4

Expenditure priorities and the division of revenue

In brief

- Medium-term spending priorities include education and skills development, health, social protection and infrastructure.
- Strong growth in proposed allocations to provincial and local government reflects the prioritisation of health and education, and the rising cost of these personnel-intensive services associated with the wage bill. It also reflects higher bulk electricity and water costs.
- The 2015 public-sector wage settlement has created a funding shortfall in the current year and the two subsequent years. That portion of the shortfall that cannot be absorbed by existing budgets will be funded through savings, reallocation and drawdowns on the contingency reserve.
- Government is strengthening cost-containment measures and reforming procurement to improve efficiency on non-wage spending, and departments are encouraged to use personnel more productively.
- To improve the planning and execution of infrastructure projects, a new capital budgeting framework will be introduced and the incentive system for provincial infrastructure will be expanded.

Overview

Government remains committed to spending growth within ceiling announced in 2015 Budget

Spending proposals for the next three years are shaped by the economic outlook outlined in Chapter 2 and the fiscal policy considerations set out in Chapter 3. Government remains committed to moderate expenditure growth within the ceiling announced in the 2015 Budget, while supporting National Development Plan (NDP) priorities as expressed through the medium-term strategic framework.

Spending priorities over the medium term focus on education and skills development, health, social protection, social and economic infrastructure, and support for job creation. Government is stepping up cost-containment measures to ensure that spending plans deliver greater value for money. Departments have shifted funds to support core social and economic programmes. In addition, procurement reforms are being rolled out to improve efficiency, reduce red tape and stamp out corruption.

Public-sector wage agreement exceeded budgeted amounts

The 2015 public-sector wage agreement exceeded the funding available for cost-of-living adjustments. As a result, spending plans have been adjusted, and funding set aside in the contingency reserve was diverted to cover the higher costs of the wage settlement. Consequently, new policy proposals requiring additional funding in the first two years of the medium-term expenditure framework (MTEF) period are to be delayed, or funded through reprioritisation or improved efficiencies.

MTEF shifts about R9 billion within existing baselines to priority programmes

The revised MTEF shifts about R9 billion from within existing baselines to priority programmes. About R4.8 billion is reprioritised for upgrades and maintenance of the national and provincial road networks, R1.4 billion has been identified to support provincial public transport, and about R1 billion will be shifted for the rollout of broadband infrastructure and broadcast digital migration. The National Treasury will continue to work with line departments to encourage better alignment of budgets with medium-term strategic framework priorities.

Public expenditure challenges

Absorbing the impact of the public-sector wage agreement

Portion of shortfall resulting from wage agreement can be absorbed within existing department budgets

The public-sector wage agreement led to a compensation budget shortfall of R12.2 billion in the current fiscal year, R20.6 billion in 2016/17 and R31.1 billion in 2017/18. Some of these costs do not need to be funded. Moderate declines in employment levels have created space to absorb costs in some departments' budgets. In other cases, compensation budgets are overestimated due to weaknesses in budget management.

Most of the costs of the agreement, however, will need to be funded through savings, reallocation and drawdowns on contingency reserves:

- The contingency reserves will be drawn down by R5 billion in 2015/16, R10 billion in 2016/17 and R26 billion in 2017/18.
- The revised MTEF provides no funds to expand public-sector employment over the next three years. Departments that had planned to expand headcount or fill vacancies need to postpone their plans. Some institutions may need to reduce the number of people they employ.
- Several provinces have budgeted for surpluses. These resources will now be used to support compensation budgets.
- Departments will shift funds from other budget lines to meet their compensation commitments. Most of these resources will be drawn from goods and services and capital budgets.

Employment trends in national and provincial government

In March 2015, national government departments employed 402 748 staff, down from 404 496 in March 2012. Most national government employees are in justice, crime prevention and security cluster departments such as police, defence and correctional services, where employment levels have declined over the past three years.

This trend has been offset by the expansion of managerial personnel in administrative and policy departments in central government. A recent National Treasury review showed that, across the 13 departments analysed, 1 158 posts were added in the last five years. Aggregate compensation spending across these departments more than doubled between 2008 and 2014. This was the result of higher compensation flowing from cost-of-living and occupation-specific dispensation adjustments, and the creation of new posts at higher salary levels.

