4

Medium-term expenditure framework and division of revenue

In brief

- The proposed consolidated framework for the 2013 Budget provides for total spending of R1.15 trillion in 2013/14, R1.24 trillion in 2014/15 and R1.34 trillion in 2015/16, maintaining expenditure growth of about 8.2 per cent a year and reducing expenditure to 30.7 per cent of GDP in 2015/16.
- Debt-service costs will rise from R89 billion this year to R115 billion in 2015/16.
- The fiscus does not increase available funds beyond the 2012 budget baseline.
- Drawdowns on the contingency reserve provide for limited increases in allocations, mainly to accommodate the carry-through costs of the 2012 public-sector wage agreement.
- Government's spending plans continue to reflect social and economic development priorities: education, health, social development, infrastructure, crime-fighting and enhancing competitiveness.
- Departments have reprioritised spending and identified savings to improve value for money and ensure alignment with the National Development Plan.
- Infrastructure planning and delivery in provinces and municipalities is undergoing major reforms.

Introduction

The medium-term expenditure framework (MTEF) for the 2013 Budget provides for continued real growth in spending on public services, though total non-interest expenditure remains broadly unchanged from the 2012 Budget. This reflects the challenging economic environment and the fiscal constraints in which government is operating. In this context, enhancing service delivery will require departments and public entities to consolidate programmes and activities, and to seek greater value for money within the available resource envelope.

Decision to contain expenditure growth reflects economic environment, fiscal constraints and need to realise value for money

Departments were asked to reprioritise spending away from programmes that are not meeting requirements

Departments have reprioritised spending away from programmes that are not meeting performance requirements or that are not closely aligned to departmental mandates. National and provincial departments were asked to reduce spending, where possible, so that these funds could be reallocated to infrastructure investment and other priorities.

Allocations to health, social assistance, education and free basic services will be maintained

Reprioritisation has been achieved without reducing social expenditure, which accounts for 58 per cent of consolidated government spending. Allocations to health, social assistance, education and free basic services will be maintained, although in these areas there is considerable scope for improved financial management and more cost-effective programmes. Funding for economic development has also been safeguarded. In addition to the emphasis on improving infrastructure, the expanded public works programme and the community work programme will continue to grow, and investment in special economic zones and manufacturing will be enhanced.

A need to shift the composition of spending

To promote growth and development, government must shift the composition of spending

Government is committed to shifting the composition of spending from current consumption to productive investment. Within the wider public sector, municipal finances need to be strengthened and the substantial investment requirements of energy, water and transport utilities must be financed. For these shifts in the public finances to be achieved, moderation in personnel expenditure and greater efficiency in service delivery is necessary.

Since 2008/09, personnel spending has increased from 33 per cent to 35 per cent of total government expenditure. This year government and public service unions signed a three-year wage settlement. The agreement provides for cost-of-living adjustments of 7 per cent in 2012/13 and consumer price inflation (CPI) plus 1 per cent in both 2013/14 and 2014/15. The cost of this agreement is estimated at R5.5 billion for 2012/13 and R37.5 billion over the 2013 MTEF. Compensation of employees will be limited to 34 per cent of total expenditure in 2015/16 as government restrains growth in personnel numbers.

2011/12 outcomes and 2012/13 mid-year estimates

Table 4.1 sets out the national and provincial appropriated expenditure outcomes for 2011/12 and estimates for the first half of the current financial year. A detailed breakdown by national department and province is contained in Annexure A.

A close correlation between appropriations and budget estimates

Appropriations from the National Revenue Fund (including transfers to provinces and municipalities) amounted to R888 billion in 2011/12, compared with an original budget estimate of R889 billion and a revised estimate of R894 billion (including an additional R5.7 billion provided to the South African National Roads Agency Limited in a special adjustments appropriation in February this year).

Table 4.1 National and provincial expenditure: 2011/12 outcomes and 2012/13 mid-year estimates

	2011/12				2012/13		
R billion	Original budget	Adjusted estimate	Preliminary outcome	Over(-)/ under(+)	Original budget	Adjusted estimate[1]	Actual spending April to September
National revenue fund expenditure	**888.9**	**893.8**	**888.0**	**5.7**	**969.4**	**967.5**	**464.8**
State debt cost	76.6	76.9	76.5	0.4	89.4	88.8	43.5
Provincial equitable share	288.5	291.7	291.7	–	309.1	313.0	154.5
Other direct charges	20.2	20.2	21.0	-0.8	21.5	23.3	9.7
National votes	**499.5**	**510.9**	**498.9**	**12.1**	**543.6**	**546.4**	**257.1**
of which:							
Compensation of employees	*92.4*	*94.4*	*92.7*	*1.7*	*101.0*	*103.3*	*49.8*
Transfers and subsidies	*342.2*	*349.2*	*343.2*	*6.0*	*370.9*	*371.7*	*181.8*
Payments for capital assets	*11.2*	*12.1*	*12.0*	*0.2*	*15.2*	*14.4*	*4.3*
Unallocated and contingency reserve	*4.1*	–	–	–	*5.8*	–	–
Projected underspending	–	*-6.0*	–	*-6.0*	–	*-3.5*	–
Local government repayment to the National revenue fund	–	–	–	–	–	*-0.5*	–
Provincial expenditure	**365.5**	**373.0**	**368.3**	**4.7**	**388.4**	**n/a**	**189.2**
of which:							
Compensation of employees	*212.2*	*215.5*	*217.5*	*-1.9*	*231.9*	*n/a*	*115.8*
Transfers and subsidies	*51.3*	*55.7*	*54.2*	*1.5*	*55.6*	*n/a*	*26.6*
Payments for capital assets	*27.6*	*29.4*	*25.9*	*3.5*	*27.2*	*n/a*	*12.5*

1. Provinces will table adjusted estimates during November 2012

The revised estimate of total appropriated expenditure in 2012/13 is R967.5 billion. This amount is R1.9 billion less than the estimate in the 2012 Budget and 8.9 per cent more than the 2011/12 outcome.

