4

Expenditure priorities

In brief

- Consolidated government spending is expected to total R6.3 trillion over the medium term expenditure framework (MTEF) period, growing from R1.8 trillion in 2019/20 to R2.2 trillion in 2022/23 at an average annual growth rate of 6.3 per cent.
- Since the 2019 Budget, upward revisions to main budget non-interest spending amount to R45 billion in 2020/21 and R22 billion in 2021/22, mainly reflecting additional support for Eskom. Downward revisions amount to R21 billion in 2020/21 and R28.5 billion in 2021/22. In 2022/23, baselines are constrained to grow marginally below consumer price index (CPI) inflation.
- Learning and culture, social development and health receive the largest allocations, amounting to R3 trillion over the next three years. Without further fiscal measures, spending on debt-service costs is expected to outpace spending in areas such as health and community development by 2022/23.

Introduction

Medium-term spending plans have been developed in the context of slow growth, rising public debt and large revenue shortfalls. As discussed in Chapter 3, higher debt and debt-service costs limit the availability of funds to implement policy priorities. Critical obligations, cost pressures and policy priorities have been met through a combination of reallocations and reprioritisation within and across function groups.

Relative to the 2019 Budget, total main budget non-interest expenditure increases by R23 billion in 2020/21, and decreases by R8.2 billion in 2021/22. These net changes mainly reflect:

- Non-interest spending increases of R45 billion and R22 billion over the next two years, mainly as a result of additional support for Eskom.
- Reductions of R21 billion in 2020/21 and R28.5 billion in 2021/22, mostly falling on goods and services, and current and capital transfers. Compensation of employees is revised down marginally in line with lower CPI projections.

In 2022/23, baselines are constrained to grow marginally below CPI inflation.

Baseline spending, excluding Eskom, reduced by 2 per cent per year in national and provincial departments

Excluding Eskom support, national and provincial spending on goods, services and infrastructure is reduced by 2 per cent per year over the next two years. The same rate of reduction is proposed for transfers to most public entities. Conditional grants account for about half of the total reductions. Further reductions, focused on compensation budgets, will be required to stabilise government's finances. Details will be announced in the 2020 *Budget Review*.

The worsening fiscal situation requires spending reductions in every department, including public entities. These reductions may affect operations, commitments, programme outcomes, capital investment and services. Departments, provinces and municipalities are encouraged to offset lower budgets with greater efficiency and adhere to cost-containment measures.

Learning and culture, health and social development receive largest share of non-interest spending

Excluding debt-service costs, the largest allocations are to learning and culture, health and social development over the MTEF period. The poverty-reducing effects of government spending will be threatened without efforts to manage interest costs, the pressure on goods and services and financial challenges in state-owned companies.

Expenditure priorities and spending pressures

Consolidated spending rises from R1.8 trillion in 2019/20 to R2.2 trillion in 2022/23

Consolidated government spending is expected to increase from R1.8 trillion in 2019/20 to R2.2 trillion in 2022/23, at an average annual growth rate of 6.3 per cent. Non-interest expenditure is expected to grow at the same rate as inflation in 2022/23.

