

# CAPRICORN

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DISTRICT MUNICIPALITY



## **FEASIBILITY STUDY FOR THE REHABILITATION OF MOTUMO TRADING POST**

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Prepared for:



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## **EXECUTIVE SUMMARY**

This report provides an in-depth analysis of the feasibility of the proposed Public Private Public (PPP) project for Motumo Trading Post.

### **Brief description of the project**

The Motumo Trading Post project was first initiated by the Capricorn District Municipality (DM) in 2003, and subsequently developed in two phases between 2006 and 2009. The project responds to an opportunity to establish tourism-related facilities in the form of a conference facility, chalets and a tourism information centre along the N1, between Polokwane and Makhado, within the Capricorn District Municipality and the Molemole Local Municipality.

The project consists of three sites collectively known as the Motumo Trading Post. The project has not been in operation since about 2012 and is currently in a dilapidated state. The sites are:

- The conference facility - The site is inclusive of a conference facility (with a maximum carrying capacity of two hundred persons), four breakaway rooms with a carrying capacity of forty people, kitchen, a restaurant, workshops, swimming pool, tennis court, clubhouse, lapa and ablution facilities. It is located on the farm De Gladde Klipkop.
- The Machaka Game Lodge - This 110-hectare nature reserve is situated across the road, on the opposite side of the conference facility. The site includes 11 chalets (i.e. two sleeper) with thatched roofs. It is located on the farm Klipbok.
- The information centre at the Tropic of Capricorn - This site (approximately 350m<sup>2</sup>) is a further 10 kilometres from the conference facility to the north of the N1 highway towards the town of Louis Trichardt (Makhado). The information centre comprises of market stalls, an information office, and ablution facilities. The Needle of the Tropic of Capricorn is found here; it is 15-metres high and mounted on a "koppie". It is located on a farm portion of The Grange.

### **Objectives**

The purpose of the proposed PPP is to revamp the Motumo Trading Post by turning it into an economic and commercially sustainable tourism project. The project is expected to achieve the following objectives:

- To revamp and upgrade the conference facility;
- To revamp and upgrade the Machaka Nature Reserve;
- To revamp and upgrade the information centre at the Tropic of Capricorn;
- To maximise revenue generation for the municipality; and
- To create sustainable jobs.

## The PPP Feasibility Study

This report constitutes the Feasibility Study of the PPP Process as described in the official PPP Toolkit of National Treasury. The feasibility study is undertaken in three parts; a needs analysis, a due diligence assessment and a value assessment. If proven to be feasible, this feasibility phase of the PPP Process will be followed by the Procurement Phase during which a private sector partner will be secured to develop and operate the project.

### Main findings of the Feasibility Study

- 1. Needs analysis** - Needs Analysis entails demonstrating that the proposed PPP project is aligned with the Capricorn DM's strategic objectives as set out in the Integrated Development Plan, Spatial Development Framework, as well as the Local Economic Development and Tourism Growth Strategy. This assessment reflects the municipality's capacity and resources to manage the proposed PPP is adequate and that no additional municipal resources or staff would be required to implement the PPP process.
  
- 2. Project due diligence** - This aspect of the feasibility study uncovers issues that may significantly impact on the proposed PPP project. Issues covered include:
  - Ownership of Motumo Trading Post
    - Capricorn DM is not the registered owner of the farm portions associated with Motumo Trading Post.
    - The Department of Public Works is the land owner of the properties De Gladde Klipkop 763 LS (i.e. the conference facility) and the Klipbok 767 LS (i.e. the Machaka Game Lodge).
    - South African National Roads Agency Limited (SANRAL) is the registered owner of the Grange 471 LS (i.e. the information centre at the Tropic of Capricorn).
    - Both the Department of Public Works and SANRAL has been approached to grant Capricorn DM Special Power of Attorney to develop and manage the properties on behalf of government.
  
  - Town planning issues
    - The zoning certificates of the three sites have revealed that all the three properties are zoned 'Agricultural' in terms of the Molemole Land-Use Scheme.
    - The agricultural land-use zoning of sites currently imposes restrictions on the use of the three properties. As such, it is important that the project management team submits an application for Consent Use in terms of clause 20 of the Molemole Land-Use Scheme to the Local Municipality.

- Land claims
  - The Commission of Restitution of Land Claims has confirmed that no land claims appear on its database (as at the date: 25 July 2017) in respect of the two properties De Gladde Klipkop 763 LS and Klipbok 767 LS (see Annexure G).
  - However, the Commissioner indicated that a restitution land claim has been lodged prior 1998 on the R/E of the Grange 471 LS (i.e. the Tropic of Capricorn centre). This land claim has not yet been processed and feedback on the exact status and implications of the land claim for Motumo Trading Post is being awaited.
  - The project management team must seek clarity from the regional Land Claims Commissioner on the implications of the current status of the pending land claim on the information centre site at the Tropic of Capricorn.
  
- Environmental Impact Assessment
  - The provisions of the Environment Conservation Act No.73 of 1989 (ECA) were considered at the inception phases of Motumo Trading Post. As such, a Record of Decision in terms of Section 22 of the ECA was obtained with regard to phase one of Motumo Trading Post. However, no record could be found to date of a Record of Decision having been issued for phase two of the project. The Capricorn DM prompted the LEDET to investigate whether a Record of Decision was necessary for phase 2. This was done on the 6th of September 2017 at the Motumo Trading Post. Key findings of this investigation will determine a way forward on the matter.
  
- Building plans
  - Molemole Local Municipality indicated that they have no record of any building plans and that such plans be submitted by the project owners (see Annexure I).
  
- Asset registry
  - Both the movable and fixed assets associated with the project have been recorded in the asset registry of the Capricorn DM.
  
- Socioeconomic impact - the proposed PPP project is expected to yield the following benefits:
  - Provision of skills development and training for beneficiaries;
  - Creation of employment opportunities for locals;
  - Preservation of heritage, culture and local customs;
  - Growth in income; and

- Business opportunities for local Small, Medium and Micro-sized Enterprises (SMMEs).

**3. Value assessment** - The Value Assessment seeks to ensure optimal use of the properties of Motumo Trading Post for the proposed PPP. This is done by undertaking a valuation of all the properties, based on anticipated use.

The financial estimates presented by the Value Assessment suggest that the proposed PPP for the Motumo Trading Post project can be deemed to be financially viable and holds in a positive financial value for the Capricorn DM. The main deductions to be drawn from this section include:

- The total revenue generated between the first and tenth year of operation exceeds the CAPEX value.
- The total net profit generated by the business increases from 0.97% in the first year up to 26.25% in the tenth year of operation. This implies that the business is profitable.

## **Recommendations**

The feasibility study suggests that a PPP is the best procurement choice for the project as it can potentially and effectively transform Motumo Trading Post into a profitable business venture. As such it is recommended that:

- Capricorn DM's Council approves the Feasibility Report;
- Capricorn DM's Council approves the project moving into the Procurement Phase of the PPP process, subject to the following conditions:
  - Capricorn DM must obtain the legal rights to develop and manage the sites of the Motumo Trading Post from the Department of Public Works and SANRAL.
  - An application for Consent Use in terms of clause 20 of the Molemole Land-Use Scheme must be submitted to the Local Municipality to satisfy the town planning legislation.
  - Clarity must be obtained from the regional Land Claims Commissioner as the status of the pending land claim on the information centre site at the Tropic of Capricorn.
  - A Memorandum of Understanding must be put in place between Capricorn DM and the surrounding Traditional Councils to ensure the future success of the project.

Upon approval of the feasibility study, the project will be able to move into the Procurement Phase of the PPP process. This process entails:

- Identifying potential private developers and operators;

- Issuing of the request for proposals (RFPs) to the nominated firms:
  - The RFP, which is a complete guide to the proposed PPP project, provides substantial additional detail required for the short-listed bidders to create their proposals. The RFP should include information about submission requirements, evaluation criteria, and administrative matters such as deadlines and changes.
- Once the project management team has received and evaluated the RFPs, the most preferred bidder is chosen. This will be followed by negotiations between the Capricorn DM and the preferred private developer and operator.
- PPP Agreements will be the drafted and concluded between the two parties.

## CONTENTS

EXECUTIVE SUMMARY .....	ii
1 INTRODUCTION.....	1
1.1 Overview of the Motumo Trading Post project.....	1
1.2 Methodology .....	4
1.3 Regulatory environment.....	6
2 NEEDS ANALYSIS .....	7
2.1 Integrated Development Plan.....	7
2.2 Spatial Development Framework .....	7
2.3 Asset Management Plan and Register .....	8
2.4 Budget .....	8
2.5 Institutional environment .....	8
2.5.1 Responsible Authority .....	9
2.5.2 Staff and Skill Levels.....	9
2.5.3 Additional Resources to Procure and Manage the PPP .....	10
2.5.4 Stakeholder analysis.....	10
2.5.5 Communication channels for stakeholders.....	13
2.6 Output specification .....	15
2.6.1 Project scope.....	15
2.6.2 BEE and social development targets of the project.....	17
2.7 Conclusion .....	18
3 PROJECT DUE DILIGENCE .....	19
3.1 Ownership of Motumo Trading Post.....	19
3.1.1 Ownership of the three properties of Motumo Trading Post .....	20
3.1.2 Restrictions in the use of land for the purposes of Motumo Trading Post .....	20
3.1.3 Transfer of the properties to Capricorn DM .....	20
3.1.4 Agreements to be put in place before Capricorn DM enters into a PPP .....	21
3.1.5 Traditional councils' rights or claims on the land .....	21
3.1.6 The claim of Gregory Godrich .....	21
3.2 Town planning .....	22
3.3 Land claims.....	23
3.4 Environment.....	23



3.5	Heritage .....	24
3.6	Utilities .....	25
3.7	Occupation of the site .....	25
3.8	Current use, revenue and socioeconomic impact.....	25
4	VALUE ASSESSMENT .....	26
4.1	Legal status .....	26
4.2	Financial feasibility of the project .....	26
4.3	Socioeconomic benefits .....	31
4.4	Conclusion .....	31
5	RECOMMENDATIONS .....	32

## LIST OF FIGURES

Figure 1-1	Phase 2 Methodology as per the PPP Toolkit .....	4
Figure 2-1	Motumo Trading Post – Project Management Team .....	9

