4

Medium-term expenditure framework and division of revenue

In brief

- The *Medium Term Budget Policy Statement* proposes an average annual real increase of 2.2 per cent in non-interest public spending over the next three years.
- The expenditure ceiling established by the 2013 Budget remains in place, reflecting government's commitment to consolidate spending and reduce the fiscal deficit over time.
- Distribution of resources is in line with the National Development Plan. Health and education continue to receive the largest allocations, while budgets related to infrastructure, jobs, local government and community development grow strongly.
- The consolidated framework proposed for the 2014 Budget provides for total spending of R1.24 trillion in 2014/15, R1.34 trillion in 2015/16 and R1.44 trillion in 2016/17.
- Debt-service costs rise from R100.5 billion in 2013/14 to R135.4 billion in 2016/17.
- Medium-term spending pressures have been accommodated by reprioritising allocations and drawing down the contingency reserve.
- Provinces receive additional funding for their salary requirements, while the share of nationally generated revenue that goes to local government continues to grow strongly.

Introduction

The medium-term expenditure framework (MTEF) proposed for 2014/15-2016/17 balances continued support for the economy with the need for fiscal consolidation. The budget framework sets explicit limits for public expenditure. This ceiling allows for sustained but moderate real growth in spending and a gradually declining deficit. Government will finance future priorities and respond to spending pressures by reprioritising existing allocations and eliminating wasteful expenditure.

Spending on social and economic priorities will grow moderately in real terms

Proposed resource allocations are informed by the approach of the NDP

The proposed allocation of resources over the next three years is informed by government's strategic priorities, in particular the National Development Plan (NDP). It sets a broad framework for inclusive growth based on a more competitive economy, a capable developmental state, and improved livelihoods of South Africans. Implementing the plan will require government to strengthen its role as an enabler of economic development and improve the ways in which policies are translated into service delivery. Government has begun the process of drafting a medium-term strategic framework for the next administration, which will fully incorporate the NDP into South Africa's developmental agenda.

Support for social spending, infrastructure and public employment

Reflecting South Africa's high levels of inequality and underdevelopment, spending on health, education and social assistance will claim the largest share of government spending over the medium term. In line with government's goal of supporting community development, a significant and growing share of resources is proposed to harness the economic potential of cities, strengthen the capacity of local government and upgrade informal settlements. Government will continue to make large investments in infrastructure and support the strategic investment programmes of the Presidential Infrastructure Coordinating Commission. Public employment programmes also receive rising allocations.

2012/13 outcomes and 2013/14 mid-year estimates

Table 4.1 sets out the national and provincial expenditure outcomes for 2012/13 and the estimates for the first half of 2013/14. A detailed breakdown by national department and province is contained in Annexure A.

Expenditure from the National Revenue Fund in 2012/13, including transfers to provinces and municipalities, amounted to R963 billion, which was R6.4 billion lower than the original budget estimate of R969.4 billion and R4 billion lower than the February 2013 revised estimate of R967 billion. Growth in expenditure has moderated since 2011/12: the 8.4 per cent increase in 2012/13 compares with an average growth rate of 13 per cent over the preceding decade.

Revised 2013/14 spending estimate is R1.05 trillion

The revised estimate of total expenditure in 2013/14 is R1.05 trillion, R5.7 billion less than the estimate tabled in the 2013 Budget. This represents a nominal increase in expenditure of 9 per cent compared with the outcome for 2012/13.

Table 4.1 National and provincial expenditure: 2012/13 outcomes and 2013/14 mid-year estimates

