2. OFFICE OF THE DEPUTY CITY MANAGER: STRATEGY DEVELOPMENT AND IMPLEMENTATION

TSHWANE HOUSE NEW MUNICIPAL HEADQUARTERS PROJECT: ONGOING SUBMISSION WITH RECOMMENDATIONS FOR APPROVAL WITH A GRANTING OF AUTHORITY TO THE ACCOUNTING OFFICER OF THE CITY TO SIGN THE PROPOSED PPP AGREEMENT ON BEHALF OF THE CITY AT FINANCIAL CLOSE

(From the Special Mayoral Committee: 1 December 2014)

1. PURPOSE

- To obtain cognizance and endorsement of the views and recommendations of National Treasury in respect of the City's application for the Views and Recommendations Number 3 (TVR3) as set out in National Treasury's letter signed 11/26/2014, copy attached hereto as Annexure 1 below;

- To take cognizance of the Report on Public Comment produced in compliance with the provisions of section 33 of the Municipal Finance Management Act 56 of 2003 ("MFMA") and section 20 of the Municipal Systems Act 32 of 2000, as amended ("MSA") recording therein comments from the public, provincial treasury and the department of co-operative governance and traditional affairs, attached hereto as Annexure 2 below; and

- To endorse the proposed Recommendations to Council as set out below.

2. STRATEGIC OBJECTIVES

Strategic objective 2: Accelerate higher and shared economic growth and development.

Strategic objective 5: Ensure good governance, financial viability and optimal institutional transformation with capacity to execute its mandate.

3. THE COMPLETE MAKING OF SOUTH AFRICA'S CAPITAL

The remaking of the capital city is also about intervening decisively in the creation of a modern urban fabric premised on the principles of achieving the spatial justice, spatial sustainability, spatial resilience, spatial quality, and spatial efficiency. The core objective of the remaking of South Africa's capital city is about how the City forges a new identity. To realize this objective, it requires mobilization of other spheres of government, residents, civil society, and private sector in order to concretize the process that will lead to a shared development of South Africa’s capital city as envisioned in the Tshwane Vision 2055.
However, for this spatial reconfiguration of Tshwane will have to be balanced against the competing needs (1) of becoming a capital city with global status with that (2) of being a national symbol that is (3) responsive to local developmental needs of our citizens as it continues to re-invent itself.

Therefore, the City’s infrastructure investment is premised around identified economic nodes to lead to the attainment of a better quality of life for all within the City of Tshwane. This will integrate a service-based divided City in a sustainable and environmentally sensitive manner. Thus, our nodal development approach supported by new urbanism principles is for anchor the City’s spatial transformation perspective and is key to how spatial transformation will eventually be experienced by the residents of Tshwane. In this regard, the new Tshwane House municipal headquarters complex project is both a new building project and a CBD regeneration project that will not only achieve massive cost effectiveness and productivity goals for the City’s service delivery management, but also generate economic redevelopment outcomes for the CBD in particular, for the whole city generally.

4. BACKGROUND AND CURRENT STATUS OF THE PROJECT INCLUDING KEY ELEMENTS OF THE PROPOSED PPP AGREEMENT AS COMMENTED ON BY NATIONAL TREASURY

4.1 BACKGROUND AND STATUS

The procurement process that has unfolded to date is indicated in the legal opinion in Volume 2, Annexure 6 of the TVR3 submission to National Treasury, which is already made available to both Mayoral Committee members and Council as a whole. In this regard the legal opinion concludes that there was compliance with the prescribed statutory process.

The TVR III submission referred to herein is the final procurement step prior to the Council meeting at which the PPP Agreement is to be approved. In this respect, it is to be noted that the following views and recommendations of National Treasury were procured:

- National Treasury’s views and recommendation in respect of the feasibility (TVR:I) was issued on 19 January 2006;
- National Treasury’s views and recommendation in respect of the Request for Pre-qualification (TVR:IIA) was issued on 26 January 2001;
- National Treasury’s views and recommendation in respect of the Request for Proposals (TVR:IIA) was issued on 22 September 2008;
- National Treasury’s views and recommendation in respect of the value for money report (TVR:IIIB) was issued on 04 April 2011

Construction of the Tshwane House is expected to be completed within 2016.

4.2 KEY ELEMENTS OF THE PROPOSED PPP AGREEMENT

The key elements of the proposed PPP Agreement are to be found in section 33 of the MFMA ("Section 33 Requirements"), and Regulation 5 of the MFMA read with section 120 of the MFMA (PPP Statutory Requirements").
4.3 INDEPENDENT VALUE FOR MONEY ASSESSOR REPORT

In 2006 as an explicit requirement of approval by Council to proceed at that time, Council mandated that an Independent Value for Money Assessment be carried out in manner fully independent from City or Project influence.

The Independent Value for Money Assessment Report was prepared based on a survey carried in November 2013 and the report was updated in 26 November 2014. The Independent Assessor Report is attached hereto as Annexure 3.

5. COMMENTS OF THE STAKEHOLDER DEPARTMENTS

5.1 COMMENTS OF THE CHIEF FINANCIAL OFFICER

(Unaltered)

Note is taken of the contents and the recommendations of the report.

The purpose of the report is firstly to obtain cognizance and endorsement of the favorable views and recommendations of National Treasury in respect of the City’s application for the TVR3 as set out in Annexure 1 of the report, which is an essential step towards Financial Close of the project.

It is essential to note that the New Tshwane House HQ Project is in the final stage towards Financial Close of the PPP to be established. Therefore, it will be required for the City of Tshwane to effect payments of final invoices up until “Financial Close” of the project. The financial implications of the project as included in the TVR III report have been considered and catered from the MTREF and in the financial sustainability model of the City.

This office fully supports the implementation of this project towards financial close.

A request was received for the movement of approximately R16 million from Operating Budget to the Capital Budget (Tshwane House Project) during the 2014/15 Adjustments Budget. Currently only R5,6 million is available on Cost Centre 6513.

The Project Manager should provide full detail financial information in this regard to the Group Financial Services Department (Budget Office) in order for sufficient allocations to be made during 2014/15 Adjustments Budget for this purpose.
5.2 COMMENTS OF THE GROUP LEGAL COUNSEL

The purpose of the report is to obtain cognizance and endorsement of the views and recommendations of National Treasury in respect of the City’s application for the Views and Recommendations Number 3 (TVR3) as set out by National Treasury on 26 November 2014; and for Mayoral Committee to take cognizance of the Report on Public Comment produced in compliance with the provisions of section 33 of the MFMA and section 20 of the Municipal Systems Act.

Regulation 5(1) of the Municipal Public-Private Private Partnership Regulations provides that:

(1) A public private partnership agreement between a municipality and a private party must –

a) provide value for money to the municipality;
b) be affordable for the municipality;
c) provide in specific terms the nature of the private party’s role in the public-private partnership;
d) confer effective powers on the municipality –
   i. to monitor implementation of, and to assess the private party’s performance, under the agreement;
   ii. to manage and enforce the agreement;
e) impose financial management duties on the private party, including transparent process relating to financial control, budgeting, accountability and reporting;
f) provide for the termination of the agreement if the private party –
   i. fails to comply with the terms or conditions of the agreement; or
   ii. deliberately provides incorrect or misleading information to the municipality;
g) restrain the private party, for the full period of the agreement, from offering otherwise than in accordance with the agreement an employment, consultancy or other contract to a person –
   i. who is an official of the municipality or municipal entity under the sole or shared control of the municipality; or
   ii. who was such an official at any time during a period of one year before the offer is made; and
h) restrain the private party, for a period of three years from offering an employment, consultancy or other contract to an employee directly involved in the negotiation of the agreement;
i) comply with section 116(1) of the Act.

It is submitted that the aforementioned provisions of Regulation 5 have been complied with as certified by National Treasury in Annexure 1 of the report in as far they relate to the structure and content of the public-private partnership agreement hence the need to table this report to the Municipal Council to further empower the Accounting Officer to conclude the public-private partnership agreement.
It is further submitted that public comments, comments from the Department of Cooperative Governance and Traditional Affairs and the Gauteng Provincial Treasury be taken note of as well as the City’s responses and feedback thereto.

In the premises, the report is legally in order and it complies with various provisions of the Municipal Finance Management Act, the Municipal Public-Private Partnership Regulations and the Municipal Systems Act.

6. IMPLICATIONS

6.1 HUMAN RESOURCES

None other than those arising in respect of internal reorganization, taking particular note that the project was proposed and approved on a no retrenchment basis.

6.2 FINANCES

There are no financial implications emanating from this report at this point. All financial implications are covered in the overall PPP contract.

6.3 CONSTITUTIONAL AND LEGAL FACTORS

6.4 COMMUNICATION

Stakeholder communications, communications with the public, communications with the City’s unions and communications with staff at large in a change management process assigned to a work stream will be addressed by appropriate City departments starting immediately after financial close has been achieved.

6.5 PREVIOUS COUNCIL AND MAYORAL COMMITTEE RESOLUTIONS

See annexures 4 and 5 to this report.

7. MOTIVATION

The motivation was and remains Council’s approval of the PPP in August 2006 with authority granted therein for the Accounting Officer to procure the PPP and return a negotiated and compliant proposal to Council upon completion of prescribed regulatory process. This has been achieved as indicated in Treasury’s letter of views and recommendations at Annexure 1.

8. CONCLUSION

That the actions as set out in purpose, above, and in the Recommendations below are timely and necessary in order to ensure that the project meets the mandates for it set by Council in 2006 as set out in this report and annexures hereto; and targets ensuring achievement of 2016 turnkey handover prior to the close of calendar year 2016 as set out in Schedule 7 to the PPP Agreement.

The Special Mayoral Committee on 1 December 2014 resolved to recommend to Council as set out below:
IT WAS RECOMMENDED (TO THE COUNCIL: 3 DECEMBER 2014):

1. That cognizance taken of public comments, comments from Department of Co-operative Governance and Traditional Affairs, Provincial Treasury and National Treasury's views and recommendations in respect of the City's TVR3 submission; and

2. That Council approves the PPP Agreement and authorises the Accounting Officer to sign the PPP Agreement on behalf of the City at Financial Close expected as early as mid-December 2014.

During consideration of this item by Council at its Special Council meeting of 3 December 2014, the following Councillors participated in a debate, among others, expressing concern on the absence of the PPP agreement from the report, and indicating that they would not be able to approve the report without having seen the necessary documentation:

M Fourie
CM van den Heever
BR Topham

Hereafter, the Executive Mayor in acknowledging the concerns raised by the abovementioned Councillors, indicated that he withdrew the report for inclusion of the requested information. The Executive Mayor further, due to the urgency of this report requested that a Special Council meeting be convened for 10 December 2014 with the view to consider the refined report, and also suggested that a presentation be done at the said Council meeting, prior to deliberation and consideration of the report.

It was thereafter resolved as set out below:

ANNEXURES:

1. Letter from National Treasury
2. Public Participation Summary Report
3. Tshwane House PPP: Independent value for money assessor report
5. Council Minutes of 28 May 2009

RESOLVED:

That this report be withdrawn for inclusion of sufficient information and a refined report be submitted to the Special Council meeting of 10 December 2014, which submission will be preceded by a presentation on the Project.
Mr Jason Ngobeni  
Municipal Manager  
City of Tshwane  
P O Box 440  
Pretoria 0001  

Dear Mr Ngobeni  

NATIONAL TREASURY VIEWS AND RECOMMENDATIONS FOR THE NEW SERVICED HEAD OFFICE ACCOMMODATION PROJECT of TSHWANE HOUSE, PROCURED AS A Public Private Partnership (PPP):  

Your letters and accompanying submissions respectively dated 3 March 2014, 1 August (received 4 August) and November 2014 requesting National Treasury to issue Views and Recommendations in terms of Section 33 of the Municipal Finance Management Act (MFMA) and section 4(3) of the Municipal PPP Regulations refers.  

Treasury Views and Recommendation 3 (TVR 3)  

The Municipal Service Delivery and PPP guidelines, requires the response of the National Treasury to the TVRIII report to be listed in terms of the following categories:  

1. The proposed terms and conditions of the draft PPP agreement.  
2. The municipality’s plan for the effective management of the agreement after conclusion.  
3. The preferred bidders competency to enter into the PPP agreement and its capacity to comply with the obligations in the terms of the agreement  
4. The financial obligations to be incurred for each year of the proposed PPP agreement  
5. The impact of those financial obligation on the municipality’s future tariffs and revenue, and  
6. Whether the municipality will secure a significant capital investment or derive a significant economic or financial benefit from the PPP agreement, and  
7. Whether the local community was consulted on the proposed PPP agreement and if any comments were received and responded to.  

The requirements listed in point 4 to 6 above, are in line with those imposed on the municipality in Section 33 (i)(b) (i-iv) of the MFMA.
The comments below will address each of the listed items above:

1. **The proposed terms and conditions of the draft PPP agreement.**

   The requirements of Municipal PPP Regulation 4.5.1 provides:

   "(1) a public-private partnership agreement between a municipality and a private party must –
   (a) Provide value for money to the municipality
   (b) Be affordable for the municipality
   (c) Describe in specific terms the nature of the private party’s role in the public-private partnership;
   (d) Confer effective powers on the municipality—
      (i) To monitor implementation of, and to assess the private party’s performance under, the agreement;
      (ii) To manage and enforce the agreement;
   (e) Impose financial management duties on the private party, including transparent processes relating to internal financial control, budgeting, accountability and reporting;
   (f) Provide for the termination of the agreement if the private party –
      (i) Fails to comply with terms or conditions of the agreement;
      or
      (ii) Deliberately provides incorrect or misleading information to the municipality;
   (g) Restrain the private party, for the full period of the agreement, from offering otherwise than in accordance with the agreement an employment, consultancy or other contract to a person –
      (i) who is an official of the municipality or a municipal entity under the sole or shared control of the municipality; or
      (ii) who was such an official at any time during a period of one year before the offer is made; and
   (h) Restrain the private party, for a period of three years, from offering an employment, consultancy or other contract to an employee of the municipality directly involved in the negotiation of the agreement;
   (i) Comply with section 116(1) of the Act."

Our reading of the execution draft PPP agreement and the TVRIII report indicates satisfactory compliance with all of the foregoing.

2. **The municipality’s plan for the effective management of the agreement after its conclusion:**

   The Municipal PPP Regulations provide that accounting officer of the City of Tshwane (COT) is responsible for ensuring that the PPP agreement is properly implemented, managed, enforced, monitored and reported on. The
plan submitted by the COT is satisfactory to the requirement. The accounting officer must however ensure the effective implementation of the plan and the necessary capacity to deliver on it.

The contract management plan should be updated regularly in consultation with the private party, to respond to changing policies, industry requirements, environmental standards, technology and end user expectations.

Note is taken of the productivity improvement and costs savings that will flow from an efficient working environment, closer proximity of staff and the implementation of change management strategies by the COT.

The appointment of the Independent Certifier as per the requirements of the PPP agreement is a key milestone for the COT and Tsele Tshweu

3. **The preferred bidder’s competency to enter into the PPP agreement and its capacity to comply with the obligations in the terms of the agreement.**

   We take note of the legal opinion provide by the Private Party lawyers, and have reviewed the Memorandum of Incorporation and the Shareholders Agreement of the private party and concur that the private party, Tsele Tshweu Private Company (RF) Proprietary Limited, Reg no: 2013/203539/07 is competent and capacititated to enter into the PPP agreement with the COT.

4. **The financial obligations to be incurred for each year of the proposed PPP agreement**

   The confirmation by the Chief Financial Officer in the letter dated 17 October 2014, that the project is affordable, within the affordability limit as approved by Council in 2006 and that the Unitary Payment (R183 million per annum in 2014 terms) will be included in the annual budget is noted.

   Note is taken of the current cash constraint experienced by the COT and the measures implemented to recover amounts long due to the COT. Any future strategies should take into account that the unitary payment will be due from 2017 and that the payment must be made monthly within 30 days from date of invoice as failure to do so may lead to termination and the payment of termination compensation.

   The COT is to ensure that notice is given in time for all affected leases to ensure that no fruitless and wasteful expenditure occur in this regard post relocation and service commencement.

5. **The impact of the financial obligations under the PPPA on the municipality’s future tariffs and revenue**

   The undertaking by the COT that it will budget for the unitary payment as part of its annual budgetary processes is noted. This will form part of the annual review by National Treasury on the City’s budget.
6. Whether the municipality will secure significant capital investment or derive a significant economic or financial benefit from the PPP agreement.

The new Tshwane House will be a significant asset for the COT providing an effective, modern working space contributing to the productive use of employees time and efficient service of customers. Furthermore, it will contribute to the efficient use of energy through delivering a Green Star Five (5) rating.

The COT must comply with the accounting standards of GRAP and the guideline for the accounting for PPPs as issued by the Accounting Standards Board as the basis for the accounting of the asset constructed as well as the contractual obligations that arise from entering into the PPP Agreement.

7. Whether the local community was consulted on the proposed PPP agreement and if any comments were received and responded to.

We have noted the register of comments received and the consideration thereof and responses thereto by the COT.

Revisions to TVR I and amendments to the PPP Agreement.

The Municipal PPP Regulations furthermore requires, that if at any time after TVRI, but before the issuance of TVRIII, the assumptions concerning affordability, value for money and substantial risk transfer for the project are materially revised, the accounting officer must provide the National Treasury with the relevant details and impact thereof, after which National Treasury may issue a revised TVRI.

The report relating to the revision of TVR included as part of the submission is noted and it is concluded that the amendments to the project output specifications does not materially affect, affordability, value for money or risk transfer, thus not requiring revised TVRI.

The parties may amend the PPP agreement from time to time and in line with the regulations, at least 60 days before the agreement is to be amended the accounting officer must solicit the views and recommendations of the National Treasury and the relevant provincial treasury on the reasons for the amendments.

Outstanding issues at submission for TVRIII.

We take cognisance of the items still to be finalized before signature of the PPP agreement.

The City Manager must submit a report to the National Treasury for views and recommendations detailing the impact of these items if any on the affordability and risk transfer of the project before signature of the PPP agreement.
Conclusion

The Tshwane House PPP has complied with the requirement of the Municipal PPP Regulations and the MFMA section 33 and may now proceed to submit the PPP agreement and supporting documents to Council as per the requirement of Section 33 of the MFMA, for approval and a mandate to the City Manager to sign the agreement.

The COT is congratulated in successfully concluding the first municipal office accommodation PPP in South Africa. Please be assured of our assistance to ensure the effective implementation of the project.

Kind Regards,

[Signature]

Michael Sachs
Deputy Director General; Budget Office
Date: 26/11/2014
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1. **INTRODUCTION**

This sub-report (Annexure 2 of the MFMA Section 33 Report) serves as a summary of the Public Participation process followed for the New Tshwane House Municipal Headquarters (The Project) in Tshwane, City of Tshwane Municipality, Gauteng. The Project is procured via a Public Private Partnership project by the City of Tshwane municipality and exceeds 3 years of contractual obligations.

2. **BACKGROUND TO THE PROJECT**

The project is fundamentally a fire disaster recovery project rebuilding on the same City owned site of the 3 March 1997 fire that effectively destroyed the former municipal government accommodation complex, about half a century old at that time (the Munitoria site). One of the buildings, the “South Wing” was renovated and reoccupied. This building at the time housed about 550 staff including the office of the mayor. The building was obsolescent, unsustainable and inconsistent with the output specs, in any case, and was to be demolished and replaced with a new municipal services HQ complex built to modern standards and the needs of a new dispensation.

The new Munitoria will consist of 37 000 square meters (m²) of brand new office accommodation, in separate low rise buildings, 5000 meters of refurbished accommodation in Sammy Marks (long wasted VFM now to be reclaimed), a two level garage of about 1200 bays and a future enablement of compatible retail or customer care space that could over time be used for client service purposes.

The project will be procured as a PPP which means that the project will entail the design, construction, financing, operation and maintenance of new headquarters on behalf of the City of Tshwane. The Construction period will be 24 months and the operations concession will last 25 years. In return the Private Part will receive a monthly Unitary Fee from the City.

The negotiations between the CoT and the Preferred Bidder (Tshlea Tshea Consortium) commenced in September 2012. The Transaction Advisor and the CoT has been, through active participation, been involved to try to secure a final negotiated position (Technical, Financial and Legal) that is consistent to the fundamentals of the PPP Procurement methodology. These fundamentals refer to Affordability, Value for Money and appropriate Risk Transfer.

3. **PURPOSE & OBJECTIVES**

The COT Municipality is about to enter into a contract which will impose financial obligations to the municipality beyond a financial year, specifically for a period of three (3) years. Under this obligation the Municipality must ensure that this is covered in the annual budget for that financial year(s).
The Public participation process is in accordance with section 21A of the Municipal Systems Act, 2000 (Act 32 of 2000) and section 33 of the Municipal Finance Management Act, 2003 (Act 56 of 2003). Hence it is requested that the Municipal Manager (MM), at least 60 days before the meeting of the Municipal Council at which the contract is to be approved in accordance with these regulations to undertake the following:

i. Make the draft contract and summarised information statement available to the public.
ii. Invite the local community and I&AP to submit comments.

Public Participation involves providing clear and relevant information to the community, seeking input, feedback and information about Council directions and initiatives, actively encouraging participation from a cross-section of the affected community, mobilising community involvement in raising public awareness around key issues, providing prompt and comprehensive feedback to the community on the views expressed, decisions made and the reasons for those decisions.

Hence the purpose is to clearly communicate the expectations of the COT Municipality to officials and community, as this shall help all know when they should consult and why. According to the White Paper on Local Government (1998) the objective of public participation is embedded in the following four principles:

i. To ensure political leaders remain accountable and work within their mandate;
ii. To allow citizens (as individuals or interest groups) to have continuous input into local politics;
iii. To allow service consumers to have input on the way services are delivered;
iv. To afford organised civil society the opportunity to enter into partnerships and contracts with local government in order to mobilise additional resources.

### 4. COT PUBLIC PARTICIPATION PROCESS

The following activities were the sequence of events which was undertaken for the Public Participation process that commenced on 3 March 2014.

<table>
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<th>Date</th>
<th>Activity</th>
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| 2 March 2014  | The following documentation were collated to be advertised to the public as part of the Public Participation Process:  
|               | i. The PPP Agreement (Draft)  
|               | ii. Schedules to the PPP Agreement: 1/ 3/ 4/ 6 / 8/ 9/ 10 /12 /13 /14 /15 /16 /17 / 19 /20 /21 / 23 /25 /26 /27  
|               | iii. The Guide To Understanding The Public Comment Process.                                   |
| 4 March 2014  | Adverts in the “Beeld” and “Pretoria News” of the commencement of Public participation Process. ([Refer to Annexure S33A2-A for copies of the adverts](#)) |
| 4-6 March 2013| The above documents were made available at municipal libraries and regional branch offices. ([Refer to Annexure S33A2-B](#)) |
3 April 2014 | Re-Adverts in the “Beeld” and “Pretoria News” to signify the extension to Public participation Process. (Refer to Annexure S33A2-C for copies of the re-adverts)
---|---
3 May 2014 | Deadline to receive comments from the Public

5. MANAGEMENT OF THE PUBLIC COMMENTS

5.1 Comments Received

Three (3) responses were received from the public entities. The list of responses is captured in the Register of Public Comments.

(Refer to Annexure S33A2-D for copy of the Public Comment Register).
(Refer to Annexure S33A2-E for copies of the Public Comments Received).

5.2 Response To Comments Received

All 3 comments that were received from the Public entities were evaluated and responded to by the Project team. Copies of the responses were sent to all parties.

(Refer to Annexure S33A2-F for copies of the Responses to the Public Comments).

6. CONCLUSION

The project team affirms that the Public Participation Process was successfully and appropriately conducted in accordance with section 21A of the Municipal Systems Act, 2000 (Act 32 of 2000) and section 33 of the Municipal Finance Management Act, 2003 (Act 56 of 2003).

The Project team further concludes that the comments received from the public entities were not of any material significance to substantially affect the outcome of the PPP project.
7. ANNEXURES

Annexure S33A2-A: Copies of the Adverts in the Local Newspapers
Annexure S33A2-B: List of the municipal libraries and regional branch offices
Annexure S33A2-C: Copies of the re-adverts in the Local Newspapers
Annexure S33A2-D: The Public Comment Register
Annexure S33A2-E: Copies of the Public Comments Received
Annexure S33A2-F: Copies of the Responses to the Public Comments
Annexure S33A2-A: Copies of the Adverts in the Local Newspapers
INVITATION TO SUBMIT COMMENTS NEW HEADQUARTERS FOR THE CITY OF TSHWANE: TSHWANE HOUSE

The public is hereby invited to provide comments and/or representations on the draft public-private partnership agreement and related schedules for the Tshwane House project, a construction project that, when completed, will replace the Munitoria building, which has been demolished.

This invitation is in accordance with section 21A of the Municipal Systems Act, 2000 (Act 32 of 2000) and section 33 of the Municipal Finance Management Act, 2003 (Act 56 of 2003), which require municipalities to invite local communities to make representations in respect of any proposed contract that extends beyond a period of three years. Plans for the construction of Tshwane House are at an advanced stage and public comment is now required on the draft agreement before the matter can be brought to Council for final approval in May 2014.

Tshwane House will be located on the site of the former Munitoria, bounded by Sisulu, Madiba, Lilian Ngoyi and Johannes Ramokhoase Streets.

Copies of the draft agreement and schedules will be available at municipal libraries and regional branch offices, as well as on the City of Tshwane website (http://www.tshwane.gov.za).

Anyone who wishes to submit representations and/or comments can –

1. Post them to the Office of the City Manager, for the attention of Mr Leonard Manamela, PO Box 6338, Pretoria, 0001; or
2. Send them by email to leonardma@tshwane.gov.za.

For more information, please call 012 358 4755.

All representations and/or comments must be in writing.

Closing date for submissions: midnight, Friday 4 April 2014.

www.tshwane.gov.za
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All representations and/or comments must be in writing.

Closing date for submissions: midnight, Friday 4 April 2014.
UITNODIGING OM KOMMENTAAR NUWE HOOFKWARTIER VIR DIE STAD TSHWANE: TSHWANE HOUSE

Die publiek word hiermee uitgenooi om kommentaar en/of voorleggings in te dien oor die konsep openbare-private vennootskapooe-Feniks en skedules vir die Tshwane House-projek, wat met voltooing die Munitoria-gebou, wat gesloop is, sal vervang.

Die uitnodiging is in ooreenstemming met artikel 21A van die Wet op Munisipale Stelsels (Wet 32 van 2000) en artikel 33 van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, 2003 (Wet 56 van 2003), wat vereis dat munisipaliteite plaaslike gemeenskappe uitnooi om voorleggings te maak in verband met enige voorgestelde kontrak wat langer as drie jaar geldig sal wees. Die planne vir die bou van Tshwane House is in 'n gevorderde stadium en kommentaar van die publiek word benodig voordat die saak aan die Raad voorgelê kan word vir finale goedkeuring in Mei 2014.

Tshwane House sal op die terrein van die eerydse Munitoria geleë wees, begrens deur Sisulu-, Madiba-, Lilian Ngoyi- en Johannes Ramokhoasestraat.

Afskripte van die konsepooe-Feniks en skedules sal beskikbaar wees by munisipale biblioteke en streekskantore, en op die Stad Tshwane-webblad (http://www.tshwane.gov.za).

Enigeen wat voorleggings en/of kommentaar wil indien kan –

1. Dit pos na die Kantoor van die Stadsbestuurder, vir aandag: Mnr Leonard Manamela, Posbus 6338, Pretoria, 0001; of
2. 'n e-pos stuur na leonardma@tshwane.gov.za

Vir meer inligting, skakel asseblief 012 358 4755.

Alle voorleggings en/of kommentaar moet skriftelik gedoen word.

Sluitingsdatum vir voorleggings:
Middernag, Vrydag 4 April 2014.

www.tshwane.gov.za  

UITNODIGING OM KOMMENTAAR NUWE HOOFKWARTIER VIR DIE STAD TSHWANE: TSHWANE HOUSE

Die publiek word hiermee uitgenooi om kommentaar en/of voorleggings in te dien oor die konsep openbare-private vennootskapoeenkom en skedules vir die Tshwane House-projek, wat met voltooing die Munitoria-gebou, wat gesloop is, sal vervang.

Die uitnodiging is in ooreenstemming met artikel 21A van die Wet op Munisipale Stelsels (Wet 32 van 2000) en artikel 33 van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, 2003 (Wet 56 van 2003), wat vereis dat munisipaliteite plaaslike gemeenskappe uitnooi om voorleggings te maak in verband met enige voorgestelde kontrak wat langer as drie jaar geldig sal wees. Die planne vir die bou van Tshwane House is in ’n gevorderde stadium en kommentaar van die publiek word benodig voordat die saak aan die Raad voorgelê kan word vir finale goedkeuring in Mei 2014.

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Afskrifte van die konsep ooreenkoms en skedules sal beskikbaar wees by munisipale biblioteke en streekskantore, en op die Stad Tshwane-webblad (http://www.tshwane.gov.za).

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1. Dit pos na die Kantoor van die Stadsbestuurder, vir aandag: Mnr Leonard Manamela, Posbus 6338, Pretoria, 0001; of
2. ’n E-pos stuur na leonardma@tshwane.gov.za.

Vir meer inligting, skakel asseblief 012 358 4755.

Alle voorleggings en/of kommentaar moet skriftelik gedoen word.