Provincial staff headcount declined from 923 553 in 2012 to 913 033 in March 2015, with a decrease of more than 10 000 since the start of the current financial year. The changes have not necessarily resulted in smaller compensation budgets, largely due to above-inflation wage increases and occupation-specific adjustments.

Table 4.1 shows estimates of additional allocations towards compensation resulting from contingency-reserve drawdowns and national baseline reprioritisation. These figures will be revised in the 2016 budget, once provincial reallocations are firm and national adjustments are refined.

Table 4.1 Preliminary reallocation to compensation of employees

	2015/16	2016/17	2017/18
R million	Estimate	Medium-term estimates	
National departments			
Allocations from contingency reserve	1 173	2 866	7 126
Reprioritisation within baseline	–	907	1 040
Provincial departments			
Allocations from contingency reserve	3 827	7 134	18 938
Total	**5 000**	**10 907**	**27 104**

Source: National Treasury

Doing more with less

Government is considering reforms to strengthen link between public-sector pay and performance

To build a capable, effective developmental state supported by sustainable public finances, government and labour need to address the structure of the wage bill. The balance between remuneration levels, employee numbers and productivity needs further consideration. Government will seek reforms that strengthen the link between pay and performance, improve payroll systems, simplify remuneration policies, streamline bonuses and allowances, and ensure that institutional arrangements for collective bargaining are effective and mindful of resource constraints.

Human resource management strategies are being refined to ensure a suitable mix of frontline, technical and support staff. The number of employees on government's payroll peaked at about 1.328 million in 2012 and has declined by about 12 000 since then. The moderate decline in employee headcount has been strongest among professionals in the front line of service delivery, while employment of managerial and policy staff appears to be growing.

Human resource strategies are adjusting to ensure public servants are working where they are needed

There is also a need to ensure that public servants are working where they are most needed. For example, population shifts have increased demand for teachers in some provinces and reduced demand in others. Over the medium term, graduates of the Funza Lushaka bursary programme will be allowed to take jobs where vacancies exist, even if these are outside of their home provinces, which is where they are normally employed to fulfil the bursary's repayment terms.

Cost-containment measures and budgetary controls on non-essential items to be strengthened

Government is also acting to make non-wage spending more efficient. Budgetary controls on non-essential items, innovative procurement reforms and strengthened cost-containment measures will encourage more effective use of resources in the years ahead.

The health sector has taken several steps to improve efficiency. The integrated primary health care information system is being expanded. Manual recordkeeping will be replaced by an electronic system to ensure patient records are easily accessible, reducing administrative burdens and waiting times.

Health-sector innovations yield greater efficiencies

The electronic medicines stock management and national data warehousing system, in pilot phase, will ensure that inventory can be monitored at national level and that hospitals do not run out of medicines. Real-time data on the availability of medicine for over 1 200 healthcare facilities is presently available online. Another pilot programme aims to centralise chronic medicine distribution, allowing patients to collect medication from designated pick-up points, such as private pharmacies. By September 2015, 267 980 persons had been enrolled in this programme, reducing queues and waiting times at public health facilities.

Over the period ahead, government will conduct several expenditure reviews and evaluations to ensure greater value for money.

Public procurement reforms

Public procurement is big business. This year, government has budgeted about R190 billion for goods and services and R162 billion for infrastructure. Initiatives led by the Office of the Chief Procurement Officer aim to deliver lower-cost goods and services more efficiently and transparently through streamlined processes, strategic sourcing, transversal tenders and improved use of technology. The goal is to reduce bureaucratic inertia and red tape, and stamp out corrupt procurement practices.

The **central supplier database** has been in operation since 1 September 2015. More than 20 000 suppliers have already registered on the site, with 9 500 verified. About 1 200 profiles are created each day on the database, which is to become mandatory on 1 April 2016 for national and provincial departments and 1 July 2016 for municipalities. This will reduce the administrative and cost burden of procurement, as the requisite documents will only need to be submitted once for a predetermined period.

The **eTender portal** provides a single point of entry to identify business opportunities with government. Between 1 April and 15 October 2015, more than 2 000 tenders worth about R28 billion were posted onto the portal. Launched on 1 October 2015, www.gCommerce.gov.za gives government departments an opportunity to purchase routine supplies through transversal contracts, reducing administrative processes.

