplus used in the general budget to subsidise other services, the nature of the surplus should be ascertained. Is it a budgetary surplus, based on a projected collection rate or a cash surplus based on actual collections? (i.e. in the consultant's view, is it likely to materialise). Is the surplus resulting after proper (industry standard) O&M expenditures or an imposed expense budget?

#### **A5.5 Cost Summary**

The Consultant will estimate the unit cost per service per recipient from the above information. This information is to also be combined into income and expenditure statements that will reflect the ring-fenced financial status of the service. The objective of all collected information is to demonstrate definitively the status quo base case. Both the base case and projected optimal internal ring fenced services, as determined in A1 to A5.4 are to be used to assess the existing internal service delivery mechanism.

### **A6. Tariff Structure Review**

Using previously gathered information, answer the question: At what level of collection, if any, would the current tariff structure, including revenue sharing and the average of the previous 3 years of grants, pay for the cost of the service?. At what point of the collection do you break even?

The approach to answering this question will therefore include:

- a) Review the present arrangements, both from an internal, i.e. "The Municipality's" point of view, but also to listen to the public and union perceptions of the current structure;
- b) Evaluate weakness in both the structure of present tariffs and their impact on affordability
- c) Include in review a step tariff rate versus a flat rate;
- d) Include an assessment of the likely impact on collection of revenue if there is a step tariff approach vs. a flat rate approach
- e) Apply the latest proposals for tariff regulations being developed by the Department of Water Affairs and Forestry; and
- f) Assess the future demographic situation based on existing data and form a prediction of the future ability and willingness to pay. It is recognised that this may need to be a "broad brush" basis, given the paucity of data - but the aim

would be to develop a limited number of scenarios which could be input into the financial model.

## **A7. Investment needs & capacity**

### A7.1 Future investment needs

Future demographics, service needs and levels have to be established to estimate future capital investment needs. Any current backlogs, upgrading and rehabilitation will also be addressed. The future capital investment will be prioritised over the next 5 to 10 years. Due to the large uncertainty in this regard, the estimates made will be highly approximate. However, by using the same assumptions on all scenarios the comparisons made will still be relevant. The latest versions of the Integrated Development Plan and Water Services Development Plan should be consulted along with outcomes from optimizing activities undertaken during this study. The consultant must determine a set of assumptions in respect of what is the anticipated growth etc so as to approximate the projections and apply them across the model.

### A7.2 Accumulated Surpluses & Grant Funding

All sources of capital, which “The Municipality” has a realistic chance of accessing, that is included on the multi-year budget, will be identified and reviewed. Accumulated surpluses (represented by cash, not un-collectable debt) available for water/sanitation capital investment should be quantified, along with grant funding expected, as well as already secured.

### A7.3 Municipal Borrowing Capacity

The capacity of “The Municipality” to borrow funds for capital investment should be assessed, both in terms of “The Municipality’s” existing levels of debt, credit standing, as well as its internal management capacity to cost-effectively carry out a borrowing program. Various forms of debt financing, bank loans, project based finance or any other on or off balance sheet loans are to be assessed (versus the municipality’s capital which arises from debt).

## **A8. Organized Labour**

Initial contact should be made with organized labour to seek their views on the existing service delivery mechanisms as well as their views on potential service delivery improvements. They should be advised that more in-depth consultations will take place later, and that the views and concerns of organized labour will, as required by legislation, be taken into account by the council.

The consultant shall document all consultations in writing, i.e. requests for meetings, minutes of meetings, written correspondence and submissions etc

## **A9 Other important factors**

The consultant will establish the following:

- a) Identification of and communication with stakeholders impacted by the sector – e.g. DWAF, other councils, other service providers, Unions, Civic associations, Traditional Leaders, Business forums, political groupings, etc. and any important views on potential MSPs that must be immediately recognized.

- b) The concerns of any stakeholders in the water services industry in “The Municipality’s” area (e.g., the Water Board and the District Municipality).
- c) Status of the IDP.
- d) Any potential legal constraints to re-structuring service delivery such as difficulties in transferring existing contracts and liabilities; non-compliance with national legislation; breach of conditions of permits, licenses and servitudes.

The consultant shall document all consultations in writing, i.e. in the form of minutes of meetings, recordal of interactions and conversations, written correspondence and submissions etc

## **PART B – ANALYSIS OF STATUS QUO**

### **B1. Current condition of service system**

Commentary is required as to whether the service system is capable of providing an acceptable level of service at present and, if so, for how far into the future. The causes of problems with the service system should also be identified, e.g., do they result from a lack of maintenance, inadequate management, and/or lack of investment? Comments should include:

- a) The adequacy of the equipment required to deliver the service
- b) The adequacy of current maintenance and rehabilitation programmes
- c) The technical quality of delivery as indicated by compliance with standards, including:
  - Reliability of supply
  - Chemical and bacteriological standards
  - Laboratory services
  - System maintenance
  - Safety standards
  - Environmental compliance
  - System future planning.
- d) Any technical matters that should be flagged for attention
- e) Any implications of the above for rehabilitation needs.
- f) Consultant opinion of how to eliminate, and/or reduce amount of UAW and whether current internal capacity is sufficient to address the issue.

### **B2. Human resources capability**

The Consultant will review the current staffing and institutional arrangements, and any plans or projects to improve “The Municipality”, and comment on:

- a) Competence with reference to the Constitution and legislation, to fulfil the role and responsibility of the water services authority and/or water services provider
- b) The ability and extent to which staff are equipped to meet the roles and responsibility referred to in (a) above, and compare with staffing of existing service contracts.
- c) The constraints within the current context on the capacity - human and otherwise - to deliver the service
- d) Any problems in the way work on the system is structured or managed, and the potential for dealing with these problems without resorting to an MSP.
- e) Any problems due the number of employees, or the ways in which they are assigned work, and the potential for addressing this without resorting to an MSP.
- f) The performance of any service contracts.

- g) Any serious impediments to restructuring, out-sourcing or other forms of MSP.

### **B3. Financial performance**

The consultant shall comment on the financial performance of the service. This will include:

- a) The affordability and willingness to pay of consumers and their effect on revenues;
- b) The tariff structure, revenue collection and scope for improvement;
- c) The prospects for accessing capital for expansion and rehabilitation;
- d) The affordability and financial sustainability of current design standards and delivery approach.
- e) The prospects for offering different service levels and concomitant charges.

### **B4. Impacts of System Surplus/Deficits on Municipal Budget**

A clear understanding of the current financial system is essential, particularly how deficits and surpluses are handled. The consultant will answer the following questions:

- a) If the system operates at a deficit –
  - What are the prospects for eliminating this through improved payment levels?
  - How reliable are the current sources of supplementary finance?
- b) If the system is producing an apparent surplus -
  - Is the size of the surplus appropriate, given national government guidelines that sanitation services should break even and water services should realise no more than a 10% surplus? To what extent should the surplus be available to subsidise other services; to what extent should it be used for maintenance of the water and sanitation service system?
  - How might the loss of this surplus to the subsidised services be balanced by gains to “The Municipality” from a service restructuring option, such as a municipal service partnership, in the form of higher payment levels, lower costs of borrowing, or other benefits?
  - Is the rest of the municipal budget in line with generally accepted SA budget principles regarding normal shares of costs and revenues contributed by different budget categories?
  - Are there obvious ways of adjusting the rest of the municipal budget so that the reliance on water system surpluses can be reduced? In other words, to what extent should costs for some other services be reduced, or revenues increased?
- c) If “The Municipality” charges indirect overheads to the service system, possibly because of administrative support provided by departments such as Treasury and Human Resources, determine the following:
  - The amount of “The Municipality’s” administrative support expenses that would no longer be covered by revenues from the service system, if the service system were ring-fenced.
  - To what extent is it realistic to expect that these administrative support services could be downsized immediately after the services are out-sourced? Assuming the maximum practical degree of downsizing of these services, quantify the remaining service costs to “The Municipality” over the first year of an outsourcing arrangement.

## **PART C: CONCLUSION ON STATUS QUO**

1. Overall analysis of the status quo
2. Assessment of whether the optimal internal solution is attainable in the short term, with summarized motivation.

Drawing on all of the above (sections A and B) the consultant will describe key features of the findings on the implications of continuing with an internal mechanism in order to meet the requirements of Section 78(1) of the Municipal Systems Act (see Appendix A). These are summarized as:

- a) Direct and indirect costs and benefits of service provision through an internal mechanism;
- b) Effects on environment, human health, well-being and safety of an internal mechanism;
- c) “The Municipality’s present and potential capacity to furnish skills, expertise and resources for an internal mechanism;
- d) The potential for re-organisation and human resource development to effect delivery through an internal mechanism;
- e) The likely effect on development, job creation and employment patterns of an internal mechanism;
- f) The views of organized labour;
- g) The effect of any developing trends in the sustainable provision of municipal services generally.