Sluitingsdatum vir voorleggings: middernag, Vrydag 4 April 2014.

www.tshwane.gov.za
Annexure S33A2-B: List of the municipal libraries and regional branch offices
<table>
<thead>
<tr>
<th>Library_Name</th>
<th>street_address</th>
<th>opening_hours</th>
<th>Librarian</th>
<th>Contact_Nr</th>
<th>COORDINATE1 hh° mm' mm.mmm'</th>
<th>COORDINATE2 hh° mm' mm.mmm'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abram Makolane Library</td>
<td>Lesedi St 96 Stand 4146 Netmajius X4</td>
<td>Mo - Fr: 9:00 - 16:50</td>
<td>Jostina Mehtape</td>
<td>C: 083 663 6151</td>
<td>S25°44.396'E028°21.743</td>
<td></td>
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<tr>
<td>Akasia</td>
<td>Cnr Heinrich &amp; Madelief street Akasia Medical Centre Akasia 0118</td>
<td>Mo: 13:00-16:50 Tu - Fr: 08:30-16:50 Sa: 08:30-12:50</td>
<td>Solly Mampana</td>
<td>T: 012 549 2244 F: 012 549 2244</td>
<td>S25°40.325'E028°16.752'E</td>
<td></td>
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<tr>
<td>Alkantrant</td>
<td>Cnr Daventry &amp; Lynnburn Road Lynnwood 9081</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Th: 12:00-17:50(Closed on alternative Tuesdays) Sa: 08:30-12:50(Closed on alternative Saturdays)</td>
<td>Susan de Klerk</td>
<td>T: 012 358 9670 T: 012 358 9671</td>
<td>S25°45.777'E028°16.753'E</td>
<td></td>
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<tr>
<td>Atteridgeville</td>
<td>43 Ramushu Hall, Ramushu Street, Atteridgeville 0006</td>
<td>Mo – We: 08:00-16:50 Th: 08:00-17:20 Fr: 08:00-13:50</td>
<td>Mahlodi Moroamodishi</td>
<td>T: 012 373 0566</td>
<td>S25°46.055'E028°04.418'E</td>
<td></td>
</tr>
<tr>
<td>Bajabulile</td>
<td>Bajabulile Primary school 22892 Motsumi street Mamelodi Ext 4 0008</td>
<td>Mo - Fr:10:00 -17:50</td>
<td>Thabo Sefolo</td>
<td>T: 012 801 2772</td>
<td>S25°42.923'E028°23.607'E</td>
<td></td>
</tr>
<tr>
<td>Bodibeng</td>
<td>Stand No:1424 Bodibeng Library Soshanguve Block BB</td>
<td>Mo:9:00-16:50 Tu-Th: 8:00-16:50 Fr 8:00-12:50 Sa 8:15-12:50</td>
<td>Ruth-Anne Motaung</td>
<td>T: 012 790 0840 F: 012 790 0283</td>
<td>S25°29.566'E028°05.642'E</td>
<td></td>
</tr>
<tr>
<td>Bronkhorstspruit</td>
<td>C/o Market &amp; Louis Botha ave, Bronkhorstspruit 1020</td>
<td>Mo - Fr 09H00 - 17H30 Sa 09H00 - 13H00</td>
<td>Grace Kollolo</td>
<td>T:013 932 6305 C: 071 671 8626</td>
<td>S25°48.566'E028°44.598'E</td>
<td></td>
</tr>
<tr>
<td>Brooklyn</td>
<td>Brooklyn Square, Shop 68, Upper Ground Floor Brooklyn Square (ex ABSA Bank premises) Cnr Middle &amp; Veale Street New Muckleneuk 0181</td>
<td>Mo , We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50 Sa: 08:30-12:50</td>
<td>Iona Gielen</td>
<td>T: 012 358 9672(C) T: 012 358 9673(O)</td>
<td>S25°46.290'E028°13.964'E</td>
<td></td>
</tr>
<tr>
<td>Culinan</td>
<td>Shop 10 Fourways Shopping Centre Main Road</td>
<td>Mo - Fr: 0930 - 1230:1300 - 1700</td>
<td>Wanda Boyle</td>
<td>C: 084 700 8068</td>
<td>S25°40.344'E028°31.946'E</td>
<td></td>
</tr>
<tr>
<td>Danville</td>
<td>Genl. Beyers Primary school Cnr Du Plessis &amp; Delaney streets (entrance to library in Delaney street) Danville 0183</td>
<td>Mo-We.,Fr: 09:45-17:00 Th.: 12:00-17:00 Sa: 8:30-12:50</td>
<td>Mariska Scholtz</td>
<td>T: 012 358 9653 T: 012 358 8654</td>
<td>S25°44.547'E028°07.741'E</td>
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<tr>
<td>Depot</td>
<td>Sammy Marks Square Cnr Church and Prinsloo Street Pretoria Central 0002</td>
<td>Mo - Fr: 07:30 – 16:00</td>
<td>Kenneth Khumalo</td>
<td>T: 012 358 8841</td>
<td>S25°44.718'E028°11.678'E</td>
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<tr>
<td>Library_Name</td>
<td>street_address</td>
<td>opening_hours</td>
<td>Librarian</td>
<td>Contact_Nr</td>
<td>COORDINATE1 hh° mm' mm.mmmm'</td>
<td>COORDINATE2 hh° mm' mm.mmmm'</td>
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<tr>
<td>East Lynne</td>
<td>Piet Krijnau Centre Cnr Stegman and Meeu Street East Lynne 0186</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50 Sa: 08:30-12:50</td>
<td>Myron MacPherson</td>
<td>T: 012 800 1508</td>
<td>S25°42.334'</td>
<td>E028°17.064'</td>
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<tr>
<td>Eersterust</td>
<td>Civic centre Hans Coverdale Road West Eersterust 0022</td>
<td>Mo - Fr: 10:00-13:15;14:00-16:50</td>
<td>Sylvia Nikoane</td>
<td>T: 012 358 5344 T: 012 358 0406</td>
<td>S25°42.425'</td>
<td>E028°18.563'</td>
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<tr>
<td>Ekwagala F</td>
<td>Massakani Hall, Stand No. 1108. Sec F Ekagala</td>
<td>Mo - Fr 09H00 - 17H00 Sa 09H00 - 13H00</td>
<td>Nomza Chauke</td>
<td>C: 082 9588694</td>
<td>S25°39.752'</td>
<td>E028°43.679'</td>
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<tr>
<td>Ekwagala TLC</td>
<td>TLC offices Ekwagala</td>
<td>Mo - Fr 09H00 - 17H00 Sa 09H00 - 13H00</td>
<td>Ivy Shabangu</td>
<td>C: 082 959 6243</td>
<td>S25°41.420'</td>
<td>E028°44.406'</td>
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<tr>
<td>Eldoraigne</td>
<td>Cnr Probert &amp; Ireland Avenue Eldoraigne 0157</td>
<td>Mo - We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50 Sa: 08:30-12:50</td>
<td>Motsarome Mabena</td>
<td>T: 012 660 0415 F: 012 660 0511</td>
<td>S25°50.891'</td>
<td>E028°09.245'</td>
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<tr>
<td>Erasmia</td>
<td>361 Grey Street Shezan Centre Erasmia 0183</td>
<td>Mo - Fr: 10:00-12:15;13:00-16:50</td>
<td>Lumka Mayaba</td>
<td>T: 012 370 2165 F: 012 370 1190</td>
<td>S25°48.961'</td>
<td>E028°05.462'</td>
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<tr>
<td>Es'kia Mphahlele</td>
<td>Sammy Marks Square Cnr Church and Prinsloo Street Pretoria Central 0002</td>
<td>Mo Fr: 09:00-17:20 Sa: 08:00-12:50</td>
<td>Elizabeth Ramohlokoane</td>
<td>T: 012 358 86954 F: 012 358 8955</td>
<td>S25°44.716'</td>
<td>E028°11.678'</td>
</tr>
<tr>
<td>Gatang</td>
<td>Gatang Comprehensive School 23423 Ramabulane Street Mamelodi 0002</td>
<td>Mo - Fr: 10:00-12:15;13:00-16:50</td>
<td>Mopone Kekana</td>
<td>T:012 801 2142</td>
<td>S25°43.345'</td>
<td>E028°23.758'</td>
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<tr>
<td>Glenstantia</td>
<td>Cnr Chopin &amp; Duvernoy Constantia Park 0010</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50 (Closed on alternative Thursdays) Sa: 08:30-12:50 (Closed on alternative Saturdays)</td>
<td>Therese EIs</td>
<td>T: 012 998 6210</td>
<td>S25°48.125'</td>
<td>E028°17.228'</td>
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<tr>
<td>Halala</td>
<td>Stand 756 Block H Halala Shopping Centre Soshanguve 0152</td>
<td>Mo: 13:00-16:50 Tu – Fr: 08:30-16:50 Sa: 08:30-12:50</td>
<td>Robert Mpye</td>
<td>T:012 799 2617 F:012 799 2617</td>
<td>S25°31.200'</td>
<td>E028°06.604'</td>
</tr>
<tr>
<td>Hammanskraal</td>
<td>532 Lovelane Street Mandela Village Hammanskraal</td>
<td>Mo: 13:00-16:50 Tu – Fr: 08:30-16:50 Sa: 08:30-12:50</td>
<td>Selaelo Malao</td>
<td>T: 012 711 3586 F: 012 711 3586</td>
<td>S25°24.216'</td>
<td>E028°17.317'</td>
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<tr>
<td>Hercules</td>
<td>HS Hercules Jenning street 701 Daspoot 0082</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50 Sa: 08:30-12:50</td>
<td>Maria Janse van Vuuren</td>
<td>T:012379 4936</td>
<td>S25°42.687'</td>
<td>E028°08.853'</td>
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<tr>
<td>Library_Name</td>
<td>street_address</td>
<td>opening_hours</td>
<td>Librarian</td>
<td>Contact_Nr</td>
<td>COORDINATE1 hh* mm*.'mmm'</td>
<td>COORDINATE2 hh* mm*.'mmm'</td>
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<tr>
<td>Irene</td>
<td>Pioneer Road 1 Irene 0062</td>
<td>Mo: 12:30-17:50, Tues - Frday 10:00 - 17:50</td>
<td>Kathryn Siller</td>
<td>T: 012 667 1857</td>
<td>S25°52.549' E028°13.371'</td>
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<tr>
<td>KT Motubatse</td>
<td>Stand 20941</td>
<td>Mo - Fr: 09:00-16:50</td>
<td>Johanna Lesito</td>
<td>T: 012 356 1394/5</td>
<td>S25°35.052 E028°05.350</td>
<td></td>
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<tr>
<td>Laudium</td>
<td>Municipal Building no 231 4th Avenue Laudium 0037</td>
<td>Mo - Fr: 14:00-17:50, Sa 09:00-12:50</td>
<td>Shakun Laloo</td>
<td>T: 012 374 5448</td>
<td>S25°47.206 E028°06.437</td>
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<tr>
<td>Lyttelton</td>
<td>Cnr Cantonments Road &amp; Union Avenue Lyttelton 0157</td>
<td>Mo, We, Fr: 10:00-17:50, Tu &amp; Thrs: 12:00-17:50, Sa: 08:30-12:50</td>
<td>Martie Els</td>
<td>Ref 0126641452 (use fax line) T: 0126640382 F:0126646242</td>
<td>S25°49.788' E028°12.307</td>
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</tr>
<tr>
<td>Mabopane</td>
<td>Stand 265 Block X Mabopane</td>
<td>Mo-Fr: 0900 - 1650</td>
<td>Kgomo Masileng</td>
<td>T: 012 840 2340</td>
<td>S25°30.775' E028°03.274'</td>
<td></td>
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<tr>
<td>Mahlasedi Masana</td>
<td>Benjamin Seema Street Phase 5 Mamelodi 0122</td>
<td>Mo - Fr: 10:00-12:15,13:00-16:50</td>
<td>Mpelegeng Manaso</td>
<td>T: 012 805 3326</td>
<td>S25°42.957' E028°25.103'</td>
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<tr>
<td>Mamelodi West</td>
<td>Cnr Kubone and Nchabeleng Street Mamelodi West 0122</td>
<td>Mo - Th: 09:00-16:50, Fr: 09:00-13:00, Sa: 08:30-12:50</td>
<td>Suzan Malati</td>
<td>T: 012 335 2732</td>
<td>S25°42.693' E028°20.907'</td>
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<tr>
<td>Mayville</td>
<td>Mayville Mall Shop 22 Mayville 0084</td>
<td>Mo, We, Fr: 10:00-17:50, Tu &amp; Thrs: 12:00-17:50, Sa: 08:30-12:50</td>
<td>Juanita Greeff</td>
<td>T: 012 335 2732</td>
<td>S25°41.942' E028°10.953'</td>
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<tr>
<td>Moot</td>
<td>732 Frederika Street Rietfontein 0084</td>
<td>Mo, We, Fr: 10:00-17:50, Tu &amp; Thrs: 12:00-17:50, Sa: 08:30-12:50</td>
<td>Thana Oberholster</td>
<td>T: 012 331 2511</td>
<td>S25°42.996' E028°13.027'</td>
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<tr>
<td>Mountain View</td>
<td>Bergsig Centre 454 Karel Trichardt Avenue Mountain View 0082</td>
<td>Mo, We, Fr: 10:00-17:50, Tu &amp; Thrs: 12:00-17:50, Sa: 08:30-12:50</td>
<td>Jan de Jager</td>
<td>T: 012 379 1338 T: 012 358 9655 T: 012 358 9656</td>
<td>S25°42.068' E028°09.657'</td>
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<tr>
<td>Olievenhoutbosch</td>
<td>Cnr Legong &amp; Rethable Streets Olievenhoutbosch 0175</td>
<td>Mo: 13:00-16:50, Tu – Fr: 08:30-16:50, Sa: 08:30-12:50</td>
<td>Bongi Nikonki</td>
<td>T: 012 652 1000; F: 012 652 1005</td>
<td>S25°54.683' E028°05.594'</td>
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<tr>
<td>Onverwacht</td>
<td>Thabo Mbeki Street Onverwacht</td>
<td>Mo - Fr: 0900 - 1230,1300 - 1630</td>
<td>Fani Qibi</td>
<td>C: 083 761 4000</td>
<td>S25°36.126' E028°35.860'</td>
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<tr>
<td>Overkruin</td>
<td>Sinoville Centre Shop 25 Brac Ave Sinoville 0182</td>
<td>Mo, We, Fr: 10:00-17:50, Tu &amp; Thrs: 12:00-17:50, Sa: 08:30-12:50</td>
<td>Monica Geldenhuys</td>
<td>T: 012 567 4955</td>
<td>S25°40.652' E028°13.048'</td>
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<tr>
<td>Library_Name</td>
<td>street_address</td>
<td>opening_hours</td>
<td>Librarian</td>
<td>Contact_Nr</td>
<td>COORDINATE1 hh° mm' mm.&quot;</td>
<td>COORDINATE2 hh° mm' mm.&quot;</td>
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<tr>
<td>Pierre van Ryneveld</td>
<td>Fouche Road Pierre van Ryneveld 0157</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50(Closed on alternative Thursdays) Sa: 08:30-12:50(Closed on alternative Saturdays)</td>
<td>Solet Booysen</td>
<td>T: 012 662 1050 F: 012 662 2729</td>
<td>S25°50.570' E028°14.567'</td>
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<tr>
<td>Pretoria North</td>
<td>288 Burger Street Pretoria North 0182</td>
<td>Mo - Fr: 10:00-17:50</td>
<td>Mphasi Mogwera</td>
<td>T: 012 546 6237</td>
<td>S25°40.424' E028°10.276'</td>
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<tr>
<td>Rehhabiseng</td>
<td>Cio Mokoen &amp; Nyembe street 392 Rehhabiseng</td>
<td>Mo - Fr 09H00 - 17H00 Sa 09H00 - 13H00</td>
<td>Phineas Meso</td>
<td>T: 013 935 7201 C: 082 959 6243</td>
<td>S25°43.186' E028°43.021'</td>
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<tr>
<td>Rooihuiskraal</td>
<td>Tiptol Corner Rooihuiskraal 0157</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50(Closed on alternative Thursdays) Sa: 08:30-12:50(Closed on alternative Saturdays)</td>
<td>Christelle Pienaar</td>
<td>T: 012 661 7117 T: 012 661 7118 F: 012 661 9614</td>
<td>S25°53.607' E028°09.222'</td>
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<tr>
<td>Saulsville</td>
<td>Saulsville Arena Malebye Street Saulsville 0008</td>
<td>Mo: 13:00-16:50 Tu – Fr: 08:30-16:50 Sa: 08:30-12:50</td>
<td>Mumsy Motswai</td>
<td>T: 012 375 7856 T:012 358 9644 T: 012 358 9645</td>
<td>S25°46.227' E028°04.237'</td>
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<tr>
<td>Silverton</td>
<td>Municipal Offices Pretoria Road Silverton 0184</td>
<td>Mo, We, Fr: 10:00-17:50 Tu &amp; Thrs: 12:00-17:50(Closed on alternative Thursdays) Sa: 08:30-12:50(Closed on alternative Saturdays)</td>
<td>Charmaine Maritz</td>
<td>T: 012 358 9674(C) T: 012 358 9675(O)</td>
<td>S25°44.007' E028°17.819'</td>
<td></td>
</tr>
<tr>
<td>Sokhulumi</td>
<td>Next to Mahlenga High School</td>
<td>Mo - Fr 09H00 - 17H00 Sa 09H00 - 13H00</td>
<td>Broken Phetla</td>
<td>C: 082 447 4048</td>
<td>S25°36.103' E028°53.666'</td>
<td></td>
</tr>
<tr>
<td>Soshanghuve X</td>
<td>Block X Soshanghuve</td>
<td>Mo - Fr: 09:00-16:50</td>
<td>Boltumelo Tsela</td>
<td>T: 012 358 0135</td>
<td>S25°28.069' E028°07.847'</td>
<td></td>
</tr>
<tr>
<td>Stanza Bopape</td>
<td>Stanza Bopape Community Centre Stand 27401 Ramapudu Street Mamelodi East x5</td>
<td>Mo: CLOSED Tu: Fr: 09:00-12:15;13:00-16:50 Sa: 09:00-12:15; 13:00-15:50</td>
<td>Lucas Machipa</td>
<td>T: 012 801 7348</td>
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<td>Steve Bikville</td>
<td>Stand 44242, 02 Municipal Offices Temba 0407</td>
<td>Mo - Fr: 08:00 - 16:30</td>
<td>Zinhle Michize</td>
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<td>Stand 44242, 02 Municipal Offices Temba 0407</td>
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<td>Margaret Letswalo</td>
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<td>Mo-Th: 07:30-16:30; Fr: 07:30-13:30</td>
<td>Jimmy Bhuda</td>
<td>T: 012 358 8982</td>
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<td>V T Sefora</td>
<td>Stand no. 2839; Zone 2 Ga Rankuwa C/O MotSasi Mokgatle and Matsunyane Streets</td>
<td>Mo-Fr: 09:00-16:50.</td>
<td>Johanah Moalusi</td>
<td>T: 012 358 9678</td>
<td>S25°36.314</td>
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<td>Shop 27 Valhof Centre Hekla Road Valhalla 0186</td>
<td>Mo, We, Fr: 10:00-17:50; Tu &amp; Thrs: 12:00-17:50 Sa: 08:30-12:50</td>
<td>Elvis Monene</td>
<td>T: 012 654 1941</td>
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<td>Waverley</td>
<td>C/O Cunningham Avenue &amp; Cook Street Waverley 0186</td>
<td>Mo, We, Fr: 10:00-17:50; Tu &amp; Thrs: 12:00-17:50 Sa: 08:30-12:50</td>
<td>Sam Cooper</td>
<td>T: 012 332 2172</td>
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<td>Kusum Patel</td>
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<td>Stand 1418 (behind Kgabo Clinic off Bushveld Str) Winterveld Soshanguve</td>
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<td>Noluyolo Dube</td>
<td>C: 072 116 9184</td>
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Annexure S33A2-C: Copies of the re-adverts in the Local Newspapers
Annexure S33A2-D: The Public Comment Register
The City of Tshwane

PUBLIC PRIVATE PARTNERSHIP PROJECT

Public Participation Process in respect of the Project

COMMENTS REGISTER

May 2014
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<tr>
<th>COMMENT #</th>
<th>Date of Comment</th>
<th>Name of Sender</th>
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<td>14 Apr 14</td>
<td>Mr V Madonsela, DG</td>
<td>Public Dept. of Cooperative Governance &amp; Traditional Affairs</td>
<td>012 334 0600</td>
<td>• Official Government Dept. Letter • 2 pages</td>
<td>Internal Procurement related</td>
<td>DD&amp;CM 10/211/83 Annexure 1</td>
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<td># 2</td>
<td>20 May 2014</td>
<td>Mr Jeff Mashele DDG: Gauteng Provincial Treasury, Sustainable Resource Management</td>
<td>(0)11 227 9007</td>
<td>• Official Government Dept. Letter • 4 pages</td>
<td>General</td>
<td>Tshwane TVR Annexure 2</td>
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<td># 3</td>
<td>02-May-14</td>
<td>Nico Bruwer, Mr</td>
<td>Private</td>
<td>0829099176 <a href="mailto:bruwer.nico@gmail.com">bruwer.nico@gmail.com</a></td>
<td>• Word Doc, sent by email • 25 Pages</td>
<td>Various Comments</td>
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Annexure S33A2-E: Copies of the Public Comments Received
The Municipal Manager  
City of Tshwane  
P.O. Box 6338  
PRETORIA  
0001

Dear Mr J Ngobeni

SUBMISSION OF THE DRAFT TSHWANE HOUSE NEW MUNICIPAL HQ PPP AGREEMENT BY CITY OF TSHWANE TO THE NATIONAL DEPARTMENT OF COOPERATIVE GOVERNANCE AS REQUIRED UNDER SECTION 33 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

The above-mentioned matter refers.

1. The Department appreciates your Municipality’s request for its views and recommendations regarding the draft PPP Agreement to be entered into by and between your Municipality and the Public Private Partnership.

2. In so far the PPP Agreement is concerned, the Department wishes to express its views and recommendations as follows:

   (i) Ad front page of the Agreement
       It is noted that the name of the Public Private Partnership is not reflected in this proforma Agreement. The municipality is, in terms of section 33(1)(c) of the MFMA, Regulations, advised to check the National Treasury data base prior to signing the Agreement, to ensure that such PPP or any of its directors is not listed as a company or a person prohibited from doing business with the public sector.

   (ii) Ad Commencement and Duration clause “3”
       The proforma Agreement states that the Agreement shall automatically terminate on the expiry date, yet such expiry date is not reflected in the Agreement.
(iii) In terms of section 2(1)(b) of the Municipal Public Private Partnership Regulations, No 56 of 2003, the municipality is expected to appoint a transaction advisor to assist and advise the municipality on the preparation and procurement of the Public Private Partnership Agreement. It is not evident from the documents forwarded to the Department whether such transaction advisor was appointed. If not, the municipality is kindly advised to appoint such a person.

(iv) It is not clear whether the Project Officer engaged in November 2004 by the City Manager to assist with the project as required by section 7 of the Regulations is still prepared to continue assisting in this project because such a person was appointed almost 10 years ago.

3. The municipality is further called upon to ensure that the views and recommendations of the National and Provincial Treasuries are obtained before tabling this matter before municipal council for consideration and approval.

Kind regards

[Signature]

MR/V MADONSELA
DIRECTOR-GENERAL

DATE: 14/04/2014
TO: Mr Jason Ngobeni
Office of the City Manager
City of Tshwane
Pretoria
0002

CC: Peter Aborn; Project Officer
Tumi Moleke: National Treasury

Attention for: Mr Leonard Manamela

DATE: 20 May 2014

RE: REQUEST FOR VIEWS AND RECOMMENDATIONS IN TERMS OF SECTION 33 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (MFMA) FOR CITY OF TSHWANE’S NEW HEAD QUARTERS ACCOMMODATION PPP PROJECT IN RESPECT OF THE PPP AGREEMENT DOCUMENT

1. Introduction

1.1 The Gauteng Provincial Treasury ("GPT") through the Public Private Partnership ("PPP") Unit in Sustainable Resource Management has been provided with a copy of document referred to as “Submission of the draft Tshwane House New Municipal HQ PPP Agreement” and requested to examine these and provide comments, against the background of the information provided to us under letter with reference COT/TTC/3/4/2014, dated the 4th March 2014.

1.2 In particular, we have been requested to –

Provide Tshwane Metropolitan Municipality with Provincial Treasury Views and Recommendations 3 (TVR III) to implement City of Tshwane ("the City") new municipal headquarters, herein referred to as the Project.

1.3 The PPP Unit has reviewed this contract, and we take this opportunity to provide detailed comments to you and your transaction advisory team regarding some comments we have as it was presented to us.

1.4 It is evident that your team has worked extensively in order to get to the phase of TVR III which shall assist the National PPP Unit in its approval process. This is a significant project and hence it is imperative that the relevant Treasury’s fully understand the risk associated with the project as regulated under this contract. This contract will not only be assessed by the Provincial Treasury but will also be read extensively within the National Treasury and this contract will hence form the basis of the procurement documents as well as TVR III approval and the contract that will be signed by the Private Party. This means that the contract must be as concise, comprehensive and accurate as possible in order to facilitate the regulation and managing of risks through this project.

1.5 In this letter we highlight our broad concerns about the contract as well as provide some detailed comments.

2. Legislative Requirement

2.2 The GPT has been requested as a mandatory requirement in line with Treasury Regulations pertaining to the PPP issued in alignment of the Municipal Finance Management Act, 2003 (MFMA) to comment and provide views and recommendations on the PPP agreement document for consideration prior finalising the document in question to ensure completeness.

2.3 This opinion examines the implementation of the project in line with the regulatory framework set for the implementation of municipal PPP’s. Key challenges and opportunities will be addressed and possible solutions suggested to ensure that the infrastructure for this project is provided in line with the municipal sector. The legislative framework contains complexities that may prove challenging to overcome if not expeditiously addressed. However, there has been a clear indication from the City that it will remain committed to the development of this Municipal PPP and are willing to consider effecting comments and make the required changes through this exercise.

3. Brief Project Background
3.1 The project has its beginning in the Munitoria fire of 3 March 1997 which among other effect led to fragmentation of the City’s governance and service delivery management structures into more than a dozen CBD office buildings that continue to hamper service delivery cost effectiveness.

3.2 After several attempts, it became clear that the City did not have either the capital budget capacity of the technical capacity to build and operate a state of the art new facility on its own; hence the City adopted a PPP model in its partnership with the Department of Trade and Industry (“DTI”) to build its new office accommodation.

3.3 The current Tshwane House Municipal HQ project was registered with National Treasury as a PPP, a step called the inception phase in December 2004, with the City then committed to a regulatory oversight process designed to ensure that the interests of the people of Tshwane would be sustainable served by the project in both the short and the long term.

3.4 In simple terms as set out in Section 120 of the MFMA, the project must demonstrate at each step that it will be affordable, provide value for money and that it will transfer appropriate risk to the private sector PPP partner who will not only design, build and operate the building, but will provide the upfront capital resources to build it.

3.5 The City will then pay the private partner and annual unitary payment that will both buy and furnish the building, and then operate it giving it back to the City in a new condition at the end of 27 years.

3.6 The scope of the project is the design, development, operation and maintenance of the office accommodation under a PPP arrangement.

4. Project Scope

4.1 The project officer was appointed in November 2004 and the project was registered in December 2004. The Transaction Advisor (“TA”) was appointed in June 2005.

4.2 The Treasury issued the TVR I in February 2006 and TVR IIA in September 2008.

4.3 The Request for Qualification (“RFQ”) pre-qualification was send to the bidders in September 2008 and the three bidders who responded were all prequalified. The Request for Proposal (“RFP”) closed in May 2009.

4.4 The City’s TVRIIB report and TVR application was submitted on the 18th March 2011 and approval was granted on the 4 April 2011.

4.5 The preferred bidder was announced on the 24th April 2011. The City is in negotiations with the preferred bidder for an early start of the project and has also started with formal negotiations for the concession agreement.

4.6 The City of Tshwane, National Treasury and the concessionaire Tsela Tshweu have agreed to set aside four months for achieving TVR III starting from 19 March 2012, with financial close to be achieved in November 2012, first draw down in December 2012.

5. City’s obligations:

5.1 The City of Tshwane Metropolitan Municipality (CoT) will be amongst others required to:

- Consider and approve all planning applications in terms of further anticipated development proposed by the private party;
- Provide guidance with regard to the provision of required infrastructure and agree on the responsibilities of each party with the private party;
- Ensure compliance with City’s bylaws and planning approvals;
- Maintain all public areas, traversing areas and areas directly related to the concessions; and
- Ensure all services that support the development that are the TCLM’s responsibility are provided as required;
- Ensure that the site is made available to the private party for development.

6. The Private Party’s obligations

6.1 The private party’s responsibilities in terms of this PPP concession will include:

- Performance of the services in accordance with the scope of work with all reasonable care, diligence and skill in accordance with generally accepted professional techniques and standards;
- Shall have no authority to relieve other service providers appointed by the municipality to undertake work or services on the project of any of their duties, obligations or responsibilities under their respective agreements or contracts unless expressly authorised by the municipality in response to an application by the Service Provider in writing to do so;
- Shall as a minimum and at its own cost take out and maintain in force all such insurances as are stipulated in the contract;
- Shall maintain the appropriate Workmen’s Compensation Insurance and annually provide the employer with a letter of Good Standing in respect of the Compensation for Occupational Injuries and Diseases Act, 1993;
- Shall obtain the municipality’s prior approval in writing before taking, inter alia, any of the following actions: (a) appointing a subcontractor(s) for the performance of any part of the services; (b) appointing key persons not listed by name in the contract; and (c) any other action that may be specified in the contract;
If the Service Provider is required to perform the services in co-operation with other service providers it may make recommendations to the municipality in respect of the appointment of such other service providers. The Service Provider shall, however, only be responsible for its own performance and the performance of subcontractors unless otherwise provided for;

- On becoming aware of any matter which will materially change or has changed the services the Private Party shall within 14 days thereof give notice to the municipality;
- Shall fully and in good faith co-operate with the municipality to fulfil its contract and performance management and monitoring duties and obligations;
- Shall put risk management processes in place to identify risks and inform the municipality thereof, continually evaluate and quantify risk probability and impact and ensure residual risks are well understood and insured;
- Shall implement sound financial management, accounting and record keeping practices; and
- Shall annually for the purpose of the annual performance monitoring review submit to the municipality a letter from its bankers to verify its financial good standing as well as a tax clearance certificate valid for at least six (6) months.
- Obtain all required approvals for further development;
- Meeting regularly with City of Tshwane officials; and
- Adhere to all City of Tshwane bylaws and requirements.

7. Compliance matters:

7.1 It’s evident that the municipality has complied with section 120 (6) (c) (i) of the MFMA and demonstrated the following in terms of section 4 (3) Municipal PPP Regulation:

- The terms and conditions of the draft PPP agreement comply with section 5 of the Municipal PPP Regulation. All assets acquired for the purpose of delivering the project must be included as project assets and shall be transferred as such to the Municipality when the project period expires;
- The City’s plan for the effective management of the PPP agreement after its conclusion comply with section 116 of the Act of the MFMA;
- The preferred bidder has capacity to enter into the PPP agreement and capacity to comply with the obligation in terms of the PPP agreement;
- It is noted that the private party is responsible for payments of insurance premiums due and payable in respect of any insurance and if the private party fails to maintain and keep it in full force, the City of Tshwane may pay any premium required to keep such Insurance in force and effect, or itself procure such insurance, to the extent that City has insurable interests, and may recover all premiums or other costs incurred by it in doing so from the private party on written demand;
- It is noted that the private party shall notify the City of any risk, against which insurance are required, it is important that the City enforce this part of the agreement;
- It has been noted that should any unforeseeable conduct occur which materially beneficially affects the general economic position of the private party, the private party shall pay, upon that benefit becoming available to the private party in the form of cash revenues, the value of such benefits to the City so that private party remains in the same economic position it would have been in had materially unforeseeable conduct not occurred;
- It is imperative that municipalities have strong project officers and contract management capability that is technically and commercially astute and self-motivated to ensure that this project succeeds.

8. Discussions

General comments:

8.1 The Municipal Systems Act (“MSA”) requirements concerning the procurement of services exacerbate the perception that it is quicker and easier to source the services from an internal municipal body or municipal staff, adding a legislative layer of resistance to PPP procurement. In some municipal sectors, the option of considering a PPP is seen as an indictment on the municipality’s own ability or capacity to produce the basic services required by the community that they are meant to be serving. It appears that the latter challenge has been overcome, however it is imperative that the contract strives to appreciate the benefits of risk transfer, value for money creation that is inherent in the provision of a public services through a PPP.

8.2 Provincial governments have a more streamlined process to procuring National Treasury funds in that once the PPP Unit approves a project and an allocation is made by National Treasury, it is linked to future allocation for that specific PPP. Municipalities rely on Treasury allocations through conditional shares or equitable grants, which are specific government allocations designed to uplift municipalities and their communities and more discrete and once of in nature. They also rely on municipal tax revenues or fees collected directly from users of basic services e.g. water and electricity and hence they need to collect these efficiently to secure revenue fund raising on the back of their debtor books. This contributes to the municipality’s inability to build a good debtor book and they are sometimes perceived to be credit risk when they approach financial institutions for funding of a PPP. Has the project been forced to adept at securing external support form credit guarantees or other credit enhancing facilities form development banks?

8.3 There is also a considerable amount of mistrust of PPP’s amongst some sectors of the municipal community, which perceive PPP’s as a form of privatisation of state-owned assets. Labour unions have a fundamental ideological opposition to PPP’s viewing them as a threat to job creation, which remain one of South Africa’s biggest challenges, with unemployment at approximately 26%. Labour concerns are often specifically addressed in a PPP during procurement by making specific proposal evaluation points available for skills transfer and job creation. It is vital that the project also introduce such a scoring system in order to allay such fears.
8.4 In a project of such nature the funding of specialist teams to work with municipal agencies or bodies to drive PPP’s to financial closure is a necessity.

8.5 Under this fixed price contract we assume that the contract can only be changed upon the execution of a change or variation order as regulated, under which the private party and COJ agree for the private party to perform additional work that falls outside the scope of the original work for an agreed upon extra compensation. The contract however omits to regulate a situation where certain work may be removed from the original scope of work and to reduce the price of the contract in proportion to the work that the private party no longer perform. We should also guard against the private party’s attempt to increase the contract price through using the issuance of change orders for the performance of additional work that is arguably not part of the original scope of work.

8.6 The benefit of a fixed price contract is that the private party’s costs are more predictable. The cost will be capped by the contract price, so long as no change orders are issued, the contract is however not clear on how a dispute around a change order will be managed. It is advisable that a shorter dispute resolution clause is anticipated under these circumstances in order to prevent a too long delay on the project.

Specific comments:

8.7 Clause 3: “Commencement and Duration”: We assume that the commencement and signature date is regarded as the effective date – position is not clear kindly clarify. Also we assume that the early works will have a long stop date – kindly define.

Clause 6: refers to the first and second party – it will be helpful to define your reference to parties in your heading or definition clause in the beginning of the document. The contract then refers to Private Party and COJ. Kindly clarify which terms are applicable in the contract. This would ease reference to the relevant parties.

Clause 7: let’s be consistent through the document when referring to the two parties in the contract - are we talking about the first and second party or are we talking about the private party and COT – kindly correct.

