



GUIDELINE ON BUDGET SUBMISSIONS

FOR LARGE STRATEGIC INFRASTRUCTURE PROPOSALS

May 2023



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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



BUDGET FACILITY FOR INFRASTRUCTURE | 2024 BUDGET CYCLE**GUIDELINE ON BUDGET SUBMISSIONS FOR
LARGE STRATEGIC INFRASTRUCTURE PROPOSALS**

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INTRODUCTION

The Budget Facility for Infrastructure (BFI) was introduced in 2016 as a reform to the budget process. It supports the execution of national priority projects and programmes by establishing specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending. As directed by Cabinet, the National Treasury is working jointly with other stakeholders to support the development of a robust pipeline of infrastructure projects. The aim is to support quality public investments through robust project appraisal, effective project development and execution and sustainable financing arrangements.

The call for submissions is as follows:

For the 2024 MTEF: Submissions from public institutions¹ in respect of large infrastructure projects and/or programmes that require budget support over the 2024 MTEF are invited. The proposal should consist of a primary submission and supporting documentation. The closing date for submissions is 14 July 2023.

The facility will only consider submissions from public institutions in respect of infrastructure proposals that meet the following minimum requirements:

1. Clearly identified as a national priority by the Presidential Infrastructure Coordinating Council and designated as Strategic Integrated Project or a priority as provided in the National Infrastructure Plan 2050 (NIP 2050).
2. **The project/programme must receive endorsement and written support from the relevant national department(s).** The letter of support should be signed by the Director-General of the national department or any person to whom the function has been delegated (letter of delegation should be attached). The letter should include endorsement from the national department that the funds, if approved, will flow through the department, either as a conditional grant or on the departmental vote.
3. Very large (a minimum total project cost of R1 billion for projects and R3 billion for programmes) and strategic interventions. These are interventions that imply a significant commitment of fiscal resources, and which will have substantial long-term impacts on economic growth, social equity and employment creation.
4. Provide clear justification and rationale for allocating funding from the fiscus by providing a completed Cost Benefit Analysis or Cost Effectiveness Analysis.
5. A transparent Budget Statement that indicates that dedicated and appropriate funding sources have been considered. The BFI should be the last port of call and therefore, sponsors must demonstrate the extent to which alternative and conventional funding sources have been explored and deployed prior to approaching the BFI.

¹ Public institutions include National, Provincial, Municipal spheres of government as well as Public Entities

6. Projects and programmes to be submitted must be in the following sectors: Energy, Water and Sanitation, Transport and, Digital Communications; Human Settlements, Agriculture and Agro-processing, Health, Education and Municipal infrastructure. With regards to Municipal Infrastructure, priority will be given to water and sanitation, energy and bulk infrastructure projects.

Smaller capital projects, programmes or asset acquisitions that are below the specified threshold (R1 billion for projects and R3 billion for programmes) will not be considered by the facility, and should form part of the institution's main budget submission in terms of the main MTEF guidelines available at <http://www.treasury.gov.za/publications/guidelines> that will be published later this year.

The National Treasury has issued the *Infrastructure Planning and Appraisal Guideline* which is now available on its website. The guideline sets out a standardised approach to the design and appraisal of budget submissions with appropriate and uniform methodologies and supporting economic parameters and conversion factors. It sets out the principles and criteria that should be used to reach decisions on the desirability of projects/programmes and ensures that they are aligned across government. In order to assist project sponsors in the appraisal of their projects/programmes that will be submitted to the BFI, the relevant sections have been referenced.

The facility will conduct a rigorous independent appraisal of the technical merits of the submission. This will assess the proposal's alignment with national priorities, value-for-money, socio-economic rationale, affordability, risk profile and readiness for implementation.

For proposals submitted and meet the minimum requirements, the facility will prepare a recommendation report for consideration by the Medium-Term Expenditure Committee (MTEC) and the Ministers' Committee on the Budget (MINCOMBUD). The project sponsor will be invited to engage on the draft recommendations report before it is presented to MTEC.