Figure 4.1 Average nominal growth in spending, 2020/21 – 2022/23

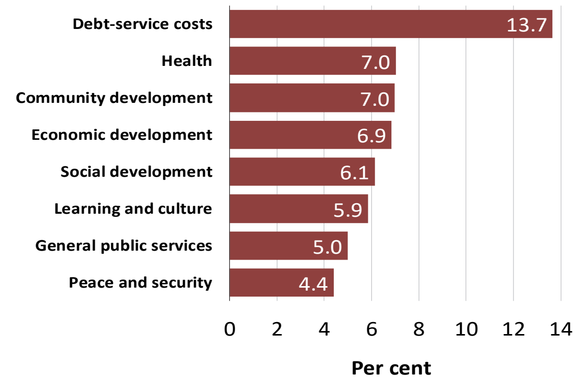
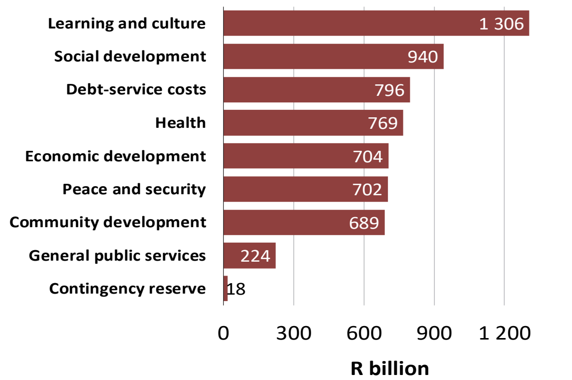


Figure 4.2 Consolidated government expenditure by function, 2020/21 – 2022/23



Source: National Treasury

The learning and culture function will receive the largest allocation of funds over the MTEF period, mainly for basic and post-school education and training. More than 60 per cent of the funds allocated to the social development function are allocated for social grant payments. By 2022/23, spending on debt-service costs is expected to exceed spending in areas such as health and economic development.

Table 4.1 Consolidated expenditure by function[1]

R billion	2018/19 Outcome	2019/20 Revised	2020/21 Medium-term estimates	2021/22	2022/23	Average annual growth 2019/20 – 2022/23
Learning and culture	**348.7**	**386.0**	**411.0**	**437.6**	**457.8**	**5.9%**
Basic education	246.1	262.8	279.5	300.1	315.7	6.3%
Post-school education and training	92.4	111.9	120.0	125.5	129.5	5.0%
Arts, culture, sport and recreation	10.2	11.4	11.5	12.0	12.7	3.8%
Health	**209.7**	**222.7**	**238.5**	**257.2**	**272.9**	**7.0%**
Peace and security	**198.2**	**214.3**	**224.9**	**233.5**	**243.8**	**4.4%**
Defence and state security	47.8	50.9	52.2	50.5	52.7	1.2%
Police services	97.0	104.8	111.3	117.9	123.6	5.7%
Law courts and prisons	44.9	48.7	52.1	55.2	57.7	5.8%
Home affairs	8.5	10.0	9.4	9.9	9.9	-0.3%
Community development	**187.7**	**200.2**	**213.3**	**230.2**	**245.1**	**7.0%**
Economic development	**192.3**	**205.8**	**217.5**	**235.5**	**251.1**	**6.9%**
Industrialisation and exports	32.5	36.8	39.1	44.0	46.2	7.9%
Agriculture and rural development	29.6	30.3	30.9	32.4	34.4	4.3%
Job creation and labour affairs	20.4	22.7	24.8	26.9	28.4	7.7%
Economic regulation and infrastructure	95.0	99.0	105.0	113.9	123.1	7.5%
Innovation, science and technology	14.9	17.0	17.7	18.3	19.0	3.9%
General public services	**64.4**	**67.0**	**71.3**	**75.5**	**77.5**	**5.0%**
Executive and legislative organs	13.9	16.0	16.5	17.2	18.1	4.2%
Public administration and fiscal affairs	42.6	43.4	46.8	50.1	50.8	5.4%
External affairs	7.9	7.6	8.0	8.2	8.6	4.2%
Social development	**254.1**	**277.1**	**295.6**	**312.9**	**331.3**	**6.1%**
Social protection	189.8	206.8	219.9	235.3	252.1	6.8%
Social security funds	64.3	70.3	75.6	77.5	79.3	4.1%
Payments for financial assets	**15.9**	**67.1**	**67.9**	**44.6**	**30.0**	–
Allocated by function	**1 471.0**	**1 640.3**	**1 740.0**	**1 827.0**	**1 909.8**	**5.2%**
Debt-service costs	181.8	203.7	232.8	264.6	299.1	13.7%
Contingency reserve	–	–	6.0	6.0	6.0	–
Consolidated expenditure	**1 652.8**	**1 844.1**	**1 978.7**	**2 097.5**	**2 214.9**	**6.3%**

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

Combating gender-based violence and femicide

Government is stepping up its efforts to combat high rates of gender-based violence and femicide in South Africa. Following a joint sitting of Parliament, the departments of justice and constitutional development, basic education, police, higher education and training, sports, arts and culture, and social development are integrating their interventions to promote awareness and education, support victims and increase access to justice.

