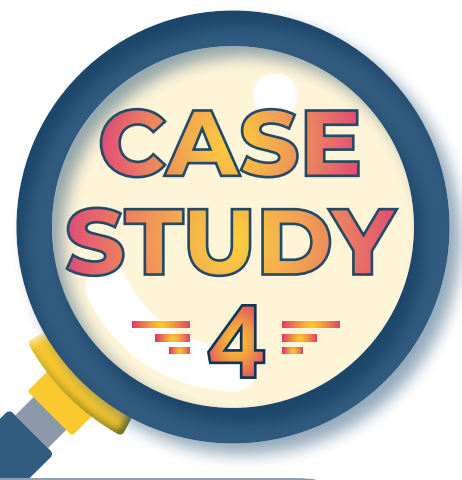




# Vuthela

ILEMBE LED SUPPORT PROGRAMME



## What stakeholder perspectives and learnings from SA's first PPP mean for the delivery of water services



Prepared by the Vuthela iLembe LED Support Programme which aims to improve the economic future of iLembe district residents through sustainable economic growth of the local economy and the creation of higher, better and more inclusive employment and income-generating opportunities.

### March 2023

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 **KWAZULU-NATAL PROVINCE**  
ECONOMIC DEVELOPMENT, TOURISM  
AND ENVIRONMENTAL AFFAIRS  
REPUBLIC OF SOUTH AFRICA

 ILEMBE DISTRICT MUNICIPALITY  
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## Background

This case study was compiled by the Vuthela iLembe LED Support Programme from information provided by a range of stakeholders involved in one of two of South Africa's first Public-Private Partnerships (PPPs) to provide water services in a municipality.

The Vuthela Programme currently provides support services to the iLembe District Municipality in the management of the concession. The other PPP for water services in the form of a concession is with the Mbombela Local Municipality in the Mpumalanga Province.

The historic PPP, which took the form of a concession, enabled Siza Water, a private company, to supply water to the then Borough of Dolphin Coast 24 years ago (established in 1999). The contract for the concession was transferred to the iLembe District Municipality with the new municipal demarcations and resultant Water Services Authority allocations and will expire in 2029.

**The Vuthela seminar aimed to assist all stakeholders to manage the remaining six years of the contract effectively and to arrive at sustainable decisions...**

In February 2023 stakeholders shared their experiences of the delivery of water services under the PPP from their respective perspectives at a seminar hosted by the Vuthela iLembe LED Support Programme.

The Vuthela seminar aimed to assist all stakeholders to manage the remaining six years of the contract effectively and to arrive at sustainable decisions which will serve the interests of all stakeholders and communities in the district after the contract expires.

The information and perspectives provided by stakeholders will be useful in informing the operations, strategies and policies that will determine the delivery of municipal water services in the future.

The Vuthela Programme is funded by the Swiss State Secretariat for Economic Affairs (SECO) and partnered by the KZN Department of Economic Development and Tourism, the iLembe District Municipality and the local municipalities of KwaDukuza and Mandeni.

The Vuthela Programme aims to improve the economic future of iLembe district residents through sustainable economic growth of the local economy and the creation of higher, better and more inclusive employment and income-generating opportunities.

## Introduction



**Municipalities throughout South Africa are grappling with many challenges in delivering essential services like water and sanitation to communities.**

The performance of South Africa's first water concession PPPs – one of which was formed in the iLembe District Municipality – provides learnings and insights which will assist many municipalities to provide improved water services.

The PPP arose through a concession granted to Siza Water to supply water to the Borough of Dolphin Coast 24 years ago. It will expire in six years. The contract for the concession is now being managed by the iLembe District Municipality.

Decisions around how to proceed after the concession ends will have far-reaching implications for the current concessionaire, the iLembe District Municipality, communities and commercial users within the district and its development trajectory.

Engagement between stakeholders at a seminar held by the Vuthela Programme indicated many areas of uncertainty that required clarification,

**The performance of South Africa's first water concession PPPs provides learnings and insights which will assist many municipalities to provide improved water services.**

enabling effective direction in decision-making for the remainder of the contract and for the period after it expires.

This case study is presented in three sections that focus on the past, the present and the future of the PPP.

### Section 1: Looking back

How the PPP started and evolved.

### Section 2: Looking around

Prevailing issues and stakeholder perspectives.

### Section 3: Looking ahead

How national policy is shaping future options for local service delivery.

## Section 1:

# LOOKING BACK – How the PPP began

**The ground-breaking PPP between Siza Water and the Borough of Dolphin Coast was the first agreement between a private company and a municipality to provide basic water services to consumers in South Africa when it was signed in 1999.**

At that time, five years after South Africa's first democratic elections, the concession was in line with the new policy described in the Framework for Restructuring of Municipal Services. The framework had been agreed to by the National Government, the South African Local Government Association (SALGA) and the Confederation of South African Trade Unions (COSATU).

The Minister of Constitutional Development and Provincial Affairs at the time, Mr Valli Moosa, was involved in negotiating the policy and crafting the agreement for the PPP, which remains one of only two for the delivery of water services in South Africa.

The Borough of Dolphin Coast invited the private sector to tender for the PPP following large losses in the water and sanitation infrastructure, coupled with the inability to fund infrastructure needed for efficient water delivery and a lack of skilled personnel to manage the services.

The Development Bank of Southern Africa (DBSA) was the advisor to the Borough of Dolphin Coast throughout the two-year bidding and evaluation processes prior to the awarding of the contract to Siza Water. Siza Water was a subsidiary of the French company SAUR Services at the time, but is

now wholly South African-owned.

The area covered by the concession included the relatively affluent coastal strip of Ballito and less affluent communities at Shakashead, Shakaskraal, Nkobongo, Shayamoya and Etete.

The efficient and sustainable provision of water and sanitation services was regarded as an integral part of the municipality's Reconstruction and Development Programme, which was the key policy designed to drive development at the time.

The concession was awarded following a lengthy process over several years in which the municipality investigated PPP options and secured the interest of potential service providers.

### The concession area

The area selected for the concession was part of the former Borough of Dolphin Coast transitional local authority in the immediate post-apartheid era.

The area stretches along the N2 coastal freeway between the Tongaat River in the south and Groutville in the north. It encompasses Ballito, Shaka's Rock, Umhlali, Shakaskraal, Etete, Nkobongo, Shakashead, Tinley Manor and Sheffield Beach.

The concession area includes a mix of people living in extreme wealth and in dire poverty. The area consists mainly of formal urban dwellings and well-developed commercial and business service areas, but it includes formal and informal peri-urban and rural housing.

Ballito is the main formal settlement area. It has grown over the years from a small seasonal holiday town into an up-market commuter town and business centre for executives and professionals.

