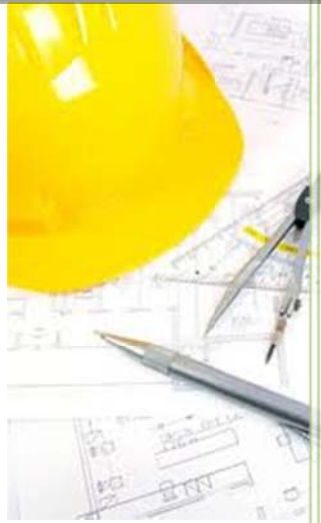


Budget Review 2014/15



Implications for the South African Construction Industry

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“Time for change” is what best describes the framework in which priorities were set in the **2014 Budget**. The 2014/15 Budget is the second budget tabled within the framework of the National Development Plan (NDP), including not only targeted expenditure but also evidence of progress made over the last 12 months. Investor confidence, and not election votes, seems to be the greater desire, as it focuses strongly on achieving economic transformation with particular strong focus on improving the country’s fiscal position rather than spending where the immediate benefits may be short-lived. Minister of Finance, Pravin Gordhan however realises that measures put in place will require a joint effort by the state and private sector, as there are simply no quick fixes for our current economic woes. Fiscal prudence will result in a lower budget deficit from 4,0 percent in 2013/14, to 2,8 percent in 2016/17.

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Report Objective

- To highlight the short to medium term implications for the South African construction industry, given the projected infrastructure expenditure over the next three years: 2014/15 – 2016/17
- To identify underlying trends within those departments that play a significant role in infrastructure development, capacity building and management, that will impact on the future of the construction industry.
- To identify, where possible, key infrastructure projects announced by the various departments.

Total public infrastructure investment is projected to reach R847 bn, between 2014/15 and 2016/17, from R827 bn projected in the 2013 Budget, R845bn projected in the 2012 MTEF period, and R808bn projected in the 2011 budget MTEF period.

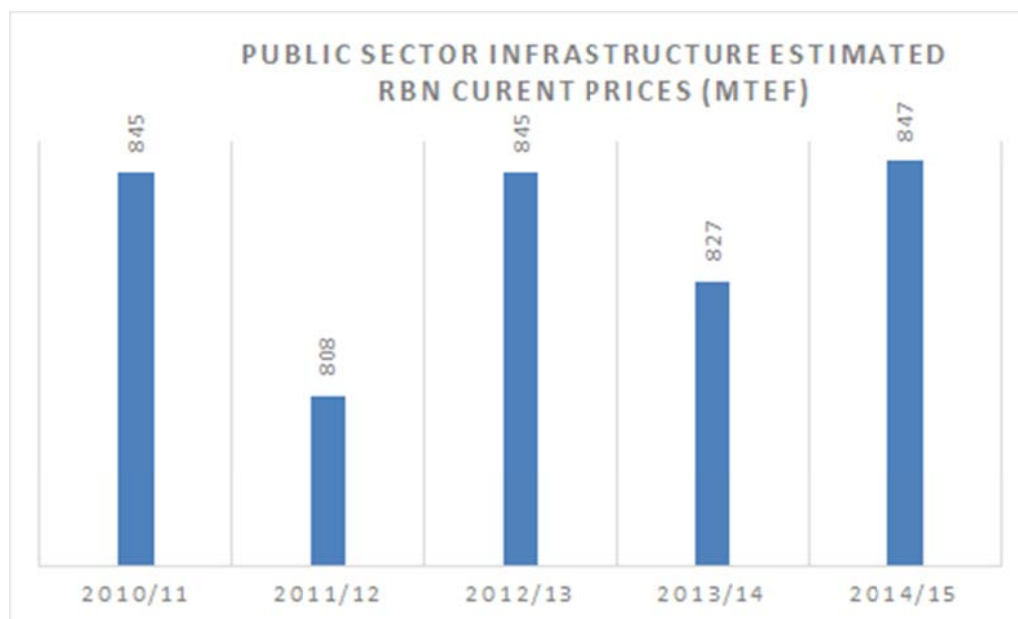


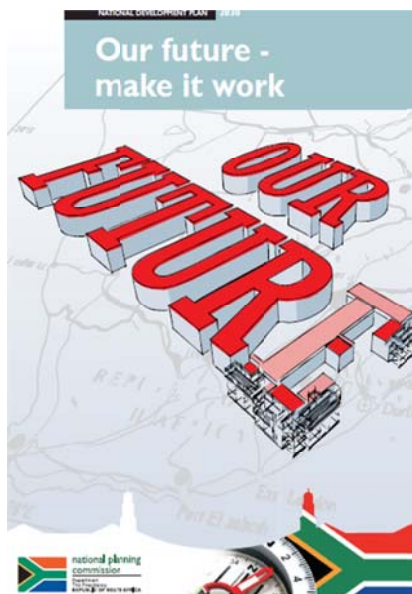
Figure 1: Public Sector Estimates

The 2014 Budget lays the foundation for structural reforms and sets out the plan for an intensified implementation of the National Development Plan (NDP). The message is clear, that we as South Africans need to work together to change our economy. We acknowledge the progress made to restore economic growth, alleviate poverty and improve living conditions in South Africa over the last 20 years, but so much still needs to be done. Money is not the only constraint to achieve our economic and developmental goals. Without the necessary management skills allocations intended for social or economic infrastructure will continue to fade away between the cracks. It is therefore important to get the basics right first and then ensure sufficient financial support to achieve developmental goals.

Two important elements are highlighted in the Budget. The implementation of the NDP and greater focus on inclusive growth to improve not only the quantity but also the quality of economic growth. It is highly unfortunate that as the NDP and the work of the Presidential Infrastructure commission is realised through the tabling of the Infrastructure Development Bill in October 2013, that Trevor Manuel has decided to join the private sector. In our view, Manual was instrumental in determining the developmental vision for the country and that his exit out of politics will leave an unfortunate void.

National Development Plan

The NDP provides an important overview of the country's major structural deficiencies and barriers as well as policy prescription. It is however important to understand that the NDP is a plan, not a budget. It provides the golden thread for planning and setting short to medium term priorities to achieve long term objectives. However a critical requirement or success factor will be for government, business and labour to work together. It is a plan that can only materialise into stronger economic growth, reduced inequality and poverty, social upliftment, job creation, skills development and regional integration if everyone shares a unified vision. That is easier said than done.



The NDP 489 page document highlights several targets and priorities. Of significance pertaining to this review, is the following key infrastructure priorities:

- Upgrading of informal settlements
- Improving public transport infrastructure and systems
- Developing of the Durban-Gauteng freight corridor
- New coal line to unlock coal deposits in the Waterberg
- Develop new water schemes to supply urban and industrial centres
- New irrigation systems in the Umzimbuvu river basin and Makathini Flats
- National water conservation programme.
- Construction of infrastructure to import liquefied natural gas and increasing exploration to find domestic gas feedstock.
- Producing at least 20 000 MW of renewable electricity by 2030
- Decommission 11 000 MW ageing coal-fired power stations
- Establishing national, regional and municipal fibre-optic networks to provide the backbone for broad band access (led by private sector)

It further aims to increase public infrastructure investment to 10% of GDP by 2030 and gross fixed capital formation (GFCF) to 30% of GDP.

The NDP sets the following critical success factors to achieve the developmental goals:

- Focused leadership
 - "Many aspects of the plan will require years of effort to deliver results"
- A plan for all
 - Need support to build consensus and broad-based ownership
- Institutional capability
 - Shortage of skills, complex intergovernmental system, high levels of corruption, weak lines of accountability, inadequate legislative oversight
- Resource mobilization and agreement on trade-offs
 - Need faster growing economy. This is plan, not a budget. If the economy can grow by 5% per annum, government revenue and profits of private firms will more than double over the next 20 years
- Sequencing and willingness to prioritize
 - Government must be willing to prioritize
- Clarity on responsibility
 - Tighten the accountability chain

Macroeconomic environment

Global Economy

Global growth is estimated to have increased by 3 percent in 2013, strengthening to 3,7 percent in 2014 and 3,9 percent in 2015. Economic activity has strengthened in advanced economies, while the outlook for emerging markets, although still positive, has weakened in recent months as emerging economies are adjusting due to higher levels of currency volatility capital inflows, current account and fiscal deficits, debt levels and varying levels of business and consumer confidence. Currency depreciation is likely to result in higher levels of inflation for most of the emerging economies, including South Africa. Economic growth in emerging markets is nonetheless expected to increase from an estimated 4,7 percent in 2013, to 5,1 percent in 2014. Because of an expected slowdown in China's economy, emerging markets are expected to slow to 4,7 percent in 2015. Developing economies account for a growing share of global trade and investment, from 18 percent twenty years ago to 38 percent, which means these economies will have a more profound global impact.

- Developed economies
 - United States – growth expected to accelerate to 3 percent by 2016/17, with potential of tighter monetary policies.
 - United Kingdom – modest growth projected increasing by 2,4 percent in 2014, but moderate to 2,2 percent in 2015.
 - Euro Zone – showing mild recovery, but staying below 2 percent growth in the near future.

- Emerging Economies
 - Sub-Saharan Africa – growth projected to accelerate from 5,1 percent in 2013 to 6,1 percent in 2014.
 - Brazil – stable growth outlook predicted in the next three years averaging 2,3 percent in 2014 and 2,8 percent in 2015.
 - Russia – Stronger growth predicted for Russia, improving from 1,5% in 2013 to 2,5% in 2015, although this is much lower than the near 4 percent growth outlook previously anticipated. Current conditions with growing tension between Russia and Ukraine could affect Russia's growth rate should the US enforce sanctions.
 - India – one of the better performing emerging markets, predicted to grow from 4,4 percent in 2013 to 6,4 percent in 2015.
 - China – Growth in China has disappointed and is predicted to remain below 8 percent in the next three years (slowing from 7,7 percent in 2013 to 7,3 percent in 2015)
 - South Africa – fragile economic growth outlook, but is expected to breach 3 percent by 2015.

- Emerging markets – overall economic growth is on track for emerging market and developing economies to reach 5% in 2014, increasing marginally to 5,4 percent in 2015 (noting that the growth outlook for South Africa is well below that). Emerging economies are still expected to grow at rates well above those achieved within the advanced economies.

Table 1: Global Growth projections

	2012	2013	2014	2015
World	3.1	3.0	3.7	3.9
US	2.2	1.9	2.8	3.0
Eurozone	-0.6	-0.4	1.0	1.4
UK	0.3	1.7	2.4	2.2
Emerging Markets		4.7	5.1	5.4
Brazil	0.9	2.3	2.3	2.8
Russia	3.60	1.5	2.0	2.5
India	3.2	4.4	5.4	6.4
China	7.8	7.7	7.5	7.3
Sub-Saharan Africa	4.9	5.1	6.1	5.8
SA	2.5	1.8	2.7	3.2

Source: 2010, 2011, 2012, 2013, 2014 Budget Reviews

Consequences for South Africa

The current global economic environment has several consequences for South Africa

- Currency devaluation due to the US Federal easing of bond purchases, leading to volatile capital flows in emerging markets.
- Higher inflation due to higher import costs and higher liquid energy prices.
- The stronger recovery in advanced economies reduced the attractiveness of gold as a store of wealth which led to a 28,1 percent decline in the price of gold.
- Strengthening of economic growth in developed economies could spark renewed price increases in the price of oil, although the slower growth outlook for China will act as a bit of a handbrake.
- Export growth in 2013 (4,8 percent) exceeded imports (7,3 percent), resulting in an increase in the current account deficit. A weaker currency may have a positive influence on exports, but amidst a fragile global and emerging market outlook, export growth is expected to be below 6 percent in 2014 (5,6 percent). Similar growth is expected in the value of imports (5,3 percent). Government nonetheless proposes to promote SA's export potential by:
 - Improving pricing at local ports to reduce transport costs
 - Investing in infrastructure to reduce production and transport bottlenecks
 - Promoting more competitive product markets
 - Putting in place competitiveness initiatives in manufacturing
- The manufacturing sector has shown little reaction to the currency devaluation and is still depressed due to the slower growth in retail sales and overall domestic consumer demand.
- Higher levels of exchange rate volatility, because of higher levels of global liquidity and fluctuating risk appetite. South Africa will continue to rely on foreign inflows to sustain current investment levels and fund the current account and budget deficits.

Commodity Trends

- Commodity prices declined for the second consecutive year in 2013 largely due to slower demand from emerging markets, particularly China. China accounts for over 40 percent of world demand for base metals.
- The price of aluminium fell by 10,7 percent and the prices of coal and iron fell by 5,5 percent and 7,4 percent respectively.
- The price of platinum is likely to increase again in 2014, because of planned reduction in output in South Africa (SA produces 80% of world platinum) as the industry is hit by another wave of strike action.

Domestic outlook

The South African economy grew by an estimated 1,8% in 2013, and is expected to grow by 2,7% in 2014 and 3,2 percent in 2015.. Treasury expects economic activity to be supported by moderate inflation and relatively low real interest rates. Treasury further expects that increased public investment in infrastructure will reduce bottlenecks in electricity and transport and encourage private investment, while stronger employment growth will contribute to increased household consumption. However, economic growth is

not sufficient by any means to encourage job creation, while higher lending rates will discourage an increase in household consumption. This in itself questions the outlook for South Africa's economic growth in 2014.

Expectations in the 2013 Budget regarding the currency account deficit did not materialise, and in fact the deficit widened from 5,2 percent in 2012 to 6,1 percent in 2013. Original projections were to narrow the deficit to 3,2 percent by 2015, but is now expected to remain at above 5 percent for the foreseeable future.

Modest growth is predicted for household consumption, rising from 2,7 percent in 2013 to 2,8 percent in 2014 reaching 3,4 percent by 2016, because of the impact of sluggish job creation, unemployment, and elevated levels of household debt.

Further implementation of the national infrastructure programme will more than likely show a higher than average increase in government infrastructure spending which could support higher GDP growth. Much of these investments, particularly from SOE (State owned enterprises) will however be used to finance largely imported equipment, and do little to stimulate job creation in the construction sector. Gross Fixed capital formation is projected to increase by 4,2 percent in 2014, from 3,2 percent in 2013, rising to 6,0 percent by 2016. Treasury also expects an increase in private sector investment due to relatively low real interest rates, reduced infrastructure bottlenecks and high capacity utilisation levels as economic conditions improve. Considering current depressed business confidence, it is however unlikely that investment by the private sector will provide a major boost to investment in 2014, although we have seen some improvement in approvals by local authorities for private sector non-residential construction in 2013.

The inflation outlook has deteriorated since the 2013 Budget, and is now expected to exceed the upper limit of the 3-6 percent target range, averaging 6,2 percent in 2014 as the weaker rand translates into higher petrol and food prices and puts pressure on wage demands and core inflation. Inflation is projected to decline to 5,9 percent in 2015.

Domestic savings remain low, which means there is a significant gap between investment and savings. Further incentives to encourage savings were introduced in the budget.

Unemployment remains South Africa's most pressing challenge. South Africa simply does not provide sufficient job opportunities to cope with the growth in the labour force, in spite of various policies and initiatives taken over the last twenty years. Unemployment remains above 24 percent and government initiatives included in the 2014 Budget will not be sufficient to reduce the unemployment rate. These initiatives include:

- Expanded public works programme – creating 6 million jobs over the next five years
- Community work programme
- National rural youth service corps
- Employment tax incentive – launched in January 2014 it subsidises the salaries of newly recruited workers aged between 18 and 29.
- Jobs Fund – launched in 2011, co-financing projects to generate employment. In the last three years it created 12 184 jobs, but hopes to create 96 000 new jobs in the next three years.
- National youth service programme – trains artisans for the built environment.
- Skills development

Sentiment towards the rand was negatively affected by industrial action in the mining sector, the deterioration of the current account and credit rating downgrades, as well as deteriorating sentiment towards emerging markets in general. The currency weakened to an average of R10.9/US\$ in the 1st quarter of 2014. Currency movements will continue to reflect the global risk appetite and investment sentiment towards emerging markets and South Africa. The IMF has placed South Africa among a group of countries that are vulnerable to global risk perceptions because of being less resilient to capital flows. Other countries on the list include Argentina, India, Pakistan, Indonesia, Romania, Turkey and Venezuela.

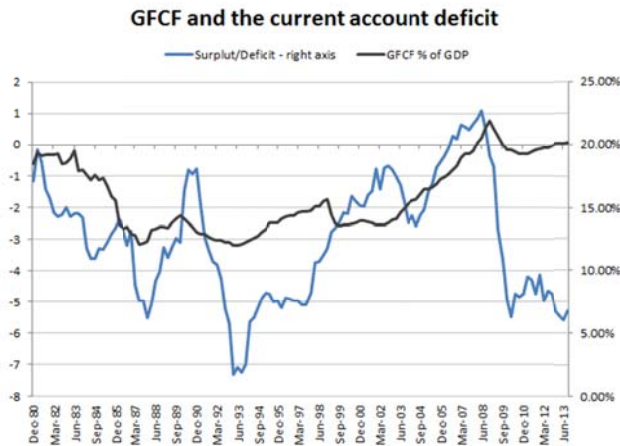


Figure 2: GFCF and the current account deficit

Current Budget deficit (% of GDP)
2013 vs 2014

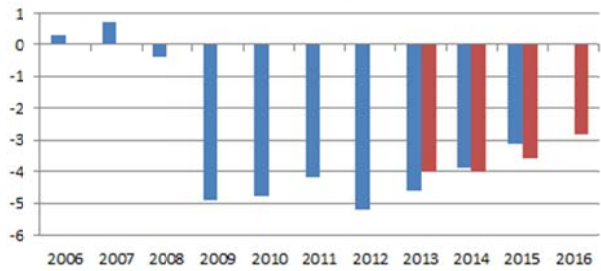


Figure 3: Current Budget Deficit 2006 - 2015

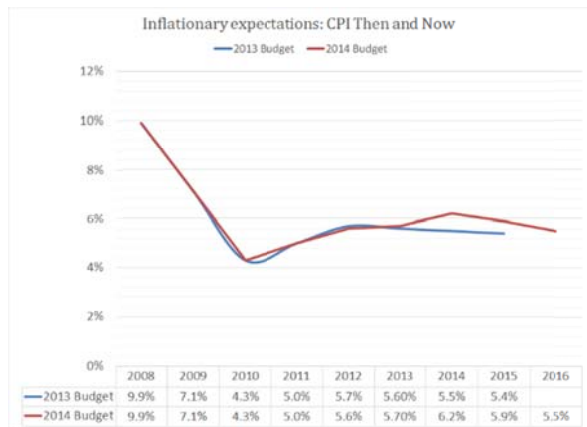


Figure 4: CPI outlook: Then and Now

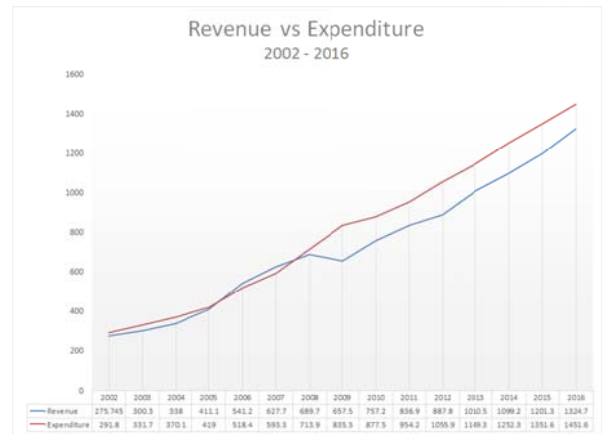


Figure 5: Government Revenue vs Expenditure

The National Planning Commission proposed an 8 point plan for economic growth and employment:

- Raising exports in areas where the economy has endowments and comparative advantage
- Increase the size and effectiveness of the innovation system
- Improve the functioning of the labour market to make it more labour absorbing
- Support small business through better coordination of support agencies, development finance and public and private incubators.
- Improve the skills base through better education and vocational training
- Increase infrastructure investment to lower costs, raise productivity and broaden economic participation
- Reduce regulatory burdens in sectors where the private sector is the main investor
- Improve the capacity of the state to effectively implement economic policy

Table 2: South African GDP Estimates

	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP, Rm current	2017	2263	2406	2659	2918	3145	3445	3790	4170
GDP									
Real change %	5.5%	3.6%	-1.5%	2.9%	3.1%	2.5%	2.70%	3.5%	3.8%
Revenue, Rm current	627.7	689.7	657.5	757.2	836.9	887.8	985.7	1091.1	1199.8
Expenditure, Rm current	593.3	713.9	835.3	877.5	954.2	1055.9	1149.4	1244.3	1334.1
Deficit, Rm current	34.4	-24.2	-177.8	-120.3	-117.3	-168.1	-163.7	-153.2	-134.3
Deficit Percentage of GDP	1.7%	-1.1%	-7.4%	-4.5%	-4.0%	-5.3%	-4.8%	-4.0%	-3.1%
GFCF									
Real Change %	14.0%	14.1%	-4.3%	-2.0%	4.5%	6.4%	5.70%	5.9%	6.5%
Revenue as % of GDP	31.1%	30.5%	27.3%	28.5%	28.7%	28.2%	28.6%	28.8%	28.8%
Expenditure % of GDP	29.4%	31.5%	34.7%	33.0%	32.7%	33.6%	33.4%	32.8%	32.0%
Headline inflation (CPI)	6.1%	9.9%	7.1%	4.3%	5.0%	5.7%	5.60%	5.5%	5.4%

Source: Budget Reviews

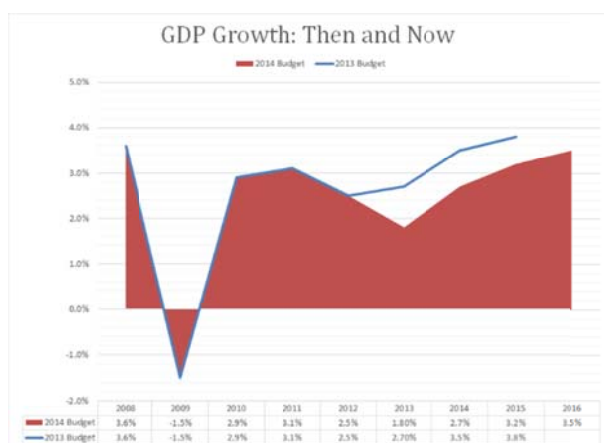


Figure 6: GDP outlook: Then and Now

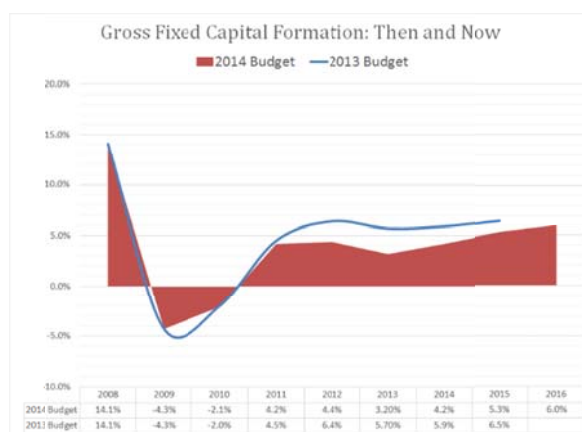


Figure 7: GFCF outlook Then and now

Medium to Longer term issues

There are several factors that may not have an immediate or direct impact on investment in the construction industry, but will either create or discourage an environment for investment over the medium to longer term.

Macroeconomic stability

We maintain our view that over the past few years, the Budget has been supportive of macroeconomic stability, amidst great financial global turmoil. The financial environment does not lend itself to the economy taking risks, and considering the turmoil globally, stable growth (albeit lower than desired) in the near term, will be more beneficial for the economy in the long run. The issue of economic transformation that comes out strongly in the 2014 Budget is an important aspect to ensure sustainable macroeconomic stability.

Policy Development

Macroeconomic stability will also be sensitive and subject to policy development. For example mining developments require a clearer policy directive in terms of ownership and land reform. To improve economic growth, it is important to address the current structural constraints hindering growth. Key challenges faced, that in some form or other may require amendments to existing policies, include unemployment, shortcomings in public sector education, weak skills base, a resource-intensive economy bias, high levels of inequality and spatial distribution. Tackling these issues will only be successful if policy is clear, implemented, and monitored, effectively.

