

Eighth MIU Board of Directors Meeting
No. 08/01/1999
and
MIU Progress Report
October 1998 - December 1998

**ASSISTANCE TO THE SOUTH AFRICAN
MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT (MIU)**

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Prepared by
PADCO, Inc.



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MIU

Municipal Infrastructure
Investment Unit

Board of Directors
Meeting

Meeting No. 08/01/1999

Padco

**EIGHTH MEETING OF THE BOARD OF DIRECTORS OF THE
MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT (MIIU)
TO BE HELD ON FRIDAY, 26 FEBRUARY 1999
IN THE AUDITORIUM, DBSA BUILDING,
LEVER ROAD, MIDRAND
TIME : 10:00 – 13:00**

CHAIRPERSON : MR ENOS BANDA

A G E N D A

- | | | | |
|-------|-----------------------------------------------------------------------------------------------------------|-------|---|
| 1. | INTRODUCTION AND WELCOME | Chair | |
| 2. | APOLOGIES | Chair | |
| 3. | ADOPTION OF PREVIOUS MINUTES | | A |
| 4. | MATTERS ARISING | | |
| 4.1. | Change in Minutes Format | | |
| 4.2. | Revolving Fund – See Annexure 7.7 of Progress Report | | |
| 4.3. | Key Performance Indicators – No submissions | | |
| 4.4. | Training for Local Authorities – Chairman to submit proposal | | |
| 4.5. | Fund raising for the last three operational years | | |
| 4.6. | Pipeline Analysis – see Annexure 7.4. of the Progress Report and proposal from Board Member, S Njikelana. | | B |
| 4.7. | Government/MIIU Interface | | |
| 4.8. | Research Assistant – See Paragraph 5.1 of the Progress Report | | |
| 4.9. | Procurement Policy – No proposals received | | |
| 4.10. | Exit Strategy – No proposals received | | |
| 4.11. | Draft COSATU Framework Document – no comments received | | |
| 4.12. | Board Meetings - Schedule of Dates | | C |
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OCTOBER 1998 TO DECEMBER 1998
For Discussion | | D |
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| 5.2. | Current Project Status | | |
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| 5.5. | Strategic and Policy Issues (Internal) | | |
| 5.6. | Strategic and Policy Issues (External) | | |
| 6. | GENERAL | Chair | |
| 7. | SUMMARY AND CONCLUSIONS | Chair | |
| 8. | DATE OF NEXT MEETING – 29 April 1999 | Chair | |
| 9. | CLOSURE | | |

**Minutes of Meeting No. 07/1998 of the
Board of Directors
Of the Municipal Infrastructure Investment Unit (MIIU)
15 October 1998
DBSA Board Room, 1258 Lever Road, Midrand**

Present :

Directors : Enos Banda (Chair)
Johannes Rantete
David Ferreira
Fanyana M Madlala
Neil Macleod
Noma-India Mfeketo
John Barton-Bridges
Brian Whittaker
Marlene Hesketh
Sisa Njikelana
Gugu Molo

Functionaries : Monhla Hlahla
Anthony Still
James Leigland
James Dohrman
James Aiello
Chris Strydom
Jackie Lesaoane
Beverley Parsonson

Apologies :

Directors : Mzimkulu Msiwa
Roland White
Nonhlanhla Mjoli-Mncube
Nozabelo Ruth Bhengu
Nomagugu Mgijima
Crispian Olver

Functionaries : Barry Jackson

ACTION

1. INTRODUCTION AND WELCOME

The meeting convened at 09h30. Chair Enos Banda welcomed all attendees to the seventh meeting of the Board of Directors of the Municipal Infrastructure Investment Unit (MIIU).

2. ADMINISTRATION

After acknowledging the apologies, Chair Banda announced the birth of Mike Mdlala's son last night,

Sisa Njikelana will submit further comments on this at the next meeting.

SN

Some discussion was held on whether the KPIs were satisfactory. It was agreed that this point be tabled for further discussion at the next meeting. Any written proposals should be submitted to the PPU by Monday for distribution to the Board members.

Board

It was agreed that capacity building for local authorities is a serious obstacle to the MIU. The Chair to submit a proposal to provide an institutional framework for training.

EB

Chris Strydom tabled the Balance Sheet and Income and Expenditure Statement as at 30 September 1998 for comments.

It was agreed that in point 8.7 of the business plan, the word "constructive" be removed.

PPU

A graph showing sources of funding was tabled. It was agreed that there is a need to develop a certain level of comfort that there is forward cover for the third and fourth years and that any problems with this regard should be referred to Government. It was also agreed that this item requires continuous discussion at each board meeting.

PPU

The Board requested that an action plan detailing responsibility, time frame and actions for fund raising be tabled and reported on at each meeting.

PPU

3.2. Progress Report

The Progress Report was tabled and an overview given by the Chief Executive Officer. Anthony Still explained the MPPP and MIU project pipeline status and budget. It was agreed that the schedules be broken down geographically, urban vs rural and sectorally for the next meeting.

PPU

External Strategic and Policy Issues – It was resolved that the MIU needs to provide technical assistance to the Government and that the PPU be mindful that any controversial matters be referred to the Board.

Press Releases - It was resolved that the Chair would provide guidance to the Chief Executive Officer and that when practical, inputs be circulated to the Board

6. SUMMARY AND CONCLUSIONS

The Chair noted that whilst the discussion on the Revolving Fund had been deferred to the next meeting to accommodate Roland White, it would not be delayed any further.

7. SCHEDULING OF MEETINGS

A schedule of meetings to be drawn up at the next meeting. The Chair and Chief Executive Officer to discuss the issue of attendance of Board meetings.

Chair/CEO

8. CLOSURE

The meeting was adjourned at 13h07.

Attest :

Enos Banda, Chair

Date : _____

IN SUPPORT FOR AN INTENSIVE FOCUS ON MARGINAL AUTHORITIES A PROPOSAL TO MIU

BACKGROUND

The MIU¹ has received and is currently processing quite a number of applications that are mainly from municipalities that are comparatively in a far better position than most municipalities to engage with the private sector.

It has become apparent that there is a need to address such scenario due possibility of facing problems in areas where there are development projects².

MOTIVATION

- ❖ Business investment can only be a reality if the infrastructure is appropriately developed in an area.
- ❖ Uneven development amongst the various local authorities, which is the current legacy, cannot be further perpetrated.
- ❖ In areas such as SDI and IDZ areas municipalities without appropriate infrastructure will face serious problems when land development proceed.
- ❖ Whilst it seem extremely difficult it is not insurmountable to get the private sector to invest in specific and strategic areas.³

PROPOSED PLAN

- ❖ Define what is a marginal authority.
- ❖ Develop a criteria for selecting the applications from marginal authorities.
- ❖ Link to geographical spread :-
 - ◆ throughout South Africa
 - ◆ within each province
 - ◆ within each development area
- ❖ Negotiate incentives with provincial governments to attract business investment ito marginal municipal areas
- ❖ Link to development initiatives in the area.

PROPOSAL BY SISA NJIKELANA

¹ MIU vision

² SDI's and IDZs

³ Refer Job Summit

MIIU

Municipal Infrastructure
Investment Unit

SCHEDULE OF BOARD DATES FOR 1999

29 April 1999

29 July 1999

28 October 1999

MIIU PROGRESS REPORT FOR THE PERIOD
1 OCTOBER 1998 TO 31 DECEMBER 1998

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1. ADMINISTRATIVE MATTERS

1.1. BOD RESIGNATION AS CHAIRMAN

Chairman Enos Banda announced that he would be resigning his position at the next Board meeting.

1.2. BONGI MASHABA'S RESIGNATION AS SECRETARY

Ms Bongi Mashaba, previously secretary to CEO, has resigned with effect from 14 January 1999.

1.3. APPROVED BUSINESS PLAN

The Business Plan was adopted by the Board of Directors at its 15 October 1999 meeting. A copy is attached as Annexure 7.1.

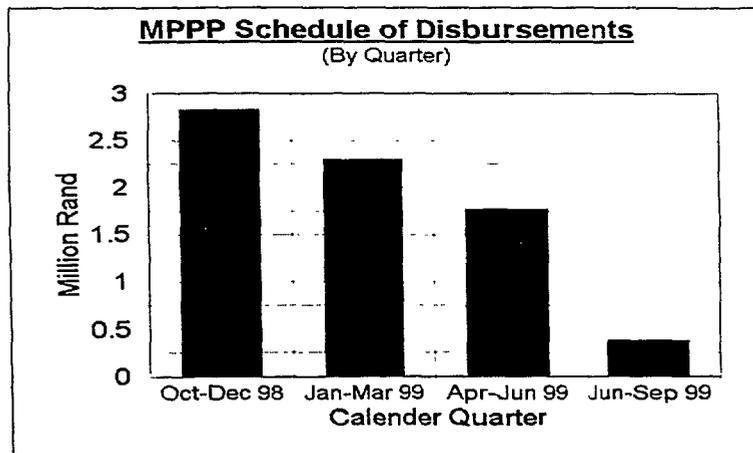
2. CURRENT PROJECT STATUS

2.1. MPPP PROJECTS

Annexure 7.2 shows the status of the projects inherited from the DCD under the MPPP programme. As at 31/12/1998, the MIIU has disbursed R2 952 779. Considerable progress has been made on most of the projects, as reflected in the annexed summary.

As previously noted, several dormant MPPP project sponsors have been advised to assiduously pursue their projects or face loss of funding. The deadline is 28 February 1999. At this juncture it would appear that funding for the Khayalami industrial wastewater project will be terminated. The Kimberley project sponsors are seeking means to pursue the project.

A summary of MPPP projects expected disbursements is presented in the following graph :



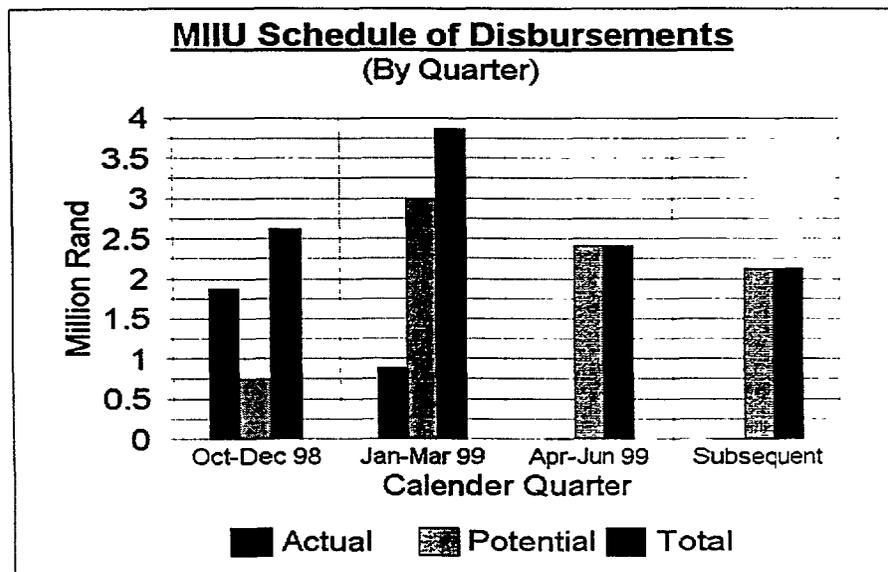
MPPP PROJECT COSTS SUMMARY	
GRANTS TOTAL	R16 605 275
Committed to F.S. or P.P.	R 253 000
Disbursed by DCD	R5 915 389
Disbursed by MIIU	R2 952 779
Balance Remaining	R7 737 107

2.2. MIIU PROJECTS

Annexure 7.3. gives a full status report on all new projects. This report is divided into the following sections :-

- Schedule I - Projects Rejected
- Schedule II - Local Authorities where there is potential interest
- Schedule III - Projects in Conceptual Phase
- Schedule IV - Projects in Feasibility Study Phase
- Schedule V - Projects in Preparation to Implementation Phase
- Schedule VI - Total Disbursements
- Schedule VII - Actual Disbursement Details
- Schedule VIII - Total Potential/Future Funds Flow

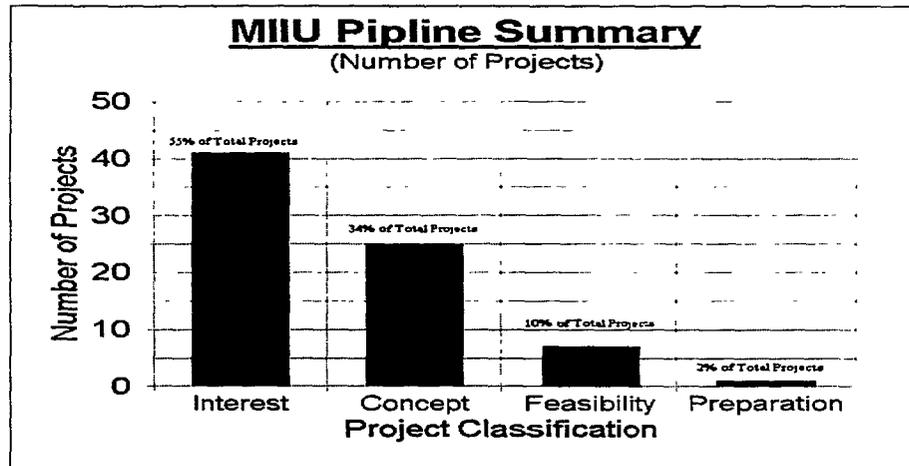
A summary of MIIU projects is presented in the following graphs:



MIIU TOTAL EXPECTED PROJECT COSTS*	
Actual Commitments	R2 755 000
Potential Projects	R8 250 000
TOTAL FUNDS	R11 005 000

The most significant contractual undertaking by the PPU to date occurred on 11 December 1998, when the Master Agreement with the Greater Johannesburg Metropolitan Council was executed. The MIIU will cost-share in the funding of up to R3,42 million in technical assistance. The agreement calls for feasibility studies

assessing PPP alternatives for Rand Airport, Fire and Emergency Services, the Gas Works, Electricity Generation, Fleet Management, Bus, and Information Technology.



2.3. ANALYSIS OF PIPELINE

The analysis of geographic and sectoral spread is presented in the graphs attached as Annexure 7.4.

3. **FINANCIAL AND BUDGET MATTERS**

The revised multi-year budget which was attached to the revised business plan was likewise adopted by the Board of Directors at its 15 October 1998 meeting. A copy of this budget was provided in the previous Quarterly Report.

