4

Medium-term expenditure framework and division of revenue

While increased public spending over the past decade has had many positive developmental and redistributive effects, the quality of public services in many instances remains poor. Over the next three years South Africa must improve the quality of public spending and, given the pressure on resources, redirect expenditure towards key priorities.

Our country requires a conscientious, efficient public sector that exercises responsible stewardship of public funds. We now have a unique opportunity to rethink and reform the way in which our public finances are managed. Over the medium term, government will aim to improve the efficiency and impact of public spending, reprioritise spending towards key objectives, identify savings and contain costs, reform procurement practices to reduce fraud and exploitation of state resources, and tighten financial management.

Additional resources – including those resulting from a significant reprioritisation exercise – are allocated to five key priorities: education, health, rural development, job creation and fighting crime. The division of available resources maintains a bias towards provincial and local government in recognition of the important services that they deliver.

Policy priorities over the medium term

South Africa has seen a rapid increase in public spending over the past decade

Rapid increases in public spending over the past decade have enabled government to broaden social transfers, increase access to education and health, and deliver housing and basic services such as water and sanitation. Expenditure on economic infrastructure, including public transport and roads, has also risen sharply. The scope of public employment programmes has been broadened.

While access to services has been expanded, quality lags, with far-reaching social consequences

Despite these successes, the quality of many services fails to meet the legitimate expectations of South Africans. Judging by the lack of progress on many of the Millennium Development Goals, South Africa is falling short of its commitments. Too many children cannot read or count; too many women die giving birth; too many people suffer from preventable diseases; too many households fall victim to crime; and too few people are reached by public employment programmes.

Given that South Africa faces a period of lower growth in the next few years, the need to contain state expenditure as a share of GDP implies that the rate of growth in public spending will moderate. Slower revenue growth and rising debt interest costs are expected to feature in the public finances for the foreseeable future.

Government has to do more with less

This means that government has to do more with less. Key elements of this strategy are to:

- Find savings through reduced spending on non-core functions and activities, including shifting resources from administrative components to frontline services
- Rationalise public entities and agencies to save money and improve accountability
- Review public spending to weed out poorly performing programmes, low-priority activities and ineffective policies
- Reform procurement systems to reduce corruption and obtain better value for money, including giving consideration to centralising the procurement of selected goods and services
- Change the culture of the public service to reduce waste and to prevent extravagant spending, shoddy work and corruption.

Jobs, health, education, rural development and fighting crime are the key priorities

The 2010 medium-term expenditure framework (MTEF) expresses government's plans and commitment to deliver on the priorities identified in the medium-term strategic framework (MTSF), while taking into account resource constraints. Over the next three years, government will focus on those priorities that can help to address the impact of the recession and place South Africa on a new developmental path. These priorities are to:

- Support job creation, moving resources towards labour-intensive sectors and the expanded public works programme
- Enhance the quality of education and skills development, focusing on improving foundation-phase literacy and numeracy, and on increasing the number of learners passing grade 12 mathematics and science
- Improve the provision of quality health care, with particular emphasis on reducing infant, child and maternal mortality rates, and broadening access to antiretroviral and tuberculosis treatment
- Carry out comprehensive rural development linked to land and agrarian reform
- Intensify the fight against crime and corruption.

Government also plans to continue investing in the built environment and infrastructure over the next three years to promote access to basic services – such as water, sanitation and electricity – to expand public transport, and to build more schools and hospitals. These investments will support the economy's ability to grow more rapidly in future. To speed up housing delivery, coordination between provinces (which administer the housing grant) and municipalities (which provide bulk infrastructure) is being improved. Responsibility for sanitation is likely to shift to the Department of Human Settlements.

Continuing investment in water, sanitation and electricity infrastructure

The main budget makes available an additional R78 billion for allocation to new priorities or to respond to new pressures over the next three years. This amount is less than in previous years, reflecting the more difficult economic environment.

Budget framework makes an additional R78 billion available

Of the additional resources, 51 per cent go to provincial government, mainly to accommodate higher personnel costs and for spending on education, health and housing. Municipalities receive 16 per cent, the majority of which compensates for the rising costs of providing free basic services and to sustain spending on infrastructure. The national share accommodates growth in the number of social grant beneficiaries, public employment programmes, a step up in funding for rural development and targeted funding to law-enforcement agencies. Support to business and industry will also be considered, with a focus on increasing employment and investment in key export sectors.

While not directly funded through the budget, spending by state-owned enterprises on economic infrastructure continues to rise, albeit at a slower pace.

Finding savings and increasing efficiency

In emphasising its key priorities, government encourages thrift and integrity in the management of public expenditure. Over time, significant increases in spending, combined with weaknesses in financial accountability, have given rise to greater expenditure on low-priority and/or non-essential items.

Departments must reduce expenditure on low-priority and non-essential items

In preparation for the 2010 MTEF, national departments, provinces and municipalities have been asked to thoroughly investigate their baseline budgets to find savings or to identify spending on lower-priority programmes. In some cases, these savings will be retained by departments to fund new priorities; in others, these resources are pooled for allocation to other areas of government for new priorities. While the overall level of spending will be sustained, government is reprioritising medium-term expenditure.

Total net government savings of R14.5 billion at national level and R12.6 billion at provincial level have been identified over three years for reprioritisation. Savings identified at national level will be used to fund additional personnel costs, the phasing in of the child support grant, higher spending on public works programmes and the costs of establishing new departments. Provincial savings will be reprioritised to reduce funding gaps in provinces' education and health budgets

Savings of R14.5 billion at national level and R12.6 billion at provincial level were identified arising from higher-than-budgeted occupation-specific salary agreements.