Policy updates

- A review of tax policy framework will be conducted in 2013/14
- Carbon tax to be introduced at rate of R120 per ton of CO₂ equivalent increasing by 10% a year up to 2020. Updated policy document to be published by end March 2013. Several “warnings” have already been issued by stakeholders (ie Shell) of possible unintended consequences of such a carbon tax, also “new” in global terms as it is applied by only three countries in the world.
- Government is proposing a fringe-benefit tax relief for low-income where their employer provides housing. When employers transfers a house to an employee at a price below market value, a taxable fringe benefit would normally be triggered. This makes it unaffordable for the low-income employee.
- Tabling of the Expropriation Bill by December 2013, by Department of Public Works
- Tabling of the Agreement South Africa Bill by November 2013 by Department of Public Works
- Over the medium term the Department of Mineral Resources will review the mining charter, enhancing beneficiation and rehabilitating 32 derelict and ownerless mines.

National Development Plan and Infrastructure Development Bill

The NDP aims to eliminate poverty and reduce inequality by 2030. Two important targets for the construction sector is for GFCF to reach 30% of GDP (currently at 20%) and for public infrastructure spending to increase to 10% of GDP (currently at 7%).

The NDP highlights the following priorities in terms of infrastructure investment:

- Upgrading informal settlements on suitably located land
 - Public transport infrastructure incl renewal of commuter rail fleet, supported by enhanced links with road based services
 - Developing the Durban-Gauteng freight corridor
 - New dug out port on the site of the old Durban airport
 - Building a new coal line to unlock coal deposits in the Waterberg, extending existing coal lines in the central basin, and upgrading coal line to Richards Bay and the iron ore line to Saldanha
 - Developing several new water schemes to supply urban and industrial centres, new irrigation systems in the Umzimbuvu river basin and Makatini Flats and a national water conservation programme to improve water use and efficiency.
 - Construction infrastructure to import liquefied natural gas and increasing exploration to find domestic gas feedstock to diversify the energy mix and reduce carbon emissions.
 - Producing at least 20 000 MW of renewable energy by 2030, importing electricity from the region, decommissioning 11 000 MW of ageing coal-fired power stations and stepping up investments in energy-efficiency.
 - Establishing national, regional, municipal fibre-optic networks to provide the backbone for broadband access.
- Spatial Transformation: The NDP further recommends a national focus on spatial transformation across all geographic scales. By 2030 a large proportion of the population should live closer to places of work, and the transport they use to commute should be safe, reliable, and energy efficient. The 2014 Budget has started to put in place policy changes to incorporate spatial transformation. The NDP proposes the following to create vibrant urban settlements and revive rural areas:
 - Establishing new norms and a national spatial framework
 - Integrating diffuse funding flows into single fund for spatial restructuring
 - Reviewing the housing grant and subsidy regime to ensure that the instruments used are aligned with positive changes in human settlement policy
 - Reforming the planning system to resolve fragmented responsibility for planning in national government, poorly coordinated intergovernmental planning, disconnects across municipal boundaries and the limitations of integrated development plans.
 - Strengthening government's planning capabilities
 - Developing neighborhood spatial compacts to bring civil society, business and the state together to solve problems.
 - Enabling citizens to participate in spatial visioning and planning processes.

Infrastructure Development Bill



The Infrastructure Development Bill aims to provide for the facilitation and coordination of public infrastructure development which is of significant economic or social importance and to ensure that the necessary priority is given in planning, approval and implementation. It further aims to ensure that the development goals of the State are promoted and to improve the management of such infrastructure during all life-cycle phases. This act provides for the existence of the Presidential Infrastructure Coordinating Commission (PICC), which will include a management committee, a secretariat, chairpersons, coordinators and steering committees of strategic integrated projects. The commission is represented by senior government officials, amongst others the President, Deputy President and Ministers designated by the President. The bill outlines the functions of the commission but most important is to coordinate the development, maintenance, implementation and monitoring of the national infrastructure plan. The commission further has the responsibility to designate a Chairperson in respect of a strategic integrated project, once such project has been designated. This is important as it will immediately lay the foundation for accountability.

Whether or not this will be the policy to streamline infrastructure development in the country or just be another constraint, remains to be seen. Ultimately the industry will need to work together, as planners, developers, contractors and supplier to transform the developmental state of the South African economy.

Population Growth

According to the latest Census results (2011), population grew from 44,8 million in 2001 to 51,8 million in 2011, up 15,6% over the ten year period. There were greater concentrations in urban areas, affecting distribution of revenue and allocations which will be adjusted over the next three years in a phased in approach. During the same period the GDP per capita increased by 24% in real terms. GDP per capita shows the relation of gross domestic product to population and although not a measurement of standard of living, it is a broad international comparison to show changes in GDP in relation to changes in employment. Thus an increase of 15% in population vs an increase of 24% in real GDP per capita, implies that the output per capita has increased by a ratio higher than population growth. Please note that the per capita average provides no information on the distribution, which means inequality may have worsened. Encouraging is the improvement shown since the beginning of 2000, related to higher levels of investment by government and state owned enterprises as well as a boost in investment in buildings.

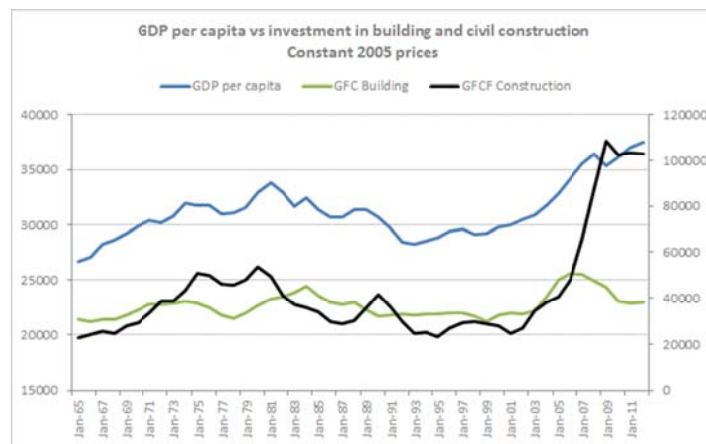


Figure 8: GDP per capita vs investment in building and civil works

Savings

This is a golden thread that runs through the 2014 Budget. Households are still straining from elevated debt levels, and considering a “no-change” in interest rates, “household debt” levels will start to increase as credit applications rise. In order to improve the debt level, it is rather the cost of the debt that should be reduced. One of the best ways to save for your retirement is home ownership. The national credit act and risk adverse appetite from lenders means more and more people will not own their own homes by the time they retire. This will have a significant negative impact, as the state is not in a position to properly care for the elderly and for many, equity in their homes is all they have.

Initiatives introduced in the 2013 and again in the 2014 Budget to encourage savings:

- Tax preferred saving and investment accounts will be introduced in 2015
- Retirement funds to identify appropriate preservation funds for existing members, who will be encouraged to preserve when changing jobs

Because of a risk adverse appetite by lenders, financial institutions are reducing their portfolio in terms of their exposure to the South African property market. House price growth improved to between 8 and 9 percent in nominal terms, although growth is not expected to exceed 10 percent in 2014, higher than the average return in a savings account. Meanwhile demand for housing continues to increase at a rate of between 100 000 and 200 000 units per annum, but because prospective buyers are not able to increase borrowing and savings fall seriously short, investment in housing is limited, focused primarily on the development of

affordable housing. This sector however is not big enough to support a recovery in the housing industry, and in spite of increased support from financial institutions, has not grown at the expected rate.

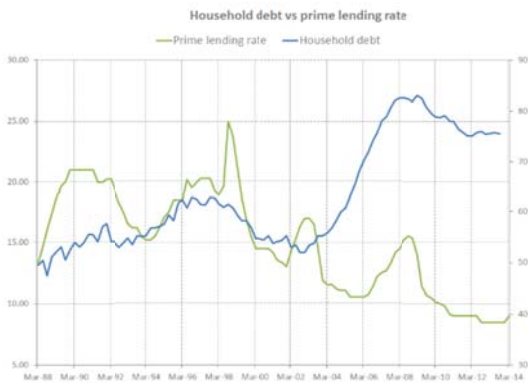


Figure 9: Household debt vs prime lending rate

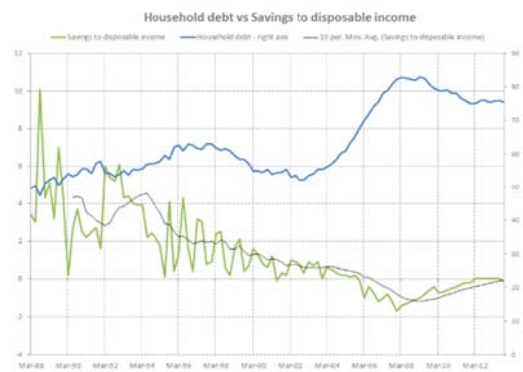


Figure 10: Household debt vs Savings to disposable income

Monetary Policy

The Reserve Bank’s monetary policy affects changes in the bank repo rate, the rate at which the Reserve Bank lends money to financial institutions, and subsequently the prime lending rate. Policy changes are determined mainly by changes, or expected changes in the consumer price index (CPI). Inflationary expectations deteriorated, according to the BER survey, mainly due to the recent currency depreciation. The outlook for interest rates in 2014 after being stable is less promising and has already been increased to 9% in February 2014. We remain concerned about policy makers using lending rates as a blunt tool to manage inflationary pressures caused by external factors, not related to consumer spending. International economist, Prof Joseph Stiglitz has also come out in strong criticism in March 2014, against central banks use of inflation targeting, stating it is a discredited instrument.

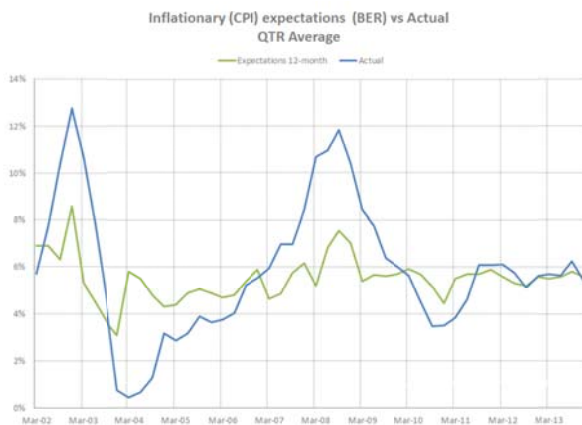


Figure 11: CPI expectations

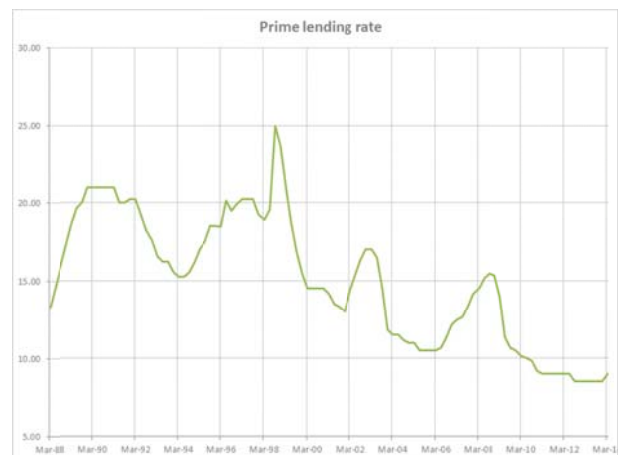


Figure 12: Prime lending rate

Small business development

Small businesses play a critical role in job creation and employment. Businesses that employ less than 50 workers, account for 68% of private sector employment. The substantial role contributed by small business to economic growth in South African can therefore not be undermined, nor so the role of Small business in the construction industry. Job creation, skills development and investment cannot be left solely to the large business sector.

South Africa has low levels of entrepreneurship according to Treasury, although SMME's contribute 55% of total employment (compared with 90% in countries such as China). The South African government therefore wants to encourage entrepreneurship. Challenges, which hamper growth in the SMME's, included rising input costs, poor work ethics, regulatory burdens, inadequate sources of finances and skills shortage. 43% of SMME owners are older than 50 years, an aging entrepreneurial pool.

Policies implemented thus far have had little effect. The changes introduced in the 2014 Budget include further amendments to turnover tax and shifting to an annual refundable tax compliance rebate as opposed to a lower tax rate for small businesses. Auditors are generally disappointed that not more of the Davis Commission tax recommendations were included.

Government continues to encourage investment in small business through venture capital, even though since its introduction in 2011 it has had very little impact. Further amendments were introduced in the 2014 Budget, such as making payments tax deductible, allowing for tax benefits to be transferable, increasing the total asset limit for investee companies from R20 m to R50, and waiving capital gains tax on the disposal of assets. The impact remains to be seen.

The NDP identifies several ways to support small business development including easing access to finance, simplifying regulatory requirements, and reforms to the skills training landscape.

Employment

The 2014 Budget follows through on proposals in the 2013 Budget to encourage the employment of youth as well as employment in special economic zones. Allocations for employment programmes increase by 13,5% a year over the next three years.

Key initiatives include:

- Expanded public works programme – Government will launch the third phase of the EPWP in April 2014 to create 6 million jobs over the next five years, just over 1 million jobs per annum. The Community Works programme will be the largest component of the EPWP.
- Youth employment incentive
- Employment incentive for economic zones
- Support to Small, medium and micro enterprises are provided to encourage higher levels of employment.

Special Economic Zones (SEZ's) are a focus point for job creation and are allocated R3,6bn over the next three years to encourage job creation in disadvantaged parts of the country. Investors will be attracted through tax incentives and infrastructure enhancements.

Greener Building

South Africa is a major contributor to greenhouse gas emissions. South Africa made the commitment to reduce greenhouse gas emissions by 34 percent in 2020 and 42 percent by 2025.

Environmental taxes:

- Acid mine drainage: Regulatory measures have been put in place to address the consequences of acid mine drainage to ensure mining companies make a fair contribution to maintain acid mine drainage expenses. Consultations are under way
- Carbon Tax: Treasury published a Carbon Tax Policy Paper in May 2013. Implementation of the carbon tax was postponed from 1 January 2015 to 2016 to allow for adequate time for consultation.

According to the Green Building Council SA (GBCSA), the building industry has started to embrace the shift towards greener building and hopes that this sustainable practice will become the norm. Although SA is relatively new to green building we are catching on fast according to global engineering firm Arrup, although there remains a lack of focus on existing buildings.

Globally, Green building is worth about \$100-billion, and doubling every three years, according to the World Green Building Council. (Ref: 18169)

Other recent developments include:

- Department of Environmental Affairs established a Green Fund. The DBSA has called for experts to provide technical, strategic and specialist support to the DEA. The DBSA is the Green Fund's implementing agency. Treasury is also encouraging the private sector to be creative and develop low-carbon projects through the Green Fund. Already 590 applicants were received. No further updates were received in the 2014 Budget.
- Employment opportunities in the Western Cape's green economy are projected to grow by 500% by 2020, says Alan Winde (WC Finance, Economic Development and Tourism Minister). Majority is expected to be created in the manufacturing of components for the renewable energy sector. (Ref: 16003)
- Western Cape launched their "Green Economy Strategy Framework" in July 2013. The Western Cape wants to become the green economic hub of South Africa, creating 12000 jobs in this sector in 2015, increasing to 20000 by 2025. Job opportunities will be mainly focussed on the manufacturing of renewable energy components.
- Development of Green Building Policy by the Department of Public Works.

Tourism

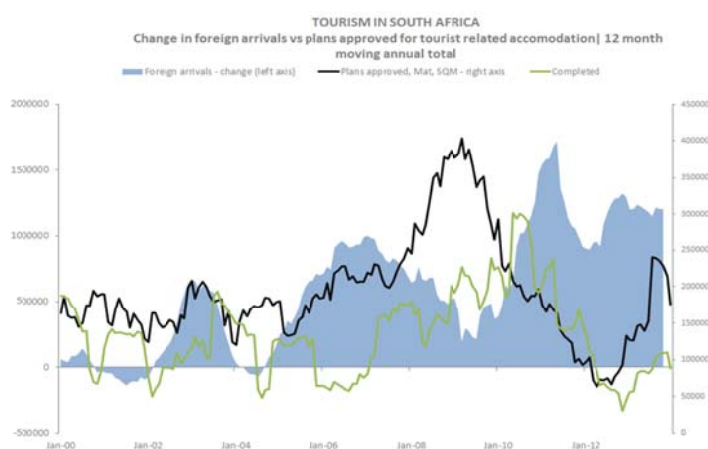


Figure 13: Tourism in South Africa

The number of foreign arrivals increased by 8,9 percent (or 1 million people) to 12,3 million in the first 10 months of 2013, compared to an increase of 10,4 percent in 2012 and 7,9 percent in 2011. Since 2011 our tourism industry has increased by 2,3 million people, supporting economic growth as well as job creation. At an annual growth of 8 percent, total arrivals will exceed 14 million for 2013.

The National Development plan recognises tourism as one of the main drivers of the country's economy and employment. Government's industrial policy action plan has identified tourism as a driver of both domestic consumer spending and foreign exchange earnings. The tourism industry is a key labour intensive sector and has the potential to create jobs in urban and rural areas.

During 2013, 88 659 sqm were completed in guest accommodation, which also includes student accommodation, up 94 percent, compared to 2012. During 2013 plans were approved for the construction of additional 174 806 sqm, an increase of 30% compared to 2012. The outlook for the construction of new accommodation is therefore more positive for 2014.

Some recent developments in tourism and related infrastructure :

- In April 2013, new R50m Wild Coast "green" hotel, to be constructed in Elliotdale. This development will be completely powered by renewable energy sources such as solar and wind power.
- In August 2013 the KZN Nature Conservation invited expressions of interest for the development of a new hotel and conference centre in the Royal National Park.
- According to hotel consulting group, STR Global, Hotel stocks have had a dismal four years but there are signs of a recovery. Hotel vacancy rates are starting to show signs of an improvement. All of the major listed stocks with an exposure to the local hotel industry have reported better vacancy rates for the year. According to STR global vacancy rates have improved from 57,8 percent in 2012 to 60,1 percent in 2013. However most firms warn that occupancy rates

are still some 10 percent below the previous peak. The same trend is shown in the rate of project approvals and completions.

- City Lodge, CEO Clifford Ross, however does not believe that there is much going on in terms of new pipeline hotel development.

Capacity to deliver

Weak planning is one of the main contributors to delays and under spending on infrastructure projects, according to Treasury. Government is adopting a new approach with stringent planning requirements for infrastructure grants in education and health. This follows after a decade of building capacity in provincial departments of health, education and public works through the infrastructure delivery improvement programme. According to the 2014 Budget review, this initiative resulted in an average spending improving from 85 percent in 2006 to 95 percent in 2012, during which time the budgets for provincial infrastructure more than doubled.

Conditional grant reforms that took place effect in 2013/14 require provinces to bid for allocations using the planning requirements set out in the new system. Provinces that do this will receive financial incentives.

Progress on building capacity to improve service delivery:

- Treasury is improving monitoring of conditional grant expenditure by municipalities. This was enabled by uniform budgeting and reporting standards across all 278 municipalities. Expenditure reports will be required quarterly.
- Turnaround programme is underway at the Department of Public Works. This includes a review of the leasing function (to be concluded in 2013), a business process re-engineering. Physical verification of the immovable assets record will take place in 2013.
- In 2012/13, R30,7 million was spent by the Department of Transport to monitor the compliance of provinces with guidelines developed for provincial roads maintenance through the provincial roads maintenance grant.
- **Infrastructure transfers to provinces and the application process for infrastructure grants was revised. Provinces will be required to submit building plans two years ahead of implementation and will only receive allocations if plans meet certain benchmarks.**
- Government will be utilising the CIDB's projects register, to improve expenditure monitoring, as well as the management of infrastructure programmes. Information will be released quarterly to improve the visibility of the status of each public infrastructure project under construction. Considering the high levels of under spending against capital budgets, it is hoped that this intervention will improve delivery.
- Departments and municipalities that persistently failed to spend, under spent or misspent their capital expenditure budgets risked losing their allocations.
- The 2014 Budget contributes to the NDP's vision of building a capable state at local government level through various capacity-building programmes. Over the 2014 MTEF more than R3,9bn is allocated for this purpose;
 - o R2,6bn in capacity-building conditional grants mainly allocated to rural municipalities
 - o R857.5m for the Municipal Infrastructure Support Agency (established in 2012) which provides training and technical assistance
 - o R405.5m for the Municipal Financial Management Improvement Programme
 - o R25m to build capacity in 13 rural municipalities that receive the indirect component of the rural household infrastructure grant.

Shifting from conditional grants to indirect transfers to facilitate improve delivery

The contribution of **indirect grants** to provinces is starting to play a growing role in delivering infrastructure and services. An indirect grant allows a national department to perform a function (such as building infrastructure) on behalf of a province or municipality. No funds are transferred, but any infrastructure built is transferred to provincial or municipal ownership. Service-level

Treasury outlines the following criteria for projects to receive support from the fiscus:

- Project is aligned with the priorities set out in the NDP
- Sufficient demand has been demonstrated
- The option proposed is the most efficient, effective solution
- The project is affordable, with a practical and fair method of cost recovery
- The proposed implementing agent is capable of delivery to specification.

Infrastructure transfers to provinces and the application process for infrastructure grants was revised.

Provinces need to **bid** for allocations using infrastructure management delivery system

agreements stipulate that the beneficiary must maintain the new facility. As provinces and municipalities improve their ability to spend funds more effectively indirect grants may be converted back to direct grants. Over the 2014 MTEF period R1,3 bn is shifted from provincial indirect national health grant to the direct health facility revitalisation grant.

In 2014/15 R82 bn will be transferred to provinces through direct conditional grants and R5,4 bn will be spent on their behalf through indirect grants, most of which are for schools and health facilities. Indirect grants make up 6,2 percent of grants to provinces compared to 3,4 percent in the previous year.

Table 3: Provincial equitable share, conditional grants and indirect transfers

	<i>2013/14</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>
Provincial equitable share	338937	362468	387967	412039
Direct Conditional grants	75995	81955	89672	96215
Indirect transfers	2693	5413	5044	4127
Total	417625	449836	482683	512381

In 2014/15, R36 bn will be transferred to municipalities through conditional grants and R7,7 bn will be spent on their behalf through indirect grants. Indirect grants make up 17,6 percent of conditional grants to municipalities compared to 14,3 percent in 2013/14.

- R460m is shifted from the direct integrated national electrification programme grant to its indirect component implemented by Eskom
- R3.3 bn is shifted into a new indirect component of the municipal water infrastructure grant through which the Department of Water Affairs implement water supply projects
- R132.8 m is shifted to the direct component of the rural households infrastructure grant.

Review of municipal infrastructure grants

The roll out of municipal infrastructure continues to be challenged by widespread waste and inefficiency and slow delivery. Treasury has found that municipalities have an over reliance on grant financing, and this has weakened the initiative to obtain other sources of financing. A review of the effectiveness of existing infrastructure grant structures is under way to determine how the system can be improved. Proposed changes to infrastructure grants flowing from the review, could be implemented from 2015/16.

Corruption

The Accountant-General conducted several forensic investigations into irregularities and financial misconduct in the public service. Similar capacity is being established in all provincial treasuries.

For example:

- In Limpopo, 27 forensic investigations have led to more than 300 cases being opened.
- In Free State, 5 officials were dismissed because of illegal road procurement schemes, 6 were suspended from the human settlement department.

There are concerns about corruption, abuse and charging inflated prices for infrastructure projects in the various provincial public works programmes and action is being taken.

National Treasury is working on measures to reduce the scope of corruption:

- A proposal to amend the Treasury regulations to ensure that procurement plans are completed and submitted to national departments for assessment and approval before funds are made available
- Compile a standard pricing guideline and promote more transversal contracting to reduce the number of tenders being issued, to help province review contracts. This is hoped, will reduce opportunities for manipulating supply chain management.

Good financial management is key to obtain qualified audits. In 2011/12 only 42 percent of municipalities (117) were in this category. In the 2012/13 Audit, 44 percent of municipalities qualified (or 122).

Management of State owned enterprises

Considering that a large portion of the total projected public sector infrastructure expenditure emanates from state owned enterprises, it is important how these enterprises are managed to ensure targets are met and planning and implementation is done effectively and efficiently. The Department of Public Enterprises is responsible to drive investment, productivity and transformation within state owned enterprises to unlock growth, drive industrialisation, create jobs and develop skills.

