

uKulungisa

project preparation fund



ANNUAL REPORT FINANCIAL YEAR END JUNE 2011

"Expertise in funding and managing project preparation at no cost to the municipality"

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CHAIRMAN'S REPORT

It gives me great pleasure to present this third annual report of the Ukulungisa Project Preparation Fund (UPPF) since its establishment in 2008. The UPPF is achieving significant success in delivering on its core mandate of improving infrastructure service delivery in South Africa, through its specialised focus on project preparation.

One of our notable achievements in the past year was the commitment of the bulk of UPPF's preparation funding to a substantial pipeline or suite of infrastructure projects with the potential for significant developmental and capital leverage. As at 30 June 2011, UPPF was preparing 21 infrastructure projects of various types with the potential to leverage capital funding of over R734 million benefiting over 85 534 poor and disadvantaged households. R6.33 million in preparation funding has been allocated to these projects. Substantial progress has already been made in preparing these projects as nine pre-feasibility studies and two feasibility studies have been completed to date.

Significant capital leverage has also been achieved through an approval of R152.3 million on the Eshowe bulk water supply project, while an approval of R40.8 million was achieved for Middledrift bulk water supply project. Both of these projects form part of the uThungulu bulk water supply scheme, which is now entering the implementation stage. UPPF has also been repaid in full for both of these projects and is in the process of closing them out. The repaid funds will thus be available for further use.

UPPF's success has, however, not only been in directly preparing projects, but more importantly, in promoting and entrenching more systematic and effective project preparation within South Africa's infrastructure programmes. These include inputs into the Construction Industry Development Board's new 'Gateway' procurement process, which is to become a compliance requirement for all spheres of government. A range of valuable knowledge resources in the form of comprehensive project preparation toolkits have also been developed, which will be useful not only to UPPF, but also to Government and other private sector stakeholders. These toolkits cover seven common types of infrastructure projects ranging from water and sewer treatment upgrades, to roads and landfills.

Despite the need for a change to UPPF's original business plan in 2010 due to various external factors, UPPF has nonetheless delivered effectively against the contractual commitments set down in its founding Agreement with the Business Trust. The Project Preparation Trust (PPT) and Infrastructure Finance Corporation Limited (INCA) have emerged as effective and strong joint-venture partners with complementary skills, resources and expertise.

As UPPF closes out its contractual relationship with the Business Trust, it extends its appreciation and gratitude to the Trust for the confidence it has shown in and the guidance offered to the joint venture and for fruitful collaboration, which has taken place over the past three years. The seed funding provided by the Business Trust has enabled UPPF's establishment as a viable entity with a revolving Preparation Fund capable of achieving the preparation of a significant pipeline of infrastructure projects for many years to come.

Thanks are also due to the personnel from PPT and INCA for their on-going commitment and professionalism – which are central to the success of the joint venture, as well as to my colleagues on the Board.

During the forthcoming year, UPPF will not only focus on the effective preparation of its existing project pipeline, but will also explore the potential for obtaining additional funding and establishing new strategic partnerships in order to expand its project pipeline, increase its developmental impact and derive maximum benefit from its strong institutional platform.

Ilan Lax

Chairman

June 2011

As at 30 June 2011, UPPF was preparing 21 infrastructure projects of various types with the potential to leverage capital funding of over R734 million benefiting over 85 534 poor and disadvantaged households. R6.33 million in preparation funding has been allocated to these projects.

ABOUT UKULUNGISA

A VITAL NATIONAL INITIATIVE

Ukulungisa Project Preparation Fund ('Ukulungisa') is a strategic national initiative to help address service delivery backlogs in South Africa through more effective project preparation. Ukulungisa was initiated by Government, via the Support Programme for Infrastructure Delivery (SPAID) in 2008, with the support of the Presidency, the National Department of Co-operative Governance and National Treasury, and with seed funding from the Business Trust. Ukulungisa is an independent Section 21 Company, and is a joint venture between PPT (Project Preparation Trust) and INCA Portfolio Managers, who were selected to champion this important initiative following a competitive bid process and stringent evaluation. Ukulungisa is a special purpose Section 21 Company and is not for profit. All project preparation is managed by PPT, an organisation with an extensive and proven project preparation track record.