In 2019/20, funded government programmes such as life-skills education, subsidies for shelters, Thuthuzela care centres and sexual offences courts support these goals. Over the three-year spending period ahead, funds are added to the provincial equitable share to combat gender-based violence.

Over the medium term, improved and broadened access to services, and greater cooperation between departments and those responsible for service delivery, would assist. Departments will continue to engage with the Interim Steering Committee on Gender-Based Violence and Femicide to implement responses quickly and prioritise resources effectively.

Table 4.2 Consolidated expenditure by economic classification[1]

R billion	2018/19 Outcome	2019/20 Revised	2020/21 Medium-term estimates	2021/22	2022/23	Average annual growth 2019/20 – 2022/23
Current payments	**1 006.6**	**1 093.8**	**1 181.0**	**1 275.6**	**1 363.9**	**7.6%**
Compensation of employees	584.7	630.7	675.2	717.6	758.5	6.3%
Goods and services	233.4	252.2	264.3	284.9	297.3	5.6%
Interest and rent on land	188.5	211.0	241.4	273.1	308.0	13.5%
of which: debt-service costs	*181.8*	*203.7*	*232.8*	*264.6*	*299.1*	*13.7%*
Transfers and subsidies	**548.8**	**593.0**	**626.3**	**665.5**	**700.3**	**5.7%**
Provinces and municipalities	129.5	136.3	144.2	155.3	165.2	6.6%
Departmental agencies and accounts	26.0	27.9	29.1	30.4	29.8	2.2%
Higher education institutions	38.9	46.4	47.6	49.4	50.8	3.1%
Foreign governments and international organisations	2.4	2.4	2.5	2.5	2.5	2.3%
Public corporations and private enterprises	32.5	35.0	34.6	39.0	41.7	6.1%
Non-profit institutions	35.1	38.0	40.8	43.3	45.4	6.1%
Households	284.4	307.0	327.6	345.7	364.8	5.9%
Payments for capital assets	**81.5**	**90.1**	**97.6**	**105.8**	**114.7**	**8.4%**
Buildings and other capital assets	65.3	70.1	75.1	82.6	89.6	8.5%
Machinery and equipment	16.2	20.0	22.5	23.3	25.1	7.8%
Payments for financial assets	**15.9**	**67.1**	**67.9**	**44.6**	**30.0**	**–**
Total	**1 652.8**	**1 844.1**	**1 972.7**	**2 091.5**	**2 208.9**	**6.2%**
Contingency reserve	–	–	6.0	6.0	6.0	–
Consolidated expenditure	**1 652.8**	**1 844.1**	**1 978.7**	**2 097.5**	**2 214.9**	**6.3%**

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

In-year spending adjustments

In-year spending additions amount to R44.5 billion, including R26 billion allocated to Eskom

The Public Finance Management Act (1999) allows in-year changes to the main budget through the adjustments budget. Relative to the 2019 Budget, total main budget non-interest expenditure for 2019/20 increases by a net amount of R23.1 billion. This includes in-year additions to spending amounting to R44.5 billion, partially offset by downward adjustments of R21.4 billion. Additions to spending include:

- R26 billion in the Special Appropriation Bill for Eskom
- R5.5 billion for South African Airways
- R3.2 billion for the South African Broadcasting Corporation
- R1.8 billion for Denel
- R429.8 million approved through the Budget Facility for Infrastructure for student housing
- R300 million for South African Express Airways.

