

Public Infrastructure Investment Management: Reforms and Challenges

*MOSF-KDI-IMF-WB International Conference on Strengthening the Management of
Public Investment*

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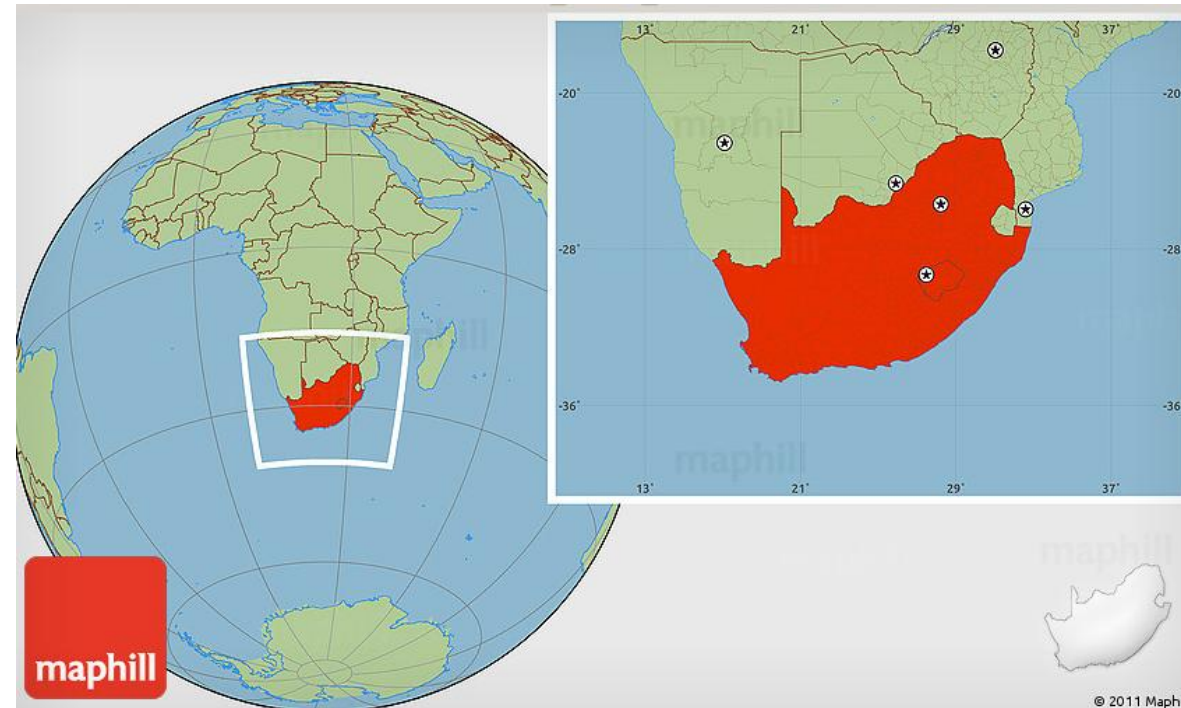
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Outline

- Context
 - Infrastructure demand
 - Infrastructure assets
 - Water and Sanitation
 - Roads
 - Rail
 - Electricity
 - Telecommunications
- Institutional framework
- Budget reform successes
- Lessons learnt
- Current infrastructure investment reforms
 - The case of provincial roads

Context

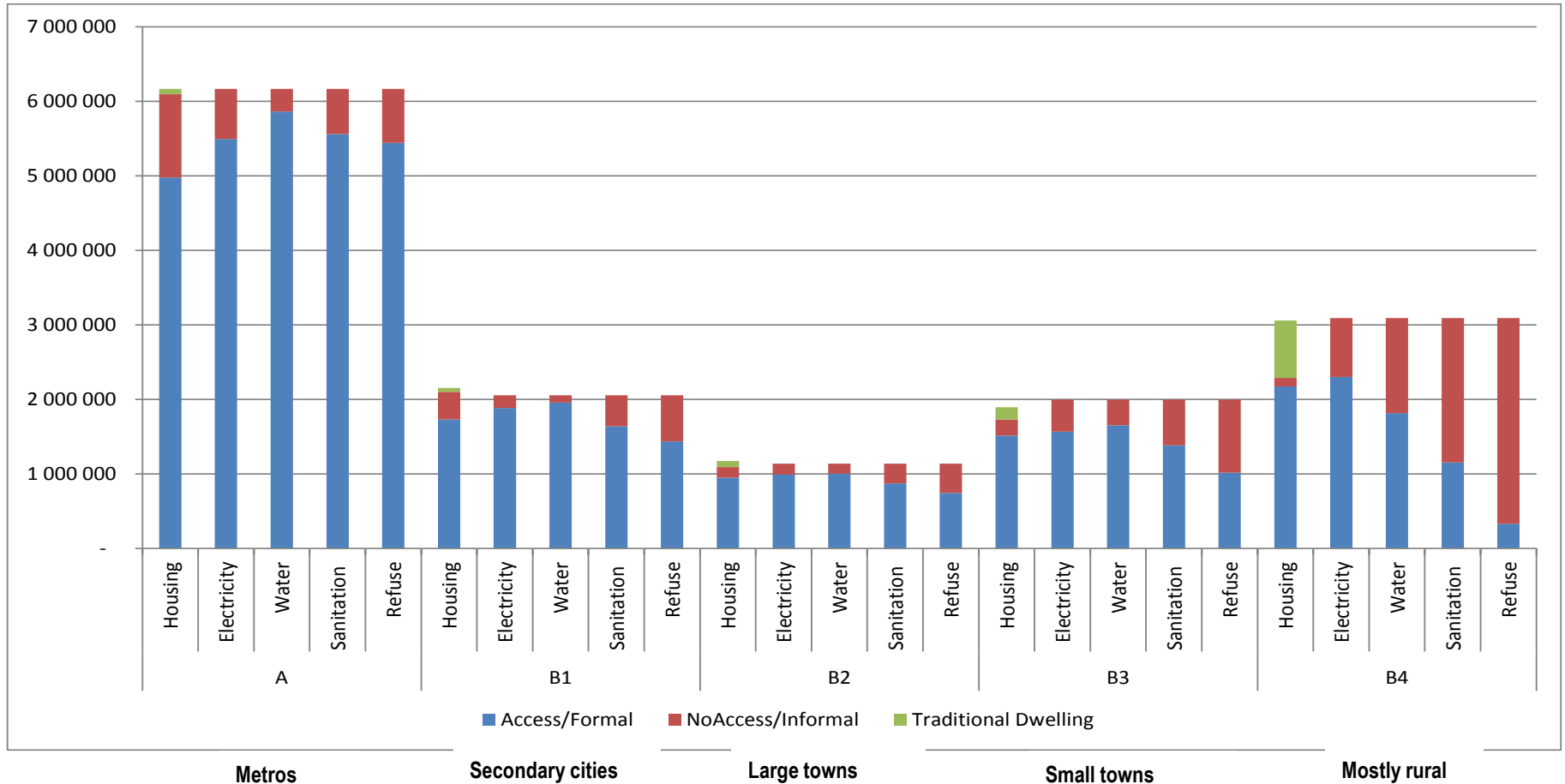


- Gini co-efficient: 65 (World Bank, 2011)
- Real GDP growth: 1% (Q2 2014)
- Inflation rate: 5.9% (September 2014)

