DLA CLIFFE DEKKER HOFMEYR

PROJECTS AND INFRASTRUCTURE ALERT

1 March 2013

IN THIS ISSUE

2013 BUDGET SPEECH REVIEW: INFRASTRUCTURE

In the 2013 National Budget Speech delivered by the Minister of Finance, Pravin Gordhan on 27 February 2013, Government committed to expand infrastructure investment. The following overview is a summary of the salient points in the 2013 National Budget Speech pertaining to infrastructure.

Following from the estimated spending of R642 billion over the last three years, the budgeted spending for public–sector infrastructure totals R827 billion over the medium-term expenditure framework (MTEF) period, being the next three years.

The National Development Plan (NDP) has targeted a gross fixed capital formation of 30% of the GDP by 2030, with public sector investment reaching 10% of GDP, in order to realise "a sustained impact on growth and household service".

The value of major infrastructure projects in progress or under consideration in the public sector totals R3.6 trillion. There are also a number of private sector projects identified in the strategic integrated projects of the Presidential Infrastructure Coordinating Commission, bringing the total value of projects being considered to over R4 trillion. It is understood that approximately 40% of these projects are already being implemented and for the remainder of the projects, concept proposals have to be assessed to, among others, determine feasibility as well as value of money to ensure that they align with the priorities contained in the NDP.

Of the R3.6 trillion, the total expenditure has been apportioned between water (3.6%), transport (22.9%), electricity (55.7%), liquid fuels (6.8%), education (3.6%), health (3.2%), telecommunication (1%) and human settlements (3.2%).

Electricity

A reliable and affordable supply of electricity is needed to sustain economic activity and maintain a quality standard of living. The first units of two new large coal fired power plants, namely Medupi and Kusile, are expected to be online and producing electricity in 2014 and 2015, easing South Africa's electricity constraints. For the longer term, several other power generation options are being considered and a joint assessment between the Democratic Republic of Congo and South Africa is underway with a view to South Africa participating in the next phases of the Grand Inga Hydroelectric Project.

The renewable energy independent power producer programme will introduce private sector participants into the electricity generation sector. The first bidding round covered 1 416MW of electricity and some plants will supply electricity to the grid in 2013. The second bidding round completed in 2012 and covering 1 044MW of electricity showed a substantial improvement in local content and a strong decline in price. The third round covering 1 166MW is due for submission in August 2013.

continued

Other opportunities for coal, hydroelectric facilities and piped gas facilities within the Southern African region, nuclear power and natural gas reserves are being considered.

Eskom is also investing in the expansion and upgrade of the transmission grid and both Eskom and municipalities are investing in distribution infrastructure to replace or upgrade outdated equipment.

Liquid Fuels

The government recognises that a number of options for expanding local production for liquid fuels are available, including construction of a new refinery, expanding existing refinery capacity or partnering in a regional venture. The options to meet production demand must take account of size and distribution of the liquid fuels market. There is also scope for partial import replacement through biofuels production, which will be supported through fiscal production incentives to be introduced. An investment of approximately R40 billion in the country's six refineries is needed over the next five years to upgrade production processes to meet new fuel specifications.

The construction of the main trunk of Transnet's R23,4 billion new multiproduct petroleum pipeline has been completed, and the Durban and inland terminals are scheduled to be finished by December 2013. The pipeline will compliment private sector investments in berth and allow for investment in handling infrastructure at ports.

Water and sanitation

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. The Trans-Caledon Tunnel Authority, a state owned entity responsible for project financing and construction, has undertaken large investments. In addition to rehabilitating 25 dams, the government is in the process of constructing seven new dams at various locations whilst also increasing the capacity of the Hazelmere, Clanwilliam, Tzaneen and the Nwumitwa dams.

Over the MTEF period, about R150 million will be allocated to implement a short term management plan to address acid mine drainage and Rand Water and the DBSA are in the process of developing a sustainable financing development framework to address same over the long term.

Transport

In the transport sector, various initiatives are underway to strengthen infrastructure.

During 2013, investments in new cranes and terminal reengineering will boost container capacity at the port of Durban by about 21% to 2.9 million 20-foot equivalent units.

The Passenger Rail Agency of South Africa is working to improve the quality and capacity of its commuter rail services and investment in the bus rapid transport system continues, with construction of networks in Tshwane, Nelson Mandela Bay, Rustenburg and eThekwini set to begin in 2013.

Government has also allocated R32.9 billion to the South African National Roads Agency Limited for national road improvements and R2 billion for the rehabilitation of coal haulage roads in Mpumalanga.

