DLA CLIFFE DEKKER HOFMEYR

PROJECTS AND INFRASTRUCTURE

ALERT

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2014 BUDGET SPEECH REVIEW: INFRASTRUCTURE INVESTMENT

The Government of South Africa (Government) developed a National Development Plan (NDP) in 2013. The theme of the 2014 National Budget Speech delivered by the Minister of Finance, Pravin Gordhan, on 26 February sets out the resource plan for an intensified implementation of the NDP. A five year plan and medium term budget is targeted.

The Government has indicated that non-interest expenditure plans are unchanged over the medium term expenditure framework (MTEF) period, resulting in real expenditure growth of about 2% per annum. Within the expenditure envelope, the composition has begun to shift from consumption spending towards infrastructure investment. The unallocated contingency reserve amounts to R3 billion, R6 billion and R18 billion over the three respective years of the MTEF period.

An overview of the budget framework indicates that National Government departments are allocated approximately 48% of available funds in the National Budget, provinces 43% and municipalities 9%. Capital spending is highlighted as the fastest-growing component of expenditure, and is set to exceed inflation by over 4% a year.

Growth is projected to increase from 2.7% in 2014, to 3.5% in 2016. Investment is forecast to increase by about 5% a year and the current account deficit will average 5.8% of gross domestic product (GDP) over the MTEF period, whilst consumer price inflation will return to levels within the target band between 2015 and 2016.

To make rapid progress in creating jobs and reducing poverty, Government has indicated that it needs to grow the South African economy at 5% a year, or more. To achieve this goal, the Government has initiated a wide range of initiatives, including accelerated public infrastructure investment.

It is, however, noted in the 2014 National Budget Speech that potential domestic risks to the outlook include further delays to the introduction of new infrastructure, particularly additional electricity capacity, higher inflation due to the weakness of the rand, and protracted labour disputes which could depress consumer and business confidence.

Overall infrastructure investment

Government has committed to further investment in infrastructure. It is indicated that Government is making progress in overcoming infrastructure backlogs and investing for more inclusive growth and development.

Following from the spend of R1 trillion over the last five years, the budgeted spending for public–sector infrastructure totals R847 billion over the next three years.

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Energy

A reliable and affordable supply of electricity is needed to sustain economic activity and maintain a quality standard of living. Government notes that the first unit of the Medupi power station is expected to be completed towards the end of year, easing South Africa's electricity constraint.

Over the MTEF period, Government has indicated that it will add to electricity supply to improve the balance between available energy and the amounts required by businesses and households to thrive. Furthermore, Government will pursue the exploration of shale gas to provide an additional energy source for the South African economy.

In the private sector, the renewable energy independent power producer programme introduced private sector participants into the electricity generation sector providing an increasing contribution to infrastructure investment. Contracts for 47 renewable energy projects were concluded in 2012 and 2013, many of which are already under construction and nearing completion. These renewable energy projects will add 2 460 MW of power capacity to, and equates to an investment of R70 billion. A further R45 billion in investment will be contracted in 2014. The employment tax introduced has led to an increase in job creation.

Following public consultation, National Treasury and the Department of Environmental Affairs have agreed that a package of measures is needed to address climate change and to reduce emissions. This will include the proposed carbon tax, environmental regulations, renewable energy projects and other targeted support programmes. To allow for further consultation, implementation of the carbon tax is postponed by a year to 2016.

Transportation

In the transport sector, various initiatives are underway to strengthen infrastructure. Transnet has increased capacity on its coal line and plans are in place to further expand the coal, iron ore and manganese lines. The Passenger Rail Agency of South Africa refurbished 500 metro rail coaches last year. Its new rolling stock procurement programme will commence in 2014.

Over the MTEF period, Government has indicated that it will increase investment in economic infrastructure, including rail, roads and ports.

Urban planning, human settlements and economic zones

Over the MTEF period, Government has indicated that it will provide business support programmes and special economic zones that encourage industrialisation and improve local competitiveness. A number of initiatives are under way including new spatial plans for cities, improved public transport and upgrading of informal settlements.

Governments' approach to developing urban centers involves granting metropolitan municipalities increased authority to coordinate spatial planning, the management of land use and lead housing delivery. The assignment of the human settlements function to metropolitan municipalities is indicated as a vital intervention in accelerating housing investment and integrated urban development.

An integrated city development grant has been introduced to strengthen long term city planning and encourage private investment in urban development. It will amount to R814 million over the MTEF period. R3.9 billion has been allocated to capacity building programmes over the MTEF period targeted at small towns and rural municipalities. Special initiatives include:

- R3.7 billion in conditional grants to municipalities;
- R857 million for the Municipal Infrastructure Support Agency;
- R276 million for the human settlements Upgrading Support Programme in 53 municipalities;
- A new grant of R300 million a year to assist metropolitan municipalities in managing the human settlements function; and
- A further R180 million as part of the human settlements development grant earmarked for settlement upgrading in mining towns.

Special economic zones are allocated R3.6 billion to promote value-added exports and generate jobs in economically disadvantaged parts of the country.

Social infrastructure

Spending on social infrastructure (which is inclusive of health, education and community facilities) will increase from R30 billion in 2012/2013 to R43 billion in 2016/17. Government will give priority to programmes to eradicate school infrastructure backlogs and refurbish clinics and hospitals. Government has spent R39 billion on 1 869 hospitals and health facilities and has allocated R26 billion over the MTEF period ahead. Government has set a target of 433 new schools being rebuilt. In addition to hospital and clinic building and refurbishment programmes, R1.2 billion has been allocated for piloting general practitioners' contracts.

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Water and Sanitation

Over the MTEF period, Government has indicated that it will increase investment in water infrastructure.

The NDP notes that expanding access to water requires investments all along the supply chain, starting with investments in dams, bulk water supply schemes and wastewater infrastructure. In line with the NDP, Government has indicated that a programme to rehabilitate 35 dams has been completed, and work is in progress on the country's five large water transfer schemes.

In 2014/15, a total of R40 billion in infrastructure grants will be transferred to local Governments for their water, sanitation, energy and environmental functions.

Over the next three years, national Government will allocate R105 billion to municipalities for free basic water, sanitation, electricity and refuse removal services.

Procurement reforms

Government has taken steps to professionalise the public service and overhaul procurement and supply chain management. The Chief Procurement Office has been established, and has made progress on several fronts:

- Development of a standard lease agreement to address defects in Government property transactions;
- Standardisation of infrastructure procurement processes and documentation;
- Creation of an inspectorate to monitor procurement plans and audit tender documents;
- Enhanced processing of vendors' tax clearance certificates to ensure compliance;
- Centralised procurement of health equipment, drugs and medicines to effect savings; and
- Analysis of the business interests of Government employees.

Regulatory improvements

Government will be streamlining regulatory and licensing approvals for environmental impact authorisations, water licenses and mining licenses.

Conclusion

The 2014 National Budget Speech sets out the resource plan for an intensified implementation of the NDP. The composition of the expenditure allocation has begun to shift from consumption spending towards infrastructure investment. National and provincial Government and state owned companies intend to spend R847 billion on infrastructure over the next three years. A significant portion of this infrastructure spend is targeted for projects in the following sectors, the majority of which commenced prior to the 2014 MTEF period: energy, transport, education, health and water.

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