Clause 14.1.1: Rather refer to positions in COT than names, as people changes constantly. If positions are included, it would not necessitate any changes to the contract should there be a change in a specific person. An addendum to the contract can also be useful when changes occur, as then you only need to change the addendum and not the contract. Same applies for clause 14.2.

Clause 16.1: When referring to land use terms – you may have different terms pertaining to early works – should that be specified?

Clause 31.2: Reference to 5 business days seems a bit short for the Private Party to remedy the breach – we recommend 10 Business Days. Also note that “business Days” is defined incorrectly – must be in capital’s. Bring in line with Clause 31.4.

Clause 36.2.3: the Private Party is obliged in terms of new legislation to keep and archive documents – the period refer to here as 5 years are incorrect. The latter is the Private Party’s responsibility and I am not sure if that may be passed along to the Public Sector.

9. Conclusion

The Gauteng Provincial PPP Unit is committed to assisting the City of Tshwane in this project and we hope you find our comments of assistance to you. We further appreciated the meeting we had with Mr Peter Aborn (Project Officer) on this project to discuss and clarify the points raised in this document.

We further need to acknowledge and express our appreciation for the good level of work and the professional commitment shown in this project and hence we wish you all the success in executing the final project handover.

Please be assured that we are committed to assisting you in this project towards a successful implementation.

Yours Faithfully

____________________________________
Mr Jeff Mashele
DDG: Sustainable Resource Management
Gauteng Provincial Treasury
Date:
Tshwane House

Comments provided on “New Municipal Headquarters PPP”

New or Adjusted closing date for comments: 5 May 2014

E-mail: leonardma@tshwane.gov.za

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Document compiled by: Nico Bruwer

e-mail: bruwer.nico@gmail.com
1. **Introduction**

Basically the City of Tshwane (COT) as the Public Authority, will enter into a PPP Agreement with the [Concessionaire Company] (Pty) Ltd, a SPV of Tsela Tshweu Consortium to design, build, finance and manage the new head office.

The proposed payment mechanism for the provision of accommodation and related services by the Private Party will be an annual unitary fee subject to the Private Party achieving specified performance standards. The Unitary Payment will be budgeted for by the COT.

When viewing the documentation presented, one was disappointed. After that initial disappointment, it was decided to submit at least an input with the objective, that the manner in which this process is performed, is not considered appropriate and acceptable.

Therefore, the comments may be interpreted as harsh, but if that is what is required, it has to be done.

One of the value statements of the COT in its Audited AFS for 2012 is to ignite transparency and be part of the City that is open, accountable and TRANSPARENT. At this stage I have almost completed this document and cannot but conclude that is nothing more than a politically expedient statement, some distance remove from reality, when viewing how this PPP process was handled as well as taxpayers in this regard.

These comments are provided, and due to the limited information base with regard to important aspects, it was considered appropriate to highlight the issues regarded as important from a taxpayer (Resident perspective).

When one considers the information at your disposal, to think that the process is regarded as one aiming to obtain sensible inputs for a major project of this nature from the public. If this was indeed the objective, and a serious consideration, the following remarks contained in the guide document is immediately bringing one back to reality on how these aspects are currently performed in the RSA in teh Public Sector, supposed to be accountable and transparent when inviting comments.

“In respect to the above, two reports must be prepared and submitted to National Treasury as required by the PPP regulatory oversight process.

1. The first is the MFMA Section 33 Report
2. The second is the TVR3 Report (Treasury Views and Recommendations No. 3).

Neither of these reports, as such, is subject to public comment.”
In addition the following comments are highlighted from the guide page 4:

“Notwithstanding that the MFMA Section 33 and TVR3 reports, though not subject to public comment, and not yet compiled, the City has elected to provide indicative information within the report formats of these two reports, or to provide descriptions of what the various sections of these two reports will contain, in the public interest.

Information in the final reports may vary or be more extensive.

All of the above is provided to enable you to articulate your comments on the Draft Tshwane House PPP Agreement which you are hereby invited to comment upon in compliance with the provisions of Section 33 of the Municipal Finance Management Act.”

These comments are actually saying that we as COT will decide what is relevant and what we provide to enable you, the public to provide comments.

“
This is why the SANRAL e-tolling project is such a mess. The public, responsible for paying, although in theory consulted will be invited for comment, it will be subject to what the specific public authority (In this case the COT) regards as relevant and not what is sensible. It is not at all a transparent process based on the transparency line followed.

2. Public Participation and comments

Relevant aspect will be quoted from the various acts, etc to provide the basis for what in my opinion is a contentious issue, which has to be resolved. The reality is that the public sector approach seems to be to limit information, even where it is directly, affecting taxpayers, for their own benefit to avoid being properly accountable or being subject to difficult and/or contentious issues being out in the open.

The main argument is confidentiality. In my view public sector should be transparent. If you really experience a challenge in this regard, it should be possible to provide sufficient information, or follow other routes for those people in the community trying to comment on a document such as this.

The lack of this aspect should be hopefully clear from what follows:

The Constitution of the Republic of South Africa
The Constitution in Chapter 3 clause 41(1)(c) states as a principle that co-operative Government implies “to provide effective, transparent, accountable and coherent government for the Republic as a whole”

Chapter 10 clause 195(1)(g) states that “Transparency must be fostered by providing the public with timely, accessible and accurate information”.

**Extracts from the:**

**Municipal Finance Management Act**

**Contracts having future budgetary implications**

“33. (1) A municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if—

(a) the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved—

(i) has, in accordance with section 21A of the Municipal Systems Act—

(aa) made public the draft contract and an information statement summarising the municipality's obligations in terms of the proposed contract; and

(bb) invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and

(ii) has solicited the views and recommendations of—

(aa) the National Treasury and the relevant provincial treasury;

(bb) the national department responsible for local government; and

(cc) if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national department;

(b) the municipal council has taken into account—

(i) the municipality’s projected financial obligations in terms of the proposed contract for each financial year covered by the contract;

(ii) the impact of those financial obligations on the municipality’s future municipal tariffs and revenue;

(iii) any comments or representations on the proposed contract received from the local community and other interested persons; and…”

**Part 2: Public-private partnerships**
Conditions and process for public-private partnerships

120. (1) A municipality may enter into a public-private partnership agreement, but only if the municipality can demonstrate that the agreement will—
(a) provide value for money to the municipality;
(b) be affordable for the municipality; and
(c) transfer appropriate technical, operational and financial risk to the private party.

(2) A public-private partnership agreement must comply with any prescribed regulatory framework for public-private partnerships.
(3) If the public-private partnership involves the provision of a municipal service, Chapter 8 of the Municipal Systems Act must also be complied with.
(4) Before a public-private partnership is concluded, the municipality must conduct a feasibility study that—
(a) explains the strategic and operational benefits of the public-private partnership for the municipality in terms of its objectives;
(b) describes in specific terms—
(i) the nature of the private party’s role in the public-private partnership;
(ii) the extent to which this role, both legally and by nature, can be performed by a private party; and
(iii) how the proposed agreement will—
(aa) provide value for money to the municipality;
(bb) be affordable for the municipality;
(cc) transfer appropriate technical, operational and financial risks to the private party; and
(dd) impact on the municipality’s revenue flows and its current and future budgets;
(c) takes into account all relevant information; and
(d) explains the capacity of the municipality to effectively monitor, manage and enforce the agreement.

(5) The national government may assist municipalities in carrying out and assessing feasibility studies referred to in subsection (4).

(6) When a feasibility study has been completed, the accounting officer of the municipality must—
(a) submit the report on the feasibility study together with all other relevant documents to the council for a decision, in principle, on whether the municipality should continue with the proposed public-private partnership;

(b) at least 60 days prior to the meeting of the council at which the matter is to be considered, in accordance with section 21A of the Municipal Systems Act—
(i) make public particulars of the proposed public-private partnership, including the report on the feasibility study; and
(ii) invite the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed public-private partnership; and

(c) solicit the views and recommendations of—
(i) the National Treasury;
(ii) the national department responsible for local government;
(iii) if the public-private partnership involves the provision of water, sanitation, electricity or any other service as may be prescribed, the responsible national department; and
(iv) any other national or provincial organ of state as may be prescribed

**Municipal Systems Amendment Act**

“21A. Documents to be made public

(1) **All documents** that must be made public by a municipality in terms of a requirement of this Act, the Municipal Finance Management Act or other applicable legislation, must be conveyed to the local community -

(a) by displaying the documents at the municipality's head and satellite offices and libraries;

(b) by displaying the documents on the municipality's official website, if the municipality has a website as envisaged by section 21B; and

(c) by notifying the local community, in accordance with section 21, of the place, including the website address, where detailed particulars concerning the documents can be obtained.

(2) If appropriate, any notification in terms of subsection (1) (c) must invite the local community to submit written comments or representations to the municipality in respect of the relevant documents.

(Section 21A inserted by section 5 of Act 44 of 2003)

21B. Official website

(1) Each municipality must-

(a) establish its own official website if the municipality decides that it is affordable; and

(b) place on that official website information required to be made public in terms of this Act and the Municipal Finance Management Act.

(2) If a municipality decides that it is not affordable for it to establish its own official website, it must provide the information in terms of legislation referred to in subsection
(1)(b) for display on an organised local government website sponsored or facilitated by the National Treasury.

(3) The municipal manager must maintain and regularly update the municipality's official website, if in existence, or provide the relevant information as required by subsection (2).
(Section 21B inserted by section 5 of Act 44 of 2003)

3. General aspects

Reading through the “Guide to Understanding the Public Comment Process” the following aspects were considered relevant and require clarity:

3.1 Page 5: “The Tshwane House PPP Agreement and Schedules will remain in developing draft form until full and final action by the Council of the City at a formal meeting open to the public approving the final draft of the proposed PPP agreement between the City of Tshwane and Tsela Tshweu Consortium.”

Does this imply once this “final draft” document is approved there cannot be any adjustments?

3.2 Page 6: With no substantive information at our disposal as public, in terms of section 120, how are you satisfying the requirement that contained in section 120 that this PPP:

1. “Provide value for money to the municipality”
2. “Be affordable for the municipality; and”
3. “Transfer appropriate technical, operational and financial risk to the private party”, that is the City’s PPP partner.”

Based on the information at my disposal, it is not possible to make these statements, and conclude “It is on this basis that the Tshwane House PPP Agreement is being brought to Council for its final approval.”

Please elaborate on this, as what will be submitted to council that is different from the documentation that we had. If indeed there was a difference what would the Council have different to us “at a formal meeting open to the public.”

Please specify how you satisfied compliance on this aspect, and whether in your view you met the compliance level required, especially in the light of section 120 clauses 4 to 6. I was not privy to any feasibility study.
4. In addition, was the same information provided to Provincial Treasury and the Department of Cooperative Government and Traditional Affairs, and if additional information was provided to them, why not also to the taxpaying public.

3.3 Page 7: MFMA Section 33 report

Extract from you Guide document:

“A spread sheet produced by the project’s financial advisor indicating the direct financial obligations of the City over the 25 year portion of the 27 year PPP will be provided with the formal Section 33 report to National Treasury.”

In my view you have limited and did not properly comply with section 33 of the MFMA and in addition section 21A of the MSA. Why could you not provide the same information to the public as that required by National Treasury. We are footing the bill for this and are actually paying for this. Why should we not be privy to these aspects, because even the word “summarizing” implies something different to what you have provided to the public. It is unfortunate that public institutions in my view grossly abuse interpretations to hide the real impact and run the risk to be accountable. When one acts in the spirit of what is required, and is reasonable and transparent, in your processes, this challenge does not really occur.

3.4 Risks elements: There was no indication that could be detected on how risk during “Design and Construction” and the operations period were appraised. The risks during the first 2 years of construction are substantially different from that of the 25 years of operations.

Please provide information as to how this assessment was performed and how it was dealt with in the Agreements.

3.5 Page 8: Year to Year obligations of the City

Extract from Guide document:

“As part of the latter, the life cycle replacement costs of the project throughout the term of the PPP are such that the building will be in as new condition, with in addition an additional five years of life beyond expiry of the PPP agreement.”
Moveable assets such as furniture including seating will also have been managed on a live cycle refresh basis, including replacement as needed.

The Tshwane House building complex, on hand back to the City at the end of 27 years will have no deferred maintenance burdens, and a renewed life cycle extending for five years beyond expiry of the PPP, as a capital asset of the City.

The extra five years of life cycle beyond expiry of the PPP represent a value for money benefit in respect of the future going forward to the 2055 horizon, which is the overarching goal of the Tshwane House project.

It is difficult based on the information at our disposal to understand how such a statement can be made, as some costs will still have to be incurred and in addition it implies that the COT will manage it the additional 5 years, or are we obtaining this management in the additional 5 years free. How is it possible that the building will be in “as new condition” but will only last an additional 5 years? Furthermore, how have you satisfied the requirement that this represents “value for money benefit”. My view is that this cannot be in itself regarded as a value for money benefit.

In addition, the replacement cycles of movable assets are not clear, as well as how provision was made for this in the financial or feasibility model.

3.6 Page 8: Impact of those obligations on the City’s Future Tariffs and Revenue.

Comparing this project and stating inter alia that it would “be less onerous to the City’s citizens and rate payers than if the City continued under its current operating practices in respect of serviced accommodation in the City’s current buildings, leased or owned.”

In my view this argument is flawed, as this is not comparing apples with apples. The following paragraph on fragmentation strengthens this view. This rather points to the inefficiency and/or inability of the COT to properly plan a new building and implementing it.

The statement “The City intends that the PPP should be not just budget neutral, but should rather be budget impact positive” is not proven in the documentation at my disposal and I would appreciate to understand, based on the information provided this conclusion could be reached.

3.7 Page 9: Impact of those obligations on the City’s Future Tariffs and Revenue.

Extract from the Guide document:
“The Section 33 Report to National Treasury must establish that the PPP procurement model is the best option for Tshwane House in both measurable cash flow terms, and in year to year budget terms as compared to year to year budget terms on a business as usual basis in mainly leased facilities in the CBD, and some owned facilities including Sammy Marks, also taking account of productivity improvements.”

In support of the above argument COT states that this is supported by a cost benefit study produced by an “Independent Value for Money Assessor.”

Why could the public (Taxpayers) of the COT not have access to such documents and if we can have access why was it not provided?

The statement “as compared to year to year budget terms on a business as usual basis in mainly leased facilities in the CBD, and some owned facilities including Sammy Marks” actually does not make sense. Apart from confusing, it is not clear how this was performed by comparing something, which is not optimal, with the only conclusion that it is due to “incapacity” of the COT.

In addition, the comparison with leased facilities is not appropriate as there are much more to it although this is your interpretation. Again it is submitted that this is not comparing apples with apples but rather trying to prove the argument in favour of the PPP.

The only argument that could be understood to some extent is the less favourable risk profile, which is assuming certain assumptions, that cannot be proven all at present.

3.8 Page 9: TVR3 Report

Extract from the Guide document:

“The Independent Value for Money Assessor Report effectively constitutes the City’s sources of funding model for the Tshwane House PPP.

This study will underpin further discussion in the Affordability Section of the separate TVR3 Report to be submitted to Treasury after the close of the public comment period.
The Tshwane House PPP is and has been from the outset a means to achieve consolidation and cost benefit optimization of serviced accommodation in originally 13 named buildings housing approximately 2400 staff at project commencement end 2005.”

This whole section is not discussed somewhere in the documentation understand it. What is very confusing is that the COT has much more staff and it seems as if the whole PPP argument is based on 2 400 staff. This statement is not supported by a proper analysis.

3.9 Page 10: Significant asset

Extract from the Guide document:

The statement that the independent report referred to above, “will show that the PPP on expiration after 27 years will provide the City with a nearly as new, state of the art municipal HQ building complex with a projected capital asset value of R650 million or more.”

Please note the report was already compiled, and therefore should already “proof” this. How this value of R650 million was derived is not at all clear and is questionable as it may be the residual value, as it cannot be the original or even replacement value. The main question is whether the value of the land is included in this calculation as 27 years into the future, with discount rates, should not necessarily be regarded as significant for a project of this magnitude. More substance in this argument is required.

3.10 Page 10: TVR3 Report

Extract from the Guide document:

The annexure’s added to the Value for Money section to National Treasury (NT), not at our disposal, such as:

“Annexure 1- Certification of Compliance with Section 21A of the Municipal Systems Act
Annexure 2- Register of Public Comments and Representations
Annexure 3- Copy of the TVR3 Report

Annexure 4- Spread Sheets Showing Obligations as Year to Year Unitary Payments
Annexure 5- Report of the Independent Value for Money Assessor”

This is not available, so it is again a statement with no substance. This approach by the current public sector representatives, leaves much to be desired. As in reality the taxpayers of the COT, are “deliberately” ignored, and If there was no NT oversight, then one cannot but wonder what would transpire with PPP projects. This is what is so
disappointing about these aspects. I am sure there is expertise in the with the citizens of the COT, but it is not perceived that it is valued, due maybe to political and other views.

3.11 Page 11: TVR3 Report (indicative form and content)

Extract from the Guide document:

“In the interest of enabling informed public comment, the City has provided information in sections of the indicative TVR3 report below without prejudice to the TVR3 process as such.

The information officially submitted to Treasury in its TVR3 Report, may vary from, or be more extensive than the information below.”

Albeit disappointed by the approach of the COT, to make a statement such as “In the interest of enabling informed public comment” bordering on excessive arrogance, as this is not supported by the documentation provided. It is in fact regarded as derogative remark, to state that we will provide you with what we deem fit for your deliberations. If this is the approach the COT is following, one cannot but question all the actions not properly disclosed, to their taxpayer base.

3.12 Page 11: Project background

When you read that “The genesis of the project was the March 3rd 1997” it raises serious questions as to the ability of the COT’s competence to govern a city of this magnitude. Only 17 years after this event did we see something where they are trying to rectify the situation.

The whole project background can only lead one to a conclusion that to trust the COT with managing a city of this magnitude, should be seriously questioned. The only positive was the appointment of a project Officer, albeit long overdue. However, viewing the process to date one cannot but doubt the commitment of political leadership and others as to bringing this “project” to fruition.

Against the above one cannot but question the rationale behind this project. The only aspect favouring this seems from the overview to be the risk that COT cannot manage
these aspects efficiently and therefore it may the only option, albeit probably expensive, and not the best solution.

Looking at Project Phoenix, and the statements in the report, about the affordability, of this project in “capital budgetary” terms, one cannot but seriously doubt the wisdom of the COT councilors or executives.

The question that arises is how much cost have been incurred and actually wasted as a result of all these aspects?

3.13 Page 16: Aims of the Project

One cannot but question the following statement, extracted from the Guide document”

“The project, finally, will be a visible symbol and proof of the City’s two guiding compass points: Building an African Capital City of Excellence and, complementing this, demonstrating its new motto, Igniting Excellence.”

The above is in my view not supported by the facts of how this PPP came about, and one should rather refrain from making these statements, and based on the track record and the current background to date. All that can be concluded is that incapacity is or was much higher than even I anticipated, although I was suspicious much earlier for other reasons. Unfortunately, it is global phenomenon to make statements for political expedience, which is not supported by the facts.

3.14 Page 17: Why the Project was Procured as a PPP

All of the CFO’s of the COT declared since 2006 the City did not have the capital budget capacity to fund such a massive project on an own resources basis.

Extract from Guide Document.

“The total net present value cost of the project is expected be comfortably below the high side cost of R2bn reported to the press by the City’s Executive Mayor.”

The word expected makes a huge difference and implies no certainty but as this is not elaborated on it is difficult to judge this statement. In addition, to say it i9s of academic
interest whether the City can handle a project of this magnitude now is also unfortunate, especially against the background of what transpired so far.

This aspect will be touched on later with the unitary fee.

**3.15 Page 19: Affordability**

The questions on why we are not afforded the opportunity as taxpayers, to be provided with more information to make a sensible judgement, still remains.

The statement that "As a stipulated cap by Council, the affordability threshold was established in 2006 terms at R117m/ as an annual PPP Agreement payment escalating at CPIX, now CPI."

The new figure mentioned as R183 million implies a yield of approximately 5.75% annually (8 years 2006 to Jan 2014). The question that arises is how this figure was determined.

In a figure of approximately R17.74 billion per Audited AFS for 2012, this is approximately 1%, and not regarded as significant on its own. This should be smaller in the 2014 financial year.

If this is affordable now it is questionable why this figure is acceptable, without knowing the figure at financial, close it raises serious questions as to how the COT is performing its function.

**3.16 Page 21: Pass Through Costs**

The statement that "These costs including electric and water bills are paid as such outside of unitary on the basis that the PPP partner does not have control of these costs" highlight certain aspects.

The question is what is actually what is the annual total cost, even if one can estimate only year 1 at this stage.
Again one is confronted with what are the actual calculations and risks. It makes sense from the private Party’s point of view, as municipal increases have not been in line with inflation. This is also a reflection on the country as a whole regarding administrative pricing.

3.17 Page 22: Aspects mentioned from page 21 onwards

To provide sensible comments is difficult, as the TVR3 Report will only be available to NT AND NOT TAXPAYERS. This makes one wonder about what is contained in that report.

3.18 Page 24: Contingent Liabilities

The statements on this page:

“The impact in such event, however unlikely, could be onerous.

Such an event is roughly equivalent to the impact on a normal facility in the event of acceleration of a debt, such as a bond, with the entire remaining unpaid debt due and payable immediately on default.

A normal citizen might lose her home in such circumstance.”

The question is what preventative measures are in place to prevent or handle such an occurrence? How are these risks monitored and managed as it requires a prudent and experienced to detect early warning signals.

This aspect goes against all arguments on the PPP as the Public Sector is not well known for handling these events?

3.19 Page 25: City’s Capacity to manage the PPP Agreement

The statement which raises serious red lights is “The City has effectively no current capacity to manage the PPP Agreement, though it does have on board an empowerment candidate to be mentored and trained as a member of an overall PPP Project Management Unit.”
Given the background so far and considering the complexity of managing a PPP Agreement, it is not at all understandable, that in terms of the risk associated with this, especially against the previous statements, that the city “does have on board an empowerment candidate.” This defies all logic as with the risks associated with this aspect that the COT in line with general trends at present in this country, does not aim to obtain the best possible candidate but view it as an empowerment position.

If this does go wrong the legacy of the current Council and executive Management will all be seriously impacted. The trend however in this country of us, is that everything is acceptable, and the COT will not be unique if this is how they handle this risk.

3.20 Page 26: Conclusion Reached

This whole document should raise serious doubt on many aspects, and the manner in which aspects have been handled to date, does not instill trust in obtaining a favourable recommendation from NT to proceed.

3.21 Credit Assessment, etc of all the private parties

It is imperative that a credit assessment be performed of all the beneficial ownership contained in the Private Party to ensure they contribute into equity, the loan portfolio, performance bonds (especially during D&C).

All these parties should add the following:
- Have money at risk to ensure they cannot walk away
- Add value to the overall project.

3.22 BBBEE (Schedule 9)
This is a contentious issue but cannot be avoided as this is not regarded normal in a global context. The number of pages contained in documentation relating to this aspect is cumbersome, and apart from monitoring should have serious risk elements attached to it. Is there no simpler way of defining these requirements as it must have an impact on price

3.23 Schedule 5

Point 7.1.2 Shares owned by black people equals or exceed 25%
Point 7.1.3 (a) Construction Subcontract: Voting 50% of exercisable voting rights
Point 7.1.3 (b) Operations Subcontract: Voting 55% of exercisable voting rights
This aspect does not make that the main contractor should take the risk ito Clause 7.2 of the PPP Agreement but the other parties seems to have more voting power, increasing the risk and it will be a surprise if this is not priced for.

3.24 Schedule 5: Annexure 5

Percentages do not make sense.

3.25 Annexure 13

It is to me sad to see that employment is totally race based, although we want to move away from it. It is actually not considered legal anymore.
It is time that we emphasize race less and attempt to foster the ubuntu spirit.

3.26 Insurance of Munitoria

Was Munitoria not insured?
If so did the insurers paid an amount for the fire, and what happened to that money?
3.27 Socio economic development plan

In my view it is not appropriate to make this part of the PPP. Training and development of skills are understandable.

This aspect should be part of the main budget of the COT as we all know that it is imperative but making it part of a PPP project does not adhere to principles when commercial activities price in these sort of aspects.

4. Specific aspects

Although a lot of questions were already raised under the previous section, this section will raise certain aspects regarded as important, and not pertinently covered in the other documentation.

The financial appraisal should assess the project as a whole. A financially feasible project will be able to service senior debt, and the empowerment equity loans. Below is some aspects that should have been attended too.

4.1 Credit rating of COT:

Central to this PPP project is the ability of COT to pay the unitary fee and the ability and capacity of the private party to perform in accordance with the concession agreement.

What guarantees, etc are in place to ensure these aspects?

4.2 Financial overview of the project

Since the initial submissions the cost of the project increased substantially if the unitary fee is a guiding sign. This is however not unexpected as the original estimates were based on rough assumptions. As project demands were refined, the project cost also increased. The viability is linked to the unitary fee paid by the COT and therefore, although the construction cost increased substantially, the crucial aspect is recovery of all costs through this fee. The table below summarises some of the key variables that should be part of the bid offered by the preferred bidder.

Whether this is indeed the case for this project is uncertain.
The assumptions in the financial model are regarded as critical for any project relating to project finance issues. The reasoning behind each assumption is of utmost importance. The table below is an indicative element.

**Assumptions in Financial Model**

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concession Period (yrs)</td>
<td>27</td>
</tr>
<tr>
<td>CPI (Unitary Fees, Local Opex, Capex)</td>
<td>6.0%?</td>
</tr>
<tr>
<td>Foreign Inflation (Foreign Opex)</td>
<td>2.0%</td>
</tr>
<tr>
<td>R/$ Spot at Financial Close</td>
<td>11.00?</td>
</tr>
<tr>
<td>R/$ Annual Depreciation (% increment / decrement over current forward curve)</td>
<td>0.0%</td>
</tr>
<tr>
<td>CPI Senior Debt (% of Total Funding)</td>
<td>?</td>
</tr>
<tr>
<td>Fixed Senior Debt (% of Total Funding)</td>
<td>?</td>
</tr>
<tr>
<td>CPI Senior Debt All-in Base Rate</td>
<td>?</td>
</tr>
<tr>
<td>CPI Senior Debt Net Margin</td>
<td>1.50%?</td>
</tr>
<tr>
<td>Fixed Senior Debt All-in Base Rate</td>
<td>8.0%</td>
</tr>
<tr>
<td>Fixed Senior Debt Net Margin</td>
<td>1.50%?</td>
</tr>
<tr>
<td>Senior Debt Interest and Capital Grace (months)</td>
<td>24</td>
</tr>
<tr>
<td># of Senior Debt Repayments</td>
<td>?</td>
</tr>
<tr>
<td>Senior Debt - Estimated Repayment Date</td>
<td>31-Mar-55?</td>
</tr>
<tr>
<td>Senior Sculpting Ratio (First 10 yrs)</td>
<td>?</td>
</tr>
<tr>
<td>Senior Sculpting Ratio (Yr 11+)</td>
<td>?</td>
</tr>
<tr>
<td>Senior + MRA Sculpting Ratio (First 10 yrs)</td>
<td>?</td>
</tr>
<tr>
<td>Senior + MRA Sculpting Ratio (Yr 11+)</td>
<td>?</td>
</tr>
<tr>
<td>Minimum Size of DSRA account (R'000)</td>
<td>?</td>
</tr>
</tbody>
</table>
### Table

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S/holder Loans (% of Equity)</td>
<td>?</td>
</tr>
<tr>
<td>Interest Rate on S/holder Loans (Nominal % p.a.)</td>
<td>16.0%</td>
</tr>
<tr>
<td>Drawdown Profile (0 = Input; 1 = Pro-rata)</td>
<td>0</td>
</tr>
<tr>
<td>Construction Period (Final Completion) - months</td>
<td>?</td>
</tr>
<tr>
<td>Net Unitary Payment (R'000 - January 2014 terms)</td>
<td>R 183m</td>
</tr>
<tr>
<td>Extra UF Fee (Upfront %)</td>
<td>?</td>
</tr>
<tr>
<td>Unitary P'met Escalation in April 05 (0 = No; 1 = Yes)</td>
<td>0</td>
</tr>
<tr>
<td>Opex Escalation method (0 = No benchmarking; 1 = 5yrs; 2 = 8yrs)</td>
<td>0</td>
</tr>
<tr>
<td>MRA Req'd (0 = No; 1 = Yes)</td>
<td>1</td>
</tr>
<tr>
<td>MRA Funded up-front (R'000)</td>
<td>0</td>
</tr>
<tr>
<td>Date of up-front MRA Funding</td>
<td>Mar-15?</td>
</tr>
<tr>
<td>Maximum transfer from MRA (R'000)</td>
<td>?</td>
</tr>
<tr>
<td>Tax Rate (yr 1 to 5)</td>
<td>?</td>
</tr>
</tbody>
</table>

### 4.3 Funding and application of sources

It is imperative to understand the funding structure as well as how the funding is applied. For instance the equity contribution is 10%, whilst debt funding is 90%. Although this structure has a high-gearing, it is typical of national government
accommodation projects. The cash flow stream is the important factor as this determines the viability of the project. Below is an example.

### Source and Application of Funds

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>R'000</th>
<th>APPLICATION</th>
<th>R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>100</td>
<td>D&amp;C Capex</td>
<td>920 000</td>
</tr>
<tr>
<td>Shareholder loans</td>
<td>99 900</td>
<td>Up-front Costs</td>
<td>50 000</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>900 000</td>
<td>Funded DSRA</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Input VAT Financed</td>
<td>10 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 000 000</strong></td>
<td><strong>Total</strong></td>
<td><strong>1 000 000</strong></td>
</tr>
</tbody>
</table>

### Capital Structure

<table>
<thead>
<tr>
<th>FUNDING SOURCE</th>
<th>(R'000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>100</td>
<td>0.1%</td>
</tr>
<tr>
<td>Shareholder loans</td>
<td>99 900</td>
<td>9.9%</td>
</tr>
<tr>
<td><strong>Total shareholder funding</strong></td>
<td><strong>100 000</strong></td>
<td><strong>10.0%</strong></td>
</tr>
<tr>
<td>Senior Debt</td>
<td>900 000</td>
<td>90.0%</td>
</tr>
<tr>
<td><strong>Total Funding required</strong></td>
<td><strong>1 000 000</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

### 4.4 Overview of returns – Results from the Financial Model

#### 4.4.1 Unitary payment NPV calculation

For comparison purposes, the NPV of the Unitary Payment has been computed using the discount rates specified by the COT in the RFP. The Unitary Payment flows discounted at the real and nominal rates are summarised below:
The NPV of the Unitary payment or fee, is the present value of the total nominal value of the unitary fee of \(?\) billion discounted back to present value.

After all Senior loans have been repaid in 2055, the cash available for shareholders jumps from \(?\) million to \(?\) million. This is typical of PPP projects of this nature.

4.4.1.1 Financial ratios

The bid has been optimised by sculpting real repayments in conjunction with transfers to the Maintenance Reserve Account (“MRA”) to produce a flat DSCR at the requisite levels. The ratio levels are derived as outputs from comprehensive and detailed sensitivity analyses.

The Base Case Financial Model (Variant) Ratios are summarised in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
<th>Yr 5</th>
<th>Yr 10</th>
<th>Yr 15</th>
<th>Yr 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSCR(^1) (excl cash)</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
</tr>
<tr>
<td>DSCR (excl cash, before MRA transfers)</td>
<td>1.24</td>
<td>1.24</td>
<td>1.24</td>
<td>1.24</td>
<td>1.24</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td>LLCR(^2)</td>
<td>1.15</td>
<td>1.15</td>
<td>1.16</td>
<td>1.16</td>
<td>1.16</td>
<td>1.17</td>
<td>1.19</td>
<td>1.50</td>
</tr>
<tr>
<td>PLCR(^3)</td>
<td>1.25</td>
<td>1.26</td>
<td>1.27</td>
<td>1.28</td>
<td>1.29</td>
<td>1.40</td>
<td>1.71</td>
<td>5.17</td>
</tr>
</tbody>
</table>

| Project IRR (pre tax) – real | ? |

---

\(^1\) DSCR: Debt Service Cover Ratio  
\(^2\) LLCR: Loan Life Cover Ratio  
\(^3\) PLCR: Project Life Cover Ratio
4.4.1.2 Ongoing Capex

The project allows for ? m of asset replacement costs over the concession period. With this amount of ongoing capex commitment the team is confident that this will ensure that the assets will be handed back to the COT in a sound condition (excluding reasonable wear and tear).