All proposals that require direct budget support over the 2024 MTEF must be shovel ready (immediate procurement, contracting and construction). Their appraisal and evaluation will be subject to the specific requirements outlined below.

Public institutions that require guidance in preparing the submission pack for the projects/programmes should contact: infrastructure@treasury.gov.za. Any queries in respect of these guidelines can be addressed to the same email address.

PRIMARY SUBMISSION

The primary submission is a concise summary of the proposal not longer than 20 pages. It is a high-level business case that clearly explains how the proposal meets the criteria of being a national priority, the problem that the intervention intends to address, the alternatives that have been considered to solve the problem, and the assumptions, constraints, risks, costs, and timeframes associated with implementing a chosen solution. It should also include a written recommendation for support from the relevant national department.

Proposals that fail to complete the primary submission in terms of the guidance provided in this note will not go through the technical assessment process and funding will not be recommended for such proposals.

The primary submission should be an overview of the following elements which are described in more detail in the next section.

1. A description of the project or programme, project stage and justification of why it is regarded as a national priority.
2. A brief description of the prioritisation and approval process undertaken by the sponsoring institution resulting in the project or programme being a national priority and a clear justification or rationale for the proposal.
3. The objectives, outcomes and targets that the proposal seeks to achieve.
4. A summary of other options that have been considered and could achieve the same objectives, and an explanation of the preferred choice.
5. A socio-economic analysis clearly showing the estimates of economic costs and benefits associated with the intervention and anticipated social and distributional impacts.
6. A budget statement for the proposal, which includes a financial and funding model, cash flow projections, a statement of capital, maintenance and, operating costs as well as other budget requirements for the intervention over its full lifecycle.
7. The main risks – including technical, financial, economic, social, political and any other risks.
8. The procurement and implementation plan associated with the proposal.
9. A statement of institutional and operational readiness to implement the proposal with clear governance arrangements in place.

SUPPORTING DOCUMENTATION AND DETAILED APPRAISAL BY THE PROJECT SPONSOR

The Public Finance Management Act (PFMA) requires all accounting officers to have a system for properly evaluating major capital projects prior to making final decisions. The Framework for Infrastructure Delivery and Procurement Management (FIDPM) sets out a control framework for infrastructure planning and delivery by prescribing the minimum standards for a concept note, pre-feasibility or a feasibility report. The National Treasury's *Infrastructure Planning and Appraisal Guideline* (<http://www.treasury.gov.za/publications/guidelines>) provides detailed guidance on planning and appraising infrastructure proposals.

In line with these requirements, all the documentation and data that supports the project/programme proposal should be attached to the primary submission in electronic format. For projects/programmes that are deemed to be shovel-ready, it is assumed that a recent feasibility study covering the financial, economic, social and institutional appraisal of the project has been completed and this should be attached to the primary submission. **The supporting documentation cannot substitute for the primary submission.** As such, the supporting documentation will also be subjected to the assessment process conducted by the BFI and the primary submission must refer to the supporting documentation, which enables the detailed technical evaluation.

ELEMENTS OF THE PRIMARY SUBMISSION

The primary submission is a concise summary of the proposed project or programme, not longer than 20 pages. It should provide sufficient evidence to support the conclusions and recommendations in the proposal. Assumptions should be presented clearly and transparently. It should provide easy and accessible data sources through which evaluators can verify calculations and supporting evidence.

The following elements must be included:

1. DESCRIPTION

The project description is a brief summary of key information that includes the name, location, duration, objective, outputs and other main features of the project. It briefly describes the process followed in ranking and prioritising the project/programme resulting in it being a national priority. It should also contain the details of the sponsoring entity (which can be a national department, provincial department, municipality or public entity); the legal mandate under which the implementing institutions operate; the name and contact details of the project officer within the sponsoring entity and the details of other institutions involved in the project.