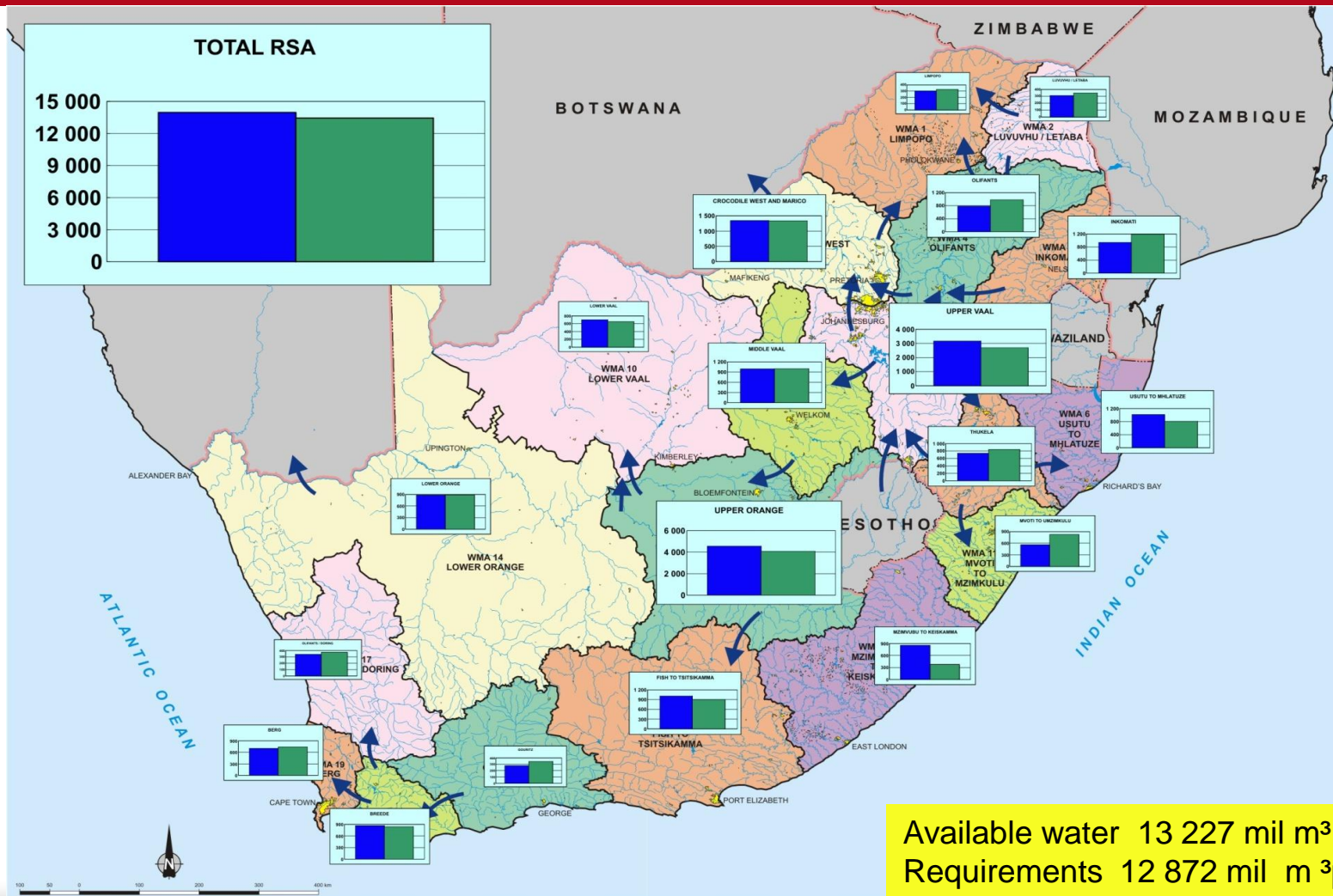
- 1.2 million km²
- 2 798 km coastline
- 9 provinces
- 278 municipalities
- 51 million people (2011)
- 14.5 million households (2011)
- Unemployment rate (Q2 2014):
 - Narrow: 25.5%
 - Broad: 42.7%
- Repo rate: 5.75%

Infrastructure demands

Households with and without access to RDP-level services in 2011



Water Resource Availability



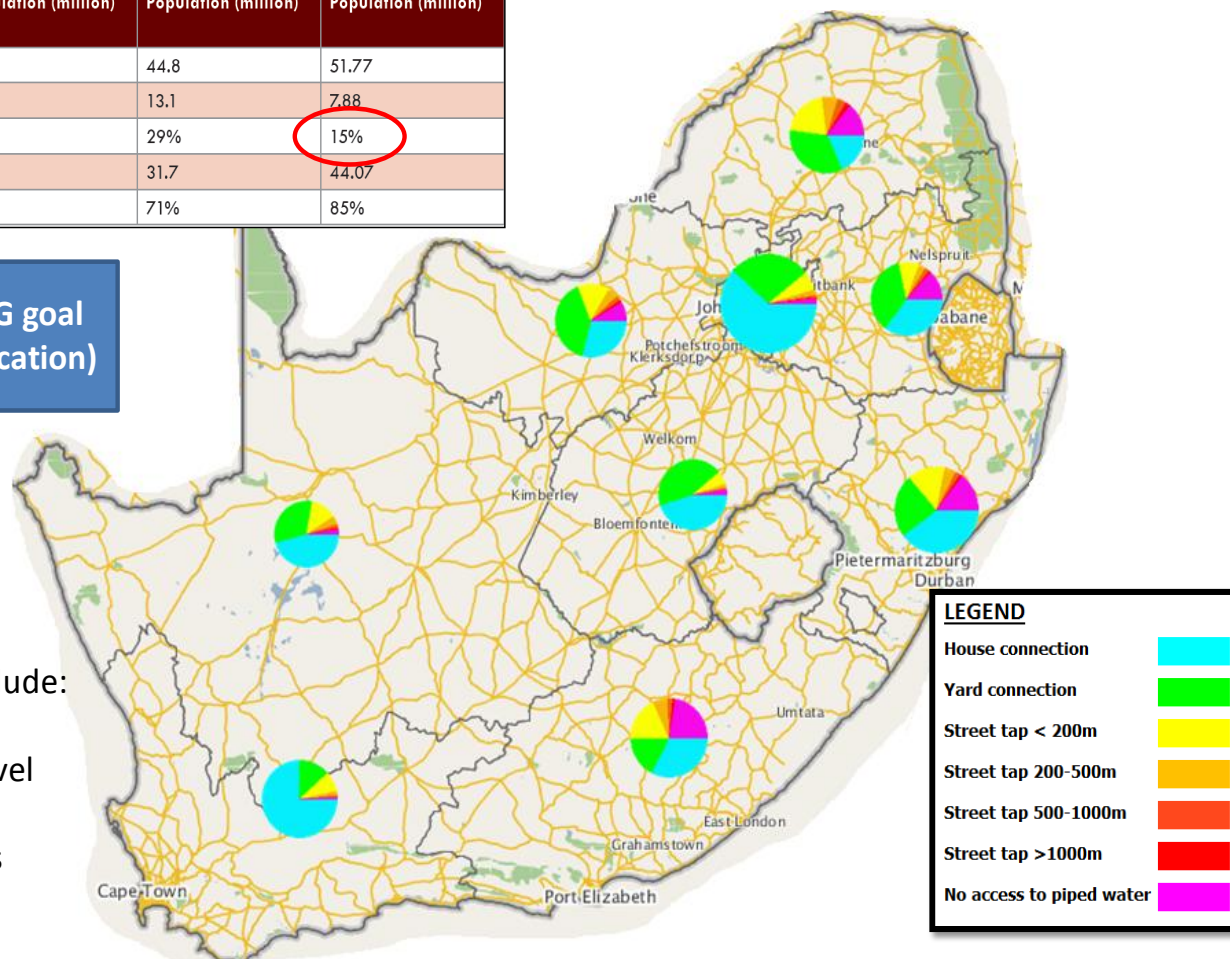
Water Supply Backlog

	1994 Population (million)	2001 Population (million)	2011 Population (million)
Population	38.9	44.8	51.77
People below RDP	15.9	13.1	7.88
% People below RDP	41%	29%	15%
People equal to or above RDP	23	31.7	44.07
% People equal to or above RDP	59%	71%	85%

**RSA achieved MDG goal
(50% backlog eradication)**

Main challenges include:

- eradicate backlog
- manage service level upgrades
- illegal connections



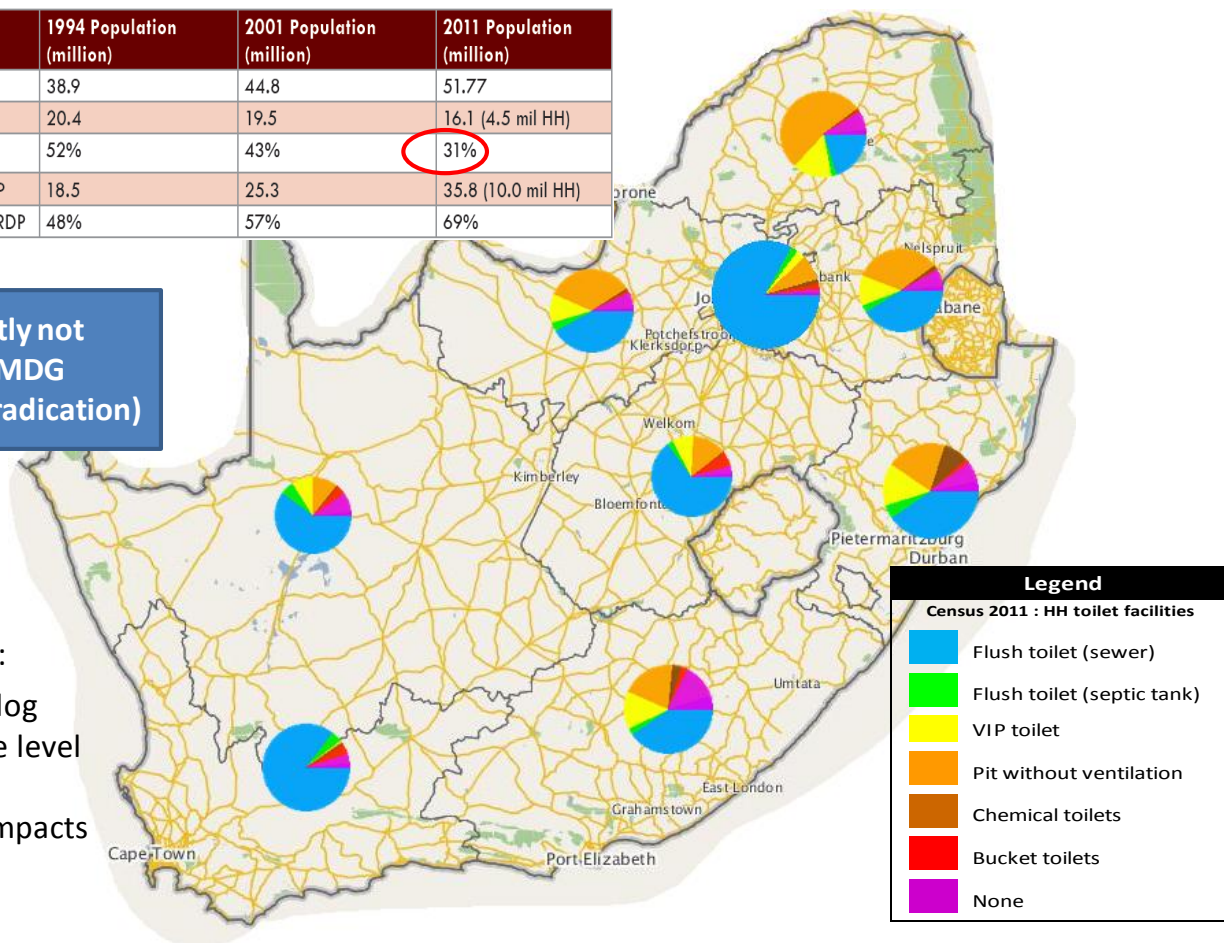
Sanitation backlog

	1994 Population (million)	2001 Population (million)	2011 Population (million)
Population	38.9	44.8	51.77
People below RDP	20.4	19.5	16.1 (4.5 mil HH)
% People below RDP	52%	43%	31%
People equal to or above RDP	18.5	25.3	35.8 (10.0 mil HH)
% People equal to or above RDP	48%	57%	69%

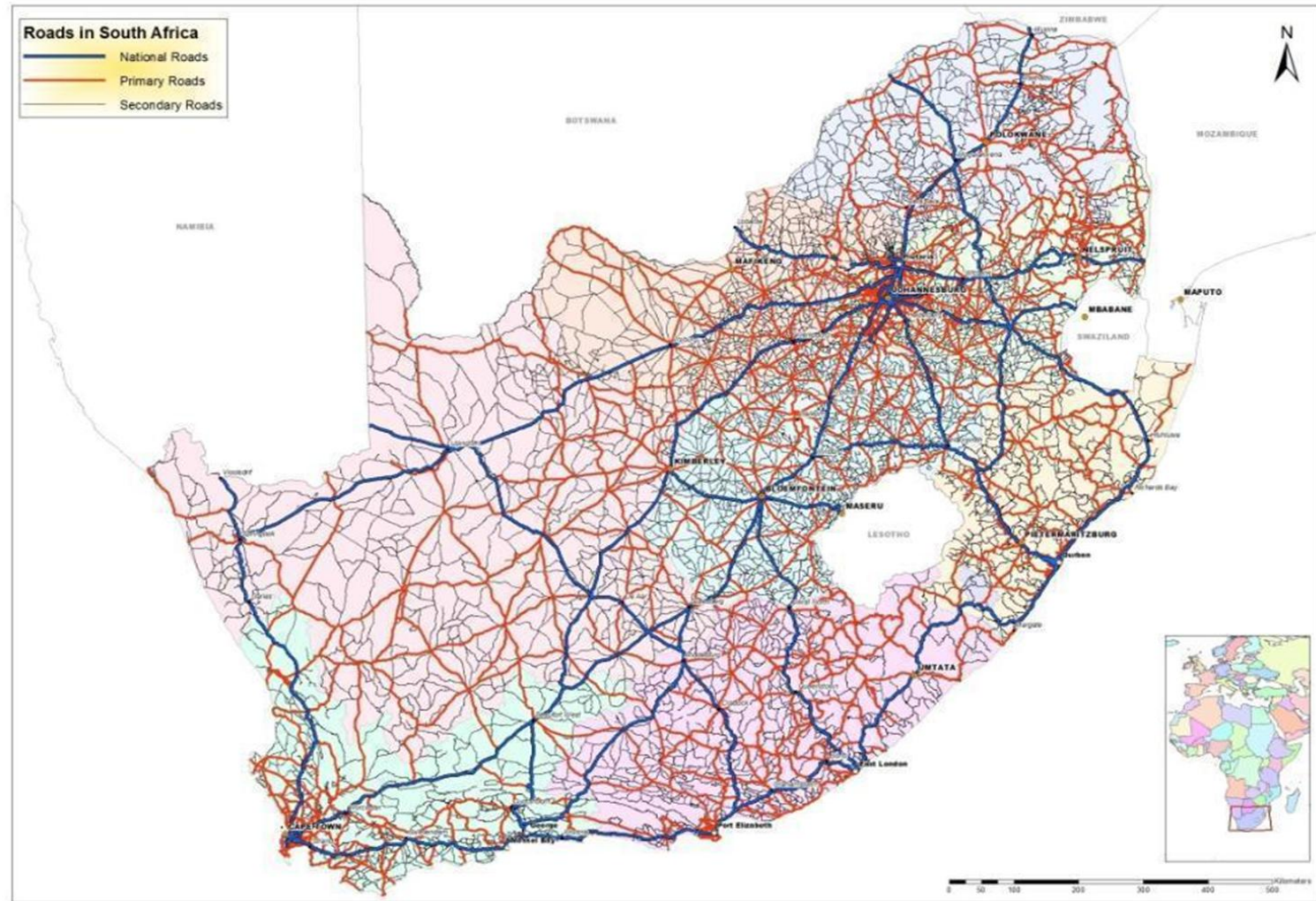
RSA currently not
achieved MDG
(50% backlog eradication)

Main challenges:

- eradicate backlog
- manage service level upgrades
- water supply impacts of waterborne sanitation