4.4.1.3 Sensitivities related to the Unitary fee

The project revenue is reflected in the unitary fee, a crucial element in the viability of the project. Some of the more important risks include tax risk in a high inflation environment and the challenge of inflation, forex risk, etc.:

- The project as structured is positively correlated with the inflation rate. Therefore, if actual inflation exceeds the level that is assumed in the base case, more cash is generated over the period of the concession and the project becomes more robust in substance. This is demonstrated by the increasing shareholder IRR under higher inflation scenarios.

- However, it is recognised that the improved project economics may result in the timing of certain income tax payments being brought forward under higher inflation scenarios. These circumstances were examined by the Private Party and its Lenders in the process of securing a fully underwritten financial structure.

- In particular, Lenders became comfortable with these scenarios by comparing the cash shortfall with the debt service reserve account balance prevailing immediately prior to any such shortfall arising. Importantly, the cash in the debt service reserve account is fully secured and controlled by the Lenders and intended to deal with temporary cash shortfalls of this nature. Once the debt

<p>| | |</p>
<table>
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</thead>
<tbody>
<tr>
<td>Project IRR (pre tax) – nominal</td>
<td>?</td>
</tr>
<tr>
<td>Project IRR (post tax) – real</td>
<td>?</td>
</tr>
<tr>
<td>Project IRR (post tax) – nominal</td>
<td>?</td>
</tr>
<tr>
<td>Shareholder IRR (post tax) – real</td>
<td>?</td>
</tr>
<tr>
<td>Shareholder IRR (post tax) – nominal</td>
<td>?</td>
</tr>
</tbody>
</table>
service reserve account has been utilised, Sponsor is required to refill it in accordance with the agreed cashflow waterfall.

The table below details the base case position (CPI of 5% throughout), a 6.5% CPI scenario (as per the COT example), as well as a 9% CPI scenario in order to provide additional comfort.

4.4.1.4 Building cost

The total Design & Construction Cost amounts to ?, which includes app. ? million professional fees, i.e. ? which compares favourably to the average ? normally applicable for multi-disciplinary professional teams. Escalation and contingencies have been built into the construction costs.

The unit costs per functional area are presented in the table below:

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>AREA</th>
<th>NET BUILDING COST/m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIP</td>
<td>15,845 m²</td>
<td>R 9,167/m²</td>
</tr>
<tr>
<td>Offices in core</td>
<td>18,000 m²</td>
<td>R 5,542/m²</td>
</tr>
<tr>
<td>Offices #2</td>
<td>16,200 m²</td>
<td>R 5,585/m²</td>
</tr>
<tr>
<td>Offices #3</td>
<td>13,700 m²</td>
<td>R 5,642/m²</td>
</tr>
<tr>
<td>Street &amp; Basement</td>
<td>74,050 m²</td>
<td>R 5,287/m²</td>
</tr>
<tr>
<td>Conference facility</td>
<td>2,280 m²</td>
<td>R15,700/m²</td>
</tr>
</tbody>
</table>

The above analysis indicates how the cost per square meter varies in relation to the type of finishes, fittings and the size and shape of the facility. The project team is satisfied that it is in keeping with the function and standard of what is required for a building of this
5. Conclusion

To say that I am disappointed by the manner in which the public is consulted is putting it mild.

It is obvious for some time that the spirit of the public sector is under huge threat in being transparent and accountable. Viewing the documentation put out for public comment in this case, is testimony to the reality existing in the RSA, that we do not want to be open, transparent and accountable to the taxpayers.

Therefore the legislation and regulations are abused, to provide minimum information, but to proof that the public or community has been consulted. It seems as if no conscience can be traced in this regard. The COT may argue that this is normal in the RSA. The question is who sets the standards for the COT, others that are doing the same or us (All of us).

When one has the power and authority, as a leader, you should not compromise yourself as eventually you will fall short of what is required.

My prayer is that after all the above, we will all attempt to make the world we live in better, rather than being co-responsible for destroying the values and ethics we should all adhered to.

Document compiled by: Nico Bruwer

e-mail: Bruwer.nico@gmail.com

Date: 1 May 2014
Annexure S33A2-F: Copies of the Responses to the Public Comments
Office of the Project Officer
Tshwane House Project
Room 14 001 | 14th Floor | Isovuno House | Cnr Lilian Ngoyi (Van der Walt) and Madiba (Vermeulen)
Streets | Pretoria | 0002
PO Box 6338 | Pretoria | 0001
Tel: 012 358 0779 Cell: 084 850 5635
Email: peteraborn@intakom.co.za | www.tshwane.gov.za | www.facebook.com/CityOfTshwane

My ref: Tshwane House 8/1/2014
Your Ref: DD&CM 10/2/1/83

Mr. V. Madonsela
Director General
COGTA
Private Bag X804
Pretoria 0001

29 September 2014

Dear Mr. Madonsela,

REQUEST FOR COMMENT WITH REGARDS TO THE CITY OF THWANE’S INTENT TO EMBARK ON A PPP FOR THE PROCUREMENT OF SERVICED ACCOMMODATION INCLUDING THE CONSTRUCTION OF A NEW MUNICIPAL HEADQUARTERS AND COUNCIL CHAMBER COMPLEX, THIS REQUEST PER THE REQUIREMENTS OF SECTION 33 OF THE MFMA- RESPONSE TO YOUR LETTER OF 14/04/2014

The City has elected to reply to your letter of comment at a point close to the expected date of our submission of a TVR3 application for the views and recommendations number 3 from National Treasury as the last milestone prior to moving to Council approval and financial close. With negotiations with the Private Party, Tsetla Tshweu Consortium as Preferred Bidder effectively now complete, we expect Council approval in October or November, financial close occurring promptly thereafter.

Our answers to your comments follow below in the same order as your comments of 14/04/2014

Comment 2(i)

In respect to the Private Party, please note the Private Party is a company that, in accordance with the requirements of Public Private Partnerships, is required to be incorporated as a special purpose vehicle in terms of the laws of the Republic of South Africa by a consortium of companies that have, after evaluation, been prequalified following a pre-qualified process and eventually appointed preferred bidder following a request for proposal process. These companies are required to have an interest, i.e. a shareholding in the Private Party. We advise that the Private Party has since been incorporated in terms of the Companies Act, 2008 as Tsetla Tshweu Private Company (RF) (PTY) LTD, with registration number 2013/203539/07.

We have noted that the following persons have been appointed as directors of the Private Party:

- Wentzel, John Peter;
- Madungandaba, Merika Johannes;
- Mokgokong, Theresa;
- Moahloli, Leholoanele Ebenezer;
- Ndico, Sashnee; and
- Dawson, Connor Howard.

We advise that the Private Party and any of its directors are not listed as a company or a person prohibited from doing business with the public sector.

Comment 2(ii)

Please note that the Expiry Date of the PPP Agreement is defined in Schedule 1 [Definitions and Interpretations]
of the PPP Agreement, to mean the 27th (twenty seventh) anniversary of the Effective Date being the date on which this Agreement will terminate in accordance with Clause 44.2 (Expiry) of the Agreement.

Comment 2(iii)

With respect to the appointment of a Transaction Advisor we confirm that same was appointed in June 2005 and remains in place through the current date until financial close now anticipated at the end of this month or in early September 2014.

Comment 2(iv)

With respect to the appointment of the Project Officer, myself, responding to your letter on behalf of the City Manager, I was appointed in November 2004, have been with the project since that time and have committed to remain with the project through financial close and beyond.

Thanking you again for the response from COGTA per requirement of MFMA Section 33,

Kind Regards

[Signature]

Peter Aborn
Project Officer

Date 29/07/2014

cc: Ashwin Hemraj, Lead Transaction Advisor
Mr. Owen Witbooi
Gauteng Provincial Treasury
MFMA Section
75 Fox Street. 3rd Floor
Johannesburg
(hand delivered)

Dear Mr. Witbooi

SUBMISSION OF THE DRAFT TSHWANE HOUSE NEW MUNICIPAL HQ PPP AGREEMENT BY THE CITY OF TSHWANE TO THE NATIONAL DEPARTMENT OF COOPERATIVE GOVERNANCE AND LOCAL AFFAIRS AS REQUIRED UNDER SECTION 33 OF THE MUNICIPAL FINANCE MANAGEMENT ACT

The City of Tshwane, now well embarked on plans to build a new Municipal Headquarters complex on the site of the former Munitoria, described in the Guide to Understanding included herewith, hereby submits to the Department the draft PPP agreement as above for your comment.

This document, the first ever produced in respect to the first ever municipal PPP, is voluminous and may be difficult to fully understand by non-specialists in the context of governing legislation and practice.

Accordingly, the City stands ready to meet with appropriate staff from your side to answer any questions arising that are not adequately elucidated either in the Guide to Understanding or relevant legislation, as identified in the Guide.

Your comments are due by midnight 4 April 2014, addressed to the City, to the attention of Leonard Manamela as indicated in the Introduction to the Guide to Understanding, this part of the document package now delivered to you.

Best regards,

Peter Aborn
Project Officer
Date: 4/3/2014
Office of the Project Officer  
Tshwane House Project  
Room 14 001 | 14th Floor | Isovuno House | Cnr Lilian Ngoyi (Van der Walt) and Madiba (Vermeulen) Streets | Pretoria | 0002  
PO Box 6338 | Pretoria | 0001  
Tel: 012 398 2779 Call: 084 855 8635  
Email: peterabora@intekom.co.za | www.tshwane.gov.za | www.facebook.com/Of Of Tshwane

City Reference:  
COT 20/10/2014  
20 October 2014

Mr. Nico Bruwer  
at e-mail: bruwer.nico@gmail.com

Dear Mr. Bruwer,

RESPONSE TO YOUR COMMENTS IN RESPECT TO THE CITY'S PUBLISHED INVITATION FOR SAME REGARDING THE PROPOSED PROCUREMENT OF A NEW MUNICIPAL HEADQUARTERS, TSHWANE HOUSE

I have elected to delay this response to your email submission of extensive comment of May 2014 to a point closer to the now expected date for presentation of the matter to Council now that negotiations with the Private Party to the emerging PPP Agreement are effectively final in all material aspects.

We expect to reach financial close with Council approval in early December 2014.

Your opinion as to degree of transparency achieved by the City in compliance with relevant provisions of law which directly define and govern transparency issues is recognized.

The City appreciates your commitment to public process, noting that without expressions such as yours, that the City itself receives less guidance than it might in order to better serve the people of the City.

The laws in place that stipulate the detailed processes for ensuring such transparency have come into being as a result of democratic process at all levels of government by elected representatives of the whole people of the country.

The City respects the democratic process that led to the articulation of unambiguous definitions of precisely how public process is defined in practical terms.

The City has adhered to such process, of course.

The mandatory Register of Public Comment and a supporting Report on Public Comment will and must be taken cognizance of by both City and Treasury, and, further, must be submitted to Council of the City as part of the PPP approvals process.
Your comments will thus be available to the Council before it grants final approval of the PPP, effectively amplifying your voice with the elected officials of the City whose direct responsibility is to be your voice.

You are, of course, invited to contact your elected representatives directly.

Best Regards

[Signature]

Peter Aborn
Project Officer

Date: 20/10/2014
Office of the Project Officer  
Tshwane House Project  
Room 14 001 | 14th Floor | Isovuno House | Cnr Lilian Ngoyi (Van der Walt) and Madiba (Vermeulen) Streets | Pretoria | 0002  
PO Box 6338 | Pretoria | 0001  
Tel: 012 366 6779 Call: 084 850 5635  
Email: peterborn@intekom.co.za | www.tshwane.gov.za | www.facebook.com/CityOfTshwane

City Reference:  
COT 20/10/2014  
20 October 2014

Mr. Nico Bruwer  
at e-mail: bruwer.nico@gmail.com

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Best Regards

[Signature]

Peter Abori
Project Officer

Date: 20/10/2014
RESPONSE TO PUBLIC COMMENT

Comments as Presented by Member of the Public
Mr. Nico Bruwer

Responses by the Project Officer
Mr. Peter Aborn

20 October 2014

RESPONSES INSERTED DIRECTLY INTO MR. BRUWER’S COMMENT DOCUMENT

IN BOLD ITALICS

Tshwane House

Comments provided on “New Municipal Headquarters PPP”

New or Adjusted closing date for comments: 5 May 2014

E-mail: leonardma@tshwane.gov.za

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1. Introduction

Basically the City of Tshwane (COT) as the Public Authority, will enter into a PPP Agreement with the [Concessionaire Company] (Pty) Ltd, a SPV of Tsele Tshweu Consortium to design, build, finance and manage the new head office.

The proposed payment mechanism for the provision of accommodation and related services by the Private Party will be an annual unitary fee subject to the Private Party achieving specified performance standards. The Unitary Payment will be budgeted for by the COT.

When viewing the documentation presented, one was disappointed. After that initial disappointment, it was decided to submit at least an input with the objective, that the manner in which this process is performed, is not considered appropriate and acceptable.

Therefore, the comments may be interpreted as harsh, but if that is what is required, it has to be done.

One of the value statements of the COT in its Audited AFS for 2012 is to ignite transparency and be part of the City that is open, accountable and TRANSPARENT. At this stage I have almost completed this document and cannot but conclude that is nothing more than a politically expedient statement, some distance remove from reality, when viewing how this PPP process was handled as well as taxpayers in this regard.

Your opinion above as to degree of transparency achieved by the City in compliance with relevant provisions of law which directly define and govern transparency issues is recognized. The City is not in a position to respond to sincerely expressed opinion with sincerely expressed opinions of any of its officials. The City does confirm its compliance with provisions of law expressly articulated by government to ensure transparency. The City appreciates your commitment to public process, noting that without expressions such as yours, that the City itself receives less guidance than it might in order to better serve the people of the City.
These comments are provided, and due to the limited information base with regard to important aspects, it was considered appropriate to highlight the issues regarded as important from a taxpayer (Resident perspective).

When one considers the information at your disposal, to think that the process is regarded as one aiming to obtain sensible inputs for a major project of this nature from the public. If this was indeed the objective, and a serious consideration, the following remarks contained in the guide document is immediately bringing one back to reality on how these aspects are currently performed in the RSA in teh Public Sector, supposed to be accountable and transparent when inviting comments.

“In respect to the above, two reports must be prepared and submitted to National Treasury as required by the PPP regulatory oversight process.

1. The first is the MFMA Section 33 Report
2. The second is the TVR3 Report (Treasury Views and Recommendations No. 3).

Neither of these reports, as such, is subject to public comment.”

_for clarity, the MFMA Section 33 Report is a document prepared to confirm that the City has indeed complied with the requirements of Section 33, these being explicit requirements regarding the information that must be made public before a contract with budget impacts beyond three years can be entered into. All of the requirements of Section 33 and Municipal Systems Act Section 21a setting out explicit and mandatory means of informing the public are adhered to._

The draft contract in question is the draft PPP agreement which was indeed provided to the public for comment for 60 days, an agreement that was available to you as a member of the public, a contract that was moreover accompanied by a substantive guide to the public to enable lay persons to understand that contract in context of the whole body of directly relevant law and regulation, and to do so to the extent deemed possible in terms more accessible to lay persons. You yourself read that guide.

While the post public comment report, a proof of compliance report, is not reported back to the public, the results of that process is indeed reported back in the form of a mandatory Register of Public Comment and a supporting Report on Public Comment which will and must be taken cognizance of by both City and Treasury, and, further, must be submitted to Council of the City as part of the PPP approvals process. Your comments will thus be brought to the Council before it grants final approval of the PPP.

In addition the following comments are highlighted from the guide page 4:
“Notwithstanding that the MFMA Section 33 and TVR3 reports, though not subject to public comment, and not yet compiled, the City has elected to provide indicative information within the report formats of these two reports, or to provide descriptions of what the various sections of these two reports will contain, in the public interest.

Information in the final reports may vary or be more extensive.

*My extended comment directly above on the topic above apply here as well.*

The indicative information is not arbitrary, but explanatory and representative. The City confirms that the Guide to Public Comment in fact promotes transparency by making the PPP transaction more accessible to the public in terms of understanding what would have been the case without the Guide.

Indeed, it is the hope that the presence of the Guide has enabled you yourself as a member of the public to more effectively articulate your comments. This intent is in fact stated immediately below.

All of the above is provided to enable you to articulate your comments on the Draft Tshwane House PPP Agreement which you are hereby invited to comment upon in compliance with the provisions of Section 33 of the Municipal Finance Management Act.”

These comments are actually saying that we as COT will decide what is relevant and what we provide to enable you, the public to provide comments.

*The COT is not free to decide what is relevant. The City is compelled to provide what is prescribed in law, and further to prescribe mandatory methods meant to ensure that the required elements of content, or decision, to use your word, is in fact divulged, in advance of action taken, Municipal Systems Act Section 21A in particular.*

This is why the SANRAL e-tolling project is such a mess. The public, responsible for paying, although in theory consulted will be invited for comment, it will be subject to what the specific public authority (in this case the COT) regards as relevant and not what is sensible. It is not at all a transparent process based on the transparency line followed.

*Again, the COT, has not, indeed cannot, under law “decide what is relevant”, except to decide what it might want to provide over and above the requirements of law. The Guide to the public is an example of proactive City intent to go the extra mile in service to the community it serves.*
2. Public Participation and comments

Relevant aspect will be quoted from the various acts, etc to provide the basis for what in my opinion is a contentious issue, which has to be resolved. The reality is that the public sector approach seems to be to limit information, even where it is directly, affecting taxpayers, for their own benefit to avoid being properly accountable or being subject to difficult and/or contentious issues being out in the open.

The main argument is confidentiality. In my view public sector should be transparent. If you really experience a challenge in this regard, it should be possible to provide sufficient information, or follow other routes for those people in the community trying to comment on a document such as this.

*Your points made above as a sincere expression of opinion is beyond argument by the City. That a member of the public who has taken the time to respond as extensively as you have, is a sign, or example of how the public might indeed obtain improvements to public process.*

The lack of this aspect should be hopefully clear from what follows:

*Cognizance taken of your intent.*

The Constitution of the Republic of South Africa

The Constitution in Chapter 3 clause 41(1)( c) states as a principle that co-operative Government implies “to provide effective, transparent, accountable and coherent government for the Republic as a whole”

Chapter 10 clause 195(1)( g) states that " Transparency must be fostered by providing the public with timely, accessible and accurate information".

*The City nor any official of the City such as the Project Officer is in a position to opine as to how effectively provisions of law such as Municipal Systems Act 21A achieve the intent of the Constitution as our most basic law.*

*The City is in a mandated position to comply with law, law which must as a first test be constitutional. The City has endeavored to comply with all relevant law as ultimately emanating from the Constitution, law intended to translate constitutional intent into a compliance framework. MFMA Section 33 might be considered an example of same.*

Extracts from the:
Municipal Finance Management Act

Contracts having future budgetary implications

“33. (1) A municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if—

(a) the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved—

(i) has, in accordance with section 21A of the Municipal Systems Act—
(aa) made public the draft contract and an information statement summarizing the municipality’s obligations in terms of the proposed contract; and
(bb) invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and

(ii) has solicited the views and recommendations of—
(aa) the National Treasury and the relevant provincial treasury;
(bb) the national department responsible for local government; and
(cc) if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national department;

(b) the municipal council has taken into account—
(i) the municipality’s projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
(ii) the impact of those financial obligations on the municipality’s future municipal tariffs and revenue;
(iii) any comments or representations on the proposed contract received from the local community and other interested persons; and…”

The City to the best of its knowledge as guided by legal counsel has endeavored to comply with all of the provisions highlighted by you above, including, in one particular example taking account of your own views as a concerned citizen, your comment to be part of the Report on the Public Comment that will have been provided to Treasury, and the Council.

Part 2: Public-private partnerships

Conditions and process for public-private partnerships

120. (1) A municipality may enter into a public-private partnership agreement, but only if the municipality can demonstrate that the agreement will—
(a) provide value for money to the municipality;
(b) be affordable for the municipality; and
(c) transfer appropriate technical, operational and financial risk to the private party.

(2) A public-private partnership agreement must comply with any prescribed regulatory framework for public-private partnerships.
(3) If the public-private partnership involves the provision of a municipal service, Chapter 8 of the Municipal Systems Act must also be complied with.
(4) Before a public-private partnership is concluded, the municipality must conduct a feasibility study that—
(a) explains the strategic and operational benefits of the public-private partnership for the municipality in terms of its objectives;
(b) describes in specific terms—
(i) the nature of the private party’s role in the public-private partnership;
(ii) the extent to which this role, both legally and by nature, can be performed by a private party; and
(iii) how the proposed agreement will—
(aa) provide value for money to the municipality;
(bb) be affordable for the municipality;
(cc) transfer appropriate technical, operational and financial risks to the private party; and
(dd) impact on the municipality’s revenue flows and its current and future budgets;
(c) takes into account all relevant information; and
(d) explains the capacity of the municipality to effectively monitor, manage and enforce the agreement.

All of the above have been undertaken or taken into account as required at law by the City, noting that the required Report on the Feasibility Study, at the very beginning of the project was indeed submitted to public and relevant government agency for a period actually exceeding 60 days at that time.

(5) The national government may assist municipalities in carrying out and assessing feasibility studies referred to in subsection (4).

(6) When a feasibility study has been completed, the accounting officer of the municipality must—

(a) submit the report on the feasibility study together with all other relevant documents to the council for a decision, in principle, on whether the municipality should continue with the proposed public-private partnership;

(b) at least 60 days prior to the meeting of the council at which the matter is to be considered, in accordance with section 21A of the Municipal Systems Act—
(i) make public particulars of the proposed public-private partnership, including the report on the feasibility study; and
(ii) invite the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed public-private partnership; and

As noted above this was indeed done

(c) solicit the views and recommendations of—
(i) the National Treasury;
(ii) the national department responsible for local government;
(iii) if the public-private partnership involves the provision of water, sanitation, electricity or any other service as may be prescribed, the responsible national department; and
(iv) any other national or provincial organ of state as may be prescribed

As noted above the above was indeed done

Municipal Systems Amendment Act

“21A. Documents to be made public

(1) All documents that must be made public by a municipality in terms of a requirement of this Act, the Municipal Finance Management Act or other applicable legislation, must be conveyed to the local community -

(a) by displaying the documents at the municipality's head and satellite offices and libraries;

(b) by displaying the documents on the municipality's official website, if the municipality has a website as envisaged by section 21B; and

(c) by notifying the local community, in accordance with section 21, of the place, including the website address, where detailed particulars concerning the documents can be obtained.

(2) If appropriate, any notification in terms of subsection (1) (c) must invite the local community to submit written comments or representations to the municipality in respect of the relevant documents.

(Section 21A inserted by section 5 of Act 44 of 2003)

21B. Official website

(1) Each municipality must-

(a) establish its own official website if the municipality decides that it is affordable; and
(b) place on that official website information required to be made public in terms of this Act and the Municipal Finance Management Act.

(2) If a municipality decides that it is not affordable for it to establish its own official website, it must provide the information in terms of legislation referred to in subsection (1)(b) for display on an organized local government website sponsored or facilitated by the National Treasury.

(3) The municipal manager must maintain and regularly update the municipality's official website, if in existence, or provide the relevant information as required by subsection (2).

(Section 21B inserted by section 5 of Act 44 of 2003)

The City has endeavored to comply to all of the above as a matter of compliance with law.

3. General aspects

Reading through the “Guide to Understanding the Public Comment Process” the following aspects were considered relevant and require clarity:

3.1 Page 5: “The Tshwane House PPP Agreement and Schedules will remain in developing draft form until full and final action by the Council of the City at a formal meeting open to the public approving the final draft of the proposed PPP agreement between the City of Tshwane and Tsela Tshweu Consortium.”

Does this imply once this “final draft” document is approved there cannot be any adjustments?

The Council will have before it what is intended to be final, noting that of necessity into the power of Council that it can only become “final” except by act of Council after due consideration by the Council acting independently.

It should be noted, however, that Council in 2006 considered the Report on the Feasibility Study and, in fact, at that time imposed conditions on the ensuing process, among these being a cap on the cost of the new Municipal HQ among other proscriptions deemed by Council at that time necessary to protect the public interest. These proscriptions are, of course, being adhered to.

Council at that time did authorize the Accounting Officer (now referred to as City Manager) to undertake the procurement process in prescribed manner and to bring the matter back to Council before the resulting PPP Agreement with a preferred bidder could be consummated.
3.2 Page 6: With no substantive information at our disposal as public, in terms of section 120, how are you satisfying the requirement that contained in section 120 that this PPP:

1. “Provide value for money to the municipality”
2. “Be affordable for the municipality; and”
3. “Transfer appropriate technical, operational and financial risk to the private party”, that is the City’s PPP partner.”

This has been accomplished, inter alia, by benchmarking the costs of the new Tshwane House against market and other closed PPP’s for comparable projects, by conforming to National Treasury’s explicit definition of Value for Money and by conducting an extensive comparison of the risks of PPP transaction as opposed to a conventional procurement. The risk transfer analysis will be part of the document package placed before Council to inform its decisions.

Based on the information at my disposal, it is not possible to make these statements, and conclude “It is on this basis that the Tshwane House PPP Agreement is being brought to Council for its final approval.”

Please elaborate on this, as what will be submitted to council that is different from the documentation that we had. If indeed there was a difference what would the Council have different to us “at a formal meeting open to the public.”

The draft submitted to public comment has, as any draft, now reached a point of developed draft to the extent that it can be submitted to Council supported by processes defined in a PPP and, importantly, thoroughly vetted by legal counsel to both parties to the proposed agreement to ensure its durability at law.

As indicated in the Guide which you have read, the essential mandates and any associated constraints to ensure that there were no material differences between original intent or mandate have occurred have been observed. The Council, of course, will speak for itself in such matter.

The City, consistent with PPP practice, must provide Council with a specific report on any variance between The Report on the Feasibility Study and the Report on the resulting PPP as procured by process at law.

One such evolutionary “change” is that the then mandate for “an energy efficient building” has become a decision that this becomes a mandate for achieving a Green Building Council rating of Star 5.
Please specify how you satisfied compliance on this aspect, and whether in your view you met the compliance level required, especially in the light of section 120 clauses 4 to 6. I was not privy to any feasibility study.

If you were a member of the public in general, the public of the City of Tshwane in particular, during the period from 19 December 2005 through 6 March 2006 you were indeed so privy.

That was the period of public comment with advertised invitations to public comment in the press at both the beginning of the then festive season, and, again, after the festive season.

This was done by the City with the express intent of going beyond its lawful duty of care, resulting in a comment period in excess of the 60 day period otherwise contemplated by rote compliance.

4. In addition, was the same information provided to Provincial Treasury and the Department of Cooperative Government and Traditional Affairs, and if additional information was provided to them, why not also to the taxpaying public.

The information provided to Provincial Treasury and now Department of Cooperative Government and Traditional Affairs was identical to what was provided to the public. No more no less.

3.3 Page 7: MFMA Section 33 report

Extract from you Guide document:

“A spread sheet produced by the project’s financial advisor indicating the direct financial obligations of the City over the 25 year portion of the 27 year PPP will be provided with the formal Section 33 report to National Treasury.”

In my view you have limited and did not properly comply with section 33 of the MFMA and in addition section 21A of the MSA. Why could you not provide the same information to the public as that required by National Treasury. We are footing the bill for this and are actually paying for this. Why should we not be privy to these aspects, because even the word "summarizing" implies something different to what you have provided to the public. It is unfortunate that public institutions in my view grossly abuse interpretations to hide the real impact and run the risk to be accountable. When one
acts in the spirit of what is required, and is reasonable and transparent, in your processes, this challenge does not really occur.

*The City is of the view that it has complied with the provisions of law, and, in this respect, the final draft presented to Council for adoption at its discretion will include mandatory legal opinions so confirming. The Council of the City is, at law, distinct from the City administrative or executive branch of government. The Council is, in fact, the elected representative of the public, this public, of course including you as a concerned citizen who has taken the time and effort to write your comments.*

*It may well be that some members of the public have, or will, make representations of concern to their ward leaders, to the leaders of whichever political party they believe most represents their views. We have, thus, by obligation of intent and law thus informed and must continue to inform your representatives, in the present case the elected Council of the City of Tshwane.*

### 3.4 Risks elements:

There was no indication that could be detected on how risk during “Design and Construction” and the operations period were appraised. The risks during the first 2 years of construction are substantially different from that of the 25 years of operations.

Please provide information as to how this assessment was performed and how it was dealt with in the Agreements.

*The PPP Agreement does and will include extensive provisions both identifying risk and explaining how those risks are managed in a form that transfers risk to the Private Party as required by Section 120 of the MFMA. Demonstration of degree of effective transfer must be demonstrated to Treasury in a detailed report that will also be provided to the City’s elected representatives of the public, the Council of the City.*
The report on risk transfer effectively confirms precisely how each relevant clause of the PPP agreement entailing an element of risk actually manages/mitigates/transfers appropriate risk.

3.5 Page 8: Year to Year obligations of the City

Extract from Guide document:

“As part of the latter, the life cycle replacement costs of the project throughout the term of the PPP are such that the building will be in as new condition, with in addition an additional five years of life beyond expiry of the PPP agreement."

Moveable assets such as furniture including seating will also have been managed on a life cycle refresh basis, including replacement as needed.

The Tshwane House building complex, on hand back to the City at the end of 27 years will have no deferred maintenance burdens, and a renewed life cycle extending for five years beyond expiry of the PPP, as a capital asset of the City.

The extra five years of life cycle beyond expiry of the PPP represent a value for money benefit in respect of the future going forward to the 2055 horizon, which is the overarching goal of the Tshwane House project.”

It is difficult based on the information at our disposal to understand how such a statement can be made, as some costs will still have to be incurred and in addition it implies that the COT will manage it the additional 5 years, or are we obtaining this management in the additional 5 years free. How is it possible that the building will be in “as new condition” but will only last an additional 5 years? Furthermore, how have you satisfied the requirement that this represents “value for money benefit”. My view is that this cannot be in itself regarded as a value for money benefit.

The broader issue of sustained asset protective management of fixed assets like buildings is a matter of debate that proponents of PPP’s has, in the opinion of the City in adopting a PPP approach, will be far more vigorously managed in a PPP in that short falls in highly specific performance areas in the PPP (Schedule 13 in particular) provides defined penalties imposed as deductions from the month to month unitary payments.
The in “as new” in life cycle refresh terms, in association with the “five years beyond expiry” is not “free”.

The extra five years is comparative value for money, but, in a PPP that five years has been, of course, “paid for” since it was a requirement of bid in the first place.

The issue then is did we do a good job in the selection process, and, of extraordinary importance in a PPP did we do a good job in negotiations with the Preferred Bidder.

To the extent that achieved best practice has been achieved, and we have met the test of Treasury scrutiny at every stage (we have), and to the extent that we have brought the project in within the Council mandate is indication that we have achieved value for money (per Section 120), All available reports that are mandatory components of the process confirm that value for money has been adequately achieved, including the five years of life.

In 2006, the Council, exceptionally, demanded that the City obtain an Independent Value for Money Assessment from an independent third part. Accordingly, such an assessment will, as mandated, be presented to Council exactly as it was produced by without modification of any kind.

The notion that the building will only last an additional five years is cannot be either inferred or claimed. What it does mean, in respect to many building elements and systems with differing live cycles, operational efficiency life cycles, shorter warranty periods, etcetera, the five years means that all of these will have five years of renewed or remaining life, giving time for the post PPP managers to take up their responsibilities.

In addition, the replacement cycles of movable assets are not clear, as well as how provision was made for this in the financial or feasibility model.
This is a complex issue. For building systems, carpeting and a whole host of things there is a Maintenance Reserve Account supported by estimated life cycle refresh specifications. For furniture, the first purchase is paid in unitary but, the risk of failure is entirely within the financial model of the private partner who must meet the performance requirements of the output specifications at its cost.

3.6 Page 8: Impact of those obligations on the City’s Future Tariffs and Revenue.

Comparing this project and stating inter alia that it would “be less onerous to the City’s citizens and rate payers than if the City continued under its current operating practices in respect of serviced accommodation in the City’s current buildings, leased or owned.”

In my view this argument is flawed, as this is not comparing apples with apples. The following paragraph on fragmentation strengthens this view. This rather points to the inefficacy and/or inability of the COT to properly plan a new building and implementing it.

The City does not agree with this view.

The PPP must show that this approach to vigor of management is comparatively more cost effective than the conventional approach applied as representative practice in the business as usual environment deemed commonplace in the public sector.

The City would like to excuse itself from this characterization, but it has concluded that the PPP approach is more cost effective, more risk transfer effective than it might otherwise achieve. There is a huge literature on this subject which can easily be found via commonly used internet search engines.