## **PART D: RECOMMENDATIONS**

At this point the consultant shall review the implications of continuing with an internal delivery mechanism i.e. whether the status quo can realistically provide the means to attaining the optimal internal mechanism or not. If not, the consultant should comment on the scope for partnerships with other private or public service providers, taking into account the preliminary views of major stakeholders and any legal or policy constraints, and propose a likely short-list of external delivery mechanisms and possible contract types (see Appendix B for brief description of types). Scope for a regional municipal solution as an alternative option should also be explored. The main aim is to identify those service delivery alternatives which will enable “The Municipality” to overcome its capital expenditure priorities, reduce or eliminate its service backlogs, and ensure sustainable delivery which the internal mechanism fails to achieve.

### **D1. Report to Council for a decision**

All of the findings of Parts A – D above must be compiled in a **Phase One Report**. The findings are to be summarized in an executive summary focusing on the key elements highlighting the findings of the analysis, the consultants conclusions and recommendations.

The conclusions and recommendations should enable the Council to decide on whether to continue with an internal mechanism, or to explore the possibility of an external mechanism, as described in Section 78(2) of the Systems Act.

### **PHASE 2 EXTERNAL MECHANISM: Section 78(3)**

## **PART E: STAKEHOLDER CONSULTATION**

If Council decides, following section D2 above, to explore the possibility of providing the service through an external mechanism, it must in terms of Section 78(3)(a) give notice to the local community of its intention to do so.

In Part A the Consultant should have identified all stakeholders who may be impacted by a possible municipal services partnership (MSP). These will include, among others, the Council and its employees, unions, and the public. The Consultant will consult the main stakeholders to determine their concerns regarding MSPs, including possible private sector participation in the municipal infrastructure provision.

The objective of these consultative meetings will be to develop an accurate measure of the substance and levels of concern held by the principal stakeholders in understanding MSPs. Before the study can be finalized, the main stakeholders, including the community, must be presented with the most feasible alternatives and their views actively sought. Consultations should gauge the depth of feeling, degree of influence over the final outcome, and scope for negotiating agreement over the future shape of service delivery.

The consultant shall document all consultations in writing, i.e. requests for meetings, minutes of meetings, , written correspondence and submissions etc

Some key considerations concerning the various groups are detailed below.

### Councillors

Consultation with councillors will be aimed at establishing their understanding of, and their views on, the MSP process. Discussion will also address issues relating to:

- a) The capacity of "The Municipality" to develop, negotiate and monitor a municipal services partnership for the provision of water and sanitation services (this would be in the context of "The Municipality" as Water Authority);
- b) The need to monitor MSPs and to prevent project failure; and
- c) Tendering and procurement regulations.

### Employees

Consultation with the employees is considered vital to achieve the following:

- a) Their understanding of the concept of MSPs in municipal infrastructure;
- b) Concerns over the possibility of restructuring the departments and functions related to the area under review;
- c) Job security;
- d) The aspirations of the employees in the event of a change; and
- e) Service conditions of employees.

### Organised Labour

In South Africa, the concept of MSPs, particularly the involvement of private partners in the provision and operation of municipal services, has given rise to strong opposition from the unions. Among the most frequent concerns are the following:

- a) General suspicion of, or hostility to, private sector involvement;
- b) Fear of jobs being lost;
- c) Possible loss of union members;
- d) Possible tariff increases because of the involvement of "profit driven" private partnerships; and
- e) Possible alienation of local government in its role of having direct accountability for the privatised service.



The matter of private sector participation is being handled at provincial and national levels by the various unions involved in the areas under consideration. It is likely, therefore, that representatives from the provincial or national organisations may wish to be present at any discussions. It is important, however, that local representatives are also present so that the broad principles of the various options can be explained to “The Municipality” and the implications of each option discussed. In addition to describing the principles to local representatives, the views and concerns of the unions both at local and provincial/national level will be obtained and recorded.

#### Community Representatives, Traditional Leaders and the General Public

Communities or consumers (including potential consumers) should ultimately benefit from MSP arrangements. It is therefore important to discuss the concerns of consumers regarding their access to services, the costs involved, and the perceptions of affordability among the various representative groups. Discussions with communities will also assist in establishing the degree of commitment toward paying for services provided, and to what extent higher levels of service could influence this attitude. Meetings may also be needed with interest groups such as local business organizations.

## **PART F: ANALYSIS OF ALTERNATIVE DELIVERY OPTIONS**

### **F1. Financial Analysis**

A financial model will be developed to assess the impact of the various options on the long-term ability to provide the required service. The model must capture the cost, revenue and demand drivers for Water and Sanitation in “The Municipality” and be able to test sensitivity to important variables over time. The model will be a financial model that is capable of dealing with the inputs and evaluation of the expected range of service delivery options - from continuing as is, through to various degrees of private sector participation. The financial model shall include the following:

- a) Growth in demand for the service;
- b) Existing and proposed tariff structure(s);
- c) Free basic water policy;
- d) Factor in indigence policy;
- e) Capital structure; debt and equity; sources of funds;
- f) Potential Government support;
- g) Potential donor or other funding which may be provided;
- h) Tax consequences and tax avoidance options;
- i) Future cost of each service, and rate of return to the service provider;
- j) Existing debt.

In particular, the model shall also be able to handle:

- Different service levels in different geographic areas of the region;
- Alternative financing strategies;
- Time frames from five years (say a management contract) to 30 years (say a concession);
- Impact of different tariff structures and strategies; and
- Risk of different levels of collectability.
- Sensitivity analyses: change of demand, drought, affordability, availability of grants and interest rate fluctuations.

Clearly, while this is a generic model, it will be modified to take account of the special characteristics that are particularly relevant to “The Municipality” area. The outputs from this model will be used to assess the financial viability of the preferred options and their respective impacts on service delivery and the municipal budget.

## **PART G: ANALYSIS OF ALTERNATIVE DELIVERY OPTIONS**

### **G1. Review of all external mechanisms in relation to the Status Quo (not Optimal Internal mechanism) assessment**

Following the Council decision to explore external delivery mechanisms, the consultant will assess the options described in Section 76(b) of the Municipal Systems Act in order to meet the requirements of Section 78(1) of the said Act. This assessment will take into account -

- Direct and indirect costs and benefits of service provision through an external mechanism;
- Effects on environment, human health, well-being and safety;
- The potential future capacity of prospective service providers to furnish skills, expertise and resources;
- The views of the local community;
- The likely effect on development, job creation and employment patterns in “The Municipality”; and
- The views of organized labour.

The result of this assessment should be a very small number of eligible external mechanisms, which can then be further analysed in terms of the most feasible contract types and against a more specific set of factors. The Municipal Systems Amendment Bill stipulates that cognizance be taken of the following:

78.(3) If a municipality decides in terms of subsection (2) (b) to explore the possibility of providing the service through an external mechanism it must-

- (a) give notice to the local community of its intention to explore the provision of the service through an external mechanism and
- (b) assess the different service delivery options in terms of section 76 (b), taking into account-
  - (i) the direct and indirect costs and benefits associated with the project, including the expected effect of any service delivery mechanism on the environment and on human health, well-being and safety;
  - (ii) the capacity and potential future capacity of prospective service providers to furnish the skills, expertise and resources necessary for the provision of the service;
  - (iii) the views of the local community;

- (iv) the likely impact on development and employment patterns in the municipality, and
  - (v) the views of organised labour.
- c) conduct or commission a feasibility study which must include -
- (i) a clear identification of the municipal service for which the municipality intends to consider an external mechanism;
  - (ii) an indication of the number of years for which the provision of the municipal service through an external mechanism might be considered;
  - (iii) the projected outputs the provision of the municipal service through an external mechanism might be expected to produce;
  - (iv) the projected impact on the municipality's staff, assets and liabilities;
  - (v) the projected impact on the municipality's integrated development plan;
  - (vi) the projected impact on the municipality' budgets, for each year for which an external mechanism might be used, including impacts on revenue, expenditure, borrowing and debt;
  - (vii) the projected impact on the municipality and its residents and customers, including impacts on tariffs, grants, dividends, subsidies and service delivery;
  - (viii) a comparison of the advantages and disadvantages of internal mechanisms, against the various kinds of external mechanisms that may be used for the provision of the municipal service;
  - (ix) the strategic and operational costs and benefits of an external mechanism in terms of the municipality's strategic objectives;
  - (x) an assessment as to the extent to which the provision of the municipal service through an external mechanism will -1
    - (aa) provide value for money;
    - (bb) address the needs of the poor
    - (cc) be affordable for the municipality and residents; and
    - (dd) transfer appropriate technical, operational and financial risk; and
  - (xi) an assessment of the municipality's capacity to effectively monitor the provision of the municipal service through an external mechanism and to enforce the service delivery agreement.”; and
- d) the addition of the following subsection:

“(6) The national government or relevant provincial government may assist municipalities in carrying out a feasibility study referred to in subsection (3) (c), or in preparing service delivery agreements.”