A **single procurement bill** is being developed to replace the more than 80 different legal instruments, guidelines and instruction notes that govern public procurement. The Office of the Chief Procurement Officer will present a draft bill for comment in January 2016.

Tender documents will be made more user-friendly. The number of documents needed for a tender will be reduced, and the language used will be clear and unambiguous. Standard procurement operating procedures will be developed. The changes are set to take effect from 1 April 2016.

Improving capital budgeting and implementation

Local government spending on infrastructure has improved, with 91 per cent of allocated budgets spent

Central coordination and other recent incentives have led to improved planning and execution of infrastructure projects. Local government spent 91 per cent of allocated infrastructure budgets in 2014/15, up from 86 per cent in 2013/14 and 77 per cent in 2012/13. These efforts are being reinforced by programmes to build municipal financial capacity.

The National Treasury is instituting reforms to strengthen infrastructure planning, implementation and procurement. Over the medium term, a new capital budgeting framework will be introduced. It will set out a systematic, consistent methodology for evaluating proposals for large projects to improve resource allocation, value for money and service delivery. The framework will include clear institutional roles and responsibilities for national, provincial and local government, and outline steps to build skills and capacity for project appraisal, monitoring and evaluation.

Grants adjusted to encourage asset management over full life cycle of infrastructure

In 2013, government introduced a new incentive system for provincial health and education infrastructure grants, leading to an improvement in asset management. Incentives will be expanded to reward performance in project implementation and in the appointment of suitably qualified personnel to key infrastructure posts. Infrastructure grants to local government have been reviewed and will be adjusted to encourage asset management over the full design life of facilities. Similarly, greater emphasis will be placed on managing municipal infrastructure over its entire life cycle, with grant funds made available for refurbishment.

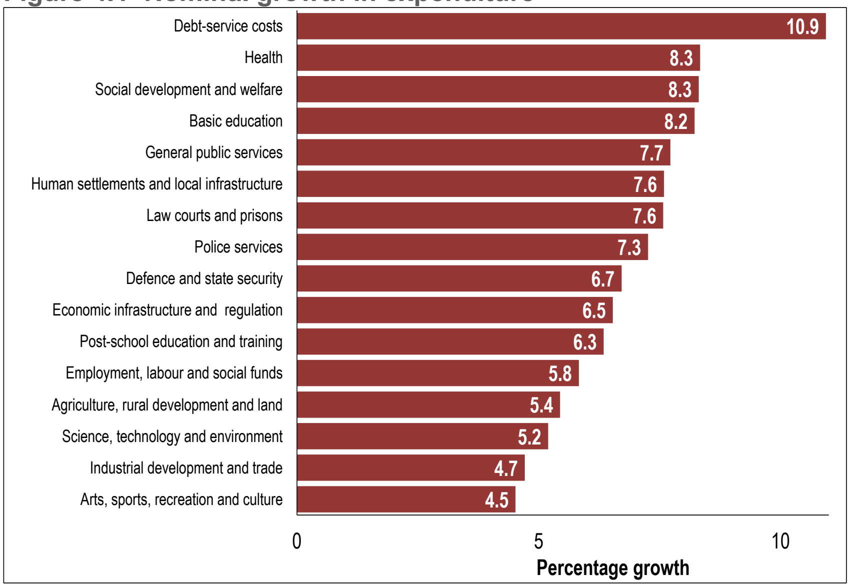
New Treasury Regulations that come into effect in April 2016 include a compulsory standard for infrastructure procurement and delivery management.

Medium-term spending trends and priorities

Government spending to grow above inflation, led by compensation budgets

Government spending is set to grow at 7.2 per cent over the medium term, remaining above inflation. On average, compensation budgets outpace inflation by 2 per cent each year, leading to strong growth in health, education, security and other personnel-intensive sectors. Capital spending declines in real terms but capital transfers grow, partly reflecting shifts towards local government grants that fund water infrastructure. Debt-service costs remain the fastest-growing expenditure item.

