



NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA



Neighbourhood Development Partnership Grant

NDPG Toolkit (No 5 of 5)
Building the Business Case for a Capital Grant

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1 INTRODUCTION AND OVERVIEW

1.1 Purpose of Document

This document serves a number of purposes and forms one of the base documents of the NDPG Toolkit and should be read with the other documents contained in the Toolkit.

It outlines the different stages of the project cycle as they pertain to NDPG projects. Inherent in this is a possible project methodology that outlines how a business case for the project may be demonstrated. A common language between project managers of NDPG projects and the National Treasury is required to ensure a mutual understanding. This is important in view of the Strategic Alliance nature of the NDPG between the National Treasury and each municipal project.

1.2 Strategic Alliance per NDPG Project

As each project is incorporated into the NDPG Portfolio by the National Treasury, providing it accepts the application from the Municipality for the NDPG project in its proposed form, it will enter into a Funding Agreement with the municipality for the lifecycle of the NDPG Project.

This means that the National Treasury may set aside a Funding Envelope for the NDPG project. So, even when the extent of capital Grant is not clear at the onset of the project, there will be access to Funds for capital implementation. However, the access to these capital funds is not guaranteed, hence, the emphasis of the National Treasury on building a Business Case for the project.

The National Treasury is of the firm view that a capital project is usually always possible, given the challenge of township development in South Africa. However, the rationale for the form and scale of the project must be demonstrated by the municipality.

As each project is unique to its local conditions, constraints and opportunities, the National Treasury cannot prescribe the form and scale of the project. It provides an inherent methodology for the Municipality to build the business case for the project based on different stages of the project cycle.

1.3 Project Owner and Manager

The project owner is deemed to be the municipality. National Treasury, if it adopts the proposal as an NDPG project, will enter into a Strategic Alliance agreement with the municipality for the provision of funding and possibly other support to the municipality in order to design and implement the project. Note that at all stages the municipality is the project manager, the project driver and the project champion, even if the municipality enters into agreements and contracts for the provision of these functions with various service providers.

1.4 Two Critical Award Stages

1.4.1 NDPG Registration

If the Municipality is successful with its application for the NDPG, or is shortlisted for a possible NDPG award, the National Treasury may engage with the municipality in a verification exercise. This means that the National Treasury will attempt to align the project more closely with the NDPG's aims. At the same time, the Funding Envelope for Technical Assistance and Capital Grant amounts is set aside for the assumed lifecycle of the project, given its assumed form and scale.

If the project is then awarded, arising out of an internal recommendation process, the Municipality will enter into a Funding Agreement with the National Treasury for the lifecycle of the project and a Projects Director will be delegated from the National Treasury's Neighbourhood Development Programme (NDP) Unit to interface with the municipality on all aspects of the project.

Project planning will then commence (usually Stage 1, unless the project has already undertaken this step) with the application of the Technical Assistance grant fund and possibly other funding streams (from the municipality, private sector, etc.). Building the Business Case – which includes the provision of a business plan – will usually involve project stages 1 to 4 – and provided the National Treasury supports the Business Case, Capital Grant funding will be released.

1.4.2 Building the Business Case

A key stage in the process is the development of a Business Case (usually involving project stages 1 to 4). It needs to clearly set out the key elements and criteria for decision making, including the strategic context and business need for the service or facility, the options considered, the indicative costs and, importantly, the value for money and affordability of the project to the local authority.

The results of such an exercise should be documented in the components of the Business Plan. This will be an integral part of the investment decision making process and include all the necessary information and analysis required by decision makers. It will also provide a record of the process and a clear audit trail.

Options appraisal is the key to the investment decision making process. The options appraisal will need to identify a requirement to do the minimum to continue the status quo and demonstrate if there is a sound case for investment through a public private partnership (of some form) route. Early market soundings will help to indicate the level of private sector interest in the project and the capacity and willingness of private investors to enter in to a partnership arrangement. As the market for partnership projects matures, the need for, or extent of, early market testing may reduce.

1.5 Aims of the Business Case

Business analysis and investment appraisal involves the analysis of a wide range of data, judgments and assumptions all of which must be adequately evidenced. The ultimate aim of the business case is to support and justify the case for investment through a public private partnership approach, where appropriate. The business case needs to be a realistic assessment of what is possible, not a list of impractical proposals. The prime purpose of the business case is to provide National Treasury, the municipality and investors with key details of the project. These should include the service implications, the business justification for the

approach being followed and the cost of the project to the municipality and National Treasury. The business case should enable the National Treasury and the municipality to decide if the project should proceed as planned and give approval for officials to commence implementation.

Project approval will depend on the business case clearly demonstrating that the preferred project option meets strategic objectives in terms of delivering the required service outputs at an affordable cost. It must show that the project is sound in economic terms and the preferred option represents value for money. It also sets the key parameters and milestones for managing and tracking progress and for taking a project forward in a way which focuses on achieving the objectives and outputs required.

For projects seeking NDPG support it will be necessary to provide a copy of the business case. In some cases, where the business case has already been established, submissions must be accompanied by a copy of the business case. This will enable National Treasury to review and assess the proposed project against NDPG aims and priorities and assign and/or revise preliminary allocations of the Capital Grant. Where a comprehensive business case has been prepared, no additional work should be needed on the part of a municipality to enable a project to be assessed by the National Treasury.

The development of the business case will also provide the opportunity for National Treasury and the municipality to further their understanding of the project. Information gathered for the preparation of the business case will be helpful in assisting other non-qualifying municipalities in determining how to undertake similar township renewal and/or nodal projects.

To sum up, the business case should clearly demonstrate the strategy for the development and the outcome of the project:

Strategy development	<p>Strategy developed on the basis of the assessment and analysis of the township conditions (macro and micro markets, physical, regulatory, resources, etc.) and could be based on filters, such as:</p> <ul style="list-style-type: none"> - Market dynamics: how strong are the retail, commercial and residential markets? - Connectivity and linkages: how is the township (and its parts) connected to the larger social, physical, economic and civic networks? What are the township's strengths and how to build on them? Is there a cohesive residential, retail, etc. market? - Implementing partners: what are the municipal, and public, civic and private sectors' contributions to the project? Who drives the implementation of the project plan? - Political will: is there public sector support and civic engagement?
Outcomes	<p>The result of the planning process is a plan that provides:</p> <ul style="list-style-type: none"> - Scaled interventions that integrate all plans and data into a series of strategically located, discrete and measured development opportunities - Sequenced investments that maximize scarce resources and impact on the surrounding township - Targeted transactions that identify specific property investments and suggested uses

1.6 Project Cycle and NDPG Availability

The following diagram represents an overview of the relationships between the NDPG's project cycle stages and the availability of the NDPG fund relative to project stages. This can serve as a guide to applying municipalities.

Firstly, the Project Cycle is made up of a number of key stages from Concept, to Pre-Feasibility or Scoping, to Detailed Investigation, to Business Planning and Project Design, to Implementation, to Exit and lastly to Review.

Secondly, the stages of the Project Cycle form the pipeline for the NDPG projects. A project may enter at any stage of the Project Cycle. Project Registration, however, is most likely to occur up to and including the Implementation stage. All stages of the Project Cycle – up to the Implementation stage – can be considered as critical phases of Building the Business Case for the project. Each stage builds on the stage preceding it. The final stage in the NDPG Project Cycle is the one during which the project is actually being implemented, with an ultimate project exit. It is this NDPG Project Cycle that the NDP Unit manages. The Neighbourhood Development Programme (NDP) Unit manages the entire portfolio of NDPG-funded projects.

Finally, Technical Assistance (TA) and Capital Grant (CG) funding components relate to the various stages of the Project Cycle. TA is generally applicable for all work required in planning the project, building the Business Case, and possibly providing project management capacity to the municipality.

This document provides an inherent methodology for undertaking NDPG projects. Municipalities should not however be bound to the contents herein, but should judiciously assess what elements of work may be necessary to ensure the ultimate sustainability of their projects whilst building the business case for their projects. Note that National Treasury will be utilising this approach when evaluating the business case for each submission for NDPG funding.

NDPG Project Cycle Stages & Deliverables

Project Cycle	Project stage						
	1	2	3	4	5	6	7
	Concept	Pre-feasibility/ Scoping	Detailed Investigation(s)	Business Planning/Project Design & Planning	Implementation	Exit	Review
NDPG Project Pipeline	Project registration & adoption (if qualifying) - (projects submitted at stage 4 will need to demonstrate business case to access CG)						
			Building the Business Case				
					Implementation & exit		
TA Availability	Usually driven by municipality from own resources but in some cases Treasury can assist	Yes, to define and motivate project & align to NDPG goals	Yes, to undertake detailed assessments and develop business case/investment strategy	Yes, to develop business plan for implementation	Yes, for project management of NDPG project as identified in business case (can also be used at other stages)	Yes, if identified as part of business case & required for ongoing sustainability	Generally no, as municipality probably will review as part of Stage 5, or in later years. Treasury will monitor some KPIs centrally to ensure NDPG's goals are met
CG Availability					Yes, for NDPG projects		

The next sections outline these different components in more detail.