## **G2. Assessment of the Short-Listed Options against Status Quo (not optimal) Assessment**

The most eligible external mechanisms may also involve different contractual arrangements. (The range of contract types is described in Appendix B.) The Consultant will narrow down the options to a maximum of three, one of which should be the status quo to allow Council to make an informed comparison. These options are to be assessed in terms of the factors below, their projected financial performance in Part G below, and any legal institutional and risk issues, as per F3 below. Among the factors to be determined with each assessment are:

- a) The direct and indirect costs and benefits of the service delivery mechanism including the expected effects on the environment, human health, well-being and safety;
- b) The capacity and potential future capacity of a service delivery mechanism to furnish the skills, expertise and resources for the provision of the service;
- c) The views of the local community, traditional leaders and organised labour;
- d) The likely impact on development and employment patterns in “The Municipality”;
- e) The ability of the service authority or service provider to obtain the capital required for investment given “The Municipality’s” current obligations and anticipated sources of revenues;
- f) The ability of private sector partners to economically provide the required capital and extend service delivery, within standards, to all eligible recipients and receive a reasonable return on its investment;
- g) The effect on tariffs, both short and long term;
- h) The effect on the technical quality of the service delivery;
- i) The effect on staff;
- j) The likely response from other stakeholders;
- k) Cost recovery efficiency and/or the potential effectiveness of cost-recovery initiatives to an expanded universe of service recipients;
- l) The service delivery efficiency of each alternative;
- m) Probable risk sharing between public and private sectors;
- n) Requirements for monitoring, accountability and good governance;
- o) Implementation process and time required; and
- p) Attractiveness to potential external partners.

## **PART H: LEGAL AND RISK ANALYSIS**

### **H1 Legal Regulatory and Institutional Issues**

In addition to the issues listed above, for the most feasible options the Consultant must comment on any particular legal, regulatory, institutional and risk related matters. This includes any National, Provincial and local laws that may affect implementation of an option, together with any policies which are relevant to this matter and which are currently being developed in various Government Departments.

The potential change from public sector delivery to private sector delivery of an essential public service is not to be considered lightly and the ramifications of such a change may be more complex than is initially perceived. In particular, all existing agreements and liabilities, whether they are based on contract, regulatory requirement, or simply historical practice, must be identified and checked as to their transferability to a third party. Other issues to be identified include legal liability for the provision of services

under private sector service delivery, amendments to agreements that will be needed including those requiring approval by any higher authority than “The Municipality”, existing permits, licenses and servitudes. Lastly, issues that can only be addressed through changes in legislation will be so identified.

The Consultant should ascertain if there are any regulatory or implementation issues that appear capable of threatening closure of a possible MSP deal, or the ongoing viability of such an MSP. If such "deal breaking" issues are identified, the prospects for resolving them should be assessed.

## **H2 Risk Issues**

Different alternatives may require very different apportionment of roles and functions, and attendant risks. The consultant should advise on the likely allocation of these and their impact on “The Municipality” and the feasibility of the option. In particular, it is important that those functions remaining with “The Municipality” are still costed as part of the overall cost of the alternative, and The Municipality advised of the associated risks. I

The following risks have been identified and the Consultant is requested to advise on their severity and on how best to mitigate these risks through different options :

- Financial (and risk apportionment: Whether Revenues covers expenses per accounting)
- Commercial (Revenue – economic based: collectability, growth etc.)
- Political
- Technical
- Environmental and Health

A professional opinion is required not a detailed risk analysis.

## **PART I: RECOMMENDATIONS ON THE WAY FORWARD**

### **I1. Presentation of Provisional Findings**

After the completion of the tasks described above the Consultant will make a presentation of his findings to the Council or its nominated committee. This presentation will briefly summarise the status quo report as background. It will then present estimates of future investment needs and outputs of the financial modelling. It will conclude with a description of the options considered in detail, ranked in order of apparent viability, with their main benefits and drawbacks.

A similar presentation, modified if necessary after the steering committee meeting, will be made to key stakeholders as identified by the Council. Comments from Council and relevant stakeholders will be recorded, evaluated and used during preparation of the final report for the study, and must be taken into consideration during subsequent (project preparation) activities undertaken by the Consultant. The public presentation must be clear, professional, and convincing. A successful presentation of this kind is a key, essential deliverable of this work.

## **I2. Final Report**

Following the public meeting a final report must be prepared and presented to the Steering Committee.

The findings of the report are to be summarized in an executive summary focusing on the key elements highlighting the findings of the analysis, the consultants conclusions and recommendations

The report must show evidence of a high level of professional competence in researching these issues. A substantial level of detail is required in order to provide convincing findings. The report should detail the results of this feasibility investigation, leading up to a recommended service delivery mechanism. It should include an outline of further actions required to achieve this. These include the identification of outstanding issues to be addressed (political, legal, inter-governmental etc) and an approximate timeframe for these activities.

After the report has been accepted by the Steering Committee, the Consultant will, if required, assist the Steering Committee take the full Council through the decision making process as to the preferred mechanism(s) for future service delivery, as per Section 78(4) of the Municipal Systems Act.

### **PARTJ: QUOTE FOR PROJECT PREPARATION**

The Consultant will prepare a quote for undertaking any further investigations and/or project preparation, if instructed by Council to do so.

### **PART K: REPORTING**

- a) Ten copies of the report at the end of Phase One (Parts A - D) should be submitted no more than 75 days after a notice to proceed from "The Municipality".
- b) Within 60 days of the submission of the Phase One Report, the Consultant will present key findings from the analysis in Parts E, F & G and make preliminary recommendations to the council steering committee.
- c) Within two weeks of that meeting the Consultant will present its findings and recommendations to a public meeting arranged by the Council, to which stakeholders will be invited.
- d) Two weeks after the public meeting, ten copies of the final report will be submitted to Council. If required, the Consultant will attend the subsequent Council meeting to assist with presenting the final report.

**Terms of Reference  
APPENDIX A**

**EXTRACTS FROM MUNICIPAL SYSTEMS ACT No. 32 of 2000**

**CHAPTER 8 – MUNICIPAL SERVICES**

General Duty

73. (2) Municipal services must –
- k) Be equitable and accessible;
  - l) Be provided in a manner that is conducive to –
    - The prudent, economic, efficient and effective use of available resources; and
    - The improvement of standards of quality over time;
  - m) Be financially sustainable;
  - n) Be environmentally sustainable; and
  - o) Be regularly reviewed with a view to upgrading, extension and improvement.

**Mechanisms** for provision of services

76. A municipality may provide a municipal service in its area or a part of its area through –
- a) An internal mechanism which may be-
    - i. A department or other administrative unit within its administration;
    - ii. Any business unit devised by the municipality, provided it operates within the municipality's administration and under the control of the council in accordance with operational and performance criteria determined by the council; or
  - b) An external mechanism by entering into a service delivery agreement with–
    - i. A municipal entity;
    - ii. Another municipality;
    - iii. An organ of state, including
      - (aa) A water committee established in terms of the Water Services Act, 1997 (Act No.108 of 1997);
      - (bb) a licensed service provider registered or recognized in terms of national legislation; and
      - (cc) traditional authority;
    - iv. A community based organization or other non-governmental organization legally competent to enter into such an agreement; or
    - v. Any other institution, entity or person legally competent to operate a business activity.

Occasions when municipalities must review and decide upon mechanisms to provide municipal services

77. A municipality must review and decide upon mechanisms to provide municipal services when –
- (a) Preparing or reviewing its integrated development plan;
  - (b) A new municipal service is to be provided;
  - (c) An existing municipal service is to be significantly upgraded, extended or improved;

- (d) A performance evaluation in terms of Chapter 6 requires a review of the delivery mechanism;
- (e) The Municipality is restructured or reorganised in terms of the Municipal Structures Act;
- (f) Requested by the local community through mechanisms, processes and procedures established in terms of Chapter 4; or
- (g) Instructed to do so by the provincial executive acting in terms of section 139(1)(a) of the Constitution.

Criteria for deciding on mechanisms to provide municipal services

78. (1) When a municipality has in terms of section 77 to decide on a mechanism to provide a municipal service in the municipality or a part of "The Municipality", or to Review an existing mechanism –

- (a) It must first assess –
  - i. The direct and indirect costs and benefits associated with the project if the service is provided by the municipality through an internal mechanism, including the expected effect on the environment and on human health, well-being and safety;
  - ii. The municipality's capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of the service through an internal mechanism mentioned in section 76(a);
  - iii. The extent to which the re-organisation of its administration and the development of the human resource capacity within that administration, as provided for in sections 51 and 68, respectively, could be utilised to provide a service through an internal mechanism mentioned in section 76(a);
  - iv. The likely impact on development, job creation and employment patterns in the municipality; and
  - v. The views of organized labour; and
- (b) It may take into account any developing trends in the sustainable provision of municipal services generally.