2. JUSTIFICATION

The purpose of the justification statement is to explain the need for the proposal at the highest level in a clear, coherent and logical manner. It should explain why the proposal is a national priority and motivate the justification for shifting resources from other pressing needs to this activity.

The rationale for the intervention includes the following steps:

- The Project Sponsor must first identify and state the problem in a clear and precise manner. A precise definition of the problem that is to be solved by the proposal is vital to the appraisal, planning, implementation and successful completion of the project. This should lead to a clear identification, quantification and the assumptions of the demand that underpins the intervention.
- Why the intervention is likely to be cost-effective (i.e., that the benefits of intervention will exceed the costs).
- A description of the potential beneficiaries of the project or programme and an explanation of their selection.
- The negative consequences and risks associated with the intervention, as well as the results of not intervening, both of which must be outweighed by the benefits to justify action.

3. OBJECTIVES

This section should clearly set out the desired objectives and outcomes of the intervention. The purpose of this section is to clearly define what successful implementation will look like, by answering the following questions:

- What are we trying to achieve?

- What will be the contribution of the intervention to the economy and society in general?
- What would constitute a successful outcome or set of outcomes?

Objectives should be expressed in general terms so that the range of options to meet them can be considered. Objectives should be defined in such a way that progress toward meeting them can be monitored. Measurable indicators that illustrate when these objectives have been met should be suggested. They should be focused on the factors that are critical to success and reflect the eventual benefits to society that the project will generate.

It is also important to identify project outcomes that are directly related to the project objective(s). A common mistake made by project sponsors is that broad economic impacts are considered in the analysis, which are not directly aligned with the specific objective(s) of the project. For instance, while an infrastructure project may create employment, not every project will be economically feasible and, therefore, sustainable. Where relevant, for purposes of meeting government's socio-economic targets, employment numbers should however be quantified and recorded under employment categories such as "construction", "permanent", "temporary", etc.

The analysis of the objective(s) of the project must include the definition of the outputs that would be produced by the project, the expected outcomes, and how these outcomes will help to achieve the overall objective(s) of the project.

Project sponsors must show that the objective(s) align with the organisation's priorities and aspirations, the sector development plan, and the other development strategies. This alignment is commonly demonstrated through the use of Specific, Measurable, Achievable, Relevant, and Time-Bound (SMART) indicators.

4. SUMMARY OF OPTIONS CONSIDERED

This section should describe the options that were considered during the development of the proposal. The purpose of options appraisal is to develop a cost-effective solution that meets the objectives of government. Creating and reviewing options helps decision-makers understand the potential range of solutions that may be considered.

An options analysis involves the identification and analysis of various strategies that can be used to achieve the project's objective(s). An options analysis is used to assess and compare the identified options based on specific criteria. The project sponsor should, for every option, answer a range of questions such as:

- Did the options analysis consider a reasonable range of alternatives available to address the core problem?
- Are the options' cost estimates accurate and reasonable?
- Was operation and maintenance costs (O&M) of different options considered in selecting the preferred alternative?
- Is the proposed technical solution practically implementable, sustainable, and does it provide a solution to the stated problem?
- Are there significant adverse environmental and social consequences of the proposed solution? Can they be mitigated, and at what cost?

- Are there sufficient human and administrative resources to deliver the project and ensure adequate operation of the facilities?
- Is the implementing authority capable of delivering the project within time, scope and budget?
- Are there any legal barriers that may jeopardize project implementation or operations?

The objective of assessing the various options is to ensure that the best strategy is adopted to meet the objective(s) of the project. Each alternative should be clearly described together with a summary of its associated advantages and disadvantages and a quantification of the preliminary costs and benefits of each option relative to the objectives of the proposal. The summary should explain why the preferred option meets the objectives more effectively than other options, and how the preferred option gives the best value-for-money for government. Evidence contained in the supporting documentation should be summarised and referenced to support the argument that the preferred solution is the best solution.