3.1. INCOME AND EXPENDITURE STATEMENT AND BALANCE SHEET AS AT 31 DECEMBER 1998

The Income and Expenditure Statement as well as the Balance Sheet of the MIU as at 31 December 1998 are reflected in Annexure 7.5. of this report.

3.2. FUND RAISING

3.2.1. Medium Term Expenditure Framework (MTEF) For The Period 1999/2000 To 2001/2002

After several discussions with the Department of Constitutional Development, a motivation was put forward for including an amount of R20 million for the MIU in the preparation of the Department's Medium Term Expenditure Framework (MTEF) calculations. This request was viewed in context of the then anticipated budget allocation of R50 million for municipal public/private partnerships mentioned in Cabinet Memorandum No. 14 of

1997. The MTEF request called for R9,950 million in 1999/ 2000, R6,540 million for 2000/2001 and R3,510 million for 2001/2002.

The PPU was subsequently informed by DCD that an amount of only R3 million will be made available to the MIIU during the 1999/2000 financial year. Another submission will be made yet again in the next MTEF cycle due later in this year.

3.2.2. Other Donors

The following embassies and donor organisations were contacted to make arrangements for discussions early in the 1999 year :-

- ❖ Australian High Commission
- ❖ Embassy of the Kingdom of Belgium
- ❖ British Development Division of Southern Africa (DFID)
- ❖ Canadian High Commission
- ❖ Royal Danish Embassy
- ❖ European Union
- ❖ Embassy of Finland
- ❖ Embassy of France
- ❖ Embassy of the Republic of Germany
- ❖ Embassy of Ireland
- ❖ Embassy of Israel
- ❖ Embassy of Italy
- ❖ Embassy of Japan
- ❖ Royal Netherlands Embassy
- ❖ Royal Norwegian Embassy
- ❖ Embassy of Sweden
- ❖ Embassy of Switzerland
- ❖ United Nations Development Programme

4. **MARKETING AND PUBLICITY**

4.1. PARTNERSHIPS MAGAZINE

The first 1999 issue of Partnerships (attached as Annexure 7.6.) is co-sponsored with the NBI. It focuses on the Dolphin Coast and Nelspruit Water Concession contracts, as well as updates on relevant legislations and MSP projects. Four publications are planned for the year, and sponsorship will be sought from the private sector through NBI's network.

4.2. COMMUNICATIONS PLAN - DCD/MIIU

The PPU and the Department of Constitutional Development have started discussions on a comprehensive communication strategy for Municipal Service Partnerships and the roles of the MIIU and the Consolidated Municipal Infrastructure Programme (CMIP). An agreement has been reached to structure such a plan in early 1999. It is anticipated that a communications company will be contracted

under the management of the MIIU. This initiative will be funded by the DCD.

4.3. WORKSHOPS/SEMINARS/TRAINING

The PPU provided input and technical assistance to South Africa-funded training initiatives. PPU evaluated and suggested revisions to a curriculum for a three-day workshop on PPP contract compliance training, and identified participants nation-wide to be invited to a much more extensive PPP training programme to be carried out over a three-month period. PPU assistance was also provided with regard to a tour of US PPP installations by proposed project implementation staff from Nelspruit and Dolphin Coast, as well as officials from the Department of Constitutional Development. PPU identified and invited the participating local officials, helped to facilitate approvals by local councils, and evaluated the travel itinerary.

Staff attended the following workshops and seminars :-

James Aiello

- ❖ The Technical MinMec Bosberaad 21-23 October 1998 at Ganzekraal to discuss the Municipal Systems Bill.
- ❖ 29 October 1998 - Lectured on the MIIU at the NBI Training Course for TLC councillors and staff at the Johannesburg Civic Centre.
- ❖ 13 November 1998 - Made a presentation on the MIIU at the IP3 "Training for Trainers" conference in Pretoria.

James Leigland

- ❖ Infrastructure Finance & Development Symposium -Oct. 28-29 "Municipal Borrowing to Finance Infrastructure: Direct Access by Local Governments to the Private Capital Markets"

James Dohrman

- ❖ Solid Waste Conference, SA Institute of Waste Management - 12 October 1998.
- ❖ Workshop on Water Services Plan - Palmer Model - 10 and 11 November 1998.

Anthony Still

- ❖ Presentation on PPPs/MIIU to the Northern Province Local Government and Housing - 30 October 1998
- ❖ Invited Speaker at Public Sector Auditing and Financial Management Conference on Potential for IT Outsourcing at Local Government level - 11 November 1998
- ❖ Presentation on PPPs to the Lamberts Bay Council and Provincial Government officials - 19 November 1998

Barry Jackson

- ❖ SAICE Gauteng Seminar on PPPs - Monday, 12 October 1998
- ❖ Technikon SA Conference on Challenges for the Public Sector - Thursday, 15 October 1998.

5. STRATEGIC AND POLICY ISSUES (INTERNAL)

5.1. RESEARCHER POSITION

A verbal report will be provided.

5.2. REVOLVING FUND

The document is attached as Annexure 7.7.

6. STRATEGIC AND POLICY ISSUES (EXTERNAL)

6.1. FRAMEWORK FOR RESTRUCTURING MUNICIPAL SERVICE PROVISION

On 11 December 1998, a Framework for Restructuring of Municipal Service Provision was signed by representatives from the Department of Constitutional Development, SALGA, and COSATU. The CEO was a technical resource to the negotiators of this Framework. The document is in three parts. The first, Section A, sets forth principles of municipal service delivery such as the need to observe the Integrated Development Planning (IDP) processes, universal coverage, environmental sustainability, establishment and monitoring of service standards, and delivery consistent with Batho Pele principles. The Section further states that the preferred service delivery option is the public sector and goes on to provide motivation for public sector delivery of municipal services, motivation for private sector involvement in municipal service delivery where the public sector is unable to provide the services, and the process of restructuring municipal service delivery. It announces the formation of a Sectoral Forum that will seek to build consensus regarding alternative means of municipal service delivery, monitor compliance with any agreements reached in the Forum, and provide content to disputes arising from bargaining councils.

Section B, entitled "Municipal Service Partnership Regulatory Framework," establishes "regulatory measures" applicable to both public and private service providers. Among such measures are matters that would typically be covered by a concession agreement, such as performance standards, investment requirements, and environmental standards. There are several regulations on tariffs, including an undefined limitation on increases, provision of a lifeline tariff, and an emphasis on cross-subsidisation. Measures applicable only to private sector service providers include a preference that municipalities should continue to own assets transferred to private sector service providers, a discussion on matters that disqualify companies from being service providers, limitations on rate of return, investment obligations, guarantees, and responsibility for costs.

The final section is a Schedule posing a series of questions to be debated in the Sectoral Forum. Included are questions regarding benefits continuation of former municipal employees, the fate of labour agreements, and the fate of employees hired subsequent to the execution of a concession agreement.

All existing and future PPPs will be measured against this Framework until the Systems Act is promulgated. While it is anticipated that areas of disagreement in interpretation may arise, all parties have begun to apply its provisions in good faith to existing projects, and will do so with regard to future undertakings as well. A copy of the Framework, in the form in which it was signed, is attached as Annexure 7.8.

The implications of the Framework on existing MIIU processes and procedures are currently being analysed. Suggestions have been made with regard to changes to the application Questionnaire, model Terms of Reference, and model Agreement for Consulting Services.

The execution of both the Nelspruit and the Dolphin Coast concession contracts have been delayed while the draft agreements are being compared with the Framework principles. Application of the Framework principles to all other existing projects is underway.

6.2. LOCAL GOVERNMENT TRANSITION ACT (LGTA)

The LGTA was enacted shortly after the new Constitution was adopted to provide an interim legal framework for municipalities pending the adoption of more permanent legislation. Provisions of the LGTA prohibit a municipality from entering into contracts involving the delegation of municipal authority to set budgets, apply for loans, set tariffs, or collect revenues. The latter provision would seem to prohibit a municipality from entering into a concession agreement where the private sector concessionaire collects revenues for its own account. Differing opinions from distinguished advocates issued regarding the effect of the provision. A DCD opinion was rendered that the provision does not prohibit concession agreements where the municipality sets the tariff, and the concessionaire is merely collecting the officially-imposed tariffs. The pending Municipal Systems Bill will, once adopted, remove any ambiguity regarding the matter. It will clearly permit concession contracts where the private sector services operator may collect municipally-set tariffs for its own account.

6.3. WATER SERVICES ACT (WSA)

The Water Services Act continues to be a problem for potential PPP lenders, particularly the section that allows the Minister to adopt norms and standards placing limitations in respect of surplus or profits for water services providers. PPU staff are part of a working

group exploring regulatory or comfort letter language that will protect lenders from arbitrary post-contract-signing action.

Still to be resolved are many other issues, including guidelines or regulations for Article 19 of the Act that requires a municipality contemplating a PPP for water and sanitation, to first determine whether a public entity, such as a water board, is "willing and able" to provide the services, before awarding a contract to a private sector provider.

The PPU is continuing its efforts with DWAF, the DCD and other stakeholders to craft regulations and other interpretative documents that will meet the goals of this legislation without unduly restricting or prohibiting PPPs from going forward.

6.4. DOLPHIN COAST CONCESSION

On Friday, 29 January 1999, the Dolphin Coast Transitional Local Council (TLC) and SAUR Services signed the first ever long-term water and sanitation concession contract in South Africa. The 30-year contract is worth over R240 million in new investment (in 1998 value), and insures for the first time that all disadvantaged citizens in the area will receive essential services at affordable rates. *[Note that although this signing occurred after the close of the quarter for which this MIIU progress report is made, the signing is nevertheless an important development involving MIIU, of which Board members should be aware.]*

The TLC realised in 1997 that help from the private sector was necessary to meet service delivery needs associated with an expected 600% increase in population over the next 25 years. The completed contract insures that the private partner will have overall responsibility for operation, maintenance, and management of the water/sanitation system, and will make the capital investment necessary for the required expansion of services. All fixed assets remain the property of the municipality, which will also approve tariffs, the quality and level of service, as well as capital investment. The contract insures that all municipal workers will be employed on the same or better conditions of service. It also contains innovative proposals for staff training, black empowerment, local job creation, and community development. A system of penalties written into the contract, and a city-run contract compliance office financed by the private partner, will help insure successful implementation. Without the contract, city officials are confident they could not have met the demands generated by population growth, and could never have offered adequate service to the 50% of its citizens living in disadvantaged areas.

ANNEXURE 7.1.

MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT COMPANY (MIIU)
FIRST AMENDED BUSINESS PLAN
FOR THE OPERATIONAL YEAR
April 1998 - March 1999
Amended 15 October 1998

1. MISSION STATEMENT

To encourage and optimise private sector investment in local authority services, on a basis that is sustainable for both local authorities and at a national level.

To assist the development of an established market containing informed local authority clients, private sector advisers, and private sector investors and service providers, so that the MIIU can be wound up no later than five years after the date of its original establishment.

2. MANDATE AND SCOPE OF ACTIVITIES

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

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

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

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

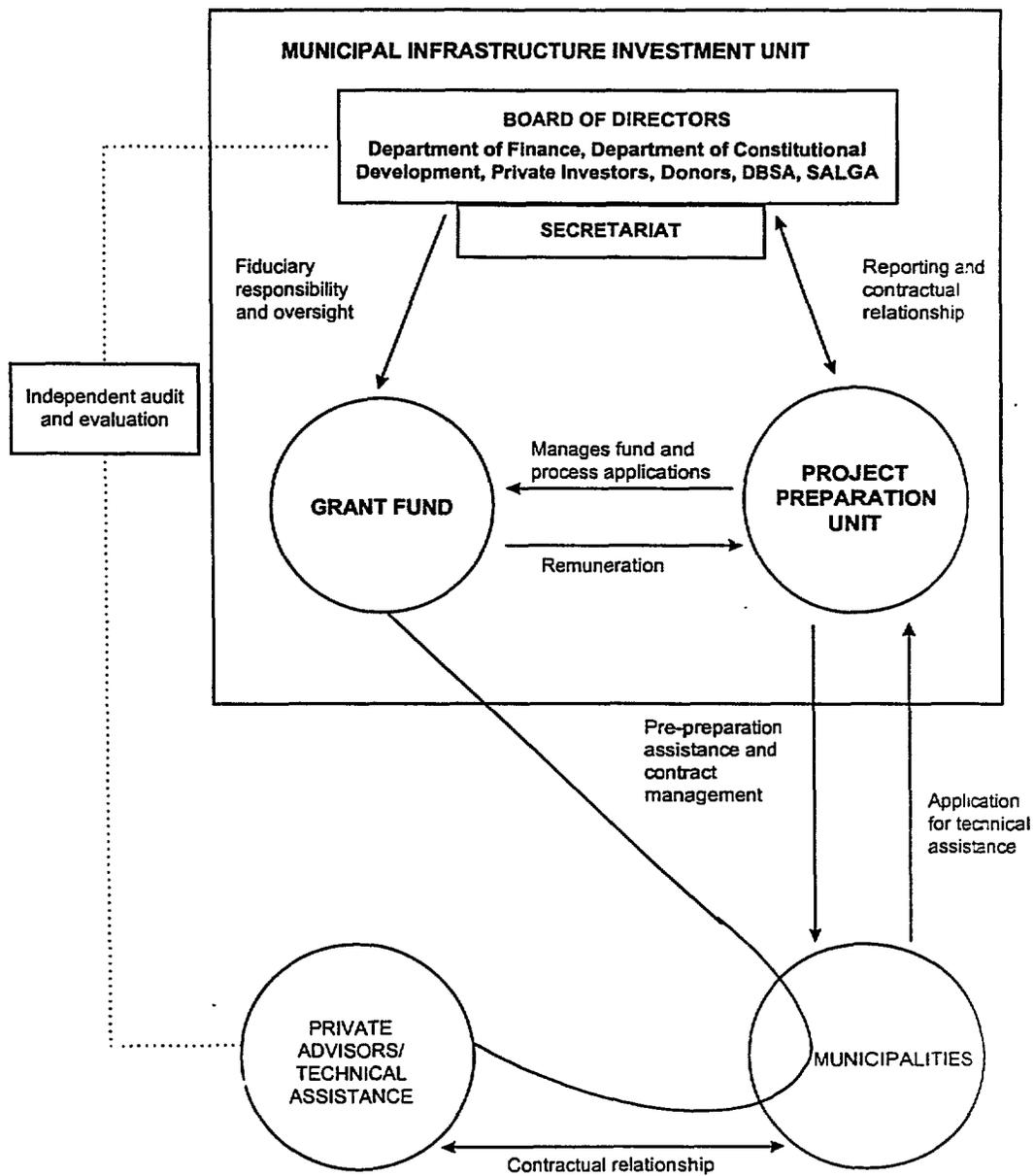
As part of its remit, the MIIU will take responsibility for the management of pilot projects of the Municipal Public Private Partnership (MPPP) programme of the National Department of Constitutional Development (DCD).