(2) After having applied subsection (1) a municipality may-

- (a) Decide on an appropriate internal mechanism to provide the service; or
- (b) Before it takes a decision on an appropriate mechanism, explore the possibility of providing the service through an external mechanism mentioned in section 76(b).

(3) If a municipality decides in terms of subsection (2)(b) to explore the possibility of providing the service through an external mechanism it must –

- (a) Give notice to the local community of its intention to explore the provision of the service through an external mechanism; and
- (b) Assess the different service delivery options in terms of section 76(b), taking into account-
  - i. The direct and indirect costs and benefits associated with the project, including the expected effect of any service delivery mechanism on the environment and on human health, well-being and safety;
  - ii. The capacity and potential future capacity of prospective service providers to furnish the skills, expertise and resources necessary for the provision of the service;
  - iii. the views of the local community;
  - iv. the likely impact on development and employment patterns in the municipality; and



v. the views of organized labour.

(4) After having applied subsection (3), a municipality must decide on an appropriate internal or external mechanism, taking into account the requirements of section 73(2) in achieving the best outcome.

(5) When applying this section a municipality must comply with –

- (a) any applicable legislation relating to the appointment of a service provider other than “The Municipality”; and
- (b) any additional requirements that may be prescribed by regulation.

**SECTION 78 (3) AS AMENDED “MUNICIPAL SYSTEMS AMENDMENT BILL”**

*78.(3) If a municipality decides in terms of subsection (2) (b) to explore the possibility of providing the service through an external mechanism it must-*

- (a) give notice to the local community of its intention to explore the provision of the service through an external mechanism; and*
- (b) assess the different service delivery options in terms of section 76 (b), taking into account-*
  - (i) the direct and indirect costs and benefits associated with the project, including the expected effect of any service delivery mechanism on the environment and on human health, well-being and safety;*
  - (ii) the capacity and potential future capacity of prospective service providers to furnish the skills, expertise and resources necessary for the provision of the service;*
  - (iii) the views of the local community;*
  - (iv) the likely impact on development and employment patterns in the municipality, and*
  - (v) the views of organised labour.*
- c) conduct or commission a feasibility study which must include -*
  - (i) a clear identification of the municipal service for which the municipality intends to consider an external mechanism;*
  - (ii) an indication of the number of years for which the provision of the municipal service through an external mechanism might be considered;*

- (iii) *the projected outputs the provision of the municipal service through an external mechanism might be expected to produce;*
- (iv) *the projected impact on the municipality's staff, assets and liabilities;*
- (v) *the projected impact on the municipality's integrated development plan;*
- (vi) *the projected impact on the municipality's future budgets, for each year for which an external mechanism might be used, including impacts on revenue, expenditure, borrowing and debt;*
- (vii) *the projected impact on the municipality and its residents and customers, including impacts on tariffs, grants, dividends, subsidies and service delivery;*
- (viii) *a comparison of the advantages and disadvantages of internal mechanisms, against the various kinds of external mechanisms that may be used for the provision of the municipal service;*
- (ix) *the strategic and operational costs and benefits of an external mechanism in terms of the municipality's strategic objectives;*
- (x) *an assessment as to the extent to which the provision of the municipal service through an external mechanism will -*
  - (aa) *provide value for money;*
  - (bb) *address the needs of the poor*
  - (cc) *be affordable for the municipality and residents; and*
  - (dd) *transfer appropriate technical, operational and financial risk; and*
- (xi) *an assessment of the municipality's capacity to effectively monitor the provision of the municipal service through an external mechanism and to enforce the service delivery agreement.”; and*
- (d) *the addition of the following subsection:*
  - “(6) *The national government or relevant provincial government may assist municipalities in carrying out a feasibility study referred to in subsection (3) (c), or in preparing service delivery agreements.”*

**Terms of Reference  
APPENDIX B**

**MSP CONTRACT TYPES**

The generally accepted range of MSP contract types includes the following:

- a) Service Contract: A municipality pays a fee to a public or private organisation to provide specific operational services such as meter reading, garbage collection, or collection of certain revenues. Capital investment is usually not the responsibility of the contractor. Typical duration: 1-3 years.
- b) Management Contract: A municipality pays a fee to a public or private organisation to assume overall responsibility for operation and maintenance of a service delivery system, with the freedom to make day-to-day management decisions. Capital investment is usually not the responsibility of the contractor. Typical duration: 5 years.
- c) Lease Contract: A public or private organisation rents facilities from a municipality and assumes responsibility for operation and maintenance. The lessee finances working capital and replacement of capital components with limited economic life, but usually not fixed assets, which remain the responsibility of the municipality. Typical duration: 10 years.
- d) Concession: A public or private organisation handles operations and maintenance and finances investments (fixed assets) in addition to working capital. Assets are usually owned by the municipality, but leased and managed by the concessionaire for the period of the concession. At the end of the contract the assets are returned to the municipality in specified condition. The project is designed to generate sufficient revenues to cover the concessionaire's investment and operating costs, plus an acceptable rate of return. The municipality exercises a regulatory and oversight role and receives a concession fee for this arrangement. Concessions typically focus on operating and financing the expansion of existing system components. Typical duration: 15+ years.
- e) Build-Operate-Transfer: 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.
- f) Privately owned assets: Where the assets are privately owned and the owner sells a service either through competition in the marketplace, or by competing for a contract to provide monopoly services for a defined period at an agreed price.

**Annex A11**  
**Standard Request for Proposal for Solid Waste Advisory Services**

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## Glossary of Terms

### Management/Institutional Terms

**Public-Public Partnership:** A Municipality enters into an agreement with another public entity for municipal service provision. A variety of contracting forms and compensation schemes are possible.

**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.

**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. Typical duration : 1 – 3 years.

**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.

**Lease Contract:** A private firm rents facilities from a 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.

**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 and where owned by the firm are transferred back to the Municipality at the end of this 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. The Municipality exercises a regulatory and oversight role and receives a concession fee for this arrangement, which typically focuses on operating and financing the expansion of existing system components. Typical duration : 15+ years.

**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.

**Municipal Debt Issuance:** The 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 (usually public or private banks) and may also involve financial advisory service providers. Typical maturity of debt : 10 – 20 years.

**Municipal Systems Act** means the local Government Municipal Systems Act 2000, (Act No. 32 of 2000)

**Internal Service Delivery Mechanism** has the meaning given in the Municipal Systems Act, Chapter 8, paragraph 76(a):

**External Service Delivery Mechanism** has the meaning given in the Municipal Systems Act, Chapter 8, paragraph 76(b):

**Service Authority** means the power of a municipality to regulate the provision of a municipal service by a service provider, with powers defined in the Municipal Systems Act, Chapter 3, paragraph 11(2):

**Service Provider** means a person or institution or any combinations thereof which provides a municipal service:

**Service Delivery Agreement** means an agreement between a municipality and an institution or person mentioned in Section 76(b) of the Municipal Systems Act, in terms of which a municipal service is provided by that institution or person either for its own account or on behalf of the municipality:

### **Technical Definitions**

**Solid Waste** is waste of a solid nature generated by a person, business or industry;

**Domestic solid waste (General Waste)** is solid waste generated by single or multifamily residential dwellings, and solid waste of a non-hazardous nature, generated by wholesale, retail, institutional or service establishments such as office buildings, stores, markets, restaurants, theaters, hotels, warehouses, industrial operations and manufacturing processes;

**Hazardous waste** is any waste which by reason of chemical reactivity, or toxic, explosive, corrosive or other characteristics causes danger or is likely to cause danger to human health or the environment, whether alone or in combination with other wastes. Hazardous waste is categorized in four hazard ratings with 1 being the most hazardous and 4 being the least hazardous.

**Medical waste** is any waste generated by hospitals, clinics, nursing homes, doctor's offices, medical laboratories, research facilities and veterinarians, which is infectious or potentially infectious;

**Special waste** is a non-hazardous waste, which due to its nature requires special or separate handling at a sanitary landfill. Special wastes include but are not limited to tires, asbestos, demolition waste, industrial sludges of a non-hazardous nature, paper mill sludge, olive oil waste, abattoir wastes and petroleum waste oil;

**Solid Waste Management facility** is any facility used for the transportation, processing or disposal of solid waste, and includes transfer stations, recycling facilities, composting facilities, waste incinerators, and sanitary landfills;

**Transfer Station** is a facility that receives solid waste from collection vehicles and reloads that waste into larger vehicles for transfer to a disposal or processing facility;

**Incineration** is the controlled combustion of solid waste employing closed combustion chambers, controlled combustion air, temperature monitoring and control to insure

complete combustion of organic matter with a minimum of undesirable air emissions and wastewater discharges;

**Controlled landfill** is a solid waste management facility used for the disposal of non-hazardous domestic waste and non-infectious medical waste, which employs compaction of wastes, covering of waste with soil cover material, and the management of leachate and gaseous materials produced by the organic decomposition of the landfilled waste, all in such a manner as not to harm human health and minimize negative impacts to the environment;

**Landfill Classification** is a system under the DWAF Minimum Requirements for classifying landfill according to the type and size (TPD) of the landfill, and its potential for significant leachate generation;

**Confirmation of Site Feasibility** is the initial step in the DWAF permitting process which establishes the basic site features and general feasibility for a fully permitted landfill.