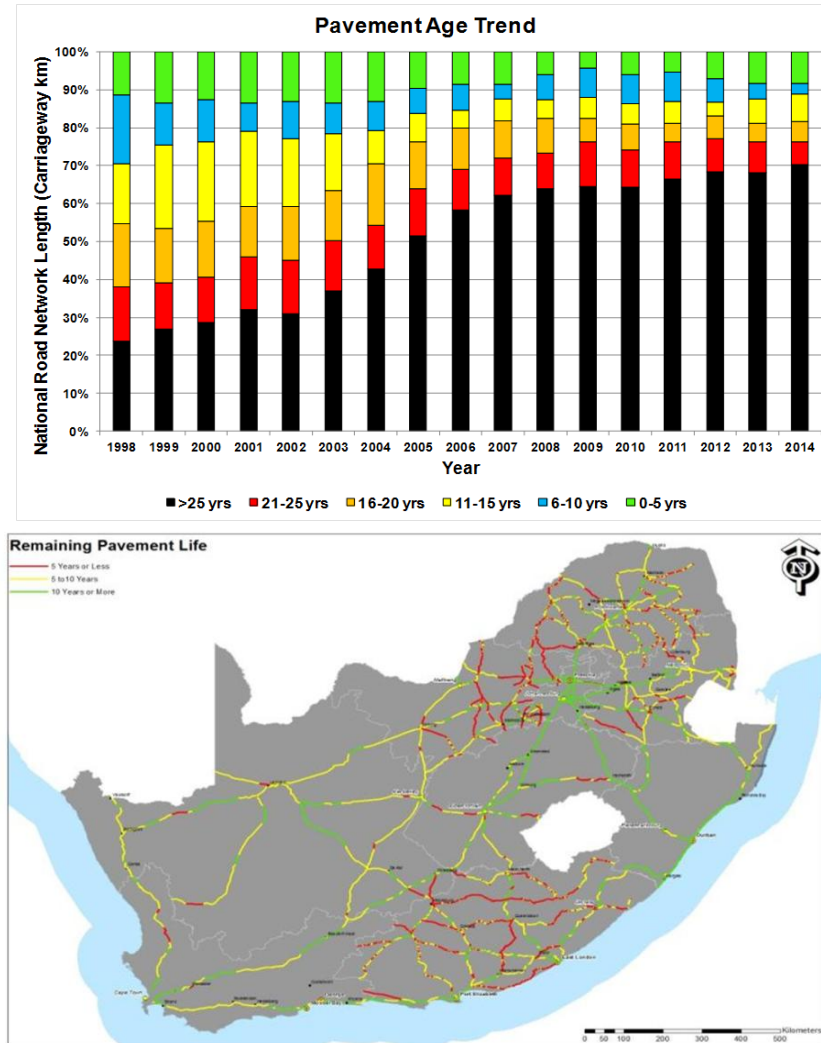


Road network

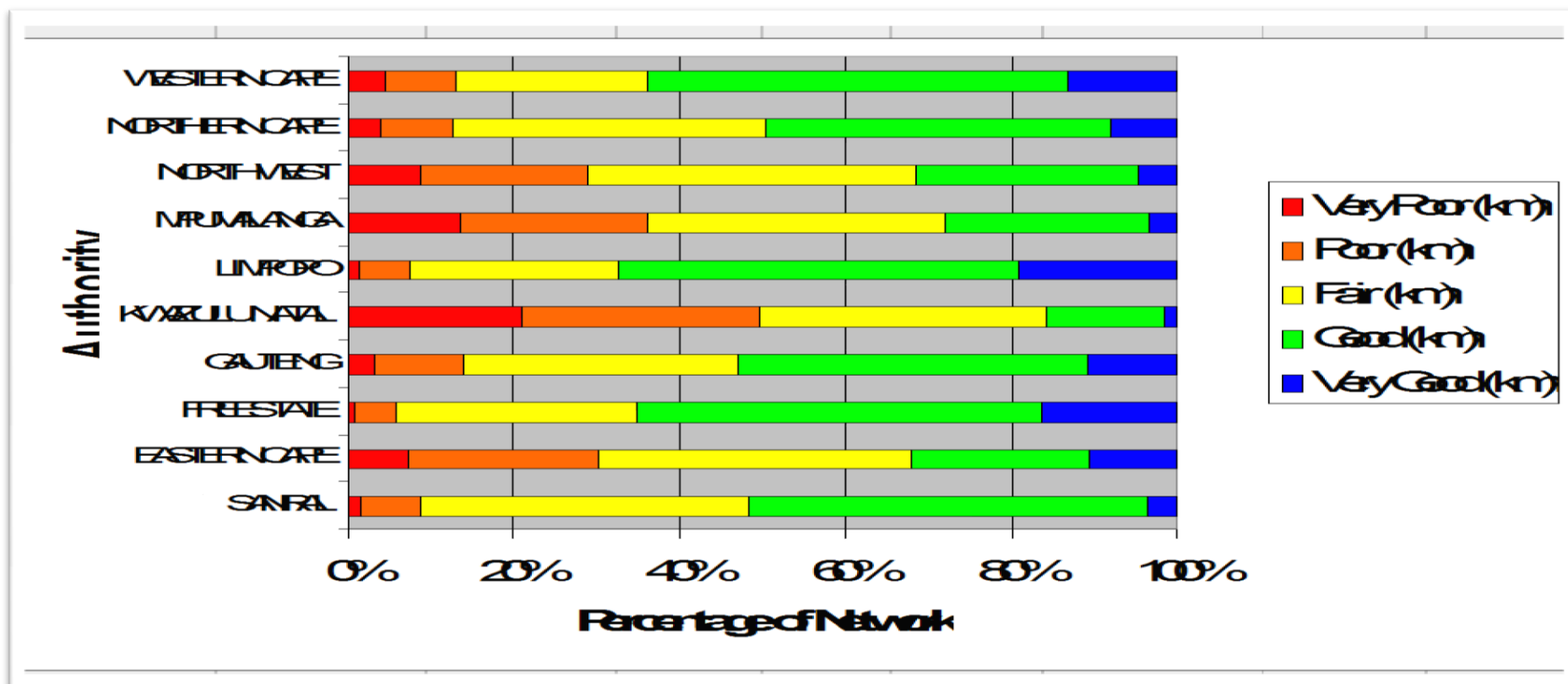


Roads

- SA has the 18th largest paved road network in the world
- Maintenance backlog of R197 billion
- National road network is 21 403km
 - 14.58% of national road network is tolled
 - 22% of national network has a useful life of less than 5 years
- Budget allocation insufficient for future national road expansions
 - Planned expansions by SANRAL of R118 billion over the next 10 years
 - If absorbed by budget, road conditions expected to deteriorate from 11% in poor/very poor conditions to 40% in poor/very poor condition by 2026