5. OVERVIEW OF SOCIO-ECONOMIC ANALYSIS

In order to justify fiscal support, a credible analysis of social and economic benefits and costs is essential. This section of the primary submission is likely to be the most extensive. It provides information that enables the assessment of welfare changes due to the project and estimation of the project's impact on all segments of the society via the calculation of economic performance indicators such as the Economic Net Present Value (ENPV), the Economic Rate of Return (ERR) and Cost-Effective Ratios (CER).

From the Government's perspective, the viability of an infrastructure project is determined by its economic benefits and costs, rather than solely on the results of a financial analysis. However, the financial analysis provides the basis for the economic appraisal of a project and should be conducted in a way that allows the consistent conversion of the financial cash flows of a project into its economic resource flows of costs and benefits.

The preferred option must be subjected to a Cost Benefit Analysis (CBA) and/or Cost Effectiveness Analysis (CEA) to assess its economic viability or cost effectiveness. The detailed analysis should be provided in the supporting documentation, which should be summarised and referenced to in the primary submission to support the proposal.

A CBA methodology is employed when the costs and the benefits of the project can be monetized. On the other hand, there are projects where the objective is to select the investment or a combination of investments to deliver a specific quantity of a good or service at minimum cost. The CEA assesses each option on its relative costs, to select the most cost-effective option i.e., the least costly option, or the options that have the least cost per unit of benefit. *The Infrastructure Planning and Appraisal Guideline* provides the details on the methodologies for the CBA² and CEA³. The National Treasury has also developed a database of Commodity-Specific Economic Conversion Factors that is necessary to conduct a CBA. These parameters are available for use by project sponsors at <http://sa.cri-world.com/>

² CBA methodology can be found from page 25 -38 of the *Infrastructure Planning and Appraisal Guideline*.

³ CEA methodology can be found from page 57 – 62 of the *Infrastructure Planning and Appraisal Guideline*.

As part of the socio-economic analysis, the Project Sponsor should answer a range of questions such as:

- Is the methodology selected for economic evaluation appropriate for this category of projects?
- Did the economic analysis consider all major externalities such as social, climate change, gender, etc.?
- Have economic indicators (ENPV, ERR, Cost Effectiveness Ratio) been calculated considering correct categories of costs and benefits?
- Is the project economically viable (i.e., $ENPV > 0$, $ERR > EOCK$)?
- Did sensitivity analysis consider major risk variables?
- Is the proposed risks prevention and mitigation strategy adequate?
- Is there an overall high probability of achieving the objective(s) of the project?

6. BUDGET STATEMENT

The affordability of options should always be considered when appraising proposals. In addition to the analysis of socio-economic costs and benefits, the primary submission should include the following financial statements which are essential in order to plan for budget allocations over the full lifecycle of the intervention. All of these financial statements should be stated over the full useful life of the asset in current prices (i.e., nominal rand) using clearly specified rates of inflation to escalate costs.

- **An expenditure statement.** This should detail all the payments that will be required to deliver the project/programme. The expenditure statement should cover all capital payments involved in the construction of the asset and financing charges associated with funding the proposal. It should detail the maintenance (annual and periodic upgrades required) and operating payments associated with running the asset over its useful life, including labour costs, machinery and equipment, utilities. These payments would include any costs that will be borne by any government or public institution, whether or not they are directly involved in planning or executing the proposal. In particular, expenditure implications for other spheres of government or public entities should be clearly specified.
- **A funding statement.** This should show all the resources that will be mobilised to implement the proposal and support the operation of the asset over its full lifecycle. This might include resources redirected from within the department's baseline, additional resources transferred from the fiscus (such as grants), partners and external organisations providing the resources (and in some cases cash) required, and user charges or other forms of funding internal to the project itself. Any debt (including concessional loans) or equity obligations or leasing arrangements that the project sponsor intends to mobilise in favour of the project must be clearly disclosed in the funding statement, together with their terms and provisions.
- **A cash-flow statement.** A comprehensive account of the annual inflows and outflows of cash associated with the proposal as a result of capital, operations and financing activities over the full lifecycle of the asset.
- **A contingent liability statement.** Some proposals expose the government/fiscus to contingent liabilities – that is commitments to future expenditure if certain events occur. Any guarantees, provisions or other obligations that could give rise to fiscal liabilities in the future as a result of some explicit contractual eventuality should be fully disclosed. The contingent liability statement should give details of all explicit liabilities