Of the voted appropriations to national departments, spending amounted to R498.9 billion in 2011/12, 97.7 per cent of the adjusted appropriation of R510.9 billion. In the first six months of 2012/13, R257.1 billion was spent, or 47.1 per cent of the adjusted appropriation for the year of R546.4 billion.

Most spending under voted allocations is for transfers and subsidies, followed by compensation of employees

Transfers and subsidies includes conditional grants to provinces and municipalities, social grants, housing subsidies and transfers to universities, science councils and public entities. It is the largest category of national department spending, followed by compensation of employees.

Provincial expenditure in 2011/12 amounted to R368.3 billion, 98.7 per cent of a total adjusted budget of R373.0 billion. Expenditure by provinces was R189.2 billion in the first six months of 2012/13, representing 48.7 per cent of the main appropriation for the year.

Spending on provincial infrastructure shows signs of improvement

Provinces are primarily responsible for the delivery of social services, including basic education and health services. Compensation of employees is consequently the largest category in provincial budgets, accounting for 59 per cent of expenditure in 2011/12. Underspending on capital projects in 2011/12 amounted to R3.5 billion, but capital spending shows an improvement in the first six months of 2012/13.

Revised national expenditure estimates, 2012/13

The Adjustments Appropriation Bill and the Division of Revenue Amendment Bill set out amendments in the current financial year. These reflect in-year changes to allocations made possible by reprioritisation within the existing expenditure envelope. The bills propose the following changes:

- R1.5 billion in rollovers arising from commitments related to unspent balances in 2011/12.
- R1.5 billion to cover the costs of higher-than-expected salary adjustments in national departments flowing from the public-sector wage settlement reached in 2012.
- R323 million to cover costs associated with hosting the 2013 Africa Cup of Nations football tournament, including security, protocol and migration services.
- R450 million for the rehabilitation of Mthatha airport.
- R375 million for community development projects that support environmental management and conservation under the expanded public works programme.
- R187.7 million for VAT payments for the purchase of the new Antarctic research vessel, the SA Agulhas II.
- R118.3 million for contractual penalties incurred by Denel Saab Aerostructures related to the A400M aircraft contracts.
- R80.7 million for additional game rangers to combat rhinoceros poaching in the Kruger National Park.
- R63 million to deploy vessels and resources in joint anti-piracy operations in the Mozambican Channel.
- R440.1 million refunded to departments for monies paid directly into the National Revenue Fund from department-specific activities.
- R3 billion that will not be spent in 2012/13 and has been declared as savings by departments.

Revised provincial allocations

- R4 billion added to the provincial equitable share for higher-than-anticipated salary costs related to the public-sector wage settlement.
- R87.3 million to the *further education and training colleges grant* to cover the cost of the wage settlement.
- R366 million for infrastructure in the health sector: R180 million to the *health infrastructure grant* and R186 million to the *hospital revitalisation grant.*
- R15 million for health-related costs associated with hosting the 2013 Africa Cup of Nations tournament.

Revised local government allocations

- R123.1 million to cover costs to cities associated with hosting the 2013 Africa Cup of Nations tournament.

In addition, there is a R500 million reduction in the local government equitable share to offset unspent conditional grant monies owed to the National Revenue Fund.

Details of the revised national spending allocations are set out in the *Adjusted Estimates of National Expenditure*, including rollovers of unspent funds from 2011/12, approved allocations of unforeseeable and unavoidable expenditure, other shifts and adjustments, and declared savings. Revised provincial appropriations will be tabled in provincial legislatures before the end of the financial year.

Division of revenue: 2013/14 – 2015/16

Baseline expenditure announced in 2012 Budget will be maintained

After providing for debt-service costs, the 2012 Budget allowed for spending of R953 billion in 2013/14 and R1.03 trillion in 2014/15. These non-interest spending ceilings will be retained for the 2013 Budget, and a ceiling of R1.12 trillion is set for 2015/16, in keeping with the fiscal policy stance outlined in Chapter 3. The main budget framework is shown in Table 4.2.

Table 4.2 Main budget framework, 2009/10 – 2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
State debt cost	57.1	66.2	76.5	88.8	98.6	106.8	114.8
Non-interest expenditure	690.1	738.9	811.6	878.7	953.0	1 030.5	1 119.0
Percentage increase	*18.7%*	*7.1%*	*9.8%*	*8.3%*	*8.5%*	*8.1%*	*8.6%*
Total expenditure	**747.2**	**805.1**	**888.0**	**967.5**	**1 051.6**	**1 137.4**	**1 233.8**
Percentage increase	*17.5%*	*7.8%*	*10.3%*	*8.9%*	*8.7%*	*8.2%*	*8.5%*
Contingency reserve	–	–	–	–	4.0	10.0	30.0
Division of available funds							
National departments	**345.4**	**355.2**	**380.8**	**412.3**	**446.6**	**481.4**	**510.4**
Provinces	**293.2**	**322.8**	**362.5**	**388.9**	**417.9**	**447.5**	**477.9**
Equitable share	236.9	265.1	291.7	313.0	335.3	357.3	378.8
Conditional grants	52.1	57.7	70.8	75.9	82.7	90.2	99.1
Gautrain loan	4.2	–	–	–	–	–	–
Local government	**51.5**	**60.9**	**68.3**	**77.5**	**84.5**	**91.6**	**100.7**
Equitable share	23.8	30.5	33.2	37.9	40.6	44.5	49.7
General fuel levy sharing with metropolitan municipalities	6.8	7.5	8.6	9.0	9.6	10.2	10.7
Conditional grants	20.9	22.8	26.5	30.6	34.3	36.9	40.4
Total	**690.1**	**738.9**	**811.6**	**878.7**	**949.0**	**1 020.5**	**1 089.0**
Percentage shares							
National departments	50.0%	48.1%	46.9%	46.9%	47.1%	47.2%	46.9%
Provinces	42.5%	43.7%	44.7%	44.3%	44.0%	43.9%	43.9%
Local government	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%	9.2%