Figure 4.1 Nominal growth in expenditure



Source: National Treasury

Funding for basic education, health and social protection grows faster than inflation over medium term

Within available resources, proposed allocations are guided by the 2014-2019 medium-term strategic framework and its 14 outcomes. Basic education, health and social protection receive over 43 per cent of allocations, reflecting government's continued prioritisation of funding for the social sector. Proposed funding for each of these functions continues to grow above inflation over the medium term. About R165 billion is allocated for community infrastructure over the MTEF period and budgets for integrated human settlements continue to grow strongly. Government proposes to allocate R313 billion to capital spending, and transfer another R228.9 billion to municipalities for infrastructure projects. These figures do not include investment funded from the balance sheets of state-owned companies.

Consolidated government expenditure results for 2014/15, revised projections for the current year and medium-term estimates by function are set out in Table 4.2. The same information is provided by economic classification in Table 4.3.

Table 4.2 Consolidated expenditure by function,[1] 2014/15 – 2018/19

R billion	2014/15 Outcome	2015/16 Revised	2016/17	2017/18 Medium-term estimates	2018/19	Average annual growth 2015/16 – 2018/19
Basic education	**197.4**	**213.9**	**228.6**	**249.8**	**270.0**	**8.1%**
Basic education	189.2	204.5	219.2	239.6	259.3	8.2%
Arts, sport, recreation and culture	8.2	9.4	9.5	10.2	10.7	4.5%
Health	**144.6**	**157.7**	**169.7**	**184.7**	**200.6**	**8.3%**
Defence, public order and safety	**162.6**	**172.0**	**183.7**	**198.9**	**211.8**	**7.2%**
Defence and state security	47.5	50.0	53.0	57.2	60.8	6.7%
Police services	78.3	83.1	88.7	96.0	102.5	7.3%
Law courts and prisons	36.9	38.9	42.0	45.7	48.5	7.6%
Post-school education and training	**54.4**	**63.7**	**66.2**	**71.0**	**76.6**	**6.3%**
Economic affairs	**168.8**	**187.6**	**202.3**	**208.5**	**222.5**	**5.9%**
Industrial development and trade	26.4	30.4	32.2	32.6	34.9	4.7%
Employment, labour affairs and social security funds	52.3	65.7	73.1	75.4	77.8	5.8%
Economic infrastructure and network regulation	71.9	71.1	76.0	78.8	86.0	6.5%
Science, technology, innovation and the environment	18.1	20.5	20.9	21.7	23.8	5.2%
Human settlements and municipal infrastructure	**156.4**	**178.7**	**189.9**	**204.2**	**222.6**	**7.6%**
Agriculture, rural development and land reform	**24.2**	**25.6**	**26.5**	**28.3**	**30.0**	**5.4%**
General public services	**62.2**	**72.5**	**71.8**	**75.8**	**79.8**	**3.3%**
Executive and legislative organs	10.2	12.6	13.1	14.0	14.9	**5.7%**
General public administration and fiscal affairs	37.5	44.9	44.0	46.5	47.1	**1.6%**
Home affairs	7.0	7.2	7.2	7.4	9.3	**8.8%**
External affairs and foreign aid	7.4	7.7	7.5	7.9	8.5	**3.5%**
Social protection	**143.4**	**154.0**	**168.0**	**181.3**	**195.7**	**8.3%**
Allocated by function	**1 114.0**	**1 225.7**	**1 306.6**	**1 402.6**	**1 509.5**	**7.2%**
Special appropriations: Eskom and New Development Bank	–	25.0	–	–	–	–
Debt-service costs	114.8	127.9	142.6	157.2	174.6	10.9%
Contingency reserve	–	–	2.5	9.0	15.0	–
Consolidated expenditure	**1 228.8**	**1 378.7**	**1 451.7**	**1 568.8**	**1 699.1**	**7.2%**

1. Consisting of national, provincial, social security funds and public entities
Source: National Treasury

Table 4.3 Consolidated expenditure by economic classification,[1] 2014/15 – 2018/19

