Northern Cape Provincial Treasury

Policy Brief: Provincial Public Infrastructure Spending in the Northern Cape

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1. Introduction

This Policy Brief aims to emphasize the importance of investing in infrastructure for social and economic development and advancement to take place as well as to provide an analysis of infrastructure spending by provincial departments in the Northern Cape over the financial years from 2009/10 to 2018/19. Section 2 provides a background, followed by section 3 that expands on government policies and plans relating to infrastructure. In section 4, the importance of infrastructure for socio-economic advancement is highlighted. Section 5 provides an analysis of the spending on infrastructure in the Northern Cape over the 10 financial years from 2009/10 until 2018/19. Section 6 provides a conclusion as well as recommendations.

2. Background

According to Statistics South Africa (Stats SA, 2020), South Africa recorded very low economic growth of 0.2 per cent in 2019 decreasing from 0.8 per cent in 2018. With the national economy contracting in the fourth quarter of 2019 at -1.4 per cent, South Africa has again gone into a technical recession. The Northern Cape economy grew at a very low 0.5 per cent in 2018 following promising growth of 2.8 per cent in 2017. These low growth rates again highlight the importance of South Africa and the province to do everything in their power to stimulate the economy in order for it to flourish and create much needed jobs.

Government's commitment to infrastructure development is clear through the attention that it receives in policy and planning documents as well as in the amount of funds that is allocated to it every year in the provincial budget. The Northern Cape MEC for Finance, Economic Development and Tourism, Honourable Lekwene, indicated that the consolidated infrastructure spending for the next three years will amount to R11.9 billion of which R8.4 billion relates to provincial infrastructure and R3.5 billion to municipal infrastructure (NCPT, 2020). Government has various grants available for both provincial and municipal infrastructure development. This paper only focusses on infrastructure spending by provincial departments. Some of the provincial infrastructure grants that are available are the Ilima/Letsema Projects Grant, Education Infrastructure Grant, Health Infrastructure Grant, Human Settlements Development Grant and Provincial Roads Maintenance Grant.

Infrastructure can be broadly divided into two categories – economic and social. Economic infrastructure includes transport, communications, power generation, water supply and sanitation facilities; and social infrastructure includes educational and health-care facilities, cultural and recreational facilities, prisons and community housing (Fedderke and Garlick, 2008). Looking at what economic infrastructure entails, one can see the importance of it for economic advancement as companies need this infrastructure to compete in the business world. Businesses need for instance power, water and transport to produce goods and to get it to consumers. They also need communications in order to have contact with upstream and downstream stakeholders. Economic infrastructure is also necessary for households to function optimally.

3. Government Policies, Plans and Legislation

There are various policies and plans of government that talks to the importance of infrastructure and that prioritises infrastructure for the economic and social development and advancement of the country. Some of these government plans and policies are outlined below.

- **National Development Plan (NDP)**

  According to the NDP (2011), for South Africa to support its economic growth and social development goals, there is a need to maintain and expand its electricity, water, transport and telecommunications infrastructure. One of the main goals of the NDP is that the South African economy should achieve average gross domestic product (GDP) growth of more than 5 per cent per year. One of the proposals to bring this about is by having more efficient and competitive infrastructure. In order for South Africa to grow faster and in a more inclusive manner, a higher level of capital spending has to be achieved. It is stated that gross fixed capital formation should reach approximately 30 percent of GDP by 2030 and that public sector infrastructure investment should reach 10 percent of GDP, to achieve a sustained impact on growth and household services. This should be financed through tariffs, public-private partnerships, taxes and loans and focused on transport, energy and water.