Of importance to the construction industry is the management of Eskom, ACSA and Transnet, as key investors in the country's critical infrastructure. The budget however does not provide much in-depth information on how successful these enterprises are being managed since the inception of the department, and how its performance can be measured. State owned enterprises need to be accountable for infrastructure programmes and this directly relates back to policies implemented by the department to ensure compliance.

The Department of Public Enterprises developed standardised financial and risk reporting templates with enhanced analytical functionality. The department also presented quarterly shareholders reports on state owned enterprises to the Minister, with regards to performance and the detection, monitoring and mitigation of cross-cutting shareholder risk.

The track record of infrastructure spending by SOE's against budgets has been poor, but has nonetheless improved from 62% in 2010/11 to an estimated 79% in 2012/13.

Electricity distribution

Shortage of electricity can lead to a delay in the development of large economic projects, and hamper foreign investment. Increasingly the responsibility is placed on the developer / owner to ensure new projects take cognisance of the future demand for electricity and either include effective demand management or renewable energy generation. The delays experienced at both Medupi and Kusile will increase pressure on the grid, which means an increasing probability of electricity supply disruptions. On the upside, slower than expected economic growth may therefore be seen as a positive in terms of dampening electricity demand.

The increasing cost of electricity is seen as a major challenge to local businesses. NERSA rejected the 16% increase requested by Eskom and instead introduced a 8% increase each year over the next five years, effectively increasing electricity by 46% over five years. Municipalities use electricity as a source of revenue, and often add additional costs to consumers making it even more expensive. Higher production costs impede on a businesses' ability to operate at a competitive level.

Eskom's projected infrastructure spending has been revised downward in the 2014 Budget for the three year period due to lower projected revenue. For the first time, since 2008, Eskom has introduced load shedding, as the commissioning of Medupi power station was delayed due to strike action, and heavy rains experienced in Gauteng in March 2014 affected coal supply.

The NDP proposes that gas and other renewable sources like wind, solar and hydro-electricity will be viable alternatives to coal and will supply at least 20 000 MW of the additional 29 000 MW electricity needed by 2030.

Public-Private-Partnerships (PPP) focus on health and renewable energy

South African law defines a PPP as a contract between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project.

Two types of PPPs are specifically defined:

- where the private party performs an institutional/municipal function
- where the private party acquires the use of state/municipal property for its own commercial purposes A PPP may also be a hybrid of these types.

For a quick update of the projects registered in terms of the Treasury Regulation 16 and Municipal projects registered under the MFMA and MSA, visit www.ppp.gov.za (go to Publications | Projects lists)

Special Economic Zones (SEZ's)

In 2013 the IDZ programme was redesigned and expanded into the special economic zone programme in order to enable the development of diverse types of SEZ's in accordance with the changing national economic development priorities as well as regional development needs.

What is a "special economic zone" or SEZ? Geographically designated areas of a country (or province) set aside for specifically targeted economic activities, which are then supported through special arrangements (which may include laws) and support systems that are often different from those that apply in the rest of the country. It is an economic development tool to promote rapid economic growth by using incentive packages to attract targeted investments and technology. The zone acts as a magnet for investment by offering quality infrastructure, complemented by an attractive incentive package, business support services, cluster development and minimal red tape.

There are 7 types of SEZ's:

- A free port, an area adjacent to a port of entry
- Free trade zones
- Industrial parks
- Science and technology parks
- Sector development zones
- Spatial development corridors
- Industrial Development zones

In the 2013 Budget, R2,9bn was allocated to provide earthworks for purpose-built industrial parks incorporating customs-controlled areas adjacent to international ports or airports. This forms part of the SEZ's fund used to finance site servicing, bulk infrastructure provision and business development of the SEZ's such as feasibility studies and general research. Provision has been made for DFI's to play a major role in funding SEZ's projects.

The industrial Development Corporation (IDC), plans to invest more than R70 bn to fund industrial and business development in the next five years. Current data however shows no real improvement in production activity, while Kagiso's Purchasing Manager Index continues to move sideways (refer fig 5). Thus while funds are being allocated to support industrial development, demand for industrial space will only really increase once these production levels have increased.

Funding to Coega, East London and Richards Bay industrial development zones will be cut as from 2014/15. Spending will be prioritised towards the Critical infrastructure programme (CIP). Funding towards CIP is maintained at R190m over the 2014/15 medium term.

The first phase of construction at the OR Tambo Airport Industrial Development Zone will begin in 2013/14. The bulk works of the jewellery manufacturing precinct will be the first phase in the new development zone. Funding should have been considered in the 2104 Budget, but no progress was provided.

The following tax incentives are proposed, in certain economic zones:

- A 15% corporate income tax rate for businesses in such areas
- An employment incentive allowing for a tax deduction for employment of workers earning less than R60 000 a year.
- An accelerated depreciation allowance for building in these areas, based on the existing regime for urban development zones, to encourage developers to invest more in industrial premises.

- **The Limpopo province was the first to receive provisional approval for two Special Economic Zones.**
- The first will be at the border town of Musina, which serves as South Africa's main land entry port to the rest of South Africa and would focus on logistics and the beneficiation of coal.
- The second will be in the Greater Tubatse municipality, and would explore beneficiation of platinum group metals. A feasibility study is currently underway to establish a hydrogen fuel cell industry in Limpopo.

Spatial Demographics and the equitable share formula

In the 2013 Budget, takes cognisance of the changing demographic landscape taking place in South Africa, based on results from the 2011 Census, which shows population trends since 2001. This has led to Treasury to adjust the equitable share formula to cater for provinces and municipalities that have experienced higher population growth, mainly due to urbanised development.

- The formula for calculating equitable share transfers to provinces has been updated to reflect population changes in the 2011 Census. The changes will be phased in to avoid disruptions.
- Urban Development – according to the 2011 Census, 62% of people live in cities and towns. The population of some municipalities grew by 50% between 2001 and 2011.
- A new formula for the local government equitable share will be introduced in 2013/14 that recognises the need for better differentiated assistance to different municipalities. This means Municipal infrastructure grants will be re-aligned and supports more integrated planning of new developments.
- Gauteng and Western Cape reported the strongest growth up 31% and 29% respectively over the ten year period. Gauteng share of revenue is increased by 1,3% from 18,1% in 2011/12 to 19,4%, and Western Cape from 9,7% to 10,3%.

Table 4: Total transfers to provinces: 2011/12 – 2016/17 (source 2014 Budget)

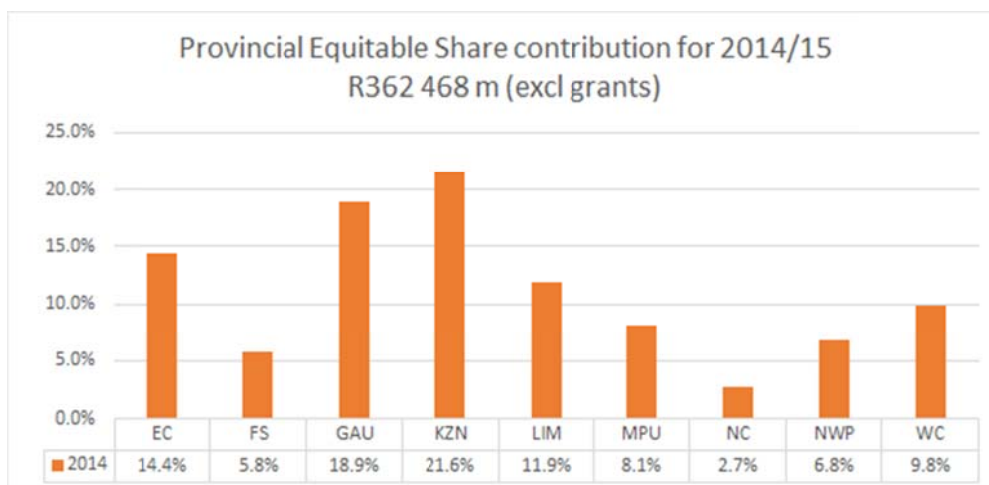
<i>Rm, current prices</i>	2011/12	2012/13	2013/14	2014/15	2015/16
EC	53486	57258	59631	60877	64061
FS	22920	24487	26021	26828	28612
GAU	65648	70858	76885	81926	89630
KZN	76955	83288	88085	91764	97762
LIM	44094	46738	48541	49962	52820
MPU	29189	30829	32998	34700	36607
NC	10740	11298	12295	12874	13886
NWP	24224	25815	27744	29157	31607
WC	35231	37942	41764	43728	47660
UNALLOCATED	0		188	9910	11745
TOTAL	362487	388513	414152	441726	474390

Table 5: Provincial Equitable Share (excl grants): 2014/15 – 2016/17 (Source 2014 Budget)

<i>Rm, current prices</i>	2014/15	2015/16	2016/17	% Change 2014/15 vs 2013/14
EC	52154	55389	57876	-12.5%
FS	20883	22223	23158	-19.7%
GAU	68673	74214	80244	-10.7%
KZN	78138	83348	87887	-11.3%
LIM	43274	46109	48622	-10.9%
MPU	29335	31449	33728	-11.1%
NC	9652	10277	10941	-21.5%
NWP	24707	26528	28386	-10.9%
WC	35631	38431	41196	-14.7%
TOTAL	362468	387967	412039	-12.5%

Table 6: Total transfers to provinces: Percentage contribution: 2011/12 – 2015/16

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
EC	14.8%	14.7%	14.4%	14.4%	14.3%	14.0%
FS	6.3%	6.3%	6.3%	5.8%	5.7%	5.6%
GAU	18.1%	18.2%	18.6%	18.9%	19.1%	19.5%
KZN	21.2%	21.4%	21.3%	21.6%	21.5%	21.3%
LIM	12.2%	12.0%	11.7%	11.9%	11.9%	11.8%
MPU	8.1%	7.9%	8.0%	8.1%	8.1%	8.2%
NC	3.0%	2.9%	3.0%	2.7%	2.6%	2.7%
NWP	6.7%	6.6%	6.7%	6.8%	6.8%	6.9%
WC	9.7%	9.8%	10.1%	9.8%	9.9%	10.0%

**Figure 14: Provincial Equitable Share contribution**

Provincial equitable shares including direct conditional grants and indirect transfers increase by an average of 7 percent a year.

Table 7: Provincial equitable share including direct conditional grants and indirect transfers: 2013/14 – 2016/17

	2013/14	2014/15	2015/16	2016/17
Provincial equitable share	338937	362468	387967	412039
Direct Conditional grants	75995	81955	89672	96215
Indirect transfers	2693	5413	5044	4127
Total	417625	449836	482683	512381

Short to medium term issues

This section of the report deals with the more immediate implications for the construction industry in terms of expected expenditure on infrastructure during the MTEF¹ period which spans over a three year period, from 2013/14 – 2015/16

“Estimates of National Expenditure” is released by National Treasury in conjunction with the Budget Review each year, which outlines detailed information on actual and expected expenditure by department or vote.

¹ MTEF period is the three year rolling period starting from 2014/15 – 2016/17

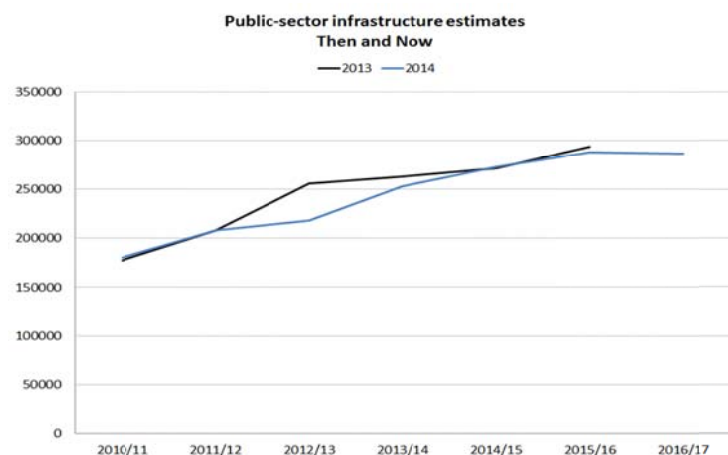
Government's

R847 billion plan

Table 8: Public Sector infrastructure expenditure and estimates, Rm current prices

	2010/10	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF	2013 MTEF	2012 MTEF	2011 MTEF
Total	179900	208200	217800	252600	273000	287700	286700	847,500	827078	844300	808607
% of GDP	6.5%	7.0%	6.8%	7.3%	7.2%	6.9%	6.3%	6.8% (Avg)	7.3%	7.70%	8.40%
Y-Y % Chg (nominal)	-24.52%	15.7%	4.6%	16.0%	8.1%	5.4%	-0.3%	4.0% (Avg)	4.67% (Avg)		

Source: Budget Expenditure Reviews



Key challenges:

- Corruption
- Management of SOE's
- Procurement and project implementation
- Capacity
- Labour unrests / Strikes
- Price pressures (construction costs, inflation)
- Economic growth estimates may disappoint
- Shifting horizons (funding moved / prioritised to end of MTEF period)
- Tighter control on release of conditional grants

Figure 15: Public Sector Infrastructure Estimates: Then and Now

Actual (nominal) expenditure on infrastructure, including all three tiers of government, PPP's, and non-financial public enterprises (ACSA, Eskom, TCTA, Rand water, Transnet and CEF) increased by 16% in 2013/14, and is projected to increase by 8,1% in 2014/15 and 5,4% in 2015/16. It is clear that the nominal growth is projected to slow over the medium term, and that current allocations do not adequately cater for an increase in construction costs. A more prudent approach to infrastructure expenditure was already evident in the allocations made over the last two years and will continue as long as South Africa grapples with poor economic growth and emerging market risks. Average growth in the next three years is projected to slow to 4,6% (not taking into account inflationary costs) which means no real growth is predicted in public sector infrastructure estimates over the medium term expenditure framework period. Construction costs increased by an estimated 6% in 2013 and is expected to increase by between 6% and 8% in 2014.

The contribution of public sector infrastructure expenditure to gross domestic product (GDP) accelerated to 7,3% in 2013/14, according to Treasury, but is projected to slow to 6,3% by 2016/17. This contradicts the target clearly set out in the NDP that public sector infrastructure investment should contribute 10% to GDP.

Government's contribution (national, provincial and municipal) of the total public sector infrastructure expenditure estimates increased to 42,9% in 2013/14 and is projected to increase to 44,2% by 2016/17. Contrary to estimates in the 2013 Budget, the role of

Government's contribution to total public sector infrastructure spending is projected to increase to 44%

government is expected to increase over the medium term, as spending by public entities start to slow.

Table 9: Public Sector Infrastructure Estimates by client type

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	MTEF Total
Economic services	147400	167900	176100	204600	223600	236600	229400	689600
Energy	52200	67100	75100	80600	72300	65500	50600	188400
Water and Sanitation	14600	19200	22600	32400	36500	36900	38500	111900
Transport and logistics	68600	70100	69500	78600	99600	120000	127500	347100
Other economic services	12000	11500	8900	13000	15200	14200	12800	42200
Social services	25700	31200	30200	35700	36500	37900	41500	115900
Health	6700	7700	9700	9800	10500	11300	11600	33400
Education	6200	7800	9800	12100	13500	13600	14000	41100
Other social services	12800	15700	10700	13800	12500	13000	15900	41400
Justice and protection services	3800	2800	4400	4900	4900	5000	6500	16400
Central government, administrative and financial services	3000	6500	6900	7300	7900	8400	9300	25600
Total	179,900	208,400	217,600	252,500	272,900	287,900	286,700	847500
National Departments	7200	6600	9600	11400	14100	14300	16700	45100
Provincial Departments	39100	43400	36400	41800	42600	45500	46600	134700
Local Government	30900	33200	41700	55200	58300	61800	63500	183600
Public Entities	9400	15400	14100	16400	21500	23700	24400	69600
PPP's	7300	10700	2600	3000	3100	3300	3500	9900
Public Enterprises	86000	98900	113400	124800	133400	139100	132000	404500
Total	179900	208200	217800	252600	273000	287700	286700	847400
SOE's								
Eskom			60400	56400	59500	52200	40000	151700
Transnet			27600	25300	41300	51600	55000	147900
Central energy Fund			10200	12800	4900	4800	3800	13500
SANRAL (toll and non-toll)			8100	8300	11900	15800	17000	44700
Trans Caledon Tunnel Authority			1400	1700	4800	2900	2700	10400
Other			2200	2600	4500	4500	4700	13700
Total			109900	107100	126900	131800	123200	381900

Table 10: Public Sector Infrastructure Estimates by client type: Year on year Percentage change (nominal)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	MTEF Avg
Economic services	13.9%	4.9%	16.2%	9.3%	5.8%	-3.0%	4.0%
Energy	28.5%	11.9%	7.3%	-10.3%	-9.4%	-22.7%	-14.2%
Water and Sanitation	31.5%	17.7%	43.4%	12.7%	1.1%	4.3%	6.0%
Transport and logistics	2.2%	-0.9%	13.1%	26.7%	20.5%	6.3%	17.8%
Other economic services	-4.2%	-22.6%	46.1%	16.9%	-6.6%	-9.9%	0.2%
Social services	21.4%	-3.2%	18.2%	2.2%	3.8%	9.5%	5.2%
Health	14.9%	26.0%	1.0%	7.1%	7.6%	2.7%	5.8%
Education	25.8%	25.6%	23.5%	11.6%	0.7%	2.9%	5.1%
Other social services	22.7%	-31.8%	29.0%	-9.4%	4.0%	22.3%	5.6%
Justice and protection services	-26.3%	57.1%	11.4%	0.0%	2.0%	30.0%	10.7%
Central government, administrative and financial services	116.7%	6.2%	5.8%	8.2%	6.3%	10.7%	8.4%
Total	15.8%	4.4%	16.0%	8.1%	5.5%	-0.4%	4.4%
National Departments	-8.3%	45.5%	18.8%	23.7%	1.4%	16.8%	14.0%
Provincial Departments	11.0%	-16.1%	14.8%	1.9%	6.8%	2.4%	3.7%
Local Government	7.4%	25.6%	32.4%	5.6%	6.0%	2.8%	4.8%
Public Entities	63.8%	-8.4%	16.3%	31.1%	10.2%	3.0%	14.8%
PPP's	46.6%	-75.7%	15.4%	3.3%	6.5%	6.1%	5.3%
Public Enterprises	15.0%	14.7%	10.1%	6.9%	4.3%	-5.1%	2.0%
Total	15.7%	4.6%	16.0%	8.1%	5.4%	-0.3%	4.4%
SOE's							
Eskom			-6.6%	5.5%	-12.3%	-23.4%	-10.0%
Transnet			-8.3%	63.2%	24.9%	6.6%	31.6%
Central energy Fund			25.5%	-61.7%	-2.0%	-20.8%	-28.2%
SANRAL (toll and non-toll)			2.5%	43.4%	32.8%	7.6%	27.9%
Trans Caledon Tunnel Authority			21.4%	182.4%	-39.6%	-6.9%	45.3%
Other			18.2%	73.1%	0.0%	4.4%	25.8%
Total			-2.5%	18.5%	3.9%	-6.5%	5.3%

Table 11: Public Sector Infrastructure Estimates by client type: Market Share

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	MTEF Total
Economic services	80.6%	80.9%	81.0%	81.9%	82.2%	80.0%	81.4%
Energy	32.2%	34.5%	31.9%	26.5%	22.8%	17.6%	22.2%
Water and Sanitation	9.2%	10.4%	12.8%	13.4%	12.8%	13.4%	13.2%
Transport and logistics	33.6%	31.9%	31.1%	36.5%	41.7%	44.5%	41.0%
Other economic services	5.5%	4.1%	5.1%	5.6%	4.9%	4.5%	5.0%
Social services	15.0%	13.9%	14.1%	13.4%	13.2%	14.5%	13.7%
Health	3.7%	4.5%	3.9%	3.8%	3.9%	4.0%	3.9%
Education	3.7%	4.5%	4.8%	4.9%	4.7%	4.9%	4.8%
Other social services	7.5%	4.9%	5.5%	4.6%	4.5%	5.5%	4.9%
Justice and protection services	1.3%	2.0%	1.9%	1.8%	1.7%	2.3%	1.9%
Central government, administrative and financial services	3.1%	3.2%	2.9%	2.9%	2.9%	3.2%	3.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
National Departments	3.2%	4.4%	4.5%	5.2%	5.0%	5.8%	5.3%
Provincial Departments	20.8%	16.7%	16.5%	15.6%	15.8%	16.3%	15.9%
Local Government	15.9%	19.1%	21.9%	21.4%	21.5%	22.1%	21.7%
Public Entities	7.4%	6.5%	6.5%	7.9%	8.2%	8.5%	8.2%
PPP's	5.1%	1.2%	1.2%	1.1%	1.1%	1.2%	1.2%
Public Enterprises	47.5%	52.1%	49.4%	48.9%	48.3%	46.0%	47.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE's							
Eskom		55.0%	52.7%	46.9%	39.6%	32.5%	39.7%
Transnet		25.1%	23.6%	32.5%	39.2%	44.6%	38.7%
Central energy Fund		9.3%	12.0%	3.9%	3.6%	3.1%	3.5%
SANRAL (toll and non-toll)		7.4%	7.7%	9.4%	12.0%	13.8%	11.7%
Trans Caledon Tunnel Authority		1.3%	1.6%	3.8%	2.2%	2.2%	2.7%
Other		2.0%	2.4%	3.5%	3.4%	3.8%	3.6%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

State owned enterprises (SOE's) spent 82% of allocations

Investment by SOE's stabilised in 2013 after recording strong growth during the first half of 2012, according to Treasury. Capital expenditure is however expected to increase only moderately over the medium term, and likely to contract in real terms. Total medium term capital expenditure by the major state-owned companies is projected to reach R381.9bn. Investments by Eskom, Transnet, and SANRAL account for 90% of this amount.

Spending by SOE's may have improved from spending only 60% of allocations in 2011/12 to 80% by 2013/14, but this still translated to non-expenditure of close to R30bn during 2012/13. It is estimated that 82% of the R129.8 budget was spent in 2013/14 (R107.1bn), resulting in non-expenditure of R22.7 bn.

A large portion (43%, or R183bn) of the funding required for infrastructure by SOE's is expected to be raised in the debt markets, with the rest coming from own revenues.

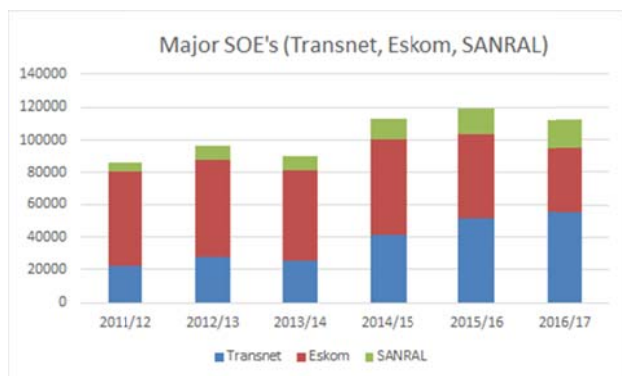


Figure 16: Major SOE's infrastructure allocations

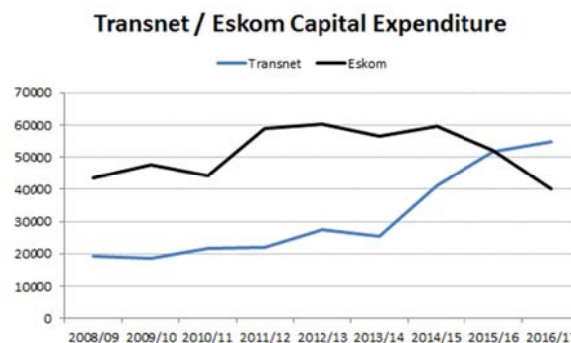


Figure 17: Transnet vs Eskom Capital Expenditure 2008/09 – 2016/17

Transnet

Transnet announced in January 2014 that the next wave of capital investment will start in 2014/15 peaking in 2016/17. This follows after Transnet reviewed their capital expenditure programmes last year due to slower than expected economic growth. Despite the prolonged economic slowdown Transnet has continued to post a strong financial performance over the past three years. Revenue grew by an average of 16% per year during the period under review. In 2012/13 Transnet introduced the “market demand strategy” which aims to increase capacity through infrastructure investments and efficiency improvements. The strategy is underwritten by a rolling capital expenditure programme of just over R300bn for the seven year period. Transnet will spend R121 bn between 2013/14 and 2015/16 most of which will be spent on the rail division in order to replace the aged locomotive and wagon fleet.