Excluding financial support for Eskom, main budget non-interest spending is reduced by R2.9 billion in 2019/20, mainly due to declared savings by national departments.

The adjustments to in-year spending for national departments are set out in the 2019 *Adjusted Estimates of National Expenditure*. Changes to conditional grants are included in the 2019 Division of Revenue Amendment Bill. Revised provincial appropriations will be tabled in provincial legislatures before the end of the current financial year.

Spending priorities by function group

Learning and culture

Over the medium term, spending in the basic education sector will continue to focus on eradicating pit latrines and unsafe school structures, providing learner and teacher support materials, and improving early-grade reading and mathematics. Coding and robotics will be introduced into the basic education curriculum.

Bursary programme for poor and working-class students dominates spending

The Department of Higher Education and Training bursary programme for poor and working-class students dominates spending in the post-school education and training sector. The department is developing a student funding framework that will clarify food, book, transport and accommodation allowances. Over the MTEF period, the sector will focus on improving throughput rates at universities and technical and vocational education and training (TVET) colleges by expanding student support services, improving lecturer qualifications through new hiring and training, and testing new approaches to contact and online learning.

In 2019/20, the Student Housing Infrastructure Programme receives funds to construct student housing at the universities of Limpopo and North West, and King Hintsa TVET college. This is part of a larger project, funded by the Department of Higher Education and Training, and public universities and TVET colleges, to provide 300 000 new beds at these institutions over the next 10 years.

Health

The health function priority is to improve the efficiency of service delivery. Measures being undertaken include improving the management of patient records, for example by rolling out the health patient registration system to streamline management processes in health facilities.

Department of Health reprioritised funds to establish NHI Office

Following the introduction of the National Health Insurance (NHI) Bill in Parliament earlier this year, the Department of Health reprioritised funds within its 2019/20 budget to establish an NHI Office. Over the medium term, this office will receive increasing allocations for its operational costs.

Updated cost estimates for national health insurance

The NHI policy aims to provide healthcare more equitably in South Africa. Originally, NHI costs were projected to increase public health spending from about 4 per cent to 6 per cent of GDP over 15 years. However, given the macroeconomic and fiscal outlook, the estimates to roll out NHI that were published in the NHI Green Paper in 2011 and White Paper in 2017 are no longer affordable. The National Treasury assisted the Department of Health to develop an actuarial model with updated fiscal costs and limited policy reforms to strengthen the current healthcare system. The revised model estimates that rolling out NHI would require an additional R33 billion annually from 2025/26. These amounts are not budget commitments but indicative cost estimates.

Social development

Increased allocations to early childhood development to broaden access and raise per-child subsidy

This function is responsible for critical programmes aimed at reducing poverty, such as social grants. Over the medium term, work on early childhood development is a priority. Higher allocations to the *early childhood development grant* in provinces will increase the per-child subsidy and broaden access. This increase will be financed through funds reprioritised from the transfer payment to the South African Social Security Agency (SASSA).

Funds will be reprioritised to the provincial equitable share to continue rolling out sanitary towels to learners from low-income households in the poorest (quintiles 1, 2 and 3) schools.

Community development

This function funds access to water, sanitation, electricity and shelter for households, and subsidises the cost of public transport. Its largest component, the local government equitable share, will increase over the medium term to fund free basic services and some administrative costs in municipalities.

The Vaal River System is a strategic water asset for industrial, commercial, agricultural and domestic use. Over the medium term, funds will be reprioritised from the *human settlements development grant*, the *urban settlements development grant*, the *municipal infrastructure grant*, the *regional bulk infrastructure grant* and the *water services infrastructure grant* to protect water quality by restoring and upgrading wastewater infrastructure at Emfuleni municipality.