PROJECT PREPARATION FOCUS AND ELIGIBLE PROJECTS

Ukulungisa's core business is to fund and manage the preparation of selected municipal infrastructure projects. There is significant flexibility in terms of the types of infrastructure projects which are eligible for support from Ukulungisa, but there is particular emphasis on those which address poverty and basic service backlogs (e.g. water supply, sanitation, housing, roads, bridges, and water or sewerage treatment installations or upgrades). All potential projects are subjected to careful pre-screening before preparation assistance is provided by Ukulungisa.

ASSISTING MUNICIPALITIES AND CAPITAL FUNDERS

Ukulungisa funds and manages the entire project preparation process for the Municipality. This includes the management of suitable consultants/project preparation teams. This assistance is provided in terms of a bilateral agreement either directly with the Municipality or else with a service provider contracted to the Municipality. The project preparation assistance provided by Ukulungisa is unique in that it is fully funded and does not expose the Municipality to any financial risk. An agreed project preparation fee is payable to Ukulungisa only when a particular project succeeds in obtaining approval of capital funding for project implementation. This fee consists mainly of the direct budgeted cost of project preparation teams (including all specialist reports and preliminary design work required).

WHAT IS PROJECT PREPARATION?

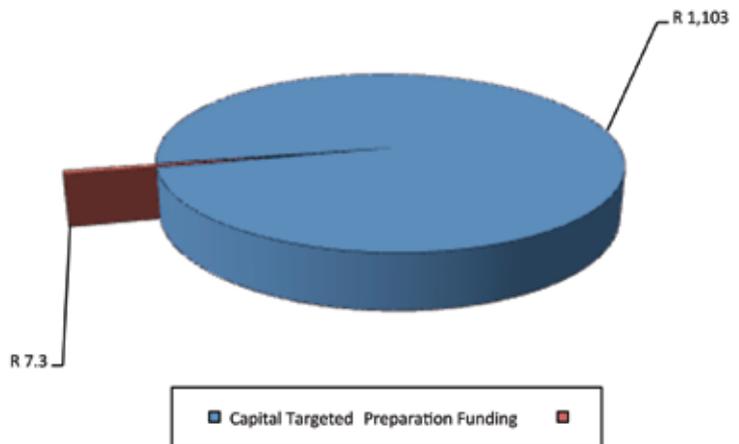
The preparation work undertaken by Ukulungisa consists of all the professional work and other activities that are required to ensure that a project is viable and appropriate, and that capital funding is secured. This includes: project screening, pre-feasibility, feasibility, concept design and business plans. A significant component of project preparation is the identification, evaluation and mitigation of potential risks. Effective project preparation dramatically reduces the risk of a project's failure, while significantly increasing the prospects of rapid and effective project implementation. On the other hand, poor project preparation typically results in delays, increased project costs, an inferior product and even complete project failure. Ukulungisa has developed comprehensive project toolkits (detailed scope and process guidelines) for the preparation of a range of infrastructure project types.