1.6.1 Technical Assistance funding

Feasibility studies will be project specific (i.e. node or neighbourhood) and will, or may, include:

- Urban design and architectural services (specifically for those elements for which public sector funding is required)
- Engineering plans and services (civil, transport, electrical, etc)
- Necessary planning, environmental and heritage approvals or other permitting legally required
- Detailed market potential and risks (identification of investment opportunities)
- Partnership and/or investment attraction strategies
- Economic rationale
- Preparation of marketing and development plans
- Skills and Entrepreneurial development and support to take advantage of identified opportunities
- Procurement strategy
- Detailed phasing and costing framework, with various elements for costing identified.
- Financial modeling
- Exit strategy, including an operations and maintenance plan, with associated role and responsibilities (supported with the necessary municipal approvals and/or other funding commitments)

All of the above would form key components of the Business Case for Capital Grant funding.

Refer to the Appendices for an indicative guide on the inclusion of the various elements per Project Cycle Stage. Note each consecutive Project Cycle Stage should ideally be built on the preceding one and hence contain the information of those previous stages already undertaken as the project preparation becomes more detailed. Elements may be combined or provided as stand-alone elements depending on the scope and scale of the proposed project. Elements may be undertaken in project stages other than those indicated herein, to deal with obvious challenges at an earlier stage.

1.6.2 Capital Grant funding

Capital funding (CG) from the NDPG will be accessed on the basis of a business case detailing the use and application of the grant. This business case could be developed as a result of a TA funded process as outlined above. It could also be accessed on the basis of a proposal that the municipality has developed using its own in-house technical expertise and resources. The registration will follow conventional business planning methodologies.

A business plan outline has been developed to assist municipalities in their registrations (refer to other documents in the Toolkit). In order to access CGF from the NDPG programme, the business plan will need to illustrate how the CGF will contribute to the following outcomes:

- Working in partnership with the private sector and community towards ongoing investment and developing confidence in an identified growth area
- Contribute to a developmental goal within a particular area, node or neighbourhood
- Contribute to the efficient use of scarce public land and facilities
- Have been identified in a broader developmental strategy – for example in an Integrated Development Plan (IDP), Spatial Development Framework (SDF), Local Economic Development (LED) strategy or similar
- Be part of a broader public investment framework, Central Business District or development node
- Contribute to the leveraging of new private investment or the improvement of existing private assets
- The sustainability of the project in terms of ongoing operational costs and the impacts of these on the municipality

The project will be assessed in terms of the growth potential of the locality. The merits of the business case provided justify the allocation of funding.

2 PROJECT CYCLE STAGES

2.1 Introduction

The Project Cycle is made up of a number of key stages from the conceptualisation of projects through to final completion and exit from the project by the municipality.

The Project Cycle is made up of seven key stages, which generally correlate to the type of NDPG funding availability as well as to the various stages of the NDPG Project Cycle itself.

The diagram in the previous section indicates the relationships between the various stages.

Each of the early project stages represents the steps whereby the business case is to be developed. Each stage is generally more intensive and detailed than the preceding one, and builds on that preceding level of work. A detailed description of each stage is provided in this document.

A number of examples of aspects to be considered are included as a checklist in the Appendices for each stage where appropriate.

No.	Project Cycle Stage	Correlates to NDPG funding type	Correlates to NDPG Project Cycle Stage		
1	Concept	TA	Project Registration and adoption of qualifying projects including projects that are at an advanced stage of planning or have commenced implementation (providing the business case for the project can be demonstrated)	Building the business case	
2	Pre-Feasibility or Scoping	TA			
3	Detailed Investigation	TA			
4	Business Planning and Project Design	TA			
5	Implementation	CG (and CG)			Implementation and exit
6	Exit	TA			
7	Review	TA (also TA by National Treasury)			

As each project is unique, it is not possible to determine which elements may be necessary ones to assess in developing the specific business case in terms of a checklist of possible items for inclusion. Hence, the checklist in the Appendices is not a prescriptive or exhaustive list. Municipalities are advised to consider which elements are applicable and/or vital in demonstrating the business case for the proposed project. Generally as one progresses down the stages of the appended checklist, all or some of the included elements could be addressed per project stage as part of the project methodology.

The NDPG is a conditional grant. The National Treasury may require certain conditions to be met by the municipality in order to ensure sustainability of the project before proceeding to the next stage of work and any associated funding disbursement.

All NDPG projects will generally follow this project cycle. However, they can apply for NDPG funding at any stage of the project cycle. Each stage is described in more detail in the next section. The stages of the Project Cycle can be collapsed and various elements can be

brought forward, as the particularities of the project dictate. The municipality is advised to consider what elements may be required for each stage of the Project Cycle in terms of the Registration Form.

2.2 Stage 1: Concept



2.2.1 Description of Stage

The first early concepts of the proposed project are identified at a high level here. The project parameters are outlined and development opportunities outlined.

It is advisable to provide as much detail as possible in the Registration Form. If the project is at a very early stage and the information is not available, the Registration Form will still be evaluated. The completion of the Registration Form is the minimum entry level requirement for consideration of NDPG funding.

A typical output of this stage is a development concept report, or a project concept report.

Any project concept should at the minimum include (the bulk of this information, if completed, can be provided in the Registration Form):

- A high-level description of the project including a vision and objectives
- A high-level spatial plan of the township, centres of economic activity, the location of the project and its transportation and other linkages to the township and surrounding areas within the municipal area
- A high-level description of the community of the township and potential project beneficiaries
- A high-level description of the township economy and opportunities for future development
- Possible investors in the project (other than the municipality and the National Treasury)
- Identification of the human resources required to undertake the project
- Any other pertinent information that may already have been researched
- A Council resolution in support of registration (failing which, a letter of support from the municipal manager)

The first step in the process is for a municipality to register their project (or projects). The standard Registration Form (available on the web at www.treasury.gov.za/ndp/) will guide the municipality through a series of evaluation questions and require information about the project location, intent, focus and management. This Registration Form will be used for the initial evaluation. Should this stage of the process prove successful, the next step in the strategic partnership will be initiated.

2.2.2 Main Activities

Typically these include:

- Brainstorm session
- Site visit
- Completion of the entire Registration Form for NDPG
- In-house preparation of a development concept report or project report by the municipality

2.2.3 Elements for Funding

This stage is generally not funded through the TA fund. Municipalities are encouraged to complete the Registration Form without the assistance of consultants. In some cases, it may be necessary to undertake a high-level study to identify issues arising out of concepts identified in this stage. TA funds are available for this to be undertaken.

It is only in exceptional circumstances, and generally at the request of the municipality, and then only when a high-level concept has already been articulated, that National Treasury may contribute its resources (outside of the NDPG fund) to assisting the municipality in fleshing out the project concept.

2.3 Stage 2: Pre-Feasibility

2.3.1 Description of Stage

The Pre-feasibility or Scoping Stage typically builds on the previous stage and begins to define the parameters of the project. A high-level project concept is outlined (including issues contained in the Registration Form). Elements for further investigation as identified through high level feasibility and/or relevant audits are also provided. A typical output is a Pre-Appraisal Report of the project, and includes elements and/ or outputs noted in the Checklist in the Appendices.

Once a project has passed the initial evaluation, the next step is a process of detailing and refining it. In most instances it is likely that the municipality will be assisted through TA funding to develop a Project Feasibility Study. This will involve an overall scoping of the project potentials, placing it in the context of the developmental approach and strategy of the municipality and building a case for why capital grant funding will achieve the NDPG objectives. Should a good case be made for the likely feasibility of a project, it will move on to the next step.

2.3.2 Main Activities

Typically these include:

- Brainstorm session
- Site visit
- Basic information assembly
- Stakeholder analysis
- Participation of key stakeholders
- Identification of possible project constraints
- Terms of reference for initial investigation stage
- Preparation of Pre-Appraisal Report and/or more detailed development concept report

2.3.3 Elements for Funding

Elements that may be financed through the TA funding are the high-level assessments and/or studies as noted in the Appendices. Each of the above should:

- Make reference to any further areas of research required
- Provide high-level strategic guidance to the municipality and its funders as to key challenges and opportunities identified
- Should begin to frame the potential scale of project and/or its components

2.4 Stage 3: Detailed Investigation

2.4.1 Description of Stage

The purpose of the detailed investigation is to describe, in detail, the challenges and constraints of project. This should result in an understanding of the details of the project, quantification of the project components and recommendations for implementation plans. Typical outputs include, inter alia as described in the Appendices, a Development Feasibility Study.

2.4.2 Main Activities

Typically these include:

- Development of township regeneration strategy or plan
- Commissioning of desk studies
- Detailed information assembly
- Stakeholder engagement
- Preliminary risk assessment and/or analysis
- Terms of reference for detailed investigation stage
- High order cost estimate and implementation time frames

2.4.3 Elements for Funding

Elements that may be funded through the TA funding are detailed Investigations, including all elements in previous stages, for any aspects or areas where more detailed and focused investigation is required.