Substantial savings have been identified in administration and non-essential items

To date, substantial savings have been identified in administration and non-essential items, such as catering, communication, consultants, inventory, stationery and printing, travel and subsistence, accommodation and entertainment. Some savings have also been identified by cutting expenditure from low-priority programmes. In addition, the general level of expenditure on administration programmes across national departments, which has increased by an annual average of 11.7 per cent over the past five years, has been reduced. Government will realise further savings over the medium term by adjusting procurement processes and deferring non-essential purchases.

A high-level task team is reviewing programmes, agencies and public entities to identify cost cuts

A ministerial task team on cost-cutting is reviewing a range of programmes, agencies and public entities as part of government's comprehensive expenditure review. The task team will analyse spending across government and consider rescheduling, rationalising or phasing out certain activities, while ramping up others in support of key priorities. The task team will develop proposals and guidelines to ensure that tangible cost-cutting measures are adopted throughout national, provincial and local government. In a similar vein, a separate ministerial task team has been established to review the operations and finances of state-owned enterprises.

2008/09 outcomes and 2009/10 mid-year estimates

Details of the 2008/09 expenditure outcomes and estimates for the first half of the current financial year for national votes and provinces are set out in Annexure A. Expenditure on national votes (including transfers to provinces) amounted to R636.1 billion in 2008/09, out of a total adjusted appropriation of R637.3 billion. Provincial expenditure amounted to R263.7 billion, compared with the 2008/09 adjusted budget total of R259.5 billion.

Expenditure on national votes in the first half of 2009/10 was 49 per cent of adjusted appropriation

Expenditure on national votes in the first six months of 2009/10 amounted to R368.0 billion, or 49 per cent of the adjusted appropriation for the year, and R66.6 billion more than the spending total for the equivalent period of 2008/09. Expenditure by provinces amounted to R145.3 billion in the first half of 2009/10 or 50 per cent of the main appropriation for the year, and R16.7 billion more than that of last year.

The national adjustments budget is tabled alongside the *Medium Term Budget Policy Statement*, and revised provincial appropriations will be tabled in provincial legislatures before the end of the financial year. Additional spending of R14 billion is proposed in the Adjustments Appropriation Bill, including R5 billion in higher interest costs and R9 billion in higher non-interest spending. More details are provided in the text box below.

Revised expenditure estimates, 2009/10

The Adjustments Appropriation Bill for 2009/10 deals exclusively with necessary amendments in the current financial year. The bill proposes the following changes:

- R1.5 billion in rollovers, arising from commitments related to unspent balances in 2008/09
- R12 billion to cover higher general salary adjustments than provided for in the main budget, and the occupation-specific dispensation agreements
- R562 million for unforeseeable and unavoidable expenditure associated with natural disasters and outbreaks of disease
- R589 million for the establishment of new departments, and the appointment of additional ministers and deputy ministers in line with presidential proclamations
- R116 million for the operational costs of Parliament
- R353 million to address the shortfall in the *devolution of property rate funds grant* to provinces, owing to higher electricity charges
- R509 million to compensate municipalities for the increased cost of providing free basic electricity to poor households
- R524 million to provide workbooks for grades 1 to 6, in the poorest 60 per cent of schools, for the 2010 school year
- R900 million for increased uptake in antiretroviral treatment
- R200 million for the immediate liquidity requirements of the South African Broadcasting Corporation
- R192 million for Airbus's claim against Denel Saab Aerostructures (DSA), subject to verification, for DSA's failure to meet performance targets as part of the 2004 acquisition of eight A400M aircraft
- R144 million to compensate for contractual cost increases as a result of inflation and foreign-exchange losses on the Gautrain Rapid Rail Link conditional grant
- R115 million for community works within the expanded public works programme
- R1 billion for the recapitalisation of the Land Bank
- R731 million refunded to various departments for monies paid directly into the National Revenue Fund from department-specific activities.

Taking into account projected underspending, savings declared by departments and the adjusted state debt cost estimate, the revised estimate of total expenditure in 2009/10 is R752.5 billion. In February 2009 at the tabling of the budget, provision was made for expenditure of R738.6 billion for 2009/10.

Medium-term spending priorities

The key spending priorities are discussed below.

Expanding employment and safeguarding social security

To address unemployment, government will play a role in shifting resources to labour-intensive sectors

The global economic crisis has resulted in large increases in unemployment worldwide. For South Africa, which already faces high levels of joblessness, the challenge is acute. Poverty and income inequality are expected to grow in the immediate future as a result of higher unemployment and reduced incomes. While most jobs are created by the private sector, government plays an important role by shifting resources towards labour-intensive sectors and creating jobs directly in the delivery of public services.

Building skills through the training layoff scheme

As part of its response to the economic crisis, government has introduced the training layoff scheme. Its immediate purpose is to avoid retrenchments while boosting the country's skills base.

The scheme is targeted at companies considering job cuts or closure as a result of the recession. During a temporary suspension of work, employment contracts remain in place, and employers maintain their contributions to the basic social security package, but workers agree to forego their normal wage and receive training and an allowance instead of being retrenched.