	2012/13				2013/14		
R billion	Original budget	Adjusted estimate	Preliminary outcome	Over(-)/ under(+)	Original budget	Adjusted estimate[1]	Actual spending April to September
Total expenditure	**969.4**	**970.0**	**965.6**	**4.5**	**1 056.0**	**1 049.6**	**507.0**
less: Extraordinary payments	–	-2.6	-2.6	–	-0.9	-0.2	–
National Revenue Fund	**969.4**	**967.5**	**963.0**	**4.5**	**1 055.1**	**1 049.4**	**507.0**
State debt cost	89.4	88.8	88.1	*0.7*	99.7	100.5	49.2
Provincial equitable share	309.1	313.0	313.0	–	337.6	338.9	168.8
Other direct charges	21.5	23.3	23.2	0.1	25.0	24.9	10.2
National votes	**549.4**	**542.4**	**538.7**	**3.7**	**592.7**	**585.0**	**278.8**
of which:							
Compensation of employees	*101.0*	*103.4*	*102.4*	*1.0*	*111.9*	*113.4*	*55.3*
Transfers and subsidies	*370.9*	*371.7*	*368.6*	*3.1*	*402.6*	*398.2*	*192.9*
Payments for capital assets	*15.2*	*14.3*	*14.1*	*0.1*	*14.3*	*14.3*	*4.0*
Unallocated and contingency reserve	*5.8*	–	–	–	*4.0*	–	–
Projected underspending	–	*-3.5*	–	*-3.5*	–	*-3.5*	–
Local government repayment to the National Revenue Fund	–	*-0.5*	–	*-0.5*	–	*-0.5*	–
Provincial expenditure	**388.5**	**402.7**	**395.2**	**7.5**	**418.5**	**n/a**	**202.8**
of which:							
Compensation of employees	*232.0*	*236.1*	*234.1*	*2.0*	*251.5*	*n/a*	*126.7*
Transfers and subsidies	*55.6*	*58.3*	*57.2*	*1.1*	*57.7*	*n/a*	*26.8*
Payments for capital assets	*27.4*	*30.8*	*28.9*	*1.9*	*29.2*	*n/a*	*11.2*

1. Provinces will table adjusted estimates during November 2013

Excluding state debt costs, the provincial equitable share and other direct charges, spending by national departments amounted to R538.7 billion in 2012/13, or 99.3 per cent of the adjusted estimate of R542.4 billion. In the first six months of 2013/14, R278.8 billion was spent, or 47.7 per cent of a revised estimate of R585 billion for the year. In the first six months of 2012/13, 47.4 per cent of the revised estimate of R542.4 billion was spent.

National government makes large transfers for social grants and housing subsidies

Transfers and subsidies form the largest economic category of national government expenditure. This item includes transfers to provincial and local government through conditional grants, as well as payments for social grants, housing subsidies and transfers to higher education institutions, science councils and public entities.

Provincial expenditure in 2012/13 amounted to R395.2 billion, 98.1 per cent of the total adjusted budget of R402.7 billion. Expenditure by provinces was R202.8 billion in the first six months of 2013/14, representing 48.5 per cent of the main appropriation for the year. In the first six months of 2012/13, expenditure by provinces represented 48.7 per cent of the main appropriation of R388.5 billion. Compensation of employees accounted for 59.2 per cent of provincial expenditure in 2012/13.

Revised national expenditure estimates, 2013/14

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 billion to cover the costs of inflation-related and other salary adjustments.
- R754 million rolled over from unspent balances in 2012/13.
- R374 million to provide broadband connectivity to public schools.
- R170 million to cover the effect of rand depreciation on expenditure in foreign currencies in 2013.
- R150 million to deploy troops in the Democratic Republic of the Congo.
- R57 million for contractual penalties incurred by Denel Aerostructures related to the A400M aircraft contract.
- R20 million for substance-abuse prevention.
- R18 million to repair infrastructure damaged by floods.
- R508 million refunded to departments for expenditure financed by departmental revenue paid into the National Revenue Fund.
- R3 billion that will not be spent in 2013/14 and declared as unspent funds by departments.

Revised provincial allocations, 2013/14

- R1.3 billion for the provincial equitable share to cover inflation-related salary adjustments and to upgrade clerical posts.
- R12 million to the *further education and training colleges grant* to cover the cost of inflation-related salary adjustments.
- R125 million rolled over from unspent balances in 2012/13.
- R103 million to repair infrastructure damaged by floods.

Revised local government allocations, 2013/14

- R118 million to repair infrastructure damaged by floods.
- R16 million rolled over from unspent balances in 2012/13.