Providing quality, affordable and accessible public transport for poor and working-class commuters remains a priority. Transfers to the Passenger Rail Agency of South Africa will continue to fund rail modernisation.

In May 2019, the President announced changes to the organisation of government to improve coordination and efficiency. These changes mainly entailed establishing new departments by merging or splitting existing departments, and transferring functions between departments. Work is under way to implement all the changes by 1 April 2020.

Economic development

This function group aims to create jobs and increase inclusive and sustainable economic growth. Over the medium term, it focuses on agriculture, land reform, innovation and industrial development.

Government will reprioritise funding over the medium term, including from the *comprehensive agricultural support programme grant,* to increase compliance with biosecurity, animal and plant health, and phyto-sanitary and sanitary standards to improve trade in agricultural exports.

Since 1994, government has spent about R41 billion on the Land Restitution Programme to return about 3.5 million hectares of land to rightful owners. Over the medium term, funds will be allocated to improve post-settlement support in collaboration with agricultural commodity organisations.

As announced in the June 2019 State of the Nation Address, government will strengthen the Industrial Parks Revitalisation Programme with reprioritised funds to develop local economies through industrial parks. Furthermore, the Department of Small Business Development will implement a new operational model to improve its support to small and medium-sized enterprises.

Funds reprioritised to develop local economies through industrial parks

Peace and security

This function aims to fight crime and ensure territorial integrity. Over the medium term, its priorities are to improve efficiency and integrate interventions across different departments and entities within the justice, crime prevention and security cluster.

From the 2020 MTEF period onwards, funding will be reallocated from the South African Police Service to other departments and entities within this function to implement the Integrated Criminal Justice Strategy. Some of these funds will be used to improve prosecution capacity, including for the sexual offences and community affairs unit that focuses on gender-based violence. In addition, funds will be used to finance various corruption-fighting units and to combat cybercrime.

Funds reallocated to improve prosecution capacity, fight corruption and combat cybercrime

Funds will also be reallocated to the Directorate for Priority Crime Investigation to appoint additional investigators to address the backlog of corruption cases, and to the departments of defence and home affairs to enhance border security.

General public services

This function group aims to build a professional state to transform and develop South Africa. Over the medium term, additional allocations are proposed for the South African Revenue Service to rebuild capacity, improve operations, and implement critical projects and recommendations from the Nugent Commission.

Additional funding is also proposed for the Auditor-General of South Africa to support audits in financially distressed municipalities and entities. Further support is recommended in 2020/21 for Statistics South Africa to conduct a survey to update the CPI basket of goods and services in line with international standards.

Additional funding proposed to support audits for financially distressed municipalities and entities

Division of revenue

Provincial and municipal governments face multiple pressures over the period ahead. Provinces are expected to provide schooling for growing learner populations and improve health services before NHI is implemented. Local government is expected to continue to expand access to free basic services for poor households, while ensuring that those who can afford to pay for services do so, even in a difficult economic environment. Although transfers from national government will grow more slowly than in the past, planned reforms to the transfer system aim to improve efficiency in the use of these resources.

Over the medium term, government proposes to allocate 48.1 per cent of available non-interest expenditure to national departments, 43 per cent to provinces and 8.9 per cent to local governments. Over this period, national government resources grow at an annual average of 2.3 per cent, provincial resources by 6.1 per cent and local government resources by 6.2 per cent.

Managing the impact of reductions in planned expenditure

2 per cent reduction per year in non-compensation spending in provincial equitable share

The 2020 MTEF includes large reductions in planned transfers to provinces and municipalities relative to the 2019 MTEF. Provincial transfers will be reduced by R20.3 billion over the MTEF period. The provincial equitable share is reduced by R7.3 billion through a 2 per cent reduction on all non-compensation spending per year. Reductions in compensation, based on the outcome of discussions with labour, are expected to be implemented in future. Direct conditional grants are reduced by a net R13 billion, as the reduction of R15.2 billion is partly offset by reprioritisations of R2.2 billion.