The apples to apples comparison might be thus better stated as “good apple” versus “better apple”.

The statement “The City intends that the PPP should be not just budget neutral, but should rather be budget impact positive” is not proven in the documentation at my disposal and I would appreciate to understand, based on the information provided this conclusion could be reached.
The TVR3 Report to Treasury, the report of the Independent Value for Money Assessor, and elements of the Section 33 Report will demonstrate to the satisfaction of the City, to the satisfaction of Treasury and from there, we confidently hope to the satisfaction of Council that the claim above is defensible.

These documents must of course be made available to the elected representatives of the public, your representatives, whose job is to be your advocate in matters such as you properly raise.

3.7 Page 9: Impact of those obligations on the City’s Future Tariffs and Revenue.

Extract from the Guide document:

“The Section 33 Report to National Treasury must establish that the PPP procurement model is the best option for Tshwane House in both measurable cash flow terms, and in year to year budget terms as compared to year to year budget terms on a business as usual basis in mainly leased facilities in the CBD, and some owned facilities including Sammy Marks, also taking account of productivity improvements.”

In support of the above argument COT states that this is supported by a cost benefit study produced by an “Independent Value for Money Assessor.”

Why could the public (Taxpayers) of the COT not have access to such documents and if we can have access why was it not provided?

Your representatives as institutionally constituted sit in Council. Their job on your behalf is to do, for you, precisely what you seek. The City was given mandates and authority to procure the PPP on terms set by the Council. The City has and will continue to honor the institutions set up to defend your interests. Your Councilors will have the information they need to serve you, not on the City’s terms, but the Council’s terms, including the referenced reports.
The statement “as compared to year to year budget terms on a business as usual basis in mainly leased facilities in the CBD, and some owned facilities including Sammy Marks” actually does not make sense. Apart from confusing, it is not clear how this was performed by comparing something, which is not optimal, with the only conclusion that it is due to “incapacity” of the COT.

What is claimed by the City is that an optimization of the City’s portfolio of office facilities cannot be achieved in space ineffective buildings available or occupied under lease and ownership in the CBD, and, that to achieve best practice in serviced accommodation, and to meet the operational requirements of regionalized government, the PPP is, in fact, proof of the capacity of the City, not its incapacity.

Your conclusions as to incapacity of the City are not shared.

You as a concerned citizen are of course not only entitled to your views, but are and have be invited to do so.

You have done so with obvious care for which the City is grateful. The City would have been gratified to receive comments in greater numbers.

In addition, the comparison with leased facilities is not appropriate as there are much more to it although this is your interpretation. Again it is submitted that this is not comparing apples with apples but rather trying to prove the argument in favor of the PPP.

The City has indeed tried and, in its view, succeeded, in demonstrating that a PPP will be the most outcomes effective path to getting a better apple than the one we have, at a better price.
The only argument that could be understood to some extent is the less favorable risk profile, which is assuming certain assumptions, that cannot be proven all at present.

*Your observation regarding risk profile is astute and relevant.*

*In fact, if nothing else, a PPP procurement is fundamentally based on comparative risk profile between options. In fact Treasury’s definition of Value for Money is entirely based on the calculated cost of risk benefit achieved by one option versus another. It was precisely on the basis of comparative risk profile that the feasibility study was primarily based.*

*The City agrees.*

*The instruments for analyzing comparative risk, all to be provided to the elected representatives of the citizens of the City, have already been alluded to in the City’s responses earlier in your document.*

### 3.8 Page 9: TVR3 Report

Extract from the Guide document:

“The Independent Value for Money Assessor Report effectively constitutes the City’s sources of funding model for the Tshwane House PPP.

This study will underpin further discussion in the Affordability Section of the separate TVR3 Report to be submitted to Treasury after the close of the public comment period.

The Tshwane House PPP is and has been from the outset a means to achieve consolidation and cost benefit optimization of serviced accommodation in originally 13 named buildings housing approximately 2400 staff at project commencement end 2005.”

This whole section is not discussed somewhere in the documentation understand it. What is very confusing is that the COT has much more staff and it seems as if the whole PPP argument is based on 2 400 staff. This statement is not supported by a proper analysis.
The PPP for Tshwane House, as such, as the house of the strong top management center of a regionalized government bringing access to government to where the people of the City live, is the cornerstone of a programme to relocate then 2346 people in CBD buildings (2400), this number now grown to 2845, into a regional government framework that places about 1600 in the HQ, including a standalone Council Chamber building, at least 400 in refurbished space in Sammy Marks, with the rest going to the regions. Again the count is CBD based. The use of Sammy Marks is in response to a mandate from Council that the store of value in the Sammy Marks complex be recaptured to the full extent possible. The City is meeting that mandate.

The City notes that the content of that report, also to be made available to your elected officials, effectively confirms the outcomes effectiveness of the City’s undertaking into the 2400/2845 including the Tshwane House PPP. Notwithstanding this, the City has not and cannot base its own confidence on such report. The City’s confidence is based on its own findings produced in compliance with prescribed process in law and regulation.

3.9 Page 10: Significant asset

Extract from the Guide document:

The statement that the independent report referred to above, “will show that the PPP on expiration after 27 years will provide the City with a nearly as new, state of the art municipal HQ building complex with a projected capital asset value of R650 million or more.”

Please note the report was already compiled, and therefore should already “proof” this. How this value of R650 million was derived is not at all clear and is questionable as it may be the residual value, as it cannot be the original or even replacement value. The main question is whether the value of the land is included in this calculation as 27 years into the future, with discount rates, should not necessarily be regarded as significant for a project of this magnitude. More substance in this argument is required.

The substance is contained in the Independent Value for Money Assessor Report which uses terminal value as a measure. What is clear is that leasing space in
other people’s buildings produces no asset value whatsoever. That the project demonstrate creation of a significant asset is a requirement of Section 33, or failing that significant socio economic outcomes. The Tshwane House project does both.

3.10 Page 10: TVR3 Report

Extract from the Guide document:
The annexure’s added to the Value for Money section to National Treasury (NT), not at our disposal, such as:

“Annexure 1- Certification of Compliance with Section 21A of the Municipal Systems Act
Annexure 2- Register of Public Comments and Representations
Annexure 3- Copy of the TVR3 Report
Annexure 4- Spread Sheets Showing Obligations as Year to Year Unitary Payments
Annexure 5- Report of the [Independent Value for Money Assessor]”

This is not available, so it is again a statement with no substance. This approach by the current public sector representatives, leaves much to be desired. As in reality the taxpayers of the COT, are “deliberately” ignored, and if there was no NT oversight, then one cannot but wonder what would transpire with PPP projects. This is what is so disappointing about these aspects. I am sure there is expertise in the with the citizens of the COT, but it is not perceived that it is valued, due maybe to political and other views.

Your views are noted.

We do and must honor the institutions created under guidance from the Constitution, notably including the elected Council of the City representing the full spectrum of the people of the City’s views.

3.11 Page 11: TVR3 Report (indicative form and content)

Extract from the Guide document:

“In the interest of enabling informed public comment, the City has provided information in sections of the indicative TVR3 report below without prejudice to the TVR3 process as such.

The information officially submitted to Treasury in its TVR3 Report, may vary from, or be more extensive than the information below.”

Albeit disappointed by the approach of the COT, to make a statement such as “In the interest of enabling informed public comment” bordering on excessive arrogance, as this is
not supported by the documentation provided. It is in fact regarded as derogative remark, to state that we will provide you with what we deem fit for your deliberations. If this is the approach the COT is following, one cannot but question all the actions not properly disclosed, to their taxpayer base.

Your comment and tenor of same is noted. What the City does assert, is that rote compliance with the requirements of applicable law required only the placement of a set of draft documents accomplishing a PPP procurement, with no explanation whatsoever.

The content of those components of the “agreement” which Section 33 requires are in fact the content of the matter.

The Guide was we believe a call beyond duty precisely assisting the public to find a point of perspective for understanding the legal frameworks involved in producing the elements of the PPP agreement of a main agreement and 27 schedules that even officials might otherwise find opaque.

The City concludes that the Guide has been a value add in precise measure as an enabler of your own comment- in the public interest.

3.12 Page 11: Project background

When you read that “The genesis of the project was the March 3rd 1997” it raises serious questions as to the ability of the COT’s competence to govern a city of this magnitude. Only 17 years after this event did we see something where they are trying to rectify the situation.

Comment noted.
The whole project background can only lead one to a conclusion that to trust the COT with managing a city of this magnitude, should be seriously questioned. The only positive was the appointment of a project Officer, albeit long overdue. However, viewing the process to date one cannot but doubt the commitment of political leadership and others as to bringing this “project” to fruition.

*Again, your comment and tenor of same is noted.*

*Insofar as the Project Officer is concerned, he believes that the City has indeed acted in the public interest in respect to the issues addressed by the proposed PPP, notwithstanding that, as the very first MFMA serviced accommodation project in SA, the path of pioneering has been challenging.*

Against the above one cannot but question the rationale behind this project. The only aspect favouring this seems from the overview to be the risk that COT cannot manage these aspects efficiently and therefore it may the only option, albeit probably expensive, and not the best solution.

*As mentioned elsewhere in the City’s response the notion of risk management is a fundamental feature of PPP’s.*

*The capital cost of the Tshwane House complex including the state of the art council building will be in the range of R986 million, relatively expensive for sure. The issue is: is the cost and cost benefit of the building value for money? The project costs have been rigorously benchmarked against other HQ PPP’s, against market, including cost per Gross Lettable meter, and even a comparable purely private sector HQ, all Green Star 5.*

Looking at Project Phoenix, and the statements in the report, about the affordability, of this project in “capital budgetary” terms, one cannot but seriously doubt the wisdom of the COT councilors or executives.
The question that arises is how much cost have been incurred and actually wasted as a result of all these aspects?

The post 1997 history of the project to build again from the ashes is long and complex. Your comments are noted. The City concludes that what it is doing now is of enormous benefit to the City and prefers to dwell on what it is doing now and not to speculate on the reasons why so much time has elapsed since the fire.

3.13 Page 16: Aims of the Project

One cannot but question the following statement, extracted from the Guide document:

“The project, finally, will be a visible symbol and proof of the City's two guiding compass points: Building an African Capital City of Excellence and, complementing this, demonstrating its new motto, Igniting Excellence."

The above is in my view not supported by the facts of how this PPP came about, and one should rather refrain from making these statements, and based on the track record and the current background to date. All that can be concluded is that incapacity is or was much higher than even I anticipated, although I was suspicious much earlier for other reasons. Unfortunately, it is global phenomenon to make statements for political expedience, which is not supported by the facts.

Noting your comments, the City is comfortable that the project does in fact express and support the mottos above.

3.14 Page 17: Why the Project was Procured as a PPP

All of the CFO’s of the COT declared since 2006 the City did not have the capital budget capacity to fund such a massive project on an own resources basis.

Extract from Guide Document.

“The total net present value cost of the project is expected be comfortably below the high side cost of R2bn reported to the press by the City’s Executive Mayor.”

The word “expected” was appropriate to a project still under negotiation. The R2bn, responsibly stated as a conservative number was expressed as a net present value of the
cash flows of the PPP over its term. The City can now confirm that the cost of the project including both the building complex with all new furniture, and, in addition the cost of full life cycle operations management including everything from toilet paper to washing the window and security operations over the entire term does come in at R2bn on a net present value basis as claimed.

The word expected makes a huge difference and implies no certainty but as this is not elaborated on it is difficult to judge this statement. In addition, to say it is of academic interest whether the City can handle a project of this magnitude now is also unfortunate, especially against the background of what transpired so far.

The word expected, again, was an expression of proper and conservative caution, otherwise addressed above.

This aspect will be touched on later with the unitary fee.

3.15 Page 19: Affordability

The questions on why we are not afforded the opportunity as taxpayers, to be provided with more information to make a sensible judgment, still remains.

The taxpayers have, in the institution of elected officials, elected by them, in fact are and have been provided with information, with at some stages supplemented by direct public comment.

The statement that “As a stipulated cap by Council, the affordability threshold was established in 2006 terms at R117m/ as an annual PPP Agreement payment escalating at CPI, now CPI. “

The new figure mentioned as R183 million implies a yield of approximately 5.75% annually (8 years 2006 to Jan 2014). The question that arises is how this figure was determined.

Unitary in a PPP escalates at CPI a comparatively stable number for a long time, a number well below the escalation rate of the rental property market. The number was thus not calculated but rather stipulated as a means to protect the City against general market volatility including the 2010 world cup period and worldwide economic meltdown.
In a figure of approximately R17.74 billion per Audited AFS for 2012, this is approximately 1%, and not regarded as significant on its own. This should be smaller in the 2014 financial year.

*The City notes your comments and finds no basis for speculation from its side.*

If this is affordable now it is questionable why this figure is acceptable, without knowing the figure at financial, close it raises serious questions as to how the COT is performing its function.

*The financial model could be affected on the day, though the City has no basis for alarm in the matter.*

**3.16 Page 21: Pass Through Costs**

The statement that “These costs including electric and water bills are paid as such outside of unitary on the basis that the PPP partner does not have control of these costs” highlight certain aspects.

The question is what is actually what is the annual total cost, even if one can estimate only year 1 at this stage. Again one is confronted with what are the actual calculations and risks. It makes sense from the private Party’s point of view, as municipal increases have not been in line with inflation. This is also a reflection on the country as a whole regarding administrative pricing.

**3.17 Page 22:**

To provide sensible comments is difficult, as the TVR3 Report will only be available to NT AND NOT TAXPAYERS. This makes one wonder about what is contained in that report.
3.18 Page 24: Contingent Liabilities

The statements on this page:

“The impact in such event, however unlikely, could be onerous.

Such an event is roughly equivalent to the impact on a normal facility in the event of acceleration of a debt, such as a bond, with the entire remaining unpaid debt due and payable immediately on default.

A normal citizen might lose her home in such circumstance.”

The question is what preventative measures are in place to prevent or handle such an occurrence? How are these risks monitored and managed as it requires a prudent and experienced to detect early warning signals.

This aspect goes against all arguments on the PPP as the Public Sector is not well known for handling these events?

*Though the contingent risk is high in quantum it is low in probability and measures exist to manage events before they reach the stage of collapse of the deal.*

3.19 Page 25: City’s Capacity to manage the PPP Agreement

The statement which raises serious red lights is “The City has effectively no current capacity to manage the PPP Agreement, though it does have on board an empowerment candidate to be mentored and trained as a member of an overall PPP Project Management Unit.”

*The City disagrees. The City does not in fact have in place an experienced PPP Agreement unit, nor does any City in the Country, indeed anywhere. Lack of capacity in this light cannot be deemed an indication of incompetence.*

*The City is however required to submit a Contract Management Plan setting out how it will gear up internally to manage a project for which there is no precedent in the City nor precedent anywhere in the country as the very first municipal PPP.*
A comprehensive programme for putting that highly specialized capacity in place “The Contract Management Plan” is a requirement of Treasury for all PPP’s. This plan is now in place for submission to Treasury. The City is ready to implement that plan.

Given the background so far and considering the complexity of managing a PPP Agreement, it is not at all understandable, that in terms of the risk associated with this, especially against the previous statements, that the city “does have on board an empowerment candidate.” This defies all logic as with the risks associated with this aspect that the COT in line with general trends at present in this country, does not aim to obtain the best possible candidate but view it as an empowerment position.

The empowerment candidate based on coal face experience gained in the genesis and evolution of the project has and will continue to gain experience and institutional memory of value to a new unit of which he is intended to be part.

If this does go wrong the legacy of the current Council and executive Management will all be seriously impacted. The trend however in this country of us, is that everything is acceptable, and the COT will not be unique if this is how they handle this risk.

The City notes your comment but does not share your pessimism.

3.20 Page 26: Conclusion Reached

This whole document should raise serious doubt on many aspects, and the manner in which aspects have been handled to date, does not instill trust in obtaining a favorable recommendation from NT to proceed.

Treasury is represented, has been represented by a designated representative from the outset of the project. The City has solid reason to expect that Treasury will not approve a project that is and has been familiar all along.
3.21 Credit Assessment, etc. of all the private parties

It is imperative that a credit assessment be performed of all the beneficial ownership contained in the Private Party to ensure they contribute to equity, the loan portfolio, performance bonds (especially during D&C).

All these parties should add the following:
- Have money at risk to ensure they cannot walk away
- Add value to the overall project.

*The substantiality of the Private Party is in fact confirmed within the PPP process. It is, moreover, a standard feature of PPP’s to include investment by the private party shareholders that is at very considerable risk should the project falter.*

3.22 BBBEE (Schedule 9)

This is a contentious issue but cannot be avoided as this is not regarded normal in a global context.
The number of pages contained in documentation relating to this aspect is cumbersome, and apart from monitoring should have serious risk elements attached to it.
Is there no simpler way of defining these requirements as it must have an impact on price

*The notion that empowerment both in BBBEE terms precisely or in Tshwane based businesses has been debated for now years as to whether it is a burden on cost in individual projects or an investment in the future of the country. The City strongly supports BBBEE improvement as a duty and an investment in the accelerated and sustainable welfare of its citizenry, taking note that a PPP is a far more powerful instrument in this regard than reliance on other programmes of government.*
Schedule five, accordingly is indeed voluminous to ensure that BBBEE offered at bid becomes BBBEE achieved over the course of the PPP with substantial penalties for failure.

3.23 Schedule 5

Point 7.1.2 Shares owned by black people equals or exceed 25%
Point 7.1.3 (a) Construction Subcontract: Voting 50% of exercisable voting rights
Point 7.1.3 (b) Operations Subcontract: Voting 55% of exercisable voting rights
This aspect does not make that the main contractor should take the risk ito Clause 7.2 of the PPP Agreement but the other parties seems to have more voting power, increasing the risk and it will be a surprise if this is not priced for.

3.24 Schedule 5: Annexure 5

Percentages do not make sense.

3.25 Annexure 13

It is to me sad to see that employment is totally race based, although we want to move away from it. It is actually not considered legal anymore.
It is time that we emphasize race less and attempt to foster the ubuntu spirit.

The City notes your comments up to and including the ubuntu spirit. The pursuit of BBBEE by the City as an investment in improving the lot not only of the historically disadvantaged but the historically advantaged as well- as a wise investment in the whole people of the country

3.26 Insurance of Munitoria
Was Munitoria not insured?
If so did the insurers paid an amount for the fire, and what happened to that money?

_The Munitoria was indeed insured with a payout of over R350m at that time. The renovation of the South Wing and remaining west wing components was a charge against this. Obviously the City administration at the time made choices of relevant need that might well in retrospect be subject to animated debate. The present administration was not party to decisions made at the time and will not be drawn into speculation in the matter._

3.27 Socio economic development plan

In my view it is not appropriate to make this part of the PPP. Training and development of skills are understandable.

This aspect should be part of the main budget of the COT as we all know that it is imperative but making it part of a PPP project does not adhere to principles when commercial activities price in these sort of aspects.

_Your comments are noted. All PPP’s have some form of socio economic benefit provisions._

_An even greater overarching level of socio economic development is expected from Tshwane House as a catalyst for CBD redevelopment and as proof of the City’s commitment to that goal by staying in the CBD._

4. Specific aspects

Although a lot of questions were already raised under the previous section, this section will raise certain aspects regarded as important, and not pertinently covered in the other documentation.
The financial appraisal should assess the project as a whole. A financially feasible project will be able to service senior debt, and the empowerment equity loans. Below is some aspects that should have been attended too.

4.1 Credit rating of COT:

Central to this PPP project is the ability of COT to pay the unitary fee and the ability and capacity of the private party to perform in accordance with the concession agreement.

What guarantees, etc. are in place to ensure these aspects?

_The credit rating of the City has in fact been a factor of the negotiations process with the private party lenders who have reached judgments in this regard. The City has concluded that the project itself is adequately protected against any risks arising in regards to credit rating._

Your comments from 4.2 below onwards involve highly technical matters of methodology, specialized professional practice or opinion. The City therefore declines comment. The City will rely on its appointed advisors to guide it in the matters raised. Your comments, however, have been made available to them for consideration.

4.2 Financial overview of the project

Since the initial submissions the cost of the project increased substantially if the unitary fee is a guiding sign. This is however not unexpected as the original estimates were based on rough assumptions. As project demands were refined, the project cost also increased. The viability is linked to the unitary fee paid by the COT and therefore, although the construction cost increased substantially, the crucial aspect is recovery of all costs through this fee. The table below summarizes some of the key variables that should be part of the bid offered by the preferred bidder.

Whether this is indeed the case for this project is uncertain.

The assumptions in the financial model are regarded as critical for any project relating to project finance issues. The reasoning behind each assumption is of utmost importance. The table below is an indicative element.

Assumptions in Financial Model
<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concession Period (yrs)</td>
<td>27 years</td>
</tr>
<tr>
<td>CPI (Unitary Fees, Local Opex, Capex)</td>
<td>6.0%</td>
</tr>
<tr>
<td>Foreign Inflation (Foreign Opex)</td>
<td>2.0%</td>
</tr>
<tr>
<td>R/$ Spot at Financial Close</td>
<td>11.00</td>
</tr>
<tr>
<td>R/$ Annual Depreciation (% increment / decrement over current forward curve)</td>
<td>0.0%</td>
</tr>
<tr>
<td>CPI Senior Debt (% of Total Funding)</td>
<td>?</td>
</tr>
<tr>
<td>Fixed Senior Debt (% of Total Funding)</td>
<td>?</td>
</tr>
<tr>
<td>CPI Senior Debt All-in Base Rate</td>
<td>?</td>
</tr>
<tr>
<td>CPI Senior Debt Net Margin</td>
<td>1.50%</td>
</tr>
<tr>
<td>Fixed Senior Debt All-in Base Rate</td>
<td>8.0%</td>
</tr>
<tr>
<td>Fixed Senior Debt Net Margin</td>
<td>1.50%</td>
</tr>
<tr>
<td>Senior Debt Interest and Capital Grace (months)</td>
<td>24 months</td>
</tr>
<tr>
<td># of Senior Debt Repayments</td>
<td>?</td>
</tr>
<tr>
<td>Senior Debt - Estimated Repayment Date</td>
<td>31-Mar-55</td>
</tr>
<tr>
<td>Senior Sculpting Ratio (First 10 yrs)</td>
<td>?</td>
</tr>
<tr>
<td>Senior Sculpting Ratio (Yr 11+)</td>
<td>?</td>
</tr>
<tr>
<td>Senior + MRA Sculpting Ratio (First 10 yrs)</td>
<td>?</td>
</tr>
<tr>
<td>Senior + MRA Sculpting Ratio (Yr 11+)</td>
<td>?</td>
</tr>
<tr>
<td>Minimum Size of DSRA account (R'000)</td>
<td>?</td>
</tr>
<tr>
<td>S/holder Loans (% of Equity)</td>
<td>?</td>
</tr>
<tr>
<td>Interest Rate on S/holder Loans (Nominal % p.a.)</td>
<td>16.0%</td>
</tr>
<tr>
<td>Drawdown Profile (0 = Input; 1 = Pro-rata)</td>
<td>0</td>
</tr>
<tr>
<td>Construction Period (Final Completion) - months</td>
<td>?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>Net Unitary Payment (R'000 - January 2014 terms)</td>
<td>R 183m</td>
</tr>
<tr>
<td>Extra UF Fee (Upfront %)</td>
<td>?</td>
</tr>
<tr>
<td>Unitary P'met Escalation in April 05 (0 = No; 1 = Yes)</td>
<td>0</td>
</tr>
<tr>
<td>Opex Escalation method (0 = No benchmarking; 1 = 5yrs; 2 = 8yrs)</td>
<td>0</td>
</tr>
<tr>
<td>MRA Req'd (0 = No; 1 = Yes)</td>
<td>1</td>
</tr>
<tr>
<td>MRA Funded up-front (R'000)</td>
<td>0</td>
</tr>
<tr>
<td>Date of up-front MRA Funding</td>
<td>Mar-15?</td>
</tr>
<tr>
<td>Maximum transfer from MRA (R'000)</td>
<td>?</td>
</tr>
<tr>
<td>Tax Rate (yr 1 to 5)</td>
<td>?</td>
</tr>
</tbody>
</table>

### 4.3 Funding and application of sources

It is imperative to understand the funding structure as well as how the funding is applied. For instance the equity contribution is 10%, whilst debt funding is 90%. Although this structure has a high-gearing, it is typical of national government accommodation projects. The cash flow stream is the important factor as this determines the viability of the project. Below is an example.
### Source and Application of Funds

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>R'000</th>
<th>APPLICATION</th>
<th>R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>100</td>
<td>D&amp;C Capex</td>
<td>920 000</td>
</tr>
<tr>
<td>Shareholder loans</td>
<td>99 900</td>
<td>Up-front Costs</td>
<td>50 000</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>900 000</td>
<td>Funded DSRA</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Input VAT Financed</td>
<td>10 000</td>
</tr>
<tr>
<td>Total</td>
<td>1 000 000</td>
<td>Total</td>
<td>1 000 000</td>
</tr>
</tbody>
</table>

### Capital Structure

<table>
<thead>
<tr>
<th>FUNDING SOURCE</th>
<th>(R'000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>100</td>
<td>0.1%</td>
</tr>
<tr>
<td>Shareholder loans</td>
<td>99 900</td>
<td>9.9%</td>
</tr>
<tr>
<td>Total shareholder funding</td>
<td>100 000</td>
<td>10.0%</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>900 000</td>
<td>90.0%</td>
</tr>
<tr>
<td>Total Funding required</td>
<td>1 000 000</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### 4.4 Overview of returns – Results from the Financial Model

#### 4.4.1 Unitary payment NPV calculation

For comparison purposes, the NPV of the Unitary Payment has been computed using the discount rates specified by the COT in the RFP. The Unitary Payment flows discounted at the real and nominal rates are summarised below:

<table>
<thead>
<tr>
<th></th>
<th>NPV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NPV of Unitary payment (real @ 5.8% discount rate)</td>
</tr>
<tr>
<td>2</td>
<td>NPV of Unitary payment (nominal @ 11% discount rate)</td>
</tr>
</tbody>
</table>
The ? billion real NPV of the Unitary payment or fee, is the present value of the total nominal value of the unitary fee of ? billion discounted back to present value.

After all Senior loans have been repaid in 2055, the cash available for shareholders jumps from ? million to ? million. This is typical of PPP projects of this nature.

4.4.1.1 Financial ratios

The bid has been optimised by sculpting real repayments in conjunction with transfers to the Maintenance Reserve Account ("MRA") to produce a flat DSCR at the requisite levels. The ratio levels are derived as outputs from comprehensive and detailed sensitivity analyses.

The Base Case Financial Model (Variant) Ratios are summarised in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
<th>Yr 5</th>
<th>Yr 10</th>
<th>Yr 15</th>
<th>Yr 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSCR(^1) (excl cash)</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
<td>1.14</td>
</tr>
<tr>
<td>DSCR (excl cash, before MRA transfers)</td>
<td>1.24</td>
<td>1.24</td>
<td>1.24</td>
<td>1.24</td>
<td>1.24</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td>LLCR(^2)</td>
<td>1.15</td>
<td>1.15</td>
<td>1.16</td>
<td>1.16</td>
<td>1.16</td>
<td>1.17</td>
<td>1.19</td>
<td>1.50</td>
</tr>
<tr>
<td>PLCR(^3)</td>
<td>1.25</td>
<td>1.26</td>
<td>1.27</td>
<td>1.28</td>
<td>1.29</td>
<td>1.40</td>
<td>1.71</td>
<td>5.17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ratio Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project IRR (pre tax) – real</td>
<td>?</td>
</tr>
<tr>
<td>Project IRR (pre tax) – nominal</td>
<td>?</td>
</tr>
<tr>
<td>Project IRR (post tax) – real</td>
<td>?</td>
</tr>
<tr>
<td>Project IRR (post tax) – nominal</td>
<td>?</td>
</tr>
</tbody>
</table>

\(^1\) DSCR: Debt Service Cover Ratio
\(^2\) LLCR: Loan Life Cover Ratio
\(^3\) PLCR: Project Life Cover Ratio
### 4.4.1.2 Ongoing Capex

The project allows for $m$ of asset replacement costs over the concession period. With this amount of ongoing capex commitment the team is confident that this will ensure that the assets will be handed back to the COT in a sound condition (excluding reasonable wear and tear).

#### 4.4.1.3 Sensitivities related to the Unitary fee

The project revenue is reflected in the unitary fee, a crucial element in the viability of the project. Some of the more important risks include tax risk in a high inflation environment and the challenge of inflation, forex risk, etc.:

- The project as structured is positively correlated with the inflation rate. Therefore, if actual inflation exceeds the level that is assumed in the base case, more cash is generated over the period of the concession and the project becomes more robust in substance. This is demonstrated by the increasing shareholder IRR under higher inflation scenarios.

- However, it is recognised that the improved project economics may result in the timing of certain income tax payments being brought forward under higher inflation scenarios. These circumstances were examined by the Private Party and its Lenders in the process of securing a fully underwritten financial structure.

- In particular, Lenders became comfortable with these scenarios by comparing the cash shortfall with the debt service reserve account balance prevailing immediately prior to any such shortfall arising. Importantly, the cash in the debt service reserve account is fully secured and controlled by the Lenders and intended to deal with temporary cash shortfalls of this nature. Once the debt service reserve account has been utilised, Sponsor is required to refill it in accordance with the agreed cashflow waterfall.
The table below details the base case position (CPI of 5% throughout), a 6.5% CPI scenario (as per the COT example), as well as a 9% CPI scenario in order to provide additional comfort.

4.4.1.4 Building cost

The total Design & Construction Cost amounts to ?, which includes app. ? million professional fees, i.e. ? which compares favourably to the average ? normally applicable for multi-disciplinary professional teams. Escalation and contingencies have been built into the construction costs.

The unit costs per functional area are presented in the table below:

<table>
<thead>
<tr>
<th>ELEMENT</th>
<th>AREA</th>
<th>NET BUILDING COST/m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>VIP</td>
<td>15,845 m²</td>
<td>R 9,167/m²</td>
</tr>
<tr>
<td>Offices in core</td>
<td>18,000 m²</td>
<td>R 5,542/m²</td>
</tr>
<tr>
<td>Offices #2</td>
<td>16,200 m²</td>
<td>R 5,585/m²</td>
</tr>
<tr>
<td>Offices #3</td>
<td>13,700 m²</td>
<td>R 5,642/m²</td>
</tr>
<tr>
<td>Street &amp; Basement</td>
<td>74,050 m²</td>
<td>R 5,287/m²</td>
</tr>
<tr>
<td>Conference facility</td>
<td>2,280 m²</td>
<td>R15,700/m²</td>
</tr>
</tbody>
</table>

The above analysis indicates how the cost per square meter varies in relation to the type of finishes, fittings and the size and shape of the facility. The project team is satisfied that it is in keeping with the function and standard of what is required for a building of this
5. Conclusion

To say that I am disappointed by the manner in which the public is consulted is putting it mild.

It is obvious for some time that the spirit of the public sector is under huge threat in being transparent and accountable. Viewing the documentation put out for public comment in this case, is testimony to the reality existing in the RSA, that we do not want to be open, transparent and accountable to the taxpayers.

Therefore the legislation and regulations are abused, to provide minimum information, but to proof that the public or community has been consulted. It seems as if no conscience can be traced in this regard. The COT may argue that this is normal in the RSA. The question is who sets the standards for the COT, others that are doing the same or us (All of us).

When one has the power and authority, as a leader, you should not compromise yourself as eventually you will fall short of what is required.

My prayer is that after all the above, we will all attempt to make the world we live in better, rather than being co-responsible for destroying the values and ethics we should all adhered to.

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Tshwane House PPP;
Independent value for money assessor report

Document Number: TSH PPP 7
Revision: 7 - final
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(an addendum was added to this report on 25 November 2014)

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Author: Independent value for money assessor - Hermé Goosen
Report Issued to: Peter Aborn
Status: Final

Total Pages: 27
1. Aim of the report
2. Degree of accuracy and underlying data
3. Premise of the report and executive summary
4. Definitions, assumptions and methodology
5. Summary of data based on the September 2013 survey
6. Factors considered in the benefit analysis for Tshwane House
   a. Parking
   b. Saving through more efficient space usage
   c. Annual rental amount released from existing portfolio
   d. Release from maintenance provision on the owned portfolio
   e. Increased productivity
   f. Operational cost saving
   g. Churn cost
   h. Physical security (guards)
   i. Meeting area rationalisation
   j. Management cost
   k. Facility availability
   l. Tshwane House building terminal value
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   p. Factors of importance not included in calculations
      i. Sammy Marks banquet hall and conference centre
      ii. Sammy Marks area above the library
   q. The ‘remaining portfolio’
   r. Conclusion
Annexure A
1. Aim of the report

The purpose of this report is to provide a value for money analysis for the Tshwane House PPP based on existing property leases as a point of departure. The report also aims to quantify in monetary terms certain ‘soft issues’ such as potential effects of accommodation on personnel productivity. The report also takes into account the owned properties in the city centre.