- **New Growth Path (NGP)**

  The NGP (EDD, 2011) set a target of 5 million new jobs to be created by 2020. Infrastructure development is viewed as a foundation for more jobs and addressing rural under-development. The first of the five jobs drivers set out in this document is infrastructure. According to the NGP, public investment has the potential to create 250 000 jobs a year in energy, transport, water and communications infrastructure and in housing, through to 2015. The four activities in which the jobs are to be created are the construction of new infrastructure, the operation of the new facilities, expanded maintenance and manufacturing components for the infrastructure programme. There should also be a substantial "multiplier effect" of this programme. Over and above creating jobs, the infrastructure provision should also improve efficiency across the economy which should lay the foundation for increasing economic growth and employment creation in other industries while also assisting social equity goals and addressing inequalities in society.

- **Infrastructure Development Act 23 of 2014 (IDA)**

The aim of the IDA is to provide for:

- Facilitating and coordinating public infrastructure development of economic or social importance to South Africa;
- To ensure that the development of infrastructure is given priority in planning, approval and implementation in South Africa;
- To ensure that the development goals of the state are promoted through infrastructure development;
- To better the management of infrastructure during all of the phases; and
- To provide for matters related to this (RSA, 2014).

Schedule 3 (Section 22(1)) of the Act identifies 18 strategic integrated projects (SIPs) which have in existence since the Act commenced. These SIPs are:

- SIP 1: Unlocking the northern mineral belt with Waterberg as catalyst
- SIP 2: Durban-Free State-Gauteng logistics and industrial corridor
- SIP 3: South-Eastern node and corridor development
- SIP 4: Unlocking the economic opportunities in the North West Province
- SIP 5: Saldanha-Northern Cape development corridor
- SIP 6: Integrated municipal infrastructure project
- SIP 7: Integrated urban space and public transport programme
- SIP 8: Green energy in support of the South African economy
- SIP 9: Electricity generation to support socio-economic development
- SIP 10: Electricity transmission and distribution for all
- SIP 11: Agri-logistics and rural infrastructure
- SIP 12: Revitalisation of public hospitals and other health facilities
- SIP 13: National school build programme
- SIP 14: Higher education infrastructure
- SIP 15: Expanding access to communication technology
- SIP 16: SKA and Meerkat
- SIP 17: Regional integration for African cooperation and development
- SIP 18: Water and sanitation infrastructure

- **National Infrastructure Plan (NIP)**

According to the Presidential Infrastructure Coordinating Commission (PICC, 2012), the National Infrastructure Plan aims to transform the country's economy, laying the basis for growth and jobs. This plan wants to promote re-industrialisation through manufacturing inputs, components and machinery; to develop skills that are aimed at critical categories; to make the economy greener and to create empowerment. This plan also provides more details on the 18 SIPs that are listed above.

- **Framework for Infrastructure Delivery and Procurement Management (FIDPM)**

  The focus of the Framework for Infrastructure Delivery and Procurement Management (FIDPM) is primarily on governance decision-making points and the alignment and functions to support good management of infrastructure delivery and procurement processes. National Treasury adopted the Standard for Infrastructure Procurement and Delivery Management (SIPDM) to establish a common approach to infrastructure delivery across all organs of state. The FIDPM prescribes the minimum requirements for effective governance of infrastructure delivery and procurement management (NT, 2019).

- **Additional Public Sector Infrastructure Legislation**

  The provincial departments and local governments have specific mandates and functions to fulfil in terms of portfolios, projects, operations and maintenance management. The following list provides some of the legislation that applies to infrastructure delivery management in South Africa:

  - Constitution of the Republic of South Africa, 1996;
  - Public Finance Management Act (Act 1 of 1999);
  - Local Government Municipal Finance Management Act (Act 56 of 2003);
  - Division of Revenue Act (DORA);
  - Government Immovable Asset Management Act (Act 19 of 2007) (GIAMA); and
  - National Building Regulations and Building Standards Act (Act 103 of 1997).