In October 2013, credit rating agency, Fitch, upgraded Transnet's credit rating by two notches to BBB (*medium class company, which is satisfactory at the moment*). This will allow Transnet to raise funds in the market on the strength of its balance sheet without government guarantees. This is good news for government who can then channel its fiscus to other priorities.

By 2016/17 Transnet's contribution to total SOE infrastructure expenditure will exceed that of Eskom.

Transnet capital expenditure flag-ship projects are the proposed Durban dig-out port (DDOP), R75bn (PPP project) and Richards Bay bulk-ship loader, R140m.

NERSA granted a 6,4% increase to Transnet's petroleum pipeline tariffs for 2013/14, in March 2013. Transnet initially applied for a 22,6% increase in its allowable revenue, which would have resulted in a 4,7c/litre increase in inland petroleum product prices. Transnet CEO, Brian Molefe expects objection from the mining sector regarding plans to hike cargo tariffs on dry bulk by more than two thirds and reduce those on manufactured goods. (E-library ref: 16992).

Eskom

I Mw is enough to power about 200 middle income South African homes at

Eskom had contracted capacity of 1 135 MW from IPP's as at the end of March 2013. However, high prices and the expectation of payment in dollars are delaying purchase agreements between Eskom and the IPP's. The IPP's could have supplied 1750 MW and had a potential to supply 2320 MW.

Between 2011/12 and 2018/19 Eskom's build programme is estimated at R330bn. As at September 2013 88% of the required funding has been secured which will ensure that the build programme continues uninterrupted. This may however change as Eskom reprioritises and responds to the revenue shortfall following future electricity price increase decisions.

Eskom plans to deliver a further 11 126 MW capacity into the system, which will go a long way towards addressing current electricity constraints.

Over the long term Eskom's planned capacity expansion programme is expected to double capacity to 80 000 MW by 2026, including power stations Medupi, Kusile and Ingula.

It is equally important that Eskom improves management of its debtors, including municipalities. Eskom was owed more than R2,3 bn by various municipalities as at March 2014.

Construction Exposure to the R847 Infrastructure Budget

Table 12: Estimated Construction Exposure to Government's R847bn

	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
	Estimate	Budget	Budget	Budget	Budget	Budget
Revised Rm current prices	131690	160910	166965	180515	187125	534,6
Construction Exposure (Estimated)	60%	64%	61%	63%	65%	
Construction Exposure - SOE's (Transnet, Eskom, ACSA, TCTA, CEF)	42%	41%	36%	38%	37%	
Construction Exposure – Government (Central, Provincial, Local, PPP's)	84%	84%	84%	84%	84%	

- Estimates are own including feedback from stakeholders.
- Exposure to renewable energy is estimated at between 50% and 60%
- Exposure to base load power construction is estimated at 10%
- SOE's have a lower exposure rate to the construction industry due to purchases of machinery and equipment as part of infrastructure expenditure. Such purchases included for example turbines in the construction of power stations, railing stock.
- Government's infrastructure expenditure programme has a higher exposure to construction
- Exposure to Transnet's capital expenditure programme reduced to 40% due to increased focus on rail stock

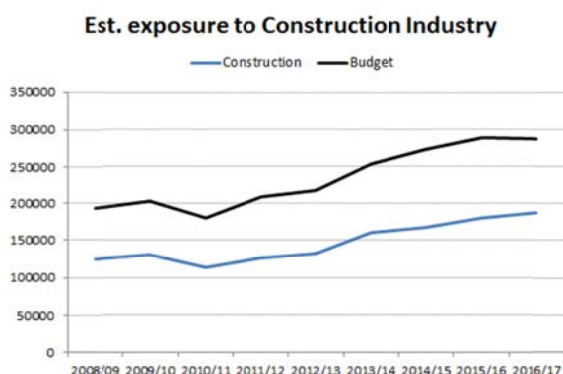


Figure 19: Estimated construction exposure

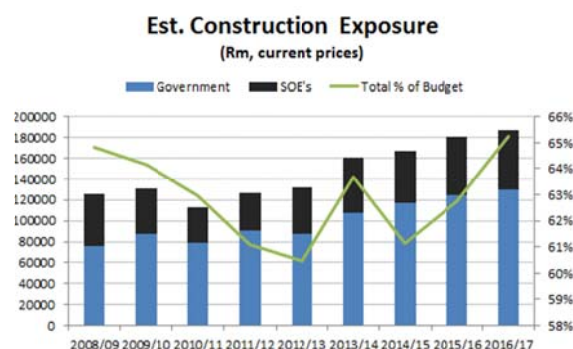


Figure 18: Estimated construction exposure by client type

Table below includes a list of major public sector infrastructure projects, at various stages as published in the 2013 Budget. No further updates were received in the 2014 Budget.

Table 13: Major public sector infrastructure projects – various stages

Sector	Project Name	Total project cost Rbn	Implementation Agent	Project objective and completion target date	Completion target date	Status
Energy	Kusile	141	Eskom	Construction of 4800 MW coal-fired power station, first unit commissioned by 2014	2018	Work plan revised in response to labour concern. First unit to be operational by 2015 with full generation by 2018
Energy	Medupi	99	Eskom	Construction of 4788 MW coal-fired power station, first unit commissioned by 2013	2015 (last unit)	Delays experienced first unit to be delivered 2014 with full generation by 2015
Energy	Ingula Pumped storage scheme	21.4	Eskom	Construction of 1332 MW hydroelectric power station	2014	First twin turbines installation under way, to be completed 2014
Energy	Grootvlei	7.8	Eskom	Return to service of 1108 MW power station	2012	Civil works complete, commissioning in progress
Energy	Renewable Energy	120	IPP's	3725 MW of renewable energy procured into national grid by 2016	2016	First two bidding rounds completed for procurement of 1415 MW and 1044 MW, third round due August 2013
Energy	Open cycle gas turbines	15.4	IPP's	1000 MW power plant	2021	Tendering process undertaken
Energy	New distribution network	88.0	Eskom	Install new distribution network	Ongoing	Ongoing
Energy	Electricity distribution	27.5	Eskom and municipalities	Maintain refurbish and strengthen distribution assets	Ongoing	Ongoing

	backlog					
Energy	New transmission lines	95	Eskom	Upgrade and new transmission lines	2017	Work in progress
Energy	Solar water geysers	3.6	Eskom and municipalities	Install solar water geysers in low income houses	Ongoing	286 065 solar water geysers installed
Energy	Nuclear fleet	300	Eskom	9600 MW	2029	Final stages of consideration before financial proposal can be determined
Energy	Grand Inga	200	DRC	40 000 MW hydroelectric project	Unknown	Draft treaty approved by Cabinet negotiations on treaty of joint cooperation with DRC soon
Energy	Solar Park	200	Central Energy Fund	5Gw scale solar park in the Northern Cape	Unknown	Feasibility study delayed to be completed in 2013
Energy	Closed cycle gas turbine	13.6	IPP's	2405 MW additional gas turbines	2029	Option under the integrated resource plan
Energy	Coal Three	111	Eskom	Third coal fired power plant	Unknown	Feasibility aspects being considered
Energy	Imported hydroelectric options	52.2	Eskom	Hydroelectric gas and coal projects in Southern African countries	Unknown	Options of off-take agreements and financial support for projects being considered
Transport	Passenger Railways	80	PRASA	Acquire a new fleet of rolling stock over 20 years	2032	Contract negotiations and first coaches in 2015
Transport	National Road improvements	45.4	SANRAL	Maintenance improvements, refurbishment and new roads	Ongoing	Ongoing
Transport	Rolling stock and locomotives for freight rail	7.7	Transnet	Acquire rolling stock and locomotives for general freight rail	Ongoing	110 new locomotives purchased
Transport	Provincial road improvements	25.5	Provincial Road Departments	Maintenance, refurbishment and new roads	2015	Work in progress
Transport	Ncqura container terminal	7.9	Transnet	Improve port capacity by 800 000 units, first phase completed in 2012	2013	Port complete, 5 berths fully functional and construction of port rail line under way.
Transport	Iron-ore line	13	Transnet	Expand Sishen-Saldanha iron ore railway line	2013	Feasibility studies completed
Transport	Moloto rail	10	Transnet	140 km line from Pretoria to Siyabuswa	Unknown	Feasibility study under way
Transport	Manganese rail and terminal	18	Transnet	Upgrade rail, port and terminal capacity for manganese exports	Unknown	Feasibility study under way
Transport	High speed rail	300	Department of Transport	Build a passenger or freight line between Durban and Johannesburg	Unknown	Concept
Transport	N2/R72 PE to East London	5.3	SANRAL	Capacity upgrades additional lanes and resurfacing	Unknown	Conceptual designs drafted
Transport	N2 Richards Bay to Ermelo	6.2	SANRAL	Capacity upgrades additional lanes and resurfacing	Unknown	Conceptual designs and traffic and toll feasibility studies completed
Transport	Coal line	37	Transnet	Upgrade of the coal line from Mpumalanga to Richards Bay to 80mt over 10 years	2022	Feasibility studies completed
Water	Mokolo-Crocodile water augmentation project	14.0	TCTA	Phase 1 of project to deliver water, phase 2 in progress	2014	Financing in progress for phase 2
Water* (removed)	Olifants river water resource development project - Phase 2	16.1	Department of Water Affairs and TCTA	Construction of dam	2013	No update provided in 2013 Budget
Water * (removed)	Olifants river water resource development project - Phase 2		Department of Water Affairs and TCTA	Bulk distribution system	2016	No update provided in 2013 Budget

Water	Lesotho Highlands water project phase 2	7.5	TCTA	Generation of hydroelectric power and development of water transfer scheme	Unknown	Memorandum of agreement ratified, financing options under discussion and tender for designs underway.
Water	Komati	1.7	TCTA	Construction of water pipeline in Mpumalanga	2012	Duvha line 97% complete, Matla 7km pipes delivered and pump station civil works complete. Water delivery soon
Water	Sedibeng regional sanitation scheme	5	Sedibeng district municipality, Midvaal and Emfuleni local municipality	Increasing capacity of wastewater treatment system	Unknown	Designs for treatment plant finalised and tenders for construction advertised. Tenders for Sebokeng and Meyerton sub regions are being adjudicated.
Water	Mzimvubu water resources development	20	Dept of Water Affairs	Build dam for hydroelectric and agricultural irrigation scheme	Unknown	Feasibility studies to be undertaken
Water	Rehabilitation of Dams	2.7	DWAF	Dam safety rehabilitation programme	Ongoing	30 dams completed, 25 dams in design and 7 dams under construction
Liquid Fuels	Oil and Gas exploration on the west coast (PetroSA)	8.5	Central Energy Fund	Exploration of commercially recoverable oil and gas volumes	Unknown	Well drilling, ongoing, including deepwater oil exploration
Liquid fuels	New multiproduct pipeline (Transnet)	23.4	Transnet	Construct trunk line from Durban to Jameson Park, northern pipeline network and terminals.		Trunk line completed in 2012, construction of terminals under way
Liquid Fuels * (removed)	Project Mthombo	200	PetroSA	Build 360 000 bpd crude oil refinery at Coega and supporting infrastructure	Unknown	Feasibility studies underway for smaller-sized refinery
Education	Mpumalanga University	10	Mpumalanga province	A new university	Unknown	Feasibility studies completed – Funding committed.
Education	Northern Cape University	10	Northern Cape Province	A new university	Unknown	
Hospitals	Limpopo Academic Hospital	6	Limpopo Dept of Health	Develop academic hospital, 600 bed - construction should have started in 2011	Unknown	Feasibility studies in progress
Hospitals	Nelson Mandela Hospital	6	Eastern Cape Dept Health	Upgrade and rehabilitation of hospital	Unknown	
Hospitals	Chris Hani Baragwaneth Hospital	6	Gauteng Dept Health	Upgrade and rehabilitation of hospital	Unknown	
Hospitals	Dr George Mukhari Hospital	6	Gauteng Dept Health	Upgrade and rehabilitation of hospital	Unknown	
Hospitals	King Edward V III	6	KZN Department of Health	Upgrade and rehabilitation of hospital	Unknown	
Housing	Comubia Housing development	5.1	Housing development agency and eThekweni Metropolitan Municipality	19313 mixed-home, mixed-density houses	2016/17	Detailed engineering design started and pilot phase construction
Housing	N2 Gateway	2.3	Housing development agency and Western Cape Department of Housing	22 000 low income housing	2013	No update provided in 2013 Budget
Correctional	PPP Prisons	8.0	Department of correctional services	Upgrading of accommodation and related services to support the transformation process of correctional services facilities	2013	No update provided in 2013 Budget

Source: 2011, 2012, 2013 Budget Reviews

Table 14: Government Infrastructure expenditure 2010/11 – 2016/17 (Excl SOE's)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Infrastructure expenditure (Government) Current prices, Rm	71,493,200	89,806,100	93,281,570	102,222,800	116,748,000	130,847,100	138,922,000	386,517,100
Infrastructure expenditure Constant 2005 prices, Rm	45,535,996	53,708,909	53,130,884	54,927,914	58,085,940	60,278,428	59,257,741	177,622,109
Infrastructure expenditure Real Annual Change	4.4%	17.9%	-1.1%	3.4%	5.7%	3.8%	-1.7%	2.61%
Building cost index: 2005 = 100	184.9	196.4	206.8	219.6	232.6	245.4	245.4	
Construction cost index: 2005 = 100: Annual percentage change	4.0%	6.5%	5.0%	6%	8.0%	8.0%	8.0%	

Source: Estimates of National Expenditure, Industry Insight

Infrastructure Expenditure Estimates (excl State owned entities)
Rm, current prices
2008/09 - 2016/17

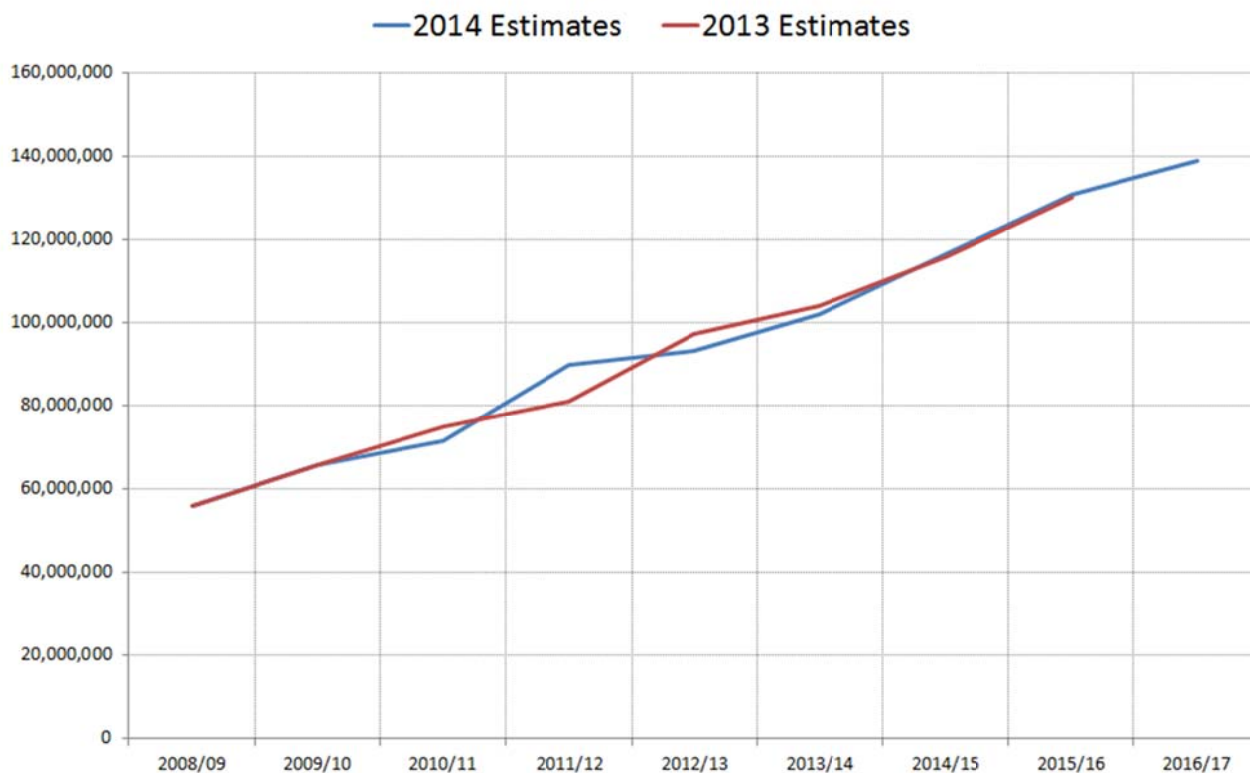


Figure 20: Government Infrastructure Expenditure estimates (excl SOE's): 2013 Estimates vs 2014 Estimates

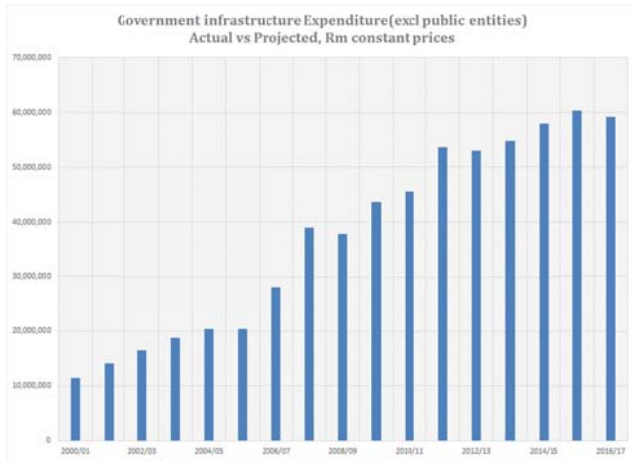


Figure 21: National Infrastructure Expenditure, Rm constant prices

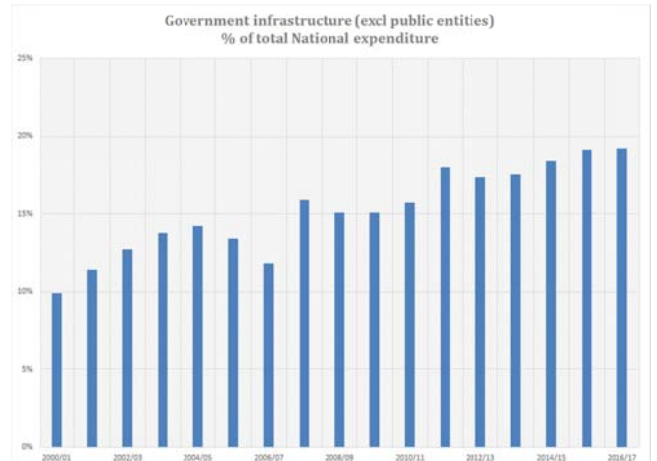


Figure 22: Government infrastructure expenditure, % of total national expenditure

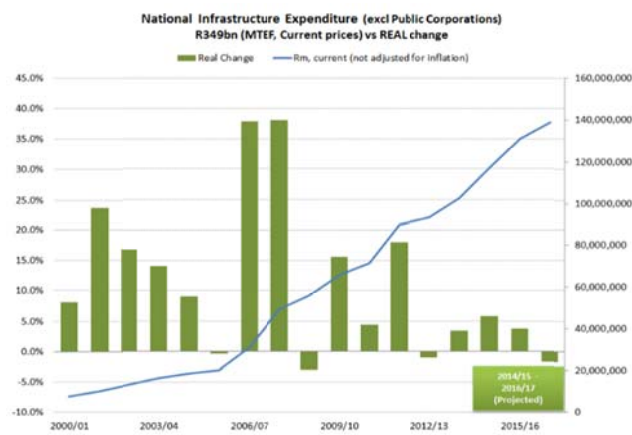


Figure 23: National Infrastructure Expenditure: Real Annual Change

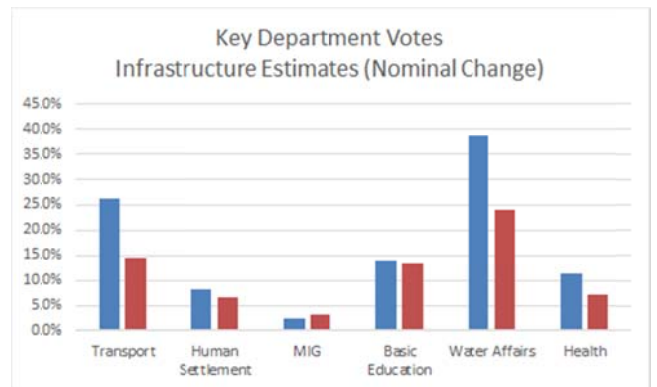


Figure 24: Government infrastructure expenditure of key votes, percentage change 2014/15 vs MTEF Average

Construction Cost Inflation

Price adjustments were slightly more aggressive in 2013, due to a weaker currency, higher oil prices and rising inflation. Construction costs are influenced by price changes in plant equipment, materials, labour and fuel. Input costs for construction (average cost to contractor, not the final price to clients) increased by an average rate of 4,6% in 2012, compared to 6,5% in 2011. Price adjustments were more moderate because of more stable fuel prices.

The outlook for 2014 assumes a further weakening in the currency and potentially higher international oil prices, including an acceleration in the consumer price index. Steel prices have already started to increase more rapidly in 2014, and shortages of materials such as bitumen will also put upward pressure on prices. The composite index is therefore expected to accelerate from an average increase of 5,7% in 2013 to an average of 8,1% in 2014.

Table 15: Construction Cost Inflation

<i>Index 2012=100</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Plant	98.4	100.0	106.3	119.0	121.4
Fuel	91.9	100.0	107.2	121.3	129.9
Materials	96.2	100.0	104.3	111.1	117.1
Labour	186.6	197.2	208.5	221.0	233.8
Composite	123.6	129.1	136.4	147.5	154.7
Y-Y Inflation					
Plant	0.1	1.6	6.3	12.0	2.0
Fuel	30.5	8.8	7.2	13.1	7.1
Materials	2.4	3.9	4.3	6.5	5.4
Labour	5.0	5.7	5.8	6.2	5.9
Composite	4.7	4.5	5.7	8.1	4.9

Infrastructure expenditure by Vote

There are various national departments that either directly or indirectly affect the construction industry. There are 6 key departments that are responsible for 85% of total infrastructure expenditure.

1. Department of Transport
2. Human Settlements
3. Cooperative Governance and Traditional Affairs (MIG)
4. Department of Basic Education
5. Department of Water Affairs
6. Department of Health

From within these national departments there are dedicated programmes to facilitate aspects such as planning, development and expenditure. We have tried to highlight those programmes directly responsible for construction related expenditure during the medium term.

Table 16: Infrastructure Expenditure: Major Votes

<i>Major Votes</i>	<i>2014 MTEF '000</i>
Transport	111,567,300
Human Settlement	90,428,500
Municipal Infrastructure Grant (MIG)	45,548,700
Education (Basic Education and Higher Education)	44,538,200
Water	27,678,100
Health	19,117,000
Safety Related (Defense, Police and Correctional Services)	12,899,800
IDZ's and SEZ's (DTI)	4,154,500
Sub-total	355,932,100
Total	386,517,100
% of total	92%

Source: National Treasury, Industry Insight

Estimated expenditure by key construction sector

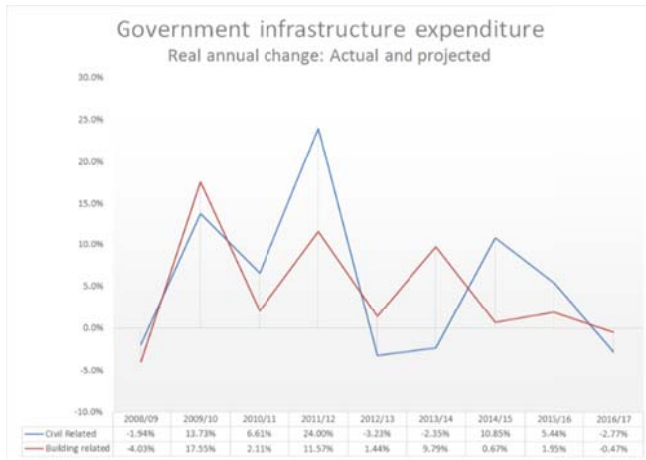


Figure 25: Building vs Civil related expenditure (estimated real annual change)

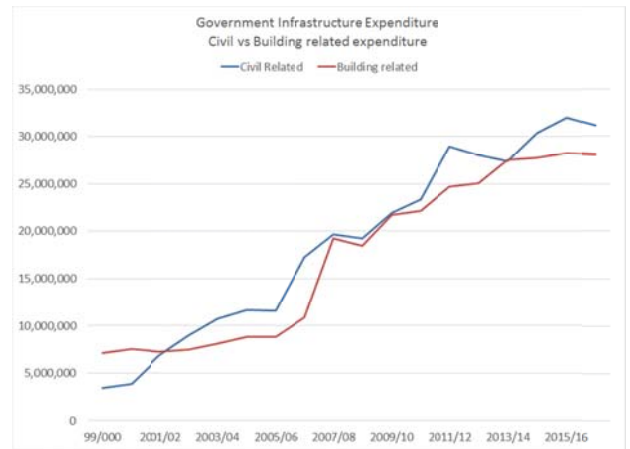


Figure 26: Civil vs Building related infrastructure expenditure, Rm, constant prices

Although infrastructure expenditure by vote can't be exactly categorised by sector (building and civil), we assume certain votes have a higher tendency to a particular sector, for example, Human settlements would be classified as building related, while Transport would be categorised as being more civil related. The purpose of this exercise is to understand the (changing) role of the public sector within the building and civil industries. Allocations towards civil projects have increased over the medium term mainly due to increased allocations in transport and water. Allocations towards social infrastructure are projected to moderate over the medium term, with no real growth projected. Government has a lesser impact on investment in building, generally dominated by the private sector.