R billion	2014/15 Outcome	2015/16 Revised	2016/17 Medium-term estimates	2017/18	2018/19	Average annual growth 2015/16 – 2018/19
Current payments	**735.8**	**806.3**	**870.4**	**944.0**	**1 021.6**	**8.2%**
Compensation of employees	441.1	486.2	524.0	569.4	615.6	8.2%
Goods and services	173.9	186.1	198.1	212.6	226.1	6.7%
Interest and rent on land	120.8	133.9	148.4	162.0	179.9	10.3%
of which: Debt-service costs	*114.8*	*127.9*	*142.6*	*157.2*	*174.6*	*10.9%*
Transfers and subsidies	**400.0**	**445.5**	**479.9**	**511.0**	**551.6**	**7.4%**
of which: Capital transfers	*58.1*	*62.6*	*70.6*	*75.3*	*83.0*	*9.8%*
Provinces and municipalities	96.0	107.2	114.4	123.5	137.3	8.6%
Departmental agencies and accounts	24.8	30.6	31.1	33.9	36.7	6.2%
Higher education institutions	25.7	27.5	29.0	30.8	32.8	6.0%
Foreign governments and international organisations	2.3	2.1	2.2	2.3	2.5	6.1%
Public corporations and private enterprises	27.8	30.7	34.3	35.1	39.2	8.4%
Non-profit institutions	26.9	28.0	29.0	30.2	32.0	4.6%
Households	196.6	219.5	239.9	255.3	271.2	7.3%
Payments for capital assets	**87.6**	**97.2**	**98.4**	**104.2**	**110.4**	**4.3%**
Buildings and other capital assets	66.8	76.3	80.4	84.8	90.4	5.8%
Machinery and equipment	20.8	20.9	18.0	19.4	20.0	-1.5%
Payments for financial assets	**5.4**	**29.6**	**0.5**	**0.5**	**0.5**	**–**
Total	**1 228.8**	**1 378.7**	**1 449.2**	**1 559.8**	**1 684.1**	**6.9%**
Contingency reserve	–	–	2.5	9.0	15.0	–
Consolidated expenditure	**1 228.8**	**1 378.7**	**1 451.7**	**1 568.8**	**1 699.1**	**7.2%**

1. Consisting of national, provincial, social security funds and public entities
Source: National Treasury

Social sector

Social grants and free basic services

Social assistance to reach 18.1 million South Africans by 2018/19

Social assistance and welfare services have grown rapidly in recent years. About 16.7 million South Africans receive social grants, up from 2.5 million in 1998. This figure is projected to reach 18.1 million in 2018/19, growing at 2.2 per cent a year over the MTEF period, mainly due to higher life expectancy and efforts to ensure all eligible children younger than two years of age benefit from the grant.

Several grants grow by R10 per month to bring annual increase in line with long-term inflation

The old-age, war veterans', disability and care dependency grants have each increased by R10 per month from 1 October 2015 to bring the annual increase in line with long-term inflation. Over the spending period ahead, nearly R13 billion will be added to social assistance budgets to accommodate the increase in beneficiaries and ensure that the value of grants keeps pace with inflation. Social assistance expenditure will remain stable as a percentage of GDP.

Rising electricity prices and population growth have put pressure on the ability of municipalities to fund free basic services for low-income households. Government proposes to add R6 billion to the local government equitable share to offset these trends.

Health

Growth in health spending to fund scaling up of response to HIV/AIDS and tuberculosis

Additions to health expenditure are focused on the HIV/AIDS pandemic, particularly the national antiretroviral treatment programme, which now reaches more than 3 million people. Government's review of the effectiveness, coverage, costing and outcomes of its HIV/AIDS and tuberculosis strategies has highlighted the need to scale up specific prevention interventions, such as social and behavioural change communication. Replacement funding is proposed to offset an expected reduction in the United States President's Emergency Plan for AIDS Relief in 2018. New resources will also be allocated to improve primary health care and medicine stock surveillance information systems.

Integrated white paper on NHI to be published in near future

Developing a system of national health insurance (NHI) will enable South Africa to achieve universal health coverage. NHI, which aims to ensure equitable access to health services for all South Africans, is being phased in over a 14-year period, reaching full implementation in 2025/26. A white paper outlining key features and proposed financing arrangements for NHI will be published before the end of the financial year. Lessons learnt from the current NHI pilots will be used in designing an appropriate model for the system.