2.5 Stage 4: Business Planning



2.5.1 Description of Stage

The purpose of this step is to build a detailed business plan and implementation strategy for the project. Include financial and project viability assessments especially in respect of partners and sources of funding identified. This will include the necessary detailed planning, engineering, architectural and implementation aspects of the project. The end result of this will be a detailed business plan, outlining the various components of the project; its phasing and funding, and the various institutional, resourcing and other partnering arrangements.

Typical outputs include preliminary designs, procedures and action plans.

2.5.2 Main Activities

Typically these include:

- Appointment of professional team
- Ongoing stakeholder consultation
- Detailed risk assessment
- Preparation of preliminary designs, procedures and action plans
- Further refinements of budgets and programmes
- Comprehensive marketing assessment
- Preparation of project business plan
- Preparation of detailed specifications and procurement documentation

2.5.3 The Business Plan

It is not possible to provide a standard template for a Business Plan but as the purpose of the Business Plan is to provide a comprehensive overview of various project aspects, the identifications and quantification of the extent of project and/or its components are important. It is suggested that all necessary information be provided, such as:

- Description
- Project methodology
- Situational analysis
- Pre-conditions for implementation
- Project funding arrangements, budget, milestones, phasing and cash flow per investor category and project phase
- Risk analysis and risk mitigation measures
- Institutional arrangements on completion
- Operating plan and programme
- Outputs and outcomes
- Resource requirements
- Partnership structures
- Identification of key success factors
- Stakeholder management strategy
- Options and viability assessments
- Exit strategy (ownership of project and/or components, urban management, resources required, operations funding)
- Implementation plans (including management responsibilities and strategies on operational aspects)
- Any other aspects relevant to the project (see also the Appendices for other possible items)

Some details of elements to be included are provided next.

2.5.4 Project methodology

In this section of the business plan, the various project components or elements should be outlined and described setting out in some detail the approach to be adopted in each element, the intended outputs expected for each element as well as its duration.

The sum of the project elements should provide a comprehensive picture of the different phases of the project and should provide an indicative time line for the project as a whole. In this section, indicate how the various project elements relate to each other and comment on how developments in one project element may impact on other components of the

project. For example, it is important to indicate if the outputs of one element sit on the critical path of another element.

2.5.5 Project funding arrangements, budget and cash flow

Perhaps the most important and complex component of any business plan is the section dealing with project funding arrangements. It is in this section that a clear picture of how the project is to be resourced financially should be apparent. This section should also explore the medium to long-term financial viability of the project.

A detailed project budget and cash flow analysis should be presented. This budget should encapsulate the total costs of the project as a whole indicating the capital costs of the project as well as operating costs over the life cycle of the project.

The business plan should provide details of all funding sources for the project as well as specific details on funding required from the NDPG programme. These funding requirements should be broken down by financial year in order to provide a profile of the size and timing of disbursements required, per investor category and project phase.

Where funds are to be secured from other external sources, comment on the extent to which these funds have been secured. Refer to any letters of commitment or agreements in this regard. Where funds are not fully secured, it is important to disclose this as this may represent a significant risk to the project as a whole. The business plan must make it clear who the funding partners for the project are.

It should also be apparent what the municipality's own contribution to the project is. In-kind contributions should be factored in to the project budget, e.g. donation of land into the project at a nominal or market-related value must be included. Note that the direction of municipal capital expenditure to social and environmental sub-projects will assist in unblocking private sector investment, along with the NDPG contribution.

In the development of the budget all budgeting assumptions should be explained or footnoted reflecting the manner in which figures have been arrived at (for example, per hour/day costs of human resources and number of hours spent on the project).

It is important to explain how the project costs are broken down between different uses. This section should provide this breakdown. A detailed financial cash flow model indicating the required rates of return to investment; break even points and internal rates of return for private sector funds other than the grant funding could be provided. Types of uses will vary from project to project but could include:

- Staff costs
- Equipment costs
- Management and/or administration costs
- Accommodation costs
- Evaluation costs
- Transport costs
- Land and/or building and/or fixed asset purchases
- Building costs

Amounts are to be inclusive of VAT and all costs and must cover the full period of the project (e.g. if project management is required for a period of 10 years, this must be calculated).

Municipalities must take account of the extent to which projects incur costs over a period of years. Costs should reflect the value of resources displaced (i.e. opportunity cost to society as a result of the project). The value of a resource is its value in its next best alternative use, e.g. suppose a municipality wants to use a piece of land for a park; in calculating the cost of the park, the municipality should include the value of land in its next best use.

Municipalities must identify and calculate all costs associated with the planned investment. These should include but should not be limited to:

- Capital or construction costs (e.g. land, buildings equipment (e.g. labour costs, consultancy fees, contractors, and other planning expenses)
- Annual operating costs (e.g. purchases of additional equipment, staff costs, loan repayments and associated interest, any other operational costs)
- Annual maintenance costs
- All non-quantifiable costs should be listed and described as a matter of public reference

When gathering data on the cost of inputs local contractors should be consulted and only when the inputs do not exist locally should the imported cost be used. Inflationary and exchange rate factors should also be accounted for as costs escalate over time.

A cash flow analysis is an important component of developing a good business plan. This will provide a picture of the funding requirements of the project over time and will also indicate when financial benefits or revenues are expected as a result of the project. Cash flow is important as it provides the starting point to monitor progress on spend and to update the project's overall spend for current and future years. As private sector funding is envisaged to be a major part of the funding streams, a comprehensive financial model that includes investment leverage; revenue estimates; debt repayment profiles; expected equity returns and the effect of including the NDPG on the capital expenditure side of the project, must be provided. It is anticipated that because the NDPG does not require a rate of return and lowers the capital investment thresholds for the project, that projects will be able to breach the bankability gap that may have existed prior the intervention of the NDPG. Private sector funding is envisaged to flow from amongst other sources of funds, such as funds set aside under the Financial Services Charter for investment in transformational infrastructure. Private sector participants are encouraged to access these funds in favour of NDPG projects. Sources of funding from other spheres of government, including their direct investment in the project area, should also be included in this section.

2.5.6 Risks and risk mitigation

This part of the business case is intended to identify the events and circumstances which could result in the project not achieving its objectives or delivering its outputs or long-term impact. Every project will have risks and it will never be possible to pre-empt all these risks. However, a carefully considered project will identify many of these potential risks and identify ways to overcome or mitigate against them should they arise. Where possible, systems should be in place to ensure that risks are identified early so that their impact is reduced.

Recognizing risks will better equip the municipalities and other investors with the information needed to manage them. These can also relate to the operational phase of a project, e.g. training needs. A list of project related risks to be considered appear in the next table and also indicates which party should bear the risk within the project.

Municipalities must identify and assess the main areas of risk – by prevalence of occurrence (most likely; possible; unlikely) - that might prevent a project from delivering anticipated results/outputs. Mitigation strategies should be identified. As the NDPG's goals include the attraction of private sector investment, it is advisable that the risks to the private sector be mitigated as far as is practically possible in this section. Standard examples of common risks can include:

- Cost overruns
- Difficulties in securing statutory consent
- Delays in project implementation
- Any of the identified risks as per the Risks table in the Annexures

2.5.7 Procurement capacity

The business plan should demonstrate that the municipality has the necessary capacity and budget to undertake the procurement of the project.

2.5.8 Milestones, monitoring and reporting

This component of the project should set out and describe milestones against which the project can be tracked and monitored.

Milestones are the building blocks of any project and are typically key events that are critical to the successful delivery of a project. The identification and tracking of milestones must be used to monitor project progress. This serves as an early warning system to ensure that if progress slips, management decisions can be taken to bring the project back on course. Milestones differ across projects but could include the following:

- Appointment of staff
- Purchasing of key equipment/assets
- Obtaining planning permission
- Tendering of work
- Start of contract
- Completion of contract, etc.

In this section, information should be provided on the systems that will be developed and implemented to monitor progress against the identified milestones, cash flows and benefits.

The National Treasury will also identify mechanisms, formats and processes for reporting by the municipalities.

A project plan identifying high-level milestones must be part of the Business Case and is also included as part of Registration Form.

2.5.9 Elements for Funding

All elements of business planning work as outlined in the Appendices are eligible for NDPG funding.

2.6 Stage 5: Implementation

2.6.1 Description of Stage

Finally, the project will be implemented using the NDPG capital grant funds. It is expected that by this stage other funding partners and investors will also be bought on-board. Funding will also be available for any necessary project management, capacity building and training, to ensure the success of the project. The Capital Grant component of the NDPG applies to this stage for the roll-out of all works & initiatives. Payment requests will be made according to milestones identified.