Condition of Provincial Road Network

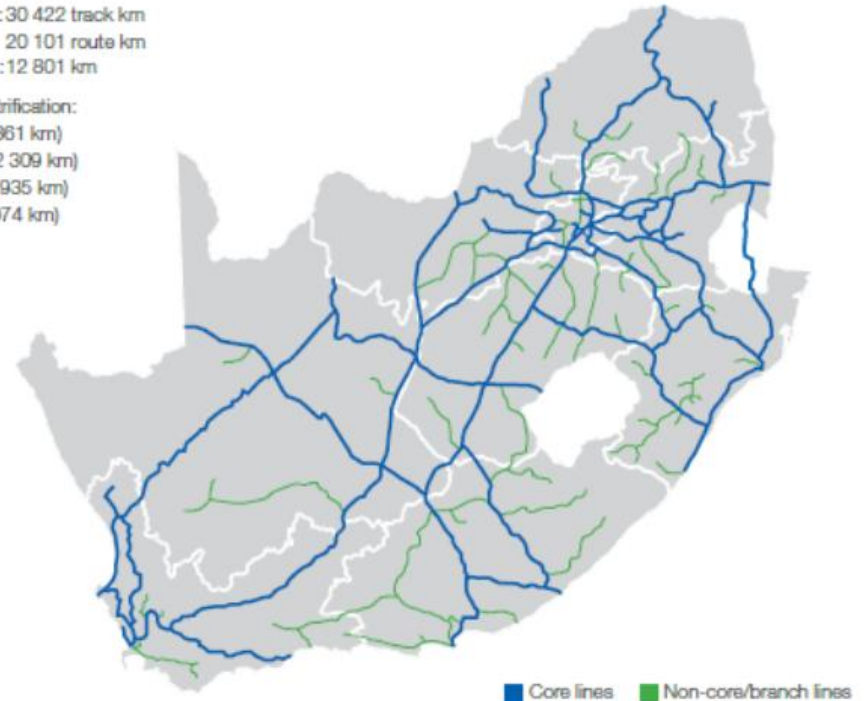


Rail

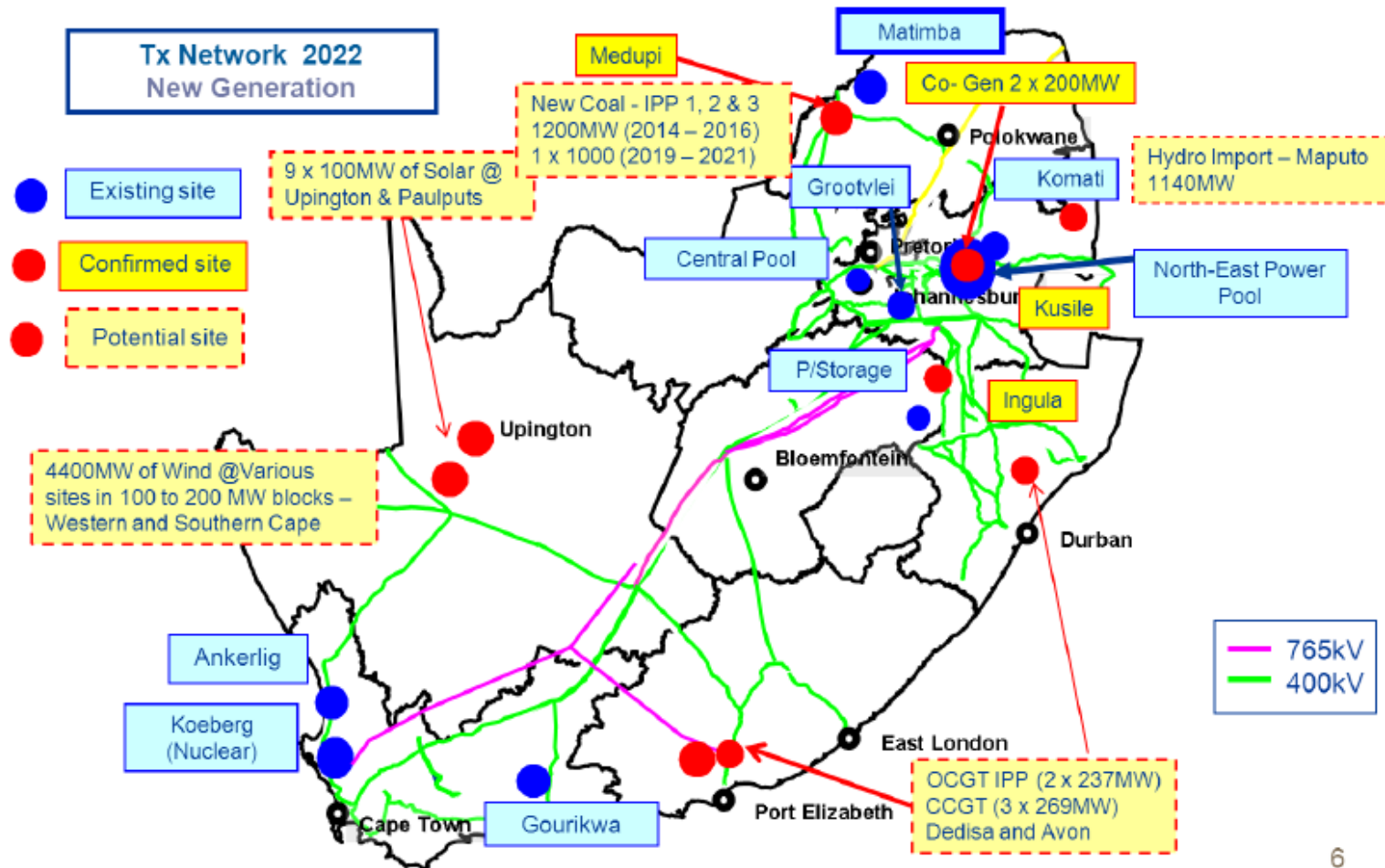
- Rail network consists of more than 30 000 km of track, actual route distance approx. 20 100 km
- Expansion of capacity on heavy haul lines
- Improving efficiencies and reducing costs to industry
 - Aligning economic development with network infrastructure
 - Maximising value for money on existing corridors
- Policy proposal to shift general freight from road to rail

Total network: 30 422 track km
20 101 route km
Core network: 12 801 km

Network electrification:
• 50 kV AC (861 km)
• 25 kV AC (2 309 km)
• 3 kV DC (4 935 km)
• Diesel (11 974 km)