4. The Importance of Infrastructure for Socio-Economic Advancement

The importance of infrastructure can be seen in its promotion of balanced economic development, its potential to unlock economic opportunities, promoting mineral extraction and beneficiation, attending to the socio-economic needs of the populations and helping to integrate human settlements and economic development (PICC, 2012). According to NCPT (2018), investment in infrastructure is crucial for job creation (mainly for low-skilled labour); skills development in the construction industry; supporting small, medium and macro businesses; it improves the standard of living and boosts household income, it encourages private investment, it lowers the cost of doing business, it promotes spatial inclusivity; and supports economic growth and development.

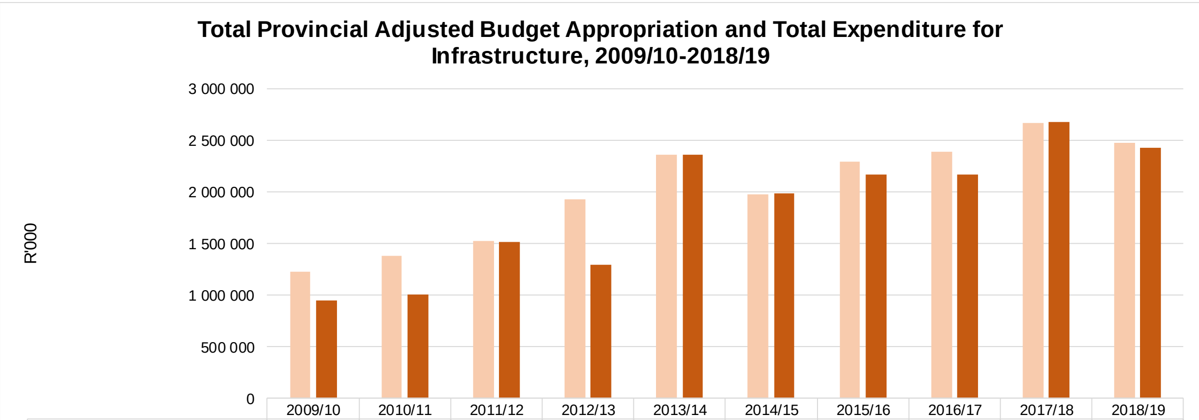
Fedderke and Garlick (2008) provide channels through which infrastructure development promotes economic development. They note that increasing the stock of infrastructure increases the output of the economy as a whole which in turn leads to an increase in economic growth. They further provide channels through which infrastructure can have a positive impact on economic growth. Firstly, is to consider infrastructure as a factor of production where infrastructure is seen as a direct input into the production process. An example of this is power generation infrastructure, which is a necessary input in many processes for producing goods and rendering services. An unreliable power supply thus makes these processes more expensive or impossible. This has an impact on production and profitability. Secondly, infrastructure can be seen as a compliment to other factors where it can lower the cost of production and good infrastructure generally raises the productivity of other inputs in the production process. Thirdly, infrastructure can be viewed as a stimulus to factor accumulation in that it may influence growth indirectly by enhancing the accumulation of other factors of production or by enhancing the productivity of these factors of production. An example of this is where infrastructure in the form of schools, roads that are used to access schools as well as electricity at the schools can be important factors in the formation of human capital. The fourth way that is identified by Fedderke and Garlick (2008) is where infrastructure functions as a stimulus to aggregate demand in that large sums of money are spent on large infrastructure projects in the construction and potentially in maintenance phases, thus increasing aggregate demand in an economy. An example is where governments use large-scale infrastructure projects as stimulus policies during times of a recession or in order for them to achieve particular growth targets. This channel is however contested where critics of demand-side interventions in general are of the opinion that the effects of such interventions are mostly short-run. They argue that since the productive capacity remains unchanged, the economy cannot actually produce more output. The fifth channel that is identified is when infrastructure is considered as a tool of industrial policy. It is explained that government may try to stimulate this channel through the investment in specific infrastructure projects in an attempt to guide private-sector investment decisions. An example of this would be if government was to build a road in a rural area as a way to integrate the rural area into the regional economy and thus stimulate private sector investment. This channel is however also criticized as it is seen by some that these interventions don't succeed in enhancing economic growth as they don't boost economic growth or they divert resources that could have been put to better use somewhere else.