2.6.2 Main Activities

Typically these include:

- Satisfaction of all conditions of the business plan approval
- Property acquisition where required
- Obtaining development funding
- Preparation of detailed specifications and procurement documentation
- Preparation and conclusion of all required contractual agreements
- Investment promotion for the project
- Place marketing
- Ongoing stakeholder consultation
- Management of all risks
- Implementation of project, sub-projects and components
- Progress and monitoring reporting

2.6.3 Typical Capital Funding Elements

Typical CG funding elements can include any component that:

- Improves the quality of public facilities and environment
- Catalyses and leverages private sector investment
- Contributes to achieving the NDPG's goals, provided that incurring that expenditure is within the powers and functions of the municipality to undertake

The CG can be used for any of the following works relating to existing or new public facilities:

- Construction
- Purchase
- Refurbishment, upgrading, conversion or extension
- Re-utilisation

The CG can be used in terms of the provision of facilities relating to:

- Community
- Public spaces
- Government
- Environment
- Transport
- Economic
- Infrastructure
- Land

Refer to the CG Checklist in the Appendices for more detail. Note the items generally not funded unless a business case can be made for NDPG investment, indicating how the NDPG's objectives are being met.

2.7 Stage 6: Exit

2.7.1 Description of Stage

The main purpose of work in this stage is to effect project handover and closure, including the establishment of all management systems and the building of capacity if not already available. Typical outputs include the completion of project closure, commissioning and exit.

2.7.2 Main Activities

Typically these include:

- Confirmation of conclusion of long-term management arrangements
- Operational management of completed projects up to formal handover of development to operating entity
- Operational management monitoring of operating entity

2.7.3 Elements for Funding

Any of the main activities can be funded, as noted in the Appendices. If operating costs are required, funding from the NDPG will be limited to the short-term as sustainability assessments and project planning should address these as part of the early stage of the project preparation, the business case and the implementation plan.

2.8 Stage 7: Review

2.8.1 Description of Stage

The main purpose of work in this stage is to provide an overview of the project and programme. Typical outputs include a project evaluation report, including any review of key success factors as identified in the business plan. Audits may be undertaken of the work by the Auditor General (AG) as part of any normal municipal auditing procedures and processes. In the relevant section of the business plan, reflect on how the different elements of the project could be evaluated and how this information could be passed on to others who may be engaged with similar projects. Information should be provided on the proposed method and timing of the evaluation of the project.

National Treasury may undertake quantitative and qualitative assessments in order to support the development of Best Practice examples, with support from the municipality. The intention is to provide a reflection on successes and failures and the sharing of lessons through the creation of an accessible library of case studies for project participants, in the private and public sectors for use in subsequent similar projects, as well as other role-players.

2.8.2 Main Activities

Typically these include:

- Appointment of consultant for evaluation of project
- Review procedures
- Feedback to National Treasury

2.8.3 Elements for Funding

Refer to the CG Checklist in the Appendices for more detail. Note the items generally not funded unless a business case can be made for NDPG investment, indicating how the NDPG's objectives are being met.

3 ITEMS NOT FUNDED BY NDPG

A number of items cannot generally be funded by the NDPG, unless a business case can be made for NDPG investment, indicating how the NDPG's objectives are being met, such as:

- Generally any bulk infrastructure or reticulation (this is a MIG fund issue) unless it can be demonstrated that without the specific investment, the project cannot proceed as the project will not attract private sector investment
- Any housing units (of low or mixed income types)
- Any investment on privately-owned land, other than possibly some TA to assess the impact of a particular land holding within the project area
- Any expropriation of land which is to be donated to the private sector or other sphere of government
- Any road construction
- Any item which cannot be funded through normal council processes, and in line with normal council functions, in line with the MFMA and MSA
- Any non-qualifying project elements (e.g. a hospital, although TA may be directed to the identification of the extent of demand for such a facility)
- Any project which is already substantially funded through another source of grant funding (i.e. no double-dipping)
- Any long-term operating costs unless a very compelling argument can demonstrate that a longer period is needed
- Any item not in compliance with legal and regulatory frameworks

Refer to the CG Checklist in the Appendices for more detail.

4 SERVICE PROVIDERS

Municipalities are to provide and source their own TA service providers. In some cases (e.g. conceptualizing a project for registration purposes, assessing KPIs, and reviewing case studies), The National Treasury may direct its own TA to a project or project component, at its own cost, and at its discretion.

5 EVALUATION OF THE BUSINESS CASE

The evaluation criteria that will be used by the NDPG team to evaluate the business case are consistent with those used by National Treasury and include the following:

- A needs analysis
- A solution options analysis
- Project due diligence
- Value assessment
- Economic rationale
- Procurement capacity

The more a business case can highlight the project strengths through analysis, the stronger its case for funding from the NDPG will be. Each of these analyses is considered in some detail next.

5.1 Options Appraisal

The question to be answered is ‘what is the solution that delivers best value for money?’

A critical stage in the business case process is the identification and appraisal of a range of options which will deliver the service changes and outputs required. Value for money is secured through looking creatively at all the opportunities and systematically identifying and comparing the alternative ways of delivering project objectives to determine the option which best meets the municipality’s requirements at optimum cost.

The options appraisal will indicate if there is a sound case for investment through a public private partnership route (if applicable). All feasible options should be considered as part of the business planning process, including management and operational solutions which may not necessarily require any significant capital expenditure.

The options generated should include opportunities for adding value through the possible collaboration with the private sector. However, the options considered at an early stage may not reflect the full range and details of proposals which may emerge later during the detailed investigation stages.

During the initial stages of appraisal a long list of potential options should be identified which, to a greater or lesser degree, will satisfy project objectives. The long list must be sifted down to a short-list of normally between three and six options for detailed assessment and evaluation. This is done by ranking the options according to their costs and against a range of evaluation criteria developed to indicate in broad terms how well they satisfy objectives and deliver their required outputs.

A key feature of any appraisal is that new investment and improvements in service delivery will change the status quo. Decision making will, therefore, focus on whether or not to invest in change and as a result the approach will normally include a “base case” or a “do nothing/do minimum” option to ensure the impact of change can be properly assessed.

Municipalities should always consider the implications of a “do nothing” option. If the case for change is sufficiently robust such an option will be unsustainable in the longer term because it will result in the municipality failing to meet its developmental obligations at some point during the project life cycle. In the majority of cases such an option will be capable of being discounted quickly with the minimum of evaluation. A “do minimum” option is a far more likely option. Typically this will involve minor changes to extend the life of the existing situation in the short term. Its evaluation is important in highlighting the implications of not proceeding with the project and provides a benchmark against which the costs and benefits of the other options can be compared. In assessing the implications of this option, all significant costs associated with it should be estimated over the project life cycle. Such an option will have associated with it a number of disbenefits, the more significant of which should be capable of costing. If the case for change is sufficiently robust it should not be

surprising that such an option will have higher costs associated with it and lower benefits than the preferred option.

Identification of a preferred project option provides the first structured opportunity to test the feasibility of the procurement through a private finance route. While, in principle, most projects involving capital investments will be suitable for the CG, the feasibility of individual projects will need to be established.

5.2 Value for Money

5.2.1 Value assessment

Here the three key questions that need to be addressed are:

- Is the project affordable?
- Does the project appropriately transfer risk between the project partners including the private sector partners?
- Does it provide value for money?

Provide a comment on the effectiveness and efficiency of the project in financial terms. Reflect on the project effectiveness i.e. the extent to which it is expected to achieve its broad outcomes in relation to the costs of the project. Does the project represent value for money in these terms, or could similar outcomes be achieved more cost effectively using another approach?

Similarly, reflect on the efficiency of the project i.e. are the outputs of the project being delivered with an efficient use of resources. In other words, do the unit costs associated with delivering each output translate into good value for money compared to alternative projects or methodologies? The main consideration here being what other similar investment opportunities were considered that yielded a similar rate of return to funds but this project provided better value for money than other similar options.

5.2.2 Preliminary assessment of Value for Money

The best NDPG Project Portfolio option will become the benchmark against which other NDPG projects will be evaluated, irrespective of the availability of traditional sources of funding.

It will be necessary to also calculate the indicative costs of the proposed solution. The ability of a municipality to make an assessment of such costs at this early stage will depend on the nature of the project and its component parts. Calculating a preliminary cost will, however, enable the municipality to test the proposed implementation against other options to identify which offers best value for money. It must be shown that the preferred approach is the most cost effective of the options available. A value for money comparison at an early stage represents good practice and should ideally be prepared in all instances where a municipality is considering funding the project, or parts of it, through the NDPG, even though other funding sources may/ may not currently be available.

The preparation of such a comparison will enable informed decisions to be made early in the project life cycle as to whether or not to proceed with the project through the proposed project approach. Where the proposed project route is selected, it must clearly be shown to offer the opportunity for better value for money than the benchmark.

5.3 Cost-Benefit Analysis

Once the main option has been identified there is a need to identify and quantify the cost and benefits, to government and the community. All costs and benefits must be considered from a socio-economic viewpoint. All assumptions made while valuing cost and benefits must also be clearly specified.

Costs and benefits should be extended to cover the useful lifetime of a project under consideration. Based on the net result of economic benefits minus economic costs, the municipality, with National Treasury, can determine whether a particular project or programme is a worthwhile investment keeping in mind that benefits need to be maximized for society.

5.4 Measuring Benefits

5.4.1 Which benefits?

Benefits should be a measure of all the direct social and economic benefits as a result of the project. This measures the direct effects that result from the project, usually in the form of revenue earned and employment created. All non-quantifiable benefits should also be listed and described as a matter of public reference.