## LIST OF TABLES

Table 1-1	Regulatory Framework .....	6
Table 2-1	Staff and skills levels .....	9
Table 2-2	Stakeholders and interested parties .....	10
Table 2-3	Record of PSC meetings that have taken place .....	13
Table 2-4	Vision, goals and objectives for Motumo Trading Post .....	15
Table 2-5	Scope of the project .....	16
Table 2-6	Provisions of the Amended Tourism B-BBEE Sector Code – compliance targets	17
Table 3-1	Property descriptions .....	19
Table 3-2	A snapshot of the Molemole Land Use Scheme .....	22
Table 3-3	Potential income-revenue generating assets at the Motumo Trading Post .....	25
Table 4-1	Anticipated use of the properties ‘as if improved’ .....	26
Table 4-2	Initial Draft: Financial Model – 10 Years plan .....	29
Table 4-3	Employment creation .....	31

## LIST OF MAPS

Map 1-1	Location of the three sections of the project .....	2
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## **LIST OF ANNEXURES**

**Annexure A** – Legal report on Motumo Trading Post

**Annexure B** – Tourism Market Assessment

**Annexure C** – Condition Assessment and Repair of Existing Infrastructure

**Annexure D** – Financial Assessment

**Annexure E** – Memorandum of Agreement: between DEAT and Capricorn DM

**Annexure F** – Title Deeds

**Annexure G** – Letter from the Commission of Restitution of Land Claims

**Annexure H** – Record of Decision on Motumo Trading Post

**Annexure I** – Letter from Molemole Local Municipality regarding building plans

**Annexure J** – Department of Public Works ownership letter

**Annexure K** – Court order and affidavit of the Gregory Godrich's issue

**Annexure L** – Letter from the Machaka Tribal Office on Motumo Trading Post

## **LIST OF ACRONYMS AND ABBREVIATIONS**

**B. Com** – Bachelor of Commerce

**BA** - Bachelor of the Arts

**B-BBEE** – Broad-Based Black Economic Empowerment

**BEE** - Black Economic Empowerment

**CAPEX** – Capital Expenditure

**CoGHSTA** – Cooperative Governance, Human Settlements and Traditional Affairs

**DCF** – Discounted Cash Flow

**DEAT** – Department of Environmental Affairs and Tourism

**DM** – District Municipality

**DPEMS** – Department of Development, Planning and Environmental Management Service

**ECA** – Environment Conservation Act

**EOI** – Expression of Interest

**GOP** – Gross Operating Profit

**GTAC** – Government Technical Advisory Centre

**IDP** – Integrated Development Plan

**IRR** – Internal Rate of Return

**LED** – Local Economic Development

**LEDA** – Limpopo Economic Development Agency

**LEDET** - Limpopo Department of Economic Development, Environment and Tourism

**LM** – Local Municipality

**LTA** – Limpopo Tourism Agency

**LUMS** – Land Use Management System

**MFMA** - Municipal Finance Management Act

**MSA** – Municipal Systems Act

**NCHM** - National Cultural History Museum

**NDT** – National Department of Tourism

**NPAT** – Net Profit After Tax

**OPEX** - Operational Expenditure

**PDA** – Project Development Account

**PFMA** - Public Finance Management Act

**PPP** - Public Private Partnership

**PSC** – Project Steering Committee

**RFPs** - Request for proposals

**ROI** – Return on Investment

**SADC** - Southern African Development Community

**SANRAL** - South African National Roads Agency Limited

**SDF** – Spatial Development Framework

**SMME** - Small, Medium and Micro-sized Enterprises

**VAT** – Value-Added Tax

## 1 INTRODUCTION

Capricorn DM has identified the need to rehabilitate the Motumo Trading Post project which is currently not operational, as a tourist attraction with the envisaged upgrading of the existing structures along the N1 north to Makhado in the Limpopo Province. In light of this, Urban-Econ Development Economists (Pty) Ltd were commissioned by Capricorn DM, as a transactional advisor, to undertake a feasibility study for the project in terms of Section 120 of the MFMA No. 56 of 2003.

### 1.1 Overview of the Motumo Trading Post project

Motumo Trading Post was initiated in 2001 as part of government's vision to stimulate the local economy and create jobs for rural residents.<sup>1</sup> At its conceptual phases, Motumo Trading Post was designed to become a tourism hub that would enable travellers to experience the Batlokwa art and culture. The facility was meant to be a platform on which local traditional artists would showcase and sell their handicraft and other products. The location of this site was thought to be ideally situated for travellers to enjoy the breath-taking rock formations of the Motumo Mountains.

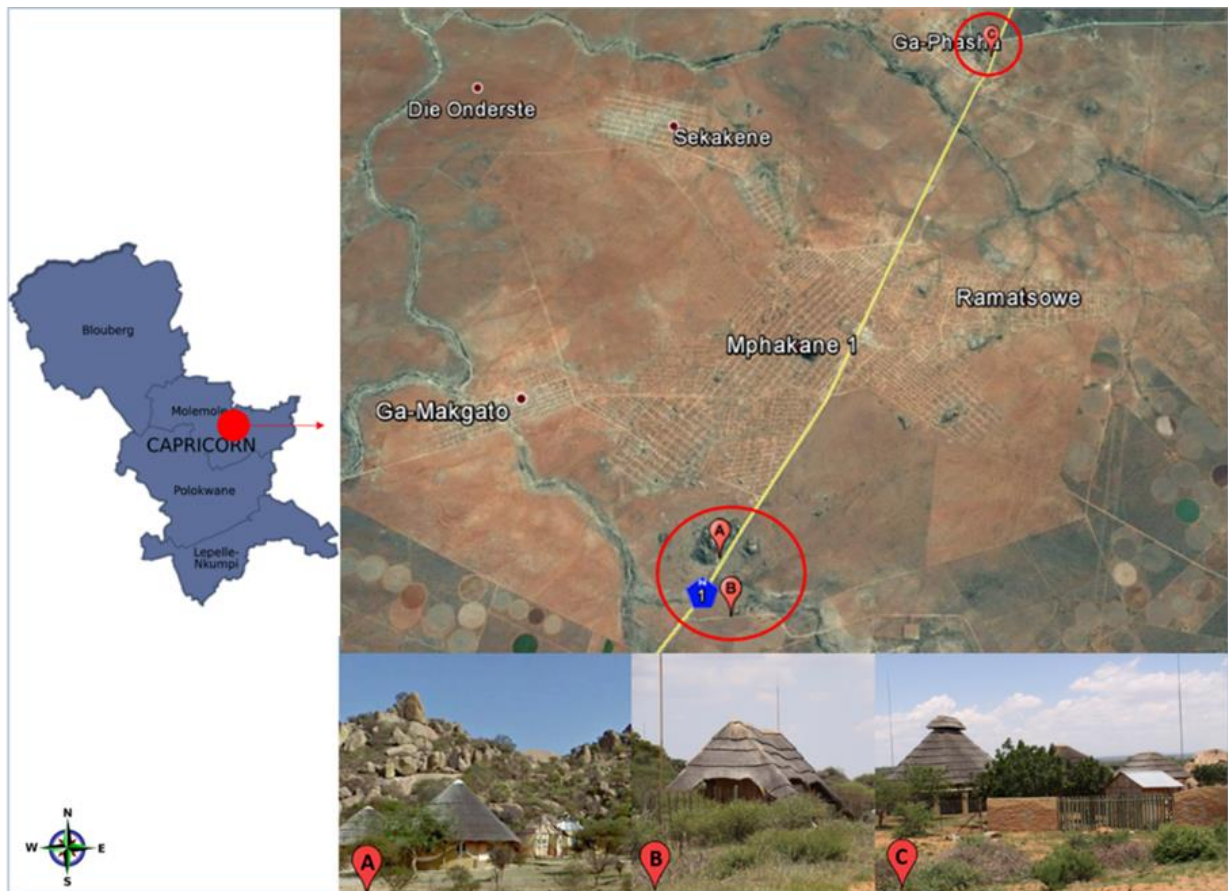
The project strategically lies between Capricorn DM's city of Polokwane and the town of Makhado in the Vhembe DM, along the N1. Motumo Trading Post, although described as one project, consists of three separate sites as discussed below (see Map 1-1).

- A. The Conference Facility** - The conference centre lies at the bottom of the beautiful Motumo Mountains near Matoks and is situated close to the villages of Ga-Makgato and Mphakane. The site is inclusive of a conference facility (with a maximum carrying capacity of two hundred persons), four breakaway rooms with a carrying capacity of forty people, kitchen, a restaurant, workshops, swimming pool, tennis court, clubhouse, lapa and ablution facilities. The structures are thatch-roofed. This facility is located on the farm De Gladde Klipkop 763 LS with title deed T232/1899.
- B. The Machaka Game Lodge** – This 110-hectare nature reserve is situated across the road, on the opposite side of the conference facility. The site includes 11 chalets (i.e. two sleeper) with thatched roofs. The chalets are located on the farm Klipbok 767 LS with title deed T14480/1989.
- C. The Information Centre at the Tropic of Capricorn** – This site (approximately 350m<sup>2</sup>) is a further 10 kilometres from the conference facility to the north of the N1 highway towards the town of Louis Trichardt (Makhado). The information centre comprises of market stalls, an information office, and ablution facilities. The Needle of the Tropic of Capricorn is found here; it is 15-metres high and mounted

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<sup>1</sup> Machaka.E.S.(2012), *Local Economic Development (LED) challenges facing the local government in the Limpopo Province: The case of Motumo Trading Post in the Molemole Local Municipality of the Capricorn District Municipality*, Masters of Development Studies, University of Limpopo.

on a “koppie”. The facility is located on Remaining Extent (R/E) of the Grange 471 LS with title deed T12396/1931.



Map 1-1 Location of the three sections of the project

The project was piloted and funded by the then Department of Environmental Affairs and Tourism (DEAT) between 2006 and 2009. In 2009, the DEAT facilitated the transfer of the DEAT project to the Capricorn DM. The transfer was made with the intention of converting Motumo Trading Post into a profitable business. As such, the Capricorn DM was tasked with ensuring that the project consisting of the three sites, jointly known as Motumo Trading Post, becomes operational. A Memorandum of Agreement was then signed between DEAT and the Capricorn DM stipulating the following:

- Following the transfer of the project, the Capricorn DM shall appoint a private operator at its own cost to capacitate the legal entity created to represent or act on behalf of the community, to operate the assets created through the project profitability, and to also ensure the existence of the profit sharing agreement between the private operator and beneficiaries to which the Capricorn DM shall be party to.
- The district municipality shall create a generally acceptable and enabling environment for the private operator to run the business efficiently, effectively, economically and profitably for a maximum period of 36 months, which is subject to the existence of the legal entity created for and/or on behalf of the beneficiaries

and from the date of the conclusion of the profit sharing agreement which shall include the business and operational plans for the operations of the business and transfer of skills to the legal entity.

