

Public Private Partnerships Unit



Procurement of new Correctional Facilities for the South African Department of Correctional Services.

Date: March 2009



- Institutional and Legal Framework
- Background
- The new project
- Procurement process
- Assessing the bids
- Financial crisis
- The political stakeholders
- Interventions and Conclusion
- Questions

- Departmental mandate:
 - Correctional Services Act, Act 111 of 1998 as amended by Act no 32 of 2001
 - White Paper of 2005.
- Joint Venture Prisons
 - The Correctional Services Act, Act 111 of 1998, section 103 & 105
 - Concurrence of Ministers of Finance and Public Works
 - Full spectrum of functions
 - Design, Build, Finance, Maintain and Operate
 - Operational Period to not exceed 25 years.
 - Controllers reporting to Commissioner

- South Africa's first two PPP prisons:
- Prior to TR 16
 - Bloemfontein/Mangaung – Group 4 Correctional Services
 - Louis Trichardt/Kutama Sinthumule – South African Custodial Management
 - Procurement started 1997
 - Contracts concluded March 2000 and August 2000
 - Operational July 2001 and March 2002
 - Running for 7- 8 years
- Achievements:
 - On budget and on time
 - Compliant to White Paper - rehabilitation outcomes
 - Operating cost per prisoner per day comparable to public sector.
- Problem areas:
 - DCS design and operating specifications too high – input specifications
 - High cost of financing (debt and equity)
 - No flexibility in numbers











- Four new projects: Paarl, East London, Nigel and Klerksdorp
- Design, Construct, Finance, Maintain and operate
- Facility to house 3000 male mixed classification offenders
- 18 -24 month construction period
- 25 years operating period
- 6 month ramp up period
- Project Finance Structure
- Capital contribution
- Unitary payment based on availability and compliance to BBBEE targets
- Penalty deductions for non performance

- Regulated by Treasury Regulation 16 and the PPP Manual:
 - Feasibility study
 - Treasury Approval 1
 - Request for Qualification (RFQ)
 - Request for Proposals (RFP)
 - Treasury Approval 2A
 - Choose the Preferred Bidder
 - Treasury Approval 2B
 - Contract Negotiations
 - Treasury Approval 3
 - Implementation
 - Close out report and case study

- Feasibility study approved September 2007
- Request for Qualification – October 2007
- Short listed bidders announced September 2008
- Request for Proposals issued – October 2008
- 2 stages – bidder comment and participation
- Final Request for Proposals – 1 December 2008
- Closing date 30 April 2009

- Readiness and capacity of institution to evaluate
- Replacement of project officer mid way
- Lack of senior management support for project officer
- Alignment of Supply Chain Management Policies to PPP procurement
- Availability and commitment of Bid Evaluation Committees
- Resistance to change and lack in urgency of department
- Uncertainty in political environment

- Evaluation June 2009
- Two tier evaluation structure
- First Tier – Bid Evaluation Committee (BEC) and sub committees on finance; legal; technical and Black Economic Empowerment.
- Bid Evaluation Committee – score integrated solution and recommend to National Bid Adjudication Committee (NBAC)
- Second Tier – National Bid Adjudication Committee responsible for the final decision on preferred and reserve bidders
- Approval by Treasury of value for money report
- Announcement of preferred bidder – November 2009
- Negotiations
- Construction planned to start July 2010
- Service Commencement 18 to 24 months (January 2012)

- Negative perceptions surrounding the current 2 PPP prisons
- Multi departmental task team - a technical analysis and evaluation in 2002
- National Treasury interaction with the Departmental Portfolio Committee in terms of its oversight role
- Pressure to ensure that the next 4 are affordable and owned by Department of Correctional Services as part of their service delivery mechanism
- Change in Commissioner in October 2008
- Constant intervention required
- Tender irregularities in department; environment of distrust; investigations ongoing
- Negative media reports
- Pressure on secure evaluation environment
- Impact of the elections

- Impact on our market:
 - Liquidity problem
 - Lending costs are up
 - Tenors are down
 - Fully underwritten bids not available
- Request for Proposals amended via Briefing notes to ensure VFM.
 - Partial underwriting for a compliant bid
 - Variant bids for greater % underwriting
 - Credit margin fixed
 - Variant bid on shorter tenor
 - Refinancing undertaking by Government
 - 100% of refinancing gains on debt financing to Government
 - Pre Financial close Debt Funding Competition for non – underwritten portion or arrangement by underwriting bank.
 - Validity periods of bids – rolling on financing costs.

- Ensure that bids is affordable –
- Comprehensive feasibility
- Output specifications vs. input specifications
- Government contribution to capex
- Debt Funding Competition to ensure competitive financing cost
- National Treasury intervention at senior official level
- Project Officer appointed at senior level
- Steering Committee appointed
- Stakeholder committee and meetings
- Communication Strategy
- Ministerial reporting and interaction on regular basis

Elsa Strydom
Senior Project Advisor
PPP Unit
National Treasury
240 Vermeulen Street
Pretoria
South Africa

Tel: +27 12 315 5371

Fax: +27 12 315 5477

elsa.strydom@treasury.gov.za

www.ppp.gov.za

www.treasury.gov.za