3. KEY OBJECTIVES

- 3.1 To fully operationalise the MIU by no later than 30 April 1998. This will involve:
- Establishment of the Project Preparation Unit (PPU) at the Development Bank of Southern Africa (DBSA) offices in Midrand, with appropriate financial and management information systems as well as operational guidelines.
 - Creation of an appropriate staff complement for the PPU with professionals and administrative staff seconded by the DBSA.
 - Integration of donor financed international expertise into the PPU.
 - Establishment of the Grant Fund with seed money from the Government.
- 3.2 To make local authorities and the private sector aware of the opportunities and support available through the MIU.
- 3.3 To design and distribute a brochure to local authorities and private sector companies. The brochure will set out the role and purpose of the MIU, and how applications and enquiries can be made.
- 3.4 To create an Internet Website for the MIU, and to use it as a medium for improving access to case studies and best practice guidance.
- 3.5 To establish application and project approval procedures for local authorities, together with a project management system.
- 3.6 To begin assessment of all proposals put forward by local authorities, and identify schemes to receive financial support for pre-feasibility studies or further project preparation.
- 3.7 To develop databases of consulting firms, operators, and financing institutions which form part of the MIU's stakeholder community.
- 3.8 To develop a cost-sharing policy for the MIU and Local Authorities.
- 3.9 To develop a basic procurement policy for consultancy services on projects involving the MIU while maximising local authority discretion.
- 3.10 To develop standard approaches and contracts on an ongoing basis.
- 3.11 To disseminate best practice and lessons of experience from South Africa and the rest of the world on PPPs to municipalities and other stakeholders.
- 3.12 Develop 'Partnerships' into an MIU Publication.

- 3.13 To establish co-operating arrangements with other sources of technical assistance (e.g. DCD, INCA, DBSA) to ensure optimum use of resources and avoid duplication.
- 3.14 To raise additional financial support from donors as specified in the management agreement between the MIU and the DBSA.
- 3.15 To take over the management and associated funding of projects from DCD's MPPP Programme, and to establish clear terms of reference to be agreed to by DCD and the MIU.
- 3.16 To have identified the principal statutory, regulatory and financial obstacles to progressing with private investment in local authorities, and to have set out their impact for consideration by appropriate institutions and fora.
- 3.17 To develop an exit strategy for discussion and approval by the Board of Directors by the end of the first operational year.

4. RESOURCES
4.1 Human Resources
4.1.1 Organisational Structure



4.1.2 Board Of Directors

The MIIU is a Section 21 company governed by a non-executive Board of Directors. The Board of Directors will comprise representatives from the Departments of Constitutional Development and Finance, as well as individuals appointed by the Minister of Constitutional Development from the private sector, civil society, local government and the DBSA.

4.1.3 Project Preparation Unit (PPU)

The PPU will be staffed by six professionals as follows:

4.1.3.1 Three full time staff equivalent from the DBSA:

- One full time DBSA staff member who will be the Chief Executive Officer of the MIIU.
- One full time DBSA staff member with project management experience with investing into, or creating public private partnerships with South African local authorities.
- One full time staff equivalent from the DBSA to be shared between two individuals.
 - * A senior policy analyst with skills related to partnerships in municipal infrastructure delivery and related regulatory environments.
 - * A senior administrator with skills in project/programme management systems and procurement processes relevant to local government PPPs.
- Two secretaries.

4.1.3.2 Four full time equivalent donor financed staff members with international experience of public private partnerships (PPP contracts), municipal financing and regulation.

This staff composition should be reviewed annually by the Board of Directors to ensure effective use of resources as well as optimal use of private sector skills. The MIIU may use staff from the DBSA in relation to specific local authority projects. Annexure A sets forth a protocol on how the MIIU will avoid any perceived or actual conflicts of interest in relation to the activities of the DBSA.

4.2 Financial Resources

A multi-year budget is attached as Annexure C.

5. APPLICATION OF RESOURCES

The MIIU will report to the Board of Directors on at least a quarterly basis, setting out its performance against the objectives contained in this Business Plan.

As a general guideline for the first operational year, 85% of overall resource allocation should be targeted at Public-Public, Public- Private Partnerships (PPPs), and 15% to diagnostic, marketing and training initiatives as set out in Annexure B and the attached budget for provisional allocations of overall resources.

5.1 MPPP Projects

The MPPP programme will be managed as a separate programme by the MIIU. This programme has pre-agreed financial allocations and activities to which local authorities can use the funds. The terms of reference for the MIIU will be clearly articulated in a memorandum of understanding to be formalised between DCD and the MIIU.

The following is the MPPP's project list to be managed by the MIIU:

- * Cape Town City Council, Water and Sanitation
- * Nelspruit City Council, Water and Sanitation
- * Lekoa/Vaal Metro Council, Water and Sanitation
- * Dolphin Coast City Council, Water and Sanitation
- * Kyalami Metropolitan Council, Industrial water and water treatment complex
- * Stanger Town Council, Solid waste construction complex
- * Richards Bay City Council, Solid waste construction complex
- * Kimberley City Council, Support to investigate better management of recreation/pleasure resorts
- * Port Elizabeth City Council, Water and Sanitation
- * Durban Metropolitan Council, Energy from Waste Plant
- * Tzaneen - Duiwelskloof, Regional waste site
- * Bloemfontein TLC, Passenger Transport
- * Nkadmeng Dam, Rural Water reticulation scheme
- * Johannesburg Metropolitan Council, Inner City Management Cleaning Services and Water
- * Plettenberg Bay, Water and Waste

5.2 MIIU Projects

5.2.1 Project work will include:

- I. Receipt and assessment of new proposals from local government.
- II. Provision of financial support to local authorities to hire consultants to:
 - Undertake feasibility work to assess project viability, and to
 - Assist in project preparation.

- III. Where necessary, provision of advisory support to local authorities to hire and manage consultants throughout the contract.
- IV. Development of standardised approaches and formats on selection of appropriate projects, selection of consultants, request for proposals etc., based on international best practice and local experiences.

The following cumulative project targets entail envisaged commitment of funds from the MIU to municipalities, are:

Envisaged Cumulative Project Targets				
Project Type	1998-99	99-2000	2000-01	2001-02
Partnerships	20	42	65	85
Municipal Debt	0	3	5	8
Total/year	20	45	70	93

6. **MARKETING AND PUBLICITY**

The MIU will wish to make all local authorities aware of its services, and to encourage both the local authorities and the private sector to consider using private investment to improve delivery of public services.

6.1 **The publicity will also have to make clear that:**

6.1.1 The MIU's principal role is to provide financial support towards the cost of external advisers - not to provide the advice itself.

6.1.2 The MIU will maximise cost-sharing opportunities with local authorities for project preparation. Full financing of project preparation from MIU grant funds will be under exceptional circumstances.

6.1.3 The development of private sector investment in local authority services is seen as a long term initiative, and that the intention will be to make the lessons and experience derived from the pilot schemes available to the whole local authority community.

6.2 **The key marketing and publicity initiatives will therefore include:**

6.2.1 A brochure, to be distributed to local authorities setting out the role and purpose of the MIU, and the support available.

6.2.2 Attendance at important conferences of local authorities or their representatives, to increase awareness of the existence of the MIU and the support available.

- 6.2.3 A programme of visits to local authorities, and co-ordinated workshops for local authorities to meet together.
- 6.2.4 Creation of an Internet site for the MIU.
- 6.2.5 By demonstrating the opportunities, and steps taken to deliver successful agreements, to attract additional funding or other assistance from donor organisations, amounting to at least R45million (in 1997 Rand) over the 5 year life of the MIU.
- 6.2.6 Through the publication 'Partnerships' which will be issued periodically to key stakeholders. The publication should be an information source on partnerships in local government.

7. CAPACITY BUILDING

Capacity Building for Local Authorities

The MIU will not provide any training courses on municipal infrastructure partnerships. It will contribute to the design and delivery of appropriate courses offered by relevant training institutions to local authorities and private sector firms.

Through actual projects however, key personnel from within local authorities will access hands on experience on how to prepare, implement, monitor and regulate emerging partnerships. The MIU will encourage local authorities to maximise practical learning from their working relationships with consulting firms and the PPU, and vice versa.

The principal way in which the MIU will contribute to training and capacity building is through dissemination of lessons of experience from the South African pilot projects and best practice from other countries. These will be done through conferences, workshops and publication through the Partnership newsletter, the Internet and other communication media.

MIU capacity building needs

The PPU shall, on a continual basis, access evolving best international practices through available means, and keep itself apprised of all relevant PPP practices worldwide.

It is expected that the Board of Directors may require some capacity building activities for purposes of expanding their knowledge base and team building. To this end, the PPU will receive guidance from the Board, and will provide all necessary support.

As part of these broad training investigations, the PPU will explore possible visits to municipalities (worldwide) which provide best practice for South African municipal infrastructure delivery. The PPU will also maximise its relationship with international training institutions and donor agencies to source cheaper training opportunities and other support for to meet all training needs.

8. OBSTACLES AND POLICY ISSUES

In order to influence policy, the MIU plan by the end of its first year of operation to have identified the principal constraints to the implementation of PPPs and to other forms of private investment in local authorities, and envisage to prepare a statement setting out their impact, for submission to relevant institutions. The areas where obstacles may arise include the following:

- 8.1 Resistance to the idea of private sector involvement in the operation of services.
- 8.2 The legal standing of local authorities and their ability to undertake PPPs.
- 8.3 The financial standing and structure of local authorities, and whether schemes to be entered into will be affordable.
- 8.4 The impact of PPPs on the job security of public sector employees.
- 8.5 Poor performance in cost recovery, credit control, metering and billing.
- 8.6 The pending demarcation of new local authority boundaries.
- 8.7 The reluctance of public-employee unions to constructively engage in consultative processes regarding PPPs.
- 8.8 The consequences, intended or unintended, of sector-specific national legislation such as the Water Services Act of 1997.

9. EXIT STRATEGY

The PPU will prepare and present to the Board before the end of the first operational year, an exit strategy.

10. MONITORING AND EVALUATION

The key performance indicators for the MIU will include:

- 10.1 Number of local authorities assisted by providing feasibility and project preparation grants.
- 10.2 Extent of involvement of South African private sector consulting companies in projects.
- 10.3 Value of grant funding raised.
- 10.4 Amount (actual and expected) of private sector funding leveraged for provision of infrastructure.

The Board of Directors will appoint an independent performance evaluator.

ANNEXURE A

- 1. MANAGING POTENTIAL CONFLICT OF INTEREST**
 - 1.1 The MIU will not act as consultants to local authorities.
 - 1.2 The MIU will screen applications, and assist in the appointment and management of project advisors.
 - 1.3 To supplement core capacity, the MIU may contract DBSA staff.
 - 1.4 DBSA investment finance is not available to projects where any DBSA staff is involved as an advisor to a municipality.

RESOURCE ALLOCATION PROPOSAL

OPERATIONAL YEAR APRIL 1998 – MARCH 1999

TASKS	PRIVATE SECTOR (%)	PPU (%)	TOTAL (%)
PPPs	78	15	93
MUNICIPAL DEBT	0	1	1
MARKETING AND TRAINING	2	4	6
TOTAL	80	20	100

ANNEXURE 7.2.

MPPP PROGRAMME - as at 31 December 1998

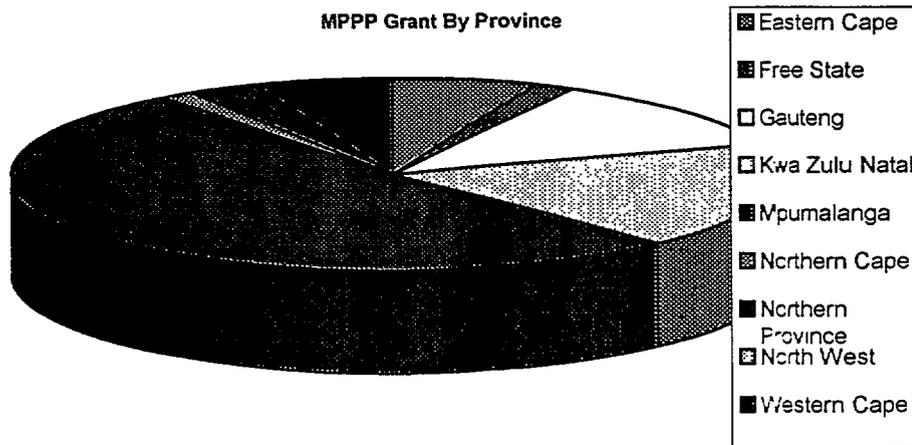
Projected disbursements

City	Project Sector	Project Manager	Type of Contract	Consultants Appointed	MPPP Grant Approved	Committed to F.S. or P.P.	Disbursed by		Balance Remaining	Projected disbursements				Status and comments
							DCD	MIU		Jan-Mar 99	Apr-Jun 99	Jul-Sep99	Oct-Dec99	
1	Bloemfontein Transport	JA	TBD	Buscon Consortium	300,000			28,246	271,754	271,754				To determine way forward with Bloemfontein
2	Cape Town Water/sanit	JL	TBD	Gibb Africa	672,155		217,155	-	455,000				no more disbursements	City considering next step
3	Dolphin Coast Water/sanit	JL	Concession	DBSA	1,000,000			974,274	25,726	25,726				In final stages of contract negotiation
4	Durban Waste-to-energy	JL JD	Concession	IFC	1,000,000			-	1,000,000	340,000	660,000			FS completed - city considering next step
5	JNB Metro 1) Informal trading	JL	TBD	Urban Solutions	500,000			295,368	204,632	104,632	100,000			Feasibility study continuing
		JA	FS	Bohweki Env. Consort	500,000	253,000		205,983	294,017	125,928	168,088			Feasibility study continuing
6	Khayalami Waste water	JD	Concession	Booz-Allen (1st phase)	400,000			-	400,000		400,000			Next step: 2nd phase feasibility
7	Kimberley Resort mngt	JD	TBD	Not yet done	250,000			-	250,000	250,000				MIU & city to assess next steps
8	Lekoa/Vaal Water/sanit	JA	Sect 21	Booz-Allen	600,000			600,000	-				no more disbursements	Sect. 21 formed;
9	Netspruit 1) Water/sanit (PPP) 2) Water/sanit (Capex)	JL	Concession	DBSA	2,947,269			2,047,816	899,453				no more disbursements	Negotiations entering final stages with Bi-Water, et al.
			Capex only	N/A	5,674,851			3,594,852	-	2,079,999	1,079,999	1,000,000		
10	Nkadimeng Water supply	AS	TBD	ENRO Water Co. 1	250,000			-	250,000	250,000				Negotiations underway
11	Plettenberg Bay Water/sanit/s waste	AS	TBD	Stewart Scott, Inc.	280,000			-	280,000	280,000				Decision to proceed to concession
12	Port Elizabeth Water/sanit	AS	TBD	BKS Consortium	1,000,000			55,566	176,790	767,644	323,210	300,000	144,434	FS evaluated. Decision delayed
13	Richards Bay Solid waste	JA	TBD	Cathy Lee	451,000			-	451,000	112,750	112,750	112,750	112,750	FS underway
14	Stanger Solid waste	JA	TBD	Lombard & Ass/DBSA	505,000			-	505,000	139,682	121,773	121,772	121,773	FS of regional solid waste mgmt underway
15	Tzaneen Solid waste	JD	TBD	V3 Engineers	275,000			233,790	41,211	41,211				Report being evaluated
TBD = To be determined														
TOTAL					16,605,275	253,000	5,915,389	3,413,904	7,275,982	3,344,892	2,862,611	378,956	234,523	