When calculating costs and benefits, only net increases (extra or marginal) should be counted per period.

5.4.2 Externalities and spillover effects

Externalities are costs and benefits to society that arise from a project but that are not experienced directly by either the project owner (the municipality) or the direct project beneficiaries (the township communities). They can include environment, economic and social impacts, and can be both positive and negative. Negative externalities should be included as economic costs and positive externalities should be included as economic benefits – only externalities that result in a significant effect should be included.

An example of a negative externality is environmental pollution or degradation as a result of the project. Displacement effects can also be seen as a negative effect (and should be included as a cost). These are the extent to which the project takes market share, labour or land from existing firms.

Positive externalities can be both social and economic. An example of economic positive externality is the additional value-added generated from direct effects i.e. multiplier effects). These initial effects result in additional effects known as indirect effects, and induced effects.

Indirect effects occur when local businesses benefit from increased purchases of production materials and services due to the project. These are second round effects.

Induced effects arise when those households who benefit from an increase in direct or indirect expenditures as spend a portion of their income locally.

Indirect and induced effects thus expand direct spending by a multiple. The multiplier (expenditure multiplier) thus measures the extent to which initial expenditure on a project or programme in a locality leads to additional expenditures in the local economy. The multiplier is calculated by dividing the total change in economic activity by the change in initial direct spending.

5.5 Discounting

The economic desirability of a project is determined by the net present value (NPV) of its incremental net economic benefits. Cost and benefits occurring at different times must thus be discounted. A discount factor allows the municipality and the National Treasury to compute the present value of a rand received or paid in the future.

5.6 Sensitivity Analysis

For large projects, costs should be readjusted to reflect different scenarios based upon variations in key assumptions – e.g. what is the effect of a 10% increase in costs?

5.7 Cost-Effectiveness Analysis

Cost-effectiveness analysis (CEA) is a tool that can help to ensure efficient use of the NDPG where benefits are difficult to value in monetary terms. It is used for the selection of alternative projects with the same objective (quantified in physical terms), and has been most commonly used in the evaluation of social projects, e.g. health or education sector. CEA can identify the alternative that, for a given output level, minimizes the actual value of costs, or alternatively, for a given cost, maximizes the output level.

CEA is employed to find the least cost way of determining a capital project objective. When conducting a CEA the following steps need to be undertaken:

- Identify and quantify the expected result/benefit of the project in physical terms (e.g. number of road accidents avoided, number of patients lives saved, etc.). Consider what the programme outputs are and which one of these may be considered predominant
- Determine the total cost of the project or programme (only direct resources that have a well-defined monetary value are included)
- Determine the Cost-Effectiveness Ratio (CER = Costs divided by Effective Benefit)

The lowest CER indicates the most cost-effective option.

5.8 Needs Analysis

The needs analysis gives definition to the proposed project. The needs analysis should demonstrate that the project aligns with the institution's strategic objectives. It would also identify and analyse available budgets as well as demonstrate the institution's commitment and capacity. The scope of the project should be defined and the anticipated outputs specified.

5.9 Solution Options Analysis

The solution options analysis sets out the range of possible technical, legal and financial options for delivering the required service to the output specifications, allowing the institution to weigh up the options and make a choice. The business case should show that the proposed project has been considered in the light of other possible solutions. This involves examining each solution option and should take the following types of issues into account:

- Financial impacts
- Funding and affordability
- Risk
- BEE and other socio-economic aspects
- Service delivery arrangements
- Transitional management arrangements
- Technical analysis
- Site issues
- Legislation and regulations
- Human resources
- Market capability and appetite

5.10 Project Due Diligence

This is an extension of the solution options analysis stage and aims to uncover any issues in the proposed solution that may impact on the project. The due diligence needs to consider the following:



- Legal issues – common legal issues that arise centre on use rights and regulatory matters. It is therefore important to obtain legal opinion about the extent to which the project can proceed legally with a private party, particularly where state-owned assets are involved. The due diligence should also investigate any regulatory matters that may impact on the project including:
 - Tax legislation
 - Labour legislation
 - Environmental and heritage legislation
 - Foreign exchange legislation
 - Legislation governing the use of certain financial instruments
 - Competition legislation
 - Sector regulations such as airport licensing, health standards, building codes, etc.
- Site enablement issues – issues here that need to be considered included environmental matters, geo-technical matters, and heritage matters, zoning rights and town planning requirements as well as municipal integrated development plans
- BEE and other socio-economic issues – here factors that may constrain the achievement of the project's intended BEE outputs need to be considered and reflected in the project design

5.11 Economic Rationale

Here a clear economic rationale needs to be given for the projects by identifying and quantifying economic consequences of all financial flows and other impacts of the project. This will include a breakdown of the economic costs and benefits of the project into its financial costs and benefits and various externalities. It should include a stakeholder analysis including the project entity, private sector entity, government, etc. A gap analysis between the supply of, and demand for, various facilities and amenities

6 ANNEXURES

6.1 NDPG Checklist: Technical Assistance Fund

Stage 1: Concept	Stage 2: Pre-Feasibility	Stage 3: Detailed Investigation	Stage 4: Business Planning	Stage 5: Implementation	Stage 6: Exit	Stage 7: Review
 <ul style="list-style-type: none"> Development concept report Establishment of institutional capacity (typically being project management capacity (project officer and/or team) outsourced, co-sourced or internal to municipality) Completed NDPG registration form Alignment to IDP (extract from IDP indicating how project fits into IDP) Spatial map Aerial photograph Transportation audit (road and public transport) Economic snapshot overview 	<ul style="list-style-type: none"> Recommendations on all analyses to include outline of work and activities for detailed investigation Project management Municipal Township Development Strategy UDF (opportunity map, project area map, land ownership) Township restructuring plan Nodal plan or development framework Township development strategy and/or Nodal Development and/or investment strategy (prioritisation of township development) 	<ul style="list-style-type: none"> May include any aspects or areas where more detailed/focused investigation is required, development and/or inception of any training, capacity building programme, investor identification and development) Project management Project facilitation Exit strategy Precinct plan Urban development framework/ opportunity map/ spatial representation of high-level concepts and opportunities (e.g. township nodal development framework and/or investment framework) Final UDF Land acquisition and release options 	 <ul style="list-style-type: none"> Implementation strategies for all the above Project management Project facilitation Appropriate Institutional and project management capacity Business Plan (including implementation plan, KPIs) Preparation of tender documentation, including advertising Contract preparation Design of exit plan (ownership of project and/or its components, resources required for management) Precinct plan Landscaping plan Land acquisition and release packages Plan to deal with planning, land use and zoning matters 	<ul style="list-style-type: none"> Milestone payment requests & tranches Preparation of further tender and contract documentation Project meetings Project management Project facilitation Addressing capacity issues: ensuring adequate ongoing capacity is in place for the management of the project through each of its project cycles for efficient and effective end-to-end project management Contract management Detailed technical designs for individual built elements Bills of quantities Community participation Detailed implementation plan Inclusion of private sector investors and partners in project 	<ul style="list-style-type: none"> Preparation of tender documentation for operations Project management Contract management Operational costs (those that deal with the close-out phase, short-term in nature) Agreements with service departments Implementation of exit plan (including urban management, BIDs, staffing) Community participation Investment promotion and facilitation Implementation of any SLAs Exit report Handover manuals Performance audit 	<ul style="list-style-type: none"> Review of KSFs as identified in business plan Quantitative & qualitative assessment by Treasury Development of Best Practice examples by Treasury, with support from municipality Review of KPIs Project audit if required (generally part of municipal auditing activities) Any monitoring and evaluation Quantitative and/or qualitative assessment including case studies by National Treasury, with support from municipality Monitoring of SLAs

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Stage 1: Concept	Stage 2: Pre-Feasibility	Stage 3: Detailed Investigation	Stage 4: Business Planning	Stage 5: Implementation	Stage 6: Exit	Stage 7: Review
<ul style="list-style-type: none"> • High-level identification of landowners and land use and zoning issues • High-level investor identification analysis & investment opportunities for investors (public and private) 	<ul style="list-style-type: none"> • Identification of nodal hierarchy and high-level development opportunities for further investigation) macro level) • Local area plan to map the local area project geographically within its wider context, determine its parameters, identify relevant landmarks and linkages to and between relevant facilities (micro level) • Identification of land-related issues, land ownership, sufficiency • Identification of planning , land use and zoning issues • Urban development framework/opportunity map/spatial representation of high-level concepts and opportunities (e.g. township nodal development framework and/or investment framework) • Map of project area, township, wider region, key landmarks • Environmental scan 	<ul style="list-style-type: none"> • Recommendations to deal with planning, land use, zoning matter • Land release, acquisition, expropriation, consolidation, land assembly strategies • Property and land valuations • Land acquisition and relocation strategy (including expropriation) • Land use, zoning and ownership information • Geological evaluation • Infrastructure and engineering services capacity investigation • Heritage strategy • Environmental upgrade strategy • Transportation (including detailed traffic studies and recommendations) • Economic sectoral analyses (supply and demand for various economic sectors (e.g. retail, manufacturing commercial housing) • Retail development potential analysis • Economic impact assessment • Housing demand analysis 	<ul style="list-style-type: none"> • Land assembly and release implementation plan • Heritage plan • Transportation strategy and plan • Economic rationale Alignment of supply and demand • Stakeholder participation strategy • Stakeholder consultation • Stakeholder management strategy • Investment strategy for community facilities • Community participation • Social compact • LED plan • Housing plan (particularly for commercial housing) • Business planning • Funding requirements & breakdowns per investor category • Project phasing and milestones • Project components • Procurement approach • Implementation plan and team requirements) • Financial projections (including cash flow) 	<ul style="list-style-type: none"> • Investment promotion and facilitation • Capital costs of expropriation (providing land is used for municipal purposes) • Milestones and cash flow and payment reporting • Stakeholder participation • Close out procedures • Close out documents, completion, compliance, occupation certificates 		