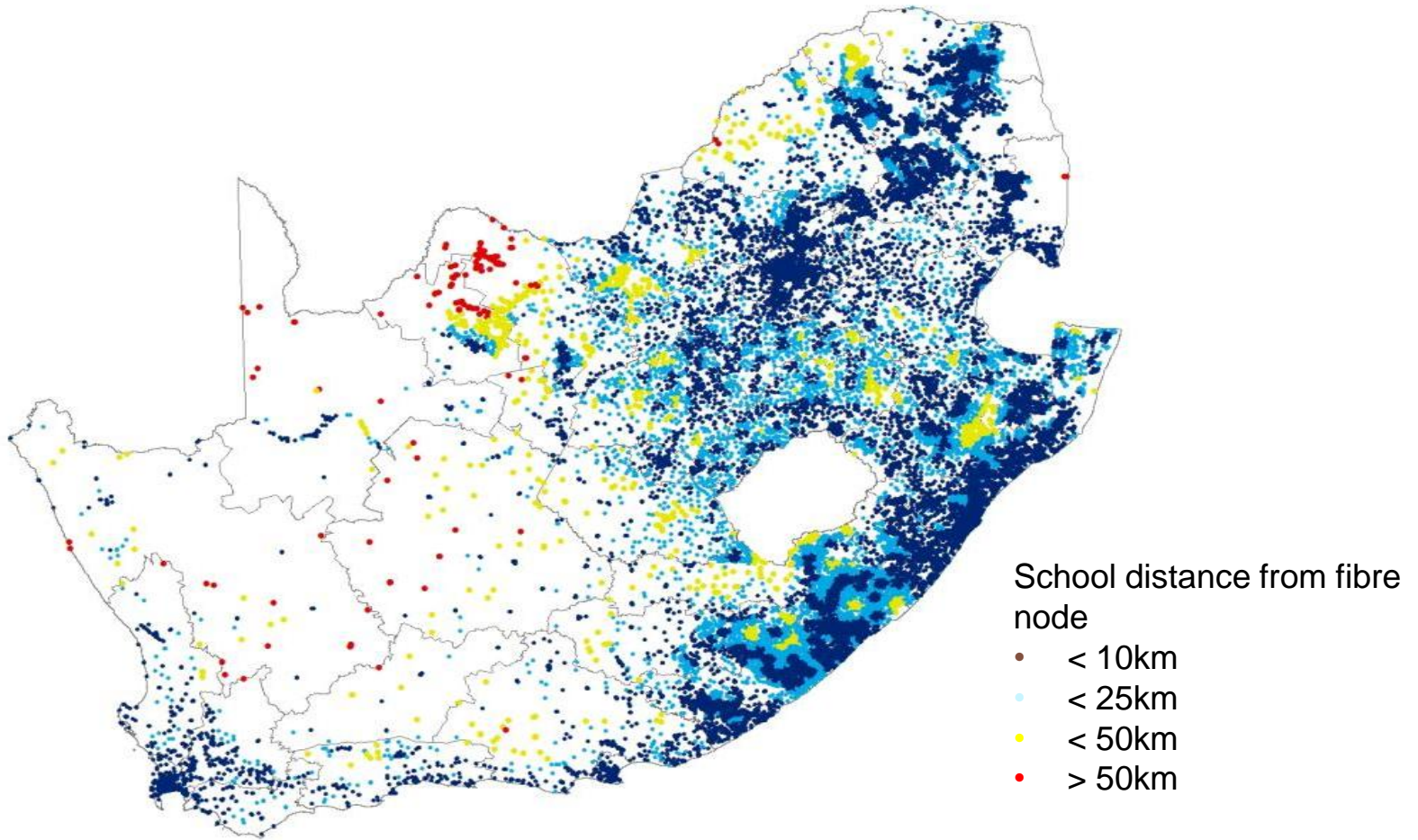
Electricity generation



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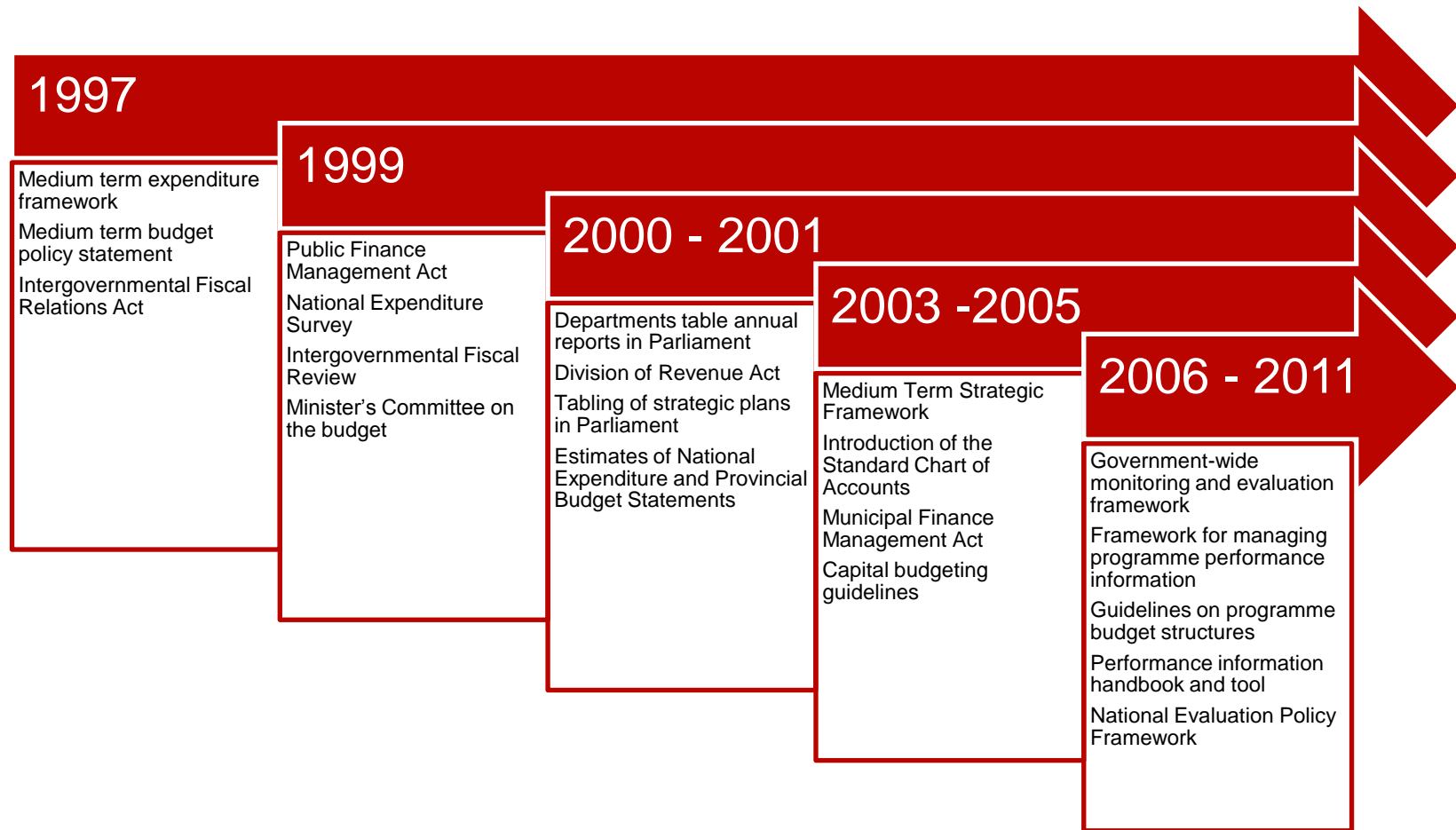
Current Distribution of Fibre Network



Institutional framework

- Pre-democracy public finance management framework
 - Department of Finance approval for expenditures
 - Line item budgeting
 - Only incremental one year budgeting
 - No pre-budget policy statement
 - Provincial budgets were made by national departments
 - Little political oversight over the budget process
 - The budget tools and system were inadequate to stabilise fiscal balances and manage required policy shifts
- New democratic government elected in 1994.
 - Introduction of a new Constitution
 - Changes to structure, distribution of power and allocation of public finances
 - Commitment to improving the quality and coverage of public finances

Budget reform successes



Lessons learnt

- Clear principles and objectives of designing reforms
- Be realistic about the reform process and the speed with which it is implemented
- Political buy-in is essential
- Simple frameworks, easy to communicate and implement
- MTEF and the PFMA were implemented across government - driving policy and budgeting decisions, and financial management

Status Quo

- No uniform decision framework across government
- Quantification of costs and benefits weak
- Life cycle costs not considered
- Weak project management and monitoring
- No ex-post project evaluation
- In terms of Public Finance Management Act, systems for evaluating capital projects are the responsibility of accounting officers
- Supported by capital planning guidelines issued by the National Treasury
 - Sets out capital appraisal process for all new capital projects and the expansion of existing projects

Current reforms for infrastructure investment

- Focus on protecting existing infrastructure assets at national, provincial and local government level
 - Significant infrastructure needs require improved allocative efficiency and spending effectiveness
 - Linking conditional grant funding to asset management systems
 - Grants subject to publishing of systems specifications
 - Use grant funding to collect data
 - Use grant funding as part of capacity support for limited period
 - Building in performance incentives into grant funding systems

Case study: Provincial Roads

- Focused on adopting sound road asset management systems and collect condition and other data to inform proper planning and monitoring, on a regular basis.
- Rewarding provinces that performed well and made sensible network investments that contributed to economic growth and could therefore be sustained
- National departments use the conditions of the grant to ensure that provinces put in place proper planning and road asset management systems

Case study: Provincial Roads

- Planning requirements
 - Road asset management plan that is compliant with the Government Immovable Asset Management Act
 - Level of service
 - Network condition and traffic volumes
 - Project lists with summary of targets as per the key performance indicators
 - Financial summary
 - Organisational and support plan