Table 17: Government Infrastructure Expenditure (Excl SOE's), R mill, current prices, by vote

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Water Affairs	2,466,400	3,569,300	4,950,800	5,508,300	7,640,000	9,741,900	10,296,200	27,678,100
Transport	18,701,400	28,101,400	25,016,600	26,712,700	33,727,300	37,980,400	39,859,600	111,567,300
Public Works	1255900	1011400	713000	676200	510400	844000	885200	2,239,600
Health	4257100	5683400	5524400	5471000	6097000	6324400	6695600	19,117,000
Human Settlements	18108700	21575900	22992800	26268000	28381400	30281100	31766000	90,428,500
Cooperative Governance and Traditional Affairs	9704300	11443500	13879200	14354400	14683800	15098100	15766800	45,548,700
National Treasury	1051500	887900	810700	824300	826300	835300	901100	2,562,700
Arts and Culture	447800	364300	229800	509500	540100	564900	594900	1,699,900
Labour	16900	7100	8600	5500	0	0	0	0
International Relations and Cooperation	134500	205200	113000	202900	214000	223800	235700	673,500
Home Affairs	67200	78900	27600	78200	183300	93800	96400	373,500
Science and Technology	236900	417700	483700	579100	992400	1056700	1061600	3,110,700
Correctional Services	950900	592400	744500	803100	813000	819900	863400	2,496,300
Defense	699900	530700	1381700	1207700	1043300	1041300	2183500	4,268,100
Justice and Constitutional Development	542500	683600	621200	784600	844500	784100	1046900	2,675,500
Police	1118200	671100	691600	1036900	1099900	1149500	1210500	3,459,900
Agriculture, Forestry and Fisheries	121300	262200	555200	468400	710100	691400	430700	1,832,200
Communications	191000	533900	0	624300	131800	64900	68300	265,000
Environmental affairs	601700	642800	337500	405700	546400	608200	540200	1,694,800
Rural Development and Land Reform	6900	20800	470	2200	0	0	0	0
Energy	4,263,100	4,462,300	4,589,100	3,575,000	4,149,300	5,837,200	6,146,600	16,133,100
Trade and Industry	1224300	837300	949500	1144000	840000	1390000	1924500	4,154,500
Parliament	0	0	0	0	0	0	0	0
Basic Education	3227200	5597700	6860700	8830800	10073700	12116200	12873400	35,063,300
Higher Education and Training	1,585,000	1,625,300	1,799,900	2,150,000	2,700,000	3,300,000	3,474,900	9,474,900
Grand total	71,493,200	89,806,100	93,281,570	102,222,800	116,748,000	130,847,100	138,922,000	386,517,100

Source: National Expenditure Estimates, Industry Insight

Table 18: Government Infrastructure Expenditure (Excl SOE's), R mill, constant 2005 prices, by vote

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Water Affairs	1,570,918	2,134,635	2,819,854	2,959,804	3,801,149	4,487,883	4,391,886	12,680,918
Transport	11,911,439	16,806,158	14,248,839	14,353,675	16,780,432	17,496,749	17,002,274	51,279,455
Public Works	799,917	604,872	406,107	363,346	253,941	388,813	377,586	1,020,339
Health	2,711,465	3,398,981	3,146,562	2,939,761	3,033,456	2,913,514	2,856,035	8,803,006
Human Settlements	11,533,932	12,903,556	13,096,132	14,114,722	14,120,673	13,949,848	13,549,916	41,620,436
Cooperative Governance and Traditional Affairs	6,180,937	6,843,832	7,905,250	7,713,125	7,305,670	6,955,368	6,725,392	20,986,430
National Treasury	669,729	531,012	461,755	442,925	411,111	384,805	384,368	1,180,284
Sport and Recreation South Africa	326,489	0	0	0	0	0	0	0
Arts and Culture	285,216	217,871	130,888	273,772	268,717	260,237	253,757	782,712
Labour	10,764	4,246	4,898	2,955	0	0	0	0
International Relations and Cooperation	85,667	122,721	64,362	109,025	106,472	103,100	100,539	310,111
Home Affairs	42,802	47,186	15,720	42,020	91,198	43,212	41,120	175,529
Science and Technology	150,888	249,807	275,504	311,171	493,751	486,799	452,830	1,433,380
Correctional Services	605,655	354,287	424,049	431,534	404,494	377,710	368,287	1,150,491
Defense	445,786	317,387	786,982	648,940	519,076	479,704	931,381	1,930,161
Justice and Constitutional Development	345,533	408,830	353,820	421,593	420,166	361,218	446,559	1,227,944
Police	712,212	401,354	393,918	557,163	547,236	529,550	516,344	1,593,130
Agriculture, Forestry and Fisheries	77,259	156,810	316,228	251,688	353,298	318,513	183,717	855,528
Communications	121,653	319,301	0	335,458	65,575	29,898	29,134	124,606
Environmental affairs	383,239	384,429	192,232	217,997	271,852	280,185	230,424	782,461
Rural Development and Land Reform	4,395	12,440	268	1,182	0	0	0	0
Energy	2,715,286	2,668,697	2,613,838	1,920,974	2,064,412	2,689,072	2,621,857	7,375,341
Trade and Industry	779,791	500,751	540,812	614,712	417,927	640,343	820,903	1,879,174
Parliament	0	0	0	0	0	0	0	0
Basic Education	2,055,493	3,347,728	3,907,686	4,745,100	5,011,995	5,581,671	5,491,201	16,084,867
Higher Education and Training	1,009,530	972,017	1,025,179	1,155,271	1,343,338	1,520,239	1,482,233	4,345,809
Total	45,535,996	53,708,909	53,130,884	54,927,914	58,085,940	60,278,428	59,257,741	177,622,109

Source: National Expenditure Estimates, Industry Insight

Table 19: Government Infrastructure Expenditure, R mill, constant 2005 prices, by vote, Real Annual Percentage Change

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF average
Water	20.0%	35.9%	32.1%	5.0%	28.4%	18.1%	-2.1%	14%
Transport	6.1%	41.1%	-15.2%	0.7%	16.9%	4.3%	-2.8%	6.1%
DPW	-3.7%	-24.4%	-32.9%	-10.5%	-30.1%	53.1%	-2.9%	6.7%
Health	22.3%	25.4%	-7.4%	-6.6%	3.2%	-4.0%	-2.0%	-0.9%
Human Settlements	14.3%	11.9%	1.5%	7.8%	0.0%	-1.2%	-2.9%	-1.3%
Cooperative Governance	6.9%	10.7%	15.5%	-2.4%	-5.3%	-4.8%	-3.3%	-4.5%
National Treasury (Neighbourhood programme)	33.8%	-20.7%	-13.0%	-4.1%	-7.2%	-6.4%	-0.1%	-4.6%
Sport & Recreation South Africa	-77.3%	-100.0%	-	-	-	-	-	-
Sub-total	6.9%	21.1%	-2.6%	1.9%	6.6%	1.9%	-2.8%	1.9%
Arts and Culture	-4.3%	-23.6%	-39.9%	109.2%	-1.8%	-3.2%	-2.5%	-2.5%
Labour	-39.6%	-60.6%	15.4%	-39.7%	-100.0%	-	-	-
Foreign Affairs	-21.8%	43.3%	-47.6%	69.4%	-2.3%	-3.2%	-2.5%	-2.7%
Home Affairs	15.2%	10.2%	-66.7%	167.3%	117.0%	-52.6%	-4.8%	19.9%
Science and Technology	-67.4%	65.6%	10.3%	12.9%	58.7%	-1.4%	-7.0%	16.8%
Correctional Services	9.7%	-41.5%	19.7%	1.8%	-6.3%	-6.6%	-2.5%	-5.1%
Defense	-21.9%	-28.8%	148.0%	-17.5%	-20.0%	-7.6%	94.2%	22.2%
Justice and Constitutional Development	-11.6%	18.3%	-13.5%	19.2%	-0.3%	-14.0%	23.6%	3.1%
Safety and Security	0.5%	-43.6%	-1.9%	41.4%	-1.8%	-3.2%	-2.5%	-2.5%
Agriculture	-2.8%	103.0%	101.7%	-20.4%	40.4%	-9.8%	-42.3%	-3.9%
Communications	-77.6%	162.5%	-100.0%	-	-80.5%	-54.4%	-2.6%	-45.8%
Environmental affairs and Tourism	21.2%	0.3%	-50.0%	13.4%	24.7%	3.1%	-17.8%	3.3%
Land Affairs	137.0%	183.1%	-97.8%	341.6%	-100.0%	-	-	-
Energy	62.9%	-1.7%	-2.1%	-26.5%	7.5%	30.3%	-2.5%	11.7%
Trade and Industry	-16.3%	-35.8%	8.0%	13.7%	-32.0%	53.2%	28.2%	16.5%
Basic Education	-20.1%	62.9%	16.7%	21.4%	5.6%	11.4%	-1.6%	5.1%
Higher Education and Training	4.2%	-3.7%	5.5%	12.7%	16.3%	13.2%	-2.5%	9.0%
Grand total	4.4%	17.9%	-1.1%	3.4%	5.7%	3.8%	-1.7%	2.6%

Note: Current prices deflated using Industry Insight estimated building cost escalations for 2010/11 - 2016/17

Department of Transport

The aim of the Department of Transport is to establish a national transport system that enables national, provincial and local provision of efficient, affordable and fully integrated infrastructure and services that best meet the needs of transport users and promote economic and social development while being environmentally and economically sustainable.

Total expenditure is expected to increase to R111,5 bn over the medium term, from R25 bn in 2012/13, to R39,8 bn in 2016/17. Growth outlook is favourable, projected to increase by 26,3% in 2014/15, averaging 14.6% over the MTEF.

Table 20: Summary of expenditure on infrastructure, current prices, R'000: Department of Transport

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
SANRAL Road projects	2,847,500	4,065,200	11,477,300	6,602,600	7,043,500	8,180,800	8,545,700	8,998,600	25,725,100
PRASA (Rail)	3,831,800	5,110,300	6,134,800	6,701,100	7,481,100	10,711,000	9,681,500	10,194,700	30,587,200
Public Transport Infrastructure and systems grant	2,421,200	3,699,500	4,611,600	4,884,400	4,668,700	5,126,000	5,278,900	5,558,700	15,963,600
Provincial Road maintenance grant	4,162,200	4,080,100	5,872,400	6,828,500	7,519,500	9,361,500	9,952,300	10,291,900	29,605,700
Total	16,239,300	17,393,500	28,096,100	25,016,600	26,712,700	33,727,300	37,980,400	39,859,600	111,567,300
SANRAL contribution	17.5%	23.4%	40.9%	26.4%	26.4%	24.3%	22.5%	22.6%	23.1%

Table 21: Summary of expenditure on infrastructure, current prices, R'000: Department of Transport: Annual Change

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF Avg)
SANRAL Road projects	182.3%	-42.5%	6.7%	16.1%	4.5%	5.3%	8.6%
PRASA (Rail)	20.0%	9.2%	11.6%	43.2%	-9.6%	5.3%	13.0%
Public Transport Infrastructure and systems grant	24.7%	5.9%	-4.4%	9.8%	3.0%	5.3%	6.0%
Provincial Roads Maintenance grant	43.9%	16.3%	10.1%	24.5%	6.3%	3.4%	11.4%
Total	61.5%	-11.0%	6.8%	26.3%	12.6%	4.9%	14.6%

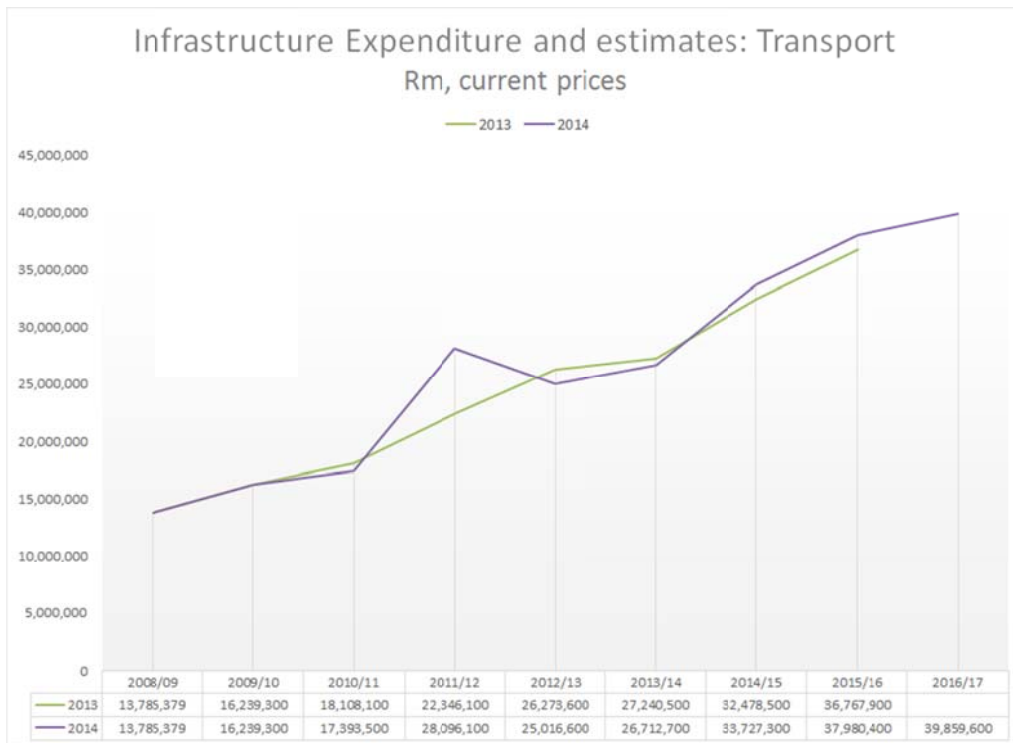
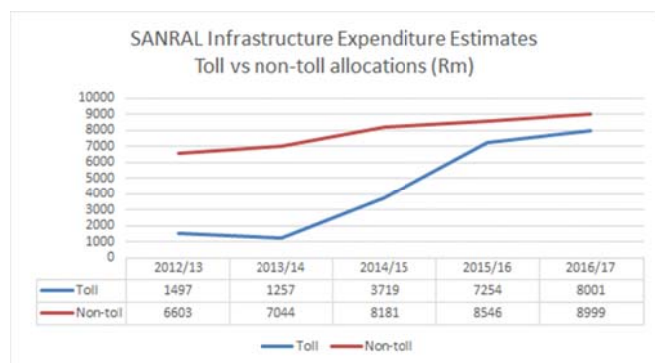


Figure 27: Dept Transport Infrastructure Expenditure actual vs estimates: 2013 MTEF vs 2014 MTEF

- The Department of Transport aims to increase expenditure by 26.3% in current prices in 2014/15, increasing total spending from an estimated R26,7 bn in 2013/14 to R33.7bn in 2014/15. This represents a nominal increase of R7bn
- Increased expenditure on road infrastructure to also rebuild roads destroyed by natural disasters. Additional allocations for this purpose include R235.3m in 2014/15 and R178.4m in 2015/16.
- **SANRAL's** budget (transferred from the fiscus) is increased by 16,1% in 2014/15 to R8,2bn
 - In 2011/12 the Department provided an additional R5,8 bn to SANRAL due to the delays in the implementation of e-tolling on Gauteng freeways. These allocations exclude expenditure by SANRAL through its own revenue streams.
 - SANRAL infrastructure expenditure financed by its own revenue is projected to increase by R2,4bn to R3,7bn in 2014/15 after poor spending in the past few years caused by the delay in the implementation of e-tolling.
 - Operating tolls take less than 20% of revenue collected. SANRAL reported that only 17% of revenue collected through e-tolls would go towards the cost of managing the toll operation and collecting toll fees. But this does not include the costs associated to servicing the loan incurred to complete the first phase of the Gauteng Improvement project.
 - Tolling of Western Cape Roads remains a priority for SANRAL. SANRAL now aims to install traditional toll booths in the Western Cape (N1 and N2) and argues that R10bn is needed to upgrade the Huguenot Tunnel or face increased safety concerns.



- Limpopo's 1 628 km road network will be incorporated into SANRAL's network in 2014, following similar requests in 2012 from Eastern Cape (2 113 km) and North West (1 142 km). Thus in 2012 an additional 3 500km of roads were incorporated into the national road network under SANRAL's custodianship.
 - The network under SANRAL's jurisdiction will eventually grow to 35 000km
 - Currently the toll road network accounts for 15,8% (3 120km) of SA's 19 704km national road network. SANRAL manages 1 832km of these toll roads.
 - Although SANRAL has the capacity it is limited by financial constraints. The size of the non-toll road network increased by 27% but the budget allocation increased by only 9% (according to the 2013 budgetary allocations). **Last week's budget statement allocated R24 billion over the medium term for the design, construction and maintenance of the roads SANRAL controls.**
 - SANRAL has been appointed as the coordinator for the SIP4 projects which covers the North West Province.
-
- Spending on the **Provincial Road maintenance grant** is expected to increase by 24,5% in current prices to R9,3bn.
 - Spending on road maintenance will be prioritised, according to Treasury, over the medium term. Spending is dominated by expenditure to extend the length of the non-toll road network from 16 500 kilometres to 18 215 kilometres.

 - Allocations towards **Rail infrastructure** is projected to increase by 43,2% to R10,7bn in 2014/15.
 - R80bn was allocated to PRASA to renew stock fleet over 20 years from 2012. The first coaches should be available in 2015.

Department of Human Settlements

The aim of the Department of Human Settlements is to determine, finance, promote, coordinate, communicate and monitor the implementation of housing and sanitation policies and programmes.

The allocation in real terms is expected to fall by an average of 1,3% in the medium term. Expenditure is projected to reach R31,8 bn in 2016/17, totalling R90,4bn over the medium term period.

Table 22: Department of Human Settlements: Infrastructure expenditure (including grants to provinces)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Current prices	18,108,700	21,575,900	22,992,800	26,268,000	28,381,400	30,281,100	31,766,000	90,428,500
Constant 2005 prices	11,533,932	12,903,556	13,096,132	14,114,722	14,120,673	13,949,848	13,549,916	41,620,436
Real % Change	14.3%	11.9%	1.5%	7.8%	0.0%	-1.2%	-2.9%	-1.3% (Avg)
% of Total National Expenditure	3.97%	4.32%	4.27%	4.50%	4.47%	4.43%	4.39%	4.4% (Avg)
Housing delivery targets (Subsidized)	185,425	179,197	200,076	209,953		215,000		653,842

Table 23: Human Settlement Detailed Summary of Infrastructure Expenditure

		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Rural household infrastructure grant	Basic water and sanitation infrastructure provided	-	62	187	206	207	113	118	125	356
Accelerated community infrastructure programme	Basic water and sanitation infrastructure provided	-	47	-	-	-	-	-	-	-
Human settlement development grant	Houses completed and sites serviced	10,819	13,032	15,122	15,395	16,984	17,084	18,533	20,410	56,027
Human settlement development grant	Eradication of bucket toilets	-	-	-	-	-	899	975	-	1,875
Urban settlements development grant for cities	Bulk infrastructure installed	4,418	4,968	6,267	7,392	9,077	10,285	10,655	11,232	32,171
Total		15,238	18,109	21,576	22,993	26,268	28,381	30,281	31,766	90,429

The NDP highlights the need to provide for a more efficient urban space where suitable shelter is provided in terms of demographic profile, typology and location.

- Delivery of housing by the State is being transformed.
 - Spending focus will be on delivery of low income housing, and the upgrading of informal settlements, including thereby a focus to purchase suitable land
 - R88bn over the MTEF period from the **Human Settlement Development grant and the Urban Settlement Development grant** will be used to
 - Deliver 215 621 units over the next three years

- Upgrade 92 000 serviced sites in informal settlements, and
 - Acquire 7197 hectares of land
 - R900 million reprioritised from Human Settlement Development Grant to create **Municipal Human Settlement Capacity Grant** to assist accredited municipalities that are now directly accountable for housing delivery
 - R1,9 bn allocated towards the **bucket eradication programme** over the next two years to remove a total of 273 297 buckets from households (at an average cost of R7000/bucket).
 - Under delivery will lead to a reprioritisation of allocations. The Urban Settlement development grant was reduced by R130m due to under spending in Manguang and Buffalo City.
- Greater focus on the development of rental housing
 - Contributions to this sub programme is the fastest over the over the MTEF period to support the delivery of rental housing through the social housing programme, under the **Social Housing Regulatory Authority**. Expenditure is projected to increase by an average annual rate of 27% between 2010/11 and 2016/17.
 - Spending on the capital restructuring grant (transferred to the Social Housing Regulatory Authority) is expected to increase at an average annual rate of 12,5% and will deliver approximately 17 977 medium density rental housing units for households earning between R1500 and R7500 per month.
- Accountability
 - In order to improve delivery, accountability is being shifted from provinces to metropolitan municipalities, in order to improve alignment in the planning and implementation of residential infrastructure and housing projects.
 - In 2013/14 a portion of the rural household infrastructure grant was converted to a direct grant to municipalities to strengthen accountability to deliver services to households.
- Policy
 - The department is drafting a green paper for human settlements to support the NDP's vision
 - Over the MTEF the department will focus on achieving better spatial targeting for new urban developments
 - Ensure adequate housing opportunities
 - Support the development of a well-functioning and equitable residential market
 - Improve institutional capacity and intergovernmental coordination
 - Developing a proposal to introduce incentive for the construction of affordable housing in the form of a tax incentive for developers to build new housing stock (at least 5 units) for sale below R300k per dwelling. Options include either a tax credit or deduction at either a fixed rand amount per unit or as a percentage of the value of the dwelling. The proposal has not yet been submitted for public consultation.

In spite of over 3 million houses having being delivered since 1994, the housing backlog is still estimated at 1,2 million. Population growth and urban-rural migration patterns are putting pressure on cities to adapt and expand infrastructure. According to Treasury nearly 70% of the housing backlog is in urban areas. Government admits that the housing budget is inadequate, curbing the pace of housing delivery, amidst growing demand and higher building and land costs.

Housing and Mining townships

R1,1 bn was allocated in the 2013 Budget to support the informal settlement upgrading programme in mining towns. There are arguments that support the view that mining houses should not be responsible to provide housing for their workers, and that this should be the responsibility of the local municipality. A similar model should then be applied to the agricultural sector?

Housing Accreditation

The department will continue to establish the necessary mechanisms for the rollout of accreditation, as provided for in the Housing Act (1997).

- By December 2009, 18 municipalities were granted level 1 accreditation, which allows their councils to identify housing projects. Seven of these municipalities have been audited to assess their compliance with the new requirements to perform housing functions in terms of the accreditation framework.
- In 2011/12 8 compliance certificates for level 1 and 2 accreditation were issued to 6 metropolitan and district municipalities. The department aims to finalise compliance assessments for 27 municipalities by 2014.