The scheme is funded by the National Skills Fund and the Unemployment Insurance Fund with an initial allocation of R2.4 billion. The Commission for Conciliation, Mediation and Arbitration oversees the scheme, while Sector Education and Training Authorities provide training. By 2 October 2009, 24 companies with 3 438 employees had applied to the scheme.

Through the expanded public works programme, government is making a contribution to reducing unemployment and providing incomes to poor communities. In its first phase (2004-2009) the programme provided jobs of varying duration, mainly in infrastructure, for 1.6 million people.

A new phase of the expanded public works programme

Over the next five years, the expanded public works programme aims to create 4.5 million short-term jobs – the equivalent of 2 million full-time low-skilled jobs for unemployed South Africans.

To encourage government departments and municipalities to use funds in their baseline budgets for labour-intensive projects, a wage-based incentive mechanism is being implemented in the infrastructure sector, and for nongovernmental and community organisations providing services on behalf of government. The incentive is a reimbursement of R50 of the daily wage of each person hired, provided that the job target threshold has been exceeded. This subsidy will be extended to projects in the environment, cultural and social sectors.

The community works programme, which operates largely in rural areas, is being rolled out in the current financial year. It aims to provide work to a minimum of 1 000 people per week on each site. The programme targets the creation of 180 000 full-time equivalent jobs by 2014, and receives R114.5 million in the adjustments budget.

Government provides a broad range of incentives, tax breaks and advisory services to help the private sector create jobs, in addition to support offered through the development finance institutions.

Government is considering establishing an industrial development and job creation fund

However, these support measures are not always transparent, and they can be difficult both to access and to monitor. Government is considering establishing a fund to support business with the aim of increasing employment. The fund would be made up largely of existing spending programmes and tax breaks, with clear, measurable job-creation targets.

More than 13 million people now receive social grants

Social grants are a crucial source of income support for poor households. More than 13 million people currently receive benefits. In 2008, government began a phased reduction of men's age of eligibility for the old age grant. In January 2009, poor children up to the age of 15 were accommodated on the child support grant. Over the next three years, the child support grant will be extended to poor children up to their 18th birthday. Once fully phased in, this extension is likely to cost about R7 billion a year.

Other government initiatives, such as the new focus on rural development and the expansion of early childhood education opportunities, will also contribute to greater employment creation.

Improving the quality of education and skills development

The South African education system needs to be constantly improving to broaden access to economic opportunities, and to reduce poverty and inequality. Education has benefited from strong growth in budget allocations over the past decade, mainly focused on improving access to schooling and equity in school funding. Over the next three years, the priorities include improving literacy and numeracy in the early phases of schooling, boosting mathematics and science scores at matric level, and increasing access and quality in further and higher education. School building and teacher training also receive additional resources.

Improving education outcomes is essential to support future economic growth and development

To improve the quality of education, government has refined the occupation-specific dispensation for teachers introduced in 2008. The revised dispensation offers salary improvements for the country's 392 000 teachers, including higher pay for experienced instructors.

To support the teaching of literacy and numeracy in early grades, government intends to provide workbooks to children in poor schools. These classroom aids, together with greater focus on increasing "time-on-task" and teacher training, should contribute to better literacy and numeracy outcomes.

Improving learner performance through workbooks and national assessments

To address South African learners' poor performance in national and international literacy and numeracy benchmark tests, the budget framework proposes to fund workbooks for learners in grades 1 to 7. Some 3.5 million learners will receive workbooks in 2010/11, rising to 5.5 million learners in grades 1 to 7 by 2012.

These educational aids, with daily exercises, will be available in all 11 official languages. The workbook tool will guide teachers on the sequence and pace required to complete the curriculum most effectively, and will benefit learners who do not have textbooks.

Funding is also proposed for national literacy and numeracy assessments to be undertaken in grades 3, 6 and 9. These annual assessments will measure the success of literacy and numeracy interventions. The results will be analysed to provide schools with targeted support.

The Dinaledi schools initiative, introduced in 2004, channels additional resources to 500 disadvantaged schools to increase the number of mathematics and science grade 12 passes. Over the medium term, a new conditional grant will be introduced to provide additional resources, such as science laboratories, textbooks and training for teachers at these schools.

Government will increase the coverage of the national school nutrition programme to reach learners in the poorest 60 per cent of secondary schools, and improve the quality of meals provided. The number of beneficiaries of school feeding programmes will increase from 7.1 million at present to 8.6 million in 2012/13.

Coverage of school nutrition programme is being expanded and the quality of meals improved

The funding of further education and training (FET) colleges is shifting to national government. Government will continue to provide resources for both quality improvements and higher enrolment. However, closer alignment with the funding arrangements contained under the skills development levy is required so that FET colleges can access more of these funds and business can make greater use of the colleges.

Strengthening further education and training colleges

Building on the recapitalisation of FET colleges, government is taking steps to enhance access to these institutions and the quality of courses they provide. The goal is to increase the number of young people and adults accessing continuing education at these technical and vocational centres, in a way that supports an inclusive growth path.

FET attendance and access have improved, but quality requires attention. Government's two core commitments in the period ahead are to consolidate the institutional base for FET colleges in partnership with the skills training system, and to address the gap in the capabilities of school leavers to successfully pursue further education and skills training while improvements are introduced to the basic education system.

Key outputs over the next five years include:

- Increasing participation rates in national curriculum for vocational education (NCV) – the alternative matric offered at FET colleges – to 20 per cent of youth aged 18-24 who are not attending other educational institutions.
- Boosting the number of industrial and related apprenticeships and learnerships in scarce skills areas to a cumulative 350 000.
- Improving NCV subject pass rates to 70-80 per cent and completion rates to 60-70 per cent.