Provincial Roads Maintenance Grant	
Transferring department	• Transport (Vote 37)
Strategic goal	• To ensure efficient investment in provincial roads to implement the Road Infrastructure Strategic Framework For South Africa (RISFSA) in line with the S'hamba Sonke Road Programme and other related road infrastructure asset management programmes
Grant purpose	<ul style="list-style-type: none"> • To supplement provincial investments for preventative, routine and emergency maintenance and road rehabilitation of provincial road networks, ensure all roads are classified as per RISFSA and the Road Classification and Access Management (RCAM) guidelines • Implement and maintain road asset management systems • To supplement provincial projects for the repair of roads and bridges damaged by declared natural disasters • To improve the state of the road network serving electricity generation infrastructure • To construct rural pedestrian access bridges
Outcome statements	<ul style="list-style-type: none"> • Improve the condition and lifespan of the assets (provincial roads), thereby improving the level of service • Improved rates of employment, community participation and skills development through the delivery of roads infrastructure projects (Expanded Public Works Programme objective) • Create work opportunities for unemployed people through labour-intensive construction methodologies for the delivery of road infrastructure projects
Outputs	<ul style="list-style-type: none"> • Road classification processes 100 per cent completed by the end of 30 September 2014 • Number of lane-kilometres of surfaced roads rehabilitated against a target of 1 100 lane-kilometres • Number of lane-kilometres of surfaced roads rescaled against a target of 3 000 lane-kilometres • Number of kilometres of gravel roads re-gravelled against a target of 3 000 km • Number of m² of blacktop patching (including pothole repairs) against a target of 810 000m² • Number of kilometres of gravel roads bladed against a target of 350 000 km • Submission of updated road condition data/report by 29 August 2014 • Number of work opportunities created against a target of 212 662 • Number of Full Time Equivalents (FTEs) jobs created against a target of 60 100
Priority outcome(s) of government that this grant primarily contributes to	• Outcome 6: An efficient, competitive and responsive economic infrastructure network
Details contained in the business plan	<ul style="list-style-type: none"> • This grant uses a Road Asset Management Plan, which contains the following details: <ul style="list-style-type: none"> ◦ level of service ◦ network condition and traffic volumes ◦ project lists for 2014/15 to 2016/17 with a summary of targets as per Key Performance Indicator (KPI) for preventative, routine and emergency maintenance and road rehabilitation works ◦ financial summary ◦ organisational and support plan ◦ job creation estimates ◦ emerging contractor opportunities ◦ linkages to socio economic activities and opportunities
Conditions	<ul style="list-style-type: none"> • Provinces may use a maximum of R10 million from the Provincial Roads Maintenance Grant (PRMG), subject to approval from the national Department of Transport (DoT), for: <ul style="list-style-type: none"> ◦ the completion of road classification and updating of the Geographic Information System spatial maps and records for all roads in South Africa by the end of 2014/15 ◦ Visual Condition Index assessments and ensuring that Provincial Road Asset Management Systems are kept up to date • This funding (up to a maximum of R10 million) may be used for the appointment of mainly public servants to infrastructure units. This funding is allocated as part of a capacity support and is available until the 2015/16 financial year • Provinces must submit visual condition inspection data to the national data repository as per the format determined by the Committee of Transport Officials (COTO), Road Asset Management System (RAMS) Technical Sub-Committee and prescribed by the national DoT • Up to a maximum of R1000 per km per year for paved roads and R500 per km per year for gravel roads of the grant may be allocated towards the road classification and collection of data required by this grant • A draft detailed Road Asset Management Plan (RAMP) for 2014/15 that is compliant with the requirements of the Government Immovable Assets Management Act (2007) and based on the COTO Road Asset Management Guidelines must be submitted by 29 August 2014 to DoT, relevant provincial treasury and National Treasury • The payment of the first installment is dependent upon submission to DoT and the relevant provincial treasury of the following: <ul style="list-style-type: none"> ◦ receipt by DoT of all outstanding RAMS data, signed-off 2014/15 fourth quarter performance report, monthly Infrastructure Reporting Model (IRM) and signed-off budget sheet by 15 April 2014 ◦ planning IRM for 2014 Medium Term Expenditure Framework, final RAMP and signed-off project list for the 2014 Medium Term Expenditure Framework (MTEF) in a Table BS format by 19 April 2014 • The payment of the second installment of this grant is dependent on submission to DoT of the first quarter performance report for 2014/15, updated monthly IRM and signed-off budget sheet by 15 July 2014

Case study: Provincial Roads

- Conditions
 - Completion of road classification
 - VCI assessments and RAMS are up to date
 - Visual condition inspection data submitted to the national data repository
 - First transfer conditional upon:
 - Receipt of outstanding RAMS data
 - 4th quarter report
 - Planning IRM, final RAMP and signed off project list over MTEF period
 - Project selection based on RAMS

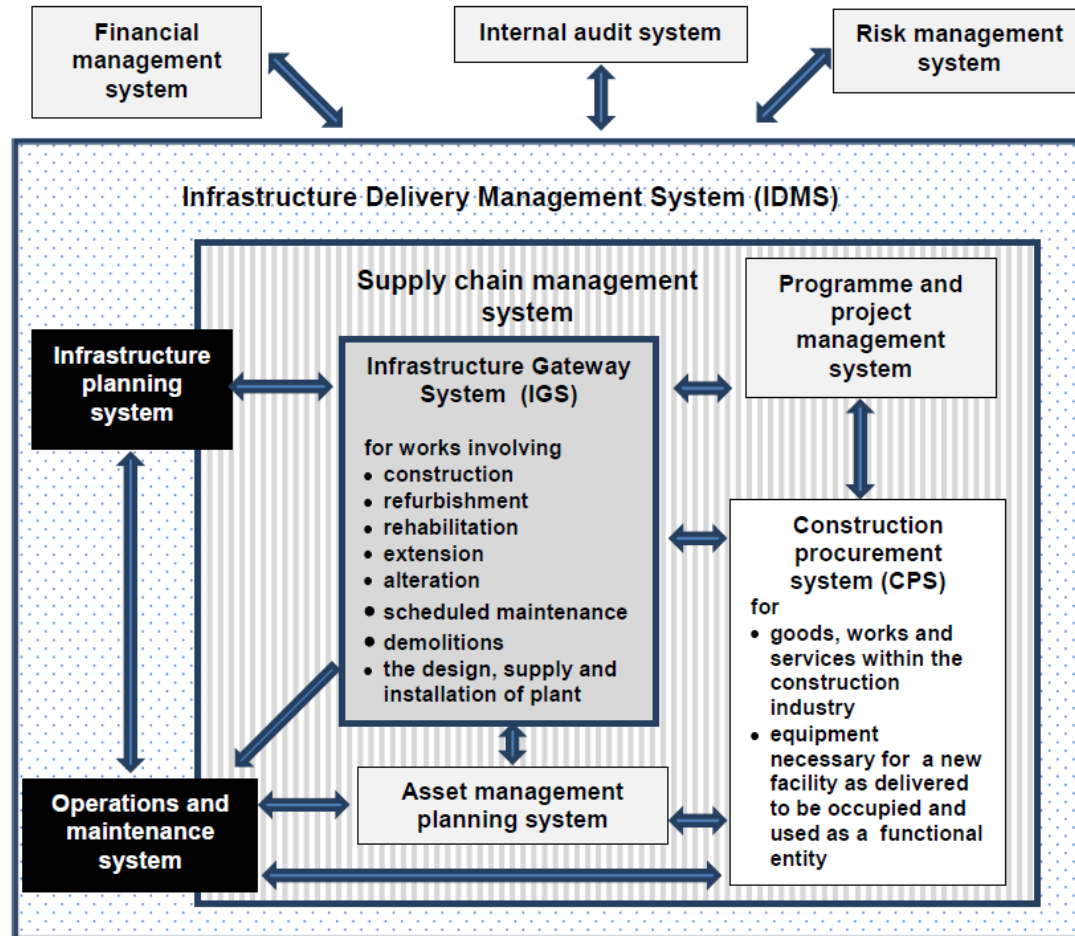
Provincial Roads Maintenance Grant	
	<ul style="list-style-type: none"> The third instalment is dependent on receipt by DoT of the second quarter performance report for 2014/15, updated IRM and signed-off budget sheet for 2014/15 by 15 October 2014 The fourth instalment is dependent on receipt of the third quarter performance report for 2014/15, updated monthly IRM and signed-off budget sheet reporting for 2014/15 by 15 January 2015 Should the cost of repairing the disaster affected infrastructure exceed the amounts earmarked below provinces must fund that shortfall from their provincial equitable share The following amounts per province must be used in 2014/15 for the repair of infrastructure damaged by the natural disaster declared in Government Gazette 33949 and as assessed by the National Disaster Management Centre (NDMC): <ul style="list-style-type: none"> Eastern Cape: R171.2 million Free State: R33.3 million Gauteng: R1.4 million KwaZulu-Natal: R52.2 million Limpopo: R79.6 million Mpumalanga: R76.3 million Northern Cape: R93.2 million North West: R8.1 million Western Cape: R86.9 million Business plans for the allocated disaster funds must be in line with the post disaster verification assessment reports and must be submitted to the NDMC Disaster reconstruction and rehabilitation funds may only be utilised for approved projects as listed in the post disaster verification assessment reports and approved business plans Quarterly performance reports on disaster allocations must be submitted to the NDMC All S'hamba Sonke projects must be branded in the contract sign boards with the logo S'hamba Sonke
Allocation criteria	<ul style="list-style-type: none"> Allocations are based on the PRMG formula, which takes into account the extent of the provincial road network (gravel/paved), the traffic volumes, the visual condition indices on the network and geo-climatic and topographic factors The funding for road networks supporting electricity generation infrastructure are subject to separate allocation criteria based on the programme schedule; <ul style="list-style-type: none"> Mpumalanga must allocate at least R740 million in 2014/15 to coal haulage projects KwaZulu-Natal must allocate R63 million in 2014/15 for roads supporting the Avon Peaking Power Plant The funding for rehabilitation and repair of roads and bridges that were assessed by the NDMC is subject to separate allocation criteria From 2015/16 the grant will become performance based Allocation criteria from 2015/16 onwards shall consider compliance by provinces to submit recently updated road condition data/report
Reasons not incorporated in equitable share	<ul style="list-style-type: none"> This grant is intended to ensure that provinces give priority to road infrastructure maintenance and promote efficiency in road investment
Past performance	<p>2012/13 audited financial outcomes</p> <ul style="list-style-type: none"> Allocated and transferred R8 696 million to provinces, of R7 219 million (90 per cent) was spent by provinces <p>2012/13 service delivery performance</p> <ul style="list-style-type: none"> 4.3 million m² of re-sealing of paved roads 13 346 km of re-gravelling 1.1 million m² of black top patching of paved roads 363 522 km of gravel roads bladed 42 919 FTEs created
Projected life	<ul style="list-style-type: none"> The grant is ongoing, but will be subject to periodic review
MTEF allocations	<ul style="list-style-type: none"> 2014/15: R9 362 million, 2015/16: R9 952 million, and 2016/17: R10 292 million
Payment schedule	<ul style="list-style-type: none"> Payment will be made in accordance with a payment schedule agreed to with provinces and approved by National Treasury
Responsibilities of the transferring national officer and receiving officer	<p>Responsibilities of the national department</p> <ul style="list-style-type: none"> Assess and evaluate all provinces' Road Asset Management Plans (RAMP) and give feedback to provincial departments The DoT in partnership with the national Department of Public Works will assess business plans to ensure compliance to S'hamba Sonke and Expanded Public Works Programme (EPWP) guidelines. In addition, the two departments will monitor and assess the performance on the S'hamba Sonke and EPWP by provincial departments Assess and approve the submissions from provinces regarding the use of the maximum of R10 million for RAMS and capacity building of their infrastructure units Submit quarterly performance reports to National Treasury and the National Council of Provinces within 45 days after the end of each quarter Submit a grant evaluation report to National Treasury 120 days after the end of the financial year