Housing Authorities

- The **Social Housing Regulatory Authority** was established in 2010 in terms of the Social Housing Act (2008). The authority invests in social housing and regulates the social housing sector.
 - Spending focus over MTEF period will be on investment in and the regulation of the social housing sector.
 - Largest spending item is the transfer of capital grants to social housing institutions for the building of medium density rental houses, facilitating the delivery of 17 977 social housing rental units and is funded by a transfer from Department of Human Settlements.
- **National Home Builders Registration Council** protects the interests of housing consumers by providing warranty protection against defined defects in new homes and to regulate the homebuilding industry in terms of the Housing Consumers Protection Measures Act (1998).
 - Main source of revenue is derived from the insurance premiums charged for the enrolment of homes, registrations fees for home builders, renewal fees, sale of manuals, and technical services provided to provinces.
 - Revenue projected to increase to R1,1 bn in 2016/17 driven mainly by enrolment fees.
 - Revenue fell by 21,6% in 2013/14 as a result of completion of rectification work on behalf of the Kwazulu Natal Department of Human Settlement.
 - Builders that are appointed by the provincial housing departments are encouraged to work more closely with the NHBRC to ensure the provision of quality housing without the need for rectifications later.
- **National Housing Finance Corporation**, established in 1996 to improve access to housing credit for the low and middle income housing market by facilitating private sector lending for housing purposes.
 - Between 2011/12 and 2013/14 revenue decreased as a result of the contraction in the housing market
 - Main spending focus will be on facilitating the development of housing opportunities by providing commercial and project financing.

3 Levels of Accreditation

- Level One: beneficiary management, subsidy budget planning and allocation and priority programme management and administration (Delegated functions);
- Level Two: Full programme management and administration of all housing instruments/programmes [in addition to Level One] (Delegated functions);
- Level Three: Financial administration (All functions – Levels one, two and three – are assigned).

Department of Cooperative Governance and Traditional Affairs (Municipal Infrastructure Grant)

The aim of the Department of Cooperative Governance and Traditional Affairs is to develop and promote a national system of integrated and co-operative governance and to support provincial and local government.

Spending on MIG infrastructure is projected to fall in real terms over the MTEF period. Allocations for 2014/15 was reduced by 5,3%, averaging negative real growth of 4,5% over the MTEF period, totalling R44,1 bn.

Table 24: Cooperative Governance and Traditional Affairs: Infrastructure expenditure (Municipal infrastructure grant)

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Current prices	8,727,500	9,704,300	11,443,500	13,879,200	14,354,400	14,683,800	15,098,100	15,766,800	44,136,300
Constant 2005 prices	5,781,137	6,180,937	6,843,832	7,905,250	7,713,125	7,305,670	6,955,368	6,725,392	20,986,430
Real % Est Change	22.8%	6.9%	10.7%	15.5%	-2.4%	-5.3%	-4.8%	-3.3%	-4.5%

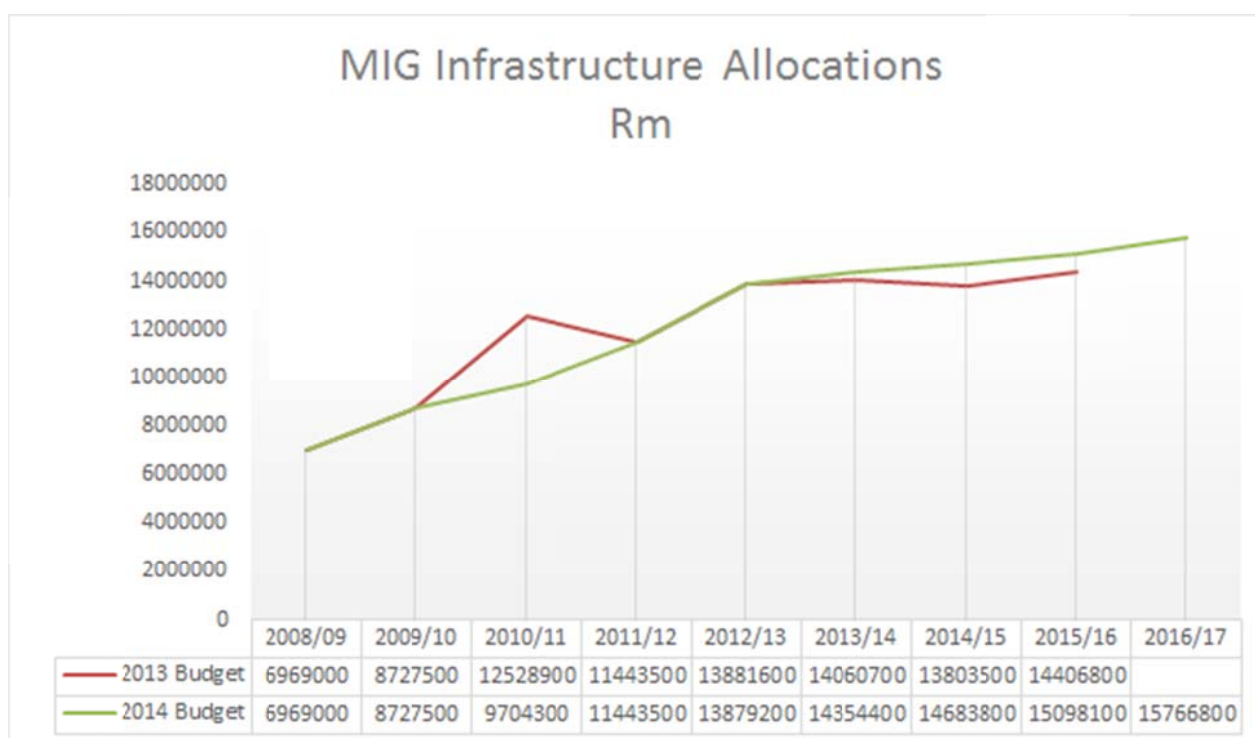


Figure 28: MIG Infrastructure Expenditure Allocations

Municipal Infrastructure Support Agency

- Established in 2012/13
- Aims to address current failures in infrastructure delivery and service provisions, through technical advice and support
- Facilitate the development of engineers, scientists, and technicians to municipalities that are struggling with infrastructure delivery
- In 2012/13 the agency facilitated the placement of 68 technical professionals in 100 municipalities, technical experts supported the implementation of 220 water supply projects, 128 sanitation infrastructure projects, 40 energy projects and 18 waste management infrastructure projects.
- Allocations increased to R294m in 2014/15 (R262m 2013/14), totalling R917.6m over the MTEF period

Disaster Relief Transfers

- To provide immediate relief for disasters for provinces and municipalities to respond quickly to the immediate needs of affected communities after disasters have occurred. It includes the repair of infrastructure that supports basic services and the provision of environmental health and humanitarian relief within three months following declaration.
- Municipal Disaster Recovery Grant - Receives R59,1m for the disasters that occurred in 2009/10 in Limpopo, Kwazulu Natal and Western Cape
- Gauteng is likely to receive increased allocations due to heavy rains experienced in the 1st quarter of 2014

Community Works programme

- Focused on the development of public assets in poor communities, provide income security and work experience for participants, as well as promote social and economic inclusion
- Expenditure expected to increase to R3,7bn over the medium term
- Receives additional allocations to expand the community works programme to increase the number of participants from 172 000 in 2013/14 to 362 000 in 2016/17

Municipal Systems Improvement Grant

- In order to improve in-house capacity R252,2 million is allocated in 2014/15 to assist municipalities, totalling R788.2m over the MTEF period.

Municipal Infrastructure Grant (MIG)

The **Municipal Infrastructure Grant (MIG)**, introduced in 2004 - combines existing infrastructure grants - funds projects for water and sanitation services, roads, storm-water infrastructure, solid waste disposal, community services and other municipal services included in the integrated development plans (IDP). It supplements capital budgets to eradicate backlogs in municipal infrastructure.

Achievements in 2012/13:

- 41 000 households with access to water services
- 148 000 households with basic sanitation
- 10 600 households with community lighting
- 1299km of roads constructed in communities

Projects typically involve local contractors and are labour intensive, targeting women and youth for employment and training in line with the expanded public works programme and the community work programme. This grant is the main conduit of funds to municipalities for capital spending to extend basic services.

Education (Department of Basic Education and Department of Higher Education and Training)

Infrastructure expenditure by the Department of Basic Education increased by 21,4% in real terms in 2013/14 and is projected to increase by 5,6% in 2014/15, averaging 5,1% over the medium term. Allocations towards infrastructure for Higher education and training increased by 16,3% in 2014/15, averaging 9,0% in real terms over the medium term.

Table 25: Summary of expenditure on infrastructure: Department of Basic Education and Department of Higher Education and Training

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Department of Basic Education									
School infrastructure backlogs indirect grant (Departmental expenditure)	-	-	76,100	859,600	1,956,000	2,911,300	2,402,600	2,578,300	7,892,200
Education infrastructure grant	3884700	3162800	5,311,100	5,802,400	6,643,300	6,928,900	9,469,400	10,038,000	26,436,300
Technical secondary schools recapitalization grant			210,500	198,700	231,500	233,500	244,200	257,200	734,900
Total current prices	3,884,700	3,227,300	5,597,700	6,860,700	8,830,800	10,073,700	12,116,200	12,873,500	35,063,400
Constant prices	2,573,244	2,055,493	3,347,728	3,907,686	4,745,100	5,011,995	5,581,671	5,491,201	16,084,867
Real % Change	22.80%	-20.12%	62.87%	16.73%	21.43%	5.62%	11.37%	-1.62%	5.12%
Department of Higher Education and Training									
Tertiary institutions infrastructure		1 58 5000	1 625 300	1 799 900	2 000 000	2 200 000	2 300 000	2 421900	6 921 900
New universities in Mpumalanga and Northern Cape					150,000	500,000	1,000,000	1,053,000	2,553,000
Total current prices		1 585 000	1 625 300	1 799 900	2 150 000	2 700 000	3 300 000	3 474 900	9 474 000
Total constant prices	968,436	1,009,530	972,017	1,025,179	1,155,271	1,343,338	1,520,239	1,482,233	4,345,809
Real % Change		4%	-3.7%	5.5%	12.7%	16.3%	13.2%	-2.5%	9.0%

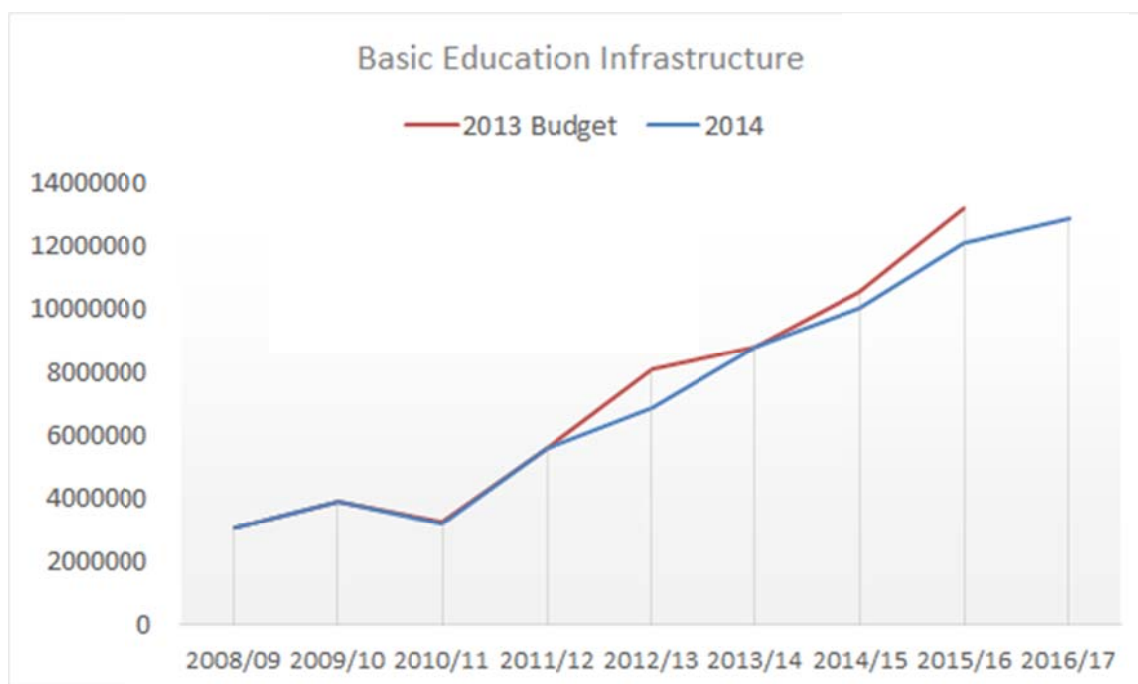
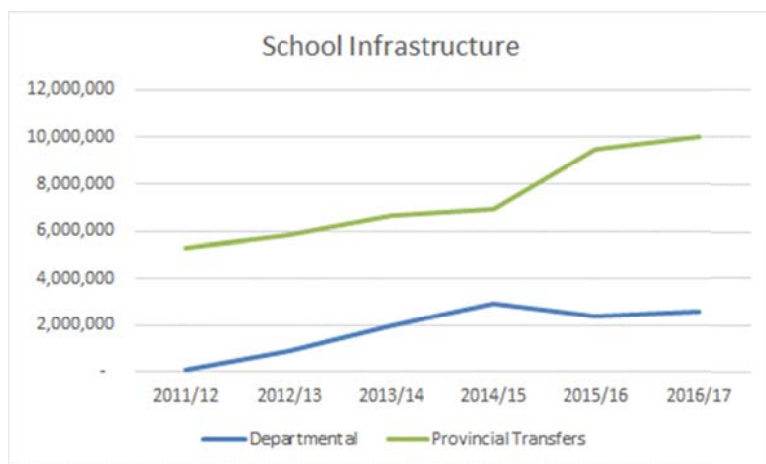


Figure 29: Basic Education Infrastructure Expenditure



School Infrastructure grants

Through these grants government aims to meet the national minimum uniform norms and standards for public school infrastructure by 2016/17

Schools infrastructure backlog indirect grant (Departmental Expenditure by Department of Basic Education)

- The schools infrastructure backlogs indirect grant was introduced in 2011/12, to eradicate and replace inappropriate schools infrastructure such as mud schools. The grant will be used to replace infrastructure at 510 schools, provide water to 1 120 schools, sanitation to 741 schools and electricity to 916 schools.
- In the next two years 143 inappropriate schools will be completely replaced with new schools, and 203 replacements between 2014/15 and 2015/16. Thus in the next three years, the grant will be used to replace 343 schools.
- Spending is projected to peak in 2014/15, increasing by nominal rate of 49% to R2,9bn, where after allocations have been reduced to R2,4bn in 2015/16.

Education Infrastructure conditional grant

- Largest sub programme in the schools infrastructure grant
- Over the medium term R26bn will be transferred to Provinces
- Moderate nominal growth projected for 2014/15(4,5%), but projected to accelerate by 37% in 2015/16.
- The grant's primary objective is to build new schools and additional spaces like libraries, laboratories and administration blocks, provide basic services such as water, sanitation and electricity, upgrade and rehabilitate existing school infrastructure, and maintain new and existing schools.

Technical secondary schools recapitalisation grant

- Contribute 2% towards total allocations for school infrastructure, totalling R735m over the medium term.
- Projected to fall in real terms during 2014/15 to R233m, but show some recovery (up 5% in nominal terms) in 2015/16.
- This grant will be used to build 31 new workshops, refurbish 228 existing workshops, install and deliver equipment at 300 workshops and train 4590 technology teachers.

Tertiary institutions infrastructure

- R9,6 bn allocated for infrastructure to higher education institutions.
- R2,6 bn has been earmarked for the construction of two new universities in Mpumalanga and the Northern Cape.
- Remainder of allocations (R7bn) are mainly for the improvement of infrastructure for the faculties of architecture and the built environment, engineering, health services, life and physical sciences and teacher training disciplines as well as for student accommodation.
- Funds have also been set aside for universities to improve existing infrastructure to ensure easy access for students with disabilities.
- Most of the infrastructure allocations are earmarked for universities in historical disadvantaged areas.
- Department has also started a process to build 12 new further education and training college campuses and the refurbishment of two existing campus sites with funding provided through the National Skills Fund and the SETA's.

Department of Water Affairs

The aim of the Department of Water Affairs is to ensure the availability and supply of water at national level, facilitate equitable and sustainable social and economic development and ensure the universal and efficient supply of water services at local level.

Total infrastructure expenditure is estimated to have increased by 39,2% in 2012/13, to just over R5bn in current prices. Expenditure is projected to increase by double digit rates over the next three years, increasing by 14,6% in 2013/14 in real terms, averaging 17,8% over the MTEF period. By 2015/16 Treasury projected that over R10bn will be spent on water infrastructure.

Table 26: Summary of expenditure on infrastructure: Department of Water Affairs

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Current prices	1,976,	2,466	3,569	4,951	5,508	7,640	9,742	10,296	27,678
Constant 2005 prices	1,309	1,571	2,135	2,820	2,960	3,801	4,488	1,309	8,289
Real % Change	53.0%	24.8%	44.7%	38.7%	11.3%	38.7%	27.5%	5.7%	24.0%

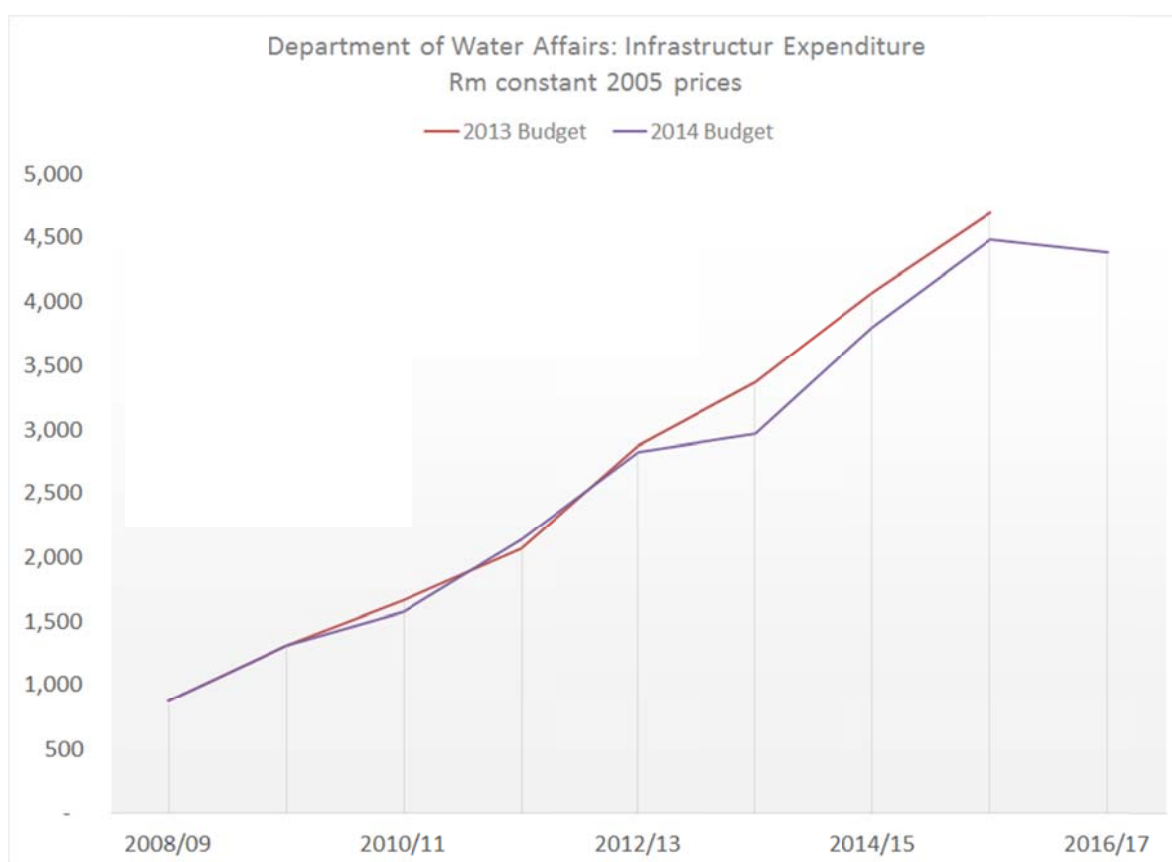


Figure 30: Department of Water Affairs Infrastructure Expenditure

The long term energy and water needs of a growing population and expanding economy must be met. In **2004** the Department of Water Affairs announced preliminary plans to build 20 major dams over the next twenty years. In **2005** the national water

resource strategy was established, which sets out procedures, guidelines and institutional arrangements for managing water resources and provides water-related information for identifying development opportunities and constraints. In 2005/2006 the National Water Resource Infrastructure Agency was established to separate the management and development of national water resources from the department's other activities. The framework for growth and development in the water sector, developed in 2008, aims to address specific challenges associated with water resource availability to enable projected economic growth and social service delivery programmes. The framework ensures water security up to 2030. In 2009, the Department's mandate was revised to reflect greater focus on the core functions of infrastructure development, water resource management and water regulation.

In 2010 the department set a target of 99% compliance with the drinking water quality standard and 80% compliance with wastewater effluent standards. The department is also seeking to establish an independent economic regulator that will ensure efficient pricing in the water value chain and that inefficiencies in the water supply sector are not passed on to users. The current pricing strategy will be reviewed over the medium term. The department will also be providing engineers to municipalities to assist with infrastructure related programmes or projects. The current cost of addressing the backlog related to operation and maintenance of national water infrastructure is estimated at about R13 billion.

In the 2013 Budget, the NDP proposes a target of 15% reduction in the average water demand by 2030. The plan also proposes the establishment of a national water resources infrastructure agency before 2015. Because many municipalities do not have the necessary technical capacity to build and manage water and wastewater treatment works, a regional approach will be adopted in certain areas to address shortcomings. Treasury expects spending in the Water infrastructure management programme to increase significantly over the MTEF period due to allocations for water infrastructure.

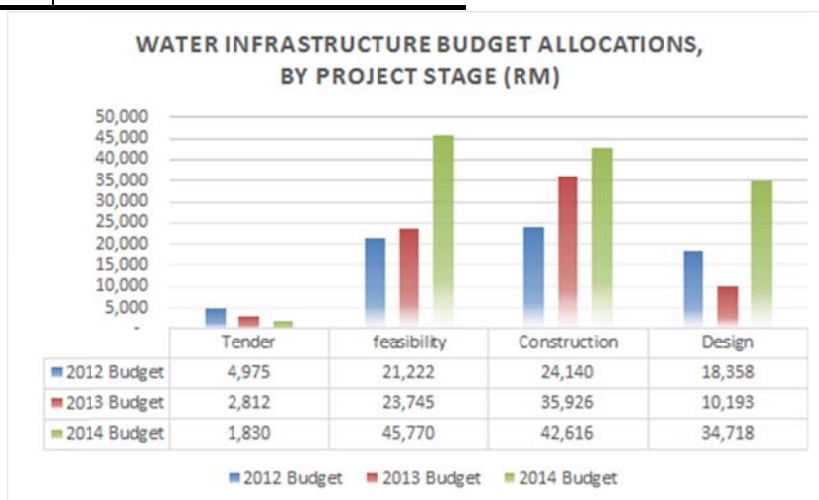
According to the 2014 Budget, the Department's focus over the medium term will be on providing regional bulk infrastructure for water and wastewater treatment works which link water sources to local government infrastructure.

Table 27: Water infrastructure allocations by project stage

<i>Project Stage</i>	<i>2014 Budget Full project cost</i>	<i>2013 Budget Full project cost</i>
Tender	1,830	2,812
Feasibility	45,770 ²	23,745
Construction	42,616	35,926
Design	34,718 ³	10,193
Total	124,933	72,676

Projects worth a total of R124bn were included in the 2014 Budget, all at various implementation stage, compared to R72bn in the previous budget. A detailed analysis of the projects falls outside the scope of this review, but can be found in the Budget documentation.

For the purposes of this review, the value of projects at feasibility stage increased from R23,7 bn in the 2013 Budget to R45,7bn, while value of projects at construction increased from R35,9bn to R42,6bn. There as a considerable increase in the value of projects that have moved into design phase, from R10bn to R34bn.