Before the concession was put in place, water and sanitation services were managed by the Port-Natal Ebodwe Joint Services Board (JSB) and Umgeni Water. The Port-Natal Ebodwe JSB was funded through business levies, which funded infrastructure for services outside the boundaries of the former Durban City Council.

However, growth in the number of both high-income and low-income residents, combined with the poor state of bulk infrastructure, presented an investment and management challenge. Services in many areas were limited and some areas like Shakashead had no services, while other areas relied on standpipes or boreholes to provide water to residents.

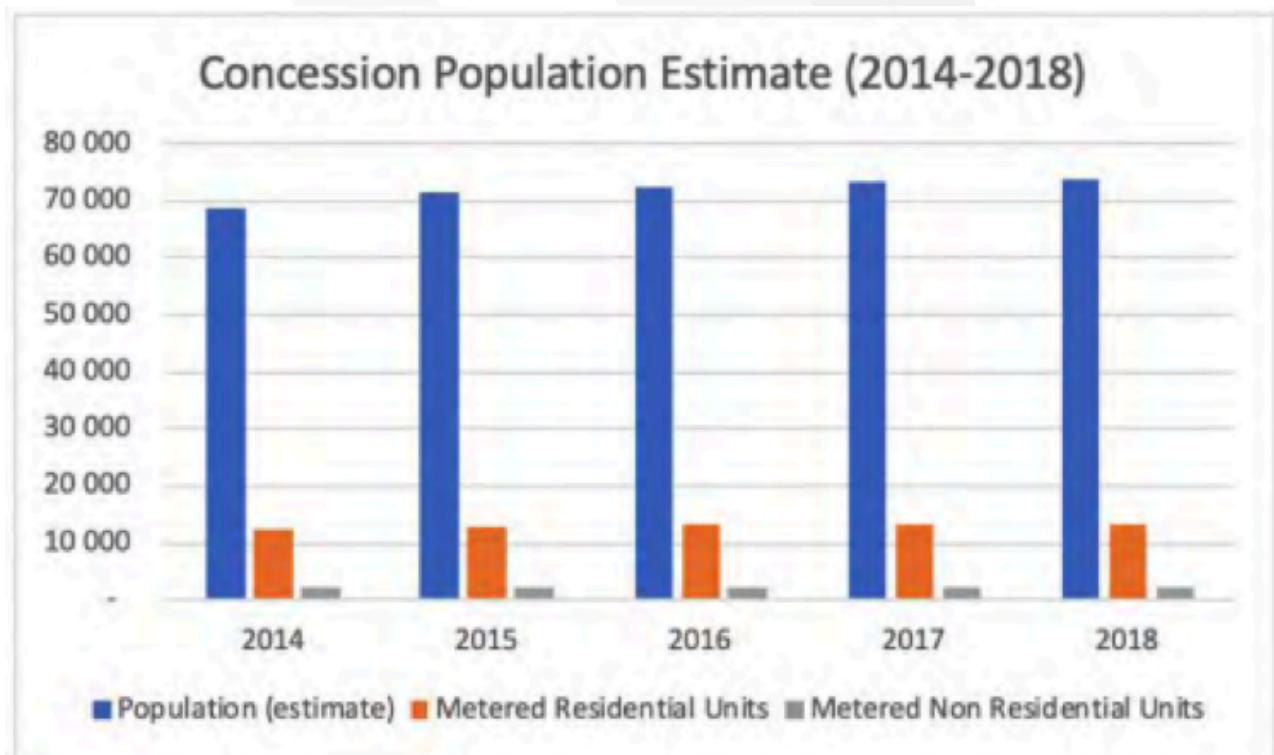
In 2014 the region was affected by severe drought. The construction of a water recycling facility, the upgrading of the Hazelmere Dam Wall and the

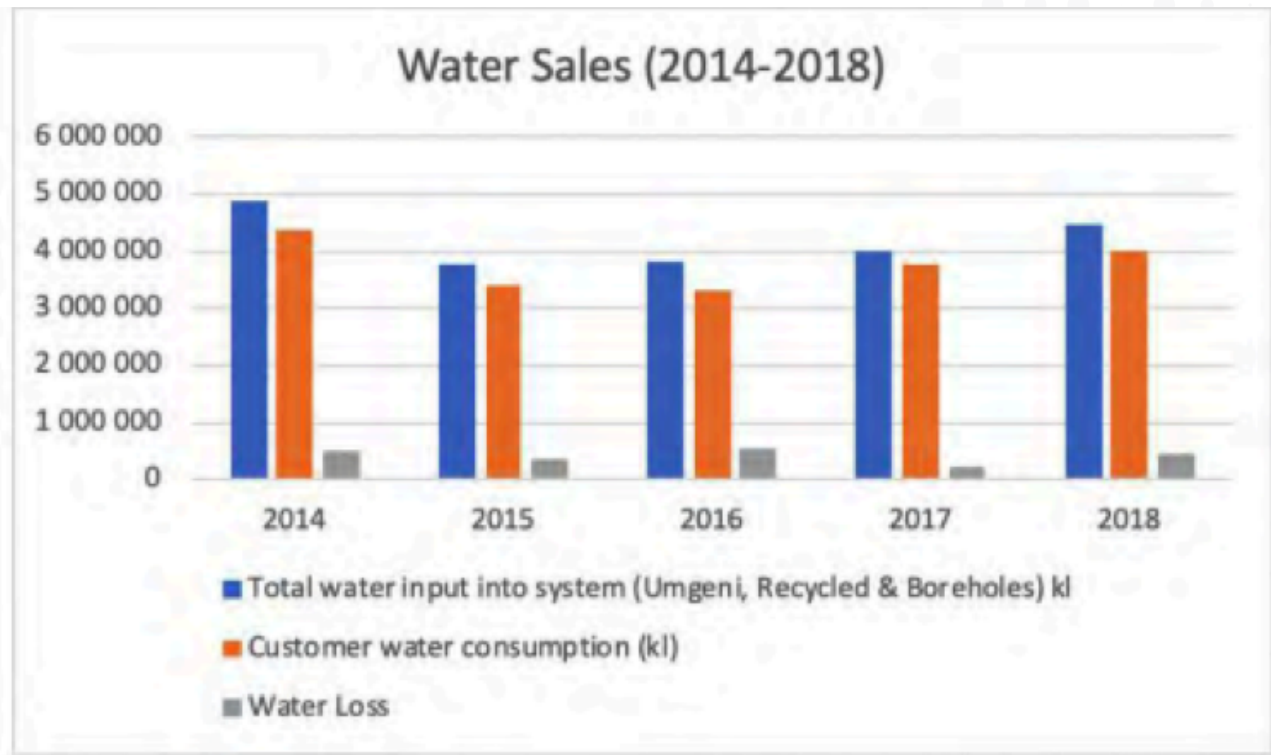
**The successful operation of water and sanitation networks depends on proper maintenance of equipment.**

completion of Phase 1 of the Lower Thukela Bulk Water Scheme sought to mitigate the risk of water security, which remains stressed due to climate change.