Details of the revised national spending allocations are set out in the Adjusted Estimates of National Expenditure, including approved allocations for unforeseen and unavoidable expenditure, the appropriation of expenditure earmarked in the 2013 Budget Speech for future allocation, other shifts and adjustments, and declared unspent funds. Revised provincial appropriations will be tabled in provincial legislatures before the end of the financial year.

Division of revenue, 2014/15 – 2016/17

Proposed budget framework provides for total spending of R1.24 trillion in 2014/15

The consolidated budget comprises the main budget plus spending by provinces, social security funds, and expenditure by public entities financed from their own revenue. The proposed consolidated framework for the 2014 Budget provides for total spending of R1.24 trillion in 2014/15, R1.34 trillion in 2015/16 and R1.44 trillion in 2016/17.

The largest share of the consolidated budget is the main budget, made up of all spending from the National Revenue Fund. The main budget is shared between national, provincial and local government.

National government is responsible for activities such as security, justice and international relations. It also supports provincial and local government with policy-making and infrastructure provision. Provinces are largely responsible for delivering social services such as basic education and health, while municipalities provide roads, water and electricity, and contribute to local economic development.

The main budget framework is shown in Table 4.2. National departments receive 47.6 per cent of revenue, provinces receive 43.4 per cent, and local governments receive 9 per cent in the 2014 Budget. Medium-term allocations to national departments increase by an average annual rate of 6.7 per cent, provincial allocations grow by 6.9 per cent a year and local government allocations by 8 per cent a year. The slightly faster growth in provincial spending, compared with national, reflects the personnel-intensive nature of provincial service delivery. Local government's share of nationally raised revenue continues to grow, reflecting the role of municipalities in building infrastructure and providing services.

Growth in provincial allocations reflects personnel-intensive nature of service delivery

After providing for debt-service costs, the 2013 main budget allowed for spending of R1.03 trillion in 2014/15 and R1.11 trillion in 2015/16. The 2013 MTBPS proposes that these main budget non-interest expenditure ceilings remain in place and that a spending limit of R1.16 trillion be set for 2016/17, in keeping with the fiscal policy stance outlined in Chapter 3.

Table 4.2 Main budget framework, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
State debt cost	66.2	76.5	88.1	100.5	110.4	122.2	135.4
Non-interest expenditure	739.8	813.5	877.4	949.1	1 027.8	1 106.1	1 185.1
Percentage increase	*7.1%*	*10.0%*	*7.9%*	*8.2%*	*8.3%*	*7.6%*	*7.1%*
Total expenditure	**806.0**	**889.9**	**965.6**	**1 049.6**	**1 138.1**	**1 228.3**	**1 320.5**
Percentage increase	*7.8%*	*10.4%*	*8.5%*	*8.7%*	*8.4%*	*7.9%*	*7.5%*
Contingency reserve	–	–	–	–	3.0	6.0	18.0
Division of available funds							
National departments	**355.2**	**381.3**	**410.2**	**452.5**	**487.9**	**520.4**	**550.1**
Provinces	**322.8**	**362.5**	**388.2**	**415.8**	**444.7**	**478.2**	**507.8**
Equitable share	265.1	291.7	313.0	338.9	362.5	388.0	412.0
Conditional grants	57.7	70.8	75.2	76.9	82.3	90.2	95.8
Local government	**60.9**	**68.3**	**76.4**	**84.8**	**91.9**	**101.4**	**106.7**
Equitable share	30.5	33.2	37.1	40.6	44.5	50.2	52.9
General fuel levy sharing with metropolitan municipalities	7.5	8.6	9.0	9.6	10.2	10.7	11.2
Conditional grants	22.8	26.5	30.3	34.6	37.2	40.5	42.6
Total	**738.9**	**812.1**	**874.9**	**953.1**	**1 024.5**	**1 099.9**	**1 164.6**
Percentage shares							
National departments	48.1%	47.0%	46.9%	47.5%	47.6%	47.3%	47.2%
Provinces	43.7%	44.6%	44.4%	43.6%	43.4%	43.5%	43.6%
Local government	8.2%	8.4%	8.7%	8.9%	9.0%	9.2%	9.2%