Education

Spending on education supported improvements in outcomes, but quality is below acceptable levels

The NDP stresses the importance of quality education to reduce poverty and inequality. While government spends about 15 per cent of its budget on basic education, the quality of outputs does not match the extent of the investment. Learner performance improved in the 2014 annual national assessments and international benchmark assessments, for example, but is still below acceptable levels. Government is committed to improving and expanding the annual national assessments, which serve as a monitoring mechanism.

Over the medium term, government will expand provision of learner and teacher support materials, including workbooks to over 10 million learners each year. Targeted support programmes will help teachers improve instruction in maths, science and technology through an intensive in-service training programme.

Government to provide subsidy to all poor children in registered early childhood development centres

Universal access to grade R is expected to be achieved within the next three years. In line with recommendations of the Department of Planning, Monitoring and Evaluation, the qualifications of grade R practitioners will be upgraded to ensure that quality improves.

A well-developed early childhood development (ECD) system enhances educational outcomes. Of the 1.35 million children enrolled in this system, half are subsidised. Government aims to provide all qualifying children in registered centres with an ECD subsidy. Over the medium term, government will increase the number of children subsidised by 127 000. Funding is also being considered for minor facilities upgrades to about 4 000 ECD sites.

Jobs and skills development

R37 billion allocated to public employment over next three years

Over the MTEF period, R37 billion is allocated to public employment programmes. These resources will allow the Expanded Public Works Programme to create about 6 million short-term jobs. By 2017, the

Community Work Programme is expected to be present in every municipality.

After experiencing strong growth in the last five years, expenditure on post-school education and training will keep pace with inflation in the years ahead. An interdepartmental team is working out the financial implications of the white paper on post-school education, and how the expected expansion of enrolments can be funded. Proposals will be available for consideration by Cabinet in 2016.

Spending on post-school education to keep pace with inflation

Subsidising targeted economic sectors

Aggregate medium-term funding of R16.2 billion supports industrialisation through incentives, promotion of various industries, and assistance to small enterprises and cooperatives. Government also forgoes revenue of about R24 billion each year to provide tax incentives to businesses.

Support for business includes R24 billion in tax incentives and R16.2 billion in direct funding

The Manufacturing Competitiveness Enhancement Programme will support enhanced production capacity, while the Automotive Production and Development Programme will continue to subsidise capital investments in the car industry. Special economic zones will receive continued funding to support the sustainability of current and proposed designated zones. New zones will begin operating in the Free State and Gauteng.

Government to review effectiveness of business incentives

This year, more than R7 billion will be transferred directly from the fiscus to support the operations of South African companies, which also receive about R24 billion in tax incentives annually. A number of additional proposals that would increase incentives to the private sector have also been raised for consideration.

The first phase of the Economic Competitiveness Support Programme, which was introduced in 2011/12, concludes in 2017/18. Over the six-year period, total allocations to this programme amount to R22.7 billion. The programme supports training, equipment and technological upgrades to improve competitiveness, and research and development. Government intends to renew the programme following a review of all business incentives.

The review, which will be conducted during 2016, will assess the impact of incentives on economic growth, productivity, competitiveness, the balance of trade and employment. Particular focus will be given to job creation and the need to incentivise labour-intensive economic activities. The outcomes of the review will inform the allocation of resources for business incentives in 2018/19 and beyond.

Safety, security and justice

Over the next three years, the South African Police Service will strengthen its public-order policing capabilities and address training gaps, including those identified by the Marikana Commission of Enquiry. In line with the commission’s recommendations, the police have established a transformation task force. It will investigate global best practice in combating syndicated and other crime, develop proposals for organisational reform and integrate recommendations from an independent panel of experts.

Public-order policing to be strengthened in line with Marikana Commission recommendations

Proposed allocations will allow for key positions in the Public Protector of South Africa to be filled and advocacy field capacity in the South African Human Rights Commission to be enhanced. The judge president offices in all divisions of the High Court of South Africa will employ additional staff to coordinate judicial functions, and ensure that judicial norms and standards are implemented, monitored and reported on.

Following parliamentary approval, funding of defence review to be considered

Parliament approved the 2014 defence review this year, and the Department of Defence is developing an implementation plan. The National Treasury is working with the department on the plan's funding components.

Infrastructure development

In line with the NDP, government has invested to expand South Africa's infrastructure network. In addition to the economic infrastructure projects conducted by large state-owned companies, government has invested about R650.5 billion in infrastructure since 2009/10.