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Stage 1: Concept	Stage 2: Pre-Feasibility	Stage 3: Detailed Investigation	Stage 4: Business Planning	Stage 5: Implementation	Stage 6: Exit	Stage 7: Review
	<ul style="list-style-type: none"> • Infrastructure and engineering services audit • Infrastructure audit • Heritage audit • Environmental overview or scoping • Transportation analysis (road and public transport) • Economic activity analysis, sector studies, economic linkages study, spatial economy, locations, trend analysis, identification of opportunities and strategic recommendations • Stakeholder identification • Stakeholder consultation • High-level identification of landowners and land use and zoning issues 	<ul style="list-style-type: none"> • Stakeholder management strategies • Stakeholder consultation • Social compact • Stakeholder management strategy • Detailed identification of landowners and land use and zoning issues • Planning, land-use and land ownership to identify obstacles to development and opportunities • Needs demand analysis for community facilities • Social development strategy • Community participation • LED strategy • Housing strategy • High-level risks analysis, e.g. institutional capacity, operational issues • Investor and partnership structures, in-principle agreements with partners, market interest identified 	<ul style="list-style-type: none"> • Implementation plans (labour, procurement policy, activity schedule, training plan, capacity building plan) • Detailed cost breakdowns, timing, milestones, phasing • Key success factors • Risk assessment & risk mitigation strategies • Procurement approach, policy, strategy • Sensitivity Analysis • NPV • ROI • Options analysis • Design of key success performance indicators 			

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Stage 1: Concept	Stage 2: Pre-Feasibility	Stage 3: Detailed Investigation	Stage 4: Business Planning	Stage 5: Implementation	Stage 6: Exit	Stage 7: Review
	<ul style="list-style-type: none"> • Stakeholder identification (identification of community, business and government stakeholders that may impact on the project design and implementation) • Social needs and/or economic demand analysis, including demographic and socio-economic data • High-level stakeholder identification and community engagement • Community facilities: audit of supply and demand • Community participation • Socio-demographic analysis to quantify key demographic data highlighting the project area's buying power, current supply and needs identification for community facilities of various types including identification of opportunities and strategic recommendations • Housing needs analysis 	<ul style="list-style-type: none"> • In-principle to finalised agreement from project partners • Recommendations for land acquisition and disposal strategy • Risks analysis • Land acquisition and/or disposal strategy • Legal and other costs for expropriation • Briefs for architectural and other detailed designs • Crime prevention strategies • Project approvals (EIAs, Boards, councils, building control, land use management, council resolution, etc.) • Preparation of tender documents, advertising, evaluation • More detailed costs and timelines • Funding and partnership strategy • Transportation strategy • Traffic impact assessment • Public transport study • Marketing strategy 	<ul style="list-style-type: none"> • Investment attraction strategies including marketing strategy, partnership strategies, partnership agreements prepared (including legal costs) • PPP strategy • Finalised agreement from project partners • Partnership structures • Risk mitigation recommendations and strategies • Land acquisition and/or disposal plan • Detailed design • Architectural designs, models and 3-D 'fly-throughs' • Engineering designs • Detailed technical design of any component (architecture, landscaping, engineering, QS) • Crime prevention plan design • Construction • Financial projections • Business plan and conditions of approval • Milestones and cash flow forecasts, and payment requests 			

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Stage 1: Concept	Stage 2: Pre-Feasibility	Stage 3: Detailed Investigation	Stage 4: Business Planning	Stage 5: Implementation	Stage 6: Exit	Stage 7: Review
	<ul style="list-style-type: none"> • High-level risks identification • Investor analysis, partner identification, partnership options • Options for partnership linked to investor analysis, but also linked to government and other funders • Risks identification • Environmental design guidelines • Crime prevention strategies and policies • Indicative costs • Transportation analysis • Marketing concepts 	<ul style="list-style-type: none"> • High-level exit strategy (including institutional arrangements and capacity to design, implement, operate) 	<ul style="list-style-type: none"> • Project approvals (EIAs, Boards, councils, building control, land use management, council resolution) • Contract preparation • Delivery framework report • Implementation plan • Transportation and traffic management plan • Project approvals • Marketing implementation plan • Exit strategy (ownership of project and/or components, urban management, resources required, operations funding) • Drafting of any SLAs • EIAs • Funding approvals • Definition of management responsibilities and strategies on operational aspects 	<ul style="list-style-type: none"> • Exit plan (including any new municipal service delivery system, operational and maintenance expenditure associated with the implementation of new and/or innovative approaches) • Agreement of SLAs • Management plan 		

6.2 NDPG Checklist: Capital Grant Fund

Community facilities	Public spaces	Government	Environment	Transport	Economic	Infrastructure	Land	Not funded
<ul style="list-style-type: none"> • Ablution facilities • Ablutions • Art schools • Childcare facilities • Child-care facilities • Club houses • Community clinics • Community halls • Community sports facilities • Halls • Initiation schools • Libraries • Libraries • Performing arts schools • Public ablutions • Public facilities • Recreation centre • Recreation hall • Social, cultural and traditional amenities • Sporting facilities 	<ul style="list-style-type: none"> • Canopies • Civic squares • Cultural and traditional spaces • Formal squares • Landscaping • Parks • Path-ways • Pavilions • Paving • Pedestrian bridges • Pedestrian links • Pedestrian walkways • Play equipment • Public art • Public parks • Public spaces • Public squares • Recreational spaces • Sidewalks 	<ul style="list-style-type: none"> • Buildings for government services • MPCCs • Tourist information centres • Town halls 	<ul style="list-style-type: none"> • Benches • Bins • Bollards • CCTV • Greening • Landscaping • Lighting • Planting • Signage • Street lights • Trees 	<ul style="list-style-type: none"> • Bus stop shelters • Bus stops • Cycle-ways • Kerbs • Loading bays • Parking • Public transport facilities (bus, taxi) • Public transport interchanges and links to them • Road reserves • Station improvements (in special cases only) • Taxi ranks • Taxi ranks (as par tof a node or PTIF must fund) • Taxi stops • Transport interchanges 	<ul style="list-style-type: none"> • Business advice centres • Economic node • Industrial estates (environmental improvements only) • Informal manufacturing facilities • Informal trading markets(including markets, stalls, shelters, demarcated sites) • Trading facilities within public spaces 	<ul style="list-style-type: none"> • Access roads • Internal roads 	<ul style="list-style-type: none"> • Expropriation of land for public purposes (costs only if to be released to market) 	<ul style="list-style-type: none"> • Bridges • Bulk infrastructure (water, electricity, Telkom, broadband, wireless, storm water) or reticulation • Industrial estates • Residential estates • Roads • Stadiums • Tourism infrastructure • Cemeteries • Improvements on private land

Neighbourhood Development Partnership Grant (Toolkit No 5 of 5): Building the Business Case for a Capital Grant

Community facilities	Public spaces	Government	Environment	Transport	Economic	Infrastructure	Land	Not funded
<ul style="list-style-type: none"> • Sports and play areas, e.g. soccer fields, cricket fields, tennis, courts, basketball courts • Sports grounds and play parks • Theatres • Youth centres 								