The proposed budget framework allows for average nominal growth in main budget spending of 8.0 per cent per year over the next three years. It includes a contingency reserve of R3 billion, R6 billion and R18 billion for 2014/15, 2015/16 and 2016/17, respectively for unforeseen and unavoidable requirements. The contingency reserve has been reduced by R7.5 billion over the next two years to respond to spending pressures. Debt-service costs rise at an average annual rate of 10.4 per cent, from R100.5 billion in 2013/14 to R135.4 billion in 2016/17.

Nominal growth in main budget spending projected to average 8.0 per cent annually over medium term

Spending pressures amounting to R21.6 billion over the next three years are accommodated through reprioritisation of R8.1 billion within departmental allocations and a drawdown of R13.5 billion on the contingency reserve.

Employee compensation claims lion's share of funds made available through reprioritisation

National and provincial public-sector salaries are linked to inflation, which is forecast to be higher than previously projected this year and over the next two years. Over the next three years, the cost of inflation adjustments is R12.2 billion, and R5.2 billion is also required to upgrade the salary levels of clerks in the public service.

The proposed division of revenue is outlined in Table 4.3.

Table 4.3 Division of revenue, 2013/14 – 2016/17

R billion	2013/14 Revised	2014/15	2015/16	2016/17	Average annual growth 2013/14 – 2016/17
		Medium-term estimates			
National allocations	**452.5**	**487.9**	**520.4**	**550.1**	**6.7%**
of which:					
Indirect grants to provinces [1]	*2.7*	*4.8*	*4.3*	*4.6*	*19.5%*
Indirect grants to local government [1]	*5.7*	*7.3*	*9.1*	*9.7*	*19.5%*
Provincial allocations	**415.8**	**444.7**	**478.2**	**507.8**	**6.9%**
Equitable share	338.9	362.5	388.0	412.0	6.7%
Conditional grants	76.9	82.3	90.2	95.8	7.6%
Local government allocations	**84.8**	**91.9**	**101.4**	**106.7**	**8.0%**
Total allocations	**953.1**	**1 024.5**	**1 099.9**	**1 164.6**	**6.9%**
Changes to baseline					
National allocations	**–**	**-1.6**	**-1.4**	**2.2**	
of which:					
Indirect grants to provinces [1]	*-0.4*	*-0.4*	*-0.7*	*-0.7*	
Indirect grants to local government [1]	*0.2*	*0.1*	*0.4*	*0.5*	
Provincial allocations	**1.7**	**3.0**	**3.8**	**4.4**	
Equitable share	1.4	2.5	4.3	5.1	
Conditional grants	0.3	0.5	-0.5	-0.7	
Local government allocations	**0.1**	**0.3**	**-0.1**	**-0.1**	
Total	**1.8**	**1.7**	**2.4**	**6.5**	

1. Amounts may be shifted between direct and indirect grants to provinces and local government before the 2014 Budget is tabled

In addition to direct transfers in the form of the equitable share and conditional grants, provinces and municipalities also benefit from indirect grants. These are allocations that national departments spend on behalf of provinces and municipalities. Funds for indirect grants are not transferred to provinces or municipalities (and therefore are not included in the shares for the division of revenue shown in Table 4.2).

Significant growth in value of indirect grants supports provision of schools and bulk water pipelines

They do, however, contribute to core spending areas for which sub-national government is responsible, including infrastructure such as schools and bulk water pipelines. Government proposes significant growth in the value of indirect grants to provinces and municipalities, from R8.4 billion in 2013/14 to R14.3 billion in 2016/17. Changes to the way these grants are managed will be considered over the period ahead, and amounts may be shifted between direct and indirect grants before the 2014 Budget is tabled.

The Financial and Fiscal Commission tabled its submission on the national budget in Parliament in May 2013. Government will formally respond to matters raised in the submission when it tables the 2014 Budget.