The budget framework allows for average real growth in non-interest spending of 3 per cent a year over the next three years. A contingency reserve of R4 billion, R10 billion and R30 billion is retained in the proposed framework for 2013/14, 2014/15 and 2015/16 to allow for uncertainty in the outlook and provide for future policy priorities. Of the R30 billion left unallocated in 2015/16, R6 billion will be drawn down in the 2013 Budget.

Reprioritisation of funds by departments amounts to about R40 billion

Over the next three years, reprioritisation of funds by departments amounts to about R40 billion. This money, combined with drawdowns on the contingency reserve, will allow for the revision of budget baselines over this period. Priority will be given to infrastructure development and service-delivery improvements, though drawdowns on the contingency reserve will also be used to fund the public-sector wage settlement.

The proposed division of revenue outlined in Table 4.3 allocates 47 per cent to national departments, 44 per cent to provinces and 9 per cent to local government over the MTEF period. The requirements of education and health, and the cost of the increase in the public-sector wage bill, largely determine the provincial share of additional allocations. Salary costs and infrastructure priorities are the main factors behind adjustments to the national share, and infrastructure requirements are the main cause of the adjustments for municipalities.

Allocations to the national sphere increase by 7.4 per cent a year over the MTEF period, provincial allocations increase by 7.1 per cent a year and local government allocations grow by 9.1 per cent a year.

Table 4.3 Division of revenue, 2012/13 – 2015/16

R billion	2012/13	2013/14	2014/15	2015/16	Average annual growth 2012/13 – 2015/16
National allocations	412.3	446.6	481.4	510.4	7.4%
of which:					
Indirect grants to provinces [1]	*2.3*	*2.5*	*3.3*	*3.1*	9.7%
Indirect grants to local government [1]	*5.1*	*5.9*	*7.4*	*9.3*	21.9%
Provincial allocations	388.9	417.9	447.5	477.9	7.1%
Equitable share	*313.0*	*335.3*	*357.3*	*378.8*	6.6%
Conditional grants	*75.9*	*82.7*	*90.2*	*99.1*	9.3%
Local government allocations	77.5	84.5	91.6	100.7	9.1%
Total allocations	**878.7**	**949.0**	**1 020.5**	**1 089.0**	**7.4%**
Changes to baseline					
National allocations	-0.1	0.3	2.6	13.5	
of which:					
Indirect grants to provinces [1]	–	*-2.7*	*-2.2*	*-2.7*	
Indirect grants to local government [1]	*0.0*	*0.2*	*1.6*	*3.2*	
Provincial allocations	4.4	6.8	10.5	20.8	
Equitable share	*4.0*	*6.3*	*8.0*	*13.4*	
Conditional grants	*0.5*	*0.5*	*2.5*	*7.4*	
Local government allocations	0.1	0.7	0.9	5.8	
Total	**4.5**	**7.9**	**14.0**	**40.1**	

1. Amounts may be shifted between direct and indirect grants to provinces and local government before the 2013 Budget is tabled

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act (1997) require the Financial and Fiscal Commission to make recommendations on the division of revenue at least 10 months before the budget is tabled. The commission tabled its submission in Parliament in May 2012. Government will formally respond to matters raised in the submission when it tables the 2013 Budget in February.

Funding provincial government

R38.1 billion is added to provincial transfers to improve education, health and social services

Provinces are responsible for the bulk of government's social spending. Over the medium term, reprioritised funds will enable provinces to extend and improve school facilities, expand library services, improve health services and increase social welfare services. Contributing to these priorities, R38.1 billion will be added to transfers to provincial spending over the next three years.

Provincial equitable share

Additions to the provincial equitable share of R6.3 billion in 2013/14, R8.0 billion in 2014/15 and R13.4 billion in 2015/16 are proposed. These increases will provide for the costs of the public-sector wage agreement, while allowing for growth in the number of health practitioners. They will also fund improvements in education for learners from poor backgrounds, improved diagnostics in healthcare and greater welfare support.

The provincial equitable share formula will be updated with data from the 2011 Census for the total population and school-age population in each province. These variables account for a substantial weighting in the formula and could result in changes to provincial allocations over time.

Provincial conditional grants

Support for HIV and Aids programmes compensates for reduction in donor funding

Proposed adjustments to provincial conditional grants include the following:

- Additional resources will be made available in the *further education and training colleges grant* to cover the cost of the wage agreement.
- The *comprehensive HIV and Aids grant* is allocated additional money to compensate for the reduction in US donor funding of HIV and Aids prevention, care and treatment programmes.
- Funds will be added to the *human settlements development grant* for informal settlements upgrading.
- Funds will be made available for further investment in provincial roads.
- Increased resources are being made available for the *community library services grant.*
- Reprioritised funds will be used to improve the delivery of school infrastructure in provinces through the *education infrastructure grant*.
- The devolution of the *property rates fund grant* will be phased out as soon as grant conditions have been met.