The successful operation of water and sanitation networks depends on proper maintenance of equipment. However, funds set aside for maintenance were diverted to drought relief efforts during this period, resulting in maintenance schedules lagging behind.

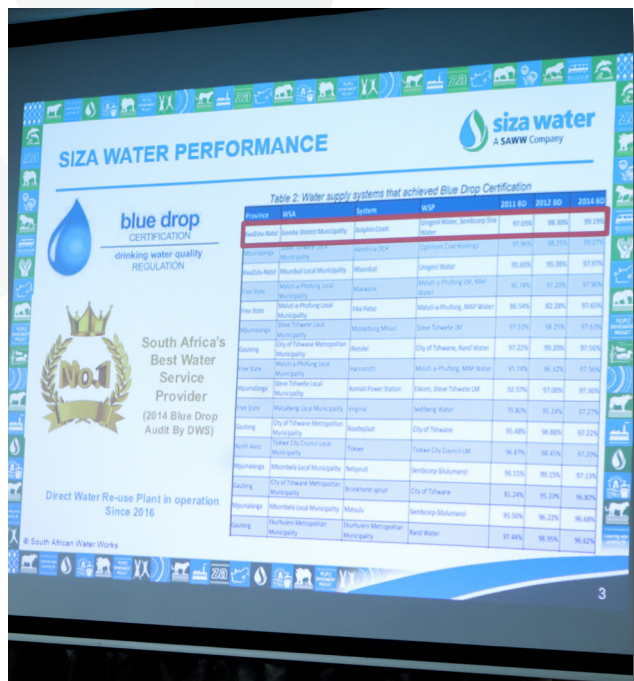
The population estimates in the concession area showed a steady increase over the five-year period between 2014 and 2018. There was also an increase in non-residential metered units as a result of developments within the concession area.





The Water and Sanitation Concession Agreement signed by the parties provided for excess revenue earned to be shared equally between the parties.

Current projections and assumptions indicate that such profit-sharing should have been possible by 2022. The amounts predicted to be paid to the iLembe District Municipality are indicated below.



## Projected balance Sheet and Cashflow Statement 2019 – 2023

| Forecasted Payment to IDM<br>(in R1000s) | Dec: 19        | Dec: 20        | Dec: 21        | Dec: 22        | Dec: 23        |
|--|----------------|----------------|----------------|----------------|----------------|
|  | -              | -              | -              | 8500           | 13 240         |
| Forecast Balance Sheet<br>(in R1000s)    | Dec: 19        | Dec: 20        | Dec: 21        | Dec: 22        | Dec: 23        |
| <b>Non-Current Assets</b>                | 71 379         | 68 573         | 65 576         | 64 063         | 63 054         |
| <b>Current Assets</b>                    | 74 149         | 40 047         | 50 553         | 56 619         | 63 413         |
| <b>Cash</b>                              | 70 586         | 44 270         | 41 924         | 42 379         | 52 895         |
| <b>TOTAL ASSETS</b>                      | <b>216 115</b> | <b>152 890</b> | <b>158 052</b> | <b>163 061</b> | <b>179 362</b> |
| <b>Current Liabilities</b>               | 76 119         | 30 590         | 33 190         | 36 011         | 39 072         |
| <b>Non-Current Liabilities</b>           | 724            | 724            | 724            | 724            | 724            |
| <b>Share Capital</b>                     | 8 529          | 8 529          | 8 529          | 8 529          | 8 529          |
| <b>Reserves</b>                          | 130 742        | 113 047        | 115 610        | 117 797        | 131 037        |
| <b>TOTAL RESERVES AND LIABILITIES</b>    | <b>216 115</b> | <b>152 890</b> | <b>158 053</b> | <b>163 061</b> | <b>179 362</b> |

Shareholders equity is expected to grow from R130.7 million in 2019 to R131.4 million in 2023 due to the anticipated profit generated by the concession, offset by the dividend payment and iLembe District Municipality sharing of profit in years 2022 and 2023.

In line with the growth in shareholders equity, total assets will decline from R216.1 million to R179.3 million mainly due to Capex being offset by higher depreciation from 2019 to 2023. The most recent unaudited report indicated that shareholders equity stood at R 135.3 million at December 2022.

## Section 2:

# LOOKING AROUND – The status of the PPP

### Raising the issues

A letter by the iLembe District Municipality's former Mayor was published in a local newspaper in mid-2022, putting several issues related to the Siza Water concession into the public domain.

#### **Cllr Siduduzo Gumede, former Mayor of iLembe District Municipality, wrote in the North Coast Courier:**

*"iLembe District Municipality entered into a concession agreement with Siza Water for a period of 30 years and it is now 8 years to go before this contract ends.*

*In the contract, iLembe remains the water service authority and only surrendered rights for water service provision for the 'Dolphin Coast' area of Ballito and the surrounding areas such as Sheffield Beach, Salt Rock, Shaka's Rock, Umhlali etc. as well as Shayamoya, Nkobongo, Shakashead and eTete to Siza Water.*

*With Ballito, Sheffield Beach, Salt Rock, Shaka's Rock and Umhlali having highest earner consumers and newly developed areas, the concessionaire (Siza) has installed newly laid infrastructure with limited operational challenges.*

*Just across the N2 freeway where Siza offers a similar service to Shayamoya, Nkobongo, Shakashead and eTete, these poor communities are however still receiving water from standpipes with irregular supply.*

*Over and above that, these areas are densely*

*populated and the level of sanitation services are old VIP toilets.*

*Siza is failing to de-sludge these toilets and these communities are subjected to unhealthy hygiene conditions.*

*iLembe has intervened in this case and is providing this essential service.*

*Siza Water also does not offer free basic water to these townships and instead the district municipality gets billed to pay for the services.*

*The letters by Thompson, Coates and Dawood make no mention of the challenges in these predominantly African areas, which on its own is a clear indication of the former councillors' bias.*

*As mentioned, the concession agreement comes to an end in 8 years.*

*During the current 5-year review of the contract, it has been agreed that the handover process should be mapped and agreed upon.*

*In the last 5 years of the agreement, iLembe and Siza Water will work together to ensure that the information of Siza Water's operation in terms of technical operations, conditions of infrastructure, list of assets and financial information (customer database, accounts status, age analysis and billing information) is handed over to the district municipality.*

*At the end of the agreement, the contract with Siza Water will be taken over as a going concern.*



*This then puts to rest the issues of capacity because all personnel systems and assets will be transferred over to iLembe district municipality to continue providing services.*

*Once the details of the hand-over from Siza Water to iLembe district is finalised, iLembe DM will notify communities through credible media platforms and its own website and social media sites of the date of handover and administrative changes.*