Gnade, Blaauw and Greyling (2016) provide more insight into the relationship between the development and provision of basic and social infrastructure and social development. They explain that there is an interaction between basic and social infrastructure investment where the provision of basic infrastructure (for example electricity, water and sanitation) leads to better utilisation of social infrastructure (bettering learners' abilities to get an education by reducing incapacity due to illness). They also note that under the right conditions, basic infrastructure investment can contribute towards alleviating poverty and inequality through higher levels of economic growth and social development. The impact that basic and social infrastructure has on education can be explained by the example where increased water and sanitation infrastructure can improve education performance through a decrease in water related diseases, and so also decreases absenteeism in schools. Another example is where electricity infrastructure provides lighting that enables children to study at night. As increased availability and quality of basic infrastructure services positively impacts on the education of poor people in developing countries, it can potentially also have a positive impact on their income and welfare.

5. Infrastructure Spending in the Northern Cape for 2009/10-2018/19

This section provides insight into the spending by provincial departments on infrastructure in the Northern Cape. The figure below shows the total adjusted budget appropriation for infrastructure in the Northern Cape as well as the total expenditure on infrastructure for the 2009/10 to 2018/19 financial years.

Figure 1: Total Provincial Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ajusted Budget Appropiation	1 229 345	1 375 526	1 520 680	1 925 717	2 361 151	1 978 080	2 291 437	2 388 601	2 663 615	2 476 157
Total Expenditure as at 31 March	943 015	1 000 488	1 513 111	1 293 116	2 356 573	1 982 639	2 164 590	2 168 022	2 679 087	2 427 616

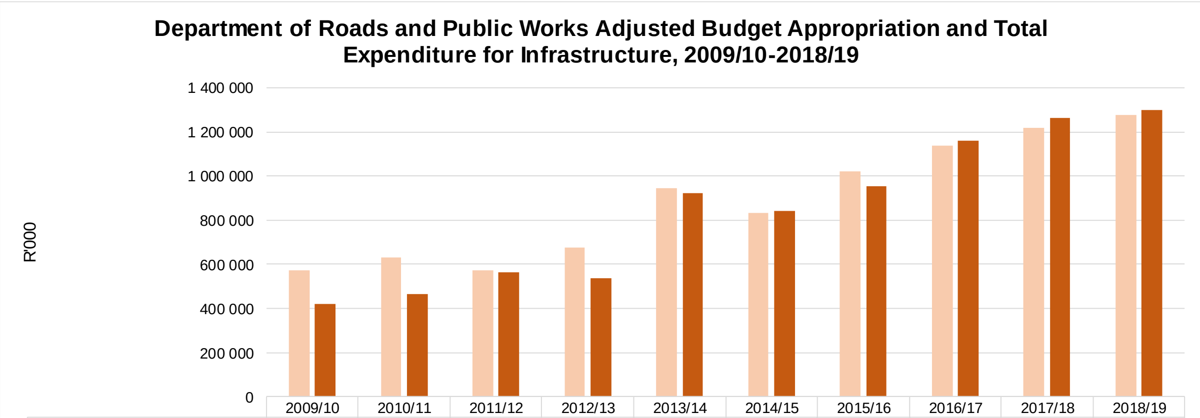
Source: Infrastructure Reporting Model

The total adjusted budget appropriation for infrastructure provision by provincial departments in the Northern Cape increased from R1.229 billion in the 2009/10 financial year to R2.476 billion in the 2018/19 financial year, with total expenditure increasing from R943.015 million to R2.428 billion. In all of the financial years except for 2014/15 and 2017/18, the total expenditure was less that the adjusted budget appropriation. This indicates that departments were underspending their allocated budgets for infrastructure in most of the years under review. The departments with the largest respective infrastructure budgets are Roads and Public Works, Education and Heath, accounting for 51.5, 23.4 and 16.9 per cent respectively of the total adjusted budget appropriation for infrastructure of the Northern Cape provincial departments in the 2018/19 financial year.