Focus on improving value for money in infrastructure and maintaining existing facilities

Over the period ahead, there will be a strong focus on building partnerships with the private sector to boost inclusive growth and job creation in South Africa's cities. Government's infrastructure investments will continue to grow, but not as rapidly as in the past, with the focus shifting to improving value for money in infrastructure delivery. Government will also invest more in the refurbishment and renewal of ageing infrastructure, while continuing to expand social infrastructure to underserved areas.

Supporting urban development and spatial transformation

South Africa needs higher-density settlements, integrated land-use patterns and better public transport

The United Nations (UN) estimates that by 2030, 68 per cent of South Africa's population will live in the 11 largest urban areas, up from 59 per cent in 1995. The UN Sustainable Development Goals reinforce the need to build cities that are productive, inclusive, resilient, safe and sustainable. In South Africa's case, urban development must also overcome apartheid spatial planning. With 60 per cent of GDP already being generated in the eight metropolitan cities, urban development and growth will become increasingly important. Capturing the economic dividends of urbanisation and reducing inequality requires higher-density settlements, more integrated land-use patterns and better public transportation.

Government will continue to help municipalities plan and implement urban development projects that catalyse spatial change. Projects currently receiving support include Cornubia and Warwick Junction in eThekwini, the Sleeper Site development in Buffalo City and Athlone power station redevelopment in Cape Town. More projects are due to enter the preparation pipeline shortly.

Development Bank of Southern Africa to facilitate new, long-term lending instruments

While cities borrow regularly to fund infrastructure investment, there has been a mismatch between borrowing periods and project lifespans. The Development Bank of Southern Africa will facilitate new, long-term lending instruments that encourage the participation of institutional investors and pension funds.

Transfers from national government will continue to support urban development by subsidising the provision of infrastructure and free basic services to low-income households. Increased emphasis will be placed on coordinating the investments made in bulk services and housing.

Roads

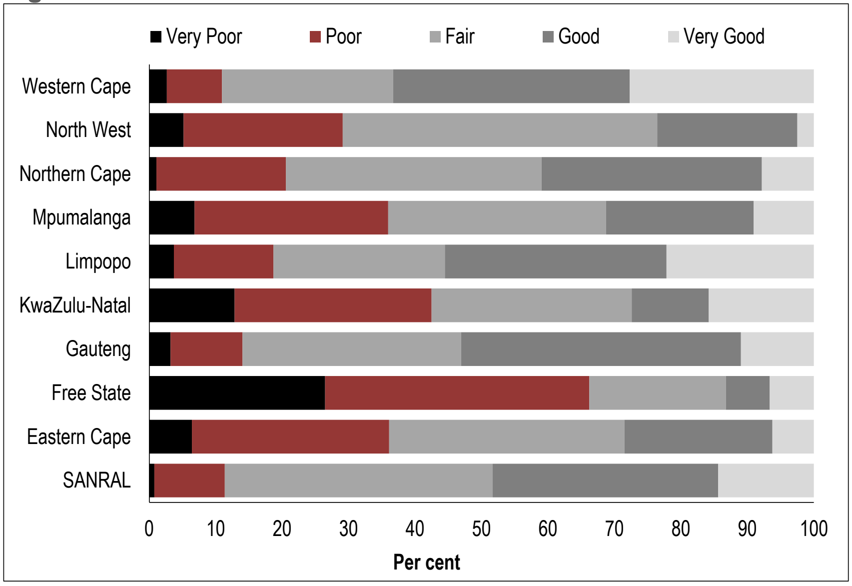
The South African National Roads Agency (Sanral) manages a 21 500 km national road network, only 15 per cent of which is tolled. About 74 per cent of this network is beyond its design life and significant sections of the non-toll network require urgent rehabilitation.

Sanral to receive baseline increases to maintain national road network

Government proposes baseline increases to Sanral over the MTEF period to arrest deterioration of the national road network. Funding is also proposed for the new dispensation on the Gauteng Freeway Improvement Project, which includes reduced caps and a single tariff for all users.

To improve the efficiency of investments in the secondary road network, a new performance component incorporating efficiency indicators for managing road networks will be introduced in the *provincial roads maintenance grant*.