Telecommunications

The government recognises that information and communications infrastructure is a critical enabler of economic activity in today's world. Over the MTEF period, additional funding for enhanced broadband connectivity will be allocated once a policy framework is agreed.

continued

Urban planning, human settlements and economic zones

To reduce costs and lessen the divide between town and township, government's new approach to developing urban centers involves granting large municipalities increased authority to coordinate spatial planning, the management of land use and to lead housing delivery.

The Department of Trade and Industry's special economic zone programme is also receiving funds amounting to R2.9 billion to provide earthworks for purpose-built industrial parks adjacent to ports and airports.

Over the medium term, government will provide over R3 billion for social housing, R30.3 billion to upgrade information housing in metropolitan municipalities, and R1.1 billion to rapidly urbanising mining towns.

Education

The education infrastructure grant to provinces provides R23.9 billion over the 2013 MTEF to upgrade or maintain existing structures. An allocation of R820 million will support upgrading facilities in special schools and for classrooms to accommodate increased enrolment of grade R learners. In higher education, R6.5 billion will be allocated over the MTEF period to build new universities in Mpumalanga and the Northern Cape.

Health

Provinces will continue to invest over the next three years with a large portion of their combined R29.5 billion budget funding infrastructure at district hospitals. The provincial health departments will spend R5 billion on primary health care facilities, of which R3.2 billion is for clinics.

Regional Investments

South Africa is partnering on a range of projects in sub-Saharan Africa which investments will help accelerate regional economic development and continue the move towards a stronger regional market.

Conclusion

National and provincial government and state owned companies intend to spend R827 billion on infrastructure over the next three years. A significant portion of this infrastructure spend is targeted for projects in the energy and transport sectors, the majority of which commenced prior to the 2013 MTEF period. Over the medium term, provision is made for R429 billion for projects that address social needs that do not result in revenue streams. Over the long term, the majority of the projects (generally undertaken by municipalities and state owned entities) will have clearly identifiable users that will pay charges for services received. A range of short to medium term interventions will contribute significantly to the development of adequate capacity and the improvement on the ability to deliver infrastructure will coincide with an improvement in the general capabilities, ethos and performance of the public sector.

DLA CLIFFE DEKKER HOFMEYR

CONTACT US

For more information about our Projects and Infrastructure practice and services, please contact:

Kieran Whyte
Director
National Practice Head
T +27 (0)11 562 1132
E kieran.whyte@dlacdh.com

Claire Barclay
Director
T +27 (0)11 562 1154
E claire.barclay@dlacdh.com

Jay Govender
Director
T +27 (0)11 562 1387
E jay.govender@dlacdh.com

Badian Maasdorp
Director
T +27 (0)11 562 1777
E badian.maasdorp@dlacdh.com

Zahra Omar
Director
T +27 (0)11 562 1144
E zahra.omar@dlacdh.com

Goitse Pilane
Director
T +27 (0)11 562 1498
E goitse.pilane@dlacdh.com

Frank Patalong
Consultant
T +27 (0)11 562 1047
E frank.patalong@dlacdh.com

Emma Dempster
Senior Associate
T +27 (0)11 562 1194
E emma.dempster@dlacdh.com

Lyle Horsley
Senior Associate
T +27 (0)11 562 1076
E lyle.horsley@dlacdh.com

Luyanda Jonas
Senior Associate
T +27 (0)11 562 1247
E luyanda.jonas@dlacdh.com

Tasneem Essop
Associate
T +27 (0)11 562 1105
E tasneem.essop@dlacdh.com

Cara Gilmour
Associate
T +27 (0)11 562 1084
E cara.gilmour@dlacdh.com

Lindiwe Masina
Associate
T +27 (0)11 562 1372
E lindiwe.masina@dlacdh.com

Khaya Mantengu
Associate
T +27 (0)11 562 1370
E khaya.mantengu@dlacdh.com

Themba Sikhosana
Associate
T +27 (0)11 562 1242
E themba.sikhosana@dlacdh.com

BBBEE STATUS: LEVEL THREE CONTRIBUTOR

JOHANNESBURG

1 Protea Place Sandton Johannesburg 2196, Private Bag X40 Benmore 2010 South Africa
Dx 154 Randburg and Dx 42 Johannesburg
T +27 (0)11 562 1000 **F** +27 (0)11 562 1111 **E** jhb@dlacdh.com

CAPE TOWN

11 Buitengracht Street Cape Town 8001, PO Box 695 Cape Town 8000 South Africa
Dx 5 Cape Town
T +27 (0)21 481 6300 **F** +27 (0)21 481 6388 **E** ctn@dlacdh.com

www.cliffedekkerhofmeyr.com

Cliffe Dekker Hofmeyr is a member of DLA Piper Group,
an alliance of legal practices