*iLembe district municipality and Siza Water will, working together, ensure a seamless transition with minimal inconvenience to ratepayers and residents.*

*The district municipality is committed to providing water and sanitation services to all in iLembe, ie. KwaDukuza, Mandeni, Ndwedwe and Maphumulo and at the end of the concession agreement we will continue to do the work we have been tasked to do in line with our vision which states, "By 2030 iLembe district municipality will be a sustainable people-centred economic hub providing excellent services and quality of life."*

## **Siza Water response to issues raised by iLembe District Municipality officials**

### **Siza Water Managing Director Shyam Misra responded:**

*"Siza Water has fulfilled all its performance obligations according to our contract. We believe we have also contributed to overall economic development in the district.*

*The contract was born out of the political will to bring in the private sector and provide water services through a concession. We are not in control of changes in policy brought about by changing political leadership.*

*We note that the national government is now promoting more use of PPPs to provide services, and this is a big shift in policy, but we are not*

*lobbying for an extension of the contract.*

*Our focus is on fulfilling our contractual obligations until the end of the contract, in a way that is economically and environmentally sustainable.*

*There are several challenges in the concession area, but Siza Water has the technical skills and competencies to ensure that we maintain and replace infrastructure. Some of the infrastructure in the area is old, but is still performing functionally.*

### **ON SERVICES TO INDIGENT COMMUNITIES:**

*We are aware that former councillors have raised the issue that we have not upgraded services in some areas. This issue has not come up in our formal discussion with the municipality, but we see that some political leaders bring it up. However, our contract excludes the upgrading of services in indigent areas, so we have not failed to fulfil the terms of the contract in any way.*

### **ON PROFIT SHARING:**

*When tariff increases came in this year (2022), around June, we wrote to the Municipality indicating that the profit-sharing mechanism had become available, but we have had no response to our letter.*

### **ON TAKEOVER OF SERVICES BY IDM:**

*It seems the municipality is willing to take on the blue-collar workers from Siza Water, but we are not sure about what will happen to the management team.*

*It is essential that there is no interruption in water services in this district. If there is water shedding in addition to load shedding it will be devastating for the local economy.*

*We need to have a meeting of minds on what happens after the contract expires. There seems to be a disjuncture between local, provincial and national government policy around the need for formal PPPs to provide services to communities.*

*A formal framework for PPPs should be developed. Government will struggle to keep pace with services without the involvement of the private sector, and this could impact the level of trust in government to deliver services to communities."*

## Review of the PPP

A review of the Siza Water-iLembe District Municipality PPP is currently under way and is expected to be concluded in 2023.

The review consists of four elements:

### 1. Financial review

The financial model has been reviewed and approximately 160 findings were shared with Siza Water for a response. Siza Water has provided feedback, which is being reviewed.

### 2. Legal review

The procurement and equity aspects of the contract and the incorporation of new areas into the contract are complete. Norms and standards applying to the provision of water services under the contract are being benchmarked.

### 3. Customer base

The demographic assessment and spatial demographic assessments are complete, and the analysis of growth areas is underway.

### 4. Concession monitoring

The review identified that some assets are managed by Umgeni Water and not Siza Water. This list has been shared with iLembe District Municipality for confirmation of the assets managed by Siza Water. Site visits in September 2022 confirmed that most of the inspected infrastructure assets were in good condition and required routine maintenance only.

## Stakeholder perspectives - Seminar

The diverse range of stakeholders shared their perspectives of the Siza Water PPP by assessing the strengths and benefits along with the challenges.



### Dumisani Khoza, Water Services Authority Manager, iLembe District Municipality

#### Benefits

Siza Water has provided water services to the previous Borough of Dolphin Coast and the iLembe District Municipality, including the operation and maintenance of water services infrastructure and the installation of new infrastructure for new private, residential and commercial developments using a combination of developers' contributions and own funding.

Siza Water has maintained the infrastructure in good condition, evident from the Green Drop and Blue Drop certification.

Siza Water has kept most of the customers within the concession area satisfied with water services and maintained a 97% collection rate for water services rendered.

#### Challenges

Siza Water has not provided the same service to areas that are considered poor or indigent as they

have in more affluent areas of the concession. The company has not invested in upgrading the level of service in the townships.

Siza Water does not provide free basic services to the indigent customers.

Customers in townships complain that they cannot afford Siza Water's connection fees, forcing them to remain serviced by communal standpipes although they want house connections.

Some developers complain that the development contributions that Siza Water charges are too high, and some have asked to pay municipal charges instead.

Siza Water does not follow the Municipal Finances Management Act (MFMA) in running their operations which has prevented them from accessing grant funding from the government, as they operate as a private company.

Siza Water does not have any African managers in their management structure.

The sharing of profit with the iLembe District Municipality has taken too long – the municipality has not received any profit from the PPP's operations.

### Opportunities

If the iLembe District Municipality decides to ex-extend the contract, the MFMA will have to be followed. If the PPP is not be extended, the municipality will take over the operations of Siza Water as a going concern, the staff of Siza Water will be absorbed into the municipality and all the systems that Siza Water has been using will be taken over to ensure smooth transition and continuity of the service. A handover plan will be developed and followed until the end of the contract.

The condition of the infrastructure that will be transferred to the municipality will be continuously monitored until the end of the contract.

All infrastructure information (drawings, operations manuals, asset registers, customer data) and all tools that are used for operations will be transferred to the iLembe District Municipality if the concession is not extended.

It is possible for a municipal entity similar to Enterprise iLembe to render services in the concession area and the district on expiry of the contract.

### Key learnings

Having the correct operations systems are essential to provide a good service.



**Shyam Misra, Managing Director, Siza Water**

### Benefits

Siza Water has met all obligations of the concession contract and provided water services successfully in the concession area. Siza Water is technically proficient and has received many awards for its technical expertise, including:

- SA's Best Water Service Provider – 2014 Blue Drop Certification – DWS Award
- Green Drop Accreditations – Frasers & Shakaskraal (the only Green Drop plants in the iLembe District) – DWS Award
- Wilson Ward of Excellence (Frasers & Shakaskraal WWTW) – WISA Award

- ISO Accreditation – Environmental, Safety & Health and Quality Systems

Siza Water has a direct water reuse plant which produces several environmental and financial benefits.

The company is now 100% South African owned and is no longer under the banner of an international company, as it was at the inception of the concession.

Well-trained management and operations teams ensure global best practice is maintained.

Siza Water cut water losses from 50% to 10% and ensured that sewer overflows have been significantly reduced. Consumers faced minimal impact during the recent drought.

Siza Water provides employment for people from within the service area and its Corporate Social Investment projects target the youth and underprivileged communities – 49 students from underprivileged communities have received funding for tertiary education. The company has furnished schools, built classrooms, creches, a library, sponsored local sports and schools, provided food hampers during the Covid-19 lockdown and empowered small local businesses.