MPPP Grant Allocation by Province

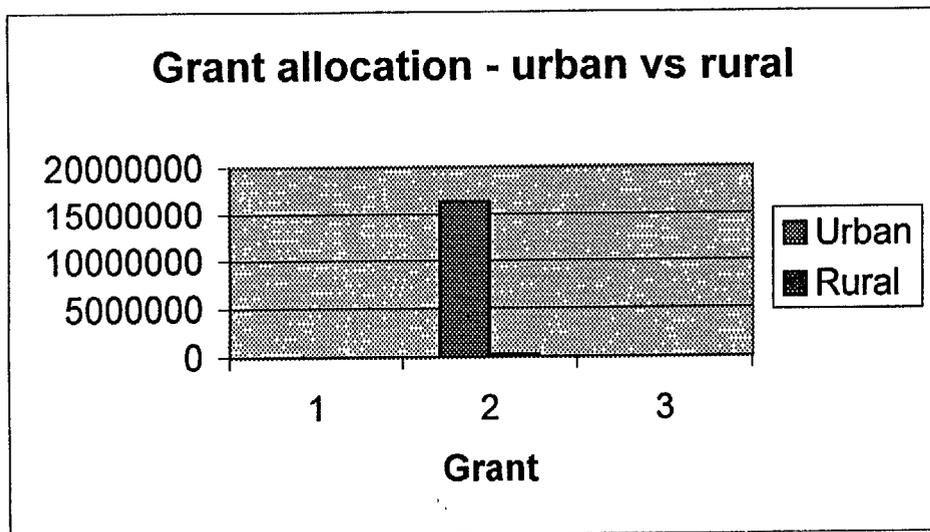
Province	MPPP Grant	%
Eastern Cape	1,000,000	6
Free State	300,000	2
Gauteng	2,000,000	12
Kwa Zulu Natal	2,956,000	18
Mpumalanga	8,621,851	52
Northern Cape	250,000	2
Northern Province	525,000	3
North West	-	0
Western Cape	952,155	6
	16,605,006	100

MPPP Grant By Province



MPPP Grant Allocation - urban vs rural

		Allocation	%
Urban		16,355,275	98
Rural		250,000	2
Total		16,605,275	100

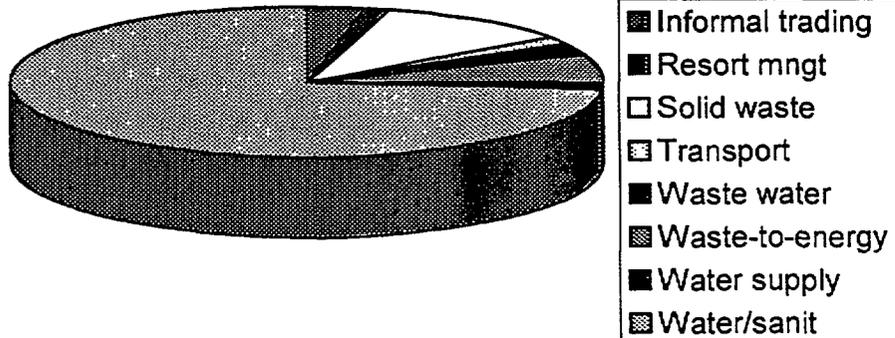


Grant allocation by Sector		
Sector	MPPP Grant	%
Informal trading	500,000.00	3
Resort mngt	250,000.00	2
Solid waste	1,731,000.00	10
Transport	300,000.00	2
Waste water	400,000.00	2
Waste-to-energy	1,000,000.00	6
Water supply	250,000.00	2
Water/sanit	12,174,275.00	73

16,605,275.00

100.00

MPPP - Grant Allocation by Sector



ANNEXURE 7.3.

PROJECTS REJECTED AS AT 31 DECEMBER 1998

No.	LOCAL AUTHORITY AND SECTOR	SECTOR	PROJECT NO.	PROJECT MANAGER	REASON REJECTED	STAGE OF REJECTION
1	Lowveld Escarpment District Council	Water		JL	FS cannot begin until DWAF study completed - reconsider in 1999.	Post questionnaire
2	Umtata	Solid waste		AS	Client wants to do water and sanitation first. Dependant on unions - will apply for solid waste later.	Application expected in mid1999
3	Lydenburg	Water		JD	In planning stage - no specific project identified or PPP strategy by council.	Pre-questionnaire
4	Tygerberg	Land Dev		JD	Project was institutional framework - not infrastructure	Post-questionnaire
5	Plettenberg Bay	Small craft		AS	Not in mandate - but non-financial assistance offered and accepted	Request for asistance

- NC NORTHERN CAPE
- GA GAUTENG
- MP MPUMALANGA
- WC WESTERN CAPE
- KN KWAZULU/NATAL
- FS FREE STATE
- NP NORTHERN PROVINCE
- EC EASTERN CAPE
- NW NORTH WEST

EXPRESSIONS OF INTEREST as at 31 DECEMBER 1998

No.	LOCAL AUTHORITY	SECTOR	PROVINCE	DATE FIRST CONTACT	CONTACT PERSON	INTERACTION-CORRESPONDENCE	MIIU FOLLOW UP ACTION	By Whom
1.	Aliwal North TLC	Resorts	NC	25/07/98	G Venter - CEO	Q sent 25/7/98	Await application - to be withdrawn	AS
2.	Blaauwberg Muni	Multiple	WC	02/10/98	W van H Loots	Q sent 1/7/98	Await application - to be withdrawn	JA
3.	Vredendal	Multiple	WC	02/06/98	D G Ras	Q sent 24/6/98	Q returned 9/9/98	JA
4.	Cape Town	Market	WC	08/07/98	Mike Marsden	Q sent	E-mail 3/8/1998	JL
5.	Lamberts Bay	Harbour	WC	05/06/98	D G Pols	Q sent/returned - meetings	PPR decision imminent	AS
6.	Malmsbury	Multiple	WC	07/07/98	C van Rensburg	Q sent 7/7/1998	Called 17/7/98 - to be withdrawn	JA
7.	Deneysville	Multiple	FS	05/08/98	W C Reade	Q sent	Called 1/9/1998	JL
8.	Welkom	Water	FS	20/05/98	Mr. Sesele	Q sent	Welkom still interested - 01/99	AS
9.	Bloemfontein	Water/sanit	FS	27/07/98	MJ Matlole	Q sent 27/7/98	Partial Q returned 12/8/98	JA
10.	Bloemfontein	Planning	FS					
11.	Brits	Water/sanit	NW	01/04/98	P Buys	Pending DBSA Audit	On Hold	JD
12.	Rustenburg	Tourism	NW	24/08/98	H v.d Walt - CEO	Workshop on 8/9/98	Await application or withdraw	AS
13.	Klerksdorp	Sanit	NW	20/05/98	CW Eden	Q sent	Called 2/7/1998	JL
14.	Bushbuckridge W.Bd	Water/sanit	MP	26/07/98	G Nkuna - CEO	Q sent	To be withdrawn	AS
15.	Hazyview	Water	MP	09/06/98	B Guildenhuys	Q sent	Called 30/6/1998; 30/7/1998	JL
16.	Hoedspruit	Water	NP	23/03/98	F Mohlala - Clr	Q sent 29/7/98	Application in - meeting requested	AS
17.	Thohoyandou	Multiple	NP	31/07/98	M H Mathivaha	Q sent 7/8/1998	Await application	JA
18.	Grahamstown TLC	Water	EC	20/05/98	S Cridland - CEO	Q sent 1/7/1998	Q returned - clarity requested	AS
19.	Port Alfred	Multiple	EC	31/03/98	A G Schlemmer	16/4/98 Fax, 15/5 Report	Await application	JA/AS
20.	GJMC-Jnb	Water/sanit	GA	11/09/98	W Mayne	Met frequently	Ongoing negotiation/discussions	AS
21.	Krugersdorp	Water/sanit	GA	20/05/98	W Welton	Q sent 21/7/98	Await application	JL
22.	Pretoria	Lighting	GA	20/12/98	Adriaan Smuts	Meeting @ MIIU 11/1/99	Await application	JD
23.	Pietermaritzburg	Engineering	KN	20/05/98	D Deldon	Q sent 6/7/98	Await application	JL
24.	Middelburg	Roads	MP	24/04/98	A W Austin	Q received 15/9/98	Under evaluation	JD
25.	Stanger	Water/sanit	KN	20/08/98	J Naidoo	Meeting 5/9/1998	Telcon 23/9/98	JA
26.	Uthukela RC	Multiple	KN	14/08/98	Kassie - CEO	Meeting at MIIU 21/8/98	Await application/letter received	AS
27.	Zululand R C	Multiple	KN	25/08/98	G Gohrs - CEO	Q sent 16/9/98	Q returned/clarity requested	AS
28.	Margate	Road Maint	KN	11/09/98	Jo Woodman	Meeting 11/11/98	Q received	JL
29.	Pietermaritzburg	Water/sanit	KN	18/11/98	K Duxbury	Telephonic	Advice given - future possibilities	AS
30.	Kingwilliamstown	Tourism	EC	10/08/98	C Hetem	SDI request	Help to draft RFP	AS
31.	Cape Town	Transport tramway	WC	15/11/98	Transport CE	Telephonic	Await their request	AS

PROJECTS IN CONCEPTUAL PHASE (PPR APPROVED) as at 31 DECEMBER 1998

No.	LOCAL AUTHORITY	SECTOR	PROVINCE	PROJECT	QUESTIONNAIRE RETURNED	PPR APPROVED	BUDGET ESTIMATE		MIIU GRANT AGREEMENT		FS or PP
					Date		MIIU Portion	Client Portion	Client Signature	MIIU Signature	
1.	Bochum/My Darling	Water	NP	AS	01/09/98	01/09/98	R 150,000	R 30,000	in negotiation		FS
2.	Greater Thohoyandou TLC	Solid waste	NP	JD	31/08/98	21/12/98	R 300 000	R 75 000	in negotiation		FS
3.	Stellenbosch	Water/sanit	WC	JL	23/09/98	12/10/98	R 240,000	R 40,000	in negotiation		FS
4.	GJMC-Jnb	Produce mkt	GA	AS	01/08/98	08/08/98	R 200,000	R 50,000	pending		FS
5.	Harrismith	Water/sanit	FS	JL	12/06/98	18/06/98	R 190,000	R 30,000	04/08/98	18/08/98	FS
6.	Margate	Sanit	KN	JL	30/06/98	08/07/98	R 200,000	R 30,000	07/10/98	18/10/98	FS
7.	Margate	Airport	KN	JL	30/06/98	16/07/98	R 90,000	R 20,000	07/10/98	18/10/98	FS
8.	Nkwazi	Water/sanit	KN	JL	17/08/98	31/08/98	R 210,000	R 37,000	09/10/98	14/10/98	FS
9.	Richards Bay	Wastewater	KN	JL	18/08/98	31/08/98	R 200,000	R 30,000	09/09/98	17/09/98	FS
10.	Richards Bay	Airport	KN	JL	17/06/98	22/06/98	R 50,000	R 30,000	03/07/98	07/08/98	FS
11.	Richards Bay	Water	KN	JL	18/08/98	31/08/98	R 200,000	R 30,000	09/09/98	17/09/98	FS
12.	Stanger	Woodwast	KN	JA	14/07/98	12/08/98	R 100,000	R 25,000	In negotiation		FS
13.	Newcastle	Solid waste	KN	JD	04/11/98	01/12/98	R 200 000	R 50 000	in negotiation		FS
14.	Umtata	IT	EC	JL	15/06/98	17/06/98	R 60,000	R 8,000	28/08/98	04/09/98	FS
15.	Umtata	Water	EC	AS	01/08/98	01/09/98	R 180,000	R 40,000	In negotiation		FS
16.	Queenstown	Solid waste	EC	JD	01/11/98	20/12/98	R 304 000	R 76 000	in negotiation		FS
17.	West Coast	Solid waste	WC	JD	36004	01/12/98	R 100 000	R 25 000	in negotiation		FS
18.	Plettenberg Bay (exM)	Water/sanit	WC	AS	N/A	N/A	500 000	500 000	in negotiation		PP

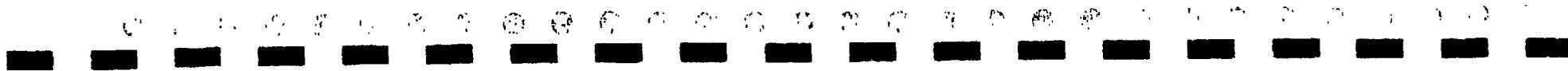
PROJECTS IN FEASIBILITY PHASE as at 31 DECEMBER 1998