² Inc Mokolo River and West Crocodile River Water Augmentation project (R13,9bn) and the Flag Boshielo to Mokopane pipeline and second pipeline between Flag Boshielo to Mokopane (R13.1 bn)

³ Including the Mzimvubu Water project (R20bn)

Trans Caledon Tunnel Authority (TCTA)

- Established in 1986 in terms of the Water Act (1956) in conjunction with section 108 of the National Water Act (1998).
- Objective is to finance and implement bulk raw water infrastructure within an acceptable risk framework and in the most cost effective way to benefit water consumers. TCTA also plays an advisory role in the water sector.
- TCTA's have shown increased revenue as a result of increased construction activity on projects which led to tariff revenue being received from the department for projects completed.
- Expenditure is projected to increase by approximately 10% in real terms in 2014/15 to R4,3 bn compared to an increase of 24% in the previous year.
- However, expenditure is projected to fall by 26% in real terms in 2015/16, with only an inflationary linked increase proposed for 2016/17.

Table 28: TCTA Infrastructure Expenditure

Rm, Current prices	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Lesotho Highlands	3,534	2,747	2,940	3,233	4,415	4,349	4,579
Berg Water project	128	254	93	94	74	61	65
Vaal River Eastern Subsystem	406	794	396	234	344	347	365
Mooi Mgeni Transfer Scheme	99	316	580	577	369	179	188
Olifants river water resource development project	68	101	457	1,315	1,974	1,645	1,732
Komati Water Scheme Augmentation	95	511	445	244	133	133	140
Mokolo Crocodile Water Augmentation	104	278	562	781	429	207	218
Acid Mine Drainage	-	80	97	899	1,011	73	77
Total	4,433	5,080	5,570	7,376	8,750	6,994	7,364
Annual Nominal Change							
Lesotho Highlands	-	-22.3%	7.1%	9.9%	36.6%	-1.5%	5.3%
Berg Water project	-	98.4%	-63.3%	0.9%	-21.1%	-17.5%	5.4%
Vaal River Eastern Subsystem	-	95.6%	-50.2%	-40.8%	46.9%	0.8%	5.3%
Mooi Mgeni Transfer Scheme	-	220.3%	83.9%	-0.6%	-36.0%	-51.6%	5.3%
Olifants river water resource development project	-	48.4%	354.2%	187.8%	50.1%	-16.7%	5.3%
Komati Water Scheme Augmentation	-	440.0%	-13.0%	-45.1%	-45.4%	-0.7%	5.3%
Mokolo Crocodile Water Augmentation	-	167.0%	102.3%	38.9%	-45.0%	-51.7%	5.3%
Acid Mine Drainage	-		20.6%	826.6%	12.4%	-92.8%	5.3%
Total	-	14.6%	9.6%	32.4%	18.6%	-20.1%	5.3%
Market Share							
Lesotho Highlands	80%	54%	53%	44%	50%	62%	62%
Berg Water project	3%	5%	2%	1%	1%	1%	1%
Vaal River Eastern Subsystem	9%	16%	7%	3%	4%	5%	5%
Mooi Mgeni Transfer Scheme	2%	6%	10%	8%	4%	3%	3%
Olifants river water resource development project	2%	2%	8%	18%	23%	24%	24%
Komati Water Scheme Augmentation	2%	10%	8%	3%	2%	2%	2%
Mokolo Crocodile Water Augmentation	2%	5%	10%	11%	5%	3%	3%
Acid Mine Drainage	0%	2%	2%	12%	12%	1%	1%
Total	100%	100%	100%	100%	100%	100%	100%

Department of Health

The aim of the Department of Health is to promote the health of all people in South Africa through a caring and effective national health system based on the primary health care approach.

Expenditure on health infrastructure is expected to have decreased by 6,5% in 2013/14, with a 3,9% increase projected for 2014/15. Expenditure is projected to decrease in real terms in 2015/16 and 2016/17, averaging -0.9% over the medium term.

Table 29: Department of Health: Infrastructure expenditure

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Rm, current prices	3347000	4257100	5683400	5524400	5471000	6097000	6324400	6695600	19,117,000
Rm, constant 2005 prices	2,217,069	2,711,465	3,398,981	3,146,562	2,939,761	3,033,456	2,913,514	2,856,035	8,803,006
Real % Change	72.90%	22.30%	25.36%	-7.43%	-6.57%	3.19%	-3.95%	-1.97%	-0.91%

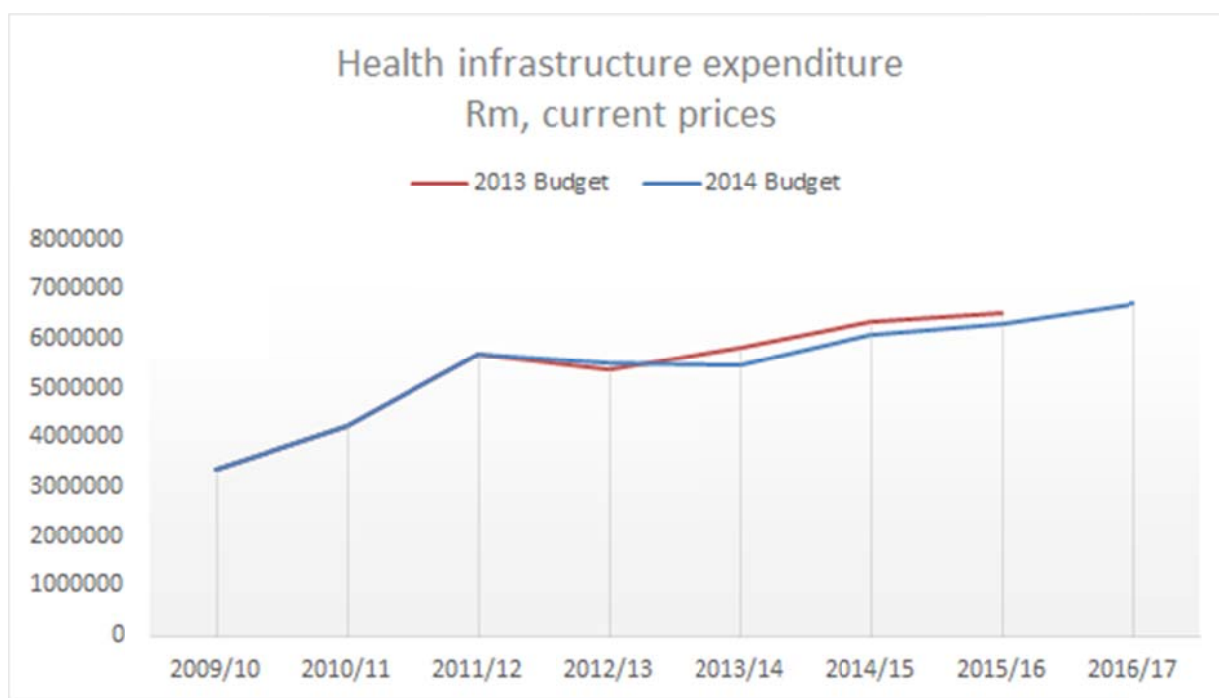


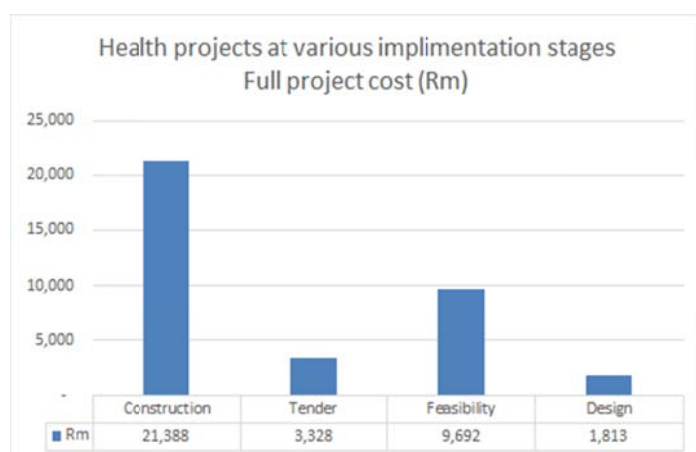
Figure 31: Department of Health: Infrastructure Expenditure

Infrastructure spending takes place through two conditional grants:

- Provincially delivered Health facilities revitalisation grant and the Nationally delivered Health facilities revitalisation grant component of the national health grant
- Allocations towards health infrastructure have been revised downwards in the 2014 Budget.
- Instead of a projected 8% increase in expenditure in 2013/14, spending fell by 1% in nominal terms, which translated to a decrease of 6,6% in real terms. Spending is projected to increase by 11% in nominal terms in 2014/15 to R6,1 bn (or 3,2% in real terms).
- R19,1 bn is projected for projects over the medium term, but in real terms this translates to negative growth of -0.9% over the medium term as increased allocations over the three year period will be insufficient to cater for an increase in construction costs.
- There are currently 7 mega projects and 50 large projects being implemented by national or provincial departments.

	Feasibility	Design	Tender	Construction
Gauteng	New Hospital Shoshanguve (R1.4bn) Sebokeng, Khayalami and Jubilee replacement hospitals (R1,1 bn in total) Replacement of Dr Yusuf Dadoo Hospital R223m (pre-feasibility)			
Limpopo	Tshilidzini Hospital (R1.4bn) Replacement Elim Hospital R800m (Replacement) Thabazimbi replacement hospital R338m	Siloam Hospital, R800m, replacement		Upgrade of Letaba Hospital R381m Upgrade of Maphuta L Malatji Hospital R251m
Eastern Cape	Bambisana Hospital R800m) Replacement Zithule Hospital (R968m) Replacement Upgrading of Madwaleni Hospital R220m		Several small contracts out to tender, avg R8m per tender to replace clinics	Cecilia Makiwane Hospital R1,1bn Upgrade of Frontier Hospital (R476m) Upgrade of St Elizabeth's Hospital R724m Upgrade of Dr Malizo Mphele Memorial Hospital R378m
Free State	New National Hospital (Manguang), R478m	Dihlabeng Hospital, R400m, Upgrade and maintenance Upgrading of Psychiatric Hospital, R594m		Revitalisation of Pelonomi Hospital R604m Revitalisation of Boitumelo Hospital R840m
Mpumalanga			Several smaller contracts out to tender, avg R75m per tender to replace community health	Upgrade of Rob Ferreira Hospital R887.m Upgrade of Thema

			centres	Hospital R645m Upgrade of Ermelo Hospital R473m
Kwazulu Natal			Dr Pixley ka Seme memorial Hospital (New hospital) R2.8bn	Upgrade to King George V Hospital, R1,2bn Construction of Ngwelezane Hospital and lower Umfolozi War Memorial Hospital complex R1.2 bn
Northern Cape	New Mental Health hospital R503m			Construction of Upington Hospital R852m Construction of De Aar Hospital R629m Construction of Kuruman Hospital R391m
North Wet	New Vryburg Hospital R503m Replacement of Lichtenburg hospital R226m			Construction of Moses Kotane Hospital R664m Construction of Brits Hospital R779m Construction of Bophelong hospital R931.8m
Western Cape	Rehabilitation of Valkenberg Hospital R991m			Rehab of Vredenburg Hospital R327m Rehabilitation of GF Jooste hospital R529m



Projects worth R20bn currently under construction, at various completion stages, compared to projects worth an estimated R3bn out at tender, R1,8 bn at Design phase and R9,6bn at Feasibility. The value of projects at feasibility and design phase is between R11 bn and R12 bn, almost half of that currently under construction.

The 2014 Budget includes an extensive list of capital projects planned over the medium term. For a copy of the list please send a request to info@industryinsight.co.za.

Figure 32: Health infrastructure summary of expenditure at various stages of implementation

Other Infrastructure Allocations accounting for 15% of total projected infrastructure expenditure

Neighbourhood Development Partnership Grant (National Treasury): R2,5 bn MTEF

- The Neighbourhood Development Partnership Grant is directed at eradicating spatial inequality and creating liveable, sustainable, resilient, efficient and integrated towns and cities. It is driven by the principle that public investment and funding can be used to attract third party public and private sector investment to unlock investment and economic potential in targeted underserved neighbourhoods (generally in townships). It is thus focussed on township development improvements.
- In 2011/12 the neighbourhood development partnership formulated a new approach, the URBAN NETWORKS STRATEGY. It shifts infrastructure investments towards the creation of efficient and effective urban centres to increase economic growth create employment and increase access to urban amenities. This approach locates township development as part of wider integrated city planning which includes the spatial prioritisation and targeting of public sector capital investments.
- Capital investment through this grant comparing 2013 vs 2014:

March 2013: R2,7 bn	March 2014: R3,5bn
<ul style="list-style-type: none"> • 20,1% Community facilities • 1,6% utility infrastructure • 1,6% green efficiencies • 37,5% nodal and corridor upgrading • 13,5% small and medium enterprise facilities • 27,5% transport infrastructure 	<ul style="list-style-type: none"> • <u>20,1% community facilities</u> • 1,6% utility infrastructure • 1,6% green efficiencies • <u>37,5% nodal and corridor upgrading</u> • 13,5% small and medium enterprise facilities • <u>27,5% transport infrastructure</u>

- Expenditure on this grant is projected to decrease by 7% in real terms in 2014/15, averaging negative growth of 4,6% over the medium term. Allocations over the medium term is projected to reach R2,5 bn.

National electrification programme (Department of Energy): R16,1 bn MTEF

- The NDP envisages that by 2030 SA will have an adequate supply of electricity and liquid fuels to ensure that economic activity and welfare not disrupted and that at least 95% of the population should have access to grid or off-grid electricity
- The integrated national electrification programme consists of transfer payments to municipalities, Eskom and non-grid service providers for grid and non-grid electricity connections to schools, clinics and households.

*Cost of having insufficient electricity available could be as much as R75 000/MW, **100 times higher** than the R750/MW required to build new electricity generation capacity*

*Tore Horvei
NorConsult, Director
3 March 2012, Engineering News*

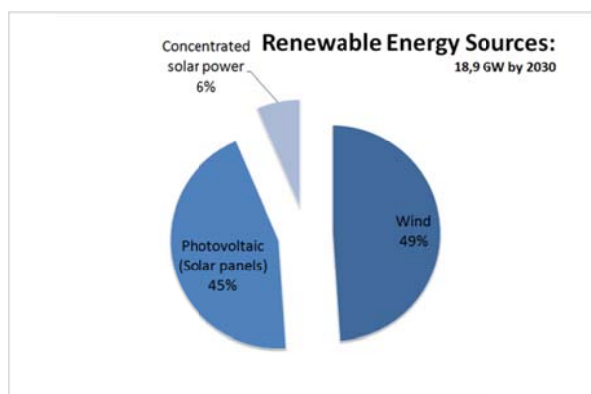
- Allocations increased by 16% in nominal terms to R4,2 bn in 2014/15, with a further 40% increase projected in 2015/16.
- Total expenditure is projected to reach R16bn over the MTEF period, with an average growth of 20% in nominal terms. This will be used to:
 - Electrify 905 000 households
 - Construction of 50 new substations, 32 by IPP's
 - Upgrading of 30 substations
- Bulk of allocations are transferred to Eskom, representing 65% of total allocations.
- The department received a budget allocation of R4,5 bn between 2010/11 and 2012/13 to transfer to Transnet for the construction of the new multi products pipeline. The payments were made quarterly over the period subject to submission of process reports. No further allocations were included in as from 2013/14.
- New household electrification strategy was approved by cabinet in June 2013 and aims to achieve universal access to electricity by 79% of all households by 2025. However this target is being questioned as it will have a profound impact on the already short supply of electricity. There are budgetary and human-resource constraints which means it may take somewhat longer than expected to achieve the targets. Electrification of informal settlements remains a challenge as occupation generally takes place unplanned and the occupied areas are often unsuitable for habitation. By 2014 the INEP had hoped to electrifying 92% of formal households, however funding challenges resulted in the INEP electrifying only 86% of households.
- Integrated resource plan involves the development of infrastructure including power stations and transmission lines by Eskom and IPP's.
 - Focus given to introduce IPP's using renewable energy technologies such as wind, solar, photovoltaic, concentrated solar power, biomass and hydro through bidding rounds in terms of which project developers compete on the most attractive projects that yield the lowest cost to the consumer while maximising local economic development.
 - By September 2013 three bidding rounds under the renewable energy IPP procurement programme had been concluded to contract about 3 900 MW which represents approximately R120bn of direct investment in the green economy.
 - By 2030 at least 20 000 MW of the additional 29 000 MW electricity needed should be supplied through renewable resources.
 - Further bidding rounds in which bidders will be awarded contracts for generating 1000 MW will be held each year until the capacity of 18 GW has been created, in line with the integrated resource plan.
 - IPP's will also be introduced to the baseload programme utilising coal, co-generation, gas and imported hydro technologies. This is in parallel to the baseload programme executed by Eskom in terms of which Medupi and Kusile power stations are being developed.
- Renewable Energy as part of the Departments Clean Energy programme, ensures the integration of renewable energy into SA's mainstream energy supply by planning and coordinating initiatives and interventions focussed on the development and improvement of the renewable energy market.
 - In 2012/13 an umbrella memorandum of understanding was completed with the Central Energy Fund and Northern Cape provincial government for the development of a solar park, which included the land access agreement for an Uppington site. By the end of 2013/14 the solar park corridor development feasibility studies report should have been submitted to Cabinet for approval. The corridor consists of 6 sites.
 - Allocations to renewable energy and energy efficiency have been reduced over the medium term from R1.4bn (energy efficiency in 2013/14) to R981m in 2016/17 and from R140m (Renewable energy in 2013/14) to R63m in 2016/17.
 - A total of 47 projects have already moved through to financial closure and are at various stages of development.
 - Financial institutions are well positioned to provide adequate finance over the medium term to finance long-term, large scale projects. (E-lib ref 18775). Currently about 60% of the financing for the REIPPP projects were

funded by South African banks, while the foreign portion of the third-window funding had been estimated at around R15,6 bn. The programme had made South Africa the twelfth most attractive investment destination for renewable-energy investors globally.

- **The Central energy fund** aims to increase the number of new solar water heating units installed per year from 6 600 in 2013/14 to an average of 9 300 per annum over the medium term.
 - Other projects include:
 - Ikwezi (R11,2bn) for which first gas is expected in June 2014
 - Sabre Oil and Gas in the jubilee Production field (R4 bn) – the acquisition has been finalised and additional investments are expected to be finalised by the end of 2013/14
 - Irene and other downstream acquisitions with a total estimated cost of R14bn still under negotiations, expected to reach closure in 2014/15.
 - Project Mthombo is a PetroSA initiative to build a world class crude refinery in the COEGA IDZ by the end of March 2015.

- **Eskom** is owed billions (estimated at R2,7 bn) by municipalities as the country is faced by another spate of blackouts. This outstanding debt is not helping the country’s electricity woes. It is unacceptable as consumers are paying for their electricity (or face cut offs), but they are left without power as a result of poor financial management by municipalities. This was highlighted by AfriForum in a press statement on the 11th of March 2014. Perhaps it is time to privatise electricity management?

Strong focus in the NDP is the increased application of renewable resources in terms of electricity supply. The department of Public Enterprises, National Treasury and Eskom successfully negotiated and finalised loan agreements linked to the Clean Technology Fund for Eskom’s renewable support projects. These projects will be used as a catalyst for government to achieve its renewable energy targets as set out in the integrated resource plan.



Pricing matters

At just over 22 cents per kilowatt hour, the average price of electricity in South Africa is well below comparable prices internationally. This has created the disparity between supply and demand and sends the wrong message to both households and industries. These low rates are also insufficient to generate appropriate returns on new investment, which is one of the main reasons why independent power producers have not invested in South Africa. Price determination should move from a “cost to supply plus profit” to marginal cost calculation. This will ensure that suppliers are correctly remunerated, encourage investment and foster more efficient energy usage.



The National Energy Regulator of South Africa (NERSA) awarded Eskom tariff increases of 24.8% for 2010/11, 25.8% for 2011/12 and 25.9% for 2012/13. NERSA approved a further 8% over a period of five years. Standard prices are therefore likely to increase from 41.57c/kWh in 2010/11, to 96.7c/kWh by 2017.

Renewable Energy: **SERE Wind farm project**, generating capacity of 100 MW, comprising 46 turbines, of 2.3 MW each. Full commercial operation scheduled for end 2014 (a year later than originally planned). This is Eskom’s first large-scale renewable energy project. First turbine was erected in December 2013. The contract was awarded in May 2013.



The Africa Renewable Energy Fund, which aims to invest in projects in sub-Saharan Africa, had raised \$100 million (R1.1 billion) and expected to double that this year, lead investor the African Development Bank (AfDB) said yesterday.

Poor electricity access is a major constraint to economic growth in the region, where governments and private sector providers have often struggled to raise funds for capital-intensive projects.

The fund will target small and medium-sized independent power projects producing between 5 megawatts and 50MW.

Managed by Mauritius-based Berkeley Energy, the fund will invest between \$10m and \$30m on each project, and will have an option of seeking more funds where need arises from other investors for larger investments.

Gabriel Negatu, the AfDB's regional director for the east Africa resource centre, said the fund manager wanted to raise \$200m by the end of this year. "The \$200m is not the end of it. The whole idea is that this is supposed to catalyse and crowd in other investors, so I can assure you that in a few years' time we may be looking at maybe \$1 billion or half a billion dollars," he said during the fund's launch.

The AfDB has contributed \$65m of the \$100m raised so far.

The fund, which will have its headquarters in Nairobi, said that it would target projects in small hydroelectric power plants, wind, solar, geothermal and waste gas.

Negatu said the fund planned to take controlling stakes in 12 greenfield projects.

Other contributors include the West African Development Bank, Ecowas Bank for Investment and Development, Dutch development fund FMO, and Togo-based African Biofuel and Energy Company.

Negatu said the bank was also in talks with Kenya and Uganda on how best to participate in developing infrastructure such as a crude oil pipeline and refinery to harness the two countries' oil discoveries. "We hope to be able to provide resources. We hope to be able to co-finance, lead arrange, whatever way they would like us to support. We are very much committed to this."