### Challenges

Lack of efficient dialogue between Siza Water and the iLembe District Municipality – the 2019 to 2024 review is still pending.

The iLembe District Municipality displays slow response to correspondence from Siza Water and there is irregular attendance of municipal staff at concession monitoring meetings.

Lack of grant funding to upgrade services to indigent communities, despite master plans being submitted to the iLembe District Municipality.

### Opportunities

Independent concession monitoring (technical,

financial and legal) will put the performance of Siza Water in its proper perspective.

Receiving appropriate mandates from the iLembe District Municipality will lead to the efficient resolution of strategic issues.

Appointing one person at the municipality to take ownership of the contract and refer issues to the relevant officials within the municipality will create greater efficiencies.

### Learnings

Having motivated, skilled and passionate staff is the key to success.

Holding staff accountable for their jobs, irrespective of their position, race, gender or political affiliation is vital.

Investment in technology yields tremendous success.



Do not neglect customers - make them the priority.

### Cingisa Mbola, Technical Services Senior Manager at iLembe District Municipality

### Strengths

Siza Water has rendered the service of a Water Services Provider in the erstwhile Dolphin Coast transitional local authority area, especially in the affluent areas of the concession, and has been able to provide bulk infrastructure that has contributed to the development of Ballito and surrounding areas.

Siza Water maintained a good collection rate over the years and kept their customers satisfied with good communication.

They have been able to comply with the operational requirements for Blue and Green Drop compliance and have been innovative, for example intervening during a recent drought by implementing a water recycling plant to assure water supply within the Ballito area.

### Challenges

Siza Water has been providing a sub-standard water service to the township areas within the concession through standpipes.

Townships within the concession area are served via VIP latrines. There has been no investment to upgrade the VIP latrines to waterborne sewer. Siza Water does not provide the service of emptying the VIP latrines when they are full and need to be serviced.

The tariffs that are charged by Siza Water are too high and are not affordable for the customers from the townships, as well as high tariffs on developers' contributions.

Despite the contract stating that Siza Water should operate within all the relevant legislation, it does not offer free basic services.

Siza Water has failed to maintain critical infrastructure such as sewer mains.

There are no clear records of empowering SMEs within the KwaDukuza Local Municipality.

Siza Water has a continuous change of management.

There is no clear distinction of its assets and their condition.

The concession is coming to an end in 2029. Siza Water has, for the first time, offered to share the profit with the municipality, after being in operation for 24 years.

Siza Water is not investing in critical infrastructure that is required for future growth, such as the upgrade of the Sheffield Waste Water Treatment Works. Instead, the company uses funding from developers in the form of developers' contributions to pay for new infrastructure to service new developments.

### Recommendations

There is a need to review the financial model to ensure that the concession fee that is paid to the municipality is revised, taking into account that it has not been reviewed since inception.

The profit-sharing structure needs to be reviewed to allow for equitable sharing of the profit.

Siza Water should work with the municipality to ensure training and development of youth from within the concession area and their placement in internships. The municipality should beef up the concession management team to include: operations, procurement, finance, asset management, HR and legal to ensure readiness for take over when the contract expires.

The process of preparation for handover should start immediately.



**Councillor Collen Mdletshe, Ward 28, KwaDukuza District Municipality**

**(also representing the other two wards in the concession area)**

## Strengths

Siza Water is a very reliable service provider and the water quality is of a high standard. Faults and complaints are attended to promptly.

Some of the advantages are the funding opportunities for bursaries within the district, sponsorship of local NGOs and an opportunity for young people and black Africans in general to acquire opportunities to gain knowledge in technical fields.

## Challenges

Only certain areas that are urbanised receive sanitation services and in-house water connections.

In other areas, the main challenge is the number of standpipes and the distances between them, especially for the elderly and people with special needs.

Inadequate water pressure in some areas needs attention.

Criminal elements are also a challenge due to vandalism of standpipes and theft of parts to sell as scrap.

Some residents have not yet made use of the in-house water connections from the 300 pilot units that were installed a few years back. An awareness campaign is required in this regard.

The cost of in-house connection meters needs to be reviewed as it is at present very expensive for disadvantaged communities. Frankly, it makes little sense that Siza Water would charge the same amount of money to connect water to a house in an affluent estate as it would to a house in Nkobongo or Etete. Reducing the cost would mean more houses are connected, more revenue for the company and ultimately, better service to residents of KwaDukuza.



## Linda Mncube, CEO, Enterprise iLembe

(The economic development agency of the iLembe District Municipality)

## Strengths

Siza Water offers good service responsiveness and communication with consumers, recording 96% satisfaction rate.

The company has high levels of operational efficiency, reducing water losses to 8% in 2021. About 69% of customers receive intermediate to full levels of service and revenue collection is good.

The concession area has seen extensive residential, commercial and industrial development over the past two decades. Some significant developments include Ballito Business Park and Zimbali, Simbithi, Mbonini and Seaward residential estates. Whilst no causal link can be drawn between this growth and the concession contract, the service level of Siza Water has positively contributed to user sentiment in the area.

## Challenges

There is a need for improved alignment between Siza Water and Enterprise iLembe, particularly on SMME development.

Tariffs should be aligned with iLembe District Municipality tariffs as now there are two tariff regimes for one municipal area.

Lack of internal funding for capital projects to unlock greenfield developments.

Lack of a competitive and transparent formula for calculating developers' contributions.

Sewer pump failures have had an impact on environmentally sensitive and recreational areas.

### Opportunities

Alignment of the development charges model and formula will lead to greater investor certainty and improve the district's competitiveness.

Enterprise iLembe can play a role in SMME development, especially business incubation of contractors.

Improved revenue collection and collaboration with the private sector in rolling out bulk infrastructure in a way that does not render the district un-competitive.

The competitive advantage of the concession area and iLembe as whole can be improved by greater alignment of tariffs and benchmarking with other competing municipalities.

### Learnings

While PPPs exhibit potential for efficient service delivery, the contract or agreement should set targets for proactive capital investment to unlock development.

A more equitable profit-sharing model is needed and the tariff structure and finance model of the concession should cater for redistribution and provision of a higher level of service in underserved areas west of the N2 freeway.

The concession agreement should incorporate a handover process, transfer of technology, staff, and assets.

The iLembe District Municipality will decide on the future of the concession in 2029. However, groundwork needs to be done now, including an infrastructure and asset assessment, ensuring

adherence to investment in maintenance, the implementation of a profit-sharing model and an increase in SMME development in line with the district's transformation objectives.



### Stephan Marais, representative of Dolphin Coast Residents and Ratepayers Association (DOCRA)

### Strengths

Siza Water's technical staff have a fast reaction time.

Siza Water ensures good maintenance of infrastructure and has a simple price structure.