- Further, it is recorded, in terms of this agreement that no compensation shall be paid by DEAT to the district municipality for the management of the legal entity created through the project.

All the above requirements were met by Capricorn District Municipality at that time.

In working towards making Motumo Trading Post operational during the 2012/13 fiscal year), Capricorn DM's Department of Development, Planning and Environmental Management Service (DPEMS) sought to transfer Motumo Trading Post to the Molemole Local Municipality on the following grounds:

- The asset base of the local municipality is increased;
- The local municipality would have direct control of the project;
- The local municipality would be in a better position to manage the project, considering its geographical location in relation to the community;
- The local municipality has close relations with the traditional authorities; and
- Job creation and skills transfer takes place.

Following Capricorn DM's call to transfer the project, the Molemole Local Municipality declined the offer due to a lack of capacity to maintain and operate the facility. The local municipality's response was noted by the Council of the Capricorn DM, and as a result, the following recommendations were adopted:

- The district's resolution to transfer the project was rescinded.
- It was suggested that the Capricorn DM explore other business models for operationalisation of the project (e.g. commercialisation).

On or about 6 February 2014 a letter was written by the Machaka Traditional Council ("the Council") to the Executive Mayor of Capricorn DM in relation to the Trading Post and Machaka Game Lodge. The letter records that a meeting was held between the Executive Mayor, his Manager and Secretary and the Council on 5 February where an agreement was reached regarding the Trading Post and Game Lodge. The letter records that the agreement stipulates that, in view of the fact that the properties are dilapidated, the Capricorn DM will refurbish the property and organise a suitable developer to run the business.

## **Objectives**

Considering the above, the Capricorn DM aims to achieve the following objectives:

- To revamp the accommodation facility in the Machaka Nature Reserve;
- To revamp the conference facilities (across the road opposite the Machaka Nature Reserve);
- To revamp and upgrade the information centre at the Tropic of Capricorn;

- To maximise revenue generation for the municipality through provision of goods and services from the local area; and
- To create sustainable jobs for the local community.

## 1.2 Methodology

This feasibility study follows the methodology prescribed by the Toolkit: Municipal PPPs for Private Sector Commercial Use of Municipal Property (referred to as the 'Toolkit' throughout the document), an appendix to the Municipal Service Delivery and PPP Guidelines. According to this Toolkit, the project consists mainly of three phases, namely:

- Phase 1 – Inception (including a pre-feasibility study)
- Phase 2 – Feasibility study
- Phase 3 – Procurement

A pre-feasibility study was to have been conducted during Phase 1: Inception of the project. However, this was not done and the contents of the pre-feasibility study will be covered by Stage 3: Project Due Diligence of this Phase 2 Feasibility study.

The methodology diagram that follows (see Figure 1-1) gives details of the contents of Phase 2 Feasibility study.

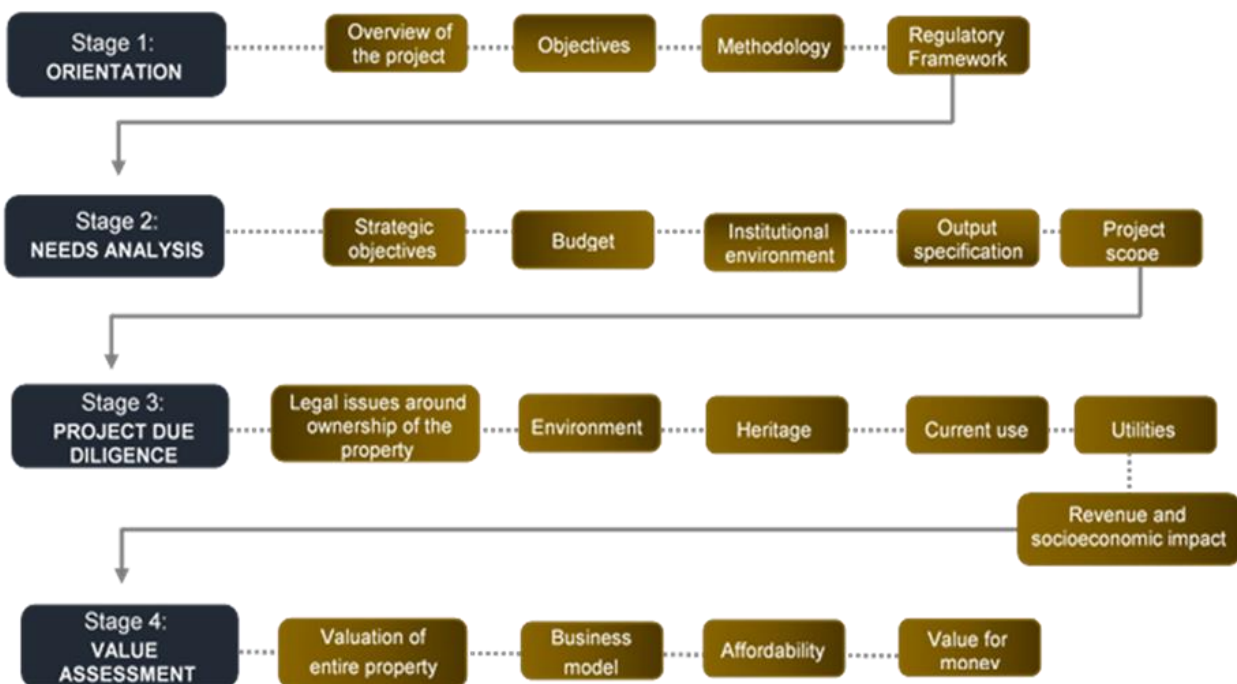


Figure 1-1 Phase 2 Methodology as per the PPP Toolkit

**Phase 2, Stage 1 – Orientation:** This stage lays the foundation to the feasibility study by outlining the background of the study and defining the purpose and scope of the project. The stage entails engaging with the client to achieve a consensus on the goals and objectives of this phase of the project i.e. Phase 2: Feasibility Study.

**Phase 2, Stage 2 – Needs analysis:** Given that the primary goal of the Capricorn DM is to make Motumo Trading Post operational and commercially sustainable, the needs analysis seeks to define the institution’s needs and strategic objectives for the project. This includes:

- Demonstrating that the proposal to make Motumo Trading Post operational is aligned with the Capricorn DM’s strategic objectives;
- Identifying and analysing the possible budget;
- Demonstrating the Capricorn DM’s commitment and capacity; and
- Specifying the projected outputs and defining the scope of the project.

**Phase 2, Stage 3 – Project due diligence:** The due diligence stage is aimed at uncovering any issues that may significantly impact on the proposed project.

**Phase 2, Stage 4 – Value assessment:** This is the pivotal stage of the feasibility study, as it will enable the project team to determine whether a PPP is the best procurement choice for the project. The three tests prescribed by Treasury Regulation 16 to the Public Finance Management Act (PFMA) are:

- a) Is it affordable?
- b) Does it appropriately transfer risk from the institution to the private party?
- c) Does it provide value for money?



### 1.3 Regulatory environment

The following documents, policies and Acts (Table 1-1) were consulted during the process of compiling this report.

Table 1-1 Regulatory Framework

	LOCAL	DISTRICT	PROVINCIAL	NATIONAL
<b>GENERAL</b>	<p>Molemole Local Municipality:</p> <ul style="list-style-type: none"> <li>• LED Strategy</li> <li>• Integrated Development Plan (2016/2017-2020/21)</li> </ul>	<ul style="list-style-type: none"> <li>• Capricorn District Municipality: 2016/17-2021 Final Draft IDP</li> </ul>	<ul style="list-style-type: none"> <li>• Limpopo Provincial Growth and Development Strategy (PGDS)</li> <li>• Limpopo Provincial Spatial Development Framework</li> <li>• Limpopo Development Plan 2015-2019</li> <li>• Limpopo Green Economy Plan, 2013</li> </ul>	<ul style="list-style-type: none"> <li>• National Development Plan (2030)</li> <li>• Spatial Planning and Land Use Management Act 16 of 2013 (SPLUMA)</li> <li>• Municipal Systems Act (No. 32 of 2000)</li> <li>• Municipal Finance Management Act 56 of 2003</li> <li>• Private sector use of municipal lands feasibility study elements</li> <li>• Preferential Procurement Policy Framework (PPPFA) Act no.5 of 2000</li> <li>• Broad-Based Black Economic Empowerment Act 53 of 2003</li> <li>• National Environmental Management Act (No. 107 of 1998)</li> <li>• Treasury Regulations</li> <li>• Public Finance Management Act (No. 1 of 1999)</li> <li>• Environment Conservation Act (No.73 of 1989)</li> </ul>
<b>TOURISM</b>		<ul style="list-style-type: none"> <li>• Review and Development of the Capricorn District Municipality Tourism Growth Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Limpopo Tourism Act No.2: 2009</li> </ul>	<ul style="list-style-type: none"> <li>• Draft Amended Tourism B-BBEEE Sector Codes, June 2015</li> <li>• National Tourism Strategic Plan, 2015/16-2019/20</li> <li>• National Rural Tourism Strategy, 2012</li> <li>• National Heritage and Cultural Tourism Strategy, 2012</li> <li>• National Domestic Tourism Growth Strategy, 2012-2020</li> <li>• National Tourism Medium-Term Strategic Plan, 2011/12/2012-2015/2016</li> <li>• National Tourism and Climate Change Response Programme and Action Plan, 2011</li> <li>• National Minimum Standard of Responsible Tourism (SANS1162), 2011</li> <li>• National Tourism Service Excellence Strategy, 2010</li> <li>• Tourism Act no.3 of 2014</li> <li>• Tourism White Paper of 1996</li> </ul>

## **2 NEEDS ANALYSIS**

The purpose of the needs analysis is to ensure that the proposed project complies with the municipality's strategic objectives as set out in the:

- Integrated Development Plan (IDP) and
- Spatial Development Framework (SDF);
- Asset management plan;
- Local Economic Development (LED) strategy; and
- Tourism Growth and Development Strategy.