Source: <http://www.iol.co.za/business/news/fund-raises-100m-for-renewable-energy-1.1661107#.UybpZi2KCP8>

Safety related expenditure (Department of Correctional Services, Justice and Constitutional Development and Defence) R12.9 bn MTEF

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
Correctional Services	833,600	950,900	592,400	744,500	803,100	813,000	819,900	863,400	2,496,300
Justice and Constitutional Development	590,100	542,500	683,600	621,200	784,600	844,500	784,100	1,046,900	2,675,500
Defense	862,000	699,900	530,700	1,381,700	1,207,700	1,043,300	1,041,300	2,183,500	4,268,100
Police	1,070,100	1,118,200	671,100	691,600	1,036,900	1,099,900	1,149,500	1,210,500	3,459,900
Total, current prices	3,355,800	3,311,500	2,477,800	3,439,000	3,832,300	3,800,700	3,794,800	5,304,300	12,899,800
% change Current prices	3.8%	-1.3%	-25.2%	38.8%	11.4%	-0.8%	-0.2%	39.8%	12.9% (Avg)
% Change in constant prices	1.8%	-5.1%	-29.7%	32.2%	5.1%	-8.2%	-7.6%	29.4%	4.6% (Avg)

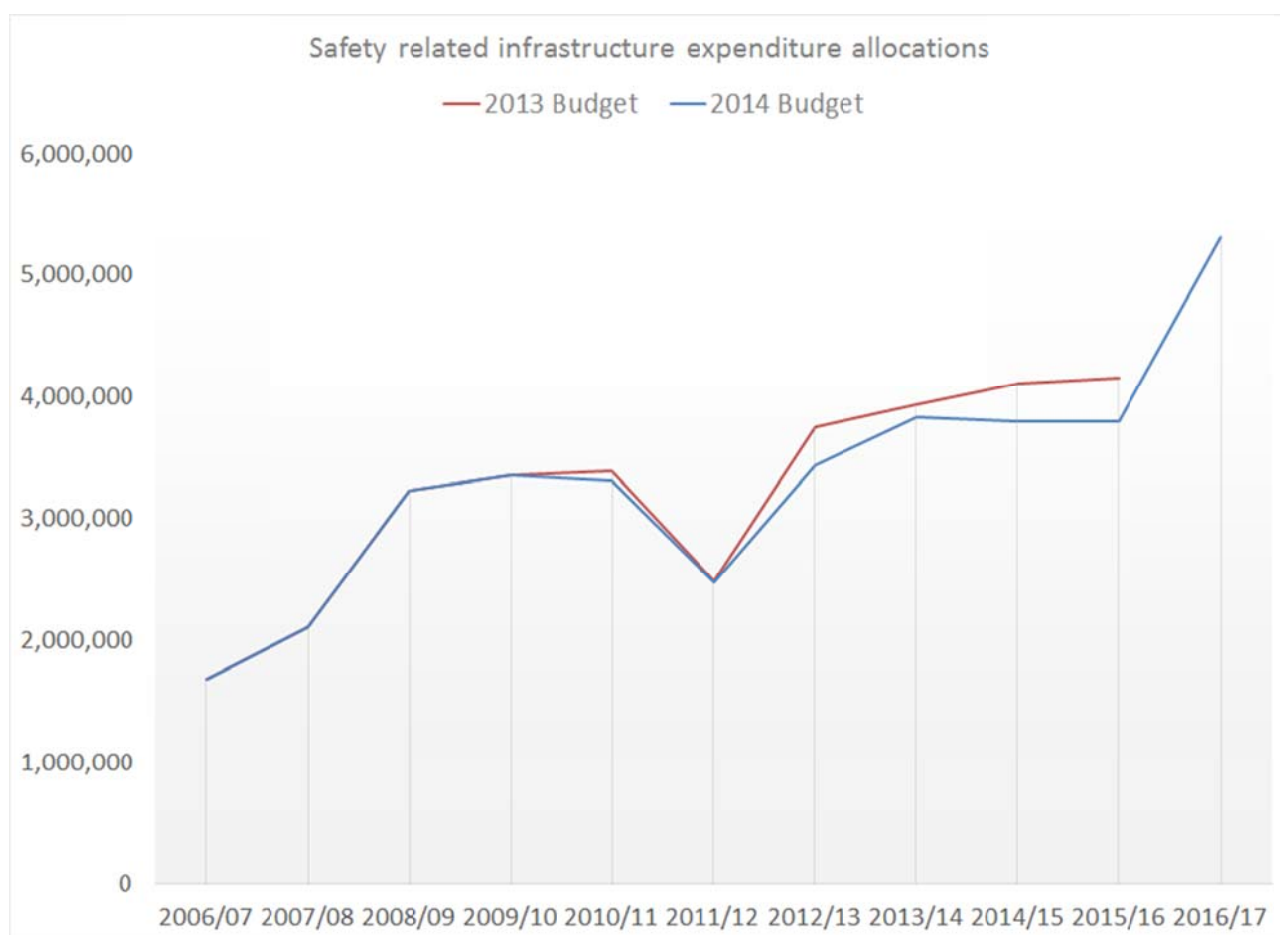


Figure 33: Aggregated summary of safety related infrastructure expenditure, Rm current prices

- Bulk of expenditure related to safety infrastructure over the medium term period is allocated to the Department of Defence (R4,3 bn) followed by Police (R3,5 bn), Justice and Constitutional development (R2.7bn) and Correctional Services (R2,5 bn).
- Allocations for 2014/15 is projected to fall by 8% in real terms, or by 0,8% in nominal term, mainly due to a reduction in allocations towards Defence (down 13,6% in nominal terms to R1,04 bn from R1,2 bn in 2013/14).
- No real growth is expected in allocations towards Correctional services, while only marginal growth in real terms can be expected in expenditure by the Department of Justice and Constitutional Development (up 7% in nominal terms in 2014/15 compared to the 2013/14).
- The 2014 Budget includes a comprehensive list of infrastructure projects and allocations for the next three years, in the various Departments listed above.
- **Correctional services** – Spending on infrastructure decreased from R950m in 2010/11 to R803m in 2013/14 and is projected to increase to R863m in 2016/17. Under spending on capital works projects are also to blame for the decrease (as in the case with reduced allocations in the Department of Defence).
 - Tender:
 - R328m Standerton correctional centre
 - Design
 - R298m Burgersdorp correctional centre (311 additional beds)
 - R278m Ingwavuma correctional centre (212 additional beds)
 - R230m Zeerust correctional centre (500 additional beds)
 - R219m Nongoma correctional centre (191 additional beds)
 - R225m Nkandla Correctional centre (153 additional beds)
- **Defence** – infrastructure allocations were cut compared to 2012 and 2013 budgets, from R1,4 bn in 2012/13 to R1,04bn in 2014/15. R798m was allocated in 2014/15, projected to increase to R846m in 2015/16 for the refurbishment of existing brick and concrete buildings of military bases and units, comprising the bulk of the infrastructure allocations.
- **Police** – Infrastructure allocations were reduced between 2010/11 and 2013/14 due to delays in the implementation of a number of projects. These projects were rescheduled over the MTEF period to allow for proper planning and explains the increase in infrastructure over the medium term from R691m in 2012/13 to R1,1 bn in 2014/15 and R1,2 bn in 2016/17. Allocations are mainly earmarked for construction and upgrading of police stations, including plans to build ramps to make police stations more accessible to people with disabilities. Over the medium term the department will prioritise the construction of a shooting range at Faure in Western Cape at an estimated cost of R181m.
- Justice and Constitutional Development – Spending on infrastructure increased from R542m in 2010/11 to R784m in 2013/14 and is projected to increase to R1bn per annum over the medium term.
 - The department will complete the construction of the Polokwane High court in 2014/15 at a cost of R796m.
 - The construction of the Mpumalanga high court is expected to be completed in 2015/16 at a cost of R706.4m.
 - In 2014/15 work on the construction of six new magistrate courts will begin at a total cost of R967m, located in Richards Bay and Port Shepstone (KZN), Plettenberg Bay (WC), Booyens (GAU) and Bitiyi and Dimbaza (Eastern Cape).
 - Refurbishment and provision of additional accommodation for the South Gauteng High court will continue and is expected to be completed in October 2015.
 - Other major projects over the medium term include the relocation of the family court in Cape Town and the provision of new offices for the National Prosecuting Authority in Pietermaritzburg (KZN) which will be completed at a total cost of R238m.

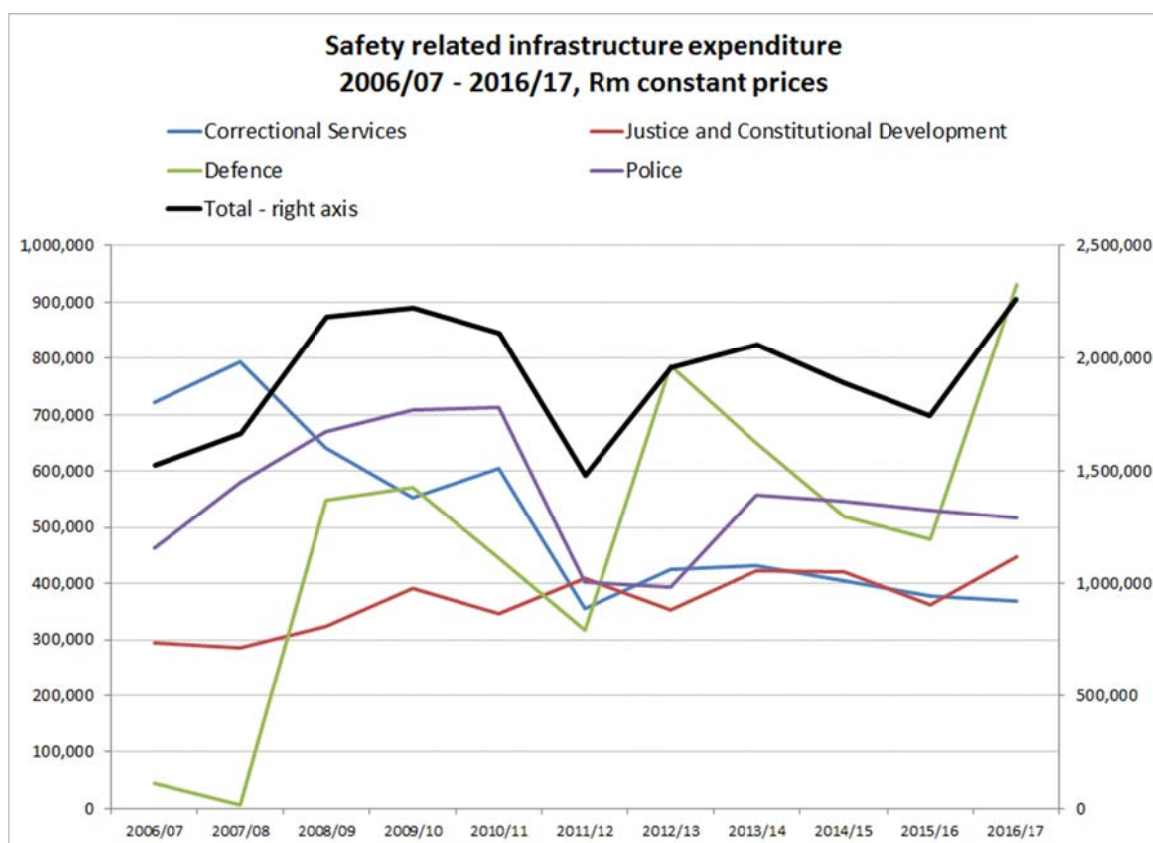


Figure 34: Safety related infrastructure expenditure by Department, Rm constant prices

CIP and SEZ's (Department of Trade and Industry): R4,1 bn MTEF

Table 30: Summary of expenditure on infrastructure Department of Trade and Industry

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2014 MTEF
COEGA	859900	714000	383700	417900	308,200	0	0	0	0
East London	373400	198000	171300	150000	100000	0	0	0	0
Richards Bay	68400	20000	60700	182000	30000	0	0	0	0
CIP	105600	80600	118500	131600	190000	190000	190000	190000	570,000
SEZ's Investment incentives	0	0	0	5000	500000	450000	1130000	1684500	3,264,500
IDZ'S Other	0	0	0	0	0	200000	70000	50000	320,000
Centurion Aerospace Village	0	37500	10000	15000	15800	0	0	0	0
SABSA building	0	174200	93200	48000	0	0	0	0	0
Total	1,407,300	1,224,300	837,400	949,500	1,144,000	840,000	1,390,000	1,924,500	4,154,500

- Infrastructure expenditure is projected to fall by 26% in nominal terms in 2014/15, in spite of an additional R200m allocated towards other IDZ's. Allocations to Special Economic Zones (SEZ's) were reduced in 2014/15 to R450m, but is projected to increase to R1,7bn in 2016/17, the major programme earmarked for funding over the medium term.
- Funding towards the Critical Infrastructure Programme (CIP) is maintained at R190m per annum over the medium term.
 - The critical infrastructure development programme is a cost sharing grant for projects designed to improve critical infrastructure in South Africa. It supports projects in mining, tourism, manufacturing and services on a reimbursement basis. R570m is allocated over the medium term for grants subsidising development costs, from a minimum of 10% to a maximum of 30% of qualifying projects. The programme aims to provide financial support to 39 enterprises over the medium term with an estimated project investment value of R19bn.
 - Through the National Development Plan and the Infrastructure Development Bill, CIP coordinators (mostly Ministers) will be appointed, for the 18 identified projects. These coordinators will be responsible and thereby also accountable for these specifically identified projects and will also be responsible to provide progress feedback.
- Industrial Development Zone – The IDZ's have to date attracted 72 investors and about R17bn worth of investments. 42 of these projects are already operational. 20 are located in the Coega IDZ, 21 in the East London IDZ and 1 in Richards Bay.
- Special Economic Zone (SEZ's) – over the medium term the SEZ investment incentives has a revised allocation of R3,6 bn. This will be used mainly for conducting pre-feasibility and feasibility studies for the proposed SEZ's in all nine provinces, infrastructure projects in the existing industrial development zones and newly designated SEZ's.

R3, 2 bn
 Amount
 allocated to
 SEZ's over the
 MTEF period

OR Tambo International Airport Industrial Development zone

- Designated in 2002, received operator permit in 2010
- First phase of construction was scheduled to start in 2013/14 including bulk works of the jewellery manufacturing precinct, but this has not yet started. The department is working with the Gauteng province to address the bottlenecks delaying the progress.
- Capital expenditure over two years estimated at R578m

Saldanha Bay Industrial Development Zone

- Designated in August 2013.
- This IDZ could become the oil and gas hub for Africa according to the Western Cape provincial government. Saldanha Bay was strategically located to service Africa's substantial oil and gas sector, owing to an increasing number of oil rigs requiring maintenance and the high volume of marine traffic along the West Coast.
- Department will finance initial infrastructure developments in the zone through the SEZ investment incentive. Capital requirements include waste water treatment system, public transport, bulk water supply services, solid waste transfers, and internal engineering services for inside the industrial development zone area.



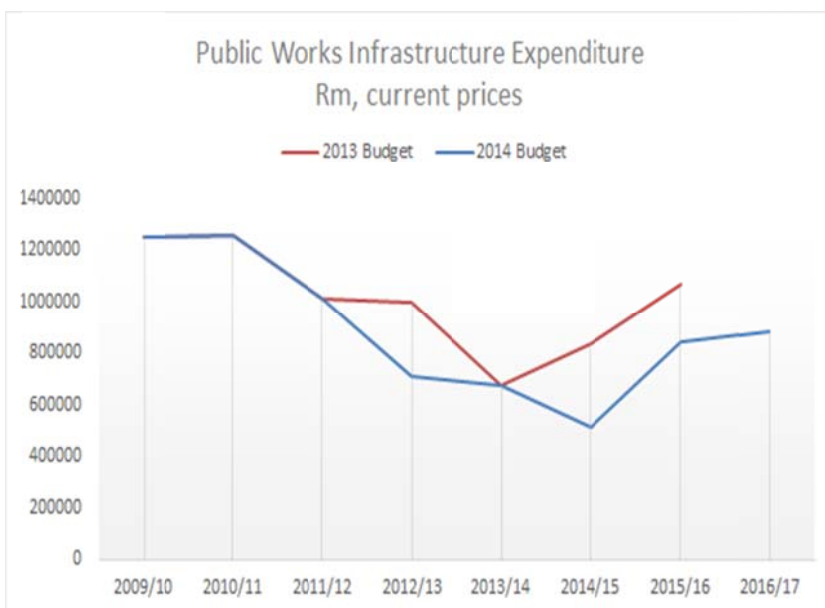
- Construction on the R1, 3bn liquefied petroleum gas (LPG) import and storage terminal started in October 2013.
- Expected to generate R10bn for the Western Cape’s economy over the long term.
- In September 2013, Oiltanking Grindrod Calulo Holdings (OTGC), a subsidiary of Germany’s Oiltanking group, and Mining, Oil and Gas Services (MOGS) announced a joint venture (JV) agreement to construct a R2-billion commercial crude oil storage and blending terminal at the Saldanha Bay port. The terminal would have a capacity of 13.2-million barrels, comprising twelve 1.1-million barrel concrete tanks.
- AFRISAM reported in February 2013 that it may resume plans to build a 2mt/year cement plant in Saldanha.
- The 2014 Budget did not provide any further details on funding towards the Saldanha Bay IDZ.

Department of Public Works: R2.2 bn MTEF

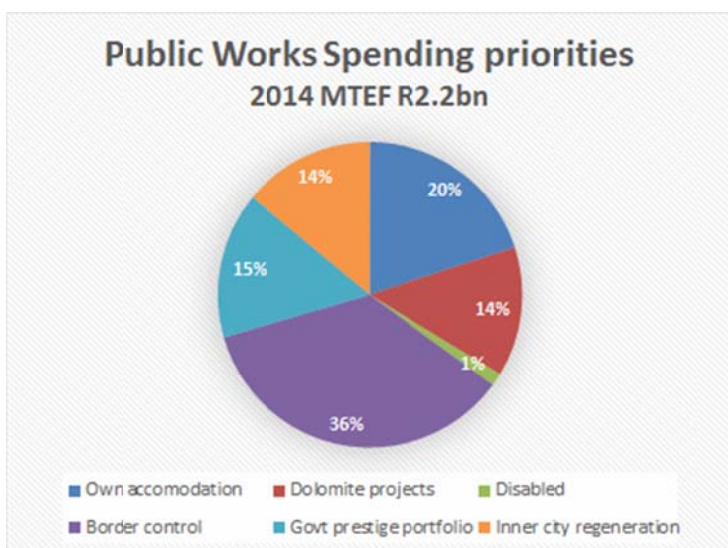
- Department of Public Works continues to under spend on budgets.

Allocations were reduced in 2012/13, 2013/14 and again in 2014/15.

- Allocations were reduced from R676m in 2013/14 to R510m in 2014/15, and increase to R885m in 2016/17 mainly due to inflation related adjustments to existing infrastructure projects. The Department’s overall infrastructure budget has thus been decreased by R220m in 2014/15, R180m in 2015/16 and R250m in 2016/17, as a result of continued under spending due to delays in the appointment of contractors.



- Allocations towards the upgrade and construction of departmental accommodation sites was reduced from R227m in 2013/14 to R86m in 2014/15, but is projected to increase to R204m again in 2016/17.
- Allocations towards border control, including the redevelopment of an estimated 110 border post centres received R233m in 2014/15, compared to R202m in 2013/14. Allocations have been increased to R277m in 2016/17.



- Allocations to the development of 17 national government precincts as part of inner city regeneration received R107m in 2014/15, compared to R55m in 2013/14. Allocations are maintained at just over R100m over the medium term.

- The objectives of the National Public Works Programme is to promote the growth and transformation of the construction and property industries, to promote uniformity and best practice and to ensure the creation of work opportunities coupled with training for the unskilled through the expanded public works programme. The main challenge facing the department's core business is skills shortages and a need to structure human resource development programmes in line with skills requirements.

- The **expanded public works programme (EPWP)** has been mandated to intervene and play an active role in bridging the gap between the second and first economies by becoming the government leader in the creation of job opportunities. Thus it utilises government expenditure to create targeted job opportunities. The EPWP aims to address unemployment and poverty in the country by providing employment opportunities to unemployed citizens, and simultaneously bolstering investor confidence in the labour market. Small contractors are mentored under the programme, teaching them the skills to compete viably in tenders for municipal and provincial government labour-intensive projects. The second phase of the EPWP is in the second year of implementation, committed to deliver 4,5 million work opportunities over five years.

- Policy Regulations:
 - Construction Industry Development Board – creates an enabling environment for transforming the construction and development industry by developing appropriate legislation and implementing monitoring mechanisms for the industry. Over the medium term the Agreement South Africa bill and amendments to the Built Environment Professions bill will be tabled in Parliament.
 - Property Industry Development Programme – provides leadership and guidance on the transformation of the property industry and promotes uniformity and best practice on immovable asset management in the public sector through policy development.
 - Expropriation Bill – Spending over the medium term will be on tabling the Expropriation Bill which provides for the expropriation of property for public purpose or in the public interest, subject to just and equitable compensation.
 - Council for the Built environment – oversees and regulates the 6 professional councils responsible for regulating the built environment such as architects, engineers, quantity surveyors, landscape architects, property valuers and project and construction managers.
 - Green Building Policy – DPW will also be responsible for the adoption of Green buildings within the public sector and will establish a green building network amongst key public sector entities to:
 - Facilitate and encourage the uptake of Green Building Policies.
 - Establish and implement relevant green building demonstration projects together with awareness raising, education, and information campaigns aligned to selected key strategic objectives.
 - DPW will facilitate the development of an implementation plan, including co-funding of a minimum of three public sector green building demonstration projects by mid 2014.

Conclusion

The 2014 Budget continued to focus on key priorities, strongly geared towards those sectors that support job creation, skills development and education. Whilst maintaining spending on critical infrastructure such as water and transport, some of the smaller votes experienced cuts in infrastructure spending, pushing project implementation to 2016/17, a trend that already started in the 2013 Budget. These spending cuts affected mainly projected spending in the building industry. Where infrastructure allocations are increased, in many cases it will not be sufficient to cater for higher construction costs during the medium term, resulting in many cases in negative real growth.

Central to the NDP, the framework used to identify spending priorities, is government's commitment to partnership, but this is easier said than done and is nothing new. For the private sector to participate in a meaningful way government need to provide the necessary incentives and initiatives to engage the private sector in a more proactive manner. This has been a long standing request from the consulting engineering industry.

Issues that will shape the construction industry in the coming years will be the implementation of the Infrastructure Development Bill, once gazetted, putting into action the necessary coordination to facilitate the implementation of the 18 identified strategic infrastructure projects. The issue on "Centralised Procurement" remains a somewhat vague debate, as it is still unclear exactly how this approach will impact in the work flow whilst curbing procurement irregularities.

The re-alignment of the housing budget means government will not be increasing the delivery of subsidised housing, as allocations are re-prioritised to the development and construction of rental housing and the upgrading of informal settlements. Thus as more focus is given to rental housing construction, private sector participation in the affordable housing market development, is becoming more important. The housing policy in our view remains distorted and not maximising utilisation of limited urban space.

As we have seen over the past few years, allocations are not keeping pace with higher construction cost inflation. Allowing for building cost inflation in the near term (averaging between 6% and 8%), allocations will more than likely be eroded in the next three years. Real growth in infrastructure spending by government departments (excluding State owned enterprises) has slowed from around 18% in 2009/10 to 3,4% in 2013/14 and is expected to increase by 5,7% in 2014/15, 3,8% in 2015/16 and -1,7% in 2016/17, averaging 2,6% over the medium term.

Departments that are projected to show better than average growth in infrastructure spending during the 2014/15 financial period really just include Transport and

Water. Departments or programmes that are expected to fall in real terms in 2014/15, include DPW, Municipal Infrastructure Grant, Neighbourhood Development Partnership Grant, Safety related expenditure, and IDZ's.

We looked forward to the proposal regarding the incentives to developers for the construction of affordable housing, but the 2014 Budget provided very little information. Without these initiatives, private sector involvement will remain sluggish. We are also excited about the opportunities presented in the development of renewable energy. This sector will play an important future role in the construction industry and will certainly have a major economic impact on South Africa's future growth path, as well as promoting sustainability and a cleaner environment.

The R847bn to be spent on infrastructure by the public-sector (broader definition, thereby including government and state owned enterprises) must however be seen in context that a large portion of the projected income will not have a direct impact on the construction industry. We estimate that the construction industry's exposure to the R847bn is between R450bn and R510bn over the medium term. This is because allocations to Eskom and Transnet for example will also be used to purchase machinery and equipment, including rail stock.

We continue to believe that rigorous monitoring is needed to ensure effective and efficient planning and spending of these budgets and a no-nonsense policy is necessary to address those departments not adhering to budgets or found guilty of acting in a corruptive manner. Quarterly reports of provincial expenditure are available, but one can't help but feel that real monitoring - questions and answers - are still missing.

Stricter conditions to release grants to provinces may result in further delays of implementation, as provinces need to "apply" for funding well in advance. Projects also need to be aligned with the NDP principles in order to obtain approval. In the 2013 Budget, it was said that provinces will have to submit plans two years in advance and within benchmark targets, before funding is allocated. This will highlight those provinces where project planning is ineffective, constraining potential growth in the building industry. The consequence of under spending has already resulted in provincial budgets being reduced. The Urban settlement development grant was reduced by R130m due to under spending in Manguang and Buffalo City.

The issue of under spending remains a contentious one as poor planning, procurement irregularities and implementation delays continue to create a culture of under spending.

Interesting policy developments over the medium term will be the tabling of Green Building Policy and the

Expropriation Bill by the DPW. The development of a policy framework for Green Building by the Department of Public works during 2014 will shape the establishment and implementation of future green building projects and will encourage a wider uptake of Green Building Policies, while the Expropriation bill will allow for expropriation of property for public purposes (subject to compensation). The expropriation of land is also an important feature in the Infrastructure Development Bill.

DBSA noted in September 2011 that investing R2 trillion in infrastructure over the next five years will not be sufficient to cover backlogs and total needs, as actual needs are more in the region of R3,3 trillion. In March 2014 the DBSA was appointed as the management agents for a R1bn EU fund designed to accelerate the preparation of social and economic infrastructure in South Africa. This is at least a step in the right direction.

Considering the more difficult economic environment, it is not surprising that Treasury had to re-shape priorities, without losing focus on infrastructure development. As we look to a period of moderate growth, maximising efficiency to ensure the effective expenditure of allocations will be critical.

While the contribution to gross domestic product has slowed, maintaining a stable position of between 8% and 10% is equally important. Growth rates may have slowed to single digits in the near term, but what is more important perhaps for the industry going forward is resolving issues of under capacity and poor performance by provincial and in particular municipal departments. We remain of the view that if departments spend what has been allocated the industry will be in a much better position.

Sources of information

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