Table 4.3 Division of revenue framework

R billion	2016/17	2017/18 Outcome	2018/19	2019/20 Revised	2020/21	2021/22 Medium-term estimates	2022/23
Division of available funds							
National departments	**555.7**	**592.7**	**634.4**	**742.8**	**757.4**	**766.2**	**796.2**
Provinces	**500.4**	**538.6**	**572.0**	**612.8**	**651.5**	**694.8**	**731.1**
Equitable share	410.7	441.3	470.3	505.6	541.0	576.7	607.6
Conditional grants	89.7	97.2	101.7	107.3	110.5	118.2	123.5
Local government	**102.9**	**111.1**	**118.5**	**127.2**	**132.4**	**143.0**	**152.2**
Equitable share	50.7	55.6	60.8	69.0	74.7	81.1	87.2
General fuel levy sharing with metropolitan municipalities	11.2	11.8	12.5	13.2	14.0	15.2	16.1
Conditional grants	40.9	43.7	45.3	45.1	43.7	46.8	49.0
Provisional allocations not assigned to votes	–	–	–	–	21.2	34.9	33.1
Projected underspending	–	–	–	-3.2	–	–	–
Total	**1 159.0**	**1 242.3**	**1 324.9**	**1 479.6**	**1 562.5**	**1 638.9**	**1 712.6**
Percentage shares							
National departments	48.0%	47.7%	47.9%	50.1%	49.1%	47.8%	47.4%
Provinces	43.2%	43.3%	43.2%	41.3%	42.3%	43.3%	43.5%
Local government	8.9%	8.9%	8.9%	8.6%	8.6%	8.9%	9.1%

Source: National Treasury

Transfers to local government will be reduced by R20.5 billion, including R3.2 billion from the local government equitable share and R17.3 billion in direct conditional grants. These reductions are likely to affect service delivery, particularly through delays in building infrastructure. Reductions in the local government equitable share will be absorbed through amounts of R1 billion in 2020/21 and R1.1 billion in 2021/22 set aside as unallocated funds in the 2019 Budget for further increases in bulk electricity costs.

All direct conditional grants have been lowered, except for the *early childhood development grant* and the *learners with profound intellectual disabilities grant*. To manage the impact on services, the amount reduced from each grant considers:

- Past spending and performance
- Whether it funds salaries, medicines and food
- Whether there has been significant real growth in allocations in recent years.

Larger reductions are also made to grants to urban municipalities, which have more capacity to offset the effect of cuts by increasing their own-revenue investments.

The implications of these reductions will be set out in more detail in the 2020 Budget. In some cases, programmes funded through grants will have to be revised to fit within the available resources. For example, the *public transport network grant* has been funding the development of integrated public transport networks in 13 cities for over a decade, yet only six cities have launched operations. At least three non-operational cities will be suspended from this grant and the remaining cities will be required to reduce their costs and demonstrate their effectiveness to remain funded.

Reductions in conditional grants

Government increased investment in grant-funded programmes during a period of robust economic growth. As a result, conditional grant allocations to provinces and local government grew rapidly in inflation-adjusted (real) terms prior to 2010/11. Since then, real allocations have remained relatively stable, even during the period of fiscal consolidation. Although 39 per cent of the total spending reductions over the 2020 MTEF period comes from these grants, provincial grants will still grow over the period and total local government grant allocations remain above the levels of a decade ago. In addition, the equitable shares for both provincial and local government are projected to continue growing in real terms over the 2020 MTEF period.