NO.	LOCAL AUTHORITY	SECTOR	PROVINCE	PROJECT MANAGER	TOR AGREED	DATE RFP ISSUED	CONSULTANTS APPOINTED		CONTRACT COMMITMENT		DISBURSED TO DATE		EXPECTED COMPLETION DATE OF FS
							Whom	Date	MIIU Portion	Client Portion	MIIU	Client	
1.	Harrismith	Water/sanit	FS	JL	Y	05/09/98	Palmer/B&V	28/10/98	R 190,000	R 30,000	R 0	R 0	15/02/99
2.	Margate	Airport	KN	JL	Y	01/10/98	PricewaterC	11/11/98	R 90,000	R 20,000	R 0	R 0	29/02/99
3.	Margate	Sanit	KN	JL	Y	04/10/98	tendering underway		R 200,000	R 30,000	R 0	R 0	29/02/99
4.	Richards Bay	Water	KN	JL	Y	05/10/98	tendering underway		R 200,000	R 30,000	R 0	R 0	29/03/99
5.	Richards Bay	Wastewater	KN	JL	Y	05/10/98	tendering underway		R 200,000	R 30,000	R 0	R 0	29/03/99
6.	Nkwazi	Water/sanit	KN	JL	Y	02/11/98	tendering underway		R 210,000	R 37,000	R 0	R 0	15/03/99
7.	Umtata	IT	EC	JL	Y	18/09/98	Black&Veatch	06/11/98	R 60,000	R 8,000	R 0	R 0	23/02/99
8.	Cape Town	Power/SW	WC	JD	Y	01/09/98	Stewart Scott	01/10/98	R 160 000	R 240 000	R 0	R 0	31/12/98
9.	GJMC - Jnb	Airport	GA	JL	Y	15/11/98	Khuthale	13/12/98	R 250,000	R 50,000	R 0	R 0	05/03/99
10.	GJMC-Jnb	IT	GA	JA	Y	15/11/98	HSBC	13/12/98	R 1,120,000	R 200,000	R 0	R 0	30/03/99
11.	GJMC-Jnb	Bus	GA	AS	Y	15/11/98	A Andersen	13/12/98	R 296,000	R 74,000	R 0	R 0	28/02/99
12.	GJMC-Jnb	EMS	GA	JA	Y	15/11/98	Afr.Mrch. Bnk.	13/12/98	R 688,888	R 172,222	R 0	R 0	08/03/99
13.	GJMC - Jnb	Power	GA	JL	Y	15/11/98	Fieldstone	13/12/98	R 240,000	R 60,000	R 0	R 0	
14.	GJMC-Jnb	Fleet	GA	AS	Y	15/11/98	HSBC	13/12/98	R 243,000	R 60,000	R 0	R 0	28/02/99
15.	Lowveld RDC	RSC collect	GA	JL	Y	15/11/98	Tendering underway	13/12/98	R 45,000	R 20,000	R 0	R 0	15/03/99

MIU PIPELINE
TOTAL DISBURSEMENTS as at 31 DECEMBER 1998

NO.	LOCAL AUTHORITY AND SECTOR	PROVINCE	PROJECT MANAGER	CONTRACT COMMITMENT		TOTAL DISBURSEMENTS TO DATE (Refer to Schedule VII)	EXPECTED DISBURSEMENTS					BALANCE
				Client	MIU		Current Q (Oct-Dec 98)	Q+1 (Jan-Mar 99)	Q+2 (Apr-Jun 99)	Q+3 (Jul-Sep 99)	Subsequent	
1.	SMLC Waste PP	GA	AS	14 000	50 000	-	-	50 000				50 0
2.												
3.												
4.												
5.												
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ACTUAL DISBURSEMENT DETAILS as at 31 DECEMBER 1998

NO.	LOCAL AUTHORITY AND SECTOR	PROVINCE	PROJECT MANAGER	PREVIOUS DISB.													TOTAL TO DATE
					Date	Amount											
1.																	
2.																	
3.																	
4.																	
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27.																	

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MIU PIPELINE

Schedule VIII

TOTAL POTENTIAL FUTURE FUNDS FLOW as at 31 DECEMBER 1998

No.	PROJECT & SECTOR	PROVINCE	BALANCE REMAINING (Refer to Schedule VI)					TOTAL EXPECTED PROJECT COSTS		
				(Jan-Mar 99)	(Apr-Jun 99)	(Jul - Sep 99)	(Oct - Dec 99)	Actual Commitment	Potential Applications	TOTAL
1.	Bochum/My Darling PP	NP			100,000	50,000			150,000	150,000
2.	Bochum/My Darling FS	NP			150,000				150,000	150,000
3.	Thohoyandou	NP				150,000	150,000		300,000	300,000
4.	Tzaneen	NP			100,000	100,000			200,000	200,000
5.	Dolphin Coast PP	M		880,000				880,000		880,000
6.	Lowveld RSC PP	M		50,000					50,000	50,000
7.	Lowveld RSC FS	M		45,000				45,000		45,000
8.	Nelspruit PP	M		800,000				800,000		800,000
9.	GJMC IT	G	1,120,000	500,000	500,000	120,000		1,000,000	120,000	1,120,000
10.	GJMC EMS	G	688,888	500,000	170,000	0		670,000		670,000
11.	GJMC Bus PP	G			120,000	200,000	200,000		520,000	520,000
12.	GJMC Bus FS	G		196,000	100,000			296,000	0	296,000
13.	GJMC Fleet PP	G				250,000	150,000		400,000	400,000
14.	GJMC Fleet FS	G		100,000	143,000			243,000		243,000
15.	GJMC Market PP	G				100,000	200,000		300,000	300,000
16.	GJMC Market FS	G		80,000	100,000				180,000	180,000
17.	GJMC Metro Gas PP	G				300,000			300,000	300,000
18.	GJMC Metro Gas FS	G			750,000				750,000	750,000
19.	GJMC - Power	G		200,000	100,000				300,000	300,000
20.	GJMC - Airport	G		150,000	100,000				250,000	250,000
21.	Harrismith PP	FS				250,000			250,000	250,000

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TOTAL POTENTIAL FUTURE FUNDS FLOW as at 31 DECEMBER 1998

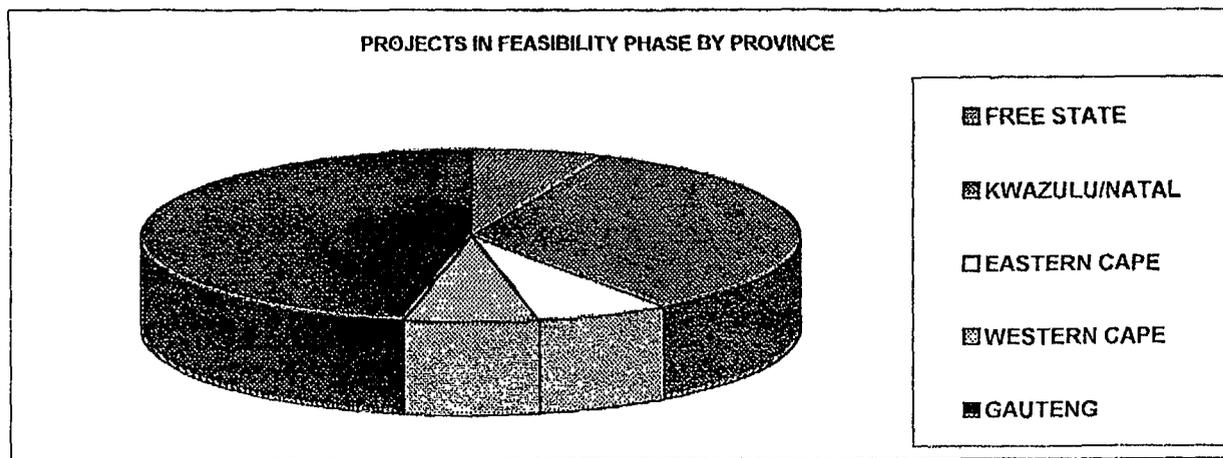
No.	PROJECT & SECTOR	PROVINCE	BALANCE REMAINING (Refer to Schedule VI)					TOTAL EXPECTED PROJECT COSTS		
				(Jan-Mar 99)	(Apr-Jun 99)	(Jul - Sep 99)	(Oct - Dec 99)	Actual Commitment	Potential Applications	TOTAL
22.	Harrismith FS	FS		190,000				190,000		190,000
23.	Margate Airport PP	KZN				150,000			150,000	150,000
24.	Margate Airport FS	KZN		90,000				90,000		90,000
25.	Margate Water PP	KZN				250,000			250,000	250,000
26.	Margate Water FS	KZN		200,000				200,000		200,000
27.	Nkwazi PP	KZN				250,000			250,000	250,000
28.	Nkwazi FS	KZN		210,000					210,000	210,000
29.	Richards Bay Airport PP	KZN		150,000	150,000				300,000	300,000
30.	Richards Bay Airport FS	KZN		50,000				50,000		50,000
31.	Richards Bay Wastewater PP	KZN				250,000			250,000	250,000
32.	Richards Bay Wastewater FS	KZN		200,000				200,000		200,000
33.	Richards Bay Water PP	KZN				250,000			250,000	250,000
34.	Richards Bay Water FS	KZN		200,000				200,000		200,000
35.	Stanger Woodwaste	KZN	100,000	25,000	25,000	0			100,000	100,000
36.	Newcastle	KN			50,000	150,000			200,000	200,000
37.	Richards Bay Solid Waste	KN		50,000	150,000	150,000	100,000		450,000	450,000
38.	Umtata IT PP	EC		150,000					150,000	150,000
39.	Umtata IT FS	EC		50,000				50,000		50,000

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ANNEXURE 7.4.

PROJECTS IN FEASIBILITY PHASE BY PROVINCE

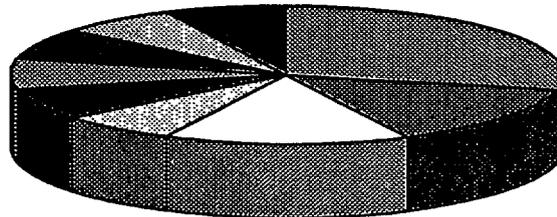
	PROVINCE	NO.OF PROJECTS
1	FREE STATE	1
2	KWAZULU/NATAL	5
3	EASTERN CAPE	1
4	WESTERN CAPE	1
5	GAUTENG	7
		15



PROJECTS IN FEASIBILITY STUDY BY SECTOR

	SECTOR	NO.
1	WATER & SANITATION	4
2	AIRPORTS	2
3	IT	2
4	WASTE WATER	1
5	POWER /SW	1
6	RSC COLLECTION	1
7	BUS	1
8	EMS	1
9	FLEET	1
		14

PROJECT IN FEASIBILITY STUDY PHASE BY SECTOR

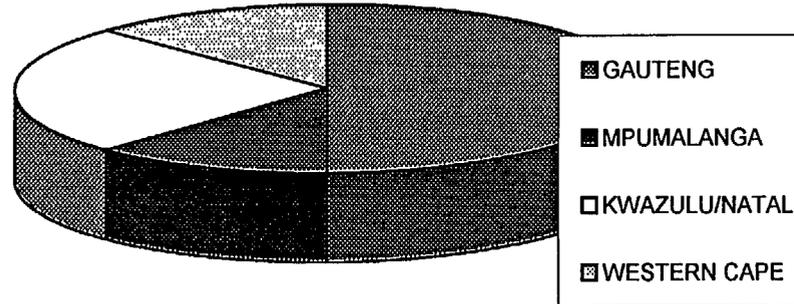


- WATER & SANITATION
- AIRPORTS
- IT
- WASTE WATER
- POWER /SW
- RSC COLLECTION
- BUS
- EMS
- FLEET

PROJECTS IN PROJECT PREPARATION PHASE BY PROVINCE

	PROVINCE	NO. of PROJECTS
1	GAUTENG	4
2	MPUMALANGA	1
3	KWAZULU/NATAL	2
4	WESTERN CAPE	1

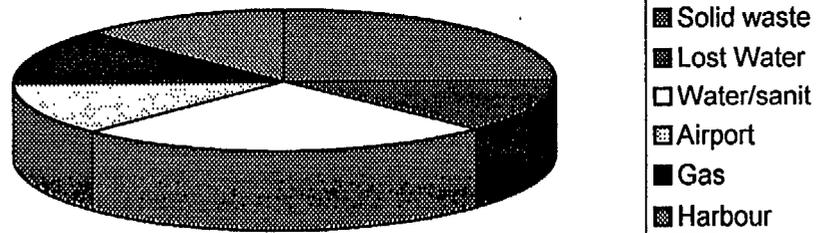
**PROJECTS IN PREPARATION PHASE
BY PROVINCE**



PROJECTS IN PROJECT PREPARATION PHASE BY SECTOR

No.	SECTOR	NO.of PROJECTS
1.	Solid waste	2
2	Lost Water	1
3	Water/sanit	2
4	Airport	1
5	Gas	1
6	Harbour	1

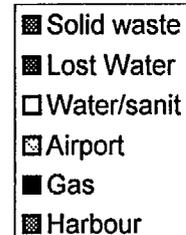
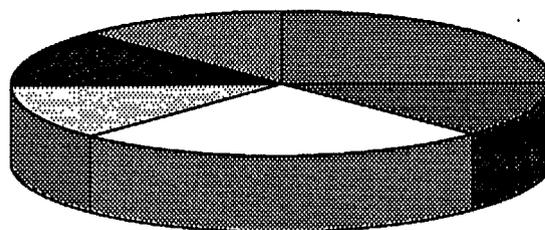
PROJECT IN PREPARATION PHASE BY SECTOR



PROJECTS IN PROJECT PREPARATION PHASE BY SECTOR

No.	SECTOR	NO.of PROJECTS
1.	Solid waste	2
2	Lost Water	1
3	Water/sanit	2
4	Airport	1
5	Gas	1
6	Harbour	1

PROJECT IN PREPARATION PHASE BY SECTOR



ANNEXURE 7.5.

BALANCE SHEET MIU AS AT 31 DEC'98

EMPLOYMENT OF CAPITAL

20 661 134.96

CURRENT ASSETS

1343 Call Money - ABSA

1300 Current Account

1233 Prov Interest - ABSA

20 730 062.95

20 380 000.00

35 867.66

314 195.29

LESS: CURRENT LIAB (Inter Coy Acc 1188)

- 68 927.99

CAPITAL EMPLOYED

20 661 134.96

Project Funds

Retained Income

22 689 886.48

- 2 028 751.52

ANNEXURE 7.6.