SUMMARY OF IMPACTS

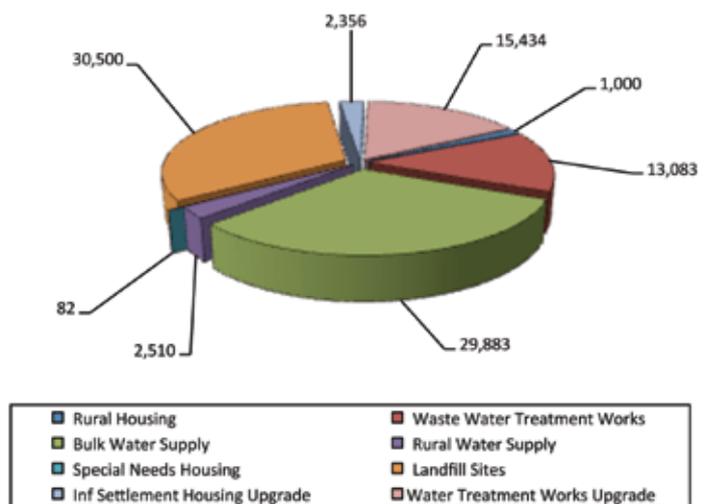
Note: Impacts and project progress are reported as at 8 September 2011 as significant movement in project activity, and capital approvals took place in the two months following the end of the annual reporting period (30 June 2011).

- 26 infrastructure and housing projects of various types under preparation (or recently completed) and targeting over R1,103 billion in capital approvals benefiting more than 94 800 disadvantaged households.
- R7.3 million in Ukulungisa project preparation funding allocated to these projects.
- An average preparation to capital funding gearing ratio of over 1:151.
- R197 million of capital funding benefiting 7 791 households already approved.
- Development of comprehensive project preparation toolkits (knowledge resources) for seven common types of infrastructure projects ranging from water and sewer treatment upgrades to roads and landfills.
- Significant inputs into the Construction Industry Development Board's new 'Gateway' procurement process, which is to become a compliance requirement for all spheres of government.

Overall gearing of preparation funding relative to capital targeted (R millions. Overall gearing = 151)



Households benefiting from projects completed and under preparation (94 848 disadvantaged households on 26 projects)



OVERALL PROGRESS

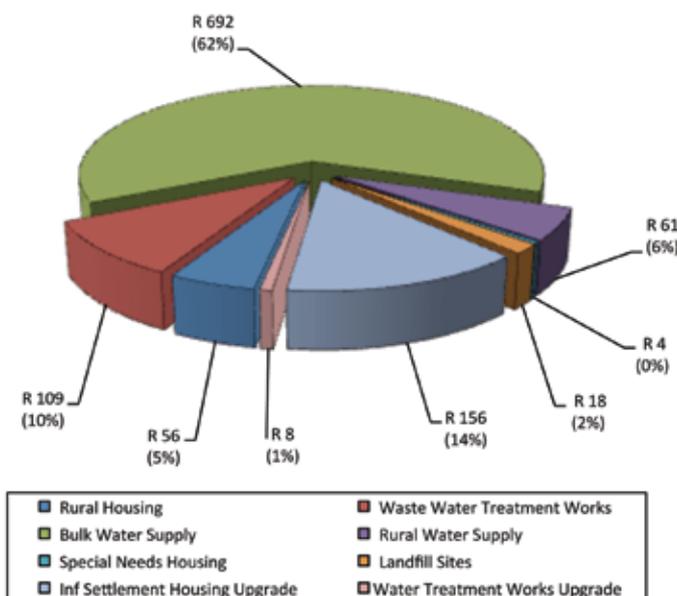
INTRODUCTORY COMMENTS

The revised and streamlined business plan for Ukulungisa was finalised in consultation with the Business Trust during July 2010 and this has enabled the steady uptake of projects and the generation of a significant project pipeline to which the bulk of Ukulungisa's available preparation funding has been allocated. Municipalities and service providers are regularly submitting additional projects for possible approval by Ukulungisa as preparation funds are recovered from successful projects.

The preparation of two projects namely, Eshowe and Middledrift, bulk water supply projects, has already been completed with full capital approvals and re-payments finalised. Both of these projects form part of the uThungulu bulk water supply scheme, which is now entering the implementation stage. UPPF has been repaid in full for both of these projects and is in the process of closing them out.