Current reforms for infrastructure investment

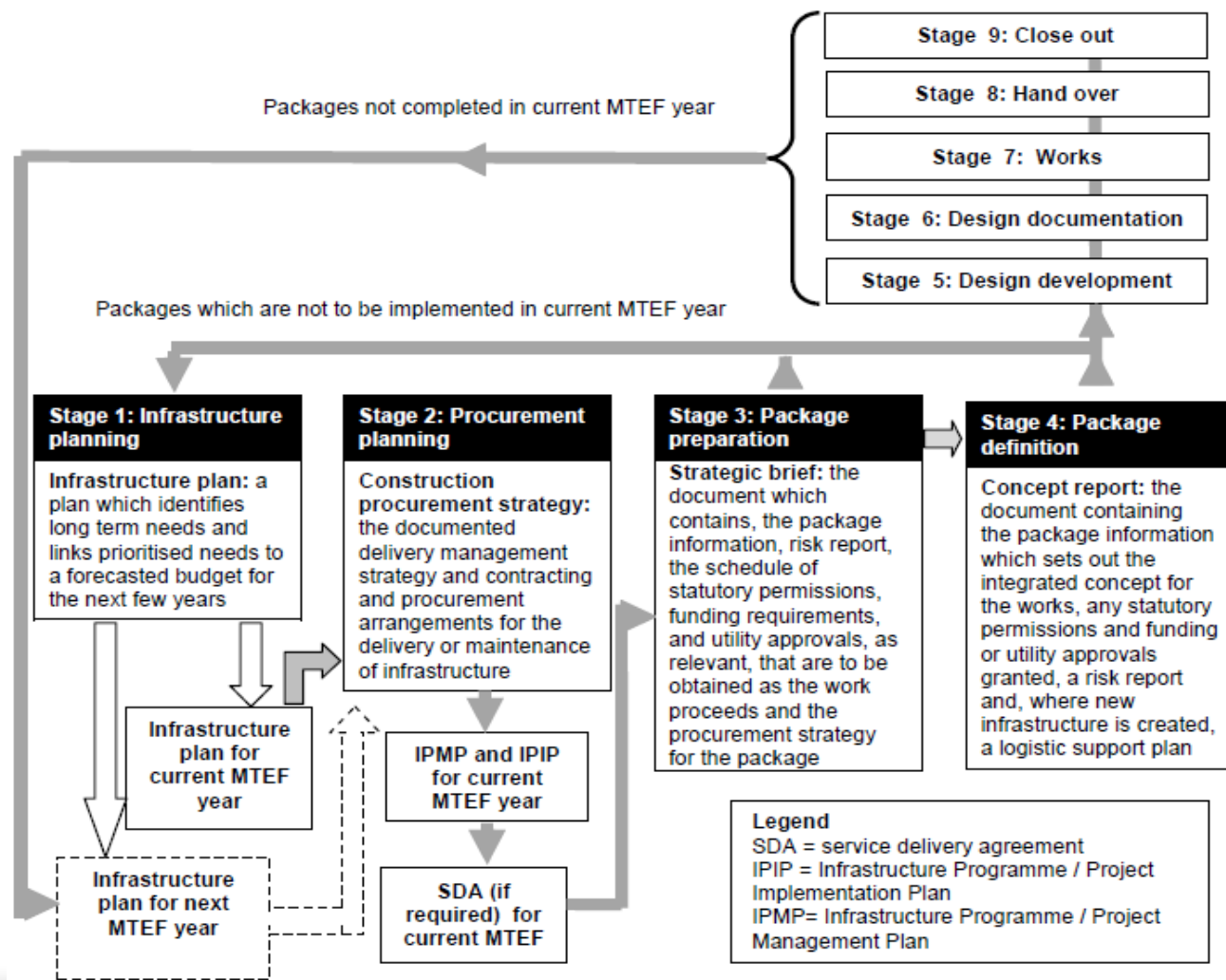
- Intention to expand approach to municipal roads, water and electrification
 - Will consolidated infrastructure grants be managed better?
 - How do we ensure greater involvement of sectors in the management of assets
 - Greater alignment between transferring departments and sector?
 - Where do capabilities for systems specification lie?
 - What does this mean for transferring officers if grants become subject to these systems
 - Alignment of infrastructure management policy proposals in roads and electrification

Current reforms for infrastructure investment

- Powers to regulate the PFMA
 - New Treasury Regulations are being developed
- New draft regulation on infrastructure delivery
 - Introduces the Infrastructure Delivery Management System
 - Planning, budgeting, procurement, delivery, maintenance, operation, monitoring and evaluation of infrastructure
 - Comprises of the following subsystems
 - Infrastructure planning
 - Infrastructure gateway
 - Construction procurement
 - Programme and project management
 - Operations and maintenance
 - Will apply to all departments, constitutional institutions, all public entities listed in Schedules 2, 3 of PFMA



Current reforms for infrastructure investment



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