

Infrastructure will drive development

But government needs to do much, much better, according to Gordhan

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Infrastructure remains the lynchpin of the government's economic development plans. As much as R827-billion will be spent on infrastructure projects over the next three years of the medium-term expenditure framework period and the value of major projects in progress or under consideration in the public sector amounts to R3.6-trillion.

Infrastructure delivery was, however, an area of "non-performance" finance minister Pravin Gordhan said ahead of delivering his budget speech in Parliament on Wednesday.

"It's an area [where] we need to do much, much better than we are doing," he said.

But he emphasised the role of the private sector — to boost infrastructure investment and ensure projects were delivered on time and on budget. The right formula between the public and private sectors needed to be found, he noted. Particularly as, in many instances, private businesses were on the other side of state contracts.

"Non-performance and overpricing on that side are areas we need to bring under control," said Gordhan.

Public and private sector capital spending increased by 4.3% and 4.6% respectively during 2011. In the first three quarters of 2012 the state increased capital spending by 11% and private sector spend-

ing increased by 4.3%. The budget review noted that, as a percentage of gross domestic product (GDP), capital spending had not yet recovered to the levels reached in 2008, before the global economic recession. Nominal public sector capital investment was 7.1% of GDP in 2011 and private sector investment was 11.9%.

During the 2011-2012 financial year actual spending versus budgetary allocations on infrastructure was 78% for the national government, 96% for the provincial government, 87% for municipalities and 70% for state-owned companies.

The presidential infrastructure co-ordinating commission is driving the roll-out. Projects straddle sectors ranging from electricity, liquid fuels water and sanitation to transport and urban planning, human settlements and economic zones. A number of these programmes have been planned for some time and incorporate the extensive investment by public enterprises such as Transnet and Eskom.

According to the budget review, about 40% of the R3.6-trillion projects that are planned or under consideration are in the implementation phase.

Work on transport and energy infrastructure makes up the bulk of the R827-billion being spent in the medium term. The financing of each project is to be tailored to its type, and social infrastructure projects that do not generate revenue will be

Delivering on infrastructure

Public sector infrastructure expenditure by area of responsibility, 2011/12 to 2015/16

R-billion	2011/12	2012/13	2013/14	2014/15	2015/16	Total for medium-term expenditure framework
	Outcome	Budget	Medium-term estimates			
National departments	6.599	10.802	11.225	14.046	14.329	39.600
Provincial departments	43.449	43.762	46.202	49.385	52.098	147.685
Local government	33.239	38.489	46.940	50.506	53.161	150.607
Extra-budgetary institutions ...*	15.418	15.697	21.493	21.909	23.176	66.578
of which: Sanral non-toll building programme	8.296	9.667	10.206	10.433	10.960	31.599
Public-private partnerships**	10.710	17.955	7.145	4.504	13.713	25.362
General government	109.415	126.705	133.005	140.350	156.477	429.832
Eskom investment programme	58.815	76.141	72.107	68.016	64.934	205.057
Transnet investment programme	21.821	31.183	37.320	38.815	48.026	124.161
Sanral***	5.683	2.012	1.785	1.620	2.669	6.074
Central Energy Fund	1.209	5.226	3.719	2.061	0.398	6.178
Trans-Caledon Tunnel Authority	1.191	1.659	1.230	3.068	1.871	6.169
Rand Water	1.514	1.352	2.108	1.966	1.820	5.894
Other state-owned companies	8.638	11.627	11.537	15.184	16.992	43.713
State-owned companies****	98.871	129.200	129.806	130.730	136.710	397.246
Total	208.286	255.905	262.811	271.080	293.187	827.078

* Includes Sanral non-toll infrastructure investment and Trans-Caledon tunnel authority, which are defined as non-financial public enterprises

** Public-private partnerships include project development funds, capital contribution and unitary payments

*** Excludes Sanral capex funded through budget allocations from the fiscus

**** Estimates provided to National Treasury by management of these companies

financed by the fiscus.

Over the long term, most of the projects will support an economic infrastructure, and charge clearly identifiable users for the services they receive.

In the coming three years, state-owned companies plan to borrow R160-billion on local and global capital markets, in addition to internally generated resources, to fund their infrastructure investments. Eskom and Transnet account for 88% of this borrowing.

Only projects that meet certain criteria will qualify for support from the fiscus. These include: alignment with the priorities set out in the national development plan; the demonstration of sufficient demand; the most efficient, effective option must be proposed; and the proposed imple-

There is work to eradicate backlogs and do water and sanitation maintenance

menting agent must be capable of delivery to project specifications.

According to the Budget Review, the state has been working to improve the general capability, ethos and performance of the public sector for the delivery on its infrastructure programmes. It said progress had been made on the provision of technical assistance and training in planning, procurement and management systems for the provincial and national departments of health, education and public works, and management oversight functions in provincial treasuries.

In proposed amendments to the Public Finance Management Act, new infrastructure procurement regulations would encourage a greater focus on quality when assessing project bids, and require dedicated supply chain teams and expert panels to adjudicate tender awards.

This approach would complement performance-based infrastructure grants to provinces.

Gordhan noted that, to improve the quality of spending, the application process for infrastructure grants at provincial level was being revised. Provinces will be required to submit building plans two years ahead

of implementation and will only receive allocations if plans meet certain benchmarks.

A Municipal Infrastructure Support Agency, established in May 2012, has been working with 29 water services authorities to eradicate supply backlogs and conduct adequate maintenance of water and sanitation systems.

The national treasury has also increased the "depth and frequency of monitoring of conditional grant expenditure by municipalities", made possible by the completion of two large projects that institute uniform budgeting and reporting standards across all 278 municipalities, noted the Budget Review.

The department of public enterprises, which oversees key state-owned companies, pivotal drivers of many infrastructure projects, has been beefed up with an additional R40.2-million to increase staff numbers. Departmental personnel is expected to increase to 227 posts over the coming three years from around 178 posts. The department has cut its use of consultants for highly technical research following the decision to recruit new staff and reduce reliance on consultants.