**Capital value of prepared projects (R mill, %)
(Total value of capital targeted R1,103 billion)**



CAPITAL FUNDING LEVERAGE

A total capital funding leverage of R196.67 million has been achieved by Ukulungisa to date. These approvals were achieved on the following four projects:

Eshowe, Bulk Water Supply Scheme achieved a capital approval of R152 million, which was made up of a R36 million from Municipal Infrastructure Grant (MIG) and R116 million from the Department of Water Affairs (DWA).

Middledrift, Bulk Water Supply Scheme achieved a capital approval of R40.80 million from MIG (Municipal Infrastructure Grant).

KwaMbotho Rural Housing Project achieved a capital approval of R1,25 million for the implementation of the tranche one detailed design process and planning approval, through the signing of a Tripartite project agreement between the implementing agent, the KZN Department of Human Settlements and the uMuziwabantu Municipality.

Rehoboth Foster Care Project achieved a capital approval of R2.62 million from KZN Department of Human Settlements.

UPPF APPROVED PROJECTS

The bulk of preparation funding available from the Business Trust has been allocated to projects approved by Ukulungisa's Operational Committee. There are currently 24 active approved projects under preparation. There are also four additional 'B string' projects which have been approved as possible substitutes should the preparation of active projects terminate early.

These projects span a range of infrastructure project typologies including waste-water treatment, bulk water supply, landfill sites, water supply, bulk water reticulation, rural housing, informal settlement upgrading (housing), and special needs housing.

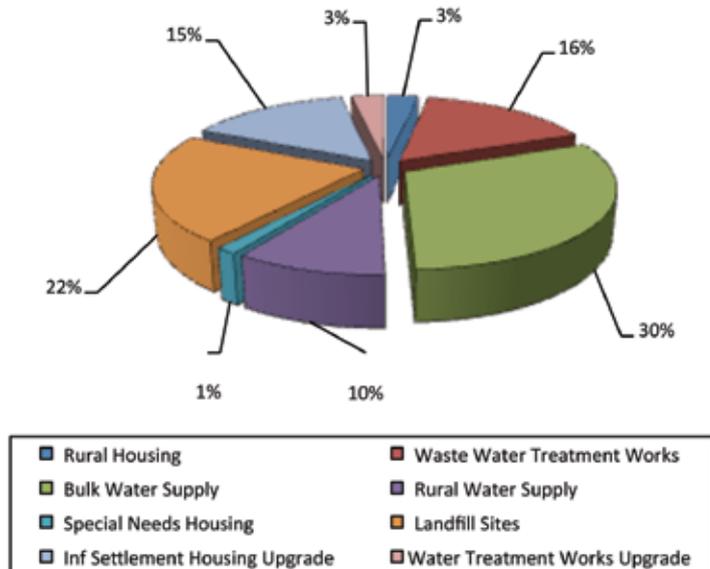
PRESCREENING AND ASSESSMENTS

Since the adoption of the revised business plan, a total of 147 projects have been identified and pre-screened – 56 have been subject to full preliminary assessments and 34 have been approved by the Board for the allocation of preparation funding. An additional 93 projects were identified and 61 assessed and pre-screened on the previous business plan. 20 project submissions were shortlisted in the 2011 financial year, of which 18 projects were approved by the Board.