**Communal Landfill** is the smallest landfill classification with a capacity of less than 25 tonnes per day;

**Leachate** is the liquid byproduct of organic decomposition of landfilled waste or any liquid which comes in contact with solid waste in a sanitary landfill;

**Landfill gas** is the gaseous byproduct of organic decomposition of landfilled waste. Landfill gas contains significant concentrations of methane gas which is explosive at concentrations exceeding 5 percent.

**Recycling** is the sorting, processing, and transportation of solid waste materials, products or containers for the purpose of remanufacture or reuse;

**Sorting** is the authorized separation of solid waste materials for the purpose of recycling or disposal, either at the source of generation or at a solid waste management facility;

**Scavenging** is the unauthorized separation of solid waste for recyclable materials and food for human consumption;

**Surface water** is all waters in or coming from a water source which is found on the surface of the ground, excluding water under the surface of the ground and sea water;

**Perimeter drains** are open ditches surrounding the landfill installed to prevent surface water from entering the landfill.

**Groundwater** is all waters flowing or existing under the ground surface;

**Aquifer** is a water bearing formation capable of supplying a sufficient yield for a community based potable water source;

**Water Balance** is a method for determining the potential for significant leachate generation which includes climatic conditions (rainfall and evaporation) and site condition;

**Cell** is a volume of waste generally placed during one working day and covered on all horizontal surfaces by cover soil.

**Lift** is a series of one or more landfill cells forming a section of landfilled waste that extends horizontally across the landfill.

**Daily cover** is a daily application and compaction of approximately 15 centimeters of soil intended to control blowing litter, odors, flies, rats and fires, intended for an exposure of less than one week.

**Intermediate cover** is an application and compaction of cover having the same functions as daily cover but applied at a thickness of 30 centimeters, intended to be exposed for a period of one week to one year.

**Final Cover** is an application and compaction of soil on the landfill after it has reached its designed elevation. The final cover soil shall be relatively impermeable and have a thickness of approximately 50 centimeters.

**Working area** is the area of the landfill where waste is unloaded, compacted and covered. It generally includes adequate space for several trucks to unload at the same time, for waste compaction and storage of cover soil.

**Vectors** are birds, insects, and rodents capable of carrying disease-causing bacteria, viruses or fungi from one host to another.

**Design Drawings** are drawings prepared by the landfill designer and include dimensions, specifications and other technical data regarding the construction of the landfill;

**Operating Plan** consists of drawings, descriptions and other documents regarding the operation of the landfill, placement of waste, building daily cells and lifts, leachate management, landfill gas management and all other functions related to the operation of the landfill.

**Operator** is the person or organization responsible for the operation of the landfill. The operator may be the owner, another public agency or private contractor.

**Owner** is the person or organization who owns the property and/or facilities that constitute the landfill.



## **Abbreviations**

**DEAT:** Department of Environmental Affairs and Tourism

**DWAF:** Department of Water Affairs and Forestry

**EIA:** Environmental Impact Assessment

**EIAR:** Environmental Impact Assessment Regulations

**H:** Hazardous Waste or Landfill for Hazardous Waste

**H:h** Hazardous Waste Landfill that can receive domestic waste as well as hazardous waste with a hazard rating of 3 and 4

**H:H** Hazardous Waste Landfill that can receive hazardous wastes with a hazard rating of 1 and 2

**IAP:** Interested and Affected Parties

**MRD:** Maximum Rate of Disposal

**MIIU:** Municipal Infrastructure Investment Unit

# **TERMS OF REFERENCE**

## **Introduction**

On 20 November 2002, the MIU responded to a request for assistance from \_\_\_\_\_ Local Municipality with an offer to conduct a feasibility study on service delivery options in solid waste management. This is to be carried out in accordance with the Municipal Systems Act of 2000, which lays out procedures for selecting service delivery mechanisms within municipalities.

This procurement is being conducted in accordance with the terms and conditions contained in the Agreement between the MIU and the Municipality, the ordinances, regulations and policy of the \_\_\_\_\_ Municipality, and the laws of the Government of South Africa.

## **Terms of Reference**

The work to be performed under these Terms of Reference will be divided into three phases, Phase I, Phase II and Phase III. Phase I will consist of an assessment of existing conditions, a recommendation regarding service delivery improvements and an evaluation of internal service delivery mechanisms. If, at the conclusion of Phase I, the Municipal Council resolves to consider external service delivery mechanisms, Phase II will assess those external mechanisms in accordance with the appropriate provisions of the Municipal Systems Act, compare the internal and external options and recommend a way forward. If the council resolves at the conclusion of Phase II to pursue an external service delivery mechanism, then Phase III will prepare tender documents, issue tenders and assist the municipality in implementing the project. These Terms of Reference address only the work tasks to be performed in Phases I and II. Phase III TOR will be determined by the outcome of Phases I and II and the way forward selected by the municipal Council.

## **Phase I**

The purpose of Phase I is to perform an assessment of the current condition of Solid Waste Management in the Municipality, the current status of the existing waste collection systems and existing disposal sites and to perform an analysis of the possible service delivery improvements. The general goal of Phase I is to evaluate the existing service delivery systems, identify strengths and weaknesses, recommend improvements and determine the current costs of services, and the estimated costs of improvements if all services were provided by an internal service delivery mechanisms. Phase I will not include any consideration of external service delivery mechanisms.

### **1. Current Conditions**

#### **1.1 Background**

Provide relevant background.

#### **1.2 Phase I Stakeholder Participation**

In Phase I, the Consultant shall perform a limited stakeholder investigation to

identify and notify those stakeholders who will be impacted by revised internal service delivery mechanisms, including collection and landfill operations. A much broader stakeholder participation will be constructed in Phase II if the Council resolves to pursue external service delivery mechanisms. The Phase I stakeholders shall include but are not necessarily limited to the following:

- a) The Council
- b) DWAF
- d) Labour Unions
- f) Waste Management Professionals
- g) Public Workforce

Notification shall consist of a written general description of the project, its goals and objectives, estimated schedule and Consultant contact information. Notification shall be mailed to the postal address of the individual stakeholder group.

The Consultant shall meet with the existing municipal workforce and their union representatives early in the project to discuss the goals, objectives and schedule of the project. The purpose of this meeting will be to identify all applicable labour and union concerns and to incorporate them into the assessment of service delivery alternatives.

In general, the stakeholder participation in this project shall follow the Batho Pele Principles of consultation, information and access.

### **1.3 Existing Situation**

The Consultant shall perform an inspection of the existing informal waste disposal sites, noting all physical features or operating procedures that will impact permitting of the site or future operations. The following items shall be included in the inspection.

- 1) Property Boundaries
- 2) Fences
- 3) Entrance and access roads
- 4) Traffic monitoring and control points
- 5) Active disposal areas
- 6) Inactive disposal areas
- 7) Excavated Areas
- 8) Material sorting and storage
- 9) Water areas
- 10) Buffer zones
- 11) All adjoining residential housing within 100 metres of the site boundaries
- 12) Any other existing feature relative to the permitting or operation of the landfill

### **1.4 Waste Generation**

The Consultant will perform a brief assessment of waste generation within the

Municipal boundaries based on population figures, reference waste generation coefficients and other pre-existing information such as landfill records or previous studies. The assessment shall include estimates of total residential waste, industrial or commercial waste generators, medical waste, sewage septage, sewage sludge and any other waste material collected by the Municipality or otherwise disposed of in the existing landfills. The waste generation assessment shall be performed and presented separately by landfill waste sheds. The estimate shall include all areas of the municipality.

In addition to existing waste generation, the consultant shall project the growth in waste generation over a 10 year planning period, using population growth projections provided by the Municipality and any extensions of collection services anticipated during that time period. This information will be used, in general, to assess the adequacy of existing collection systems, equipment needs and future landfill capacity.

### **1.5 Waste Collection Systems**

The Consultant shall perform an evaluation of the characteristics of waste to be collected and landfilled. The consultant shall assess housing densities, commercial zones, and institution areas and determine the extent of existing waste management impacts and the need for current or future waste collection services.