Additions are proposed to fund education infrastructure, the higher take-up of antiretroviral medicines and to increase condom distribution.

Improving performance in provincial infrastructure delivery

Over the next three years government aims to achieve better value for money from investment in provincial infrastructure. A new approach to infrastructure conditional grants is intended to institutionalise proper planning. Provinces will be required to bid for these allocations two years in advance and financial incentives will be built into the grant for provinces that implement best practices in delivering infrastructure.

Funding local government

Allocations to local government continue to grow faster than those for national and provincial government

Allocations to local government have grown rapidly over the past decade, allowing municipalities to expand infrastructure and deliver free basic services to the poor. Over the 2013 MTEF, allocations to local government continue to grow faster than those for national and provincial government. Greater emphasis will be placed on maintaining infrastructure and ensuring that those who can afford to pay for services do so. A total of R12.3 billion is added to the local government budget framework over the 2013 MTEF, including direct and indirect transfers.

Local government equitable share

The local government equitable share funds the provision of free basic services to the poor and helps to defray administrative costs. A new formula will be introduced in the 2013 Budget. Additions to the local government equitable share over the MTEF will compensate for the rising costs of bulk water and electricity.

Review of the local government equitable share formula

Local government's equitable share of nationally raised revenue is distributed between the country's 278 municipalities by means of a formula. This formula has been reviewed by the National Treasury, the Department of Cooperative Governance and the South African Local Government Association, with assistance from the Financial and Fiscal Commission and Statistics South Africa.

The proposed structure of a new formula has been endorsed by the Budget Forum – the intergovernmental entity consulted on fiscal issues that affect municipalities.

The formula will provide a subsidy for the provision of free basic water, electricity, sanitation and refuse removal services for every poor household. The formula will also provide funds for the institutional costs of municipalities and, for the first time, will explicitly allocate funds for non-trading services, such as municipal roads and fire services. To ensure that the funds for institutional costs and non-trading services are targeted at poorer municipalities, the proposed formula will apply a revenue-adjustment factor reflecting municipalities' ability to generate their own revenue.

The formula will use data from the 2011 Census and will be updated annually to reflect estimates of population growth and projected increases in the cost of services such as water and electricity. The formula will also include explicit funding for the maintenance of basic services funded through the equitable share.

Details of the new formula are being finalised to take into account inputs received from municipalities. The final formula will be presented as part of the Division of Revenue Bill tabled with the 2013 Budget.

Local government conditional grants

Greater technical support for rural municipalities

Local government conditional grants are being reformed to provide targeted support to different types of municipalities. The human settlements and public transport functions are being devolved to urban municipalities, and greater technical support will be provided in rural areas. In 2012/13, a new direct grant for water infrastructure administered by the Department of Water Affairs will enable the department to help municipalities deliver clean drinking water to households.

Additional support for electrification, and to combat wastage of water

Over the medium term, funds will be made available to expand the integrated national electrification programme. Reprioritised funds will also be used to improve the sustainability of municipal services by subsidising critical refurbishment projects, and combating wastage of water and electricity.

National government has already made substantial investments in the construction of local government infrastructure, committing over R100 billion for this purpose through direct and indirect conditional grants from 2007/08 to 2011/12. These transfers have made a significant difference to the lives of South Africans who did not previously have access to municipal services. However, there are still areas where households do not have access to basic services.

Following analysis of 2011 Census data, structure of conditional grants could be changed from 2014/15

The 2011 Census data will be used to identify areas where progress has been made and where it has not. During 2013, the effectiveness of conditional grants in facilitating the rollout of infrastructure will be reviewed by the National Treasury, other national departments, the South African Local Government Association and municipalities. This review could result in changes to the structure of conditional grants from 2014/15.

Census data will also be used to update the backlog figures in the formulas used to allocate funds for infrastructure conditional grants. This will ensure that funds are targeted at areas that need them most. All changes will be phased in to avoid disruption to existing infrastructure plans.