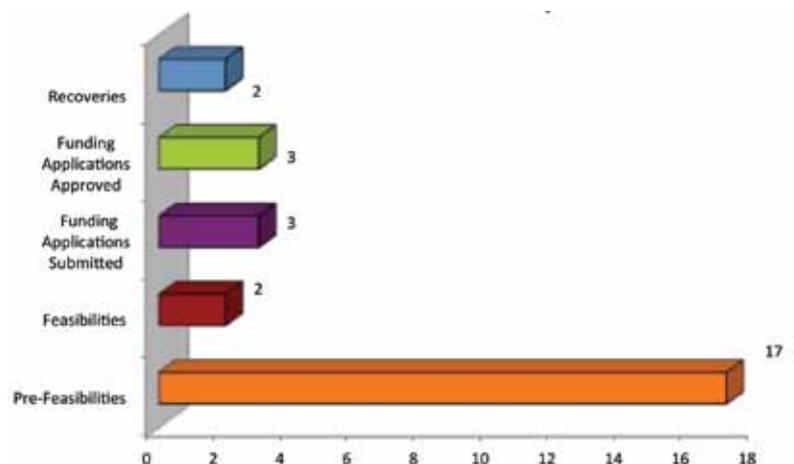
PROGRESS WITH PROJECT PREPARATION

Substantial progress has been made in preparing these approved projects with 17 pre-feasibility studies and two feasibility studies already completed. Currently, two projects have been completed while eight projects have been terminated early due to such factors as unconfirmed municipal priority.

Preparation funding value by project typology (R7.3 million to 26 projects)



Project progress by milestones achieved as at Sep 2011



COMMENTARY ON SELECTED PROJECTS

A number of projects supported by UPPF achieved significant success in the 2011 financial year. These include:

KWAMBOTHO RURAL HOUSING PROJECT

The KwaMbotho rural housing project aims to provide housing to approximately 1 000 beneficiary families in the traditional area of Mambotho, close to Harding in KwaZulu-Natal. A major milestone achieved in September 2011 was development planning approval via the new Provincial Development Act, which effectively gives the project the all clear for implementation. The preparation of the project is now nearing completion from Ukulungisa's perspective, with the submission of the tranche two application packs imminent. The approval of this application will release approximately R74 million in capital funding for the implementation and construction of the project.

ESHOWE, BULK WATER SUPPLY PROJECT

The Eshowe Project aims to: a) provide bulk water for long-term rural and urban demand for the Eshowe sub-supply area 1, and b) provide capacity in the Eshowe bulk pipeline system in adjacent sub-supply areas. The existing reservoir at the Eshowe Water Treatment Works (pictured below) is to be replaced with a new reservoir and the current two-staged pumping process is to be replaced with a single pumping process from the Goedertrouw dam to the new reservoir. The preparation of the Eshowe Project has been successful with both the capital approval of R152 million and the full re-payment of Ukulungisa's preparation funding having been achieved, clearly demonstrating the successful implementation of the new business plan. An exceptionally high gearing ratio of 366 on UPPF's preparation funding was achieved. Over 5 283 beneficiary households will be assisted through the implementation of the project, which is planned for construction in the 2012 financial year.



Eshowe's existing old reservoir soon to be replaced with a new reservoir.

WAAINEK, WASTE WATER TREATMENT WORKS (GRAHAMSTOWN)

This project entails the refurbishment of the existing Bulk Water Supply from Waainek to the Grahamstown area to meet increasing demand. It includes refurbishing the Waainek pump stations, inlet works, pipelines and storage facilities. UPPF made a significant input into the pre-feasibility and feasibility studies motivating the decision to divide the project into two distinct phases, whereby the first phase became the refurbishment of the plant in the short term. Approximately R1.27 million has been allocated by the Makana Municipality for the short-term refurbishment. Operational changes have already been implemented, significantly improving both the capacity and quality of the water supplied to Grahamstown.



The Howiesonspoort Dam is one of three main dams supplying the Waainek Water Treatment Works.

SUNDUMBILI, WASTE WATER TREATMENT WORKS

As in the case of the Waainek Project above, Ukulungisa had significant input into the staged approach adopted in the refurbishment of the Sundumbili plant. Currently, the iLembe District Municipality has allocated approximately R10 million for the immediate refurbishment of this plant to increase water quality and delivery capacity to the required standards and specifications. The district municipality plans to complete the full feasibility study and apply for the additional capital of approximately R82 million in the next financial year (i.e. 2012). The second phase of this project is on hold until the municipality is ready to implement the full capital upgrade portion of the project.