REVENUE AND EXPENDITURE STATEMENT - MIU - DEC'98 (BY CC)

INTEREST RECEIVED

2 591 642.93

4001 - Interest Received Standard

1 804 947.75

Balance @ Sep'98	1 574 610.62
GJL 223	12 825.70
GJL 226	2 275.16
GJL 237	225 740.89
GJL 2043 (Over provision)	11 841.74
GJL 258	571.98
GJL 280	765.14

4013 - Interest Received ABSA

785 743.18

GJL 237	146 807.11
GJL 253	324 740.78
GJL 276	314 195.29

9996 - PADCO - Recovered S&T

952.00

LESS: EXPENSES

4 620 394.45

9993 - USAID

1 487.83

Air Travel - J Aiello - 25887245(Jnb-Dur-Jnb)	1 226.00
Car Hire - J Aiello - 7987075(Dur)	261.83

9994 - New Pipeline

70 869.44

Balance @ Sep'98	6 554.68
Air Travel - AW Still - 25887136(Jnb-Dur-Jnb)	952.00
Car Hire - AW Still - 4176215 (Dur)	266.89
Air travel - J Aiello - 25887309 - (Jnb-Cpt-Jnb)	1 978.00
Consulting Fees - Danie Joubert Ass - 00000025	49 998.90
Air Travel - J Dohrman - 2683404 (Jnb-Cpt-Jnb)	1 978.00
Air Travel - J Dohrman - 26834178 (Jnb-Els-Jnb)	1 727.00
Air Travel - AW Still - 26308312 (Jnb-Cpt-Jnb)	1 796.00
Car Hire - J Dohrman - 4261912 (Cpt)	310.36
Local S&T - AW Still - 9811	1 416.30
Travel Claim - AW Still - 9811	2 040.98
Car Hire - J Aiello - 2527289 (Cpt)	16.23
Car Hire - J Aiello - 7987075 (Dur)	45.16
Car Hire - J Aiello - 6072559 (Kgh)	1 201.50
Car Hire - J Aiello - 7987072 (Cpt)	587.44

9995 - MPPP

3 428 869.81

Balance @ Sep'98	2 962 343.76
Consulting Fees - PE Municipality - 00000023	176 790.27
Consulting Fees - V3 Consulting Eng - 00000020	77 781.50
Air Travel - M Hlahla - 25887286 (Jnb-Cpt-Jnb)	1 875.00
S&T Local - AW Still - 9811.4	427.45
Travel claim - AW Still - 9811.1/4	182.56
Consulting Fees - Johannesburg Metro - 00000026	127 071.34
Consulting Fees - Johannesburg Metro - 00000030	79 483.09
Air Travel - AW Still - 2684320 (Jnb-Cpt-Jnb)	1 719.00
Car Hire - AW Still - 6199490	1 195.84

9997 - DBSA

955 403.27

Balance @ Sep'98	3 451.77
External Couriers (GJL 280)	1 123.30
Telephone Calls (GJL 288)	14 394.77
Entertainment - expense claim (GJL 280)	109.30
Xerographic typing paper (GJL 280)	4 273.04
Xerographic copy charges (GJL 280)	1 300.87
Management Fee (GJL 280)	54 720.00
Remuneration (GJL 280)	776 142.37
Temp Staff (GJL 280)	55 031.22
Computer Equipment (GJL 280)	18 000.00
Office Rental (GJL 280)	26 764.79
Parking Rental (GJL 280)	91.84

55

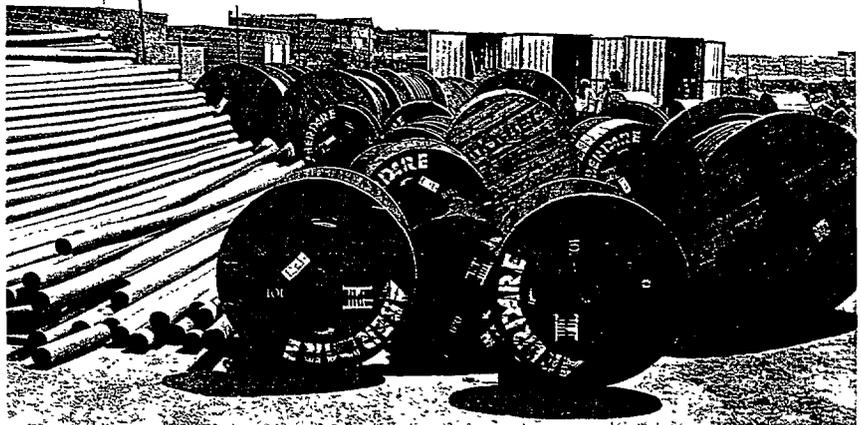
9998 - External Services	125 426.03
Balance @ Sep'98	62 305.41
Air Travel - AW Still - 59347896 - (Jnb-Uit-Jnb)	1 776.00
Entertainment - M Hlahla - 9810	128.50
Xerographic copy charges - 00000021	1 505.66
Travel Claims - M Hlahla - 9810/1/2	2 720.93
Accommodaton - M Hlahla - 9810.2	1 236.62
S&T Sundry - M Hlahla - 9810.2	226.80
Training - Norfolk Pine - 00000024	1 350.00
Air Travel - M Hlahla - 26834027 (Jnb-Cpt-Jnb)	1 796.00
Consulting Fees - GJL 280	11 624.88
Entertainment - Sodexho - 00000028	51.98
Legal Expenses - GJL 280	1 483.14
Stationary - Kagiso Ed. TV - 00000029	868.54
Stationary - GJL 280	17 691.43
Training - GJL 280	2 801.00
Travel Claim - GJL 280	1 259.89
Subsistence Allowance - GJL 280	455.00
Hotel Costs - GJL 280	233.00
Sundry - GJL 280	513.50
Air Travel - GJL 280	14 433.00
Car Hire - GJL 280	964.75
9999 - Board of Directors	14 922.03
Balance @ Sep'98	7 585.05
Travel Claim - S Njikelana - 00000022	146.00
Air Travel - N Mfeketo - 08223764 (Cpt-Jnb-Cpt)	1 978.00
Car Hire - J Aiello - 17003276	419.50
Air Travel - J Aiello - 25887429	1 978.00
Air Travel - NA Macleod - 27050119	1 066.00
Accommodatioon - N Mfeketo - 60162089	599.50
Entertainment - Sodexho - 00000027	718.43
Car Hire - J Aiello - 2527289 (Cpt)	431.55
6150 - Bank Charges	422.80
Balance @ Sep'98	251.40
GJL 226	52.40
GJL 258	51.80
GJL 280	67.20
6610 - Interest Paid	15 933.24
Balance @ Sep'98	15 933.24
Other	7 060.00
Temp Staff - P Joffe - 1075	7 000.00
Motor vehicle expenses - 20537	60.00
SURPLUS/(SHORTFALL)	- 2 028 751.52

NEWSFLASH

Government and unions sign agreement to facilitate PPPs

On December 11, the national government, unions and local authorities ratified a groundbreaking 'framework agreement' that will facilitate the signing of PPPs for municipal service delivery across the country. The framework should address fears about PPPs in two ways. First, PPPs may only be considered in situations where local governments clearly have no realistic opportunity to deliver adequate levels of service themselves. Second, the actual contracts entered into must require that private partners meet a variety of basic conditions, all of which are standard features of concessions designed according to international best practice standards. The framework represents a breakthrough after months of negotiations.

Nelspruit and Dolphin Coast PPPs



**Nelspruit:
Municipal services in Crisis**

Before 1994, Nelspruit had a population of about 24 000 people. Africans were excluded from the city. After 1994, the Nelspruit TLC's area of control expanded to at least 240 000 people. As a result, the Nelspruit TLC found itself unable to cope with the demand for new and improved services, such as water and sanitation.

In 1995, the TLC estimated the provision of basic water and sanitation services to all residents at about R212 million. Nelspruit's annual capital budget was then R217 million, for a services, not only water and sanitation but also electricity. The TLC currently estimates that at least R250 million (1997 prices) is required to meet the demand for water and sanitation services – much more

than the TLC can borrow. The TLC is allowed 6% annual growth on its capital budget and may not budget for a deficit. The amount available in the TLC's budget for water and sanitation services, as approved by the Department of Finance, is R8,5 million.

In August 1997, the TLC decided to investigate the possibility of private-sector involvement in the provision of water and sanitation services, due to its lack of funds and other resources. The concession-contract option was identified as the best to meet the challenges faced. A competitive bidding process was initiated and strict compliance with the evaluation criteria defined in a request for proposals. In October 1997, the TLC announced BiWater-Net's Secoba as the successful bidder having complied with all criteria.

In terms of the contract, BiWater-



partnerships (PPPs) and municipal service partnerships (MSP's) contracts. Importantly, the Bill will allow the creation of multiple-jurisdictional municipal service districts for the provision of key municipal services to all member councils of the district. In general, the Bill is expected to facilitate PPP/MSP arrangements as part of government's ongoing effort to provide municipalities with the flexibility needed to meet ever-changing challenges.



Johannesburg Metropolitan Council enlists MIU aid on pilot PPPs

A contract with the Greater Johannesburg Metropolitan Council (GJMC) was signed on 11 December 1998, committing the Municipal Infrastructure Investment Unit (MIU) to cost-share in the funding of up to R3,42 million in technical assistance. This funding is aimed at returning Johannesburg to a sound financial footing in the quickest possible time and is the largest single contract signed by the MIU to date. The agreement calls for feasibility studies assessing PPPs for Rand Airport, Fire and Emergency Services, the Gas Works, Electricity Generation, Fleet Management, Bus, Information Technology and, eventually, the Fresh Produce Market.

These projects were initiated by the Committee of Fifteen and are expected to pave the way for larger initiatives in water and sanitation, solid waste and electricity distribution. In each case, consultants have been appointed to undertake a feasibility study and

and SAUR Services in Dolphin Coast will be monitored by the TLCs. The TLCs will approve the tariffs levied for water and sanitation services. They will also monitor the way in which these services are provided. If the contractor stops the supply of services to a Nelspruit resident, the TLCs will investigate the circumstances. The TLCs will also monitor the impact that supplying these services may have on the environment.

Was organised labour consulted before the contract was awarded?

Yes. Both unions recognised by the Nelspruit TLC, IMATU and the South African Municipal Workers' Union, were consulted. The Nelspruit and Dolphin Coast projects have been discussed in a number of high level meetings between COSATU, SALGA and Minister Moosa. A framework for evaluating such projects has been agreed on between government and COSATU, and COSATU has reviewed the draft contracts.

Has the public-private partnership process been consistent with government's rules and regulations for integrated development plans as per the Local Government Transition Act of 1993?

Yes. In Dolphin Coast the Municipal IDP process has been completed and the proposals for the future management of the water and sewerage services are in line with the said document.

A formal integrated development planning process is still underway in Nelspruit. The TLC has followed and is following all relevant rules and regulations associated with this process.

Have the TLCs acted in accordance with the Department of Constitutional Development's guidelines for PPPs?

Yes. Dolphin Coast has conducted their entire process in terms of these guidelines, which were published in mid-1997, at least a year after the Nelspruit PPP process had begun. Despite this, the Nelspruit TLC has achieved substantial compliance with the guidelines.

Have the TLCs' decisions 'contravened' the Water Services Act, 1997 as public water providers were not 'utilised before municipal companies were chosen'?

No. The Nelspruit TLC consulted the Minister of Water Affairs, who is in agreement with the process. Both contracts are in line with the provisions of the Water Services Act.

The South African Local Government Bargaining Council agreed on 30 June 1997 to 'improve and extend service delivery within the public sector before privatisation is even considered'. Does this project contradict this agreement?

No. The resolution does not apply in circumstances where massive new infrastructural development is required, and where it is obvious from the surrounding circumstances and budgetary constraints

analysis of options to enable the GJMC to choose a form of PPP/MSP and then execute it. Most of these studies will be completed in the first quarter of 1999, after which serious project preparation will begin. A future edition of PARTNERSHIPS will focus on the GJMC initiatives.

New MSP Regulatory Framework should boost Municipal Partnerships

The second draft of the proposed Regulatory Framework for MSPs was unveiled by the Department of Constitutional Development on 10 December 1998. 'Municipal Service Partnerships' include public-public, public-private, and public-NGO/CBO projects.

This draft undertakes to outline the scope of an MSP Policy Framework. It is intended to create a policy environment that enhances the viability and feasibility of MSP service delivery. In general, this policy environment will mirror the provisions of the Municipal Systems Bill.

CONTACT

Partnerships is published quarterly by the Municipal Infrastructure Investment Unit and the National Business Initiative.

Contributions are welcome. For more information, contact:

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WHAT IS THE MIIU?

The Municipal Infrastructure Investment Unit (MIIU) is a section 21 company established by the South African government. It has been established to help municipalities find innovative solutions to critical problems with the financing and management of essential municipal services such as water supply, sanitation, waste, energy and transport. These solutions include the involvement of new parties in service delivery, in various forms of partnership arrangements. The MIIU strives to encourage and optimise private sector investment in local authority services, on a basis that is sustainable for both local authorities and at a national level.



that a municipality does not have the resources or finances to deal with the magnitude of the problem. It would lead to absurd results if municipalities were first required to give their own departments an opportunity to perform functions that they are clearly not able to do.

Will the Nelspruit and Dolphin Coast PPPs threaten job security of workers?

No. No workers will be retrenched and workers' benefits will be as good as, or better, than before. In terms of the agreements, all municipal workers involved in the provision of water and sanitation services must be employed on the same or better conditions of service – an essential condition of the contract. All bidders had to put forward innovative proposals regarding staff training and development and remuneration policies, such as equity schemes, support for the education of workers' children, funding of community-development programmes and youth and women-development programmes.

Bidders were also required to

include proposals for the development of small contractors, the development of, and support for, local businesses and professionals.

Will possible tariff increases resulting from the Dolphin Coast TLC's decision mean that it will be more difficult for poor people and workers to gain access to services?

No. The prices (average combined water and sanitation tariff) proposed by private operators bidding for contracts in Nelspruit reflect an allowance for substantial capital investments over 30 years. Tariffs will be much lower than would have been the case if the municipality had made the improvements itself.

In the case of Dolphin Coast, the tariffs for the small consumer, basically those from deprived areas, will be much lower than the municipality would have charged to offer the same level of service.

Will the public-private partnerships mean that disadvantaged areas will not be served?

No. The whole purpose of the PPPs is to extend services to disadvantaged and under-served areas.

The Dolphin Coast municipality regards the PPP as an integral part of its Reconstruction and Development Programme. Without this co-ordinated approach the municipality would not be able to provide the required levels of service in the deprived areas.

The Editor gratefully acknowledges the contributions of the Department of Constitutional Development and the cities of Nelspruit and Dolphin Coast who assisted in the preparation of this article.

MSP/PPP Project Updates

What's happening across South Africa?