Table 4.4 Consolidated government expenditure, 2011/12 – 2015/16

R billion	2011/12 Outcome	2012/13 Revised	2013/14 Medium-term estimates	2014/15	2015/16	Average annual growth 2012/13 – 2015/16
General public services	**51.7**	**53.3**	**56.0**	**59.6**	**62.1**	**5.2%**
Defence, public order and safety	**128.4**	**141.7**	**151.7**	**160.6**	**169.8**	**6.2%**
Defence and state security	38.4	42.0	44.7	47.4	50.2	6.1%
Police services	60.2	66.2	70.9	75.1	79.5	6.3%
Law courts	13.8	15.6	17.1	18.2	19.3	7.4%
Prisons	16.0	17.9	19.0	19.9	20.9	5.3%
Transport, energy and communication	**78.2**	**83.5**	**91.5**	**98.8**	**105.1**	**7.9%**
Fuel and energy	9.5	8.5	9.6	10.7	10.3	6.4%
Transport	66.4	72.5	79.7	86.1	92.5	8.4%
Communication	2.3	2.5	2.2	2.0	2.3	-2.7%
Economic services	**38.1**	**44.6**	**48.1**	**50.4**	**52.6**	**5.6%**
Local government, housing and community amenities	**109.0**	**121.7**	**132.5**	**144.5**	**157.5**	**9.0%**
Housing development	25.5	28.6	31.9	33.7	36.2	8.1%
Local government and community development	60.2	67.2	72.3	77.8	84.5	7.9%
Water supply	23.4	25.8	28.3	33.1	36.8	12.6%
Health	**114.1**	**121.7**	**132.3**	**141.8**	**151.1**	**7.5%**
Social protection	**115.2**	**124.5**	**135.6**	**145.7**	**155.3**	**7.6%**
Education and related functions	**204.2**	**220.0**	**234.0**	**250.5**	**268.9**	**6.9%**
Employment and social security	**35.9**	**43.0**	**48.6**	**53.9**	**55.9**	**9.1%**
Science and technology	**13.0**	**14.1**	**14.5**	**15.4**	**16.0**	**4.1%**
Allocated by function	**887.9**	**968.3**	**1 044.8**	**1 121.3**	**1 194.2**	**7.2%**
State debt cost	76.5	88.8	98.6	106.8	114.8	8.9%
Contingency and policy reserve	–	–	4.0	10.0	30.0	
Consolidated expenditure[1]	**964.4**	**1 057.1**	**1 147.4**	**1 238.1**	**1 339.0**	**8.2%**
Economic classification						
Current payments	**582.4**	**645.0**	**694.5**	**740.9**	**786.6**	**6.8%**
Compensation of employees	346.0	378.3	403.8	429.6	456.2	6.4%
Goods and services	154.2	171.4	183.9	195.8	206.5	6.4%
Interest and rent on land	82.2	95.3	106.9	115.5	123.9	9.1%
of which: state debt cost	*76.5*	*88.8*	*98.6*	*106.8*	*114.8*	*8.9%*
Transfers and subsidies	**313.9**	**340.4**	**374.9**	**404.6**	**430.0**	**8.1%**
Provinces and municipalities	73.4	81.0	90.2	98.1	107.8	10.0%
Departmental agencies and accounts	21.2	18.9	22.0	23.3	26.1	11.4%
Higher education institutions	19.8	21.2	22.5	23.9	25.0	5.7%
Foreign governments and international organisations	2.3	2.2	2.3	2.4	2.4	3.7%
Public corporations and private enterprises	24.1	27.3	30.8	34.3	34.1	7.8%
Non-profit institutions	23.8	24.9	28.4	30.1	31.2	7.8%
Households	149.4	164.9	178.8	192.4	203.1	7.2%
Payments for capital assets	**66.7**	**70.2**	**73.6**	**82.2**	**92.4**	**9.6%**
Buildings and other capital assets	51.6	55.8	60.1	65.1	72.3	9.0%
Machinery and equipment	15.2	14.4	13.5	17.1	20.1	11.7%
Payments for financial assets	**1.4**	**1.5**	**0.3**	**0.5**	**–**	
Total	**964.4**	**1 057.1**	**1 143.4**	**1 228.1**	**1 309.0**	**7.4%**
Contingency and policy reserve	–	–	4.0	10.0	30.0	
Consolidated expenditure[1]	**964.4**	**1 057.1**	**1 147.4**	**1 238.1**	**1 339.0**	**8.2%**

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

Medium-term expenditure framework

Estimates of the consolidated expenditure of national government, provinces, social security funds and public entities over the forthcoming MTEF period are set out in Table 4.4. The resource envelope has been distributed between function groups rather than departments to reflect shared responsibility for many key outcomes and priorities.

Health and social development

The health sector has to seek greater efficiency and improve financial management

Consolidated health spending has moderated in 2012/13, following five years during which expenditure increased by an average of 15.8 per cent per year. Given the constrained fiscal environment, the health sector has to seek greater efficiency and improve financial management, with particular emphasis on critical inputs such as medicines and medical supplies.

Priorities over the 2013 MTEF period include the rollout of an improved diagnostic test for tuberculosis. Additional allocations will be made for HIV and Aids, taking into account the phasing out of a US-funded assistance programme. Growth in the number of personnel employed in provincial health departments will slow, after increasing by 50 000 over the past four years to 313 000.

Steps to strengthen social development and employ additional social workers

In social development, savings of about R450 million per year have been identified as a result of the new grants administration contract. A portion of this will be reprioritised to improve the South African Social Security Agency's infrastructure and systems, and to employ additional social workers. Administrative costs are expected to fall to below 5 per cent of grant spending. As shown by Table 4.5, the number of social assistance beneficiaries is forecast to increase from 16.2 million in 2012/13 to 17.3 million over the next three years, with annual growth slowing to 2.0 per cent in 2015/16. The 2013 Budget will provide for the recruitment of graduates from the social worker scholarship programme, which trains some 5 000 students. Attention will be given to supporting nongovernmental organisations (NGOs) in social development and facilitating a more equitable funding model for these organisations.

Table 4.5 Social grants beneficiary projections, 2012/13 – 2015/16

Thousand	2012/13	2013/14	2014/15	2015/16
Old age & war veterans	2 834	2 897	2 958	3 019
Disability	1 185	1 182	1 181	1 181
Foster care	584	613	643	675
Care dependency	130	134	139	143
Child support	11 449	11 756	12 033	12 287
Total	**16 182**	**16 582**	**16 954**	**17 305**

Source: South African Social Security Agency

Education

Education remains the largest category in the consolidated budget

The key outcomes in the education function are to improve the quality of education, develop a skilled and capable workforce, and promote inclusive citizenship. This is the largest expenditure category in the consolidated budget, rising to R269 billion by 2015/16 at an average annual rate of

6.9 per cent. The main drivers of growth are rising learner and student numbers, and associated growth in employment of teachers and student funding allocations. Supplementary funding in recent years has prioritised the *school infrastructure backlogs grant*, the National Student Financial Aid Scheme, further education and training (FET) colleges and improvements in employee compensation.