To improve responsiveness to the needs of the economy, programme offerings will be expanded, training partnerships with industry will be funded through SETAs, partnerships with employers will be established and a work-placement programme for graduates of FET colleges will be set up. Quality interventions include initiatives to improve management capacity, materials development and the introduction of formal qualifications for lecturers.

Enhancing the quality of health care

Department of Health has 10-point plan to improve quality of health services

Initiatives to strengthen public health services are important in laying the foundation for a national health insurance system. The Department of Health has developed a 10-point plan to improve the quality of health services. Key elements of this plan include overhauling the management and operation of public hospitals, improving human resource planning, enhancing staffing levels and ensuring more efficient procurement of drugs.

Government also intends to achieve better health outcomes over the next three years by intensifying efforts to fight communicable diseases. The Department of Health has introduced three new vaccines for children. During 2010/11 it plans a mass vaccination campaign to reduce incidence of measles and to raise awareness of the importance of immunisation.

By March 2010, 900 000 people will be receiving antiretroviral treatment

The fight against HIV and Aids is a key priority and treatment uptake will soon exceed more than 300 000 new entrants per year. By the end of March 2010, more than 900 000 people will be receiving antiretroviral treatment, and an estimated 80 per cent of new Aids cases will be entering treatment by 2011/12. Government expenditure on HIV and Aids programmes has increased from R1.1 billion in 2005/06 to R4.4 billion in 2009/10. Additional funding is proposed over the MTEF period for expansion of the programme to accommodate higher numbers of people on antiretroviral treatment.

An occupation-specific salary dispensation was introduced for nurses in 2007. This year new salary scales for doctors, dentists, pharmacists and emergency medical personnel – and a further agreement for physiotherapists, occupational therapists, radiographers, psychologists, and dental therapists – have been concluded, providing for salary increases phased in over two years. These revised dispensations are intended to help the public sector attract and retain skilled professionals. A new quality assurance system will monitor both the quality of care and compliance with norms and standards.

Accelerating public-private partnerships in the health sector

Public-private partnerships (PPPs) can support the expansion of infrastructure and provision of services in public hospitals, while delivering efficiency gains through improved management and supply chain systems. PPPs in the health sector currently include:

- Infrastructure building, upgrading and maintenance (Pelonomi, Settlers and Port Alfred hospitals)
- Co-location, avoiding duplication and optimising unused space (Humansdorp, Universitas and Pelonomi hospitals)
- Medical equipment replacement and maintenance (Albert Luthuli and Western Cape Rehabilitation hospitals)
- Information technology and paperless management systems (Albert Luthuli hospital)
- Catering, cleaning, grounds management and security (various hospitals)
- Pharmaceutical supply chains (Eastern Cape)
- Vaccine production, procurement and distribution (Biovac Institute)
- Delivery of specialised services (Polokwane Renal Dialysis Unit).

Appropriately targeted and costed PPPs can help to improve the relationship between expenditure and patient outcomes in public health.

Rolling out a comprehensive rural development strategy

Two-year pilot project will inform rollout of rural development strategy

The comprehensive rural development programme aims to raise rural income, increase food production, improve the viability of small farms and draw on the economic potential of rural areas. This programme differs from previous initiatives in that it is premised on community participation and planning. A two-year pilot project, launched in Limpopo in August 2009, will inform the rollout of the programme.

Whether they received land through redistribution, restitution or tenure reform, emerging farmers require better access to infrastructure and support services to succeed. The comprehensive agricultural support programme provided support to an estimated 258 830 beneficiaries from its inception in 2004 until the end of 2008/09.

Support to emerging farmers to be increased

Support to the beneficiaries of land restitution and land reform will be stepped up to ensure that farmers are properly skilled and equipped to make productive use of their land. Government is tailoring the programme to improve its impact, and recruiting 1 000 additional extension officers over the next three years, increasing their skills levels and job orientation, and providing them with information and communications technology and administrative support.

Through the *comprehensive agricultural support programme grant*, the *land care programme grant* and the *Ilima/Letsema grant*, R4.1 billion in allocations to provinces support newly settled farmers. These grants include support for local job-creation initiatives and the provision of agricultural starter packs to 140 000 households per year.

At provincial level, total spending on rural development is projected to rise from about R6 billion at present to about R8 billion in 2012/13.

Creating a built environment to support economic growth

Rapid urbanisation has increased demand for land, housing, water, sanitation and transport

A period of sustained economic growth over the past decade, along with increased migration from rural areas, has contributed to significant changes in South Africa's cities. Rapid urbanisation has brought about greatly increased demands for land, housing, water and sanitation, electricity and transport in cities and large towns. Infrastructure and service-delivery functions need to interact effectively to promote efficiency, employment and integrated development.

Housing subsidy is increased to upgrade quality

Government continues to prioritise spending on housing, with the goal of eradicating informal settlements. The baseline budget makes provision for an increase in the housing subsidy and for additional units to be built. Further funding will support the *integrated housing and human settlements grant* in the outer year of the MTEF to sustain rapid growth on this key programme.

Municipalities play an important role in the built environment by expanding basic infrastructure services to households, replacing or rehabilitating assets, and responding to growth in demand for infrastructure. Government has made significant contributions to municipal infrastructure programmes over the past 15 years. The *municipal infrastructure grant* is revised upwards by R2.5 billion to provide more poor households with access to basic services, with the intention of meeting government's target of universal access to services by 2014. This brings the total amount allocated for the rollout of basic infrastructure through this grant to R45.9 billion over the MTEF, augmenting municipal capital budgets.