6.3 Risks and Risk Mitigation

No	Type of risk	Definition	Possible mitigation elements	Party bearing risk
1	Availability	Possibility that services to be provided by the private sector do not meet the output specifications of Municipality	Clear output specifications; performance monitoring; penalty deductions against payments	Private sector
2	Completion	Possibility that completion of Works may be delayed so delivery of services cannot commence at the scheduled commencement date, or delayed that greater expenditure is incurred to keep to the scheduled date, or delayed because of variations	Special insurance (project delay insurance); appointment of independent certifier to certify completion of Works; liquidated damages, construction bonds and other appropriate security from private sector to achieve completion, unless caused by the municipality; relief event	Private sector, unless delay caused by municipality
3	Construct-ion	Risk that construction of physical assets is not completed, on time, budget or to specification	Effective project management and control, sub contractors	Private sector and/or municipality
4	Contractor	Risk that contractors may not be available	Effective project management, timeous contract preparation	Private sector and/or municipality
5	Cost over-run	Possibility that during design and construction phase, actual project costs will exceed projected project costs	Fixed price construction contracts; contingency provisions; standby debt facilities and/or additional equity commitments (provided these commitments are made upfront and anticipated in the base case financial model)	Private sector and/or municipality
6	Design	Possibility that municipality's or private sector's design may not achieve the required output specifications	Clear output specifications; design warranty; patent and latent defect liability; consultation with and review by municipality (but review must not lead to input specifications by municipality); independent expert dispute resolution	Private sector
7	Environ-mental	Possibility of liability for losses caused by environmental damage arising from construction or operating activities (see operating risk) during project term; or from pre-transfer activities whether undertaken by municipality or third party and not attributable to the activities of private sector or contractors or subcontractors	Due diligence by bidders of project site conditions; independent surveys of Project Site commissioned by private sector or municipality; indemnity for latent pre-transfer environmental contamination, limited by a cap subject to VFM considerations for specified period; remediation works to remedy identified pre-transfer environmental contamination as specific project deliverable; independent monitoring of remediation works	Private sector and/or NDPG but capped (subject to VFM considerations)
8	Exchange rate	Possibility that exchange rate fluctuations will impact on envisaged costs of imported inputs required for construction or operations phase of project	Hedging instruments (e.g. swaps)	Private sector
9	Force Majeure	Possibility of occurrence of certain unexpected events beyond control of the parties which may affect the construction or operation of project (i.e. acts of God, natural disasters)	Define "Force Majeure" narrowly to exclude risks that can be insured against and are dealt with more adequately by other mechanisms such as Relief Events; Relief Events; termination for Force Majeure	Private sector (not Force Majeure risks if insurable). If un-insurable risks, then share insofar as NDPG may pay limited compensation on termination

Neighbourhood Development Partnership Grant (Toolkit No 5 of 5): Building the Business Case for a Capital Grant

No	Type of risk	Definition	Possible mitigation elements	Party bearing risk
10	Inflation	Possibility that actual inflation rate will exceed projected inflation rate; risk more apparent in long contracts and/or during operations phase of project	Index-linked adjustment to payments for elements under construction contracts and in relation to lease rates for facilities let	Private sector
11	Insolvency	Possibility of insolvency of private sector	SPV structure to ring-fence the Project cash flows; security over necessary project assets; limitations on debt and funding commitments of private sector; reporting obligations i.r.o. financial information and litigation or disputes with creditors; municipality has right to terminate agreement; substitution of private sector party with new private sector party	Private sector
12	Insurance	Possibility that any risks that are insurable as at signature date pursuant to agreed project insurances later become uninsurable or substantial increases in insurance premiums calculation rates	At option of municipality, self-insurance or if uninsurable event occurs, then termination of agreement as if for Force Majeure; reserves	If private sector caused uninsurability (or even if it did not but it cannot show similar businesses would stop operating without insurance), private sector bears risk; else risk is shared between private sector and municipality.
13	Interest rate	Factors affecting availability and cost of funds	Hedging instruments (e.g. swaps); fixed rate loans	Private sector
14	Latent defect	Possibility of loss or damage due to latent defects in facilities included in project assets (compare with treatment of latent pre-transfer environmental contamination, see environmental risk)	Where possible, design construction of facilities must be performed or procured by private sector; if project involves take-over by private sector of existing facilities then bidders must undertake due diligence of them to uncover defects; procedure for and cost of remediation of such defects can be pre-agreed with private sector; reporting obligation on private sector to promptly disclose discovered defects	If private sector (or any subcontractors) designs and constructs Facilities, private sector; if not, then NDPG but only if insurances to mitigate this risk are insufficient and if NDPG's liability is capped, subject to VFM considerations
15	Maintenance	Possibility that cost of maintaining assets in required condition may vary from projected maintenance costs, or maintenance is not carried out	Clear output specifications; penalty regime and performance monitoring; adequate O&M contract; substitution rights; special insurance and special security in form of final maintenance bonds	Private sector
16	Market, demand or volume	Possibility that demand for services generated by a project may be less than projected (whether, e.g. because need ceases or decrease, or because of competitors entering relevant market or because of consumer opposition to the outsourcing of the services)	Private sector can mitigate risk by aggressive marketing; attracting complimentary government services to its facilities; rationalising use of facility according to market, demand or volume risk	Private sector
17	Municipal Institutional	Possibility that lack of capacity and coordination may compromise effective delivery of project	Selection of NDPG Project Co-ordinator and project officer	Municipality and NDPG

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<i>No</i>	<i>Type of risk</i>	<i>Definition</i>	<i>Possible mitigation elements</i>	<i>Party bearing risk</i>
18	Operating	Any factors (other than Force Majeure) impacting on operating requirements of project, including projected operating expenditure and skills requirements, e.g. labour disputes, employee competence, employee fraud, technology failure, environmental incidents and any failure to obtain, maintain and comply with necessary operating consent; undue or additional impact on council's operations (staff, administration, infrastructure and financial resources)	Clear output specifications; penalty regime and performance monitoring; adequate O&M contract such as SLAs, BIDs and CIDs; substitution rights; special insurance	Private sector and/or municipality
19	Planning	Possibility proposed use of project site in terms of project agreement and particularly construction of facilities on project site will fail to comply with applicable laws relating to planning, land-use or building (e.g. any town-planning or land-zoning scheme) or any consent required, or that such consent will be delayed or cannot be obtained or, if obtained, can only be implemented at greater cost than planned	Private sector must identify at feasibility phase any macro-level planning consents not required for the detailed design and construction proposal for the Project, e.g. any land-use and zoning consents. These to be obtained before project is put to tender; private sector must identify all planning consents required for project having regard to its design and construction proposal; must make adequate provision in its Works programme for such consents to be obtained; Relief Event for delays in private sector obtaining consents but only if delay is not attributable to private sector	In relation to any land-use and zoning consent, municipality, unless site selection is private sector's responsibility; any building consent or design or construction specific planning consent, the private sector
20	Political	Possibility of unforeseeable conduct by municipality or by other government authority that materially and adversely affects expected return on equity, debt service or results in increased costs to private sector; or expropriation, nationalisation or privatization of private sector assets; this risk overlaps with some financial risks (e.g. tax rate change risk)	Limit risk to unforeseeable conduct for which there is no other relief in agreement and to expropriating actions; distinguish between general and discriminatory unforeseeable conduct; in relation to discriminatory unforeseeable conduct, special compensation; in relation to expropriating actions, termination and compensation.	In relation to discriminatory unforeseeable conduct and expropriating actions, municipality; in relation to general unforeseeable conduct, the private sector
21	Regulatory risk	Possibility that consents required from other government authorities will not be obtained or can only be if obtained at a greater cost than originally projected (compare, the treatment of planning and environmental consents, see planning risk and environmental risk)	During feasibility phase of project, legal scan is undertaken by municipality or private sector to identify all such consents; implementation by municipality of inter-governmental liaison process with responsible government authorities before procurement phase; due diligence by private sector to identify consents required for operating requirements; if permitted under applicable law and if practical, obtain all such consents before signature date	If any such consents (other than those relating to private sector's operating requirements) can be obtained before the signature date and are capable of transfer to private sector, the municipality. In relation to private sector's operating requirements, private sector.
22	Residual value risk	Risk that project assets at termination or expiry of the project agreement will not be in the prescribed condition at end of project life cycle	Obligations on private sector to maintain and repair; audit of project assets towards end of project term; security by private sector in favour of municipality, e.g. final maintenance bond; reinstatement obligations on private sector	Private sector
23	Resource or input	Possibility of failure or shortage in supply of inputs or resources (e.g. coal or other fuels) required for operation of project including deficiencies in quality of available supplies	Supply contracts for supply of total project requirements, e.g. take and pay contracts; Relief Events in terms of the contract grant private sector time to rectify delay but only if failure or shortage not attributable to private sector	Private sector, unless inputs are supplied by municipality

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<i>No</i>	<i>Type of risk</i>	<i>Definition</i>	<i>Possible mitigation elements</i>	<i>Party bearing risk</i>
24	Stakeholder	Possibility that stakeholders may object to project; community opposes project; or investors do not invest	Consultation with stakeholders and other project partners in design and implementation stages; co-ordination with investors	Municipality and/or NDPG
25	Sub-contractor	Risk of subcontractor (first-tier and below) defaults or insolvency, may arise at construction and/or operations phases of project	Subcontractors must have expertise, experience and contractual responsibility for their performance obligations; replacement subcontractors to be vetted by private sector; due diligence by private sector must include review of first-tier subcontracts to confirm pass through of risks down to first-tier subcontractors	Private sector
26	Tax rate change	Possibility that changes in applicable tax rates (income tax rate, VAT) or new taxes may decrease anticipated return on equity	If change arises from discriminatory Unforeseeable conduct, where action taken by government specifically affects this project then special compensation to be included as part of equity base case	In relation to tax increases or new taxes arising from discriminatory unforeseeable conduct, municipality; otherwise risk is private sector's
27	Technology	Possibility that technology inputs for outsourced municipal function may fail to deliver required output specifications, or technological improvements may render technology inputs out-of-date ('technology refresh or obsolescence risk')	Obligation on private sector to refresh technology as required from time to time to meet output specifications; penalty deductions for failure to meet output specifications	Private sector
28	Upgrade costs	Increase in construction costs if planned facility is not sufficient and additional capacity needs are not met	Minimize likelihood ensuring specifications meet needs, careful planning of likely output requirements over term of contract	Municipality
29	Utilities	Possibility that utilities (e.g. water, electricity or gas) required for construction and/or operation of project may not be available, or project delayed because of delays in relation to removal or relocation of utilities located at the project site	Emergency back-up facilities, e.g. generators; emergency supply contracts; special insurance (project delay or business interruption insurance); provision by municipality of off-site connections. In the case of Relief Event for off-site interruptions in the supply of utilities (unless attributable to private sector). In the case of Relief Event for delays in removal or relocation of utilities (unless attributable to the private sector)	Private sector unless the municipality is responsible Utility; even if municipality is not responsible Utility, it may share in risk in circumstances where insurance is not available or unaffordable, but only if this will ensure better VFM

6.4 Business Case Template

The following simple template provides a suggested table of contents and description of the key components of a good business case.