Nation-wide, many PPP/MSP projects are in various stages of preparation, some of which are:

PPP contract negotiations with preferred bidders nearing completion:

- Dolphin Coast: Water and sanitation
- Nelspruit: Water and sanitation

Completed feasibility studies being evaluated:

- Nkadameng: Rural water supply
- Plettenberg Bay: Water, sanitation and solid waste
- Port Elizabeth: Water and sanitation
- Tzaneen: Solid waste

Feasibility studies underway:

- Stanger: Solid waste
- Johannesburg Metropolitan Council: Informal trade
- Johannesburg Metropolitan Council: Solid waste
- Harrismith: Water and sanitation
- Margate: Airport
- Margate: Sanitation
- Richards Bay: Airport
- Richards Bay: Waterworks
- Richards Bay: Waste water

Municipal Systems Bill targeted for June

Government intends to table a Municipal Systems Bill in June, as the next step in enacting legislation implementing the Local Government White Paper. Once adopted, the Bill will repeal inconsistent provisions of the Local Government Transition Act (LGTA). It will also clarify mechanisms that local governments may use in preparing public-private

Metsi a Sechaba will undertake the supply of water and sanitation services within the municipal area on behalf of the Nelspruit TLC. The company will deliver this service subject to the conditions of the contract, the approved tariffs and in accordance with all applicable legislation.

Dolphin Coast: Service improvements urgently needed

The Dolphin Coast Municipality was established on 1 February 1995, and comprises 11 formal towns and settlements spread over an area of about 160 km². Its population at the time was estimated at about 28 000 people. Prior to this, the Port Natal Ebodwe Joint Services Board provided the water and sewerage services for the formal towns. However, with the abolition of the Board, the Municipality was compelled to take over these services from March 1996.

A number of challenges faced the municipality from that date:

- The services in the municipality, even in formal towns were in extremely poor condition, while the informal settlement areas had virtually no services at all.
- The municipality only took over a relatively small staff who were made responsible for maintenance and operation. No technical or management staff members were transferred to the municipality.
- The population is now estimated at over 40 000 people, which potentially doubles the need for services. Given these challenges, an extremely urgent need has arisen to expand affordable services to the 50% of the population living in the deprived informal settlements. Simultaneously, resources need to be found to upgrade the existing poor infrastructure.

It is currently estimated that the population growth forecast for the municipality over the next 25 years will reach 250 000 people. By the year 2020, an investment in the region of R200 million (1997 prices) will be required to upgrade water and sewerage services in the area.

Like Nelspruit, Dolphin Coast is not in a position to provide for the required capital expansion – especially in view of its budgetary restrictions. Neither municipality could directly access private capital markets due to uncertainty regarding their creditworthiness.

In November 1996, the municipality approached the Development Bank of Southern Africa to investigate options for the delivery of services.

It was decided that the concession option would be pursued with a service provider selected through full and open competition.

Nelspruit and Dolphin Coast: Frequently asked questions

Have these concession contracts been designed in such a way that they are consistent with international practices?

Yes. As with long-term concession contracts signed in other countries, the private contractors in Nelspruit and Dolphin Coast will be entirely responsible for the services they are contracted to provide, including operation, maintenance and management, as well as the capital investment necessary for the expansion of services. All fixed assets remain the property of the municipality, although they are entrusted to the contractor for the duration of the concession contract, and must be returned in a specified condition at the end of the concession period.

The advantage of combining responsibility for operations and investments is that it provides an incentive to the operator to make efficient investment decisions. It also provides an incentive for technological innovations, because the operator will benefit directly from any efficient improvements made.

Penalties in concession contracts are levied if the contractor fails to meet either the targets for service coverage or the quality of services specified.

Have the municipalities abdicated their responsibility to provide water and sanitation services to their residents?

No. The activities and performance of BiWater-Metsi a Sechaba in Nelspruit,

ANNEXURE 7.7.

MIIU Discussion Note – Cost Recovery Options

It is common practice in the development of PPP contracts to recover some of the preparation costs (feasibility studies, contract documents and negotiation) through the inclusion of a "success fee". The fee is payable to the client by the successful bidder, at the time of signing the contract. It is thus a one-off capital cost incurred by the bidder and recoverable through subsequent management fee or tariff income. The success fee is a widely used mechanism by which the public sector can recover some or all of the costs of PPP project development.

Such a mechanism raises the possibility for a municipality and the MIIU to recover all or some of their respective contributions to project preparation. This is envisaged in the Cabinet Memorandum which proposed the establishment of the MIIU. It specifically refers to municipalities recovering their costs, but is silent on the possibility of the MIIU recovering its costs. However, there appears to be a case for the MIIU recovering at least a proportion of its expenditures in order to make maximum use of limited resources, namely grant funds. For this to be feasible and acceptable, it would need to be a very simple mechanism for effecting repayments —one that avoided any suggestion that MIIU was becoming a financial institution or bank.

It should also be noted that cost recovery could only apply to a fraction of MIIU expenditures. Many grants, and almost all running costs, are non-recoverable.

Options for recovering costs

A number of approaches (or combination of approaches) would be possible, including :

- ◆ The local government could receive all of the success fee, including the MIIU contribution. The funds could then be treated as follows :
 - The municipality could simply pay all funds into its central treasury.
 - The municipality could set up a revolving fund to finance further PPP preparation.
 - The municipality could allocate the funds towards one-off capacity building related to monitoring contracts compliance.

- ◆ MIIU and the municipality could share the success fees for a particular project in proportion to their respective contributions.
 - The municipality could deal with their portion as above.
 - Fees recovered by MIIU would go back into the grant fund for use on new project development work.
 - Alternatively funds returned to the MIIU could be deposited into a revolving fund managed by some third party, such as DBSA, with MIIU accessing the fund in order to make new grants to local governments for new project development.

- ◆ If necessary some MIIU grant funding (e.g. from a donor with particular requirements) could be managed separately on a revolving basis, with careful attention to accounting for such returns.

Mechanism for effecting cost recovery

Cost recovery would be through the simplest of mechanisms. Bidding documents would include a clause to the effect that as soon as the contract is signed, one cheque (amount to be specified) is to be made out to the municipality. If there is a repayment to the MIIU, a second cheque would be made to the MIIU.

Rationale for cost recovery

There are several reasons for this approach :

- ◆ It would allow local governments to recoup some of the costs they have shared with MIIU during project development.
- ◆ It would demonstrate that such approaches can be self-financing and are therefore **not** dependant on grant finance.
- ◆ It could extend MIIU funding.
- ◆ It could facilitate access to funds from donors with policies which encourage success fee recapture efforts.

Avoiding a grant fund "overhang" at the end of the MIIU 5-year life

There need not be any funds left over at the end of five years. The share of success fees recovered by MIIU can be adjusted (reduced) over time to ensure that MIIU has no remaining funds after five years. A draft financial model has been prepared to test the effects of different rates of cost recovery and different rates of raising more grant finance.

In the unlikely event of some MIIU grant funding remaining unspent when MIIU was scheduled to close its operations, the funds could be transferred back to the national government, or to SALGA, or some other organisation charged with capacity building at municipal level.

JL/BMJ 21/01/99

ANNEXURE 7.8.

FRAMEWORK FOR RESTRUCTURING OF MUNICIPAL SERVICE PROVISION

11 December 1998

INTRODUCTION

COSATU, Government and SALGA signed a record of understanding in Johannesburg on 7 October 1998. The record of understanding is an attempt to resolve the current impasse, resulting from the NEDLAC process, between the parties with regard to the restructuring of municipal services. In terms of the record of understanding, the objectives, principles and processes for restructuring need to be developed into a framework together with the principles for a regulatory framework. This document sets out such a framework. It will guide and contribute to the overall approach to local government restructuring and the Municipal Services Partnerships (MSP) process.

Parties recognise that for the process to be fruitful there should be bona fide negotiations. Further, parties recognise that the document itself is not a solution, but forms the basis to find an amicable and lasting solution. This framework will be further elaborated and developed through the envisaged local government sectoral forum and the MSP process. Nothing in this document shall be construed to limit the rights and obligations of parties conferred by the Labour Relations Act and the SA Constitution.

The purpose of this framework is to test all current and future restructuring initiatives in order to determine whether they substantially comply with the provisions of the framework.

SECTION A

RESTRUCTURING FRAMEWORK

1. Preamble

In terms of the Constitution of South Africa, municipalities are responsible for ensuring delivery of basic services to all South Africans. In carrying out this responsibility, municipalities face an enormous task. There is a huge backlog presently in South Africa with regard to access to basic services as defined in the RDP, the Constitution and other applicable legislation. There is a legacy of inequitable distribution of resources, corrupt and inefficient practices in some areas, and so on. It was agreed that for our purposes, basic needs will be defined in terms of the RDP and the Constitution.

In order to carry out their responsibility, municipalities will need to transform public sector delivery through a process of restructuring. All parties must be consulted in the process of restructuring. The parties include users of services, the providers of services, workers and the elected local government representatives. It must be open, transparent and accountable, in line with Section 195 of the Constitution and the principles of service delivery contained in this document.

2. Principles of service delivery

Given the existing problems and challenges facing municipalities, all municipalities need to undergo a process of transformation in order to ensure that they meet their responsibilities. To facilitate this, there must be a co-ordinated effort from all spheres of government to build the capacity of local government. The IDP process and performance management system form the basis for this transformation.

The broad objectives of municipal restructuring are to ensure that municipalities deliver services in a way that is sustainable, equitable, efficient, effective and affordable, and consistent with the principles of service delivery outlined in this document.

Municipal services are the menu of services that the municipality is responsible for, in terms of Schedules 4 & 5 of the Constitution and other services which national or provincial government can delegate. A basic level of service is the minimum level of service necessary to ensure an acceptable and reasonable quality of life, which takes into account health and environmental considerations. No person should fall below this minimum level of service.

In the NLRFLG resolution of June 30 1997 and the record of understanding of 18 September 1998, the parties agreed that the preferred method for service delivery is through the public sector.

The process of improving and extending service delivery in a sustainable manner shall include defining the roles of all parties, including amongst others, private providers, co-operatives, communities, other public bodies and spheres of government.

All service providers must strive to implement the following principles:

- ◆ universal coverage – all South Africans must have access to water, sanitation services, electricity, rubbish removal, and other basic services;
- ◆ services must be delivered in a way that is environmentally sustainable, efficient and effective;
- ◆ all residents should receive a lifeline amount of basic services;
- ◆ principle of cross-subsidisation to be used to allow for an affordable service;
- ◆ service standards must be established and monitored for each service so that an effective and efficient service is built;
- ◆ democratic practices and accountability to residents and users must be established;
- ◆ resources must be used in an effective and efficient manner;
- ◆ planning must be done in a sustainable manner;
- ◆ the Batho Pele principles outlines below must be observed.

Batho Pele Principles

◆ **Consultation**

Citizens should be consulted about the level and quality of the public services they receive and, wherever possible, should be given a choice about the services that are offered.

◆ **Service standards**

Citizens should be told what level and quality of public services they will receive so that they are aware of what to expect.

◆ **Access**

All citizens should have equal access to the services to which they are entitled.

◆ **Courtesy**

Citizens should be treated with courtesy and consideration.

◆ **Information**

Citizens should be given full, accurate information about the service standards and performance.

◆ **Openness and transparency**

Citizens should be told how national and provincial departments are run, how much they cost, and who is in charge.

◆ **Redress**

If the promised standard of service is not delivered, citizens should be offered an apology, a full explanation and a speedy and effective remedy; and when complaints are made, citizens should receive a sympathetic, positive response.

◆ **Value for money**

Within all service providers within the municipal sector, the following principles regarding employees will be promoted:

- ◆ develop a public service ethos among workers;
- ◆ job security and good working conditions must be promoted for all employees;
- ◆ sound health and safety practices must be implemented;
- ◆ the capacity of employees to deliver services must be built;

- ◆ in order to ensure that workers are not placed in a position less favourable than before restructuring, the Sectoral Forum will undertake an investigation in terms of the attached schedule.

3. Motivation for public sector delivery

The government plays an important role in making decisions and balancing different interests. There will often be time when decisions have to be made about prioritising needs, allocating resources and so on. These are political decisions, which the government should be making on the basis of the social need. These are not decisions which should be made on the basis of profit.

There are many advantages to public sector delivery, which can't be added up as direct financial costs or benefits. Public sector planning approaches service delivery very differently from the way a company would. With public sector planning there should be an emphasis on:

- ◆ meeting social needs and providing services for particular groups who are expected to be in need ;
- ◆ improving and extending the level, quality and effectiveness of services;
- ◆ democratic accountability, including the involvement of workers and users in planning and monitoring;
- ◆ sustainable and legitimate planning, since it is democratically elected representatives of communities who are involved in the planning;
- ◆ minimising direct costs to users;
- ◆ improving social relations between workers and users;
- ◆ implementing affirmative action;
- ◆ implementing training programmes;
- ◆ protecting the environment;
- ◆ improving the conditions for workers.

4. Motivation for private sector involvement in service delivery

Municipalities face many difficult challenges in ensuring service delivery to all residents in its area of jurisdiction. In order to meet these challenges, municipalities are expected to be developmental as emphasised in the Local Government White Paper and thus embrace their constitutional obligation. Whatever appropriate means chosen by a municipality to deliver services, the ability of the municipality to achieve its social objectives must be strengthened.

Private sector involvement, if properly regulated and managed, can assist municipalities to bring in greater investment and coverage, and better quality services.

The private sector must not be regarded as a panacea to all the problems confronting local authorities, but must play a complementary role to the role of the municipality. Where the private sector is involved in the delivery of services it must be in a way which does not erode the capacity of the municipality to carry out its developmental role.

Where the municipality intends to outsource a function for a limited period, an obligation must be placed on the delivery agent to build the long term capacity of the municipality to provide the service.

Private sector involvement should primarily be aimed achieving improved and greater levels of services, and leveraging additional capacity and investment.

When private sector involvement is considered, it must be consistent with the guidelines of the Sectoral Forum, the MSP regulatory framework and a full costing exercise must be undertaken to compare the costs and benefits of private and public sector delivery. The costing exercise (cost and benefit) must include social, health and environmental factors, and costs to the consumer of private sector delivery. It must also include the costs of consultants, bid preparation, drawing up of the request for proposals, the cost to the MIU of assisting the municipality and so on.

The concept of a limited period is agreed to. The Sectoral Forum will give content to it.

5. Process of restructuring

In terms of a resolution passed on June 30 1997, the parties to the National Labour Relations Forum for Local Government support local government as the preferred form of service delivery, and before public-private partnerships or any other form of private sector involvement are considered, local government must be given the opportunity to ensure the effective functioning of such service delivery.