### **2.1 Integrated Development Plan**

Chapter 5 of the Municipal Systems Act (MSA) requires municipalities to prepare for an IDP. The core components of the IDP include, among others, the key strategic objectives for the municipality's immovable assets, including land and fixed property.

Section 120 of the MFMA requires that the strategic objectives of the municipality (as set out in the IDP), be considered as part of this feasibility study. Once accounted for, the municipality's strategic objectives will be used as a key point of reference in explaining the strategic and operational benefits of the proposed PPP for the municipality.

In light of this, the Capricorn DM's IDP sets out the following strategic objectives:

- To provide sustainable basic services and infrastructure development;
- To improve spatial development and environmental management;
- To enhance financial viability and management;
- To enhance conditions for economic growth and job creation; and
- To increase the capacity of the district to deliver its mandate.

The Motumo Trading Post is listed as one of the key strategic local economic development projects of the Capricorn DM.

### **2.2 Spatial Development Framework**

In terms of Section 26(e) of the MSA, an IDP must reflect a spatial development framework. The SDF is one of the sectoral plans of an IDP, which seeks to guide the way current and desirable land uses are spatially spread within a municipality to give effect to the strategic objectives of the IDP. The SDF thus identifies opportunities and makes recommendations on where and how future local development and conservation can happen. As such, PPP opportunities in relation to specific municipal properties should be identified in the SDF. Considering that the project falls under both the Capricorn DM and the Molemole LM, SDFs from the two municipalities were consulted to assess the status of the project.

The two SDFs both recognise Motumo Trading Post as a potential tourism attraction. Furthermore, it was also noted that the proposed PPP falls within the scope of the Capricorn DM's SDF as one of the proposed priority projects. The SDF also emphasises the need for Motumo Trading Post to be refurbished and made operational.

The Capricorn DM's IDP and SDF makes reference to the updated Tourism Development Strategy which identifies Motumo Trading Post as one of the six priority projects that need revitalisation. The project is also given the same recognition by the SDF of both the Capricorn DM and the Molemole LM. Furthermore, the project is in line with the goals and objectives of the municipality, especially with respect to the promotion of economic development opportunities, job creation, skills and capacity development.

### **2.3 Asset Management Plan and Register**

Both the movable and fixed assets associated with the project have been recorded in the asset registry of the Capricorn DM. An Asset Management Plan has been prepared as part of this Phase 2 Feasibility Study and are detailed in Annexure C – Condition Assessment and Repair of Existing Infrastructure.

### **2.4 Budget**

It is the intention of the District Municipality to reactivate Motumo Trading Post as a commercially viable and sustainable project through the involvement of a private developer and operator through the public private partnership programme. In this respect, it is not the intention of the municipality to allocate any staff or resources from the Municipality to the project, but for the private sector partner to incur both capital and operating expenditures, and to staff the project appropriately to establish it as a viable commercial operation.

The Capricorn DM therefore does not intend to incur expenditure to operationalise the project other than minor costs such as advertisement expenses related to the publishing of the Terms of Reference for private sector developers to respond to.

It should be noted that the Capricorn DM already accessed funds grand funding from National Treasury for the funding of transactional advisory services for the PPP process currently being undertaken.

### **2.5 Institutional environment**

This section aims to provide an assessment of the internal staff and skills levels to ensure that the proposed PPP is managed optimally to benefit the municipality.

It should be noted that it is not the intention of Capricorn DM to transfer or second any municipal personnel to the Motumo project. The municipal staff is adequately capacitated at present to liaise and manage the monitoring and evaluation of the PPP project on behalf of the municipality with the private sector stakeholder.

### 2.5.1 Responsible Authority

In terms of the proposed PPP, the Municipal Manager is the responsible official to facilitate this PPP procurement process. The Municipal Manager has delegated the responsibility of overseeing and managing the PPP process to the DPEMS Manager. The Operations Manager - Enterprise Development and the Economist are also involved in the project (see Figure 2-1).

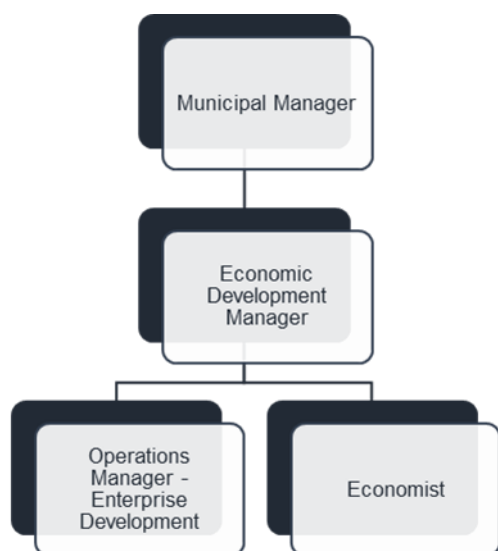


Figure 2-1 Motumo Trading Post – Project Management Team

This project management team is responsible for the day-to-day management of the PPP project (including the management of the advisers) and reporting to the Project Steering Committee (PSC).<sup>2</sup> This team is also responsible for the procurement of the PPP project and the overseeing of the PPP agreement (during the procurement stage) to ensure that all requirements are met.

### 2.5.2 Staff and Skill Levels

The staff complement of the Capricorn DM's DPEMS is sufficiently capacitated to facilitate the project to ensure that the proposed PPP becomes a success. Table 2-1 provides capacity details of the project management team.

Table 2-1 Staff and skills levels

Position	No. of Persons	Qualifications	Years of Experience
Manager: Economic Development	1	Diploma in Local Government and Honours Bachelor of Commerce (B.Com. (Hons)).	23
Operations Manager - Enterprise Development	1	National Teachers Diploma, National in Tourism Management and Bachelor of Arts (BA) degree.	25
Economist	1	Honours Bachelor of Commerce (B.Com. (Hons)).	15

<sup>2</sup> European Investment Bank. (2015). *Set up the project team and governance structure*. Available: <http://www.eib.org/epec/g2g/ii-detailed-preparation/21/211/index.htm>. Last accessed 23rd May 2017.

### 2.5.3 Additional Resources to Procure and Manage the PPP

The intention of the Capricorn DM is that no additional staff or resources of the municipality should be allocated to the PPP process or to the project other than what is already indicated in the previous subsections. All capital expenditure (CAPEX) and operational expenditure (OPEX) on revitalising the project is to be borne by the preferred developer and operator who will be identified in the next phase of the project. As already noted, the existing staff complement of Capricorn DM is adequate to oversee and manage the PPP process and implementation of the project.

### 2.5.4 Stakeholder analysis

The following stakeholders and interested parties have been identified in the proposed PPP (see Table 2-2).

Table 2-2 Stakeholders and interested parties

Stakeholder	Role	Responsibility in the project
<b>KEY STAKEHOLDERS</b>		
National Department of Treasury	The National Department of Treasury is responsible for managing government finances. The department's role includes supporting efficient and sustainable public financial management which is crucial in promoting economic development, good governance, and social progress.	<ul style="list-style-type: none"> <li>• Make provision of funding for the revitalisation of the project.</li> <li>• Registration of the project as a possible PPP.</li> <li>• Appoint a project advisor to assist the project management team in following the Municipal PPP Regulations and taking the project forward.</li> </ul>
Capricorn District Municipality	Capricorn DM is the governing body of the municipal corporation.	<ul style="list-style-type: none"> <li>• Identify the need to rehabilitate the project.</li> <li>• Notify the National Department of Treasury about the need to register the project as a potential PPP project and thereby request for funding to appoint the transactional advisor to assist in this regard.</li> <li>• Create a project management team to liaise with the transactional advisor and other relevant stakeholders about the development of the project.</li> <li>• Liaise with the traditional councils about the status and anticipated plans for the project.</li> <li>• Ensure that the project, as a potential PPP is successfully implemented.</li> </ul>

<b>Stakeholder</b>	<b>Role</b>	<b>Responsibility in the project</b>
Molemole Local Municipality	The local municipality is responsible for developing SDFs that incorporate the LUMS elements to govern spatial development in an area.	<ul style="list-style-type: none"> <li>Engage with the project management team to remain updated on any decisions taken on the project.</li> <li>Receive, assess and authorise (or advise) on any possible land use applications that may come with the project</li> <li>Make provision of utilities (water, electricity, etc.)</li> </ul>
Traditional Councils	Given that the project is situated on a communal land, traditional councils are important stakeholders.	<ul style="list-style-type: none"> <li>Engage with the project management team to keep track of the decisions taken.</li> <li>Act as a bridge between the project management team and the communities. This is especially important in encouraging a positive perception (and discipline) in the community.</li> </ul>
National Department of Public Works	Land owner of the farms De Gladde Klipkop 763 LS (Conference facility) and the Klipbok 767 LS (the Machaka Game Lodge).	<ul style="list-style-type: none"> <li>Grant Capricorn DM the right of use the land for the purposes of the Motumo Trading Post purposes.</li> </ul>
SANRAL	Land owner of the R/E of the Grange 471 LS (the Information Centre at the Tropic of Capricorn)	<ul style="list-style-type: none"> <li>Grant Capricorn DM the right of use the land for the purposes of the Motumo Trading Post purposes.</li> </ul>
<b>INTERESTED PARTIES</b>		
National Department of Tourism (NDT)	NDT is mandated to create conditions for the sustainable growth and development of tourism in South Africa.	<p>NDT has an indirect role to play in the project. Broad responsibilities include:</p> <ul style="list-style-type: none"> <li>Organising platforms such as INDABA so that Motumo Trading Post, as a product, benefits in terms of marketing and recognition.</li> <li>Create, enhance and market tourism products both globally and locally.</li> </ul>
LEDET	LEDET is responsible for promoting economic growth in the province, whilst ensuring the conservation of the environment and positioning the province as a preferred tourism destination within the SADC region.	<p>Specific responsibilities:</p> <ul style="list-style-type: none"> <li>Include Motumo Trading Post in their tourism development strategies.</li> <li>With regards to the Machaka Nature Reserve, LEDET made provision for a number of services,</li> </ul>