that will accrue to government that includes external financing whether the external finance is in full or in part or as part of a blended financing arrangement. It should also describe what contingent liabilities might arise, a description of the possible consequences and the mitigation plan.

As part of the budget statement, the Project Sponsor should, answer a range of questions such as:

- Does the project generate financial revenues?
- Was affordability analysis carried out to ensure that the project is affordable?
- Is the project financially sustainable, i.e., are financial revenues sufficient to finance the operations and maintenance expenditures?
- If not sustainable, is there a plan to meet cash flow requirements for the periods where the cash flow is negative?
- The assumptions and methods used to derive the estimates in the budget statements as well as the statistical confidence associated with the estimates.
- Is the proposal a blended /PPP procurement modality with different funding sources?

7. RISK STATEMENT AND SENSITIVITY ANALYSIS⁴

Risk analysis is concerned with the identification of a project's risk variables, the analysis of the impacts of these risk variables on the project, and the interpretation of the results in the presence of uncertainty. In appraisals, it is likely that there will be differences between what is expected, and what eventually happens, because of the complexities of delivering these projects as well as biases inherent in the appraisal, and risks and uncertainties that materialise.

Qualitative analysis is one of the approaches used to assess the project's risks during project preparation and appraisal. Qualitative analysis uses a relative or descriptive scale to measure the probability of a risk event occurring. This can be achieved by using a risk matrix that:

- Identifies the project's risks.
- Defines the rating scales of the identified risks in terms of their likelihood of occurring and the potential impacts of the risks on the success of the project; and
- Aggregates the risks.
- Mitigates the risks.

Quantitative risk analysis takes into account the fact that circumstances may occur, which result in future (actual) benefits/outcomes and costs being different from the expected values. This potential variance is a function of the chance that an actual value will differ from the expected value and the associated consequences.

The main risks – including technical, financial, economic, social and political risks – that are anticipated by the project sponsors should be clearly stated. The risk statement should approximate the financial impact that these factors could have on project costs and revenues. It should also assign a probability of the event occurring and provide details of the mitigating actions that could manage the risk.

⁴ Refer to page 38 – 43 of the *Infrastructure Planning and Appraisal Guideline* for detail on Risk and Sensitivity analysis

Sensitivity Analysis is a way of methodically testing how responsive a project's selection criteria (NPV, ENPV or any other relevant criterion) is to a change in key project variables. Sensitivity analysis enables an examination of how sensitive the financial and economic outcomes are to specific assumptions made in the project evaluation. The sensitivity of the economic analysis and financial statements to changes in key economic variables should also be considered. This includes assumptions on the key variables which may include exchange rates, interest rates, economic growth, population growth and demand for services.

Many parameters are affected by optimism bias – appraisers tend to overstate benefits, and understate timings and costs, both capital and operational. Appraisers should be alert to these biases and make explicit adjustments to counter it. Sensitivity analysis should be used to test the robustness of assumptions about operating costs and expected benefits. Where possible, adjustments should be empirically based, (e.g., using data from past projects or similar projects elsewhere), and adjusted for the unique characteristics of the project at hand.

As part of the risk and sensitivity analysis, the Project Sponsor should, answer a range of questions such as:

- Did sensitivity analysis consider major risk variables?
- Is the proposed risks prevention and mitigation strategy adequate?
- Is there an overall high probability of achieving the objective(s) of the project?
- Have the necessary steps been taken to mitigate risk and allocate residual risks appropriately?