5.1 Department of Roads and Public Works

In Figure 2, the adjusted budget appropriation and total expenditure on infrastructure by the Department of Roads and Public Works is illustrated for the 2009/10 to 2018/19 financial years.

Figure 2: Department of Roads and Public Works Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ajusted Budget Appropiation	570 647	631 968	571 551	674 024	943 380	832 242	1 021 613	1 137 228	1 219 887	1 276 236
Total Expenditure as at 31 March	419 400	463 793	564 910	538 845	920 771	842 049	955 337	1 159 028	1 261 057	1 300 554

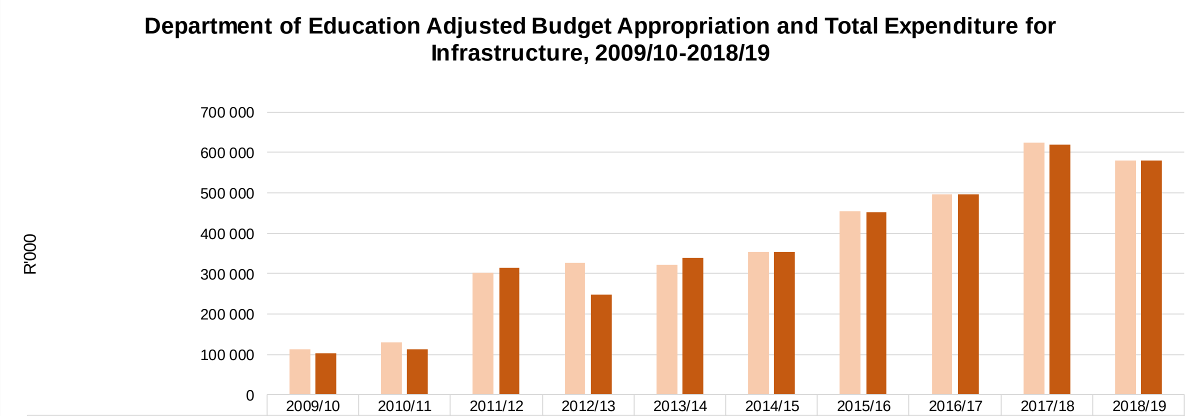
Source: Infrastructure Reporting Model

The adjusted budget appropriation for infrastructure and total expenditure on infrastructure by the department had a general upward trend. The adjusted budget appropriation increased from R570.647 million in the 2009/10 financial year to R1.276 billion in the 2018/19 financial year, with total expenditure increasing from R419.400 million to R1.301 billion. The 2014/15, 2016/17, 2017/18 and 2018/19 financial years experienced over-expenditure while the rest of the years experienced under-expenditure.

5.2 Department of Education

Figure 3 provides the adjusted budget appropriation and total expenditure on infrastructure by the Department of Education for the 2009/10 to 2018/19 financial years.

Figure 3: Department of Education Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ajusted Budget Appropiation	112 625	130 714	301 620	326 941	321 737	354 481	454 946	497 072	623 578	580 642
Total Expenditure as at 31 March	101 427	112 911	314 554	247 706	339 271	354 482	452 577	497 072	620 620	580 642