_The report attempts to reduce future cash flow- and terminal values for several relevant factors to a single net present value (NPV) monetary benefit amount. This monetary amount is to be compared to the 25-year NPV cost of the proposed PPP in order to establish whether the PPP holds benefit for the city._

2. Degree of accuracy and underlying data

Data for leases was provided by the City of Tshwane. Lease documentation was not audited. The report therefore relies on the information given by the City.

The authors estimate an accuracy level (level of certainty) of 80%.

Fourteen buildings were included in the underlying data for the report.

The report does not take into account factors such as tax implications. It is purely a cash flow NPV approach.

The project was compiled by an independent consultant not linked to the Tshwane House PPP project.
3. Premise of the report and executive summary

The NPV cost benefit of executing the PPP is estimated to be R 617,97 million over the next 25-years.

*This figure is arrived at by taking into account the factors in the table below and which are each unpacked further in the rest of the report.*

*Decision makers must compare the unitary NPV cost of the PPP to the sum total of the PV and NPV benefits of the PPP determine a net result (benefit or not). The NPV value of the unitary amount is estimated at R 4,324 billion (the ‘cost’), and the benefit of the PPP is estimated at R 4,942 billion, i.e. a net benefit of R 617,97 million over the next 25-years in today’s money.*
It is important that the reader understands the basis of this report; the terminal value of single future values were discounted to present values. The same was done for future cash flow streams which were discounted to net present values. Future values are therefore demonstrated in present time value terms, and which is the original basis of ‘time value of money’ calculations.

The report therefore simply states what a future terminal value would be worth in today’s money, and the same for a positive or negative cash flow stream over the next 25-years. A discount value of 5.8%/annum was used, and which is considered by the author to be representative of the average inflation rate for comparing ‘money to money’ in layman’s terms. The author simply wanted to establish what (for example) a R 100 million received 25-years from now would mean in today’s terms, or in the inverse, what a white bread would cost 25-years from now.

There is in the author’s opinion no other comprehensible manner of comparing future values with present values, and the subject of this PPP is a 25-year investment decision which makes the interpretation of future monetary values of the essence.

This report simply does the following:

1) It calculates the net present value over the next 25-years for the annual unitary amount (the ‘cost’)

2) It calculates the present value (PV) and net present (NPV) value benefits for future terminal value benefits and cash flows if the PPP is implemented (the ‘benefit’)

3) It then compares the PV and NPV benefits of a PPP to the NPV cost of the unitary amounts

4) If the sum of the NPV and PV benefits of a PPP is more than the NPV of the unitary amounts, the PPP project is deemed to be beneficial

To conclude this important premise on which the report is based, one could ask a ratepayer in Tshwane the following question: ‘Currently you pay R 1,000/month rental. Here is the new deal: If you pay R 800/month towards the use and occupancy of a property for the next twelve months, you save R 200/month on your current rental, and at the end of the next year you will own 5% of the property which will be worth R 400,000. Will you do it?

The constituent will quickly calculate the annual cost as R 9,600, the benefit as R 2,400 and the terminal benefit as R 20,000. Does the benefit of R 22,400 beat the cost of R 9,600? Of course it does, even if the ratepayer might forget that in a year from now R 20,000 might be worth slightly less than it is today, the R 200 saving per month needs to be discounted to a NPV, and there is opportunity cost on the R 800/month paid. Over this short term, the benefits of this investment is obvious. This report aims to follow this simple approach for the PPP, as in the final instance Tshwane needs to be able to defend this strategic investment decision to its ratepayers.
I will have to spend less (save/benefit): R 12 000 (1)

<table>
<thead>
<tr>
<th>New deal:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost (call it 'unitary cost'):</td>
<td>-R 9 600 (2)</td>
</tr>
<tr>
<td>Asset value (call it 'terminal value'):</td>
<td>R 20 000 (3)</td>
</tr>
<tr>
<td><strong>Net benefit ('value for money'):</strong></td>
<td><strong>R 22 400</strong> (1+2+3)</td>
</tr>
</tbody>
</table>

In exactly the same manner when implementing the PPP, Tshwane will have to pay less (save/benefit) on existing leased space, but there will be a cost involved (the unitary amount), and at the end of the period Tshwane will own an asset (terminal value).

This report follows this simple approach in more detail.

The question then remains whether the discount rate for PV and NPV calculations should be the ‘inflation rate’ of 5.8%, or whether it should include financing cost, opportunity cost, risk and the like.

The answer is that the private party has already included these factors in its unitary amount. If we now AGAIN include these factors in the discount rate, the NPV of the unitary would be unrealistically low. The fact that the private party has already accounted for these factors in its ‘cost’ (unitary amount), means that for the purposes of this report we really only have to explain how money in 25-years from now needs to be expressed in current values (PV and NPV).

*This report therefore really applies PV and NPV calculations to CASHFLOW, and at the risk of repetition, it considers the PV/NPV benefits of a PPP decision to the NPV cost of that same decision, and the cost is reflected by the NPV value of the 25-year unitary payment.*

4. Definitions, assumptions and methodology

**NPV** – the net present value of future cash flows, calculated with the formula:

Each cash inflow/outflow is discounted back to its present value (PV). Then they are summed. Therefore NPV is the sum of all terms,

\[
NPV = \sum_{t=0}^{T} \frac{R_t}{(1+i)^t}
\]

where

- \( t \) – the time of the cash flow
- \( i \) – the discount rate (the rate of return that could be earned on an investment in the financial markets with similar risk); the opportunity cost of capital
\[ R_t = \text{the net cash flow i.e. cash inflow} - \text{cash outflow, at time } t. \text{ For educational purposes, is commonly placed to the left of the sum to emphasize its role as (minus) the investment.} \]

In all instances, periods (time) were taken as 25 (years) and rates were considered over annual periods and at the end of the relevant period.

**PV** – present value, calculated with the formula:

\[
\frac{C}{(1+i)^N} \]

where

\[ C - \text{is the future amount of money that must be discounted} \]

\[ N - \text{is the number of compounding periods between the present date and the date where the sum is worth} \]

\[ i - \text{is the interest rate for one compounding period (the end of a compounding period is when interest is applied, for example, annually, semiannually, quarterly, monthly, daily). The interest rate } i \text{ is given as a percentage, but expressed as a decimal in this formula} \]

**FV** – future value, calculated with the formula (compound interest):

\[ PV \times (1+i)^t \]

\[ t - \text{is the number of compounding periods (not necessarily an integer)} \]

\[ i - \text{is the interest rate for that period} \]

**Efficiencies** – expressed in square meter per person based on the estimated GLA. No as built drawings were available and the authors estimated this in various ways, such as fire evacuation drawings available in buildings, physical measurements and Google Earth measurements in some instances.

**Real efficiencies and ‘apparent useable area’** – many of the older buildings in the portfolio are inefficient in space optimisation due to large cores (lifts, ablutions, fire escapes and related); the authors therefore tried to distill efficiency to a useable floor plate level, which differs from GLA. This was done in order to arrive at a realistic estimate of the area that personnel would occupy in the new building.

**GLA (Gross Lettable Area)** – in this report, GLA does not refer to any formal systems of measurement (for example that proposed by SAPOA (South African Property Owners’ Association)). GLA was taken simply from the information provided by the City of Tshwane, and represents the square meterage on which rent is being paid at present.
**Assumptions:**

The following assumptions were made for discounted cash flow calculations, and which relates to all calculations:

**Input for discounted cash flow calculations:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction cost per m² for maintenance calculation</td>
<td>R 17 000</td>
</tr>
<tr>
<td>GLA to GBA</td>
<td>1.2</td>
</tr>
<tr>
<td>Capitalisation rate</td>
<td>9.50%</td>
</tr>
<tr>
<td>Rental escalation rate</td>
<td>8.50%</td>
</tr>
<tr>
<td>Discount rate (=inflation)</td>
<td>5.80%</td>
</tr>
<tr>
<td>Parking bay construction cost</td>
<td>R 209 000</td>
</tr>
<tr>
<td>Target personnel density per ‘apparently useable floor space’</td>
<td>23 m²/person</td>
</tr>
<tr>
<td>Quantity of personnel in new building</td>
<td>1 501</td>
</tr>
<tr>
<td>Ops cost estimated as a percentage of rental</td>
<td>17.5%</td>
</tr>
<tr>
<td>Assumed annual average payroll cost to company/person</td>
<td>R 280 000</td>
</tr>
<tr>
<td>Assumed increase in productivity - new building</td>
<td>8%</td>
</tr>
<tr>
<td>Assumed increase in productivity - remaining portfolio</td>
<td>3%</td>
</tr>
<tr>
<td>Assumed decrease in operational cost due to building efficiency</td>
<td>15%</td>
</tr>
<tr>
<td>Assumed increase in facility availability</td>
<td>1.5%</td>
</tr>
</tbody>
</table>
5. Summary of data based on the September 2013 survey

<table>
<thead>
<tr>
<th>Buildings reviewed:</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average rental rate/m² excl. op cost:</td>
<td>R 86</td>
</tr>
</tbody>
</table>

### Total GLA, leased and owned:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total leased GLA (12):</td>
<td>100 580</td>
<td></td>
</tr>
<tr>
<td>Total owned GLA (2):</td>
<td>9 228</td>
<td></td>
</tr>
<tr>
<td></td>
<td>109 808</td>
<td></td>
</tr>
</tbody>
</table>

### Head counts (Sep 2013):

| Head count in leased buildings: | 2 503 |
| Head count in owned buildings: | 342   |
| Total current head count:      | 2 845 |

### Efficiencies:

| Density in leased buildings on GLA: | 40.18 m²/person |
| Density in owned buildings on GLA: | 26.98 m²/person |
| Overall density on GLA:            | 38.60 m²/person |

### Real efficiencies:

| Total leased 'apparent useable area' to GLA: | 78 404 m² | 77.95% efficiency |
| Total owned 'apparent useable area' to GLA:  | 8 112 m²  | 87.90% efficiency |
| Densities in leased buildings on 'AUA':      | 31.32 m²/person |     |
| Densities in owned buildings on 'AUA':       | 23.72 m²/person |     |

### Optimisation possibilities (current):

| Estimated optimisable area in current portfolio: | 2 177 m² |
| Possible additional/migration personnel qty:     | 187 persons at 25m²/person |
| Three year optimisation saving possible (NPV):   | R 7 633 715 |
| Available for churn per person (maximum):        | R 40 822  |
6. Factors considered in the benefit analysis for Tshwane House

a. Parking

As per September 2013, the City controlled 1821 parking bays as indicated below:

<table>
<thead>
<tr>
<th>Parking</th>
<th>Bays</th>
<th>Rate per bay</th>
<th>Annual rental</th>
<th>Personnel per bay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Bank</td>
<td>30</td>
<td>R 0.00</td>
<td>R 0</td>
<td>8.6</td>
</tr>
<tr>
<td>BKS Building</td>
<td>166</td>
<td>R 665.50</td>
<td>R 1,325,676</td>
<td>2.5</td>
</tr>
<tr>
<td>Bothongo Plaza E</td>
<td>121</td>
<td>R 585.64</td>
<td>R 850,349</td>
<td>2.3</td>
</tr>
<tr>
<td>Bothongo Plaza W</td>
<td>115</td>
<td>R 585.64</td>
<td>R 808,183</td>
<td>0.5</td>
</tr>
<tr>
<td>Capitol Towers N</td>
<td>70</td>
<td>R 498.22</td>
<td>R 418,504</td>
<td>2.6</td>
</tr>
<tr>
<td>Communica</td>
<td>51</td>
<td>R 484.78</td>
<td>R 296,685</td>
<td>1.4</td>
</tr>
<tr>
<td>Ex Mercedes</td>
<td>80</td>
<td>R 475.83</td>
<td>R 456,794</td>
<td>1.0</td>
</tr>
<tr>
<td>Exco office</td>
<td>0</td>
<td>R 0.00</td>
<td>R 0</td>
<td>0.0</td>
</tr>
<tr>
<td>Isivuno House</td>
<td>200</td>
<td>R 0.00</td>
<td>R 0</td>
<td>2.1</td>
</tr>
<tr>
<td>Opera Plaza</td>
<td>0</td>
<td>R 0.00</td>
<td>R 0</td>
<td>0.0</td>
</tr>
<tr>
<td>Rondalia</td>
<td>115</td>
<td>R 534.60</td>
<td>R 737,752</td>
<td>2.4</td>
</tr>
<tr>
<td>Saambou</td>
<td>74</td>
<td>R 506.99</td>
<td>R 450,209</td>
<td>3.9</td>
</tr>
<tr>
<td>Galleria &amp; loft</td>
<td>0</td>
<td>R 0.00</td>
<td>R 0</td>
<td>0.0</td>
</tr>
<tr>
<td>266 Schoeman (parking)</td>
<td>250</td>
<td>R 0.00</td>
<td>R 0</td>
<td>0.0</td>
</tr>
<tr>
<td>Forchburg (parking)</td>
<td>39</td>
<td>R 652.86</td>
<td>R 305,536</td>
<td></td>
</tr>
<tr>
<td>Louis Pasteur (parking)</td>
<td>30</td>
<td>R 517.54</td>
<td>R 186,316</td>
<td></td>
</tr>
<tr>
<td>Sammy Marks</td>
<td>480</td>
<td>R 265.13</td>
<td>R 1,527,158</td>
<td></td>
</tr>
<tr>
<td><strong>1821</strong></td>
<td></td>
<td><strong>R 524.79</strong></td>
<td><strong>R 7,363,163.28</strong></td>
<td></td>
</tr>
</tbody>
</table>

The average rate per bay paid by the City seems to be R 525/bay. The head count during site visits was 2,503 persons. It would therefore seem as if on average there are 1.38 persons employed per parking bay, and which points to a fairly low utilisation of public transport. There might be an increased trend towards utilising private transport in years to come as employees become more affluent, and which will increase the cost burden for Tshwane in providing personnel parking.

Given the average of 1.38 persons per bay, it is apparent that there is a huge discrepancy in parking allocations across the City. People in Bothongo Plaza West as an example, have to cope with an allocation of 0.5 bays per person. Given that this site is fairly remote, this refers back to the possible increase in productivity when most activities are consolidated in one site.
The NPV benefit for parking was calculated as per the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Average rate per bay:</th>
<th>Qty of bays planned:</th>
<th>First year cash outflow now saved:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-R 255 398 000</td>
<td>1 222</td>
<td>R 7 695 577</td>
</tr>
<tr>
<td>2</td>
<td>R 8 141 920</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>R 8 614 152</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>R 9 113 773</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>R 9 642 371</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>R 10 201 629</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>R 10 793 323</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>R 11 419 386</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>R 12 081 658</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>R 12 782 394</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>R 13 523 773</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>R 14 308 151</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>R 15 138 024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>R 16 016 030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>R 16 944 959</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>R 17 927 767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>R 18 967 578</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>R 20 067 697</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>R 21 231 623</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>R 22 463 058</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>R 23 765 915</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>R 25 144 338</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>R 26 602 710</td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>R 28 145 667</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>R 29 778 115</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>R 313 453 846.68</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Terminal value: R 343 231 962

NPV: R 17 010 866

For purposes of calculating the NPV benefit, the initial investment was taken at R 209,000 per bay. The initial investment is therefore R 255,398 million. This rate is meaningfully higher than that predicted by for example the AECOM annual report ([https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0CCFQFjAB&url=http%3A%2F%2Fwww.aecom.com%2Fdeployedfiles%2FInternet%2FGeographies%2FAfrica%2FConstructionHandbookFinal_v2.pdf&ei=fnypU67FPla4wifYGCw&usg=AFQjCNFqBTKMNypd4wSoCuaGNYF8lBicxzw&bvm=bv.68911936,d.bGE](https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0CCFQFjAB&url=http%3A%2F%2Fwww.aecom.com%2Fdeployedfiles%2FInternet%2FGeographies%2FAfrica%2FConstructionHandbookFinal_v2.pdf&ei=fnypU67FPla4wifYGCw&usg=AFQjCNFqBTKMNypd4wSoCuaGNYF8lBicxzw&bvm=bv.68911936,d.bGE)), but rates for structured underground parking vary meaningfully based on local geotechnical and erf-boundary conditions. The value is high, but is therefore conservative as it lowers the NPV for
the parking calculation. The terminal value was calculated at R 313,45 million at a
capitalisation rate of 9,5%.

At the outset, it is important to understand the terminal values. Tshwane is not just paying
rent. It will OWN the assets in 25-years. Such is the nature of a PPP. It could then decide to
continue owning, or it could sell to an investor. Be as it may, there is a very definite terminal
value at the end of the 25-years.

The income capitalisation method of valuing properties was used in determining terminal
values for assets. This method simply involves dividing the net annual income for a property
by the required return of the investor. This required rate of return has hovered around 8,5%
to 11,5% per annum for decades now. The required return is determined by factors such as
opportunity costs, financing costs, and the risk factor taking into account predictions for the
micro geographical area, but also local-, regional- and national trends, and then of course
current research as done by amongst others, Erwin Rode.

The following simple reasoning of a potential property investor underlies this approach; ‘I
have R 10 million capital available. If I invest it at an interest of 10% at a bank (low risk), I will
get R 1 million interest per year interest income. Now, if a property with the same risk
profile gives me a net income (before tax) of R 1 million per year, how much will I be willing
to invest in the property?’ The obvious answer is: R 10 million, i.e. R 1 mio/10%.

b. Saving through more efficient space usage

Current real densities per apparent useable floor area as defined is at an average of 38.6
m²/person. (Visualising this, it would equate to an area of almost five meters by seven point
seven two meters per person). For purposes of calculation the benefit of the property
released from rental in the existing CBD portfolio could therefore simply have been
calculated on 38.6 m²/person, but is was broken down into two concepts for clarification,
being ‘annual saving through more efficient space use’, and ‘annual rental amount released
from the existing rental portfolio’.

This was done to highlight how much space would be released from the current leased
portfolio just to arrive at a proper density/person of 23m²/person, and then again what the
effect would be of releasing a normal and efficient square meterage from the current leased
portfolio.
c. Annual rental amount released from existing portfolio

The proposed PPP building will release the equivalent of seven buildings from the current lease portfolio. This is estimated by dividing the total occupancy of the new building (1501) by the average occupancy of the fourteen buildings under consideration.

In calculating the area released from the existing portfolio, a target density of 23 m²/person was assumed and multiplied by the occupancy of the new building, being 1501 people. The annual rental amount released from the existing portfolio is then R 35,72 million in the first year. The annual rental escalation was taken at 5.85%.

The 25-year NPV for rental commitments released from the existing portfolio is R 844 million and is predictably one of the larger contributors to the PPP benefit.

The table below indicates some of the values arrived at and used in calculating this element:

<table>
<thead>
<tr>
<th>Offices:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current average density per 'apparent useable area':</td>
<td>38</td>
</tr>
<tr>
<td>Target density per 'apparent useable area':</td>
<td>23</td>
</tr>
<tr>
<td>Saving in existing leased space in m² per person:</td>
<td>16</td>
</tr>
<tr>
<td>Quantity of persons in new building:</td>
<td>1501</td>
</tr>
<tr>
<td>Average rental rate per m²:</td>
<td>R 86</td>
</tr>
<tr>
<td>Related ops cost:</td>
<td>R 15.09</td>
</tr>
<tr>
<td>Total cost per m² average in existing rental portfolio:</td>
<td>R 101</td>
</tr>
</tbody>
</table>

In performing this calculation, it should be noted that the rental escalation as per the leases is in fact probably closer to 8,5% average. The escalation was however done at the deemed average inflation rate of 5,8%.

This was done based on the premise that a 8,5% escalation rate is not sustainable over a 25-year period. In practise, landlords attempt to sign ten-year leases at a 8,5% to 9,5% escalation rate, but this is of course higher than the average inflation rate and which in practice leads to downward rental escalations every ten years.

This principle is demonstrated in Rode’s Report 2013:2 which shows that (depending where one finds yourself in the property cycle), the Pretoria CBD rentals were between R 55/m²and R 65/m²in real rates (and 2005 values) for the period 1995 to 2013.

Although Rode uses the BER BCI (Bureau for Economic Research’s Building Cost Index) (as motivated in the report on page 25), the principle holds true that rental escalations cannot exceed the inflation rate over the long term.

d. Release from maintenance provision on the owned portfolio

It is possible to estimate the amount that should be spent on the owned portfolio by considering the current building condition. An in depth audit of the owned buildings fell outside the scope of this report. Based on research done by the University of Pretoria (C E Cloete (ed), Principles of Property Maintenance, SA Property Education Trust, 2001), 15% of the replacement value should be spent on a medium maintenance requirement over a five year cycle to bring that building back to an ‘as new’ condition if that building is currently in a maintenance condition 3, where after it is only necessary to spend 3.75% of the replacement value over future five year cycles to keep the building in that condition.

This principle is illustrated in the graph below:
Conceptual Budget: 5 Year Maintenance Cycle

5-Year Maintenance & Renovation Budget as a % of Replacement Value

High Maintenance Requirement
Medium Maintenance Requirement
Low Maintenance Requirement

Note: Full budget utilisation over the 5-year cycle will elevate the building to condition 5 (as new)

Source: C E Cloete (ed), Principles of Property Management, S A Property Education Trust, 2001
In calculating the replacement value for the buildings, the estimated gross lettable area was used as the gross building area is unknown (no accurate information is available in the form of as built drawings). The estimate for the replacement value is therefore probably quite conservative.

Calculations done demonstrate that the maintenance cost decreases in year five according to the principle explained above, and then escalates only by the inflation rate in subsequent years.

The NPV benefit amounts to R 23,26 million.

The Bitts Centre and Ou Raadsaal was left out of the calculation as the City will probably continue to own and operate these buildings.

e.Increased productivity

The benefit of so called ‘green buildings’ is often misunderstood. The benefit of ‘green building’ is relegated to the savings in energy consumption, and mostly caused by savings in HVAC (heating, ventilation and air-conditioning) savings, as well as electrical consumption savings caused by more efficient lighting and heating of water.

Looking at ‘green building’ from this perspective proliferates the idea that, from a landlord perspective, the extra cost of green building is a ‘grudge buy’. The reason for this is that any utility savings is largely for the benefit of the tenant, not the landlord.

The author maintains however that utility savings is the tip of the proverbial iceberg when it comes to the advantages of green building.

The actual benefit comes from increased worker productivity.

When this is stated, the usual response is:

1) This opinion is based on international research, and South Africa is different to Europe and the Americas

2) The ‘bosses’ are going to sit in the new Tshwane House, and the workers will be separated from them, so there will not be a productivity increase

3) How can ‘they’ measure this – it is probably very subjective

The intelligent response to these remarks is probably the following:
1) No matter if you are South African, all peoples across the world probably respond positively to the correct ambient lighting, the most desirable temperatures and fresh air levels, and the simple fact that the printer station is now closer to you workplace, and you do not have to postpone a meeting to next week due to a lack of meeting space, and the appropriate lease depths (absence of glare and outside visibility).

2) How close the ‘bosses’ are is only one aspect influencing productivity. There are several other factors that influences productivity (as above). One only has to visit a few of the rental buildings in the existing CBD rental portfolio to understand how absolutely sub-optimal these spaces are from a worker efficiency perspective.

3) The measurements have long moved beyond the subjective; criteria such as sick days taken is in fact very objective.

The effect of the built environment on the people operating within that environment is a much neglected reality. The annual payroll expense for 1501 people at a per capita cost to company of R 280,000 amounts to a payroll expense of more than R 420 million per annum. In this report, an increase in productivity of 10% attributes to a NPV benefit of R 1,36 billion over the duration of the PPP. It is by far the most sensitive variable and the biggest contributor to the PPP benefit calculation.

In reality, a ten percent increase in productivity would equate to 48 additional productive minutes in a working day. Taking into account the existing property portfolio, that is perhaps less time than currently spent just on walking to and from parking garages for many employees. Academic research for this aspect will be quoted further on in this report.

The effect of a well-designed and –constructed building has a meaningful impact on worker productivity and is therefore directly linked to payroll expenses and in the opinion of the author, leaving this fact out of a benefit calculation would neglect an increasing volume of academic research, best practice adoption and pure common sense.

In an informative article by Miller, Spivey and Florance, reference is made to a book published by Aardex Corporation, which indicated an increase of tenant productivity of more than 30%. The authors correctly state that more research is necessary to establish these claims and to ensure that it is not short term results or the placebo effect of new environments.

None the less, the authors also refer to a study by Greg Kats of Capital E Analytics in early 2007 and which provided a summary of benefits of green buildings as below:
More studies are also now becoming available and which point strongly to an understanding that well designed green buildings positively affect worker productivity on many levels. One also need to peruse the photographic records of the fourteen buildings visited in compiling this report to get an understanding of how sub-standard the accommodation is in many instances.

- [http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2920980/](http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2920980/)

Assuming a ten percent overall increase in worker productivity and assuming an average payroll cost per employee of R 280,000 per year, the NPV saving over 25-years is a meaningful R 1,366 billion, and one of the largest contributors to the PPP benefit.

The final question then usually is, ‘how does this translate into a cash advantage for the City?’.

The answer is two-fold.

1) The City has to deal with an ever increasing constituency caused by urban migration. To serve the increasing amount of clients, more personnel is needed. Increased personnel productivity means less personnel per client, and which gives a clear monetary advantage

2) Assuming that the clientele remains constant (and which is not the case in this scenario) productivity benefits are converted to money when personnel do not have to be
replaced as part of the natural attrition process (meaning that people who retire or resign are not replaced to the limit of the productivity increase)

f. Operational cost saving

In calculating the operational cost saving, the quantity of persons in the new building was multiplied by the current density on GLA, being 38.60 square meters per person. The current average rental per m² GLA (being R 86/m²) was then applied and an operational cost of 17.5% of rent was assumed.

The NPV of the operational cost saving contributes R 37,187 million to the PPP benefit.

The expected operational cost saving is expected to materialise mostly from savings in utility (water and electricity) costs.

g. Churn cost

Research indicates that most office environments have a churn rate of 30% per year, meaning that 30% of personnel will relocate to a new work space in any given year. 100% of personnel might therefore ‘churn’ every three years. Research has recorded churn rates of as high as 44%

The cost of ‘churning’ one person varies greatly, but quantity surveyors estimate the average churn cost per person to be in the order of R 25,000 per person per churn.

The major contributors to this churn cost is that of relocating data-, electrical- and telecoms points, acquiring new furniture and demolishing and erecting new partitions and setting up the worker’s computer on the network, along with the loss of productivity during the process.

It is conceivable that the new PPP building will decrease this cost for the following reasons:

- Furniture will be standardised
- Most churn is likely to take place within the confines of a single building, and not to adjacent buildings as is currently the case
- ICT setup (information communication technology) should be faster and simpler as churn will take place in the same building with the same adaptable ICT infrastructure
- Productivity should increase due to shorter (in time) churn projects
• The actual removal costs should be less as people will be churning inside the same building

In calculating the PPP benefit for churn, a 25% anticipated saving on churn costs were assumed, giving a NPV benefit of 73,891 million.

Research on churn rates in office environments can be accessed at:

During the survey done for this report, several spaces were being prepared for churn.

The reduced churn cost benefit over the 25-year period is estimated at 73,891 million.

h. Physical security (guards)


In calculating the possible PPP benefit that will be delivered by the new building, the assumption was made that one grade A (supervisory) and two grade D/E security guards would become obsolete for seven buildings.

The NPV benefit of this for the PPP would be R 72,998 million.

i. Meeting area rationalisation

All buildings currently have their own meeting-/breakaway rooms, most of which were not used during the time of the site visits done for this report.

Working on the assumption that fourteen meeting rooms can be omitted in the current portfolio, and at an average size of ten by five meters per meeting room, the PPP NPV benefit for this item would be R 17,12 million. This item was indicated ‘below the line’ for PPP net benefit purposes however for the sake of being conservative as it is difficult to estimate the quantity of meeting room seats that can be rationalised in the current portfolio.
j. Management cost

For a large facility such as the anticipated PPP building, property administrators would probably charge a fee of 1,5% of rental as a property administration fee.

With the fourteen buildings currently in the portfolio, the property administration cost is incorporated in the lease for each property.

In unifying at least seven buildings into the new PPP building, a material saving in property administration cost should be achievable.

In calculating the PPP benefit, a saving of 50% (seven buildings out of a total of fourteen) was assumed.

Based on these assumptions, a PPP benefit of R 6,363 million is plausible.

k. Facility availability

At present, facility availability is negatively affected by strikes and lock-outs and power (electrical) interruptions.

In estimating the additional facility availability, a 1,5% increase in facility availability was assumed, and applied to the payroll expense for the 1501 workers in the new facility.

As before, any application of an estimate linked to payroll has a meaningful impact on the PPP benefit, and in this instance that benefit is R 198,620 million.

l. Tshwane House building terminal value

The PPP building will revert to Tshwane at the end of the 25-year period and will therefore be a balance sheet asset.

In calculating the NPV of the building the GLA of the building (taken at 34,700 m²) was multiplied with the average city rental rate of R 86/m².

Assuming a capitalisation rate of 9,5%, the PV (present value) of the building would therefore be R 654 million.
m.HB Philips building current value

The building efficiency for the HB Phillips building is app. 83.3% based on the apparent useable floor area. The building efficiency based on gross building area will therefore be even less.

Using the conservative ‘apparent useable area’ estimate and applying an average rental rate of R 86/m², the value of the building at a capitalisation rate of 9.5% will be 60,685 million. The building is in a fair condition (condition 4), and given the maintenance calculation given above, an investor will probably factor a required maintenance cost of app. R 4,551 in when considering a purchase price. One must then also remember that the PPP building will be completed and there should therefore not be any reason for Tshwane to enter into new leases in the foreseeable future. A potential purchaser will probably factor this into an estimated purchase price as well. Realistically, the value of the building is therefore probably in the order of R 44.9 million, although a proper valuation will need to be done on the building before entering the market.

The possible net benefit of selling the building is shown as a ‘below the line’ value in the PPP net benefit summary.

n.Tshwane Vision 2055

It becomes a philosophical question as to whether the NPV benefit calculation should only be taken over a period of 25-years.

Given the nature of a PPP, Tshwane should receive ownership of a building in an almost as new fit for purpose condition at the end of the period. Should Tshwane decide to then manage the facility on its own, the annual cost should be somewhat less than the unitary amount as the profit incentive for the private partner is then removed. The benefits will however keep accruing.

This line of reasoning can of course not continue indefinitely as the building eventually has a finite life-span, but it is very conceivable that that life-span will be longer than the 2055 horizon.

Taking this as a strategic date then, and if the NPV calculation are done over a period of forty-years (2055 less 2013 less the two years from date of report to occupation), the PPP net benefit will increase markedly.
o. Quality of life benefits

Tshwane should ultimately make decisions that do not only hold financial benefit, but also quality of life- and service delivery benefits for its citizens.

A person wanting to pay a lights- and water account currently has to visit the BKS building. If she then has an enquiry from the Housing and Human Settlements Department, it will entail walking another four street blocks to Bothongo Plaza West. A final trip to Isivuno House will entail another trek to the south of the city. Any member of personnel not being available when the client arrives could cause a full day visit to the city to turn into a two day visit. For someone spending a substantial amount of his monthly disposable income on transport cost, this is not merely inconvenient, it is financially meaningful.

It obviously also affects productivity adversely for employed citizens.

There are also safety concerns in having to traverse the city on foot.

It would be very difficult to quantify such a statement, but it is conceivable that Tshwane’s revenue collection could improve simply by making it easier, safer and more convenient to visit relevant departments.