As a result of slow spending on the *schools infrastructure backlogs grant*, R7.2 billion has been taken away from this programme over the medium term. These funds will be used to increase the *education infrastructure grant* to provinces and the *community library grant*, and to support the construction of new universities in Mpumalanga and the Northern Cape.

Improving numeracy and literacy at the foundation phase remains a priority

Over the medium term, the basic education function will focus on improving numeracy and literacy in the foundation phase, expanding enrolment in grade R and reducing school infrastructure backlogs. In higher education and training, initiatives are in progress to bolster throughput rates at universities and improve the quality of FET college programmes.

Also in this function, government will be announcing a new national sports plan during the MTEF and rolling out Mzansi Golden Economy, an initiative to create jobs and stimulate economic activity in arts and culture.

Table 4.6 Selected performance indicators, education and related function, 2009/10– 2015/16

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Indicator		Past		Current		Projections	
New learners enrolled in the Kha Ri Gude mass literacy campaign	613 643	609 199	660 924	678 000	687 000	696 700	706 000
Funza Lushaka teacher education bursaries awarded	9 190	10 074	8 773	11 500	14 500	15 500	16 500
Learners fed a meal each school day (million)	7.4	8.1	8.8	9.1	9.1	9.1	9.1
Students in higher education institutions (full-time equivalent)	837 779	816 400	886 033	906 700	935 700	961 900	1 017 500
Students in FET colleges (full-time equivalent)	102 667	212 215	210 971	229 900	237 400	252 600	259 000
Community libraries upgraded	43	56	56	50	85	90	94
Community libraries built	7	10	13	15	18	20	21

Local government, housing and community amenities

The key priorities in the local government and housing function are the provision of basic services such as water and sanitation, human settlement development and local government infrastructure. This function grows by an annual average of 9.0 per cent over the spending period from R121.7 billion in 2012/13 to R157.5 billion in 2015/16.

Additional funding for water supply, pipelines and environmental management

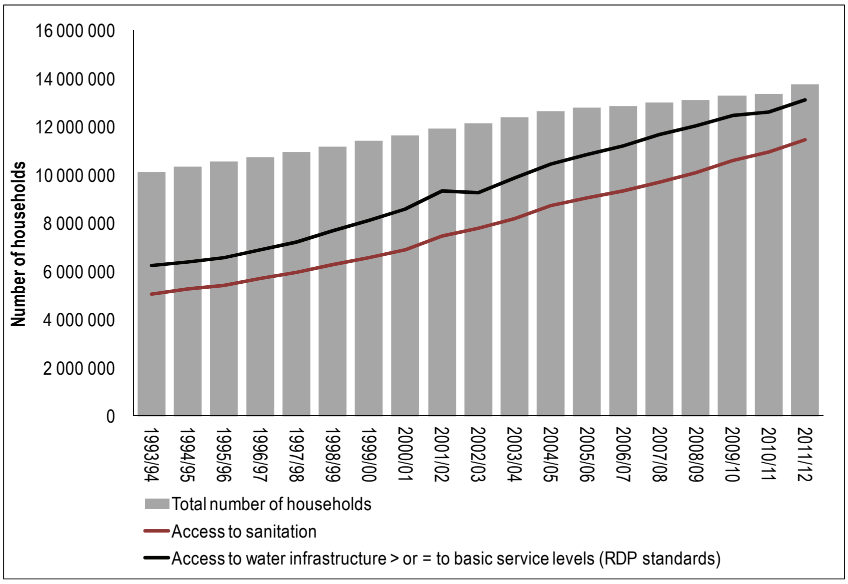
As a result of slow spending on the *municipal infrastructure grant*, funds will be allocated to a new interim water supply programme run by the Department of Water Affairs. Additional expenditure will fund regional bulk water supply, acid mine drainage prevention, the De Hoop Dam pipelines from Steelpoort to Mooihoek, a pipeline from Flag Boshielo to Mokopane and effluent management at Magalies Water.

Informal settlement upgrading is prioritised in several areas, including mining communities around Rustenburg and in the municipalities of Lephalale, eMalahleni, Govan Mbeki and Steve Tshwete, while social housing is prioritised in urban areas.

Management, maintenance are needed to ensure that infrastructure leads to provision of potable water

Figure 4.1 shows how provision of water and sanitation services has expanded steadily over time. Demand management and better maintenance are required to ensure that improvements in the provision of water infrastructure translate into access to potable water.

Figure 4.1 Households with access to water and sanitation



Source: Department of Water Affairs, Department of Cooperative Governance and Traditional Affairs and census data

Employment and labour services

Active labour market policies are central to improving South Africa's employment potential

Active labour market policies are central to improving the economy's employment potential. Additional allocations will be made in the 2013 Budget to the Department of Labour's public employment services and the Council for Conciliation, Mediation and Arbitration in preparation for amended labour legislation. Supplementary funding will also be provided to maintain factories that provide jobs for disabled workers.

Government also seeks to expand employment opportunities through a wide range of public works and special employment programmes. Over the medium term, the Department of Public Works will spend over R4 billion in incentive grants to expanded public works projects implemented by provincial departments and municipalities. The community work programme will receive about R7.6 billion over the next three years and environmental programmes at least R8.5 billion.