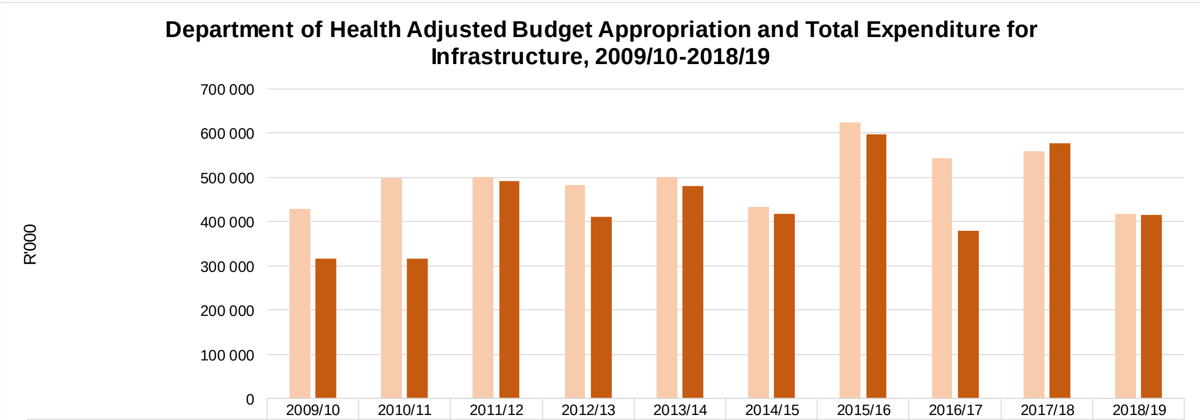
Source: Infrastructure Reporting Model

The department's adjusted budget appropriation for infrastructure and total expenditure on infrastructure increased steadily over the years, decreasing slightly in the 2018/19 financial year. The adjusted budget appropriation increased from R112.625 million in 2009/10 to R623.578 million in 2017/18, decreasing to R580.642 million in 2018/19. The department over-spent in 2011/12, 2013/14 and 2014/15.

5.3 Department of Health

Figure 4 provides the adjusted budget appropriation and total expenditure on infrastructure by the Department of Health for the 2009/10 to 2018/19 financial years.

Figure 4: Department of Health Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ajusted Budget Appropiation	429 746	498 608	500 381	482 337	501 686	432 430	625 590	544 112	560 260	418 213
Total Expenditure as at 31 March	316 481	317 148	492 327	409 959	479 807	418 399	597 401	378 764	576 323	415 648

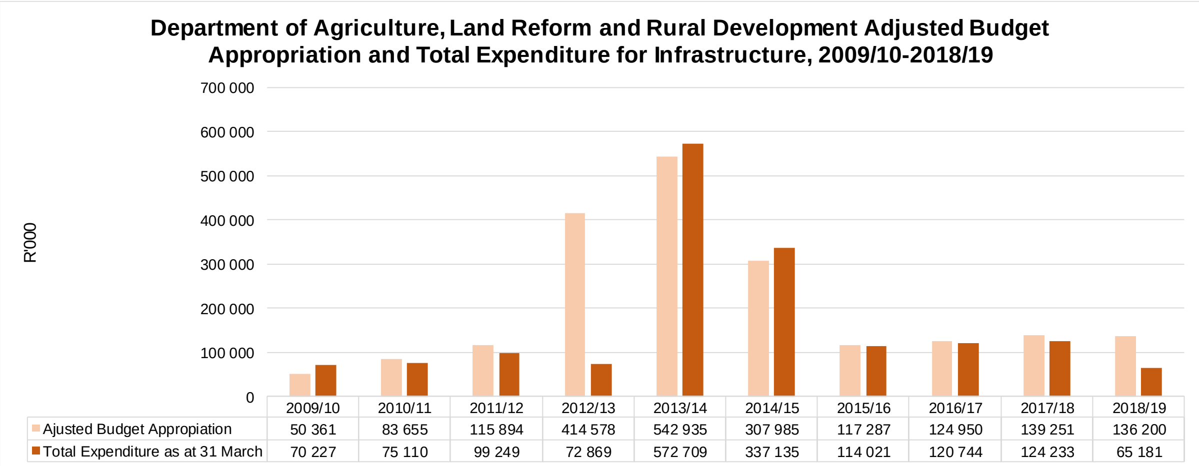
Source: Infrastructure Reporting Model

The adjusted budget appropriation fluctuated over the review period. The largest allocation was in 2015/16 at R625.590 million, with the smallest in 2018/19 at R418.213 million. Of the 10 financial years under review, 9 years recorded under-spending. The 2017/18 financial year was the only year where the department over-spent.