Stakeholder	Role	Responsibility in the project
		<p>including installing and maintaining the fencing on the site.</p> <p>General responsibilities:</p> <ul style="list-style-type: none"> <li>• Issuing of environmental authorisations for property development.</li> <li>• Issuing of permits for professional hunting, taxidermy, keeping animals in captivity, possession of protected plants and rehabilitation centres for wild animals.</li> <li>• Issuing of waste management licences for general waste.</li> <li>• Registration of tour guides.</li> </ul>
Limpopo Tourism Agency (LTA)	The mandate of the LTA is to promote, foster and develop tourism within the Limpopo province.	<ul style="list-style-type: none"> <li>• To promote Motumo Trading Post as a tourist destination.</li> <li>• To facilitate community engagement as an essential part of tourism development.</li> <li>• To ensure that the communities in the surrounding areas have access to the social, economic, and environmental opportunities and benefits created by the project.</li> <li>• To ensure that the Machaka Game Reserve is developed, promoted, managed and conserved effectively.</li> </ul>
Limpopo Economic Development Agency (LEDA)	LEDA's primary task is to drive policy implementation through high-impact, catalytic growth projects that will result in inclusive economic development and accelerate and sustain the growth of the provincial economy - so as to create productive and sustainable employment.	<ul style="list-style-type: none"> <li>• To provide business and market intelligence as well as innovative solutions for the benefit of the project.</li> <li>• To identify and package development opportunities and leverage partnerships.</li> </ul>
The Regional Land Claims Commissioner: Limpopo	<ul style="list-style-type: none"> <li>• Finalisation and settlement of land claims</li> <li>• Conducting of research on outstanding land claim</li> <li>• Ensuring that all stakeholders are updated and informed.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide the project management team with information on land claims lodged on the three sites of the project.</li> </ul>

In terms of the planning and implementation of the proposed PPP, it is concluded that the project can be optimally managed with the existing staff complement of the Municipality with the assistance of the key stakeholders. This derived from the fact that a well-experienced project management team has been put in place to execute the project. A successful implementation of the project therefore is dependent on the efforts to be put in by the key stakeholders towards making Motumo Trading Post operational.

### 2.5.5 Communication channels for stakeholders

Communication channels have been established during the feasibility study with all the key stakeholders. There have been several PSC meetings between the transactional advisor, the project advisor and the key stakeholders. Details of these meetings are tabulated below:

Table 2-3 Record of PSC meetings that have taken place

Meeting	Attendees	Organisation	Date	Venue
PSC meeting	• Ms. E. Mashakoe	Capricorn DM	7 December 2016	Motumo Trading Post
	• Mr. S. Maebela	Capricorn DM		
	• Mr. E. De Beer	Urban-Econ		
	• Portfolio Committee Councillors	Capricorn DM		
PSC meeting	Mashakoe E.	Capricorn DM	29 March 2017	Motumo Trading Post
	Maebela S.	Capricorn DM		
	Pheagane D.P.	Capricorn DM		
	Makgoka F.C.M.	Molemole LM		
	Mashotja M.F.	Molemole LM		
	Mokgohloa M.C.	LEDET		
	Ngwetjana K.S.	LEDET		
	Luvhengo T.N.	LEDET		
	De Beer E.	Urban-Econ		
	Lekgothoane D.	Urban-Econ		
	Fourie G.	SMEC		
PSC meeting	Mashakoe E.	Capricorn DM	25 May 2017	Capricorn DM Boardroom 1st floor No 24 Thabo Mbeki Street, Polokwane
	Maebela S.	Capricorn DM		
	Mdletshe T.	National Treasury, GTAC		
	Makgoka F.C.M	Molemole LM		
	Mashotja M.F.	Molemole LM		
	Chauke J.G.	LEDET		



Meeting	Attendees	Organisation	Date	Venue
	Mokgohloa M.C.	LEDET		
	De Beer E.	Urban-Econ		
	Lekgothoane D.	Urban-Econ		
PSC meeting	Mashakoe E.	Capricorn DM	30 June 2017	Capricorn DM Boardroom 1st floor No 24 Thabo Mbeki Street, Polokwane
	Makgoka F.C.M	Molemole LM		
	Motoro M.	LTA		
	Mashotja M.F.	Molemole LM		
	De Beer E.	Urban-Econ		
	Maebela S.	Capricorn DM		
	Makhani J.	LEDA		
	Pheagane D.P.	Capricorn DM		
	Ngwetjana K.S.	LEDET		
PSC meeting	De Beer E.	Urban-Econ	28 July 2017	Capricorn DM Boardroom 1st floor No 24 Thabo Mbeki Street, Polokwane
	Ngwetjana K.S.	LEDET		
	Mashotja M.F.	Molemole LM		
	Makgoka F.C.M	Molemole LM		
	Pheagane D.P.	Capricorn DM		
	Maebela S.	Capricorn DM		
	Mashakoe E.	Capricorn DM		
	Lekgothoane D.	Urban-Econ		
Technical Consultation Workshop and PSC meeting	Mashakoe E.	Capricorn DM	25 August 2017	Capricorn DM Boardroom 1st floor No 24 Thabo Mbeki Street, Polokwane
	Ngoasheng T.	LEDET		
	Makhubele P.	CoGHSTA		
	Makgoka F.C.M.	Molemole LM		
	Ngwetjana S.	LEDET		
	Pheagane D.P.	Capricorn DM		
	Mokgonyana M.	Capricorn DM		
	Mazibuko N.	Capricorn DM		
	Mashotja M.F.	Molemole LM		
	Phahladira S.	Capricorn DM		
	De Beer E.	Urban-Econ		
	Du Plessis C.	Urban-Econ		
	Lekgothoane D.	Urban-Econ		

Further communication with the key stakeholders will continue to take place through meetings and workshops.

It is to be noted that communication between the District Municipality and the Traditional Councils takes place through a committee of Municipal Councillors established for this purpose.

## 2.6 Output specification

This section defines the vision, goals and objectives of Motumo Trading Post (Table 2-4). The section also defines the scope of the proposed PPP project as well as the socio-economic targets as per the Amended Tourism B-BBEE Sector Code.

Table 2-4 Vision, goals and objectives for Motumo Trading Post

<b>Vision Statement</b>	
To transform Motumo Trading Post into a profitable tourism node so that it is economically, socially and environmentally sustainable.	
<b>Project Goals</b>	<b>Strategic Objectives</b>
1. To get value for assets associated with the project	To achieve sustainable profit generation within the first three years of operation.
2. To create employment opportunities based on the viability of the project	<ul style="list-style-type: none"> <li>• Provision of economic opportunities.</li> <li>• Reserve all low-medium skills job opportunities for beneficiaries (i.e. members of the surrounding communities).</li> </ul>
3. To provide skills development and training for beneficiaries	Provide beneficiaries with skills development workshops and training so as to increase their financial capacity.
4. To improve spatial development and environmental management	<ul style="list-style-type: none"> <li>• To renovate and provide the three properties of the project with the necessary utilities prior to the first-year of operation.</li> <li>• To promote ecotourism by conserving the Machaka Game Reserve.</li> </ul>
5. To attract international and domestic tourists	To draw at least 200 000 domestic and international tourists to Motumo Trading Post within the first three years of operation, by creating and enhancing tourism products associated with the project.

### 2.6.1 Project scope

The primary objective of the proposed PPP is to revamp the Motumo Trading Post by turning it into an economic and commercially sustainable asset. Summarised below is a list of the primary objectives for the project relative to the three properties of the project.

- To revamp and upgrade the conference facility;
- To revamp and upgrade the Machaka Nature Reserve;
- To revamp and upgrade the information centre at the Tropic of Capricorn;
- To maximise revenue generation for the municipality; and
- To create sustainable jobs.

Considering this, Table 2-5 defines the scope of the project as outlined in the Terms of Reference.

Table 2-5 Scope of the project

Project sites	Project Scope
Conference Facility	<p>The scope of the project, for the conference facility, entails upgrading of the following existing structures:</p> <ul style="list-style-type: none"> <li>• Conference centre;</li> <li>• Breakaway rooms;</li> <li>• Kitchen;</li> <li>• Restaurant;</li> <li>• Tennis court;</li> <li>• Lapa;</li> <li>• Ablution facilities; and</li> <li>• Workshops</li> </ul> <p>The newly upgraded facility will have:</p> <ul style="list-style-type: none"> <li>• access to an adequate supply of water and electricity;</li> <li>• upgraded fencing; and</li> <li>• additional refurbishments on the structures.</li> </ul>
Machaka Game Reserve	<p>The nature reserve needs to be refurbished by undertaking the following activities:</p> <ul style="list-style-type: none"> <li>• Upgrading the 11 chalets – This includes making provision for furniture and accompanying equipment;</li> <li>• Upgrading the swimming pool;</li> <li>• Patching of the fence;</li> <li>• Provision of animals (game); and</li> <li>• Landscaping.</li> </ul>
Information Centre at Tropic of Capricorn	<p>The following structures, on the site, need to be revamped:</p> <ul style="list-style-type: none"> <li>• Market stalls;</li> <li>• An information office; and</li> <li>• Ablution facilities.</li> </ul>

NOTE: A comprehensive list of all assets and structures are available in Annexure C.

In working towards fulfilling the scope of the project, the following anticipated development responsibilities of the municipality and the private party must be taken into consideration.

**a) Anticipated development responsibilities of the Capricorn DM:**

- Procure the PPP project and oversee the PPP agreement to ensure that all requirements are met.
- Create a generally acceptable and enabling environment for the private party to operate the business efficiently, effectively, economically and profitably.
- Ensure that the Black Economic Empowerment (BEE) and social development targets are met.

- Ensure the existence of the profit sharing agreement between the private party and beneficiaries to which the municipality are party shall be party to.

**b) Anticipated development responsibilities of the private developer and operator:**

- Revitalisation and operationalisation of Motumo Trading Post.
- Day-to-day management of the operations of the project as per the PPP agreement to be put in place.
- To comply with the requirements of the tourism sector scorecard.

**Anticipated milestones**

Once the PPP project is procured, a formal relationship will be established between the Capricorn DM and a reputable private party for the operation of Motumo Trading Post. The two parties are expected to work together in a harmonious and systematic fashion. The key outcomes of this partnership include:

- Formal agreements
- Agreed output
- Agreed cost of output
- Agreed modalities of payment

**2.6.2 BEE and social development targets of the project**

The purpose of this subsection is to ensure that the proposed PPP contributes to BEE and social development. This is aimed at promoting access to the economy for the previously disadvantaged communities (particularly black people in the surrounding communities of the Motumo Trading Post).

The BEE and social development targets, for this project, should be aligned with the provisions of the Amended Tourism B-BBEE Sector Code. This Code identifies five B-BBEE elements that are applicable to the proposed PPP (see Table 2-6)<sup>3</sup>. These targets can be achieved within the first three years of operation.