### **1.6 Costs and Tariffs**

The consultant shall perform a comprehensive review of the potential costs of waste management services in the Municipality. This evaluation shall include capital budgets, outstanding debts, labour costs, equipment operation and maintenance and administration.

Costs shall be presented as annual figures as well as per tonne costs based on the waste generation estimates. The tariff review shall include all tariff categories, methods of collection and percent payment by category or geographic area.

### **1.7 Integrated Development Plan (IDP)**

The Consultant shall perform a brief assessment of the Municipality's progress toward developing the Integrated Waste Management Plan for the Integrated Development Plan (IDP). In general, the technical and management systems required to provide all infrastructure services within the Municipality shall be in accordance with the IDP process.

## **2. Landfill Assessment**

### **2.1 Recommendations**

The Consultant shall assess any informal waste disposal sites. A summary shall

be given in the form of a recommended strategy for future operation of the existing landfills.

## **2.2 Cost Estimates**

Based on the current costs of landfill operation and the above recommendations, the consultant will prepare a cost estimate for the revised operation of the landfills. The cost estimates shall include the following categories:

### Capital Costs

1. Design and permitting
2. Site upgrade
3. Mobile Equipment

### Operating Costs

4. Labour
5. Equipment Maintenance
6. Fuel, oil and tyres
7. Administration
8. Leachate Management (if applicable)
9. Closure fund payment

The Consultant shall list all assumptions made in preparing the cost estimates including annual payments for equipment and capital costs and cost of full site closure used to calculate the annual closure fund payment.

## **3. Collection System Assessment**

### **3.1 General**

The consultant shall assess the existing waste disposal systems and make recommendations for a collection system. The recommendations shall propose type/number of collection vehicles, maintenance/repair procedures, storage containers/bags, frequency of collection, labour, routing, travel times to landfill and any other collection issue. Deficiencies in the system shall be identified and defined and recommendations presented for improving the system performance. Current or potential recycling shall be considered.

The Consultant shall also conduct a municipal-wide assessment of all residential and commercial areas. Informal dumping sites shall be located and assessed for environmental and health problems. The consultant shall prepare a recommended action plan for the Municipality's consideration.

### **3.2 Cost Estimates**

The consultant shall prepare a cost estimate based on the action plan included in Section 3.1. As in Section 2.2 the cost estimate shall assume an internal municipal service delivery mechanism. The cost shall include the following components:

#### Capital Costs

1. Mobile Equipment
2. Depot Costs
3. Other Capital costs

#### Operating Costs

4. Labour
5. Equipment Maintenance
6. Fuel, oil and tyres
7. Administration

## **4. Assessment of Internal Service Delivery Mechanisms**

The Consultant shall perform an assessment of the recommended landfill and waste collection strategies in accordance with Paragraph 78(1) of the Municipal Systems Act, assuming an internal service delivery mechanism, including the following:

- (i) The direct and indirect costs and benefits associated with the recommended strategies and expected impacts on the environment, human health, well being and safety:
- (ii) The municipality's capacity and potential future capacity to furnish the skills, expertise and resources necessary for the provision of waste management services:
- (iii) The extent to which the re-organization of its administration and the development of human resource capacity within the administration as provided in Section 51 and 68 of the Act, could be utilized to provide the service through an internal mechanism mentioned in 76(a);
- (iv) The likely impacts on development, job creation and employment patterns in the municipality:
- (v) The developing trends in the sustainable provisions of municipal services generally;
- (vi) The views of organized labour.

## **5. Phase I Report**

### **5.1 Phase I Report**

At the conclusion of Tasks 1 through 3 the Consultant shall prepare a Preliminary Phase I Report to Council summarising the current conditions, the Landfill Assessment, Collection Assessment and cost estimates and the assessment of internal service delivery mechanisms.

### **5.2 Phase I Report Contents**

The Preliminary Phase I report shall consist of the following:

- a) Executive summary.
- b) Status Quo Summary.
- c) Landfill Assessment
- d) Collection Assessment

- c) Assessment of Internal Service Delivery Mechanisms
- e) Findings and Recommendations

Five copies of the Phase I report shall be filed with the Council for their review and consideration.

### **5.5 Time For Completion**

The forgoing Phase I investigation shall be accomplished within sixty (60) days of the receipt of a notice to proceed from the Council.

### ***Council Review of Phase I***

The Council shall review the Phase I report and consider the recommendations made by the Consultant. The Council's review shall include two aspects of the report; (1) the technical recommended strategies for addressing waste collection and landfill strategies, and (2) whether external service delivery mechanisms are to be evaluated in Phase II. It should be noted that the Municipal Council is not bound by any recommendations or findings of the assessment of internal service delivery mechanisms, and may authorize proceeding with a Phase II assessment of external service delivery mechanisms as a comparison to the assessment of internal mechanisms. Upon reaching a decision regarding the recommended collection and landfill strategies and on whether to proceed with the assessment of external service delivery mechanisms, the consultant shall be advised to prepare a Terms of Reference and a cost estimate to perform Phase II of the Feasibility Study.

Phase II of the Feasibility Study shall include an assessment of external service delivery mechanisms, further assessment of technical or institutional issues identified in Phase I, an expanded stakeholder participation including the general public, a public hearing and final recommendations for project implementation.

**Annex A12**  
**Standard Request for Proposal for Fleet Management**  
**Advisory Services**

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## Introduction

The Executive Mayor, at a meeting held on dd mmmm yyyy, resolved inter alia that tenders be invited for the appointment of a consultant to carry out an assessment of the [redacted] Local Municipality fleet management service in terms of the provisions of Section 78 of the Local Government: Municipal Systems Act, 2000.

Following discussions with representatives from the Municipal Infrastructure Investment Unit (MIIU) and in response to a formal request, the MIIU has agreed to provide financial and technical assistance in respect of the fleet management assessment. Through a grant funding agreement, the MIIU will contribute to the cost of consultant's fees for the initial assessment as described in Phases I and II below.

[redacted] Local Municipality hereby invites proposals from consultants specialising in Fleet Management to undertake an investigation into the fleet management service of the Municipality and to make recommendations with justifications for the adoption of the most cost effective and efficient fleet management service.

## Overview of requirements

The assessment into the existing fleet management service is to inform the [redacted] Local Municipality's objective of providing a service that is efficient, cost effective and sustainable, whether such service is provided by an internal mechanism or an external mechanism.

Although Section 78 of the Local Government: Municipal Systems Act, 2000 does not specifically apply to the fleet management service, the consultant should nevertheless be guided by the provisions of that Section when conducting the investigation.

### Phase I: Evaluating the status quo, considering and short-listing options

To investigate the status quo of the Fleet Management service

#### *Task 1: To investigate the status quo of the Fleet Management service*

This will include information on service delivery, control systems, the physical assets, spare parts inventory, organisational structure, staffing, costs of the service and debt service costs.

#### *Task 2: To provide a professional opinion on the status quo.*

This will explore the current service's strengths and weaknesses including information on the adequacy of service delivery, control systems, assets, financial and human resource capability of providing a sustainable, cost effective and efficient Fleet Management service internally.

#### *Task 3: Considering and Short-listing Options*

This will include a high level analysis of the following options with a recommended proposed short-list of those options, internal and/or external that Council may wish to pursue:

The current internal fleet management service

The improved internal fleet management service

Full Maintenance Leasing

Sale and Lease Back

Maintenance only Contract

Managed Maintenance

Operational Lease with Managed Maintenance

Total Fleet Outsourcing Contract

#### *Task 4: Reporting*

Phase I of the evaluation will be divided into two reports containing three sections as described below:

Status Quo Report

Section 1 – Background

This section will present background information to enable readers of the report to understand the rationale for the project.

## Section 2 – Report on the Status Quo (Assessment and Professional Opinion)

This section will present findings and professional comments arising out of assignments (1) and (2) of the Phase I evaluation.

### Preliminary Report

## Section 3 – Preparation of the Preliminary Report

This section will present the results of assignment (3) of Phase I - considering and short-listing options.

## **Phase II: Conducting a detailed options analysis**

After having considered the Phase I reports, the Council may require the consultant to undertake a detailed analysis of the short-listed options contained in the preliminary report and to prepare and present a final report with recommendations in terms of:

Supporting arguments and justification for recommended option/s.

Identifying and listing any legal, regulatory, institutional and risk issues associated with the recommended option/s.

The way forward.

Envisaged time frames for the implementation of the recommendations.

## **Reporting**

Six copies of the Status Quo and Preliminary Reports are to be submitted no more than 75 days after a notice to proceed from the Municipality and six copies of the Phase II Report are due within 75 days after notification to proceed with the Phase II study.

## **Phase I - Aspects to be evaluated and approach to evaluation**

### **Current status of service delivery**

The consultant shall conduct the investigation in sufficient depth for the purposes of making a sound analysis and for decision-making purposes.