Further support for township regeneration

The *neighbourhood development partnership grant* will receive additional resources over the three-year period for projects that focus on the regeneration of townships through the development of social and economic infrastructure.

Poor households to get better access to services

Government is committed to providing each poor household with access to a basic level of municipal services. A total of R8.2 billion is added to the local government equitable share over the MTEF period to cater for the increased costs of bulk services such as electricity, and to increase the number of households that receive free basic services. The latest increase in the electricity bulk price for 2009/10 was 31.4 per cent, and further increases over the three-year period are proposed.

A broad-based approach to fighting crime

Fight against crime must include enhancing partnerships

Government is determined to curb the unacceptably high level of crime. We recognise, however, that the police alone cannot resolve high crime levels. The fight against crime must include enhancing partnerships, strengthening social security and creating jobs, along with the review of the criminal justice system. Other public spending priorities, such as health, education, job creation and social security, are essential contributions to creating safer communities.

An additional 22 447 police personnel will be recruited by 2012/13, primarily to strengthen the detective services and crime intelligence. This will increase the number of police personnel from 185 313 at present to 207 760 in 2012/13. The fight against organised crime will be boosted through a proposed additional allocation for the Directorate for Priority Crime Investigation. Staff numbers in this directorate will increase from 350 investigators in 2009/10 to 2 400 investigators by 2012/13. The previous Directorate of Special Operations employed fewer than 500 investigators.

Police reinforcements will strengthen detective services

The implementation of legislation promoting the rights of women and children is being strengthened. The reprioritisation of spending and additional resources over the medium term will enable stepped up staffing levels to support the implementation of the Children's Act (2005), the Child Justice Act (2008), and the Sexual Offences and Related Matters Act (2007).

Consolidated government expenditure

Table 4.1 below shows consolidated expenditure for the period 2009/10 to 2012/13. This consolidation includes national and provincial government, public entities and social security funds. While public spending has increased by close to 9 per cent a year in real terms since 2003, more moderate growth will take place over the MTEF period.

Aggregate growth in public spending will moderate over the period ahead

These figures show that expenditure on key priorities such as education, health and infrastructure continues to grow in real terms, while aggregate growth in public spending is more moderate. Major trends include a rising share of spending allocated to education and health and continued strong growth in spending on capital programmes. Personnel costs rise as a share of expenditure as a result of the implementation of the occupation-specific dispensations and above-budget salary increases agreed to in 2009. Some of the higher wage pressures need to be accommodated by finding savings within budgets, reducing the numbers of non-core administrative staff and adjusting other spending items.

Table 4.1 Consolidated government expenditure, 2008/09 – 2012/13

R billion	2008/09 Outcome	2009/10 Revised	2010/11 Medium-term estimates	2011/12	2012/13	Average annual growth 2009/10 – 2012/13
Type of service						
General public services	**44.9**	**49.2**	**52.8**	**55.8**	**55.8**	**4.3%**
Defence	**29.0**	**34.1**	**36.5**	**39.3**	**41.9**	**7.2%**
Public order and safety	**67.3**	**77.7**	**85.9**	**96.2**	**101.6**	**9.3%**
Police services	44.4	50.9	56.3	61.3	65.0	8.5%
Law courts	10.3	11.9	13.3	14.4	15.3	8.5%
Prisons	12.6	14.9	16.3	20.4	21.3	12.8%
Economic affairs	**129.6**	**182.9**	**169.4**	**155.6**	**162.8**	**-3.8%**
General economic, commercial and labour a	23.0	26.9	29.6	30.9	32.0	6.0%
Agriculture, forestry, fishing and hunting	15.9	17.4	18.5	21.0	22.2	8.5%
Fuel and energy	17.3	45.2	34.7	16.2	16.6	-28.4%
Transport	56.0	73.1	65.9	65.4	68.7	-2.0%
Economic affairs not elsewhere classified	17.4	20.3	20.8	22.0	23.3	4.8%
Environmental protection	**5.3**	**5.5**	**6.4**	**6.9**	**7.4**	**10.4%**
Housing and community amenities	**62.4**	**69.4**	**78.9**	**89.7**	**98.5**	**12.3%**
Housing and community development	41.0	45.8	52.8	59.3	66.2	13.1%
Water supply	21.4	23.7	26.0	30.4	32.2	10.8%
Health	**80.7**	**89.8**	**100.8**	**109.2**	**115.2**	**8.6%**
Recreation, culture, and religion	**9.8**	**7.6**	**5.8**	**5.4**	**5.6**	**-9.5%**
Education	**126.2**	**144.0**	**160.2**	**174.8**	**184.6**	**8.6%**
Social protection	**105.8**	**121.1**	**132.2**	**145.2**	**156.6**	**8.9%**
Allocated expenditure	**661.0**	**781.4**	**828.9**	**878.1**	**930.0**	**6.0%**
State debt cost	54.4	60.0	70.7	85.4	98.7	18.1%
Contingency reserve	–	–	6.0	12.0	24.0	
Consolidated expenditure[1]	**715.4**	**841.4**	**905.6**	**975.6**	**1 052.8**	**7.8%**
Economic classification						
Current payments	**421.2**	**480.6**	**529.0**	**581.3**	**617.0**	**8.7%**
Compensation of employees	235.0	272.1	294.7	315.2	330.1	6.6%
Goods and services	128.1	143.8	157.4	171.6	178.7	7.5%
Interest and rent on land	58.2	64.7	76.9	94.5	108.2	18.7%
of which: state debt cost	*54.4*	*60.0*	*70.7*	*85.4*	*98.7*	*18.1%*
Transfers and subsidies	**244.1**	**299.9**	**306.0**	**315.3**	**340.2**	**4.3%**
Municipalities	44.1	53.8	63.0	71.9	79.0	13.7%
Departmental agencies and accounts	23.1	26.2	21.9	23.1	25.6	-0.7%
Universities and technikons	13.9	15.6	17.7	19.2	20.0	8.7%
Public corporations and private	33.1	56.5	42.3	23.6	25.1	-23.7%
Foreign governments and international	1.5	1.9	1.8	2.0	2.1	2.7%
Non-profit institutions	16.4	17.6	20.5	22.1	23.3	9.7%
Households	112.0	128.3	138.8	153.5	165.1	8.8%
Payments for capital assets	**50.0**	**60.9**	**64.6**	**66.9**	**71.6**	**5.5%**
Buildings and other capital assets	37.9	48.0	49.5	51.5	54.9	4.5%
Machinery and equipment	12.1	12.9	15.1	15.5	16.7	8.9%
Total	**715.4**	**841.4**	**899.6**	**963.6**	**1 028.8**	**6.9%**
Contingency reserve	–	–	6.0	12.0	24.0	
Consolidated expenditure[1]	**715.4**	**841.4**	**905.6**	**975.6**	**1 052.8**	**7.8%**