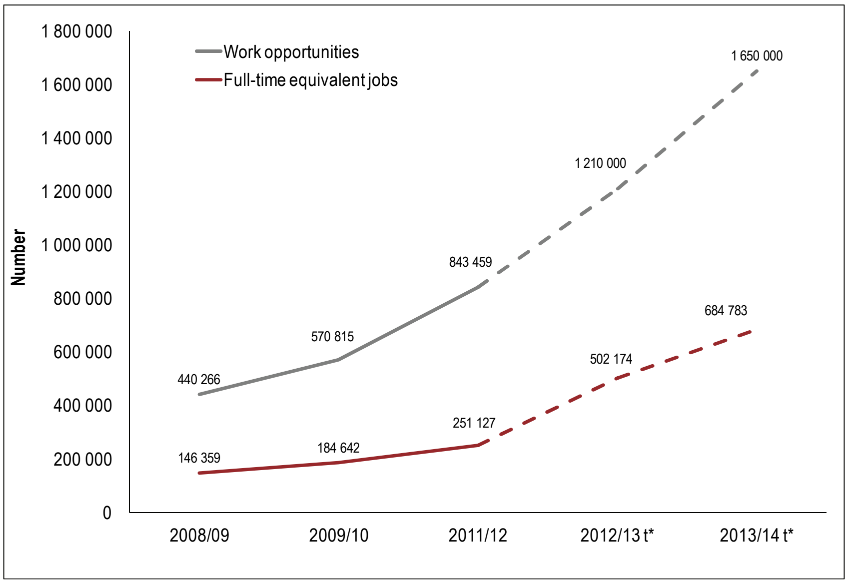
Funding for community work programme increases by an annual average of 25 per cent

Additional funds will also be made available to NGOs that participate in the non-state sector employment programme to support their contribution to job creation. Funding for the community work programme will increase by an annual average of 25 per cent over the MTEF period.

Figure 4.2 shows the performance and future targets of the expanded public works programme. The term "work opportunity" refers to the provision of work to an individual and can be of any duration, while "full-time equivalents" represents the total number of workdays created by a programme divided by the number of working days in a year.

Expanded public works programme expected to create 685 000 'full-time equivalent' jobs by 2013/14

Figure 4.2 Expanded public works programme: non-financial performance and targets, 2008/09 – 2013/14



About R5.5 billion will be allocated to the Jobs Fund over the MTEF period. Its initial allocations have been reduced owing to slow progress in establishing administrative capacity, but the approved R9 billion is expected to be fully committed over a five-year period. An amount of R1 billion has been shifted from the Jobs Fund allocation over the 2013 MTEF to other labour-market priorities.

R5.5 billion will be allocated to the Jobs Fund over the medium term

Transport, energy and communication

Investment in economic infrastructure is central to the modernisation, improved competitiveness and enhanced growth potential of the economy. While the major investments in energy and transport infrastructure fall under separate state-owned enterprises, there are nonetheless substantial contributions made by the fiscus. Consolidated spending on transport, energy and communication is projected to rise from R83.5 billion in 2012/13 to R105.1 billion in 2015/16, with average growth of 7.9 per cent per year over the MTEF.

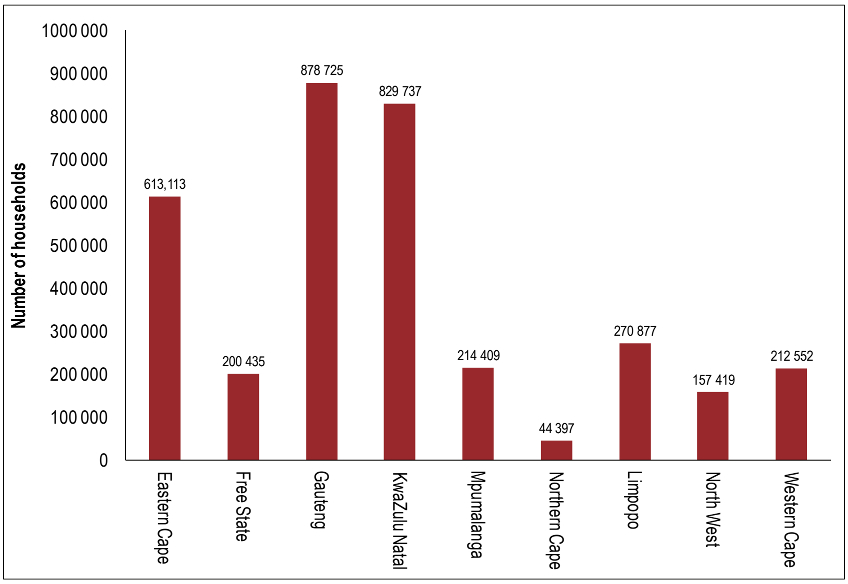
Spending will focus on national road upgrades and provincial road maintenance. A database recording the quality of bridges and roads across the country will help improve expenditure planning for provincial roads. Expenditure on public transport will continue to grow strongly, with spending on rail services growing at an average annual rate of 19.7 per cent between 2012/13 and 2015/16, supporting investment in rolling stock and signalling infrastructure.

Spending on public transport grows strongly to support investments in rolling stock and signalling

New agency established to build infrastructure capacity at local level

The integrated national electrification programme, which connects previously unserved households to the national grid, continues to receive support. Funding is also set aside for upgrades to municipal electricity distribution. The new Municipal Infrastructure Support Agency, established to build infrastructure capacity at local government level, will also receive funding. While 5.5 million households have been connected to the electricity grid since 1994, an estimated 3.4 million households are still without access to electricity. Figure 4.3 shows how this backlog is distributed by province.

Figure 4.3 Electricity backlogs by province



Source: Department of Energy

Electricity connection cost reduction and asset maintenance to receive attention

To improve efficiency in the delivery of electricity connections, both on and off grid, the Department of Energy will develop an electrification master plan in collaboration with Eskom and other interested parties to reduce the cost per connection, support asset maintenance and enhance delivery mechanisms to achieve universal electrification.

There will be additional spending on digital television broadcasting. Money will also be set aside to fund a new broadband strategy once it is approved by Cabinet.