With the 2055 vision promising ‘game changing interventions’, ‘access to social, economic and enhanced political freedom and where citizens are partners in the development of the African Capital City of excellence’, it is conceivable that the proposed Tshwane House will aid in realising this vision.’ (Quoted from http://www.tshwane2055.gov.za/home/tshwane-2055-info/tshwane-vision-2055)
Factors of importance not included in calculations

i. Sammy Marks banquet hall and conference centre

This facility of approximately 4,400m² can be utilised to generate income from conferences and similar events. As an example of possible income, the Lanseria Country Estate currently offers rates of R 324 per person for its business training and meeting venue. (http://www.lanseriacountryestate.co.za/conference-and-teambuilding.aspx?gclid=CMi_jqC0p7wCFUYV3godJXoADA#.UusQB-627k0) Should the banqueting facility be utilised only one day per week for 50 people, the possible income would be R 842 thousand per annum.

ii. Sammy Marks area above the library

It could be possible to accommodate 400 office workers in an open plan office configuration in the area above the current library.

This information was provided by the architectural firm responsible for the PPP space planning. A full space planning design and costing fell outside the scope of this report.

Working on the same churn cost used above under paragraph 6 (R 25,000 per person), fitting out this area would amount to a project cost of R 10 million. Again assuming that a floor area of 28m²/person is released from a commercial rental portfolio by using this space, the annual rent role (excluding operational cost) will reduce by R 11,56 million per annum (taken at a rental cost of R 86/m²).

The fit out cost will of course be highly dependent on existing services in the building, whether any structural changes to the building will be required, and so forth. It must be clear from the figures however that this option warrants proper investigation.
q. The ‘remaining portfolio’

The Tshwane House project is actually a program, meaning that several projects will have to be concluded before the full benefit can be realised. Once personnel have been relocated to the new Tshwane House premises, 1,344 people will remain in the current CBD leased portfolio, and it would be necessary to relocate these workers to the equivalent of seven buildings.

It would be assumed that these workers will also be relocated to areas which have been properly space planned. For this purpose, it was assumed that these personnel would be mostly administrative workers, and that a final density of 18m²/person should be achievable.

The relocation would however still be to buildings not owned by the City, and one can therefore not expect the same productivity benefits or building availability increases as for Tshwane House, as one would have to work within the constraints of existing building design and landlord restrictions.

The productivity increase for this personnel component was therefore assumed to be only 3%, and not 10% as for the personnel relocating to Tshwane House. Placing this into perspective, it would mean that proper space planning and building alterations within landlord constraints would achieve a productivity increase of 14 working minutes per person per day. The input for these discounted cash flow calculations were as follows:

- **Persons in current inner city buildings:** 2,845
- **Persons to be relocated to Tshwane House:** 1,344
- **Persons remaining in inner city buildings:** 1,501
- **Current GLA density in inner city buildings:** 38.60 m²/person
- **Goal density for remaining inner city dwellers:** 18 m²/person
- **Saving in inner city area due to space optimisation:** 20.60 m²/person
- **Assumed optimisation cost per person:** R 25,000

The net NPV benefit for this component of the program was calculated to be R 1,249 billion.

The head-count of 2,845 persons is based on observations made during the site visits conducted in September 2013, and is slightly more than the 2,432 used in the TVR1 stage. Using the original number of 2,432 personnel, the benefit would have been R 865 million.

It was assumed that an amount of R 25,000/person would have to be spent in achieving an optimal relocation and associated tenant installation in the existing portfolio.
r. Conclusion

The net benefit of the PPP compared to the cost of it (the NPV of the 25-year unitary amount) is estimated to be in the region of R 618 million.

This benefit can be argued up or down by changing some of the data input assumptions, but given that the report is in the seventh (and final) format, having taken into account various valid opinions from stakeholders, the likelihood that any argument could prove the PPP not to have a net benefit is, in the opinion of the author, remote.

Not taken into account in this report is the substantial benefit of risk transfer from the public- to the private entity. Having served successfully on the facilities management bidder team for the completed dti (Department Trade and Industry) PPP, the author can attest to the fact that estimating uncertainty and risk increases exponentially over duration. To give but a few examples of these risks for the private party:

a) No equipment (HVAC, electrical, roof finishes, plumbing fittings, tiles etc.) comes with a 25-year guarantee. The standard guarantee period is five years, or at the most ten years. There is therefore no certainty from suppliers pertaining to replacement cycles over a 25-year period

b) No engineer can, for example, confirm that a central HVAC system will last for twenty-five years, and the private party must therefore take into account that the entire system might have to be replaced just before the end of the period

c) It becomes extremely difficult to predict life-cycles for lesser items; will the private party, for example, have to repaint the campus on a four- or six year cycle?

d) Economic conditions over a 25-year period is highly unpredictable. We have seen the cost of finance reach more than 25% in the past two decades

e) The labour market is highly volatile, and predicting that the cost of delivering services such as cleaning and hygiene, security services and the like will follow historic inflation trends, is very debatable

From personal experience, the author can attest that the risk element priced into the unitary amount is between 15% and 20%. This is a risk (benefit) which the public party transfers to the private party in a PPP scenario.

On a NPV unitary value of R 4,324 billion, a risk factor of only 5% will equate to a monetary value of R 216,2 million, and which would take the net benefit value as per this report to more than R 834 million.

The author therefore concludes that the Tshwane House PPP is, with a high probability, beneficial to the city and its rate payers.
Annexure A

This document is accompanied by a CD which includes all calculations and data used in compilation of this report, and which refers.

Addendum – 25 November 2014

The following changes were made to the calculations referred to in Annexure A based on the TVR 3 CM presentation done on 20 November 2014:

1) The **NPV of the unitary** was adjusted based on the actual unitary table used in the presentation. The NPV of the unitary amount increased from R 4,324,196,597 to R 4,840,905,787, i.e. an increase of R 516,709,190

2) The **quantity of personnel in the new building** was increased from 1,502 to 1,589 as per the presentation

3) The **rate per parking bay** (for existing parking) was adjusted from R 525/bay/month to R 569/bay, i.e. an escalation rate of 8,5% per annum as a year has expired since the first draft of the calculations

4) The **quantity of parking bays in the new building** was changed from 1,222 to 1,301 as per the presentation

5) The **rental rate for existing office space** was changed from an average of R 86/m² to R 96/m² being an escalation of 8,5% since the first calculations a year ago

6) **Parking bay construction cost** was changed from R 209,000/bay to R 231,990 per bay reflecting an estimated 11% increase in construction cost over the past year

The **new net benefit of executing the PPP is estimated at R 451,081,641.**
COUNCIL MINUTES: CITY OF TSHWANE METROPOLITAN MUNICIPALITY:
24 AUGUST 2006

F. MATTERS FOR CONSIDERATION

PART I(A): FROM THE MAYORAL COMMITTEE MEETING: 18 AUGUST 2006

REF NR:
INITIATOR: P. ABORN (084835635)/E. STRYDOM (358 8120)
COUNCIL: 24 August 2006

23. OFFICE OF THE MUNICIPAL MANAGER
MUNITORIA PROJECT: IN PRINCIPLE APPROVAL TO PROCEED WITH
PROCUREMENT OF THE MUNITORIA REBUILDING PROJECT UNDER A
PUBLIC PRIVATE PARTNERSHIP ("PPP") REGULATED BY NATIONAL
TREASURY

1. PURPOSE OF THE REPORT

1.1 To obtain Council's in principle approval to proceed to the procurement
phase of the Munitoria Rebuilding project under a PPP as a serviced
accommodation project as countenanced under the MFMA and Regulations
governing PPP's, and, in full enablement thereof;

1.2 To obtain Council approval of an Amendment to the Supply Chain
Management Policy, attached herewith, this Amendment making specific
provision for PPP procurements based on adoption of the already extant
national and provincial guidelines in manner recommended by National
Treasury in letter of 10 October 2006 attached hereto.

1.3 That Council, taking cognizance of Council Resolution of 24 April
2003 regarding Project Phoenix and the Munitoria Rebuilding Project,
authorize the Municipal Manager, as Accounting Officer of the CTMM, to
take such decisions as necessary with regard to Project Phoenix and any
contractual relationship with Holm Jordaan with respect thereto, or with
respect to the Munitoria Rebuilding Project, however envisaged, in manner
consistent with the MFMA.

1.4 That Council, in reaching its decisions in the matters set out in 1.1, 1.2 and
1.3 above take cognizance that:

1.4.1 The Feasibility Study Phase of the Munitoria Project, as carried out
under the Municipal Finance Management Act 56 of 2003 (MFMA),
Regulations thereto, and related Treasury practice notes from the
PPP Unit of National Treasury, has been successfully completed as
indicated by a favourable a letter of Review and Recommendations
from National Treasury dated 9 February 2006 (attached hereto).
1.4.2 Among the options considered in the Feasibility Study was the Project Phoenix Munitoria rebuilding scheme by Holm Jordaans Group that was declared the winning scheme under the rules of the Project Phoenix Design Competition giving rise to it.

1.4.3 Council's subsequent appointment of Holm Jordaans to implement their scheme under Council Resolution of 24 April 2003 was subject to the rules of the competition and further conditioned on review by the CFO of the CTMM.

1.4.4 The CFO subsequently concluded that the City did not have the financial capacity to fund the scheme, and, that raising loan funding for such a project would seriously threaten the capacity of the City to fund its approved capital programme via external debt.

1.4.5 An independent feasibility study by a qualified Transaction Advisor consortium led by KPMG further concluded that the scheme was not feasible as an own source procurement by the City.

The KPMG study confirmed further that implementation of the scheme under a Public Private Partnership (PPP) was unaffordable to the City.

1.4.6 A follow on study by new independent Transaction Advisors, carried out within the framework of the MFMA, Section 120, Part 2, by then law, considered a range of other options, in addition to the Project Phoenix scheme by Holm Jordaans, this in compliance with Treasury guidelines for PPP's.

1.4.7 The Project Phoenix option, and the design competition rules under which it was considered are fundamentally inconsistent with the legislative and regulatory requirements for PPP's under the MFMA for a number of reasons, including that it did not include provision for guaranteed delivery at a capped affordable price fixed in advance for all contenders, not just for a complex of buildings, but for fully furnished buildings with guaranteed full service operation and technology refresh over a 25 year period, and; that substantially all delivery and performance risks be transferred to the private sector.

1.4.8 Based on strategic policy guidance documents of the City not available in 2003, notably including the City Development Strategy (CDS), several alternatives to the Holm Jordaans scheme were reviewed according to the regulatory framework set out by National Treasury for PPP's.

1.4.9 Among the alternatives was a new Preferred Option defined by a set of output specifications including, inter alia, provision for the demolition of the remaining Munitoria South Wing as no longer sustainable.
1.4.10 National Treasury, in its formal letter of Review and Recommendations, attached hereto, concluded that the feasibility study was robust, that the new preferred option provided value for money, and recommended that the City proceed to the procurement phase with continuing technical assistance from Treasury and due attention to cost issues in the construction market.

1.4.11 The Report on the Feasibility Study of 16 December 2005 herewith submitted to the Council by the Municipal Manager as Accounting Officer, was placed before the public for comment for a period from 19 December 2005 to 6 March 2006 (more than the minimum 60 days legally required), under three published invitations in the press, the content of such comment provided in the Report on Public and Intergovernmental Comment also attached hereto.

1.4.12 Review of the comments from the public, including objections from Holm Jordaan Group, carried out by the City's External Legal Advisers to the Project concluded that these establish no material basis for Council not to proceed to the procurement phase of the project as favourably reviewed and recommended by Treasury and the City.

1.4.13 Based on 1.4.8, through 1.4.12 above, the City now has a clear and feasible alternative to the Project Phoenix Scheme from Holm Jordaan.

2. BACKGROUND

Following the March 1997 fire that substantially destroyed the Munitoria, the City organized a design competition for the rebuilding, and, later, in Council Resolution of 24 April 2003, the Council appointed the competition winners, Holm Jordaan Group as architects to implement their winning scheme, subject to certain conditions.

The CFO subsequently concluded that the City did not have the financial capacity to fund the scheme and that raising loan funding for such a project would seriously threaten the capacity of the City to fund its approved capital programme via external debt.

The City then determined to study other means of funding, notably including a PPP option.

Accordingly, a joint venture of KPMG and partners were appointed in the first quarter of 2004 to carry out a feasibility study of the PPP option, along with possible other funding approaches. The consultants' feasibility report concluded that the Holm Jordaan scheme was unaffordable to the City.

The City's prior determination that it could not undertake the capital requirements of the project was reconfirmed.

The City, still determined to reconsolidate its fragmented staff in new facilities, then engaged a new set of consultants to carry out a follow on PPP feasibility study, this in compliance with by then enacted requirements of the MFMA (notably Section 120) and supporting guidance language from the PPP Unit of National Treasury.
As required by Treasury, the follow on study included consideration of other possible options, including, but not limited to the Project Phoenix scheme by Holm Jordaan Group.

The Project was properly registered on 10 December 2004 with the PPP Unit of National Treasury as having achieved the requirements of the Inception Phase under by then Mandatory PPP practice.

Independent Transaction Advisors, PDNA/Kagiso were appointed in the second quarter of 2005, to carry out a new feasibility study in compliance with the new legislative and regulatory framework governing PPP's under the MFMA.

A fully compliant study, produced with active guidance and participation of the PPP Unit of Treasury, was submitted by the Accounting Officer to Treasury for its formal Review and Recommendations in December 2005. Treasury's favourable letter of Review and Recommendations was conveyed to the Municipal Manager in February 2006 (letter of 9 February 2006, attached).

OPTIONS CONSIDERED INCLUDED:

1. **The Project Phoenix Option** by Holm Jordaan Group— which entailed building a mid to high rise complex on the present Munitoria site to house ± 4000 staff and to retain and refurbish the existing South Block building.

2. **The Tshwane Place Option** – this entailed a local government precinct inclusive of SALGA based on acquiring the ABSA Bank Building at Sammy Marks Square.

3. **The extended Church Street Precinct Option** – This was based on distributing the customer care and operations support functions in a corridor with Church Street as its spine from the State Theatre to Ou Radsaal on Church Square to be served by a people mover system along Church Street.

4. **The Build New, Adapt and Remain Option** (ultimately Preferred Option)– this option calling for demolishing the existing South Block, determined to be obsolescent, with a new Munitoria complex built over the whole of the site, utilizing unused capacity in the existing Sammy Marks buildings.

The last option (Option 4 above) is the only one that met all output specifications for sustainable accommodations for the City in manner consistent with the strategic objectives of the CTMM, lowest delivery risks and overall feasibility and sustainable value for money requirements under a PPP.

The feasibility study, finalised in terms of the MFMA and relevant regulations was submitted to the National Treasury for the expression of “a view and recommendations” in December 2005.

Treasury completed its review in January 2006 and determined that the rebuilding of the Munitoria under the new Preferred Option is feasible under a PPP, provides value for money and otherwise meets the procurement and risk transfer requirements for PPP projects as regulated by National Treasury according to provisions of the MFMA.
Treasury’s letter, dated 9 February 2006, expressing their View and Recommendations confirming the feasibility of the project (based on option 4 above as Preferred Option), included a recommendation that the City proceed to the procurement phase is attached hereto.

A mandatory process of public participation for 60 days in terms of Section 120 (6)(b) of the MFMA, where the community and other interested parties are invited to submit comments or representations on the proposed PPP was initiated on 19 December by advert in the Pretoria News and the Daily Sun. A second advert providing clarity on how to access the Report on the Feasibility Study on the City website appeared in the same papers on 22 December 2005, extending the comment period to 22 February.

A follow up reminder advert providing further extension for comment to 6 March appeared in the Pretoria News and Beeld of Friday 3 February 2006, this done in the spirit of proactive encouragement of public participation, as promised in the initial invitation of 19 December 2005 falling within the festive season period.

Immediately prior to the advertised invitation for public comment of 19 December 2005, the City’s Unions were notified of the advert as a courtesy, and, as required under the MFMA, the Department of Provincial and Local government (DPLG) and Provincial Treasury were provided a 30-day opportunity to make comments and recommendations. Though these are not binding, we have sought and will continue to seek and take cognizance of their views in a structured manner.

The Holm Jordaan Group was also notified in writing, prior to the appearance of the public advert, inviting their comment.

DPLG representatives were active participants in Treasury’s final vetting presentation of 19 January 2006. A copy of the DPLG letter of comment is appended hereto. The matters raised have either already been addressed, or will be addressed under arrangements now in place to actively involve DPLG in every phase of the project going forward, once in principle approval to proceed is obtained.

Timely comments from Provincial Treasury were not received. However, arrangements have been put in place with Province to pro-actively involve them in all aspects of the project going forward, once in principle approval to proceed is in place.

As the Munitoria Project is the first PPP to be undertaken by the country under the MFMA, it is deemed a pilot and capacity building project not only for the CTMM, but for municipal government generally, for DPLG, Provincial Government and the PPP Unit of Treasury as well.

As the first PPP under the MFMA there is also no precedent as to the accounting treatment thereof. However, accounting for the PPP agreement should reflect the substance of the agreement. The proposed PPP will fall into the category of a “institutional service” PPP where the private party will deliver accommodation services to the City and also assume the associated risks, under its own non-recourse financing with no recourse to any fixed assets produced by the concessionaire as basis for rendering its contracted accommodation services to the CTMM.
All aspects and implications of the agreement should be evaluated, accounted for and presented in accordance with their substance and financial reality both for the asset and the obligation to pay.

It is expected that the Accounting Standard for PPP’s will be finalised in time for the PPP contract or agreement and duly reported on.

The Report on Public and Intergovernmental Comment during the mandatory public comment period ended on 6 March 2006 is attached hereto. Very few comments were received.

Issuance of the Request for Qualification to Tender (RFO) documents, subject to Treasury approval, is anticipated within as few as four weeks after in principle approval to proceed is obtained. The issuance of these documents effectively begins the implementation phase of the project, under an ultimate delivery target late in the second quarter of 2009 subject to process.

Reliable milestone and end dates depend first on in principle approval to proceed from Council, end dates then dependent on process, notably including consideration and final approval by Council of the final draft concession agreement, following on a further 60 day public comment period, such final draft otherwise complete and ready for signature by the Municipal Manager, as set out in the required Project Procurement Plan submitted herewith to Council by the Accounting Officer.

3. DISCUSSION

3.1 Advantages of a Public Private Partnership (PPP) compared to a conventional own behalf procurement, the latter referred to as a PSC or Public Sector Comparator procurement

A PPP mechanism results in Council not spending a substantial portion of their budget in a single transaction (i.e. relieving the capital budget) and creates a fixed and certain unitary payment over the term of the Project subject to affordability of payment being established in advance by the independent transaction advisers and Treasury. The unitary payment is effectively funded by operating expense obligations that the Council would necessarily bear in any case. This mechanism creates both on a short term and long term basis, a convenience in managing expenditure and curtailling risks to Council of costs overruns or payments required for the life cycle of the project beyond amounts available in the budget.

PPP procurements of accommodation facilities provide substantial transfer of delivery and performance risks for both construction and life cycle (full costs of occupancy) to the private sector partner without loss of control or ownership, and, moreover, ensure that any buildings or other assets are beyond recourse under non-recourse financing arranged by the concessionaire.

Indeed PPP’s provide far more robust and sustainable mechanisms for accountability than own behalf conventional procurements, including the benefit of a fully furnished, fully maintained and upgraded building over a period of 25 years, procured at a capped known cost to the City.
The concessionaire is bound to maintain temperature, air quality and noise standards as well as to carefully manage energy and other scarce resources along with all matters of quality of work life, operations and maintenance. Performance is subject to defined penalty deductions for all SLA failures, such penalties deducted from each monthly payment of unitary.

Opex risks are thus substantially transferred to the private sector with full assurance that life cycle maintenance can never be delayed or neglected, as is almost universally the case in public sector own behalf facilities procurements.

The CTMM itself has been an example of under spending or deferred spending on maintenance and adherence to best practice standards for a safe, productive and available working environment.

Under the PPP option now proposed, the Munitoria will immediately already satisfy Treasury requirements in this regard. In essence the unitary gap would have been less if the City had been meeting best practice guidelines for life cycle maintenance of its accommodation facilities.

The PPP proposed is a standard non-recourse project dependant on a capped unitary payment from the public sector partner, with land and fixed assets beyond recourse by the financiers.

The PPP provides a stable and predictable basis for expenditure planning with less need for contingency allocations as the City embarks on its efforts to meet goals set at local, provincial and national level with target milestones over an extended period.

Under a Public Sector Comparator (PSC) model funded via loans raised by the CTMM, costs including construction, all ongoing operation, maintenance, life cycle cost and the cost of risk would be retained by the City without caps.

History has shown that government does not adequately provide for the maintenance, life cycle cost or cost of risks involved over the duration of such a project.

Only PPP's provide a robust Payment Mechanism and Penalty Regime enforced by immediate sanction, in money terms, which are simply not possible within the public sector environment. PSC procurements are bid on price and input specs, not sustainable best value for money.

The risk adjusted Public Sector Comparator (PSC) model and the risk adjusted PPP model reflect this fundamental difference in quantified expected net cost of risk retained or transferred as part of the comparative net value for money benefit of a PPP procurement.

The value for money benefit for the Munitoria Project under a PPP procurement compared to a PSC procurement as calculated under the rigorous risk matrix analysis requirements of National Treasury is R229, 7 million over the term of the project (25 years plus 20 months for construction).
Potential risks can be categorised very broadly as below:

**Construction Risk**: The risk that lies here are the possibilities of delay in completion, costs overruns, delivery delays outside the defined budget and lack of compliance in the output specifications.

Cost overruns, or any but de minimus time to delivery delays are virtually impossible under a PPP, in large measure because the private sector lenders always demand a fixed price, fixed delivery date certain as an absolutely enforced condition of progress payments to the concessionaire’s construction and facilities maintenance members of the private party consortium. The senior lenders on the private sector side are far better “cops” than the public sector can generally ever be.

**Design Risk**: Quality standards are not met, particularly that the design and construction joint venture under a conventional procurement have little if any incentive or interest in the life cycle costs of what they build and hand over to others.

Indeed, under competition on price, the standard practice under the PPPFA (Preferential Procurement Policy Framework Act, rather than sustainable value for money, the builders are to the contrary “incented” to spend as little as possible, take their money and run, leaving the matter of life cycle and full cost of occupancy to the public sector to manage in whatever manner in can.

History has consistently shown that the public sector on its own does very badly in this regard, for a host of reasons, many institutionally endemic on the public sector side.

**Operational Risk**: The possibility that the services required and quality of working environment fall below standard, cost overrun risks not linked to asset life cycle, etc.

While SLA’s can be to a degree enforced on contractors (who bid on least cost, not value for money), the public sector contract administrators and monitors who manage all of this are themselves largely beyond performance failure penalties with real teeth, as failures can almost always be claimed to be the fault of vendors.

Failures under a PPP generate immediate predetermined cash penalties on a day by day basis, no passing the buck or finger pointing at subcontractors.

In PPP’s the concessionaire must earn the capped unitary every day, and must pay the penalties for non-performing sub-contractors.

All PPP’s manage this risk robustly under a required **Payment Mechanism and Penalty Regime** that is the tool par excellence for sustainable risk transfer to the private party and conservation of value for money for the public sector partner. In essence, erosion of value for money over time is far less likely to occur under a PPP than under an own source, conventional procurement.

**Financial Risk**: Cost overruns due to inflationary factors, currency risk factors or whatever factors.
The full unmitigated amount of risk retained by the City under the PPP model amounts to R16.7 million. After mitigation and the implementation of risk action plans, the amount reduces to under R2 million. This must be compared to the amount of the risk assumed by the City under a PSC in the region of R217 million.

The risks transferred under the PPP are detailed in the project risk matrix covering all 24 categories of risk prescribed by National Treasury inclusive of site, design construction, financial and operational risks.

As indicated above, with no recourse to the assets available (these remain property of the City and as such beyond attachment), the lenders effectively become the direct bearers of financial risk, risks they institutionally understand very well indeed, risks they manage with an iron hand (to the benefit of the City, of course).

This risk matrix will form the basis of the contract ultimately negotiated with the private party before financial close and the required Payment Mechanism and Penalty Regime will be the tool used to transfer the risk to the private party. The Payment Mechanism is based on an availability model, with degrees of unavailability attracting a defined penalty subtracted from the monthly unitary payment.

Under a PPP service failures are monitored and recorded daily in real time, with each and every office, workstation and staff member effectively covered by an individual quality of work environment “contract” with the concessionaire.

Even failures to promptly record and respond to reports of even tiny failures may generate a defined penalty charge against unitary.

The complete risk matrix for the project is available, though not for public disclosure during the procurement phase, and formed part and parcel of the documentation reviewed by National Treasury in January 2006. This risk matrix will be directly complemented by a detailed service effectiveness and penalty management matrix system that will be part of the bid specifications that bidders must all use to articulate their proposals on a best value for money basis.

The City will use exactly the same spreadsheet based matrix management tool to monitor concessionaire performance, ultimately applied or adapted to manage and monitor all accommodation cost and risks for all City facilities within or outside of a PPP.

**Burden on Capital Raising Capacity of the City.** A PPP is legally deemed a purchase of service. The city will not enter into any debt or financing agreements. It is a non recourse funding project. The restructuring grant conditions as currently applied is only applicable up to June 2009. Under the time frames set out in the attached Project Procurement Plan, the City does not expect to incur any obligations against its budget or books of account until after this date.

**BBBEE Outcomes Assurance.** PPP procurement directly enables and indeed ensures the full and enforceably sustained achievement of the BBBEE Industry Charter and Code of Good conduct standards through the entire duration of the project not only for job creation but for the building of careers over the whole concession term.
Under the PPP, we will be able to obtain full performance against the BBBEE charters and score card provisions as a minimum threshold for eligibility for award of concession from the outset, with the further ability to achieve preferences in favour of Tshwane based businesses and workers resident in Tshwane.

As our project is effectively the first of its kind in the country, details must be worked out with Treasury. In effect, under the PPP option we are in a position to require direct and palpable ripple effect benefits to citizens of the CTMM in categories to be determined, say for example survivalist businesses, micro enterprises, as well as the so called small to medium businesses, in some cases comparatively large.

3.2 The site decision and link to Inner City regeneration programmes.

The site has been the historical home of City Government for nearly half a century.

The site itself has a known history in terms of past uses that now establishes it as very low in risk for the presence of archaeological artefacts that might otherwise be found on a new site, potentially delaying delivery and substantially increasing costs of construction or diminishing the extent of value for money achievable under the capped annual unitary payment.

The site, already built over and excavated is further known in terms of impacts on the water table, and other pre-existing conditions including pollution that if found on another site would also create delays and increase costs, including the opportunity costs of delayed benefits generated by the new facility.

Building on the present site recognizes and conserves the store of value constituted by the presence in the immediately adjacent Sammy Marks complex of the heart of the City's ICT system. Moving to a different site would very substantially increase the costs of moving the ICT core or cabling to a new site with all of the time and connectivity risks that would entail.

Rebuilding on the existing site further conserves the store of value present in the extensive meeting spaces available in Sammy Marks that would have to be built new at another site, increasing the cost of corporate support space while at the same time wasting the value built into the Sammy Marks complex.

The immediate adjacency of large meeting space in the Reserve Bank and the State Theatre are effectively additional sources of value for the project at the present site, or opportunity costs if we went elsewhere.

The current site has been the anchor for decades of private sector development in the North East Quadrant of the CBD, and is a critical anchor of the north/south Inner City Corridor between Prinsloo and Van der Walt streets directly serving as major feeder arteries from both north and South, also supporting and supported by the new Bloed Street Taxi Rank.

Finally/...
Finally though difficult to characterize in quantified value for money (VFM), the new Munitoria at its present very low risk, low opportunity cost site, will be the first and bar setting prototype accommodation project under the joint City/National Department of Public Works Re Kgabisa Project for the total transformation and modernization of public sector accommodation in the Inner City and CBD of Tshwane as the Gateway to Africa City that is one of the hallmark goals of the City’s Vision Statement.

Very importantly within the Re Kgabisa Project, what might otherwise be temporary jobs at the bottom feeder level of the construction industry, can become career path jobs in the fast growing construction industry in a cooperative programme with Public Works to facilitate the movement of job opportunities through a structured pipeline of many large accommodation projects in Re Kgabisa.

The new Deputy DG of Public Works responsible for Re Kgabisa has already expressed enthusiasm for implementation of the concept in partnership with the city.

As the first of its kind in the country, the new Munitoria will also set the new national standard for all municipalities in SA, as it should, given the established goal of the City under its own vision statement to become an African Gateway City.

3.3 Anticipated Unitary Payments under the PPP concession agreement

The unitary payments is defined as the annual serviced accommodation payment to the private party. The unitary includes both an asset and services element and this will be reflected as such in the books of accounts. The stipulated unitary cap will be R117 million in today’s value terms (June 2006). The final advertised amount (not to exceed R117 m) has been capped in consultation with National Treasury.

The base line affordability level for the CTMM on a 2005/6 “actual spend” basis was calculated using current budgeted accommodation related expenditure, noting that the City has not adequately funded asset maintenance costs that cannot be neglected under a PPP.

When comparing the current budget allocation with the Risk adjusted PPP model requirements, it is clear that the City must identify measures to fund the net gap of between R30 - 40 million per annum, escalating with CPI/X over the term of the concession agreement.

Although National Treasury’s review of the Feasibility Study concluded that the project provided value for money and should proceed to the procurement phase, Treasury’s letter also noted that the City must confirm and provide for its commitment to funding the gap.

This is effectively the gap between current accommodation costs for fragmented, generally sub standard accommodations, and new sustainably productive, batho pele based accommodation as contemplated, inter alia, in the Space Planning Norms from the National Department of Public Works (NDPW) of September 2005, now mandatory on all spheres of government, and consistent with these, the provisions of the City’s own Guidelines for Environmentally Friendly General Facilities in the City of Tshwane of February 2005.
In essence part of the gap is an unsustainable deferred maintenance liability and a history of under spending resulting from past failure to address a host of best practice, even minimum standards for effective accommodation.

3.4 2006/7 AND FUTURE BUDGET IMPLICATIONS:

2006/7 Financial year

For the 2006/7 budget year the following costs are provided for in the approved budget.

1. Independent Transaction Advisors: \[\text{R7.5 million} \] Phase II+III+IV
2. Independent Legal Advisor \[\text{R1.2 million} \] Phase II+III+IV
3. Other advising services \[\text{R0.5 million} \]
4. Concession agreement officer \[\text{R0.7 million} \]
5. BEE monitoring cost \[\text{R0.5 million} \]
6. Demolishing costs \[\text{R6.0 million} \]
7. Rental of accommodation p.a (3 year period) \[\text{R 16 million} \]
8. Refurbishment of temporary offices \[\text{R 42 million} \]
8. Geo-tech studies \[\text{R0.5 million} \]
TOTAL \[\text{R74.9 million} \]

The possible impact of these costs on current and short term service delivery capacity can be mitigated and spread by funding a substantial portion within the PPP.

2008/9 Financial year:

The unitary payment is only due once occupation of the buildings has been taken by the CTMM. This is planned mid 2009 when the CTMM will have to provide month by month funding for unitary adjusted annually with CPIX (the asset costs to be capped at completion of the construction period for the purposes of accounting treatments in effect at that time, noting that any cost overruns iro the concessionaire's own capex burdens would have been entirely to the account of concessionaire, with no change in pre-established unitary) for an operational period of 25 years.

This will include the difference between the then accommodation expenditure available and the final unitary (The gap of between 30-40 million p.a. in current terms).

4. COMMENTS FROM OTHER DEPARTMENTS

4.1 COMMENTS FROM THE HEAD: LEGAL AND SECRETARIAL SERVICES

From the perusal of the report it appears that the provisions of Section 120 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, read together with the Public-Private Partnership Regulations promulgated on 1 April 2005, with regard to the feasibility study, have been complied with, the following aspects should however be addressed, namely:

1. The/...
1. The nature of the respective parties to the PPP's obligations and rights for the envisaged partnership should be clarified and more detail should be provided to the Council in this regard.

2. The report only reflects an estimated amount for the demolition and/or implosion of the existing Munitoria structure as well as the delivery of the Munitoria project as a whole and more details in this regard is required to ensure that the Council made an informed decision in this regard.

The procurement of service providers to give effect to this recommendation should be executed in accordance with the provisions of the Local Government: Municipal Finance Management Act, Act 56 of 2003, read together with the Supply Chain Management Regulations issued in terms thereof, and the Supply Chain Management Policy of the Municipality.

The aspect of insurance (especially third party liability) with regard to the implosion of the existing Munitoria structure is not addressed in the report and the Acting Head: Legal Services should be involved with the negotiations with the Municipality's Insurance Advisors before the matter is finalised.

3. The anticipated unitary payments reflected in the report is not clear as to how the unitary cap in the range of R 117 million is calculated and more specifics and/or detail in this regard are required.