1. *Consisting of national, provincial, social security funds and selected public entities.*

Division of revenue

The division of nationally raised revenue between national, provincial and local government is aligned to MTSF priorities.

The fiscal framework makes available an additional R78 billion over the next three years. Baseline allocations to national departments are increased by R3.7 billion in 2010/11, R8.2 billion in 2011/12 and R13.8 billion in 2012/13. Provincial baseline allocations are revised upwards by R39.9 billion over the MTEF and local baseline allocations are increased by R12.4 billion.

Provincial baselines are revised upwards by R39.9 billion and local baselines by R12.4 billion

The proposed allocation of resources recognises the need for all spheres of government to redirect spending to frontline services and to reduce non-core and ineffective expenditure.

Table 4.2 shows the proposed division of revenue for the 2010 Budget.

Table 4.2 Division of revenue, 2009/10 – 2012/13

	2009/10	2010/11	2011/12	2012/13	2010	Average annual growth
R million	Revised	Medium-term estimates			MTEF	2009/10 – 2012/13
National	**346 642**	**356 350**	**368 986**	**390 531**		**4.1%**
Provincial	**295 353**	**321 369**	**348 720**	**366 983**		**7.5%**
Equitable share	236 878	260 623	280 317	294 386		7.5%
Conditional grants	58 475	60 747	68 403	72 597		7.5%
Local	**50 533**	**59 322**	**67 964**	**75 718**		**14.4%**
Equitable share	24 356	30 468	34 390	37 984		16.0%
Conditional grants	19 377	21 312	25 043	28 776		14.1%
General fuel levy sharing with metropolitan municipalities	6 800	7 542	8 531	8 958		9.6%
Total	**692 528**	**737 042**	**785 670**	**833 232**		**6.4%**
Percentage shares						
National	*50.1%*	*48.3%*	*47.0%*	*46.9%*		
Provincial	*42.6%*	*43.6%*	*44.4%*	*44.0%*		
Local	*7.3%*	*8.0%*	*8.7%*	*9.1%*		
Changes to baseline						
National	**3 565**	**3 730**	**8 200**	**13 788**	**25 718**	
Provincial	**10 834**	**11 670**	**12 800**	**15 412**	**39 882**	
Equitable share	8 995	10 330	10 930	11 530	32 790	
Conditional grants	1 839	1 340	1 870	3 882	7 092	
Local	**835**	**1 600**	**3 000**	**7 800**	**12 400**	
Equitable share	509	1 200	2 500	4 500	8 200	
Conditional grants	326	400	500	3 300	4 200	
General fuel levy sharing with metropolitan municipalities	–	–	–	–	–	
Total	**15 233**	**17 000**	**24 000**	**37 000**	**78 000**	

Funding provincial government

Provinces should reprioritise spending, focusing on education and health

Provincial government delivers education, health, welfare services, housing, agricultural support services, and provincial and rural roads. Additional resources are provided mainly for education, health, housing and rural development.

In line with government's efforts to streamline and prioritise expenditure, provincial governments need to identify savings in non-essential expenditure in their existing budgets to fund core programmes, particularly in education and health. Rising personnel spending strains provincial budgets, especially in labour-intensive services such as education and health. In 2008/09 provinces overspent by R4.2 billion and had a considerable number of unpaid bills.

Of the R39.9 billion added to the provincial baseline over the next three years, R32.8 billion is proposed for the provincial equitable share and R7.1 billion for conditional grants. Transfers to provinces will grow by 7.5 per cent per year, from a revised R295.4 billion in 2009/10 to R367.0 billion in 2012/13.

The funding of FET colleges is shifting from provinces to national government. The equitable share baseline is adjusted by about R3.4 billion a year to reflect this shift. A new conditional grant is created through which funds will flow to FET colleges.