Table 2-6 Provisions of the Amended Tourism B-BBEE Sector Code – compliance targets

Element	Compliance Targets
Ownership	In order to score maximum points under the ownership element, a measured entity is required to meet the following compliance targets: <ul style="list-style-type: none"> <li>• 30% of exercisable voting rights and economic interest in the hands of black people;</li> <li>• 15% of exercisable voting rights and economic interest in the hands of black women;</li> <li>• 3% of economic interest in the hands of black designated groups, black participants in Employee Share Ownership programme, black people in Broad-Based Ownership Schemes and co-operatives; and</li> </ul>

<sup>3</sup> NDT (2016), *Easy Guide for the Amended Tourism B-BBEE Sector Code*, National Department of Tourism, Pretoria.

Element	Compliance Targets
	<ul style="list-style-type: none"> <li>• 10% in the hands of black new entrants</li> <li>• Compliance with the net value principles.</li> </ul>
Management Control	<p>In order to score maximum points under the management control element, a measured entity is required to meet the following compliance targets:</p> <ul style="list-style-type: none"> <li>• 50% for board participation;</li> <li>• 60% for other executive management;</li> <li>• 60% for senior management;</li> <li>• 75% for middle management;</li> <li>• 80% for junior management; and</li> <li>• 2% for employees with disabilities.</li> </ul>
Skills Development	<p>In order to score maximum points under the skills development element, a measured entity is required to meet the following compliance targets:</p> <ul style="list-style-type: none"> <li>• 6% on skills development expenditure;</li> <li>• 0.3% on skills development expenditure for black people with disabilities;</li> <li>• 3.5% on the number of black employees participating in learnerships, apprenticeships and internships; and</li> <li>• 3% on the number of black unemployed learners participating in learnerships, apprenticeships and internships.</li> </ul>
Enterprise and Supplier Development	<p>To score maximum points under the enterprise and supplier development element, a measured entity is required to meet the following compliance targets:</p> <ul style="list-style-type: none"> <li>• 80% on preferential procurement;</li> <li>• 3% of Net Profit After Tax (NPAT) on supplier development; and</li> <li>• 0.5% of NPAT on enterprise development.</li> </ul>
Socio-Economic Development	<p>In order to score maximum points under the socio-economic development element, a measured entity is required to contribute at least 1% of NPAT annually on qualifying socio-economic development programmes.</p>

## 2.7 Conclusion

This needs analysis has demonstrated that the proposed PPP for Motumo Trading Post is aligned with the Capricorn DM's strategic objectives as set out in the IDP, SDF, Capricorn DM's LED and Tourism Growth Strategy. The assessment also reflected the municipality's capacity and resources to manage the PPP agreement. As such, it can be concluded that the project management team together with other key stakeholders and interested parties have sufficient capacity to plan and implement the project. Furthermore, the assessment has also highlighted that the success of the proposed PPP is in the best interest of the municipality both financially and socioeconomically.

### 3 PROJECT DUE DILIGENCE

The purpose of the project due diligence is to uncover any issues that may significantly impact on the proposed project. This includes issues around ownership, environment, heritage, current use, revenue and socioeconomic impact.

#### 3.1 Ownership of Motumo Trading Post

In working towards unpacking the ownership of the project, a legal team (i.e. Hewu Inc. Attorneys) was brought on board to address the following key questions and concerns:

- Who are the owners of the three Motumo Trading Post properties?
- Are there any conditions that restrict the use of the land for the purposes of Motumo Trading Post?
- If not in the ownership of the municipality, do the properties need be transferred to them before the Capricorn DM can go into contractual PPP agreements?
- If yes, what processes need to be followed to achieve the transfer (from one government level to another)?
- If not, are there any other conditions or agreements that must be put into place before the Capricorn DM can enter into PPP agreements with prospective developers and operators of the facilities on the properties?
- Do any of the three traditional councils have any rights or claims to the land? And if so, what are the rights and implications for the Capricorn DM to enter into PPP agreements?
- With respect to the matter related to Gregory Godrich, provide a legal opinion on whether he may still have claims on the municipality, or any other institution, for the apparent losses suffered, and what the nature of such claim may be.

The properties investigated are tabulated below.

Table 3-1 Property descriptions

Property Description	Title Deed No.	Project Site
De Gladde Klipkop 763 LS	T232/1899	Conference Facility
Klipbok 767 LS	T14480/1989	Machaka Nature Reserve
Remaining Extent (R/E) of the Grange 471 LS	T12396/1931	Information Centre at the Tropic of Capricorn

The subsections below provide a summary of the key findings as reflected in the legal team's report.

### **3.1.1 Ownership of the three properties of Motumo Trading Post**

#### **De Gladde Klipkop 763 LS and Klipbok 767 LS**

An examination of the title deeds revealed that the farm portions De Gladde Klipkop 763 LS and Klipbok 767 LS are both registered in the name of the Republic of South Africa. All land that is held on behalf of the Republic of South Africa is administered by the National Department of Public Works.

#### **Remaining Extent of Farm the Grange 471 LS**

Remaining Extent of Farm the Grange 471 LS (tropic of Capricorn held under Title Deed T12396/1931 is registered in the name of the SANRAL and was expropriated on 6 August 2004.

### **3.1.2 Restrictions in the use of land for the purposes of Motumo Trading Post**

There are no restrictions of title on De Gladde Klipkop 763 LS and Klipbok 767 LS. The only other rights reserved are the mineral rights which are reserved in favour of the National Government. Additionally, it is also noted that the title deeds do not reflect any conditions that can potentially prevent the use of the properties and the land for purposes of the Motumo Trading Post.

A servitude is registered in favour of Eskom over the Remaining Extent of Farm the Grange 471 LS.

In terms of the Molemole LM Land Use Management Scheme, which was prepared in terms of the provisions of Section 18 of the Town Planning and Townships Ordinance 1986 (Ordinance No.15 of 1986), the three properties of the Motumo Trading Post are zoned as 'Agricultural'. For Motumo Trading Post to legally operate on the land the Molemole Local Council must agree in terms of a Consent Application to the use of the land as intended. Application for such Consent of the Council is currently being prepared in August 2017.

### **3.1.3 Transfer of the properties to Capricorn DM**

#### **De Gladde Klipkop 763 LS and Klipbok 767 LS**

Legal opinion indicates that, since the District Municipality is one of the spheres of government, there is no legal necessity for the land to be transferred to the municipality. Even if the land is left in the ownership of the National Government, the Capricorn DM can conclude an agreement with the National Government in terms of which the municipality will administer the land on its behalf, including concluding PPP agreements with interested parties.

#### **Remaining Extent of Farm the Grange 471 LS**

A response is being awaited from South African National Roads Agency Ltd with respect to the ownership of the Tropic of Capricorn site, the use of the land and the transfer of the land to Capricorn District Municipality.

In terms of the Memorandum of Agreement concluded between the DEAT and the Capricorn DM, the project assets have been transferred to the municipality with the intention of converting the assets into a profitable business. Legal opinion states that the Memorandum of Agreement is sufficient to enable the Capricorn DM to call for, and conclude, PPP agreements. The memorandum specifically allows the Capricorn DM to appoint a private operator to manage the assets created by the project. This gives the municipality the legal authority to conclude PPP agreements.

In spite of the above legal opinion, application has been made to the Department of Public Works and SANRAL to determine the ability of Capricorn DM to use the land for the purposes Motumo Trading Post. A formal response from the Department and SANRAL are being awaited as at August 2017.

#### **3.1.4 Agreements to be put in place before Capricorn DM enters into a PPP**

With respect to the ownership of the land, formal understandings and agreements will need to be put into place between the District Municipality and the Department of Public Works and SANRAL for the use of the land.

A Memorandum of Understanding (between the Capricorn DM and the three Traditional Councils) will be necessary for the continuous long-term operation of the project.

#### **3.1.5 Traditional councils' rights or claims on the land**

Legal opinion is that the Traditional Councils have no legal claim to the land since they are not the title holders. However, agreements between the Capricorn DM and Traditional Council(s) (e.g. see Annexure L) state that the land will be utilised for the purposes of enhancing the socioeconomic status with the inclusion of job creation for the local communities.

#### **3.1.6 The claim of Gregory Godrich**

The Machaka Development Trust entered into an (illegal) agreement with Mr. Gregory Godrich in July 2006. The agreement stipulated that Mr. Godrich would run the Machaka Game Lodge for a period of 20 years subject to the agreement being renewed at the expiration period. Following this agreement, Mr. Godrich built the 11<sup>th</sup> chalet on the game lodge from his own funds which he occupied with his family.


On the 2<sup>nd</sup> March 2012, Mr. Godrich was requested by members of the Traditional Council to vacate the premises of the game lodge without any prior notice given to him. Further, members of the Council did not allow him to take his belongings. An urgent court order was then obtained (on 6<sup>th</sup> March 2012) ordering the members of the trust to allow Mr. Godrich access to the game lodge to repossess his personal belongings. This having been executed, legal opinion is that Mr. Godrich have no further claims on the Municipality, or any other institution, for the apparent losses suffered.



### 3.2 Town planning

In terms of the Molemole LM Land Use Management Scheme, which was prepared in terms of the provisions of Section 18 of the Town Planning and Townships Ordinance 1986 (Ordinance No.15 of 1986), the three properties of the Motumo Trading Post are zoned as 'Agricultural'. Table 3-2 provides lists the land uses associated with agricultural zoning.

Table 3-2 A snapshot of the Molemole Land Use Scheme

Use zone	Notation on Map (A Series)	TABLE "A"			
		Uses permitted	Uses/rights permitted only with the special consent of the local municipality (Clause 20)	Uses/rights permitted only with the written consent of the local municipality (Clause 21)	Uses/rights not permitted
1	2	3	4	5	6
10. Agricultural	 [Colour – i.e. light brown]	Dwelling unit		Additional dwelling unit	Other uses not permitted in Columns 3,4 & 5
		Agricultural use			
		Farm settlement			
		Nature conservation area			
		Guest house			
		Institution			
		Kennels			
		Nursery			
		Place of instruction			
		Place of public worship			
		Place of refreshment			
		Recreation			
		Social hall			
				Household enterprise	
		Farm stall		Rural General Dealer	
		Tea garden			
		Mining			
Caravan park					
Telecommunication mast					

Source: Molemole LM (2006)

Due to the agricultural land-use zoning of the sites, an application for Consent Use in terms of clause 20 of the Molemole Land-Use Scheme must be submitted to the local municipality to satisfy the town planning legislation which currently imposes restrictions on the use of the three properties.