Maturation ponds at the Sundumbili Waste Water Treatment Plant, where, based on the pre-feasibility report prepared by SSI Engineers and funded by UPPF, the iLembe District Municipality plan to allocate R10 million from their existing operations and main-tenance budget to refurbish the plant. A full feasibility study, which is now on hold, will be implemented in the next financial year (i.e. 2012).



SPECIAL NEEDS HOUSING PROJECTS FOR VULNERABLE CHILDREN (KWAZULU-NATAL)

Two special needs project applications, namely Rehoboth Children's Village and Ingani Yami Foster Care Scheme, have been prepared and submitted to the KZN Department of Human Settlements (DoHS) for funding approval. Rehoboth Children's Village Project has secured a capital approval of R2.62 million for 50 beneficiaries from DoHS, but the contractual arrangements between Rehoboth Trust and DoHS have not yet been completed. Although the process of capital approvals has not been completed as yet, and due to the high probability of the DoHS approving the capital funding, for Ingane Yami Project, both of these organisations have decided to start the process of house construction using their own bridging funding (see picture below).

Construction of one of the five homes in the Ingani Yami foster care home project. Each of the homes constructed in this phase will house foster parents and six orphaned or vulnerable children.





Construction of Rehoboth special needs project homes. Each of the 10 homes constructed in this phase will house foster parents and five orphaned or vulnerable children.

ETHEKWINI, INFORMAL SETTLEMENT PROJECTS

Six informal settlement project areas, namely Umlazi S1, S2 and S3, Locksley Drive, Rainbow Ridge, Lacey Road and Bucks Farm, were evaluated through Ukulungisa-funded pre-feasibility studies. Based on the information drawn from these studies and consultation with eThekweni Housing Department, two project combinations have been selected for full feasibility investigations for full upgrading, namely: Umlazi S1, S2 and S3 (Ezakheleni and Emhlabeni) and Rainbow Ridge/Lacey Road. The feasibilities for both projects will only commence in 2012, allowing time for the procurement by eThekweni of professional project teams for the entire duration of both projects. Ukulungisa will then fund and manage these teams during the preparation phase. This is an innovation which will enable Ukulungisa and PPT to work with professionals who will continue into implementation, thereby creating improved project continuity and expediting more effective implementation.

*Professional
team meeting in
the Lacey Road
Informal settlement
in eThekweni.*



MIDDLEDRIFT, BULK WATER SUPPLY PROJECT

The Middledrift Project is linked to the Eshowe project presented above and forms part of the greater uThungulu Master Water development plan for the area. A full approval of R40.8 million was achieved on this project and it will be implemented in the 2012 financial year. Furthermore, all Ukulungisa preparation funding utilised has now been repaid.

ORIO, ILEMBE ‘WATER FOR LIFE’ APPLICATION

A comprehensive ‘iLembe District, Water for Life’ project funding application was developed on behalf of the iLembe District Municipality and submitted to Dutch funders, ORIO. The proposal was short listed by ORIO and a member of the professional team travelled to the Netherlands to make a presentation. This represents a significant achievement as only 25 international applications have been shortlisted, of which only five will be approved in the current funding cycle. The funding application aims to secure €7.93 million (R86.09 million) from ORIO for the implementation of the project. The total project capital targeted from both DWAF and ORIO is approximately R231 million.

FINANCES

This financial report covers the year ending 30 June 2011 and is based on the audited financial statements of the company. The statements were prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. Ukulungisa received an unqualified audit opinion and the company's finances remain on a healthy footing. UPPF is now fully operational and all necessary financial and administrative systems and controls are in place, positioning it well to pursue the preparation of infrastructure projects in future. Subsequent to the end of the financial year, the Business Trust, as part of its closeout with Ukulungisa and its main sponsor, also commissioned certain internal audit procedures of the company. This audit process was also successfully concluded with a favourable outcome, and the Business Trust have issued Ukulungisa with confirmation of its satisfaction as to its financial affairs as part of the closeout process.