Provincial equitable share

Provincial equitable share adjusted for general salary increases and occupation-specific dispensations

The provincial equitable share is budgeted to grow by an annual average of 7.5 per cent, from a revised R236.9 billion in 2009/10 to R294.4 billion in 2012/13. An adjustment of R29.8 billion is made over the MTEF period to accommodate occupation-specific dispensations and general salary increases. An amount of R18 billion is proposed to accommodate the carry-through costs of this year's higher salary increases. Provision is also made for adjusted salaries in the health and education dispensations.

An additional R1 billion a year is provided to the provincial equitable share for spending on frontline services in education and health, to help accommodate higher salaries for doctors and to enable provinces to strengthen governance and oversight of municipalities.

The calculation of the equitable share is determined by an objective redistributive formula published annually in the *Budget Review* and takes into account various surveys and other data. An adjustment is also made for the shift of Merafong from North West province to Gauteng.

Provincial conditional grants

Conditional grants supplement various programmes partly funded by provinces, such as infrastructure and hospitals, and support specific priority programmes. Conditional grants are expected to grow from a revised R58.5 billion in 2009/10 to R72.6 billion in 2012/13. Revisions to the provincial conditional grant allocations over the medium term are shown in Table 4.3. Conditional grants to provinces appear in Table 4.4.

The *HIV and Aids conditional grant* receives an additional R5.4 billion over the MTEF period and the housing grant is increased by R1 billion in the outer year, sustaining strong growth in this programme.

HIV and Aids grant receives an additional R5.4 billion over the MTEF period

Table 4.3 Revision to provincial conditional grant allocations, 2010/11 – 2012/13

R million	2010/11	2011/12	2012/13	2010 MTEF
	Medium-term estimates			Total
Basic Education	**–**	**70**	**220**	**290**
Dinaledi schools grant	–	70	100	170
National school nutrition programme grant	–	–	120	120
Health	**1 340**	**1 800**	**2 400**	**5 540**
Comprehensive HIV and Aids grant	1 200	1 800	2 400	5 400
Hospital revitalisation grant	140	–	–	140
Human Settlements	**–**	**–**	**1 000**	**1 000**
Integrated housing and human settlement development grant	–	–	1 000	1 000
National Treasury	**–**	**–**	**262**	**262**
Infrastructure grant to provinces	–	–	262	262
Total	**1 340**	**1 870**	**3 882**	**7 092**

Table 4.4 Conditional grants to provinces, 2009/10 – 2012/13

	2009/10	2010/11	2011/12	2012/13
R million	Revised	Medium-term estimates		
Agriculture, Forestry and Fisheries	**974**	**1 117**	**1 437**	**1 509**
Agricultural disaster management grant	157	–	–	–
Comprehensive agricultural support programme grant	715	862	979	1 028
Ilima/Letsema projects grant	50	200	400	420
Land care programme grant: Poverty relief and infrastructure development	51	55	58	61
Arts and Culture	**441**	**494**	**524**	**550**
Community library services grant	441	494	524	550
Basic Education	**2 575**	**3 931**	**5 048**	**5 447**
Dinaledi schools grant	–	–	70	100
HIV and Aids (life skills education) grant	181	188	199	209
National school nutrition programme grant	2 395	3 663	4 579	4 928
Technical secondary schools recapitalisation grant	–	80	200	210
Higher Education and Training	**3 168**	**3 373**	**3 542**	**3 719**
Further education and training college sector recapitalisation grant	3 168	3 373	3 542	3 719
Health	**16 702**	**19 353**	**20 972**	**22 530**
Comprehensive HIV and Aids grant	4 376	5 512	6 433	7 265
Forensic pathology services grant	502	557	590	620
Health disaster response (cholera) grant	50	–	–	–
Health professions training and development grant	1 760	1 865	1 977	2 076
Hospital revitalisation grant	3 370	4 021	4 172	4 381
National tertiary services grant	6 614	7 398	7 799	8 189
World Cup health preparation strategy grant	30	–	–	–
Human Settlements	**12 592**	**15 027**	**17 222**	**17 939**
Housing disaster relief grant	150	–	–	–
Integrated housing and human settlement development grant	12 442	15 027	17 222	17 939
National Treasury	**13 449**	**11 315**	**13 091**	**14 008**
Infrastructure grant to provinces	9 249	11 315	13 091	14 008
Gautrain rapid rail link loan	4 200	–	–	–
Public Works	**1 501**	**1 496**	**1 962**	**2 060**
Devolution of property rate funds grant	1 350	1 096	1 162	1 220
Expanded public works programme incentive grant	151	400	800	840
Sport and Recreation South Africa	**402**	**426**	**452**	**475**
Mass sport and recreation participation programme grant	402	426	452	475
Transport	**6 670**	**4 215**	**4 153**	**4 361**
Gautrain rapid rail link grant	2 977	341	–	–
Overload control grant	10	11	–	–
Public transport operations grant	3 532	3 863	4 153	4 361
Sani Pass roads grant	34	–	–	–
Transport disaster management grant	117	–	–	–
Total	**58 475**	**60 747**	**68 403**	**72 597**

Funding local government

Local government delivers essential household services such as water, sanitation and electricity. Municipalities support social and economic development through infrastructure investment and help to alleviate poverty by providing free basic services to poor households.

Population growth,[1] immigration and urbanisation pose significant challenges for municipalities, and in the context of a weaker economic environment, a balance needs to be struck between expenditure and available revenues.