Figure 4.3 Provincial conditional grants

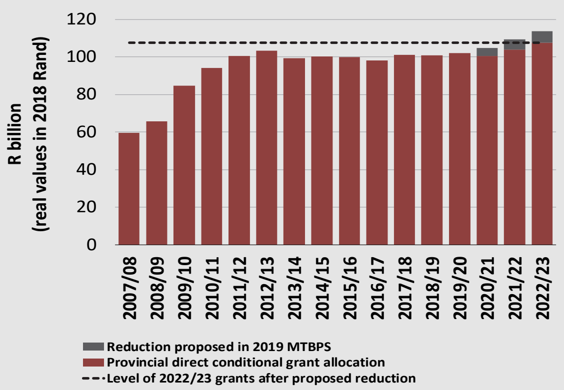
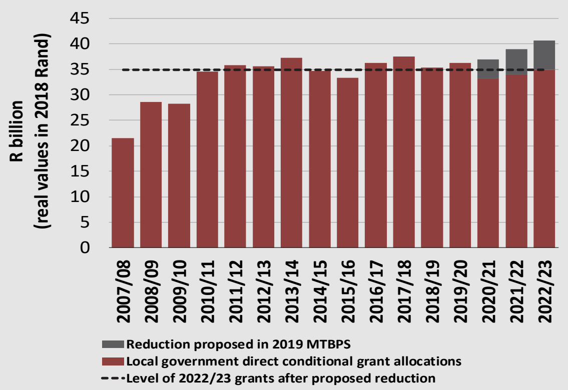


Figure 4.4 Local government conditional grants



Source: National Treasury

Changes to the structure of provincial allocations

Several changes are proposed to the structure of conditional grants for health over the medium term.

The *human papillomavirus vaccination grant* will be merged into the *HIV, TB, malaria and community outreach grant* from 2020/21, and from 2021/22 new components will be added to the grant for mental health and oncology (funded from a shift from an indirect grant). From 2020/21, funds for internship and community service posts will be shifted from the *human resources capacitation grant* to the *health professionals training and development grant*, while the remaining funds will be incorporated into the provincial equitable share.

Grant funding for oncology and mental health to be introduced

Provinces will receive a direct grant to contract health professionals in pilot NHI districts, which is currently funded through the *NHI indirect grant*. In addition, the National Treasury and the Department of Health will develop a strategy to reform health grants prior to implementing NHI.

Direct grant to provinces to contract health professionals in NHI pilot districts

The 2019 Budget introduced new funding mechanisms for informal settlements upgrading in the *human settlements development grant* and the *urban settlements development grant*. Before upgrading grants can be introduced, progress is required in two areas. New requirements to develop province- and city-wide informal settlement upgrading strategies need to be embedded. And work on planning individual upgrading projects with communities needs to be strengthened. The planned launch of these separate grants has therefore been pushed back from 2020/21 to 2021/22.

Funds shifted to support initiatives addressing gender-based violence

In addition, funds will be reallocated from the social worker scholarship fund to provinces for the employment of social workers, and funds planned for transfer to HIV/AIDS organisations and the South African National AIDS Council will be shifted to the provincial equitable share. This shift supports the continued implementation of the Social Behaviour Change Programme and other initiatives that address gender-based violence.

To ensure fair funding allocations to each province, the provincial equitable share formula is updated annually to reflect demographic changes related to the demand for services provided by provinces. This formula is under review, in collaboration with provincial treasuries, although no changes are proposed this year.

Table 4.4 Provincial equitable share

R million	2019/20	2020/21	2021/22	2022/23
Eastern Cape	68 824	71 747	75 656	78 841
Free State	28 187	30 157	32 046	33 657
Gauteng	102 448	112 640	121 685	129 908
KwaZulu-Natal	106 014	111 960	118 302	123 544
Limpopo	58 965	62 619	66 564	69 935
Mpumalanga	41 428	44 310	47 215	49 724
Northern Cape	13 424	14 356	15 278	16 068
North West	34 973	37 722	40 361	42 682
Western Cape	51 291	55 464	59 552	63 194
Total	**505 554**	**540 975**	**576 658**	**607 554**

Source: National Treasury

Changes to the structure of local government allocations

Equitable share formula updated to account for demographic and economic changes

The local government equitable share formula has been updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period.