5.4 Department of Agriculture, Land Reform and Rural Development

In Figure 5, the adjusted budget appropriation and total expenditure on infrastructure by the Department of Agriculture, Land Reform and Rural Development is illustrated for the 2009/10 to 2018/19 financial years.

Figure 5: Department of Agriculture, Land Reform and Rural Development Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



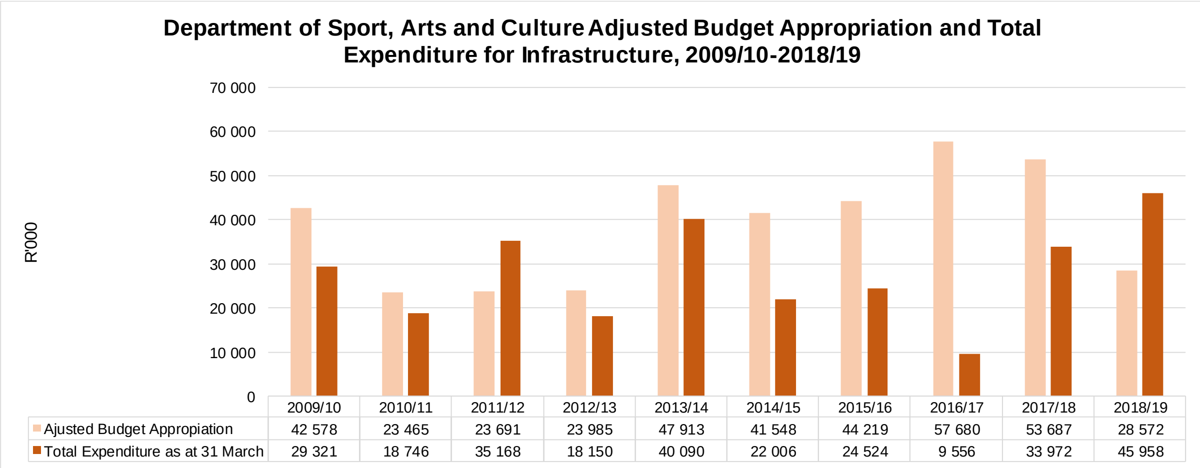
Source: Infrastructure Reporting Model

The department's adjusted budget appropriation for infrastructure varied over the review period between a low of R50.361 million in 2009/10 and a high of R542.935 million in 2013/14. In the 2018/19 financial year, the adjusted budget appropriation was R136.200 million, while the total expenditure was R65.181 million. In the 2009/10, 2013/14 and 2014/15 financial years, total infrastructure expenditure exceeded the adjusted budget appropriation, whilst the rest of the years recorded under-expenditure.

5.5 Department of Sport, Arts and Culture

Figure 6 provides the adjusted budget appropriation and total expenditure on infrastructure by the Department of Sport, Arts and Culture for the 2009/10 to 2018/19 financial years.

Figure 6: Department of Sport, Arts and Culture Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ajusted Budget Appropiation	42 578	23 465	23 691	23 985	47 913	41 548	44 219	57 680	53 687	28 572
Total Expenditure as at 31 March	29 321	18 746	35 168	18 150	40 090	22 006	24 524	9 556	33 972	45 958