### **Service delivery/controls**

The consultant will perform an assessment of service delivery/control systems which will include:

The number of users and the extent of their reliance on transport and plant services. The consultant to conduct and analyse:

Results of a written user satisfaction survey and needs assessment.

Results of one-on-one interviews with senior officials from the following user groups:

- Environmental Services including Waste Management
- Electricity
- Water and Sanitation
- Fire and Traffic

Review and analyse statistics relating to vehicle availability to user groups.

Review and analyse statistics relating to vehicle utilisation levels.

Review and analyse statistics relating to fleet ageing.

Current control systems employed in respect of:

Procurement of new vehicles and disposal of boarded vehicles.

Administration of accidents, losses and claims.

Policing to detect abuse of vehicles.

Monitoring the utilisation and running costs of vehicles.

Registering, licensing and obtaining Certificate of Fitness for vehicles.

Hire/replacement vehicles and civil engineering plant.

Fuel usage/stock/dispensing control.

Compliance and cost of internal lease agreements.

Workshop operations and controls, including:

Authorisation of repairs and maintenance.

Assessment of basis of selecting workshop repair/service suppliers.

Tyre control.

Workshop time/productivity management.

## **Assets**

The consultant will undertake an assessment of all assets (buildings, vehicles and civil engineering plant, workshop facilities, tools and equipment) of the fleet management service and declare an approximate present value of such assets. Do this based on review of electronic asset registers and relevant fleet reports and limited physical inspection.

The assessment to be in terms of the following:

Present day value.

Estimated remaining life.

Condition and need for rehabilitation.

Estimated cost of rehabilitation.

Status of capital replacement fund (if existing).

Required yearly contribution to capital fund.

## **Organisational Structure and Staffing**

The consultant will review the organisational structure of the fleet management service and the number of employees, positions and job descriptions.

Initial contact should be made with organised labour and their views sought on options for improving service delivery, on the understanding that more in-depth consultation will take place later.

## **Costs of the Service**

The consultant will compile a detailed financial model to present the total cost of the current service, identifying each cost category.

The Consultant will assess and report on the following:

Direct and indirect labour and administrative costs (including cost of all shared staff).

Overhead expenses relating to the service (including office space rentals, lighting, water, etc.).

Vehicle and plant replacement funding.

Spare parts inventory (including oils, fuels and maintenance supplies).

Existing supplier and service contracts (including external annual contracts for the hire of transport and plant, the repair of motor vehicles and provision of supplies).

## **Debt Service Costs**

The consultant will assess the debt on previous capital expenditures for the service, if any, as well as the estimated debt retirement dates for each loan. The consultant will quantify:

All external municipal loans outstanding at the end of the last financial year with some component attributable to the fleet management service. The estimated amount of the loan attributable to the service should be indicated, along with the estimated amount of debt service attributable to the service.

All internal loans attributable to the service including the number, total value and the debt service paid during the previous financial year.

Future service needs and levels have to be established to estimate future capital investment needs.

## **Professional comment on status quo**

### **Current Service Delivery/Control Mechanisms**

The consultant will review the current level of service delivery and control mechanisms and comment on:

Adequacy of vehicle fleet and related equipment required to deliver effective and efficient service (including availability in relation to user demands).

Whether vehicles are being utilised optimally.

The adequacy of current maintenance and rehabilitation programs.

Adequacy and effectiveness of systems employed to monitor and control:

- Procurement of new vehicles and disposal of boarded vehicles.

- Administration of accidents, losses and claims.

- Vehicle abuse/misuse

- Monitoring the utilisation and running costs of vehicles.

- Vehicle registration and licensing procedures.

- Internal hire and replacement vehicles and plant.

- Fuel usage, stock levels and dispensing.

Adequacy and proficiency of workshop operations.

### **Assets**

The consultant will comment on the adequacy of the assets required to deliver an effective and efficient Fleet Management service internally. This will include:

Buildings, workshop facilities, tools and equipment.

Age and adequacy of the motor vehicle fleet.

Cost implications of needed replacements and write-offs of totally depreciated vehicles.

### **Human resources capability**

The consultant will review the current staffing levels and comment on:

The ability and extent to which staff are equipped to meet the requirements.

The constraints within the current context on the capacity to deliver the required service.

Any problems in the way the system is structured or managed.

Any problems due to the number of employees or the ways in which they are assigned work.

Any serious impediments to restructuring or out-sourcing.

The extent to which reorganisation of the service's administration and human resource capacity within the administration could be utilised to provide the service through an internal mechanism.

Any other problems considered to be worthy of note.

Additionally the consultant is to:

Provide an optimized organisation structure.

Cost the new structure based on level of expertise needed including benefits and/or fees; and/or

Cost necessary for the retraining of existing employees in the newly identified optimal organisational structure.

### **Costs of the Service**

The consultant will comment on:

The financial resource requirements and capacity to provide an improved Fleet Management service internally.

Adequacy of vehicle replacement funding in line with optimum vehicle replacement timing levels.

Adequacy of internal lease agreements to cover cost of leased vehicles.

Cost related to optimizing organisational structure and/or providing training to equip existing staff for more responsible assignments.

Cost categories that appear over or under-funded.

The extent to which charge-out rates for internal hire/Full Maintenance Leasing reflect cost recoveries.

Cost effectiveness of existing annual external repair and maintenance, transport and plant hire contracts.

Continuation of an internal service, particularly from a "value for money" point of view.

At this point, the consultant will prepare and present Sections 1 and 2 of the Status Quo report.

### **Considering and Short-listing Options**

The consultant will present a high level analysis of the following options:

The current internal fleet management service

The improved internal fleet management service

Full Maintenance Leasing

Sale and Lease Back

Maintenance only Contract

Managed Maintenance

Operational Lease with Managed Maintenance

Total Fleet Outsourcing Contract

The high level analysis will present the following for each option:

Description

Risk allocation

Comments on suitability

The primary aim of the analysis is to identify those fleet management options, internal and/or external, which may enable the service to be provided more cost effectively and efficiently for Council consideration.

At this point the consultant will prepare and present the Preliminary Report (Section 3) summarising the investigation, its findings, and proposed short-list of those options, internal and/or external, which the Council may wish to pursue. The presentation is to review the implications of using an internal service delivery compared with a possible external delivery mechanism.



## **Phase II - Detailed analysis of short-listed options and preparation of final report**

The consultant will conduct a detailed analysis of the short-listed Fleet Management options taking into account:

The direct and indirect costs and benefits associated with each option.

The advantages and disadvantages of each option.

The impact on future budgets for each year for which the option might be used.

The extent to which the adoption of any of the options will:

- Provide value for money

- Be affordable

- Transfer appropriate technical, operational and financial risk

The capacity and potential future capacity of prospective service providers to furnish the skills, expertise and resources necessary for the provision of the service.

The impact on staff, assets and liabilities, including the likely impact on development and employment patterns in the municipality.

The views of organised labour.

The likely impact on, or opportunities for empowerment of Historically Disadvantaged Individuals (HDI's).

The consultant will prepare and present a final report with recommendations in terms of:

Supporting arguments and justification for recommended option/s.

Identifying and listing any legal, regulatory, institutional and risk issues associated with the recommended option/s.

Outlining the way forward in terms of the steps required.

The envisaged time frames for the implementation of the recommendations.

## **General requirements**

### **Resources/facilities**

The consultant will be required to provide its own resources in the form of manpower, transport and facilities necessary to undertake the assessment.

### **Preference claim in respect of equity ownership by Historically Disadvantaged Individuals (HDI's)**

Proposals will be adjudicated in terms of the Municipality's latest Procurement Policy. The consultant will be required to complete a declaration in respect of the equity ownership by HDI's. The declaration must be supported by documentary evidence to substantiate any preference claim in this regard.

### **Timing Plan/Consultant's Fees**

Consultants are required to submit their proposal with a timing plan per phase detailing the "modus operandi" to be employed in their assessment.

Full details of the basis of determination of costs should be provided in accordance with the following:

Phase I Envisaged date of completion	Cost
Phase II Envisaged date of completion	Cost

### **Fleet Management Expertise**

Consultants are required to submit full details of their experience in Fleet Management. Details concerning Fleet Management projects currently being undertaken as well as projects completed during the past three years are to be submitted.

### **Terms of Proposal Evaluation**

Insert council latest Procurement Policy evaluation criteria

### **Contact Person**

Any queries relating to these Terms of Reference should be directed to the following official:

Insert details of official (Tel, Fax, Email)

### **Submission and opening of Proposals**

Proposals must reach the Municipality by not later than **hh:mm** on **Thursday**, dd MMMM 2003. The proposals in sealed envelopes, clearly stating "PROPOSALS: FLEET MANAGEMENT FEASIBILITY STUDY", must be placed in the tender box, ... or be posted to the Municipal Manager, P O Box .... The proposals will be publicly opened in the ..., shortly after 11:00 on ....