### **3.3 Land claims**

The Commission of Restitution of Land Claims (thereby referred to as the Commission) has confirmed that no land claims appear on its database (as at the date: 25 July 2017) in respect of the two properties De Gladde Klipkop 763 LS and Klipbok 767 LS (see Annexure G). This includes the database for claims lodged by 31 December 1998; and those lodged between 1 July 2014 and 27 July 2016 in terms of the Restitution of Land Rights Amendment Act, 2014.

However, the Commission indicated that a restitution land claim has been lodged prior 1998 on the R/E of the Grange 471 LS (i.e. the Tropic of Capricorn centre). The claim has not yet been processed and feedback on the exact status and implications of the land claim for Motumo Trading Post is being awaited.

### **3.4 Environment**

The provisions of the Environment Conservation Act No.73 of 1989 (ECA) were considered at the inception phases of Motumo Trading Post. As such, a Record of Decision in terms of Section 22 of the ECA was obtained with regard to Phase One of Motumo Trading Post. The following project specific conditions were extracted from the Record of Decision.

- This authorisation refers only to the activity as specified and described as the development centre at Motumo Trading Post. Any other development associated with this project and listed under Section 21 of ECA is not covered by this authorisation and must therefore comply with the requirements of the Act and Government Notice R 1183.
- The mitigation measures proposed may be altered, where monitoring and auditing of the construction and operation of the project show this to be beneficial. Any alterations shall be subject to approval by this department.
- If red data fauna or flora occurs on the development area, it must be demarcated as no-go areas for construction workers.
- Construction camps are known to have the tendency of impacting negatively on the environment. Criteria must be developed to determine the suitability of various sites for construction camps along the development area. Open fires must not be allowed in the construction camp.
- The mixing of chemicals and other materials must be done in designated areas, concrete aprons or protected linings, with necessary provision made to contain spillage and overflows. The residues of these materials must be removed and the area rehabilitated once the work has been completed.
- Records of monitoring and/or auditing must be made available for inspection to any relevant authority inspecting the development and maintenance.
- All waste generated on site during the construction of the development shall be stored, handled and disposed of in an environmentally acceptable way, and as directed by this department or any other relevant authority.

- Maintenance of this structure shall adhere to the principles of Integrated Environmental Impact Management.
- In the event of non-compliance by any contractor implicated in this activity, Machaka Traditional Council will be held liable.
- The principles of sustainability and the principle of tread lightly must be implemented throughout the life cycle of the project.
- In the event of non-compliance by the contractor, Machaka Traditional Council must institute a penalty.
- Vehicle access to the development must as far as possible be limited to existing roads. New access roads will be subjected to separate assessment including inspection and reporting by a qualified botanist.
- New drifts and bridges for access purposes shall only be considered after consultation with this department.

The conditions stipulated above have been adhered to during and after the construction of Phase One of the project.

No record could be found to date of a Record of Decision having been issued for phase two of the Motumo Trading Post project. The Capricorn DM prompted the LEDET to investigate whether a Record of Decision was necessary for phase 2 of the project. This was done on the 6th of September 2017 at the Motumo Trading Post. Key findings of this investigation will determine a way forward on the matter.

### **3.5 Heritage**

During the inception phase of the project, the National Cultural History Museum (NCHM) conducted archaeological excavations at sites on the Motumo Trading Post. The primary purpose of this investigation was to determine the impact of the development (i.e. Motumo Trading Post) on the cultural heritage in the area. Following this investigation, the report '*The archaeological investigation of historical and iron age sites on the farm De Gladde Klipkop 763 LS, Sekgosese*' was produced. In this report, the NCHM presented recommendations relative to heritage considerations. These are highlighted below:

- Firstly, it is recommended that plans to develop Motumo Trading Post be continued – the report suggests that ample information and objects have been recovered from the project sites.
- Preservation of local people's heritage – it is recommended that a display at the Motumo Trading Post (e.g. at the information centre) will help to inform and educate the local inhabitants about their past, while also contributing to the attractiveness of the sites as a tourism destination.

The project team is therefore advised to take these recommendations into account when implementing the proposed PPP project.

### 3.6 Utilities

The proposed PPP project relies on the Molemole Local Municipality to make provision of the following services:

- Electricity supply;
- Refuse removal.

Other utilities including water and sanitation will be self-supplied on each site and water tanks have been installed on the Motumo Trading Post sites.

### 3.7 Occupation of the site

The three properties of Motumo Trading Post are not occupied by any person or community.

### 3.8 Current use, revenue and socioeconomic impact

Even though Motumo Trading Post is currently not operational (i.e. there is no activity taking place on the different sites), the three properties have assets that can potentially generate income if utilised optimally. Table 3-2 summarises the main assets identified while Annexure C – Condition Assessment and Repair of Existing Infrastructure provides a comprehensive listing of all fixed assets on the three sites.

Table 3-3 Potential income-revenue generating assets at the Motumo Trading Post

Project site	Potential revenue-generating assets
Conference Facility	Conference venue
	Restaurant
	22 chalets (used by SMMEs at workshops)
	Clubhouse
	Lapa
Information Centre	Market stalls
Machaka Nature Reserve	Nature reserve
	Accommodation facility

In terms of socio-economic impact, the proposed PPP project is expected to yield the following benefits:

- Provision of skills development and training for beneficiaries;
- Creation of employment opportunities for locals;
- Preservation of heritage, culture and local customs;
- Growth in income; and
- Business opportunities for local SMMEs.

## 4 VALUE ASSESSMENT

This section seeks to ensure optimal use of the properties of Motumo Trading Post for the proposed PPP. This is done by undertaking a valuation of all the properties, based on anticipated use (see Table 4-1).

Table 4-1 Anticipated use of the properties 'as if improved'

Project Site	Anticipated use of the site 'as if improved'
Conference Facility	<ul style="list-style-type: none"><li>• Conferencing and banqueting</li><li>• Renting of the chalets for SMME workshops</li><li>• Renting of the clubhouse (includes access to the swimming pool and tennis court)</li></ul>
Machaka Nature Reserve	<ul style="list-style-type: none"><li>• Operating the nature reserve</li><li>• Accommodation facility</li></ul>
Information Centre	<ul style="list-style-type: none"><li>• Provision of information services</li><li>• Promotion and selling of handicrafts</li></ul>

### Key note

The value of the three properties will be determined by using the following tests for highest and best use:

- Is it legally allowable?
- Is it financially feasible?
- Does it result in maximum profitability?
- Does it achieve high socioeconomic benefits for the municipality?

### 4.1 Legal status

Only land-uses that fully complies with all municipal requirements may be considered as potential highest and best uses. As such, the Special Consent Use application with the Molemole Local Municipality needs to be finalised.

All other legislative requirements will have to be adhered to including obtaining approved building plans and environmental Records of Decision for the intended development.

### 4.2 Financial feasibility of the project

A project is financially feasible if it generates enough revenue to justify the costs of improvements plus a profit for the private party and the municipality. For the purposes of the proposed PPP for Motumo Trading Post, a discounted cash flow (DCF) analysis

has been used to value the financial viability of the three properties. The DCF model was built on the following parameters:

- Value assessment is based on the current developments on the site. No provision is made for new developments or alternative usages of the sites;
- Capital Cost estimations to restore the projects to its original state were derived from *Annexure C – Condition Assessment and Repair of Existing Infrastructure*. A total CAPEX of R4 575 000 has been calculated for revamping the three project sites;
- An escalation rate of 10% is applied;
- Existing land costs are R0.00;
- The assets associated with the proposed PPP project will be returned to the Capricorn DM after 10 years at no cost; and
- Motumo Trading Post will be available to the private sector developer and operator for a period of ten years. Before being returned to the District Municipality

An annual financial assessment can be found in the accompanying Annexure D and Table 4-1 below. Table 4-2 below represents a 10-year financial plan of the DCF model.

The following main deductions were drawn from the DCF model:

Break-even point reached after	3 years
% Return on initial investment over 10 years	716
Total income of Capricorn DM over 10 years	R 3,274,160.91
Average income of Capricorn DM per year	R 327,416.09

Based on the financial estimates, the Motumo Trading Post project can be deemed to be financially viable and holds in a positive financial value for the municipality.

- The total revenue generated between the first and tenth year of operation exceeds the CAPEX value.
- The total net profit generated by the business increases from 0.97% in the first year up to 26.25% in the tenth year of operation. This implies that the business is profitable.

Table 4-1 Financial Model – Annual plan

	Parameter	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	YTD
<b>REVENUE - MOTUMO TRADING POST</b>														
	Parameter	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	YTD
Conference Facility		674,205	656,150	674,205	656,150	674,205	674,205	656,150	674,205	656,150	674,205	674,205	620,040	7,964,075
Nature Reserve		363,499	358,457	363,499	358,457	363,499	363,499	358,457	363,499	358,457	363,499	363,499	374,530	4,352,846
Information Centre		17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	210,000
<b>TOTAL REVENUE</b>		<b>1,055,204</b>	<b>1,032,107</b>	<b>1,055,204</b>	<b>1,032,107</b>	<b>1,055,204</b>	<b>1,055,204</b>	<b>1,032,107</b>	<b>1,055,204</b>	<b>1,032,107</b>	<b>1,055,204</b>	<b>1,055,204</b>	<b>1,012,070</b>	<b>12,526,921</b>
<b>INPUT COSTS - MOTUMO TRADING POST</b>														
	Parameter	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	YTD
Conference Facility		197,830	192,933	197,830	192,933	197,830	197,830	192,933	197,830	192,933	197,830	197,830	183,137	2,339,679
Nature Reserve		3,188	3,188	3,188	3,188	3,188	3,188	3,188	3,188	3,188	3,188	3,188	3,188	38,257
Information Centre		6,688	6,688	6,688	6,688	6,688	6,688	6,688	6,688	6,688	6,688	6,688	6,688	80,250
<b>INPUT COSTS</b>		<b>207,706</b>	<b>202,808</b>	<b>207,706</b>	<b>202,808</b>	<b>207,706</b>	<b>207,706</b>	<b>202,808</b>	<b>207,706</b>	<b>202,808</b>	<b>207,706</b>	<b>207,706</b>	<b>193,013</b>	<b>2,458,186</b>
<b>OPERATING COSTS - MOTUMO TRADING POST</b>														
	Parameter	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	YTD
Conference Facility		312,470	311,369	312,470	311,369	312,470	312,470	311,369	312,470	311,369	312,470	312,470	309,166	3,741,931
Nature Reserve		310,827	210,944	211,211	210,944	211,211	211,211	210,944	211,211	210,944	211,211	211,211	211,796	2,633,665
Information Centre		116,500	72,242	72,242	72,242	72,242	72,242	72,242	72,242	72,242	72,242	72,242	72,242	1,028,252
<b>TOTAL OPERATING COSTS</b>		<b>739,797</b>	<b>594,554</b>	<b>595,923</b>	<b>594,554</b>	<b>595,923</b>	<b>595,923</b>	<b>594,554</b>	<b>595,923</b>	<b>594,554</b>	<b>595,923</b>	<b>595,923</b>	<b>593,203</b>	<b>7,403,848</b>
<b>GROSS OPERATING PROFIT</b>		<b>107,701</b>	<b>234,745</b>	<b>251,575</b>	<b>234,745</b>	<b>251,575</b>	<b>251,575</b>	<b>234,745</b>	<b>251,575</b>	<b>234,745</b>	<b>251,575</b>	<b>251,575</b>	<b>225,854</b>	<b>2,664,888</b>
<b>GOP %</b>		<b>10%</b>	<b>23%</b>	<b>24%</b>	<b>23%</b>	<b>24%</b>	<b>24%</b>	<b>23%</b>	<b>24%</b>	<b>23%</b>	<b>24%</b>	<b>24%</b>	<b>22%</b>	<b>21%</b>