Given weak revenues in poor municipalities, national support is required to extend basic services

Municipal spending pressures result mainly from the rising cost of bulk services, increasing demand for free basic services, provisions for repair and maintenance of ageing infrastructure, and the costs of governance and administration. Given the weak revenue base of smaller and poorer municipalities, national transfers are needed to support key priorities such as the extension of household services.

Municipalities need to find efficiency savings

Despite the constraints in local government, there is some scope for municipalities to find efficiency savings to reduce budget pressures. Typical savings could include limiting conferences at venues outside municipal offices and spending less on advertising. Local government can also improve revenue collection and avoid the build-up of arrears for services by updating billing systems, maintaining strict credit control measures and improving routine infrastructure maintenance. These measures must be balanced with support to poor households.

Operation Gcina'manzi: water savings in Johannesburg

Johannesburg has managed to save about 4 billion litres of water that would have been lost through poor infrastructure thanks to Operation Gcina'manzi, an initiative of Johannesburg Water. The project involves the repair or replacement of faulty plumbing in households with new fittings free of charge. The water savings for 2008/09 are equivalent to R115.7 million, with cumulative water savings amounting to R258.8 million between 2003 and 2008.

The 2010 MTEF provides for an additional R12.4 billion in the local government budget framework, with R8.2 billion directed to the local government equitable share and R4.2 billion for infrastructure transfers. These increases result in local government's share of nationally raised revenue growing from a revised R50.5 billion in 2009/10 to R75.7 billion in 2012/13. Table 4.5 shows the revised local government allocations for the 2010 framework period.

Local government equitable share

Local government equitable share grows to R38 billion in 2012/13

The primary funding mechanism to support municipal service delivery to the poor is the local government equitable share. This allocation supplements municipal spending to achieve universal access to basic services. It also provides support for basic administration and governance to enhance public participation. Including the *regional service council levies replacement grant* for district municipalities and special support for councillor remuneration, the local government equitable share is budgeted to grow by 16 per cent a year in nominal terms, from R24.4 billion in 2009/10 to R38 billion in 2012/13.

[1] The *2001 Census* indicated that there were 44.8 million people in 11.8 million households, of which 5.5 million households were deemed to be poor. The population grew by 8.3 per cent, to an estimated 48.5 million people in 2007.

Conditional transfers to local government

Municipal capital spending is expected to reach R50 billion in the current financial year

Conditional grants supplement various programmes partly funded by municipalities, such as regional bulk and municipal network infrastructure for electricity, water and sanitation. Municipalities spent R39.6 billion on capital projects in 2008/09 and capital spending is projected to increase to R50 billion in 2009/10, with further increases likely over the three-year period. An additional R2.5 billion is allocated to the *municipal infrastructure grant* and additional resources are allocated for bulk water projects and for the *neighbourhood development partnership grant*. Conditional grants are expected to grow from a revised R19.4 billion in 2009/10 to R28.8 billion in 2012/13. The revised local government infrastructure grants amounts are shown in Table 4.5.

Municipalities are also encouraged to take greater advantage of incentives available to expand public employment programmes, which are essential to address high levels of youth unemployment.

Table 4.5 Local government allocations, 2009/10 – 2012/13

R million	2009/10 Revised	2010/11	2011/12 Medium-term estimates	2012/13
Equitable share	**24 356**	**30 468**	**34 390**	**37 984**
General fuel levy sharing with metros	**6 800**	**7 542**	**8 531**	**8 958**
Conditional grants (direct transfers)	**19 377**	**21 312**	**25 043**	**28 776**
Infrastructure	**17 297**	**19 401**	**22 946**	**26 574**
Municipal infrastructure grant	11 433	12 529	15 069	18 322
National electrification programme grant	933	1 020	1 097	1 151
Public transport infrastructure and systems grant	2 418	4 290	5 149	5 406
Neighbourhood development partnership grant	613	1 030	1 240	1 282
2010 FIFA World Cup stadium development grant	1 661	302	–	–
Rural transport services and infrastructure grant	10	10	11	12
Electricity demand side management grant	175	220	280	–
Municipal drought relief grant	54	–	–	–
Regional bulk infrastructure grant[1]	–	–	100	400
Capacity building and other	**2 081**	**1 911**	**2 097**	**2 202**
Municipal systems improvement grant	200	212	225	236
Financial management grant	300	365	385	404
2010 FIFA World Cup host city operating grant	508	210	–	–
Expanded public works programme incentive grant	202	554	1 108	1 163
Water and sanitation operating grant	871	570	380	399
Conditional grants (indirect transfers)	**2 879**	**2 843**	**3 698**	**4 065**
Infrastructure	**2 744**	**2 843**	**3 698**	**4 065**
National electrification programme grant	1 478	1 769	1 902	1 997
Neighbourhood development partnership grant	80	125	100	105
Backlogs in water and sanitation at clinics and schools grant	350	–	–	–
Backlogs in the electrification of clinics and schools grant	150	–	–	–
Electricity demand side management grant	75	110	120	–
Regional bulk infrastructure grant	612	839	1 575	1 962
Capacity building and other	**135**	**–**	**–**	**–**
Water and sanitation operating grant	135	–	–	–
Total revised allocations (direct)	**50 533**	**59 322**	**67 964**	**75 718**
Total revised allocations (direct and indirect)	**53 412**	**62 166**	**71 662**	**79 783**

1. The regional bulk infrastructure grant is a grant-in-kind to local government.