Large urban municipalities continue to underinvest in infrastructure, primarily because of poor programme and project preparation practices, leading to long delays, higher costs and breakdowns in service delivery. While public and private capital funding is available, these weaknesses translate into low levels of effective demand from the municipalities.

To address these problems, from 2020/21 government will introduce dedicated grant funding for large urban municipalities. Eligible municipalities will receive co-financing on a declining basis over three years. Financing will be conditional on establishing a municipal project preparation fund and an infrastructure delivery management system, and achieving targets for programmes and projects under preparation. Funding for this new facility will be reprioritised from existing allocations to municipalities.

Standardising regulation of development charges expected to raise municipal revenues

Government is also working with municipalities to increase their revenue-raising potential. The Municipal Fiscal Powers and Functions Amendment Bill, which will be tabled shortly, will standardise the regulation of development charges. Development charges are the mechanism by which municipalities recover the capital costs of connecting new developments to infrastructure for water, roads, electricity and other services. Currently, these charges are frequently below cost, so municipalities effectively subsidise the provision of infrastructure to businesses and other developments, reducing their ability to subsidise infrastructure directly for lower-income residents. The change could increase municipal revenues for capital spending by an estimated R20 billion a year.

Several efforts are also under way to improve the effectiveness of transfers to rural municipalities. The possibility of using *municipal infrastructure grant* funds to buy waste management vehicles, which must be purchased through a contract facilitated by the National Treasury to minimise costs, is being investigated to expand services in rural areas. Funds may be reprioritised between water and sanitation grants to accelerate the completion of regional bulk water schemes.

The Department of Energy will complete an electrification master plan to guide the future allocation of funds between the Eskom, municipal, and non-grid components of the Integrated National Electrification Programme. The Department of Transport will establish a national database for all road traffic and condition data to inform the prioritisation and monitoring of road maintenance across all roads.

Addressing unfunded budgets in local government

Revised strategy to address municipal financial performance failures

A revised strategy to address municipal financial performance failures has been endorsed by the Budget Council and Budget Forum – the respective intergovernmental forums for provincial and local government finances. This strategy is based on an analysis of performance failures in governance, financial management, institutional capabilities and service delivery.

As part of this strategy, the National Treasury is helping municipalities to ensure their spending plans are adequately funded. The number of councils adopting unfunded budgets, where realistically anticipated revenue is insufficient to cover planned spending sustainably, increased from 74 in 2016/17 to 126 in 2019/20. The National Treasury, alongside provincial treasuries, has provided extensive advice and support to ensure that municipalities plan affordable expenditure and collect all the revenue owed to them. All municipalities are able to table a funded budget – in some ways, this is easier for transfer-dependent municipalities as they have more predictable revenue and can plan their spending accordingly.

Municipalities with unfunded budgets required to table adjustments by November 2019

The National Treasury has now written to these 126 municipalities to approve their tabling of special adjustment budgets to align their spending plans with projected revenues and ensure they have plans in place to pay their creditors (including Eskom and the water boards). National and provincial treasuries are available to assist municipalities to reprioritise their budgets accordingly. If these municipalities do not table funded adjustments budgets by 15 November 2019, the National Treasury will take steps to enforce compliance, which may include withholding future transfers of the local government equitable share.

A new district development model to improve service delivery

To arrest the decline in state capacity and restructure service delivery to best serve citizens, government has introduced a new district development model, with pilots in the OR Tambo District Municipality in the Eastern Cape and eThekwini in KwaZulu-Natal. The model aims to integrate planning and actions across all spheres of government, and make planning more responsive to community needs and inputs.

The National Treasury's Cities Support Programme is supporting the piloting of this model in metropolitan municipalities, based on the experience of implementing built environment performance plans that have helped cities direct their infrastructure investments in targeted integration zones.