Notwithstanding the above, the interpretation of the agreement does not imply that municipalities are obliged to deliver such services even if they have no realistic chance of effectively delivering the service at substantially better quality, cost and coverage than alternative providers. At the same time this does not mean that the municipality will not initially consider its capacity and potential to deliver the service before considering other providers.

The Sectoral Forum must give further content to this understanding.

The restructuring of local government in order to ensure effective, equitable, and effective service delivery should take place within the context of the IDP.

Local government, workers and communities need to be involved in the restructuring process. This restructuring will amongst others include:

- ◆ re-organisation of the work place to ensure that all areas are serviced, potentially leading to the deployment of staff and integration of the workforce;
- ◆ developing an integrated approach to ensure effective, efficient and affordable service delivery which includes re-organisation of service delivery as part of the process;
- ◆ recognise the re-prioritisation of finances both at a central government and municipal level over the medium term;
- ◆ investigating and giving serious consideration to accessing other sources of funding for municipalities with the assistance of government;
- ◆ involving communities in decision-making, and building greater accountability between communities and the municipality;
- ◆ building the capacity of municipalities to deliver services;

- ◆ drawing on the assistance of other public sector bodies.

6. Sectoral forum

The Sectoral Forum to be established in terms of the Record of Understanding of 18 September 1998 and based on the principles of the National Framework Agreement (NFA), will consist of representatives of Labour, Government and SALGA, and will deal with the local government restructuring process.

The Sectoral Forum will:

- ◆ Seek to build consensus between government and labour regarding the broad objectives, principles and regulatory framework for the transformation of service delivery (MSP);
- ◆ Monitor and oversee compliance with any agreements reached in the Forum;
- ◆ Delegate any matter to any forum or structure that it deems fit;
- ◆ The Sectoral Forum will need to give content to the nature of disputes arising from the bargaining council which can be referred to Sectoral Forum.

The framework document will form the starting point for these discussions.

Disputes arising in the Sectoral Forum relating to conditions of service will be referred to the bargaining council. Disputes of a broader nature will be referred to the NFA six-a-side for resolution.

In effecting the above, the Sectoral Forum will use among others:

- ◆ SAMWU's pilot projects document on the public sector option;
- ◆ The MIU processes and procedures;
- ◆ DCD's pilot project guidelines and procedures;
- ◆ The Water Services Act and other applicable legislation.

SECTION B

Municipal Service Partnership Regulatory Framework

1. Introduction

All service providers, whether public or private, should be subject to a regulatory framework within which services should be delivered. There will, however, be specific regulations, which will apply specifically to private sector providers. These regulations need to be in place to ensure that, amongst other things, companies are not able to make unreasonable profits out of service provision.

An underlying principle of the regulatory framework needs to be the recognition of the need for transparency consistent with the Constitution, the Open Democracy Bill, the LRA and all other relevant legislation. If some information which relates to the service being provided is kept confidential, this will inhibit the transparency of the process, and mean that not all stakeholders are fully involved in the process.

The regulatory framework must contain clauses that must be adhered to, to ensure effective, efficient affordable, accountable and environmentally sustainable services.

2. Regulatory measures for public and private providers:

These measures apply to all providers – public and private.

2.1 Provision for a lifeline tariff.

- ◆ All to have access to basic levels of services. A joint process in each sector, involving all spheres of government must determine both the minimum level of service which constitutes a basic level of service, and the lifeline tariff which is necessary to realise this.
- ◆ A tariff structure such as a progressive block tariff should allow for a situation of cross-subsidisation between the rich and the poor, between urban and rural areas, between industry and residential areas, between commercial farming and rural communities. This should take into consideration current government legislation.

2.2 Limit on tariff increases

- ◆ Tariff setting for services must comply with parameters set by norms and standards prescribed by national government and the MSP Regulatory Framework.
- ◆ The price of new connection should also be limited and controlled.

2.3 Standard and specifications of the work to be carried out:

This is important in order to establish a minimum standard of services that the provider is required to provide. These standards will need to be established for each service.

The IDP and the contract must comply with the norms and standards set by national government and will include the following:

- ◆ description of the work to be done
- ◆ method of work
- ◆ frequency of work
- ◆ the response time-the maximum amount of time allowed between a problem being identified and it being fixed
- ◆ timing of work and any requirements or restrictions on when work is done
- ◆ standard of work
- ◆ standards of the service provided
- ◆ improvement in the service that must be effected over time (with a timeframe worked out) e.g. lower rate of leaks, universal metering, proper billing
- ◆ jobs that must be done in addition to the main work
- ◆ security measures
- ◆ cost effectiveness
- ◆ performance indicators

- ◆ equipment and materials to be used
- ◆ facilities to be provided
- ◆ qualification for employers
- ◆ emergency cover and standby teams
- ◆ special events that need to be dealt with.

There is also a need to define key performance indicators (KPIs) early in the process. KPIs could include:

- ◆ number of jobs created
- ◆ affirmative business enterprises
- ◆ training provided
- ◆ money retained in the community
- ◆ introduction of community labour based construction methods
- ◆ using local labour, plant, and materials where possible
- ◆ optimisation of the use of SMMEs in the project
- ◆ maximisation of possible opportunities for long term job creation in communities
- ◆ performance against RDP objectives.

2.4 Investment requirements

- ◆ Details of investment required must be developed and prioritised. This should form part of the Integrated Development Plan, or any other Development Plan where an IDP does not exist that the municipality must draw up.

2.5 Environmental standards

- ◆ Services must be delivered in an environmentally sustainable manner. Measures must be put in place to prevent pollution. A municipality's IDP must incorporate an environmental management component, and in its bid a company must indicate how it will comply with the IDP's requirements.

2.6 Employment conditions

- ◆ Trade unions must be recognised and there must be an agreement to enter into collective bargaining processes.
- ◆ Workers must receive on-going training and skills development in a manner which is consistent with national legislation.
- ◆ Transparent appointment procedures must be implemented, which incorporate affirmative action policies.
- ◆ High standards of health and safety must be implemented.

2.7 Workplace restructuring

- ◆ Unions must be consulted before the introduction of appropriate technology which might affect job security. This is a bargaining and LRA issue.

2.8 Financial issues

- ◆ Financial records must be completely transparent, open to scrutiny, and subject to consultation with workers and the community, in terms of existing law. There must be broad participation in the prioritisation and setting of the budget of the municipality. In the case of private providers, they must ensure that their budgets are in accordance with the priorities for service delivery determined as set out in the IDP. The contract must provide sufficient checks and balances to ensure that the private sector allocates sufficient funds to effectively fulfil their contractual obligations and the monies are spent accordingly.

2.9 Monitoring

- ◆ A municipality has the authority to ensure compliance, monitoring, evaluation and review of targets and processes without being inflexible.
- ◆ The contract should be subjected to a constant process of review – both during the period of the contract and at the end. The objective of the review is to assess, among other things, whether all the terms of the contract and the conditions and stipulations contained in this framework and the regulatory framework been met.

2.10 Institutional arrangements

- ◆ A municipality has the authority to ensure compliance, monitoring, evaluation and review of targets and processes without being inflexible.
- ◆ There is a need to clearly define the roles, responsibilities, functions and powers of the municipality, the private company and the other spheres of government.

2.11 Protection against conflict of interest

- ◆ The code of conduct governing councillors and officials will be applicable provided that it sufficiently regulates conflict of interests. The Sectoral Forum will conclude on this matter.

2.12 Disputes

- ◆ A clear dispute resolution mechanism needs to be set out in both the regulatory framework and contracts, to deal with disagreements arising between the company and the municipality.

2.13 Penalty clauses

- ◆ A system to deal with penalties for non-compliance must be established within the MSP Regulatory Framework and contracts.

3. Regulatory measures specific to the private companies

- ◆ Companies must meet a range of different contractual obligations.

3.1 Ownership of assets

- ◆ Municipalities must retain ownership of infrastructure assets of **core** services. The Sectoral Forum must give content to the meaning of core services. Infrastructure assets used by the private company during the contract will be transferred back to the municipality at the end of the contract. There will be instances where the municipalities can choose to sell or lease some of these assets. A transparent process to deal with the different cases should be put in place.
- ◆ Measures must be put in place to allow for effective protection against asset stripping. When the service is transferred back to the municipality, it

must be transferred as a going concern, with the assets in a state of good repair and maintenance, and at no cost to the municipality.

3.2 Disqualification of companies

- ◆ A schedule specifying the conditions of corruption under which the companies will be disqualified will be developed by the NFA Sectoral Forum.
- ◆ Non-compliance with laws regulating labour relations in South Africa and those ILO agreements which SA supports will disqualify companies prior to the bidding process.

3.3 Regulating the financial aspect

- ◆ There must be limits to the rate of return that companies are able to make.
- ◆ In addition, the municipality must not guarantee a certain profit for the company, and must not be held responsible if the company does not achieve its desired rate of return, for reasons outside the contractual obligation or responsibility of the municipality.

3.4 Social reinvestment

This could include a provision that a certain amount of money must be invested in the service.

3.5 Investment obligations

The contract should set out in detail what investments are required, and a time frame for these investments. Penalties must be put in place in the event that the company does not meet its obligations.

3.6 Company responsibility for costs

The company must bear costs relating to the monitoring of the contract. The amount of the costs borne by the company will depend on the type, size, and complexity of the contract.

2.11 Reporting to the municipality

- The company must report on a regular basis to the municipality regarding its performance and whether it is meeting the performance criteria
 - ◆ what and where it has invested and whether it is meeting its investment timetable
 - ◆ improvements to the infrastructure and quality of service it is providing
 - ◆ labour conditions
 - ◆ the savings it is effecting
 - ◆ the profit it is realising.

3.8 Right to information, full disclosure of information

The municipality has a duty to its constituency to give service users, employees and other organisations a full report on the operation of the company in relation to the service being provided. Within the context of the Constitution, the LRA and other relevant legislation, the municipality must have access to among others, the following information on the service provided:

- financial records relating to the service;
- existing and planned international and national contracts;
- company structure including information on all stakeholders.

Service users and employees and their organisations should have a right to information based on the Constitution, Open democracy Bill and other relevant legislation.

3.10 Company guarantee

The company will put aside a certain amount of money as a performance guarantee.

If the company does not comply with its contractual obligation the municipality should be able to use the guarantee to ensure that the municipality can make alternative arrangements to allow the service to continue to be provided.

At the end of the contract, the guarantee will only be returned to the company if the service is transferred back to the municipality as a going concern, the assets have been maintained to the agreed standard, and the company has fulfilled all its obligations and duties.

The guarantee must be kept in a separate account or trust fund, for which separately audited statements must be prepared. The money cannot be accessed by either the company or the municipality for any other purpose except the purpose outlined above.

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SCHEDULE

The agreement is that the parties will investigate the possibility that, instead of being transferred over to the private company when that company enters into a contract with the municipality, staff will be seconded from the municipality to the company for the duration of the contract.

The brief is to clarify the legal implications of this process and to develop clear proposals on how to eliminate any potential problems.

- A. What are the legal implications of the secondment of staff from the municipality to a private company, with reference to, among other aspects:
- 1) Staff benefits such as pensions, unbroken service, sick leave, annual leave and so on: what is the best way to ensure that staff continue to receive these benefits? What is the best way of ensuring that the company is financially responsible for providing these benefits?
 - 2) Wages and working conditions: What would be the legal standing of the Bargaining Council for Local Government in relation to seconded staff? How to ensure that staff continue to receive wages and working conditions in line with the agreements reached at the Bargaining Council for Local Government?
 - 3) Labour relations issue such as disciplinary measures, grievances, disputes, organisational rights and so on: How to ensure that the private company is held legally responsible for dealing with all such issues relating to the seconded staff?
 - 4) Issues of skills development and the on-going training of staff, implementation of affirmative action policies, and so on: How to ensure that the private company carries out its responsibility in these similar areas.
- B. What happens if the company needs to employ new employees during the contract period?
- 1) In line with the approach of seconding staff, the newly employed person could be regarded as a municipal employee who is seconded to the company. Are there any potential legal problems with this?

- 2) Should any distinction be made in the way that highly skilled employees, or those with specialised knowledge are employed? What happens if the company wants to employ these people at a higher wage rate? What are the legal implications of this, given the Bargaining Council for Local Government agreements, and what are the political implications for the municipality?

SR

**EIGHTH MEETING OF THE BOARD OF DIRECTORS OF THE
MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT (MIIU)
TO BE HELD ON FRIDAY, 26 FEBRUARY 1999
IN THE AUDITORIUM, DBSA BUILDING,
LEVER ROAD, MIDRAND
TIME : 10:00 – 13:00**

CHAIRPERSON : MR ENOS BANDA

A G E N D A

- | | | | |
|-------|-----------------------------------------------------------------------------------------------------------|-------|---|
| 1. | INTRODUCTION AND WELCOME | Chair | |
| 2. | APOLOGIES | Chair | |
| 3. | ADOPTION OF PREVIOUS MINUTES | | A |
| 4. | MATTERS ARISING | | |
| 4.1. | Change in Minutes Format | | |
| 4.2. | Revolving Fund – See Annexure 7.7 of Progress Report | | |
| 4.3. | Key Performance Indicators – No submissions | | |
| 4.4. | Training for Local Authorities – Chairman to submit proposal | | |
| 4.5. | Fund raising for the last three operational years | | |
| 4.6. | Pipeline Analysis – see Annexure 7.4. of the Progress Report and proposal from Board Member, S Njikelana. | | B |
| 4.7. | Government/MIIU Interface | | |
| 4.8. | Research Assistant – See Paragraph 5.1 of the Progress Report | | |
| 4.9. | Procurement Policy – No proposals received | | |
| 4.10. | Exit Strategy – No proposals received | | |
| 4.11. | Draft COSATU Framework Document – no comments received | | |
| 4.12. | Board Meetings - Schedule of Dates | | C |
| 5. | PROGRESS REPORT
OCTOBER 1998 TO DECEMBER 1998
For Discussion | | D |
| 5.1. | Administrative Matters | | |
| 5.2. | Current Project Status | | |
| 5.3. | Financial and Budget Matters | | |
| 5.4. | Marketing and Publicity | | |
| 5.5. | Strategic and Policy Issues (Internal) | | |
| 5.6. | Strategic and Policy Issues (External) | | |
| 6. | GENERAL | Chair | |
| 7. | SUMMARY AND CONCLUSIONS | Chair | |
| 8. | DATE OF NEXT MEETING – 29 April 1999 | Chair | |
| 9. | CLOSURE | | |