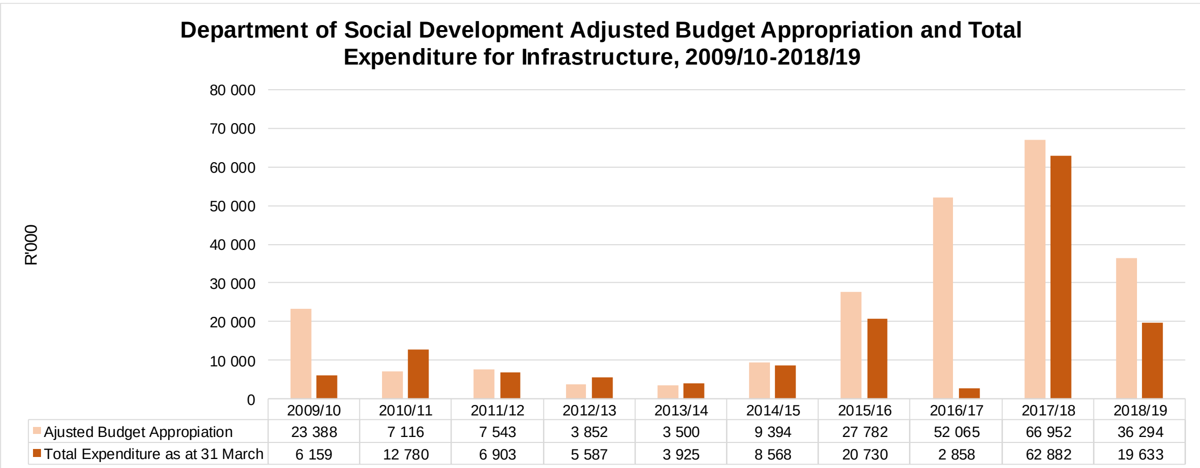
Source: Infrastructure Reporting Model

For the period under review, the department's adjusted budget appropriation for infrastructure fluctuated. It declined from R42.578 million in 2009/10 to R28.572 million in 2018/19, while total expenditure increased from R29.321 million in 2009/10 to R45.958 million in 2018/19. Over-expenditure was recorded in 2011/12 and 2018/19, while under-spending was recorded in the other financial years.

5.6 Department of Social Development

Figure 7 provides the adjusted budget appropriation and total expenditure on infrastructure by the Department of Social Development for the 2009/10 to 2018/19 financial years.

Figure 7: Department of Social Development Adjusted Budget Appropriation and Total Expenditure for Infrastructure, 2009/10-2018/19



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Ajusted Budget Appropiation	23 388	7 116	7 543	3 852	3 500	9 394	27 782	52 065	66 952	36 294
Total Expenditure as at 31 March	6 159	12 780	6 903	5 587	3 925	8 568	20 730	2 858	62 882	19 633

Source: Infrastructure Reporting Model

Total infrastructure expenditure exceeded the adjusted budget appropriation in the 2010/11, 2012/13 and 2013/14 financial years whereas it remained below the budget for the remaining financial years. In 2016/17, the department spent only R2.858 million of the R52.065 million adjusted budget appropriation. The adjusted budget appropriation varied between a low of R3.500 million in 2013/14 and a high of R66.952 million in 2017/18. In 2018/19, the adjusted budget appropriation was R36.294 million and total expenditure was R19.633 million.

6. Conclusion and Recommendations

It is important to note the various channels through which infrastructure can potentially improve the socio-economic conditions of the province. In these trying economic times, it is important that government develops both economic and social infrastructure for the bettering of the lives of the people within the province and to boost the economic performance of the province.

It is concerning to note how significantly some departments over-/under-spent their respective adjusted budget appropriations for infrastructure over the review period. Over-spending by departments puts additional strain on an already strained provincial fiscus, while under-spending shows that departments could have achieved more with the money allocated to them.

It is recommended that more research be done to determine why certain departments under-/over-spend on their budgets, especially where there is a significant difference between the adjusted budget appropriation and the total expenditure on infrastructure. This will assist in ensuring effective and efficient infrastructure delivery. Provincial government should continue to prioritise infrastructure development to improve and advance the socio-economic conditions of the province.

Provincial government should also continue to leverage on the SIPs that relate to the province in order to better economic growth, skills development and job creation.

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