Reprioritised funds have also been made available for carbon capture and storage technology, and a feasibility study on hydraulic fracturing.

General administration

Highest baseline growth in general administration is in the executive and legislative branches

The general public services function has a baseline allocation of R53.3 billion in 2012/13, which is projected to grow by an average of 5.2 per cent a year over the MTEF period. The highest baseline growth is in the executive branch of government. This is the result of the incorporation of the National Youth Development Agency and Brand SA on the Presidency's Vote, and the expansion of the Department of Performance Monitoring and Evaluation and the Department of Traditional Affairs. There will be a decline in transfers and subsidies in 2015/16 as public entities become more self-sufficient. The Government Printing Works will no longer rely on transfer payments from 2015/16 onwards.

Reprioritised funds of R1.6 billion over the MTEF period (R333 million in 2013/14, R529 million in 2014/15 and R705 million in 2015/16) were identified in national departments and transfers to public entities. These adjustments will be made without adverse effects on service delivery.

Turning around Public Works

The Department of Public Works has produced a turnaround strategy to stabilise its operations. The plan, which will cost R400 million, is under way and will continue over the medium term. Current-year priorities are:

- **Clean audit interventions:** To stabilise finance and supply chain management, financial specialists will be appointed to help the department chart a new approach and prepare for the 2012/13 audit.
- **Anti-corruption and maladministration initiatives:** The department is working with the Special Investigating Unit to investigate alleged irregularities, most of which relate to leases and supply chain management practices.
- **Technical capacity:** The department intends to fill 88 technical positions during 2012/13. These posts account for 40 per cent of 220 technical vacancies.

Economic services

Economic competitiveness support package receives over R10 billion

Consolidated spending on economic services is expected to rise from R44.6 billion in 2012/13 to R52.6 billion in 2015/16. Over R10 billion of this is provided for the economic competitiveness support package announced in 2011, which includes incentives to improve manufacturing competitiveness and accelerate the development of special economic zones. The Department of Trade and Industry will continue to promote localisation and seek ways to broaden participation in the economy.

Funding of the competition authorities, and other economic regulatory and development finance institutions, will be strengthened over the period ahead.

Work is under way on possible fiscal incentives for biofuels production

Agriculture, forestry and fisheries, and rural development and land reform account for about 50 per cent of spending in economic services. Onderstepoort Biological Products will receive funding for modernisation. Work is under way on possible fiscal incentives for biofuels production to encourage agricultural employment and develop agro-processing industries.

Conditional grants for agriculture will encourage improvements in planning and monitoring. From 2008/09 to 2011/12, the Department of Rural Development and Land Reform spent R995 million on capital goods and operating expenses for 640 farms as part of land reform and restitution programmes. The National Rural Youth Services Corps has recruited 8 000 young people to work with rural communities. A review of the land restitution programme is due to be completed by December 2012 and a comprehensive land register is being updated.

Support for minerals beneficiation strategy

Allocations to the Department of Mineral Resources in the 2013 Budget will include support for the beneficiation strategy and regulatory obligations associated with shale gas exploration. The focus over the medium term is to support improved health and safety regulation and mining inspections, and assist new and established small, medium and micro enterprises. Additional funds of R160 million will accommodate the rehabilitation of derelict and ownerless mines, of which there are about 6 000. An amount of R59 million has been added to implement amendments to the National Environmental Management Act.

Science and technology

Science and technology function is allocated R14.5 billion in 2013/14

The science and technology function includes the Department of Science and Technology and the main programmes of the Department of Environmental Affairs, the agencies reporting to these departments and the science councils. The function is allocated R14.5 billion in 2013/14, rising to R16.0 billion in 2015/16. Supplementary allocations to several science councils and technology programmes will be made from the economic competitiveness and support package.

Continued support for Square Kilometre Array

South Africa and Australia have been selected to host a global radio astronomy project known as the Square Kilometre Array (SKA), positioning South Africa as a leading provider of scientific data internationally. The partnership is expected to attract global funding of R20 billion over the long term, accompanied by job creation, scientific development and advanced technology benefits. Over the period ahead further investment will be made in the MeerKAT phase, which entails construction of 64 telescope dishes and associated infrastructure.

Police, public order and safety

Expenditure on defence, public order and safety will grow at an average annual rate of 6.2 per cent over the MTEF period, from R141.7 billion in 2012/13 to R169.8 billion in 2015/16.

Rate of serious crime shows some decline

Fighting crime remains a priority. The serious crime rate per 100 000 of the population has declined from 4 299 in 2008/09 to 4 126 in 2011/12. Over the medium term, funds are reprioritised within the Department of Police to support expanded detective and forensic capability.

Funds are also reprioritised to the Department of Justice and Constitutional Development to improve the efficiency of the criminal justice system and to maintain Thuthuzela care centres, which assist victims of rape. The Department of Defence has reprioritised funds towards military veterans' benefits and towards the Maritime Security Strategy, which addresses the fight against piracy in the Indian Ocean and further development of naval facilities in Durban.

Conclusion

Reprioritisation and savings initiatives will place public finances on a surer footing over the medium term

Departments at both national and provincial level have reprioritised spending to fulfil their core mandates and respond to South Africa’s most pressing needs without requiring additions to the MTEF baseline. At the same time, revisions to provincial and municipal financing arrangements are under way that seek to improve the quality of spending, especially in infrastructure delivery. These are necessary actions in the present fiscal climate. They will place public finances on a firmer footing over the medium term and assist the shift in the compensation of government expenditure towards productive areas. They will allow policies outlined in the National Development Plan to be implemented over the long term.