The company honours Service Level Agreements and delivers cost savings due to efficiencies.

### Challenges

Lack of funding for new infrastructure development.

Illegal connections and non-paying residents undermine revenue collection.

Shortfalls in the present contract need to be addressed.

### Threats

There is a long lead time before PPPs can become profitable.

At present about 32% of iLembe residents have no direct access to water.

In-sourcing water services will lose the advantages of PPPs.

### Opportunities

Siza Water has gained much experience in water supply and management.

There is a need to renegotiate contributions to infrastructure and to expand the scope and reach of service areas.



### Kirsch Bezuidenhout, Acting Chief Director, PPP Unit at KZN Provincial Treasury

#### Strengths

The main benefits of the Siza Water PPP are the high level of quality services provided and the access to resources and technologies that the local authorities have struggled with.

Siza Water has been innovative in attending to challenges and have access to the latest advancements in water treatment and provision.

When the drought hit KwaZulu-Natal in late 2014, Siza Water invested heavily in upgrading their water recycling infrastructure so as to limit bulk water purchases from Umgeni Water by almost 50% and assisted in the continuous supply of water and wastewater services.

Other benefits include the timely provision of services to communities and the associated maintenance of infrastructure; the efficiency of

services, which includes minimising water losses in accordance with industry norms; and the ability to plan and implement services to an ever-expanding population in the district.

#### Challenges

The contract is ambiguous when it comes to the level of services that should be in place currently and who should provide that service. This has resulted in some areas still having level 2 services (VIPs) and not transitioning to a waterborne sewer system.

The contract has struggled to ensure the same levels of services are provided throughout the concession area. But, this is not a simple linear exercise. The concession area was increased as the contract progressed, the number of informal settlements also increased and low-cost housing had to be catered for.

The bulk water purchasing tariff hike imposed on Siza Water by Umgeni Water led to tariff increases for the consumers, which had a big impact on the contract and the financial modelling which had previously raised the possibility of expanding the concession service area and providing bulk infrastructure to disadvantaged communities.

The lack of monitoring and oversight by the municipality over the years has left the project to being self-monitored by Siza Water. The five-year reviews have often been delayed due to internal processes within the municipality.

#### Learnings

While it's important that the private sector party be allowed to conduct the business, the municipality cannot divorce itself from the management of the contract.

Based on the experiences of this contract, and others in the province, we now provide more support to municipal officials to enable them to manage the contract of PPPs.



This contract has been managed well and has performed at levels that have ensured exceptional services to households within the concession area. This PPP agreement can serve as a blueprint for water and sanitation services across the country.

The municipality would need to seriously consider its options at the expiration of the contract, including whether it will be able to maintain and expand the level of services, cost considerations and the municipality's Integrated Development Plan.

With six years to go before the contract expires, this work must begin with haste.

## Key emerging issues

### Options after 2029

Siza Water is a strategic water service utility PPP in the district. A decision must be made soon over how to proceed after 2029 to enable planning and ensure that water services continue without interruption in the area. This means that the various options that are available will need to be explored in detail.

### National policy on PPPs

The decision will need to be considered in the context of national government seeking to increase the number of PPPs across all service delivery sectors and to increase the participation of the private sector in the provision of infrastructure.

### Private sector expertise

This efficient PPP has delivered services according to its contract and reduced non-revenue water to 9%.

### iLembe District Municipality capacity

The iLembe District Municipality does not have the same level of technical expertise and management as the private sector and may need to take over Siza Water personnel to sustain services at the same level.

## Cross-subsidisation and equity

The concessionaire is serving the higher revenue base of the iLembe District Municipality, whereas the municipality serves the remainder of which two are deep rural and don't have a strong revenue base to support infrastructure services. The concessionaire recovers their costs while the municipality does not.

Conversely, the potential for high-income earners to subsidise services for low-income earners offers distinct developmental opportunities which would not be possible without a cross-subsidised funding model. This is especially relevant in districts that have a mix of high and low revenue bases, such as the iLembe District Municipality.

### Siza Water perspective

Cross-subsidisation is not new to South Africa.

At the inception of the contract, the company made losses as it needed to invest in infrastructure.

The municipality invited tenders for the PPP because of large losses in the water and sanitation infrastructure, the inability to pay the loans for the related infrastructure and the lack of skilled personnel.

Siza Water has consumers on the coastal strip of Ballito, but the largest population served is in Shakashead, Shakaskraal, Nkobongo, Shayamoya and Etete, all of which are indigent or less affluent communities. The service area of Siza Water was not chosen by itself but rather by the municipality.

A cost recovery mechanism has to look holistically at the business, ensure the assets are kept efficient, staff are qualified to maintain the assets, and the organisation is right-sized to ensure optimal services and manage costs.

### iLembe District Municipality perspective

The PPP operates in an affluent area where payment of services is guaranteed, making it possible to finance the maintenance of infrastructure.

The national government provides iLembe with an equitable share to subsidise services to indigent customers. Siza Water does not provide free basic services but it bills iLembe for free basic services they render and iLembe pays through equitable share. It is preferable to use any surplus to cross-subsidise services instead of paying it over to shareholders as dividends, as they do not plough back to the needy communities who generated the profits.

### Legal issues

The relevant legislative requirements would have to be applied for whichever option is selected as the way forward. This may include a second tender process if the concession is not continued, or reference to the appropriate public finance instruments if it is continued in its present or modified form.

### SWOT analysis of the PPP

This overall analysis of the PPP is derived from considering all the stakeholder positions and key prevailing issues.

### Strengths

- The PPP enables delivery of water services to communities over a vast area of the iLembe District Municipality.
- Siza Water fulfils requirements of the concession and is technically proficient.
- Water losses have been cut from 50% at inception to 8%.
- Collection rate for water services is maintained at 97% for water services provided.
- Siza Water maintains water infrastructure and installs infrastructure for new developments.
- Siza Water has achieved Blue Drop and Green Drop certification for the water services delivered under the concession.
- Profits can be shared equally between Siza

Water and iLembe District Municipality when generated.

- Water reuse plant brings environmental and economic benefits.
- Sewer overflows have been minimised.
- Siza Water provides employment for people from the concession area.
- Siza Water's CSI projects support the youth and underprivileged communities.

### Challenges

- Lack of transformation indicated by no Africans on Siza Water management team.
- Profit sharing component is taking too long to materialise, and the iLembe District Municipality has not yet received any share of profit.
- Concession area includes low-income and indigent consumers who have a constitutional right to free basic services they cannot afford to pay for.
- Siza Water does not provide free water services to indigent consumers.
- Siza Water does not provide the same level of services in affluent and low-income areas of the concession.
- Low-income consumers complain that connection fees in the concession area are too high.
- Developers complain that development charges imposed by Siza Water for installing new services are too high.
- Some bulk water infrastructure is ageing and requires funding for continuous maintenance.
- Lack of efficient communication and dialogue between Siza Water and the iLembe District Municipality.