Funding provincial government

Higher-than-expected inflation pushes up medium-term wage bill

Over the next three years, provincial budgets grow from R415.8 billion to R507.8 billion. Over the medium term, provincial baseline allocations increase by a net R11.2 billion. This increase is funded through drawdowns in the contingency reserve and a reallocation of national resources.

Proposed changes to provincial allocations are driven by higher wage costs for the 900 000 public servants employed primarily in health and education, as well as by priorities in infrastructure and social services.

An occupation-specific dispensation for several categories of therapists in the education sector will be funded through a new conditional grant for two years, after which these funds will be incorporated into the provincial equitable share. Additions to the provincial equitable share of R2.5 billion in 2014/15, R4.3 billion in 2015/16 and R5.1 billion in 2016/17 will help to fund shelters for victims of abuse, as well as the rollout of a new vaccine for human papillomavirus. Small reductions to underperforming grants are also proposed.

Funds to fast-track upgrading of informal settlements in mining communities

Government proposes several changes to provincial conditional grants:

- Small reductions to a number of grants, which will release funds for reprioritisation, though their allocations still grow in nominal terms over the spending period. These include the *comprehensive agricultural support programme grant*, the *landcare grant*, the *education infrastructure grant*, the *school infrastructure backlogs grant* (an indirect grant), the *national health grant* (an indirect grant) and the *expanded public works programme grants* to provinces.
- New allocations to the *human settlements development grant* to fast-track the upgrading of informal settlements in mining towns that are experiencing rapid growth.
- Additional resources for the *further education and training colleges grant* to cover higher-than-anticipated salaries.
- Funds will be made available through the *public transport operations grant* to offset the rising costs of fuel and labour in provincial bus services.

Funding for infrastructure damaged by floods

In late 2012 and early 2013, widespread flooding in Limpopo, Mpumalanga, KwaZulu-Natal, the Eastern Cape and the Western Cape damaged infrastructure including schools, clinics, roads, bridges and farms. Funding to repair or replace public infrastructure and Reconstruction and Development Programme houses damaged in the floods is made available through several provincial sector grants and a new *municipal disaster recovery grant*. A total of R1 billion is added to provincial sector grants over the MTEF period – the *provincial roads maintenance grant*, the *human settlements development grant*, the *comprehensive agricultural support programme grant*, the *education infrastructure grant* and the *health facility revitalisation grant* – and a further R59 million is allocated to affected municipalities via a new *municipal disaster recovery grant*. This is in addition to R103 million for provinces and R118 million for municipalities added in 2013/14.

Funding local government

Support for eight metros to improve spatial development

In 2013/14, local government receives R84.8 billion. This is expected to increase to R106.7 billion by 2016/17. Changes to local government allocations shift funds towards areas that can support economic growth. The *integrated city development grant* provides the eight metropolitan municipalities with incentives to improve spatial development considerations in their planning. It is intended to help low-income households on the urban periphery access jobs and other opportunities. An amount of R356 million is added to this grant to encourage the evolution of more compact and efficient cities.

R934 million for regional bulk water projects

The availability of water is a prerequisite for the construction of human settlements and for economic activity. The *regional bulk infrastructure grant* (an indirect grant) receives an additional R934 million over the spending period to accelerate bulk water projects that will support broader development. To fund these priorities and stay within the spending ceiling, government proposes moderate reductions to a number of grants, including the *municipal infrastructure grant*, the *urban settlements development grant*, the *expanded public works programme integrated grant for municipalities,* the *infrastructure skills development grant* and the *energy-efficiency demand-side management grant*.

Housing function being devolved to local government in six metros

By 2014, government intends to devolve responsibility for the housing function from provincial to local government in six metropolitan areas: Cape Town, Ekurhuleni, eThekwini, Johannesburg, Nelson Mandela Bay and Tshwane. These municipalities will receive a total of R900 million over the medium term to manage this function.

Government has begun a review of local government infrastructure grants, which may result in changes to the number and structure of these grants. The review is a collaborative effort involving national departments, the Financial and Fiscal Commission and the South African Local Government Association, and it will involve extensive consultation with municipalities, provinces, professional associations and public entities. Proposals for changes to the grant system may be included in the 2014 *Medium Term Budget Policy Statement*.