	Parameter	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	YTD
<b>NON DIRECT EXPENDITURE</b>														
<b>Fixed Management Fee</b>	5%	5,385	11,737	12,579	11,737	12,579	12,579	11,737	12,579	11,737	12,579	12,579	11,293	139,099
<b>Interest and Capital on Mortgage Bond</b>		63,386	63,386	63,386	63,386	63,386	63,386	63,386	63,386	63,386	63,386	63,386	63,386	760,627
<b>TOTAL NON DIRECT EXPENDITURE</b>		<b>68,771</b>	<b>75,123</b>	<b>75,964</b>	<b>75,123</b>	<b>75,964</b>	<b>75,964</b>	<b>75,123</b>	<b>75,964</b>	<b>75,123</b>	<b>75,964</b>	<b>75,964</b>	<b>74,678</b>	<b>899,726</b>
<b>NETT PROFIT</b>		<b>38,930</b>	<b>159,622</b>	<b>175,611</b>	<b>159,622</b>	<b>175,611</b>	<b>175,611</b>	<b>159,622</b>	<b>175,611</b>	<b>159,622</b>	<b>175,611</b>	<b>175,611</b>	<b>151,175</b>	<b>1,765,162</b>
<b>% NETT PROFIT</b>		3.69	15.47	16.64	15.47	16.64	16.64	15.47	16.64	15.47	16.64	16.64	14.94	14.09

Table 4-2 Initial Draft: Financial Model – 10 Years plan

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
<b>REVENUE</b>	<b>R 12,526,921</b>	<b>13,779,613.59</b>	<b>15,157,574.94</b>	<b>16,673,332.44</b>	<b>R 18,34665.68</b>	<b>20,174,732.25</b>	<b>22,192,205.48</b>	<b>24,411,426.02</b>	<b>26,852,568.63</b>	<b>29,537,825.49</b>
<b>INPUT COSTS</b>	<b>R 2,458,186</b>	<b>2,704,004.24</b>	<b>2,974,404.67</b>	<b>R 3,27,845.14</b>	<b>3,599,029.65</b>	<b>3,958,932.61</b>	<b>4,354,825.88</b>	<b>4,790,308.46</b>	<b>5,269,339.31</b>	<b>5,796,273.24</b>
<b>OPERATIONAL COSTS</b>	<b>R 7,403,848</b>	<b>8,144,232.36</b>	<b>8,958,655.59</b>	<b>9,854,521.15</b>	<b>10,839,973.27</b>	<b>11,923,970.59</b>	<b>13,116,367.65</b>	<b>14,428,004.42</b>	<b>15,870,804.86</b>	<b>17,457,885.34</b>
<b>GROSS OPERATING PROFIT</b>	<b>R 2,664,888</b>	<b>2,931,376.99</b>	<b>3,224,514.68</b>	<b>3,546,966.15</b>	<b>3,901,662.77</b>	<b>4,291,829.05</b>	<b>4,721,011.95</b>	<b>5,193,113.14</b>	<b>5,712,424.46</b>	<b>6,283,666.91</b>
<b>% GOP</b>	21.27	21.27	21.27	21.27	21.27	21.27	21.27	21.27	21.27	21.27
<b>NON DIRECT EXPENDITURE</b>										
<b>Fixed Management Fee</b>	<b>R 133,244.41</b>	<b>R 146,568.85</b>	<b>R 161,225.73</b>	<b>R 177,348.31</b>	<b>R 195,083.14</b>	<b>R 214,591.45</b>	<b>R 236,050.60</b>	<b>R 259,655.66</b>	<b>R 285,621.22</b>	<b>R 314,183.35</b>
<b>Interest and capital on</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>	<b>R 760,627.24</b>



	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Mortgage Bond										
<b>NON DIRECT EXPENDITURE</b>	<b>R 893,872</b>	<b>R 907,196</b>	<b>R 921,853</b>	<b>R 937,976</b>	<b>R 955,710</b>	<b>R 975,219</b>	<b>R 996,678</b>	<b>R 1,020,283</b>	<b>R 1,046,248</b>	<b>R 1,074,811</b>
<b>NETT PROFIT</b>	<b>R 1,771,017</b>	<b>R 2,024,181</b>	<b>R 2,302,662</b>	<b>R 2,608,991</b>	<b>R 2,945,952</b>	<b>R 3,316,610</b>	<b>R 3,724,334</b>	<b>R 4,172,830</b>	<b>R 4,666,176</b>	<b>R 5,208,856</b>
% NETT PROFIT	14.14	14.69	15.19	15.65	16.06	16.44	16.78	17.09	17.38	17.63
Potential income for Capricorn DM	R 177,101.65	R 202,418.09	R 230,266.17	R 260,899.06	R 294,595.24	R 331,661.04	R 372,433.41	R 417,283.02	R 466,617.60	R 520,885.63
<b>CUMULATED NET PROFIT</b>	<b>R 177,101.65</b>	<b>R 3,795,197</b>	<b>R 6,097,859</b>	<b>R 8,706,850</b>	<b>R 11,652,802</b>	<b>R 14,969,412</b>	<b>R 18,693,747</b>	<b>R 22,866,577</b>	<b>R 27,532,753</b>	<b>R 32,741,609</b>
CUMULATIVE RETURN ON INITIAL INVESTMENT	4	-17	33	90	155	227	309	400	502	616

### 4.3 Socioeconomic benefits

Motumo Trading Post is estimated to provide the following socio-economic benefits to the economy of Capricorn.

- Provide the surrounding communities with skills development programmes and training;
- Preserve heritage, culture and local customs;
- Open business opportunities for local SMMEs; and
- Create employment opportunities and trigger growth in income.

Table 4-3 indicates the number of full time equivalent annual jobs to be generated by the proposed PPP project. Details of the various positions can be accessed from the Financial Assessment Report (Annexure D).

Table 4-3 Employment creation

Site	Specialised (high skills)	General (Low-medium skills)	Total headcount
Conference facility	4	14	18
Machaka Nature Reserve	3	8	11
Information Centre	1	6	7
			36

### 4.4 Conclusion

Given that Motumo Trading Post is currently not in operation, the proposed PPP project is expected to benefit the municipality in terms of yielding both economic and non-economic returns. This has been demonstrated by the following factors:

- Optimal use of underperforming assets – The proposed PPP has a potential to transform Motumo Trading Post, as a currently underutilised asset, into a profitable business.
- Increased direct revenue to the municipality – Optimal use of the assets can be guaranteed by fulfilling all the legal requirements (including town planning and other legislation). Following this, the project will yield greater economic returns including revenue generation and profit accumulation.
- Increased socioeconomic activities and job creation for the nearby communities – The feasibility study also revealed that the proposed PPP project will have a positive socioeconomic impact on the surrounding communities of Motumo Trading Post with a total number of approximately 36 new job posts.

In conclusion, a PPP is the best procurement choice for the project as it can potentially and effectively transform Motumo Trading Post into a profitable business venture. Consequently, the proposed PPP will, to some extent, assist the municipality to fulfil some of its strategic objectives as set out in the IDP, including:

- Improving environmental management – by conserving the nature reserve and adhering to ECA conditions.
- Enhancing financial viability and management – by increasing revenue generation in the municipality.
- Enhancing conditions for economic growth and job creation; and
- Increasing the capacity of the district to deliver its mandate.

## **5 RECOMMENDATIONS**

The feasibility study suggests that a PPP is the best procurement choice for the project as it can potentially and effectively transform Motumo Trading Post into a profitable business venture. As such it is recommended that:

- Capricorn DM's Council approves the Feasibility Report;
- Capricorn DM's Council approves the project moving into the Procurement Phase of the PPP process, subject to the following conditions:
  - Capricorn DM must obtain the legal rights to develop and manage the sites of the Motumo Trading Post from the Department of Public Works and SANRAL.
  - An application for Consent Use in terms of clause 20 of the Molemole Land-Use Scheme must be submitted to the Local Municipality to satisfy the town planning legislation.
  - Clarity must be obtained from the regional Land Claims Commissioner as the status of the pending land claim on the information centre site at the Tropic of Capricorn.
  - A Memorandum of Understanding must be put in place between Capricorn DM and the surrounding Traditional Councils to ensure the future success of the project.

Upon approval of the feasibility study, the project will be able to move into the Procurement Phase of the PPP process. This process entails:

- Identifying potential private developers and operators;
- Issuing of the request for proposals (RFPs) to the nominated firms:
  - The RFP, which is a complete guide to the proposed PPP project, provides substantial additional detail required for the short-listed bidders to create their proposals. The RFP should include information about submission requirements, evaluation criteria, and administrative matters such as deadlines and changes.

- Once the project management team has received and evaluated the RFPs, the most preferred bidder is chosen. This will be followed by negotiations between the Capricorn DM and the preferred private developer and operator.
- PPP Agreements will be the drafted and concluded between the two parties.