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2011

	2011	2010
	R	R
Revenue	3,191,884	1,042,500
Project preparation costs	(2,246,272)	(43,733)
Other income	196,199	1,918
NET INCOME	1,141,811	1,000,685
Operating expenditure	(814,362)	(929,852)
INCOME BEFORE INTEREST AND TAX (EBITDA)	327,449	70,833
Finance cost on other liabilities	(1,737)	(1,155)
PROFIT BEFORE TAX	325,712	69,678
Taxation	(91,199)	(19,510)
PROFIT FOR THE YEAR	234,513	50,168

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011		
	2011	2010
	R	R
TOTAL ASSETS	6,751,913	437,254
CURRENT ASSETS		
Cash and cash equivalents	6,732,719	239,668
Trade and other receivables	19,194	177,916
Deferred tax	-	18,162
Taxation receivable	-	1,508
TOTAL RESERVES AND LIABILITIES	6,751,913	437,254
TOTAL RESERVES	187,811	(46,702)
TOTAL LIABILITIES	6,564,102	483,956
CURRENT LIABILITIES		
Funding received in advance	6,506,819	-
Borrowings	-	31,554
Trade and other payables	54,844	452,402
Taxation payable	2,439	-

CONTRACTUAL AND ADMINISTRATIVE ARRANGEMENTS

REVISED BUSINESS MODEL

A revised business plan for Ukulungisa was finalised between Ukulungisa and the Business Trust following a process of extensive engagement between the parties during the latter part of Ukulungisa's last financial year. The new business model gives Ukulungisa significantly greater operating flexibility in order to generate a project pipeline more rapidly. The revised business plan successfully overcame several barriers to project uptake in the previous financial year.

Among other things, the revised business plan affords Ukulungisa significantly greater flexibility, particularly in respect of the pricing of its project preparation assistance and its ability to contract not only with municipalities, but also directly with service providers already procured by them.

CLOSE-OUT WITH THE BUSINESS TRUST

At the end of May 2011, Ukulungisa submitted a final close out report to the Business Trust and this report has subsequently been accepted by them. The report was tabled and noted by the respective Boards of the Business Trust and Ukulungisa.

At the end of the reporting period, the Business Trust appointed an internal auditor to independently audit the processes of the Ukulungisa, with a favourable outcome. The closeout process has subsequently been concluded.



Filters which require reburishment at Waainek Water Treatment Works.

MAIN PRIORITIES FOR 2012/2013

The 2012/2013 financial year is viewed as a year of consolidation and expansion for Ukulungisa. The following are the main priorities:

-  Raising additional preparation funding for Ukulungisa to enable it to expand its project pipeline and enhance its ability to more effectively: a) fulfill its core mandate of helping to address infrastructure delivery backlogs through effective and appropriate project preparation; b) leverage its existing experience and institutional capability.
-  Seeking and developing new strategic collaborations in the infrastructure sector.
-  Efficiently managing its existing project pipeline and its existing preparation funding to ensure maximum impact.
-  Consolidating and refining its comprehensive project preparation toolkits (knowledge resources).

Project Preparation Trust of KZN (PPT) is an independent, not-for-profit organisation that specialises in the preparation of a wide range of developmental projects for historically disadvantaged communities such as low-income housing, infrastructure and pro-poor local economic development. PPT was established in 1993.



INCA Portfolio Managers is a registered financial service provider that performs a facilitating role between funding sources and infrastructure providers and provides services associated with advisory work, deal origination, arranging, portfolio- and fund management. INCA was established in 1996 and its successor, IPM, in 2011.



For UKULUNGISA enquires, please contact The National Co-ordinator (Robert Mann) on uppf.nc@pptrust.co.za/031 3051288 or refer to www.pptrust.org.za.



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uppf.nc@pptrust.co.za / 031 305 1288 or refer to
www.pptrust.org.za



Project Preparation Trust



INCA
Trustee/Manager