New local government equitable share formula to fund basic services for low-income households

A new local government equitable share formula is being phased in from 2013/14. It provides funding for a package of free basic services for the 59 per cent of households with monthly incomes below the value of two state old age grants. The local government equitable share will grow at an average annual rate of 9.2 per cent over the spending period ahead.

Medium-term expenditure framework

The distribution of resources over the next three years is shown according to function group, reflecting how responsibility is shared across government. Table 4.4 sets out estimates for consolidated expenditure of national government, provinces, social security funds and public entities, and provides a breakdown of this spending by economic classification.

Figure 4.1 compares expenditure growth over the 2014 MTEF with spending over the three years to date. The strongest growth over the future spending period will be in employment and social security, economic infrastructure, and local government, housing and community amenities.

Table 4.4 Consolidated government expenditure, 2012/13 – 2016/17

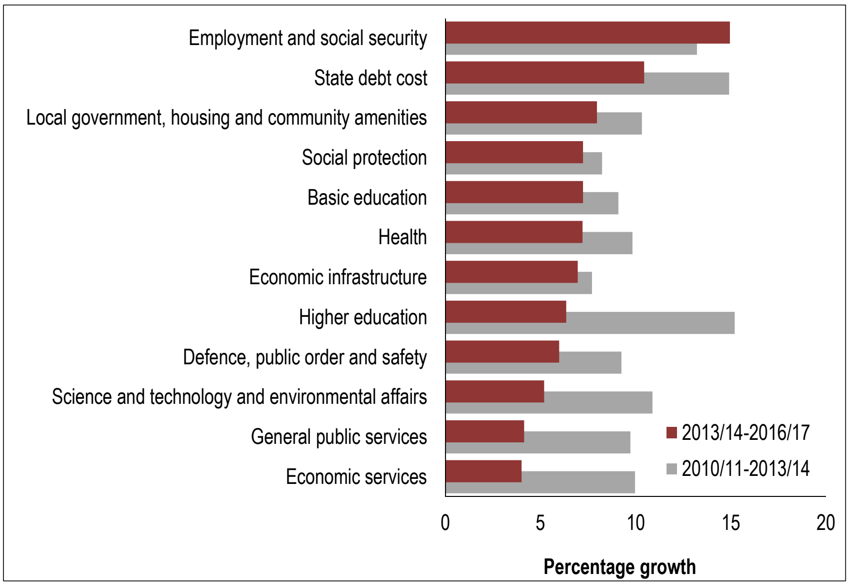
R billion	2012/13 Outcome	2013/14 Revised	2014/15 Medium-term estimates	2015/16	2016/17	Average annual growth 2013/14 – 2016/17
Defence, public order and safety	**141.7**	**154.5**	**163.6**	**172.7**	**184.4**	**6.1%**
Defence and state security	41.3	44.9	47.5	50.4	53.6	6.1%
Law courts	15.1	16.9	18.1	19.1	20.6	6.8%
Police services	68.0	74.1	78.2	82.4	88.0	5.9%
Prisons	17.3	18.5	19.7	20.8	22.1	6.1%
Economic infrastructure	**78.6**	**84.3**	**94.1**	**102.7**	**105.8**	**7.9%**
Communication	2.6	3.3	2.9	3.2	3.5	1.3%
Fuel and energy	7.9	7.9	8.9	9.6	10.3	8.9%
Transport	68.2	73.0	82.3	89.9	92.0	8.0%
Economic services	**43.7**	**47.3**	**48.7**	**51.1**	**53.4**	**4.2%**
Education and related functions	**216.1**	**233.6**	**250.2**	**267.8**	**286.5**	**7.0%**
Employment and social security	**39.0**	**50.6**	**60.0**	**66.7**	**74.6**	**13.8%**
General public services	**57.9**	**62.1**	**65.3**	**69.4**	**71.0**	**4.6%**
Health	**126.0**	**133.3**	**144.2**	**153.9**	**164.2**	**7.2%**
Social protection	**122.9**	**132.7**	**145.0**	**154.6**	**164.2**	**7.3%**
Local government, housing and community amenities	**115.2**	**128.1**	**141.2**	**153.8**	**163.2**	**8.4%**
Housing development	28.1	31.4	34.5	37.1	39.1	7.6%
Local government and community development	66.7	71.9	77.8	84.7	89.2	7.4%
Water supply	20.4	24.8	28.8	32.0	34.9	12.1%
Science and technology and environmental affairs	**13.7**	**16.8**	**18.1**	**19.5**	**19.5**	**5.2%**
Allocated by function	**954.7**	**1 043.2**	**1 130.4**	**1 212.3**	**1 286.8**	**7.2%**
State debt cost	88.1	100.5	110.4	122.2	135.4	10.4%
Contingency reserve	–	–	3.0	6.0	18.0	
Consolidated expenditure[1]	**1 042.9**	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**	**8.0%**