8. PROCUREMENT STATEMENT

A procurement strategy details the selected packaging, contracting, pricing and targeting options for all the required goods and services or a combination thereof as well as the procurement procedure to ensure alignment to Constitutional requirements and other legislative requirements. The rationale for adopting a particular option(s) compared to alternatives must be clearly demonstrated. The goal is to take appropriate decisions in relation to available procurement options and prevailing circumstances in order to achieve optimal outcomes. A Procurement Strategy must include the following:

- The procurement needs of the project or programme: The professional services, implementing agent, contractors, operations and maintenance, etc. must be explained. The organisation of work packages into contracts must be included here.
- Delivery method: The choice of whether the traditional procurement or non-traditional procurement (e.g., Public-Private Partnerships, turnkey and lease-to-own agreements) will be used to procure the project/programme must be indicated.
- Contracting strategy: The strategy indicates the optimal contracting method to deliver the infrastructure, and includes options such as design by employer, develop and design, design and construct, construction management, or management contractor, etc.
- Pricing strategy: Provides an indication of how the financial offers will be secured and how the contracts will be remunerated. The general options here are price-based, cost-based, and performance-based.

- Procurement targeting: Entails how the delivery of the project or programme will target developmental or secondary objectives as well as procedures that may be used to promote social and economic objectives.
- Procurement procedure: Involves the alignment to requirements for a fair, equitable, transparent, competitive and cost-effective process. Options may include a negotiated procedure, competitive selection, or a combination of the two.
- Procurement plan: A detailed plan with estimated milestones, timelines and roles and responsibilities of the stakeholder(s) involved must be provided.

In deciding on an appropriate set of options to deliver a project or programme, a procurement strategy must consider various options available in respect of each of the above listed aspects, detail the advantages and disadvantages of each option, risks and trade-offs, and the rationale for the chosen option(s).

The above aspects should already be selected at the time of submission for a proposal to be deemed shovel ready. In addition, the procurement timeframes must demonstrate that the sponsor is able to immediately procure, contract and/or construct, should funding or fiscal support requested be approved.

9. INSTITUTIONAL AND OPERATIONAL READINESS

Sufficient capacity to deliver the project on time, on budget and to specifications should be demonstrated. An institutional arrangement that is conducive to effective delivery is critical. The analysis should demonstrate that the institutions responsible for implementation, including project management, and operational responsibility will be appropriate to the task.

Key questions that should guide the preparation of this section include:

- Has the technical and legal due diligence been undertaken?
- Are there suitable incentives or penalties in place to ensure delivery?
- Are there any major statutory or regulatory constraints that may prevent efficient project implementation and/or operation?
- Are there any jurisdictional conflicts between government entities/institutions that need to be resolved before the project can proceed to implementation?
- Are land rights secured? If not, is there a detailed plan on how it will be secured?
- If the project involves multiple public institutions, is there a stakeholder coordination plan and agreement?
- Does the Project Sponsor/Implementing Institution have a good record of successful delivery of projects of similar nature?
- Are there any other constraints that may prevent efficient project implementation or operation?
- Are there necessary health and safety plans?
- Can funds for the project be secured?
- What is the current financial position of the executing and operating institution(s)?
- What is the governance structure within the institution in relation to the proposed project and have arrangements to promote good governance by all implementing parties been put in place?

- Have the human resources requirements for the successful delivery of the project been clearly outlined including the following:
 - Capacity constraints relating to the project team and the technical advisors and a plan to address such constraints over the project’s life; and
 - Envisaged strategy for skills transfer from the technical advisors to the project team.
 - The implementing institution’s project officer and team, including names of the team members, allocated roles within the project, relevant skills and brief CV’s.
 - Appointed technical advisors, including allocated roles within the project, relevant skills, and brief CVs, and
 - Budget available for project management.
 - An adequate monitoring and evaluation plan for the project.
 - Robust implementation plan that details the proposed project or programme’s key delivery milestones, timelines, relevant stakeholders responsible for each milestone/activity.

[END]

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