Figure 4.2 Road conditions



Source: Committee of Transport Officials, 2014

Rural infrastructure and development

Government is committed to investing in rural infrastructure to eradicate backlogs in access to services, increase mobility and create opportunities to grow local economies. The majority of municipal infrastructure grants for services such as water, sanitation, electricity and roads are allocated to the 27 priority rural district municipalities. The bulk of provincial grants for school upgrading and building clinics are also allocated to rural areas.

27 identified rural district municipalities to receive capacity support

While all municipalities require capacity support, the need is most pressing in rural municipalities. To provide support to these areas, the *municipal systems improvement grant* will be refocused as an indirect grant, helping to build well-governed, capable municipal institutions as set out in the Back to Basics strategy.

Government's land reform programme can also stimulate rural development. The Office of the Valuer-General in the Department of Rural Development and Land Reform is now operating and is expected to facilitate more efficient acquisition of land at equitable values.

Land reform programme to source land more efficiently at equitable values

The National Treasury is working with the Department of Agriculture, Forestry and Fisheries and the Department of Rural Development and Land Reform to identify overlapping programmes and budget allocations where resource use can be improved and savings achieved.

Division of revenue

Growth in provincial and local government allocations reflects priority on front-line service delivery

Over the three-year spending period ahead, national departments are allocated 47.4 per cent of available non-interest expenditure, provinces are allocated 43.4 per cent, and local governments are allocated 9.2 per cent. These allocations equate to spending growth of 5.6 per cent for national government (excluding indirect grants), 7.8 per cent for provinces and 8.2 per cent for local government.

Table 4.4 Division of revenue, 2015/16 – 2018/19

R billion	2015/16	2016/17	2017/18	2018/19	Average annual growth 2015/16 – 2018/19
National allocations	550.2	557.6	596.7	642.0	5.3%
Provincial allocations	471.8	503.4	548.8	591.1	7.8%
Local government allocations	101.3	106.9	115.3	128.4	8.2%
Total allocations	**1 123.2**	**1 168.0**	**1 260.8**	**1 361.5**	**6.6%**
Percentage shares					
National departments	49.0%	47.7%	47.3%	47.2%	
Provincial	42.0%	43.1%	43.5%	43.4%	
Local government allocations	9.0%	9.2%	9.1%	9.4%	

Source: National Treasury

Strong growth in allocations to provincial and local government reflects the priority placed on front-line services such as health, education and basic services, as well as the rising cost of these services due to higher wages, and bulk electricity and water costs.

Compensation costs pose most pressing funding challenges over the MTEF period

The most pressing funding challenge provinces face over the MTEF period is covering higher compensation costs stemming from the public-sector wage settlement. An amount of R29.9 billion will be added to the provincial equitable share in the current year and over the next two years to fund the shortfall. The balance will be covered through savings and the reallocation of surpluses. The additional funds will be allocated using the equitable share formula, the largest components of which measure demand for services in education and health. The National Treasury and the provinces will review this formula over the medium term to ensure it takes spending pressures across provinces into account fairly.

Several reforms will improve the administration of conditional grants. Details of changes to transfers to provinces and local government over the MTEF period are contained in the technical annexure.

Reforms to conditional grants

Government has completed the second phase of its local government infrastructure grant review. Several changes will be introduced over the MTEF period to streamline these grants and improve the value and sustainability of associated investments. Proposed reforms to be introduced from next year include:

- Enabling the use of funds for the renewal, refurbishment and rehabilitation of existing infrastructure, alongside asset management systems to plan and prioritise maintenance.
- Reforming the *public transport network grant* to support financially sustainable transit networks in large cities.
- Consolidating urban grants over the MTEF period to tackle challenges in the built environment.
- Rationalising grants to reduce complexity and administrative burdens. Several water and sanitation grants are being merged, for example.
- Introducing grants that differentiate between metros, secondary cities and rural areas. Secondary cities in particular will see changes to their planning requirements.

Conclusion

Medium-term spending priorities include education and skills development, health, social protection and infrastructure. Government plans to strengthen cost-containment measures and implement procurement reforms to improve efficiency on non-wage spending, and departments are encouraged to use personnel more efficiently and productively.

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