- Lack of grant funding to upgrade services to indigent communities.

### Opportunities

- Private sector technical expertise and financial funding and operational models can achieve better service delivery than municipalities due to municipal constraints.
- Independent monitoring of technical, financial, and legal components will put performance of the PPP in perspective.
- Improving mandates from iLembe District Municipality will help to resolve strategic issues.
- Appointing single point of contact at iLembe District Municipality to handle and refer all Siza Water issues to relevant people at the municipality.
- Legal avenues are available to continue the concession or to implement alternative options.
- National policy is shifting towards greater participation of private companies and PPPs in service delivery.
- Cross-subsidisation allows affluent consumers to support services to low-income and indigent users of water.
- Comprehensive handover plan will ensure smooth transition if the concession ends

and the iLembe District Municipality takes over function.

- iLembe District Municipality can absorb Siza Water's skilled staff and technical experts if it takes over the function.
- Municipal entities similar to Enterprise iLembe could take over the concessionaire's functions after the contract expires.
- The national Department of Water and Sanitation has developed a Water Services Improvement Plan which provides guidance for municipalities to improve delivery of water services.

### Threats

- Failure to make the correct decision about how to proceed after 2029 could impact water delivery over a vast area.
- Failure to make a decision sufficiently in advance of 2029 will not leave enough time to plan and implement alternate service providers.
- Possibility of another drought similar to 2014 due to climate change.
- Possibility of further floods similar to 2022 that could damage water infrastructure.

## Section 3:

# LOOKING AHEAD – Options for the future

**This section explores options emerging from shifts in national government policy, the Department of Water and Sanitation's National Water Services Improvement Programme and the recently formed Water Partnerships Office.**

### Water Services Improvement Programme

The national Water Services Improvement Programme (WSIP draft document, 2022) aims to put in place robust, Cabinet-approved arrangements that will support the national Water and Sanitation Department's interventions.

The aim is to reverse the decline in the provision of water and sanitation services in all municipalities across South Africa.

#### Specific objectives include:

1. To establish clarity about what municipalities are required to do by strengthening the minimum norms and standards for water and sanitation services.
2. To monitor whether municipalities are doing what they are required to do and to report on their performance annually.
3. To establish clarity on what actions will be taken, when and how, when municipalities are not doing what they are required to do.
4. To ensure that the Department provides support and intervenes effectively by making use of both public and private sector mechanisms,

appropriately funded and financed.

The constitutional responsibility for providing water and sanitation services rests with local government.

The Department of Water and Sanitation has the power to regulate how these services are provided, and to monitor and support municipalities providing water services. It also has a duty to intervene where national norms and standards are not met.

Water services must be provided with limited interruption, providing prescribed water quality levels and wastewater must be managed to protect the environment and support healthy communities.

The Water Partnerships Office (a partnership between the Department, the DBSA and SALGA, led by the Department and based in the DBSA) will play a key role to support effective long-term contracting with the private sector. It will help to harness private sector skills and commercial and blended finance to improve water services.

A programme for mutual partnerships with the private sector and other non-governmental organisations has been formulated and has started being implemented in several provinces.

#### Compulsory minimum standards

The Department of Water and Sanitation has stipulated standards for the delivery of a safe, reliable supply of water.

The municipality has a duty to progressively provide a minimum quantity of potable water of 25 litres per person per day or 6 kilolitres per household per month at a minimum flow rate of not less than 10 litres per minute.

Water must be accessible within 200 metres of a household.

No consumer should be without a water supply for more than seven full days a year.

### Access to basic sanitation

The municipality has a duty to progressively provide a toilet which is safe, reliable, environmentally sound, easy to keep clean, provides privacy and protection against the weather, is well ventilated, keeps smells to a minimum and prevents the entry and exit of flies and other disease-carrying pests.

### Contracting out services in the long-term

There are three types of long-term contracts: municipal entities, concessions involving retail risk, and concessions linked to discrete infrastructure projects.

#### • Municipal entities

Municipal entities are defined as an external mechanism in terms of the Municipal Systems Act.

#### • Concessions

A concession gives a concessionaire the long-term right to use all assets conferred on the concessionaire, including responsibility for operations and investment. Asset ownership remains with the authority. Assets revert to the authority at the end of the concession period,

Significant capacity is required to establish and manage a concession. Long-term contracts for the provision of a municipal water service with private and public entities are regulated in terms of Section 19 of the Water Services Act, Section 78 of the Municipal Systems Act, Section 33 of the

MFMA and the National Treasury PPP regulations.

#### • Public-Private Partnerships

Concessions in the form of a contract between a municipality and the private sector are known as PPPs. When contracting a municipal service out to the private sector, the municipality must follow the requirements set out in the National Treasury PPP framework and the MFMA.

Both the Department and National Treasury recognise the value of the contracting out of services and are in the process of establishing a national centre of excellence to champion and support PPPs in the water sector.

The intention is to facilitate PPPs through offering streamlined services, draft tender specifications, procurement support, contract templates and contract management. The office will also offer financial structuring, pre-feasibility and feasibility studies and other project preparation and development services in support of public-private partnerships.

### PPP policy

In their paper titled “Public-private partnership conceptual framework and models for the funding and financing of water services infrastructure in municipalities from selected provinces in South Africa”, Cornelius Ruiters and Maselaganye P Matji state:

*“Many developing countries need water infrastructure to improve the livelihoods of their citizens and their quality of life, and South Africa is no exception. While there are many constraints to the delivery of water services infrastructure, one of the most obvious factors that hampers delivery is project costs. Access to finance is the lifeblood of water services infrastructure delivery, as is the packaging of the funding model for each project or groups of projects. Unfortunately, the cost of water services infrastructure delivery continues to escalate to the point where many*

*developing countries simply cannot afford such infrastructure. The backlog of water infrastructure provision and poor access to service delivery for poor communities have forced a new approach for governments, industries, financiers, and other role players. Delays escalate the eventual cost of infrastructure even more. Countries like South Africa have no choice but to look at innovative approaches, such as public-private partnerships (PPP) models, to ensure that they eliminate their water infrastructure backlogs. Efficient and productive water services infrastructure are important inputs for all industries and hence vital for economic growth and efficiency, productivity and competitiveness.”*

The study identified three models within the PPP value chain framework:

• **State model**

The water services value chain is 100% government-funded and owned infrastructure.

Government is a key player in infrastructure investment and inefficiencies within the public expenditure management systems are particularly detrimental and there are significant problems in spending of infrastructure budgets.