The Business case is a critical element in the motivation for both the technical assistance and the extent of the size of capital grant of the NDPG. The Business Case sets out the overall argument for and merits of a project. This includes the rationale for the intervention as well as an assessment of the economic, social and financial implications and benefits.

The template below is of necessity generic and will need to be adjusted to reflect local conditions and specific project details. However the overall framework as well as the suggested contents constitutes good practice with respect to the Business Case.

Finally it is recommended that municipalities view the business case as more than simply a “compliance requirement” for the NDPG. Rather it is the NDP Unit’s hope that this template offers as useful tool for municipalities to evaluate and select projects within their own organisations.

The template comprises four key elements:

- Section headings
- Description / suggested contents
- Data requirements
- Sources of evidence / supporting documentation

Together these form typically part of the business plan and business case output

Section	Description/Contents	Data	Sources of Evidence/ Supporting Documentation
Executive Summary	Should provide a high-level overview of the business case, in particular a brief description of the project, the rationale and the cost and timing implications. Should not be more than 3 to 5 pages.		
Description	A brief description of the project including the nature of the project (e.g. what kind of infrastructure) and the general location, project context. This section should also briefly set out the business case development process specifically who the champions are, the extent and nature of consultations with municipal and other government officials, communities and private sector role players. This is important in order to assess the extent of consultation and broad buy-in in respect of the proposed project	Information on workshops/meetings/discussions with key stakeholders (who, what date, subject of discussions)	- Designs/plans if available - Council resolution if available - Letters of support

Section	Description/Contents	Data	Sources of Evidence/ Supporting Documentation
Situational analysis	<p>This is critical section that should provide sufficient insight for the reader to better understand the locational and economic context of the projects.</p> <p>Specifically this section should aim to address the following, at a minimum:</p> <ul style="list-style-type: none"> - A spatial description of the project in relation to the township, municipality district, province, etc. - The broader regional / district and provincial context including an overview of demographics, economic activity, key developmental challenges etc. - An overview of the municipality including an overview of demographics, economic activity, key developmental challenges etc. - Current transport infrastructure and plans - Stakeholder analysis and support, or not, for the project - Any relevant spatial and non-spatial issues affecting the project positively or negatively 	<p>Potential data sources include:</p> <ul style="list-style-type: none"> - Municipal IDP - LED Plan / Strategy - Provincial GDS - Stats SA - Demarcation Board - Economic Activity Analysis - Spatial Development frameworks - Transportation plans - Other commissioned research 	<ul style="list-style-type: none"> - Situational map - IDP - Economic Activity Analysis - Spatial frameworks and maps - Transportation plans - Outcome of any studies to assess the situation
Rationale (Objectives)	<p>The rationale should clearly and succinctly set out the reasons for the proposed projects (given the situation analysis) and argue its key merits including the objectives (desired outcomes). This should include analysis of the benefits of the project to the regeneration of the township and the improved quality of life of its inhabitants. This must consider social, economic and financial impact.</p> <p>Key areas that need to be considered from an NDPG perspective are the following:</p> <ul style="list-style-type: none"> - Could this project be funded or better funded from another source, e.g. MIG? - What are the economic benefits, especially the investment attraction potential of the investment? - What are the fiscal implications (especially long-term) of the project for the municipality? - What is the economic demand and social need for the different components of the project? <p>The rationale should also indicate how the project and its outcomes align and support other municipal initiatives and plans such as the IDP or any regional / provincial initiatives.</p>	<p>Should speak to the situational analysis</p>	<ul style="list-style-type: none"> - Municipal IDP - Township regeneration strategy - LED Plan/Strategy - Provincial GDS
Project funding arrangements, budget, milestones, phasing and cash flow	<p>This section should deal with the project funding arrangements. Specifically it should indicate:</p> <ul style="list-style-type: none"> - How the project is to be resourced financially? - The medium to long-term financial viability of the project? - A detailed project budget and cash flow analysis which must address the total costs of the project as a whole indicating the capital costs of the project as well as operating costs over the life cycle of the project. - Provide details of all funding sources for the project as well as specific details on funding 	<ul style="list-style-type: none"> - Construction industry data - Existing municipal project costs - Current municipal operating costs - Private sector quotations - QS estimates 	<ul style="list-style-type: none"> - Financial budgets - Project plan - Letters of commitment or agreements

Section	Description/Contents	Data	Sources of Evidence/ Supporting Documentation
	<p>required from the NDPG programme. These funding requirements should be broken down by financial year in order to provide a profile of the size and timing of disbursements required, per investor category and project phase.</p> <ul style="list-style-type: none"> - Where funds are to be secured from other external sources, comment on the extent to which these funds have been secured. Where funds are not fully secured, it is important to disclose this as this may represent a significant risk to the project as a whole. The business plan must make it clear who the funding partners for the project are. (including 'sweat equity' and in-kind contributions). <p>It is critical that this section also clearly set out:</p> <ul style="list-style-type: none"> - What the municipality's own contribution to the project is including in-kind contributions, e.g. donation of land into the project at a nominal or market-related value must be included. - The potential private sector investment and /or community investment that could be unlocked as a result of the initiative. <p>It is important to explain how the project costs are broken down between different uses including:</p> <ul style="list-style-type: none"> - Staff costs - Equipment costs - Management and/or administration costs - Accommodation costs - Evaluation costs - Transport costs - Land and/or building and/or fixed asset purchases - Building costs <p>Amounts are to be inclusive of VAT and all costs and must cover the full period of the project (e.g. if project management is required for a period of a number of years, this must be calculated).</p> <p>Municipalities must identify and calculate all costs associated with the planned investment. These should include but should not be limited to:</p> <ul style="list-style-type: none"> - Capital or construction costs (e.g. land, buildings equipment (e.g. labour costs, consultancy fees, contractors, and other planning expenses) - Annual operating costs (e.g. purchases of additional equipment, staff costs, loan repayments and associated interest, any other operational costs) - Annual maintenance costs - All non-quantifiable costs should be listed and described as a matter of public reference 		

Section	Description/Contents	Data	Sources of Evidence/ Supporting Documentation
Risk analysis and risk mitigation measures	<p>This section should set an analysis of the potential risk faced by the project as well as the mitigation strategies to be effected. Standard examples of common risks can include:</p> <ul style="list-style-type: none"> - Cost overruns - Difficulties in securing statutory consent - Delays in project implementation - Other (please see Annexures for a list of common development risks) 		
Institutional arrangements on completion/Operating plan	<p>This should set out the institutional and / or management arrangements for the project / infrastructure at completion of construction (where appropriate). In particular this section needs to set out how any infrastructure / facilities will be managed and maintained, staffing as well as operating cost funding</p>		<ul style="list-style-type: none"> - Operational plan/business plan for facility - IDP budget commitments
Project Implementation Plan(including management responsibilities and strategies on operational aspects)	<p>The sum of the project elements should provide a comprehensive picture of the different phases of the project and should provide an indicative time line for the project as a whole.</p> <p>The ‘milestones, monitoring and reporting’ component of the project should set out and describe milestones against which the project can be tracked and monitored. Milestones are the building blocks of any project and are typically key events that are critical to the successful delivery of a project. The identification and tracking of milestones must be used to monitor project progress. This serves as an early warning system to ensure that if progress slips, management decisions can be taken to bring the project back on course. Milestones differ across projects but could include the following:</p> <ul style="list-style-type: none"> - Appointment of staff - Purchasing of key equipment/assets - Obtaining planning permission - Tendering of work - Start of contract - Completion of contract, etc. <p>In this section, information should be provided on the systems that will be developed and implemented to monitor progress against the identified milestones, cash flows and benefits.</p>		Project plan
<ul style="list-style-type: none"> • Any other aspects relevant to the project (see also the Annexures for other possible items) 	Project-specific		