# **Annex13**

## **Standard Terms of Reference for a Diagnostic Study of Municipal Service Delivery**

### **1. BACKGROUND**

The MIIU recognises that many municipalities are struggling to provide well-managed municipal services and could potentially benefit from a variety of service restructuring or improvement measures. It is also apparent that these same municipalities suffer from limited human capacity and may not have the time and resources to even consider the use of such measures to improve their situation.

For this reason the MIIU has proposed to sponsor "diagnostic studies" in selected municipalities. The study is designed to assist municipalities in assessing their infrastructure service needs, as well as innovative measures for meeting those needs.

Diagnostic studies may recommend service restructuring measures, including municipal service partnerships. However, regardless of the specific recommendations generated (which participating municipalities are under no obligation to accept), these studies are designed to produce information of value to municipal officials.

### **2. BASIC PRINCIPLES OF A DIAGNOSTIC STUDY**

This study will be carried out according to a number of guiding principles:

- The budget is limited, and so the time spent with the municipality and the level of detail will be severely constrained.
- All service delivery sectors should be addressed, but not in the same detail, with priority being given to basic services such as water, sanitation and solid waste.
- In the case of district municipalities, consultants should look at services currently provided, as well as those services proposed for inclusion in the council's portfolio. Among other things, consultants should express opinions on which of these services should be shifted to the district municipality from local municipalities, as well as how and over what time period such a shift should be implemented.
- Information will be gathered from documents and interviews, particularly from studies completed recently by other consultants or advisors to the town, and where appropriate limited fieldwork.
- Conclusions and recommendations will be based on the consultants' observations and analysis.
- Options for service delivery should be ranked in terms of feasibility, and their ability to address the problems identified.
- Outputs must be clear, concise, and useful to the client municipality. They must describe what further actions are required with regard to both municipal finance and infrastructure investment.
- Recommendations should clearly spell out the decisions that a municipality must take to address the challenges that it faces.

### **3. SCOPE OF WORK**

#### **3.1 General**

The consultants will undertake the following general exercises:

- Review the interim IDP, and other documents that are being used as part of the municipality's planning process, and check that they include the possibility of innovative strategies to support infrastructure investment. If necessary, provide an input to the IDP that will enable the council to consider a range of service delivery options, including MSPs, as required by §77 of the Municipal Systems Act. (See Annexes 1 & 2.)
- Review the capital budget and establish the sources of funds, including current borrowings and the potential to borrow more.
- Review the recurrent budget, past experience with cost recovery and prospects for improvement.
- Gather demographic data including population distribution and income distribution.

#### **3.2 Infrastructure services**

The consultants should review all infrastructure service delivery sectors, both current and proposed (in the case of district municipalities) giving priority attention to those providing basic services. For each service/sector:

- Establish current levels of coverage and variations in levels of service.
- Prepare a very rough draft of an infrastructure investment plan, with estimates of capital investments needed for rehabilitation and service extension over the next ten years, and their running cost implications.
- Identify "stress points" in the delivery system, e.g., human capacity, capital, income, payment levels, administration systems, condition of infrastructure and equipment.
- Briefly describe the three most appropriate and feasible service delivery options, their positive and negative features, and the course of action required to achieve each one.
- For the most appropriate option, draft terms of reference for the next step required, using existing MIIU model TORs where they exist, and bearing in mind the requirements of §78 of the Municipal Systems Act. Next steps might include incremental activities such as an IIP (Infrastructure Investment Plan), water loss management or revenue management.
- Prepare a draft brief for the Council describing the decisions required to initiate the process to achieve the most appropriate option described above. This may include a draft Council motion (See Annex 3 for a simple example).
- Where required, assist council officials with an application to the MIIU (full questionnaire).

#### **3.3 Support Services**

The consultants should review typical support services (both current and proposed--in the case of district municipalities) that might be candidates for out-sourcing, e.g., plant and vehicle management, information technology, revenue management. For each service:

- Identify “stress points” in the system, e.g., human capacity, capital, income, administration systems, condition of infrastructure and equipment.
- Briefly describe the three most appropriate and feasible service delivery options and the course of action required to achieve each one. The description would include their positive and negative features, taking into account their ability to deal with operations and maintenance, maintaining or improving income, and raising capital funds for rehabilitation and addressing infrastructure backlogs.
- For the most appropriate option, draft terms of reference for the next step required, using existing MIU model TORs where they exist, and bearing in mind the requirements of the Municipal Systems Act.
- Prepare a draft brief for the Council describing the decisions required to initiate the process to achieve the most appropriate option described above. This may include a draft Council motion.
- Where required, assist council officials with an application to the MIU (a letter), bearing in mind that the MIU is unlikely to offer financial assistance for such outsourcing, but could provide *ad hoc* technical assistance based on previous experience.

### **3.4 Non-core services**

Finally, the consultants should look at any services rendered by the municipality that might be considered “non-core” and are causing a drain on managerial and financial resources (e.g., a resort, abattoir, airport, etc). (Again, these should include services that are currently provided, as well as proposed--in the case of district municipalities.) For any that are identified as a major drain on resources:

- Identify “stress points,” e.g., human capacity, capital, income, administration systems, condition of infrastructure and equipment.
- Briefly describe the three most appropriate and feasible service delivery options, their positive and negative features, and the course of action required to achieve each one.
- For the most appropriate option, draft terms of reference for the next step required, using existing MIU model TORs where they exist, and bearing in mind the requirements of the Municipal Systems Act.
- Prepare a draft brief for the Council describing the decisions required to initiate the process to achieve the most appropriate option described above. This may include a draft Council motion.

## **4. OUTPUTS**

As described above, the outputs of this work would include, but are not limited to:

- Inputs to the IDP.
- Commentary on capital and recurrent budgets and related issues.
- Demographic and income data.
- Data on service coverage.
- Infrastructure investment needs.
- Commentary on service delivery “stress points”.
- Description of options and their pros and cons.
- Draft TORs for next steps.

- Draft Council brief and associated motion.
- Application to MIIU.

## **5. STAFFING**

The consulting team should consist of 3-4 experts, each of whom has unique experience in assessing the challenges associated with municipal service delivery in South Africa. MIIU proposes to directly appoint these experts. Subsequent studies would be carried out by consultants selected via public competition.

## **6. TIMEFRAME**

The consulting team should mobilise within 10 working days of receiving a letter of appointment and should plan to spend a minimum of 5 working days with the municipality. All outputs should be generated during a further 5 working days after return from the municipality and be presented no later than 21 calendar days from the first day in the municipality. One or more consultant would be expected to brief the council, and the MIIU, on their findings and recommendations after they have been compiled.

## **7. FEES AND EXPENSES**

MIIU will cover the costs of this exercise and will contract directly with the appointed consultants. Fees will be a lump sum paid on satisfactory production of the outputs. Expenses will be based on three visits to the municipality (two for data gathering and interviews, and one for feedback). Any cost incurred through extra breaks in the visits due to the consultants' other activities will be to their account.

## **8. INFORMATION**

All information collected for this exercise will be owned jointly by the municipality and the MIIU, and will be subject to any confidentiality requirements of the municipality.

**Annex 14**  
**Standard Project Proposal Report**



**Date:**

**Project Title:**

**Project Number:**

**Province:**

**MIIU Project Manager:**

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**New PPR**       **Supplemental PPR**

**1. SECTOR**

Diagnostic     Water     Wastewater     Waste     Power     Transport

Fleet     IT     Market

Other: \_\_\_\_\_

**2. STAGE**

Diagnostic     FS     Proj Prep     negotiation     Post signing Support

Other: \_\_\_\_\_

**3. PROPOSED FUNDING CAP (for current stage)**

Large = R 1m ceiling     Medium = R500k ceiling     Small = R200k ceiling

Other: \_\_\_\_\_

**4. PROPOSED MUNICIPAL COST SHARING**

10%     20%     30%     Other: \_\_\_\_\_

**5. PRELIMINARY ASSESSMENTS (undertakings by project manager)**

At this stage, the project appears potentially to be:

- Technically viable
- Financially viable
- 'Institutionally viable
- Socially sustainable
- Legally sustainable

Other issues:
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**6. PREVIOUS STUDIES**

Has the service system been the subject of any recent study by consultants or municipal officials?

Yes     No

If yes, identify author(s) and date:

**7. BRIEF DESCRIPTION OF PROPOSED PROJECT**

**8. RECOMMENDATION**

I recommend that the MIIU and the municipality collaborate on this project, as described above,

Project Manager: \_\_\_\_\_  
PROJECT MANAGER

Date \_\_\_\_\_

Approved : \_\_\_\_\_  
MIIU CEO

Date \_\_\_\_\_