• **Private model**

The water services value chain is 100% private sector funded and owned infrastructure. Harnessing the significant potential for capital markets to finance water infrastructure, particularly local bond markets, is contingent on their strengthening and further development. Well-functioning and appropriately institutional investors (pension funds, insurance companies, etc.) would be natural sources of long-term financing for water services infrastructure because liabilities would better match the longer terms of water infrastructure projects.

• **Hybrid model**

This model forms a bridge between the gov-

ernment and the private sector. The use of this framework is essential in including the private sector in the implementation of water infrastructure development projects.

**The paper concluded:**

*“The South African Government has recognised that new delivery models, i.e., PPP models, are required to close the infrastructure delivery gap to extend access of water and sanitation services to communities. These include the long-term growth and water services infrastructure renewal planning across the provinces, determining project priorities, and utilising the expertise in the public and private sectors to manage the implementation of water services infrastructure through innovative financing (such as PPP models).*

*With overwhelming demand for the provision of water services infrastructure assets to be accelerated around the country, implementation of any of PPP models will go a long way towards leveraging private sector investment in economic infrastructure assets and allowing the government to recycle its capital for socio-economic needs and development, while at the same time addressing demand risk.*

*The research results demonstrate that the ability of the municipalities to guarantee payment of services should be considered prior to finalising the PPP arrangements.*

*Key variables that inform PPP financing arrangements are: (i) amount of debt required; (ii) ability to repay the debt; (iii) nature of the project(s); (iv) transfer of project risks such as design, construction and maintenance; (v) value for money; and (vi) financial and socio-political uniqueness of each municipality.*

*Buy-in of key stakeholders such as consumers or local community is crucial and without their buy-in the project(s) will fail. Cost reflective tariffs are essential for the success of PPP models. National government contributions should be prioritised in*



municipalities where affordability is a challenge.

Water services are highly politicised and this makes it difficult for municipalities to promote cost-reflective tariffs required to ensure continued operation and maintenance of the infrastructure.”

### Water Partnerships Office



**Johann Lubbe** is providing interim support to the Water Partnerships Office (WPO), which has been established to increase private sector participation in water services:

“Municipalities are constrained in terms of finance and expertise to address many of the challenges they face.

In South Africa there is substantial expertise in the private sector and the banks and pension funds are eager to increase the proportion of their portfolios invested in public infrastructure, and specifically water and sanitation infrastructure.

Private sector investment in public infrastructure is feasible where there is a sustainable revenue stream associated with the investment, so that the private sector can get a reasonable return on its investment – the project must be ‘bankable’.

There must be a focus on projects with sufficiently large and sustainable revenue streams – the larger the revenue stream in relation to the investment and the more sustainable the revenue stream, the greater the likelihood that the project will be bankable.

Private sector involvement in municipal water and sanitation services is very low in South Africa compared to other middle-income countries.

In order to increase private sector involvement, it is necessary to bring properly packaged projects to the market - in terms of risk allocation, financing model, clearly defined scope of work and performance measurements, payment model and contractual arrangements.

The Department of Water and Sanitation, in partnership with SA Local Government Association and the Development Bank of Southern Africa, has established a National Water Partnerships Programme and Water Partnerships Office (WPO).

The WPO is a ring-fenced entity housed in DBSA and the Steering Committee is chaired by the Director-General in the DWS, who oversees the work of the WPO.

The roles of the WPO are:

- To develop standardised national programmes for private sector participation in municipal water and sanitation services to make it easier, quicker and cheaper for municipalities to enter into partnerships, without having to ‘reinvent the wheel’ for each partnership.
- To support municipalities to participate in the programmes and prepare bankable projects - where municipalities are lacking in the required expertise to undertake feasibility studies and financial structuring.
- To facilitate blended financing, including participation by development finance institutions, where appropriate.

The WPO will assist municipalities and water boards with the preparation of relevant water projects.

The project preparation exercise (bankable feasibility studies) will include the determination

of the most appropriate financing and implementation model. PPPs are one of the default mechanisms to be applied to enable private sector participation, but a streamlined, focused and fast-tracked approach is required to ensure projects are prepared and implemented timeously.

The WPO will employ specialist expertise to apply project finance best practice principles to structure and implement projects in a viable and sustainable manner.

Some of the issues that will be considered as programmes are developed:

- How to standardise as much of the feasibility and contracting processes as possible, to reduce the time taken for these processes, while still paying sufficient attention to due diligence.
- Possible ways of transferring some of the responsibilities for feasibility studies to the private sector, learning from the Independent Power Producers programme.
- The implications of the revised PPP regulations, when they are issued.
- Possible requests to National Treasury for exemption from the National Treasury Municipal PPP regulations for some of the programmes, on condition that projects follow established programme processes, following the example of the Independent Power Producers programme.

Strengths and benefits of PPPs in the water sector

- Structured way to get the private sector involved in service delivery.
- Often the only viable way to structure projects in the water sector.
- Proven ability to transfer and manage risks effectively.

Public vs private sector provision of water services

- Extensive expertise residing in the private sector, not always evident in the public sector.
- Significant private sector appetite to invest in water and sanitation infrastructure.
- Private sector is forced to innovate to drive costs down.

Key requirements for successful water sector projects

- Political will.
- Cost reflective tariffs (willingness and ability to pay).
- Bankable projects (requires project preparation) – money is not the problem!"

**Kirsch Bezuidenhout, Acting Chief Director of the PPP Unit at KZN Provincial Treasury:**

"Private partnerships remain a cogent vehicle to ensure that government, at all levels, is able to achieve the much-needed development required in our country. We have struggled over the past many years to build the necessary infrastructure, systems and long-term solutions needed to transform the lives of the people which we serve. The bulk of specialised skills and innovative thinking is with the private sector, and it is important that this is utilised in the achievement and realisation of the developmental state that remains a key priority of government.

In more recent times, South Africa, generally, has seen an economic downturn, which has meant that the financial resources available to government are evermore dwindling. This too has necessitated the growing need for government to turn to the private sector to leverage its borrowing power to fund the large-scale developmental projects needed to provide real change in the life of the communities we serve, but to also jump-start the economy.





*The delivery of potable water remains a challenge. It is a brewing crisis, if not as yet at crisis level already, with national news coverage recently highlighting this in other parts of the country.*

*KwaZulu-Natal is not immune from these challenges with the recent droughts and floods highlighting our systems incapacities and frightening limitations.*

*It is against this backdrop that we must view the iLembe District Municipality / Siza Water PPP Concession Contract. It was at the time of its conclusion and remains a ground-breaking PPP agreement that demonstrates what collaboration between government and the private sector can achieve in, amongst others, the provision of basic water services and waste management to communities.*

*The KZN Provincial Treasury plays a role in PPPs flowing from its legislative mandate in terms of section 120 of the MFMA, read with the PPP Regulations. We are responsible for both the advisory functions, in providing technical, legal and financial advice on PPPs, as well as a regulatory function.*