4. The Risk Matrix as well as the Project Plan in respect of all phases to be executed should accompany the report as annexures;

5. The details of the RFQ and RFT phases are not fully addressed in the report and as this will have bearing on the Supply Chain Management process to be followed in the delivery of the Munitoria Project more specifics and/or detail are required. The detail should specifically deal with the process to be followed in both the aforesaid phases as well as indicate that the RFQ phase should first be approved before approval for the RFT phase can be obtained. It is important to note that these phases should be dealt with individually and that the obtaining of a blanket approval in this regard will not suffice.

It should also be noted that in execution of the RFQ and the RFT phases the provisions of the Local Government: Municipal Finance Management Act, Act 56 of 2003, read together with the Supply Chain Management Regulations issued in terms thereof, and the Supply Chain Management Policy of the Municipality, must be adhered to and at no time may the provisions of Section 117 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, be contravened.

6. In view of the fact that the CTMM wishes to proceed with the Public Private Partnership for the rebuilding of Munitoria it is recommended in the report that the contract with Holm Jordaen be terminated and the letter be informed accordingly through a notice of intention to cancel the contract.

In light of the Legal opinion received for Attorneys appointed for the project, it is thus of the utmost importance that the termination of the contract must be done in accordance with the constitutional and statutory requirements of procedural fairness, therefore prior notice and an opportunity to make
presentations must be given to Holm Jordaan before a decision is made. A notice of proposed termination should include a settlement proposal, and every effort must be made to ensure that the actual termination is in full and final settlement of all Holm Jordaan's claims. Termination costs with regard services rendered must be paid.

Subject to the aforesaid and subject to the favourable comments from the Acting Chief Financial Officer and the Manager: Procurement, the recommendations are supported.

FURTHER COMMENTS OF THE ACTING HEAD: LEGAL AND SECRETARIAL SERVICES

From the perusal of the report it appears that the provisions of Section 120 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, read together with the Public-Private Partnership Regulations promulgated on 1 April 2005, with regard to the feasibility study, have been complied with, the following aspects should however be addressed, namely:

The procurement of service providers to give effect to this recommendation should be executed in accordance with the provisions of the Local Government: Municipal Finance Management Act, Act 56 of 2003, read together with the Supply Chain Management Regulations issued in terms thereof, and the Supply Chain Management Policy of the Municipality.

The aspect of insurance (especially third party liability) with regard to the implosion of the existing Munitoria structure should be addressed in the report.

It should also be noted that in execution of the RFQ and the RFT phases the provisions of the Local Government: Municipal Finance Management Act, Act 56 of 2003, read together with the Supply Chain Management Regulations issued in terms thereof, and the Supply Chain Management Policy of the Municipality, must be adhered to and at no time may the provisions of Section 117 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, be contravened.

In view of the fact that the CTMM wishes to proceed with the Public Private Partnership for the rebuilding of Munitoria it is recommended in the report that the contract with Holm Jordaan be terminated and the letter be informed accordingly through a notice of intention to cancel the contract.

In light of the Legal opinion received from Attorneys appointed for the project, it is thus of the utmost importance that the termination of the contract must be done in accordance with the constitutional and statutory requirements of procedural fairness, therefore prior notice and an opportunity to make presentations must be given to Holm Jordaan before a decision is made. A notice of proposed termination should include a settlement proposal, and every effort must be made to ensure that the actual termination is in full and final settlement of all Holm Jordaan's claims. Termination costs with regard services rendered must be paid.

Subject to the aforesaid and subject to the favourable comments from the Acting Chief Financial Officer and the Manager: Procurement, the recommendations are supported.
4.2 COMMENTS FROM THE CHIEF FINANCIAL OFFICER

It is realised that a proper Municipal Services Delivery Campus is important as a possible solution to address the ineffectiveness of the current office accommodation in various buildings in the city. Sound financial sense requires that any initiative to address the good organisation of the city administration should only be embarked upon after thorough consideration of the impact it will have on the financial position of the Municipality.

The benefits and opportunity cost in the report illustrate the financial soundness of the proposed project (i.e. the transfer of delivery and performance risks for both construction and life cycle, productivity efficiencies translated from minimised duplications, accessibility, a pleasant work and customer environment for our customers with consistent maintenance, the acquisition of the asset at the end of a definite term.

The project has been included in the Long-Term Financial Strategy of the Municipality for the 2006/07 financial year onwards as approved by the Mayoral Committee on 19 June 2006 and the 2006/7 MTREF as approved on 31 May 2006 on the basis that the unitary payment (including reimbursement of demolition costs) will be treated as operational costs of the City. Final provisions as to accounting treatment are under on going review and discussion between Treasury and the accounting standards board, with resolution expected well before the final concession is brought to Council for final approval.

ANNEXURES:

A: Copy of National Treasury's letter of View and Recommendations of 02/09/2006 addressed to the Municipal Manager.


C: A copy of the Public Comment and Intergovernmental Consultation Report, including a copy of letter received from DPLG

D: A copy of the required Procurement Plan submitted by the Municipal Manager

E: A copy of the public comment received from Holm Jordaan Group Architects.

F: Proposed Amendment to the City's Supply Chain Management Policy to support PPP's, including copies of letters related thereto between the City and National Treasury

G: Legal Compliance Check List (including referenced letter from Tumi Moleke of the PPP Unit of National Treasury).

H: Legal Opinion regarding City Powers to Procure a PPP and Related Process (titled Procurement Plan, not to be confused with Annexure D, but to read as informing Annexure D)

I: Current Supply Chain Policy to be amended by inclusion of Annexure F
J: Section from National Treasury Guidelines into the use as basis of any Concession (read “draft agreement”). These guidelines were accepted by the City in lieu of a Treasury requirement that any change to these guidelines would require submission and prior approval of ad hoc draft language. Note that the full section on Standardized Language runs to over 380 pages, all available if need be on the treasury.gov.za web site.

IT WAS RECOMMENDED (TO THE COUNCIL: 24 AUGUST 2006):

1. That Council take cognizance of and duly consider the attached Report on the Feasibility Study of 16 December 2005 (Annexure B) compiled by the Municipal Manager as required in terms of the MFMA, and the comments from the public to this Report, including comments from Holm Jordaan Associates.

2. That, based on consideration of the Report on the Feasibility Study of 16 December 2005, cognizance taken of all other matters raised in this report, and, having considered the public comments on this Report, that Council grant in principle approval to proceed to the procurement phase of the project as countenanced by the MFMA and Regulation within the budgeted unitary of R117 million, escalating with CPIX after financial close.

3. That Council approve the Supply Chain Management Policy Amendment submitted for consideration and approval herewith, this enabling the City to undertake PPP procurements in manner consistent with Regulation and practice across all spheres of government, including the Munitoria Project (Annexure F) based on adoption of Treasury Practice Note Number 6 of August 2004 included therein, language to be conformed to the MFMA as explained in the Annexure).

4. That Council, taking cognizance of Council Resolution of 24 April 2003 regarding Project Phoenix and the Munitoria Rebuilding Project, authorize the Municipal Manager, as Accounting Officer of the CTMM, to take such decisions as necessary.

5. That the enclosed Procurement Plan (Annexure D) for the project, herewith submitted to Council by the Municipal Manager as required by the MFMA, be approved subject only to the inclusion of adjusted milestone dates to be set and confirmed during the procurement phase of the project through financial close.

6. That the Municipal Manager be authorised to immediately proceed with the implementation of the attached Procurement Plan (Annexure D), in accordance with the MFMA, Regulation and the City’s Supply Chain Management Policy, as amended by Recommendation No. 3 above to guide PPP procurements generally, including the Munitoria Project.

7 That the Municipal Manager and Chief Financial Officer be authorised to implement lawful decisions required to clear the construction site, including the demolition of the remaining Munitoria Buildings and their existing links to Sammy Marks, any other transitional costs and any other Early Works as may be defined during the procurement process in consultation with Treasury.

8 That an Oversight Committee be appointed by the Executive Mayor to oversee phase 2 in conjunction with the Project Management Committee headed by the Project Officer and Municipal Manager and on a quarterly basis report to Council.
9. That the Municipal Manager be authorised to include expenditure relating to the unitary payment in the Medium Term Revenue and Expenditure Framework of the 2009/10 year onwards for the period of the operational agreement, pending the final approval by Council of the final draft contract with the preferred bidder as countenanced in the attached Procurement Plan (Annexure D informed by Annexure H).

During discussion of this item by the Council on 24 August 2006, Cllr Ms MTSL Komane, seconded by Cllr CT Mokoena, proposed the following amendments:

(Unaltered)

"Amend 4:

That Council rescinds Council resolution of 24 April 2004 regarding project Phoenix and the rebuilding of Munitoria.

Add to recommendation 8:

Immediately after Oversight Committee ADD and Independent Transaction Advisor."

The proposal by Cllr Ms MTSL Komane was acceded to by the Council and it was thereafter resolved as set out below:

RESOLVED:

1. That Council take cognizance of and duly consider the attached Report on the Feasibility Study of 16 December 2005 (Annexure B) compiled by the Municipal Manager as required in terms of the MFMA, and the comments from the public to this Report, including comments from Holm Jordaan Associates.

2. That, based on consideration of the Report on the Feasibility Study of 16 December 2005, cognizance taken of all other matters raised in this report, and, having considered the public comments on this Report, that Council grant in principle approval to proceed to the procurement phase of the project as countenanced by the MFMA and Regulation within the budgeted unitary of R117 million, escalating with CPIX after financial close.

3. That Council approve the Supply Chain Management Policy Amendment submitted for consideration and approval herewith, this enabling the City to undertake PPP procurements in manner consistent with Regulation and practice across all spheres of government, including the Munitoria Project (Annexure F) based on adoption of Treasury Practice Note Number 6 of August 2004 included therein, language to be conformed to the MFMA as explained in the Annexure).

5. That the enclosed Procurement Plan (Annexure D) for the project, herewith submitted to Council by the Municipal Manager as required by the MFMA, be approved subject only to the inclusion of adjusted milestone dates to be set and confirmed during the procurement phase of the project through financial close.

6. That the Municipal Manager be authorised to immediately proceed with the implementation of the attached Procurement Plan (Annexure D), in accordance with the MFMA, Regulation and the City’s Supply Chain Management Policy, as amended by Recommendation No. 3 above to guide PPP procurements generally, including the Munitoria Project.

7. That the Municipal Manager and Chief Financial Officer be authorised to implement lawful decisions required to clear the construction site, including the demolition of the remaining Munitoria Buildings and their existing links to Sammy Marks, any other transitional costs and any other Early Works as may be defined during the procurement process in consultation with Treasury.

8. That an Oversight Committee and Independent Transaction Advisor be appointed by the Executive Mayor to oversee phase 2 in conjunction with the Project Management Committee headed by the Project Officer and Municipal Manager and on a quarterly basis report to Council.

9. That the Municipal Manager be authorised to include expenditure relating to the unitary payment in the Medium Term Revenue and Expenditure Framework of the 2009/10 year onwards for the period of the operational agreement, pending the final approval by Council of the final draft contract with the preferred bidder as countenanced in the attached Procurement Plan (Annexure D informed by Annexure H).

(Remarks:

1. At the Council meeting of 24 August 2006, Cllr Ms K Botha raised the following concerns with regard to this item:
   - The Phoenix project, which in her opinion was not properly dealt with
   - The National Treasury letter that cautioned the CTMM to ensure that the objectives of the project were met
   - Public participation in the qualification phase
   - Financial capacity

   In light of the above, Cllr Botha requested that her vote against the approval of this report be registered.

2. Cllr Prof HF Redelinghuys stated that the DA in principle supported the rebuilding of Munitoria project. He also expressed appreciation of the fact that the document had been substantially altered as requested. Furthermore he warned the Municipality to seriously pay attention to amongst others the following:
   - Not to overburden the capital programme
   - To act within National Treasury's parameters and the growth margin
• To adhere to the interest and finance charges of 15%
• To obtain clarity on the Holm & Jordan claim of R40 million against the Municipality

3. In response, MMC Dr A de Klerk acknowledged the Phoenix issue, but explained that a recommendation to cater for that concern would be tabled. She further mentioned that there was a need for the CTMM to have a decent building, since Tshwane was the capital city and this was also in line with the Rekgabisa Tshwane Project.

Thereafter, Cllr Ms K Botha indicated that she accepted the report with reservations.)

COUNCIL
APPROVED
2006-06-24
GOEDGEKEUR
RAAD

ANNEXURE A/...
19. PUBLIC WORKS & INFRASTRUCTURE DEVELOPMENT DEPARTMENT
PROGRESS REPORT ON THE REBUILDING OF THE NEW MUNICIPAL HQ
PROJECT - TSHWANE HOUSE

1. PURPOSE

To provide feedback on the status of work and issues related to implementation of
the City's mandate that the project be placed on track for substantial delivery by the
end of calendar year 2010, and,

To motivate and seek approval for:

a. The amendment the effect date for inflationary adjustments to the Council
   approved capped unitary payment of R117m

b. Sourcing a short term funding facility to enable an early works programme as
   part of the fast track mechanism to ensure delivery of the project by
   December 2010

2. STRATEGIC OBJECTIVES

The project supports the following City Level Strategic Objectives:

a) To accelerate higher and shared economic growth and development;
b) To fight poverty, building clean, healthy, safe and sustainable communities;
c) To foster participatory democracy and Batho Pele principles through a caring,
   accessible, and accountable services; and

d) To ensure good governance, financial viability and optimal institutional
   transformation with the capacity to execute our mandate.

3. BACKGROUND

These objectives find expression in the project through the Provisioning of

A sustainable, secure and work efficient office accommodation complex for the
strong centre of City governance that will reflect sustainable green building
technology; is secure as a centre for both cross silo development and supervision of
policy implementation.

To provide for a fully enabled Council Chamber for as many as 250 Councillors, and
for the Offices of the Executive Mayor, Speaker and Chief Whip. Spaces needed for
all of the parties of Council, caucus rooms, expanded public, press and government
officials gallery space; a multi-use room that can serve, inter alia, as a dining area
for 350 people and a venue for single room gathering of all of the top level elected
and appointed officials and other key stakeholders as well.
To provide a quality of work life environment that applies “Batho Pele” principles to the workers, and which supports paper flow, work flow and decision support systems to the level of achieved state of the art in human resource productivity, high morale and a sense of pride.

To provide a sustainable office complex that reflects the highest aspirations of the people of the City of Tshwane; reflects the emerging status of the City as African City of Excellence; that palpably reflects an authentic African Character, ethos of the whole people of Tshwane.

To be carried forward as a major CBD revitalization project, complementing the "ReKgabisa" programme of Public Works, and, with parking considered as a part of the City’s infrastructure contribution to Re Kgabisa.

To be carried forward as a major socio-economic development project providing jobs, including opportunities consistent with the EPWP, Tshwane based business opportunities, based on full build out of the entire site from day one.

To enable retention scenarios for recycling the existing Munitoria on a sustainable VFM basis in the above.

4. DISCUSSION

4.1 Progress on Request for Proposal (RFP)

Two consortia, Tsele Tshweu consortium and Mesong Consortium lodged the required R1 million bid bonds and picked up the Phase One RFP documents for comment before commencement of the bidder engagement and bid clarification phase completed as of 12 December 2008.

The closing date of the RFP was initially set at 26 February 2009. However on request, of and motivation by the bidders and after extensive discussions within the project team, the extension of full and final closure was extended to 15 April 09. It should be noted that this extension will not compromise the December 2010 delivery time line.

The final bid evaluation criteria will be finalised in February 2009, with full preparation of the scoring sheets and all other evaluation documents designed and complete for use in a fast track, full time effort to achieve accelerated review of the bids received.

All members of the Technical Evaluation Committee will be expected to devote as much as 80% of their time over a period of as long as two consecutive weeks to properly select a recommended preferred bidder, and to prepare the value for money reports required by Council resolution of August 2006 as well as regulation by National and Provincial Treasury.

Administrative arrangements will be discussed and finalised with the City Manager to ensure sufficient capacity is provided to conclude the evaluation process.
4.2 Evacuation of the Munitoria

A relocation plan has now been developed by Corporate & Shared Services, and is currently being considered by the City Manager. It is intended that the relocation will commence during March 2009 with the Office of the Executive Mayor, followed by the remainder of Departments during. The Relocation is expected to be complete by April 2009.

In discussions with Peter Aborn, Project Officer, Corporate & Shared Services suggested that it is now ready to relocate all personnel from the Munitoria to new transitional accommodations, in phases, from February through 15 April 2009, this subject to confirmation by Corporate and Shared Services.

Adjustment of effective base date for escalation of Unitary Cap

Under standard Public Private Partnership (PPP) regulatory practice, the annual unitary payment of escalates by CPI for the entire duration of the project.

A unitary payment of R117m was confirmed and capped by way of August 2006 Council resolution including a provision that, this figure only escalate by CPI from Financial Closure.

Given events in the market place since the August 2006 Council resolution, particularly the unforeseen impacts on construction costs from, inter alia, 2010 SWC™ and Gautrain industry demand, as well taking cognizance of present market conditions, it has become necessary to consider a retrospective adjust to the effective base date for escalation to August 2006, such escalation to be applied to the same R117m cap then approved by Council.

It should be noted that National Government will no longer calculate nor officially support the CPI index from January 2009, this to be succeeded by the CPI index.

4.3 Early Works Bridge Funding

A key enabler of the mandate to deliver the project by end 2010 is the provision of bridge funding covering the period from initiation of Early Works through financial close.

The indicative extent of such bridge funding must be, over a period of 6 or more months from 1 May 2009, but less than one year in any case, approximately R70m with month to month cash flow (disbursement) rates to be determined based on provisions of the Early Works Contract concluded with the winning bidder.

Delays in financial close after October 2009 would require additional increments in the range of R7m per month, subject of details of the winning bid.

It should further be noted that the successful bidder would be required guarantee repayment/reimbursement of this facility to the full extent of this facility including interest thereon, at financial close.
4.4 Conditional Re-imbursement of Bid Costs

The project will provide bid cost support to the capped extent of R4 million, payable to the losing bidder on conditions that will be finalised by the project team supported by Legal Counsel. These conditions will be defined specifically to ensure that the BBBEE component is not unduly disadvantaged by their bid (as part of the consortium) not being successful.

The full intent of this programme was to encourage broader black participation in the Tshwane House bidding process, by ensuring that otherwise vulnerable black entities would have some degree of support (risk mitigation) even if they found themselves on the losing bidder side.

The BEE team has completed a draft mechanism for allocation of eligible bid costs on a BEE priority basis, this not yet ready for distribution.

4.5 African Character Architectural Design Advisory Panel

Council made specific requirements on the project that the final structure and surroundings should adequately reflect the African character of the City. For this purpose an advertisement was placed in Local newspapers with the view to putting together a panel who would act as an “African Design Advisory Panel”

The top three candidates, for creation of a panel of three panellists from Gauteng have been contacted and have confirmed their interest in being appointed. These are Dr. Wally Serote, CEO of Freedom Park, Phil Mashabane of Mashabane Rose (architects of the Apartheid Museum) and Mr. Khotso Moleko of KM Architects.

4.6 BBBEE goals of the Project

The complete BBBEE provisions of the Tshwane House PPP are in the final stage of clarification in response to bidder queries.

These will be presented to Mayoral Committee as part of the next progress report.

These include, inter alia, provisions of the DTI codes of good practice, a waterfalled preference programme first favouring Tshwane based businesses, then Gauteng based business, finally black businesses anywhere in SA.

4.7 Munitoria Retention and Recycling Scenarios

A half day workshop between the project team and relevant City officials (notably from Corporate and Shared Services) was held on 22 November to establish final clarity as to how value for money issues will be addressed in respect of any Munitoria retention (or replacement) proposed by bidders.

For the avoidance of all doubt, retention of the Munitoria, in whole or in part, is a matter to be comprehensively addressed, in vettable Value for Money terms by the bidders, with evaluation of bids on the basis of comparative net value impact on the full build out programme considered over the full life cycle of the PPP over 27 years, with comparative VFM including the implementation of green building technologies and other factors of full term VFM.
5. COMMENTS OF THE STAKEHOLDER DEPARTMENTS

5.1 COMMENTS OF THE STRATEGIC EXECUTIVE DIRECTOR: CORPORATE AND SHARED SERVICES (LEGAL SERVICES)

Submitted for comments on 26 Feb 09

5.2 COMMENTS OF THE CHIEF FINANCIAL OFFICER

Report submitted for comments on 26 Feb 09.

6. IMPLICATIONS

6.1 HUMAN RESOURCES

To enable on-going oversight of the PPP over its term will require staff support in Finance and in the Concession & Relationship Management Unit over the term of the PPP.

The full extent of the requirements, its location and capacitation will be addressed more substantively in future reports.

Efficiencies in paper flow through put and speed of decision making are expected to be massively improved in the new Tshwane House complex, with productivity increases having a VFM impact that can be calculated for future planning.

The project will commission a base line productivity study so that future VFM impacts can be properly proven and sustained.

6.2 FINANCES & VALUE FOR MONEY

It should be noted that the 2010/2011 operational budget will have to reflect monthly payments against annual PPP unitary payments.

As mentioned previously in the report, a full value for money report will be prepared independently as a basis for informed decision making in addition to the evaluation report.

6.3 CONSTITUTION AND LEGAL FACTORS

It should be emphasised that Council directives and PPP Regulation is being meticulously observed. It should be noted that in preparation for Early Works, these followed by occupation after 2010, that by-laws or other policies regarding taxis on Proes & Prinsloo Streets, street vending in all boundary streets may need modification to create a public safety zone around the new Tshwane House precinct.

6.4 COMMUNICATION

A multi level communications strategy will be developed in consultation with the Department: Integrated Marketing and Communications. The Detailed Communications Plan will be submitted as part of the April 2009 progress report.
6.5 PREVIOUS COUNCIL & MAYORAL COMMITTEE RESOLUTIONS

These consist most importantly of Council's resolutions of 24 August 2006 approving the project with various provisos; Council's meeting of 2 October 2008 taking cognizance of the 2010 delivery mandate, and, taking further cognizance that the Munitoria might not be demolished as originally contemplated, but might be retained (or not) subject to the winning bidders highest and best value proposal for development of the whole Munitoria site.

7. CONCLUSION

With the Corporate & Shared Services Relocation Plan nearly in place for implementation beginning this month, and with the RFP process proceeding in an orderly way to close on 15 April 2009 against an end 2010 delivery deadline, the project is almost inexorably now underway.

The matters addressed in the Recommendations below are thus critical to sustaining the momentum of the project going forward to the end of 2010, with phased actual move-in to the new Tshwane House complex from January 2011.

ANNEXURES:

A: Report on Bridge Funding Requirements
B: Tshwane House Project Time Frames to delivery

IT WAS RECOMMENDED (TO THE COUNCIL: 28 MAY 2009):

1. That cognisance be taken of the contents of this report and its Annexures.

2. That the three candidates cited above for appointment as members of the African Design Advisory Panel subject to completion of the process to obtain disclosure of interests in the two RFP consortia be approved.

3. That approval be granted for the retrospective adjust to the effective base date for inflationary escalation to August 2006 and that such escalation be applied to the same R117m cap then approved by Council.

4. That cognizance be taken that the CPIX escalation index ceased to be officially supported or calculated by government from January 2009, and that CPI will be the successor escalation index applicable to the escalation of unitary with immediate effect from January 2009 forward.

5. That the acquisition of an Early Works Bridge Funding Facility in an amount not less that R70 million, with further approval of increments of approximately R7m per month, should Financial Close not be achieved on or prior to exhaustion of the initial R70m facility be approved.

6. That cognizance be taken that the successful bidder will be required to provide adequate security to the satisfaction of the City Manager as guarantee for the facility, and that the bidder will be required to re-imburse the City to the full extent of the final amount taken up by the facility (including interest thereon).
7. That cognisance be taken of Tshwane House Project Time Frames to delivery attached as Annexure B.

During consideration of this item by Council on 28 May 2009, the following Councillors participated in a debate:

GC Pretorius
Prof HF Redelinghuys

Cllr A Sparg, subsequently, seconded by Cllr RW Dinkelmann proposed the following additional recommendation:

(Unaltered)

"Additional Recommendation 8

The ACDP herewith proposes the following amendment to the recommendations.

8. Model(s) of the design(s) are to be submitted to Council for approval, prior to the appointment of the successful bidder."

The Council acceded to Cllr Sparg’s proposal.

Hereafter, the following Councillors participated in a debate on the content of the report:

Cllr BR Topham
MMC S Pillay
Dr EF Landman

Thereafter it was resolved as set out below:

RESOLVED:

1. That cognisance be taken of the contents of this report and its Annexures.

2. That the three candidates cited above for appointment as members of the African Design Advisory Panel subject to completion of the process to obtain disclosure of interests in the two RFP consortia be approved.

3. That approval be granted for the retrospective adjust to the effective base date for inflationary escalation to August 2006 and that such escalation be applied to the same R117m cap then approved by Council.

4. That cognizance be taken that the CPIX escalation index ceased to be officially supported or calculated by government from January 2009, and that CPI will be the successor escalation index applicable to the escalation of unitary with immediate effect from January 2009 forward.

5. That the acquisition of an Early Works Bridge Funding Facility in an amount not less that R70 million, with further approval of increments of approximately R7m per
month, should Financial Close not be achieved on or prior to exhaustion of the initial R70m facility be approved.

6. That cognizance be taken that the successful bidder will be required to provide adequate security to the satisfaction of the City Manager as guarantee for the facility, and that the bidder will be required to re-imburse the City to the full extent of the final amount taken up by the facility (including interest thereon).

7. That cognisance be taken of Tshwane House Project Time Frames to delivery attached as Annexure B.

8. That Model(s) of the design(s) be submitted to Council for approval, prior to the appointment of the successful bidder.

(REMARK:
At the Council meeting of 28 May 2009, Cllr Dr EF Landman (FF+) and Cllr DL Fleming (DA) on behalf of their respective political parties registered their vote against the approval of this report).
TSHWANE HOUSE
NEW MUNICIPAL HQ PROJECT (NMHQ)

REPORT ON BRIDGE FUNDING REQUIREMENTS

EARLY WORKS

Peter Aborn
Project Officer
29 January 2009

Background

At its meeting of August 24 2006, Council approved the Tshwane House project, after 60 days of public comment (no unfavourable comment) based on demolition of the existing Munitoria structures, and, further, approval of an Early Works programme to enable fast track delivery.

The Early Works programme components were shown in the mandatory Project Procurement Plan also submitted to and approved by Council at its meeting of August 24 2006.

Most recently, on 12 August 2008, the City directed that the project be placed on a delivery track substantially consistent with Council’s delivery expectations, that is substantial completion, ready for move in, by end 2010 (23 1/2 months from today).

On 16 August 2008, the Project Officer responded in writing to this mandate, confirming that the 2010 mandate would require, inter alia:

- Vacating the existing Munitoria in February 2009,
- An Early Works programme and an associated bridge funding facility to cover Early Works expenditures between commencement of such Works and financial close, at which point the City would be re-imbursed in full for the Early Works costs by the lenders to the successful bidder.

Bridge Funding Requirements

Based on estimated costs of a fast track programme, costs per market as of January 2009, a bridging facility is needed as follows, with costs to begin as early as April 2008 (costs obligated but billed in arrears monthly), extending over 6 to 8 months, but in any case less than one year, this depending primarily on the success of the project strategy for containment of the negotiations phase after appointment of a preferred bidder.

Demolition – R15, 5 Million
Bulk Earthworks – R21 Million
Lateral Support – R12 Million
Escalation – 6%
Escalation during Construction – 0.5% per month
Fees – 18%

Grand Total – R66 Million for the works as above, to which would have to be added actual building works of the slab and column structure, some portion of which could overlap the above.

Actual out of the ground construction could run to R7m per month with some overlap, in addition to the above depending on when such works could begin, and the extent that these could overlap the works identified above.

It is impossible to project accurate costs before the bidders present their own fast track programmes.

In essence an initial bridge facility of approximately R70m is needed to ensure timely delivery of the project as mandated by the Executive Mayor, not including extended Early Works above ground.

Clearly, for every month that Early Works is delayed, end delivery may be delayed, again subject to bidders capacity to achieve a very aggressive fast track programme in the context of their bids.
ANNEXURE B

Project Delivery Time Frames Table

TSHWANE HOUSE PROJECT TIME FRAMES TO DELIVERY

11 May 2009

Introduction

The table below represents a listing of major project component time frames or milestones set out in the Project Cycle for PPP from National Treasury, plus sub-component milestones where appropriate.

Durable Project Timing Schedules, as such, can be issued as early as the bid documents received on time on 4 May 2009 have been scrutinized, with a more durable update at the end of the process to appoint a Preferred Bidder, with a final Plan submitted at the end of the negotiations phase with the Preferred Bidder, the latter enforceable on concessionaire.

For the avoidance of doubt: there is no slack or float time left on the path to delivery at this time. Every day of delay, or week may translate into a day for day, week for week delay in targeted end delivery.

The time anticipated, or targeted time frames, always dependent on all three of project team performance, bidder team performance and, very importantly, City officials and city structure performance, are shown in the table below.

The first column identifies the milestone to be reached and/or the process required to get there.

The second column shows the anticipated duration of the process or time to reach the milestone.

The third column indicates any delay encountered along the way with a short hand reason for same.

The fourth column shows the length of the delay on end delivery performance with appropriate comment.

The fifth column shows the cumulative amount of delay to date.
## PROJECT DELIVERY TIME FRAMES AND DELAY TRACKING TABLE:
### As of 13 May 2009

<table>
<thead>
<tr>
<th>Delivery Process or Milestone</th>
<th>Time Frame (not including cumulative delays not made up along the way)</th>
<th>Delay(s) Encountered (or delay time made up)</th>
<th>Impact of the Delay on end delivery mandate (as applicable)</th>
<th>Total delay to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of Bids on Closing date 4 May 09</td>
<td>Milestone 4 May 09</td>
<td>Bids on time no delay</td>
<td>none</td>
<td></td>
</tr>
<tr>
<td>Approval of Evaluation Manual and appointments to the evaluation committees</td>
<td>Anticipated by Wednesday 6 May 09</td>
<td>As of Wednesday 13 May approval not received</td>
<td>One week delay in commencement of evaluation process- potential one week delay in end delivery</td>
<td>One week</td>
</tr>
<tr>
<td>Formal start of evaluation process</td>
<td>18 May 09</td>
<td>Subject to approval above</td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Fast Track Evaluation process</td>
<td>6-8 weeks into July</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Commencement of early works support efforts by the City THIS IS THE EFFECTIVE DATE FOR COMMENCEMENT OF CONSTRUCTION on an 18 month programme to end 2010</td>
<td>1 July 09</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Appointment of Preferred bidder</td>
<td>As early as 15 July 09</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Commencement of Negotiations phase</td>
<td>As early as 15 July 09 duration 3 to 4 months into Oct/Nov 09</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Treasury TVR3 approvals milestone and completion of the Independent Value for Money Assessment</td>
<td>Mid October 09 into November 09</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>60 day public comment period PROVISION FOR WORKS TO CONTINUE BEYOND BULK EARTH WORKS MUST BE IN PLACE</td>
<td>Begins Mid October 09 to Mid November 09</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Council authority granted to City Manager to sign the PPP Agreement</td>
<td>Mid December 09 to Mid January 2010</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Work on any conditions precedent</td>
<td>30 days fast tracked</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Financial Close</td>
<td>Between January 2010 and February/March 2010</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Refund or payoff of early works costs by Consortium lenders</td>
<td>On financial close as above</td>
<td></td>
<td>One week</td>
<td>One week</td>
</tr>
<tr>
<td>Event Description</td>
<td>Date/Time Description</td>
<td>Duration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
<td>----------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fast Track Construction continues with Design Development phase overlapping</td>
<td>From 1 July 09 to 30 through 1st phase delivery end 2010 to full whole site completion by mid 2011</td>
<td>One week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First phase of construction ready for move in completed</td>
<td>End December 2010</td>
<td>One week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First move in by top strong center officials</td>
<td>January 2011</td>
<td>One week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hand over of first phase to operations sub-contractor</td>
<td>January 2011</td>
<td>One week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Council meeting in Tshwane House</td>
<td>January 2011</td>
<td>One week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full completion of all phases of full site Tshwane House development</td>
<td>6 months after first move in but too soon to project</td>
<td>One week</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEXURE A

TSHWANE HOUSE

NEW MUNICIPAL HQ PROJECT (NMHQ)

REPORT ON BRIDGE FUNDING REQUIREMENTS

EARLY WORKS

Peter Abor
Project Officer
29 January 2009

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