Economic classification						
Current payments	**633.7**	**694.2**	**742.0**	**793.8**	**851.8**	**7.1%**
Compensation of employees	375.4	409.0	437.2	466.9	498.9	6.8%
Goods and services	165.1	178.6	188.2	198.1	211.8	5.9%
Interest and rent on land	93.2	106.6	116.6	128.8	141.0	9.8%
of which: state debt cost	*88.1*	*100.5*	*110.4*	*122.2*	*135.4*	*10.4%*
Transfers and subsidies	**337.9**	**370.1**	**407.6**	**442.0**	**468.7**	**8.2%**
Provinces and municipalities	82.6	92.2	99.5	110.1	116.4	8.0%
Departmental agencies and accounts	25.0	22.4	25.3	27.5	28.0	7.7%
Higher education institutions	22.1	23.6	25.3	27.0	29.0	7.2%
Foreign governments and international	1.7	2.0	2.0	2.1	2.2	3.0%
Public corporations and private enterprises	22.3	24.9	26.2	28.3	29.4	5.6%
Non-profit institutions	24.1	28.5	30.0	31.7	33.2	5.3%
Households	160.0	176.6	199.3	215.3	230.6	9.3%
Payments for capital assets	**68.0**	**75.7**	**87.9**	**95.6**	**101.7**	**10.3%**
Buildings and other capital assets	54.0	59.8	70.8	76.9	81.7	11.0%
Machinery and equipment	13.9	16.0	17.1	18.7	20.0	7.8%
Payments for financial assets	**3.3**	**3.6**	**3.3**	**3.0**	**0.0**	
Total	**1 042.9**	**1 143.7**	**1 240.8**	**1 334.4**	**1 422.2**	**7.5%**
Contingency reserve	–	–	3.0	6.0	18.0	
Consolidated expenditure[1]	**1 042.9**	**1 143.7**	**1 243.8**	**1 340.4**	**1 440.2**	**8.0%**

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

Increased allocations to personnel-intensive departments result in more moderate growth in other functions

Real growth in spending by the education, health and social protection, and defence functions is mainly the result of additional salary requirements. To accommodate increased allocations to priority areas and personnel-intensive departments, growth in funding for other function groups has moderated.

Figure 4.1 Expenditure growth by function*



* *The education and health and social protection function groups have been disaggregated to show the main components of expenditure*
Source: National Treasury

Maintaining the main budget expenditure ceiling means that higher spending in some areas requires lower spending in others. Accordingly, government proposes reductions in goods and services expenditure in some departments, focusing on items such as travel and subsistence, consulting services, communication, and operating payments. Average growth in spending on goods and services will decline from 9.2 per cent over the past three years to 5.9 per cent over the medium term. Allocations to some slow-spending programmes continue to grow, but are reduced in line with their capacity to spend. Reassignment of funds through this process and drawdowns on the contingency reserve form the basis for allocations made to the different functional areas discussed below.

Defence, public order and safety

Compensation of staff absorbs 63 per cent of defence, public order and safety baseline

The defence, public order and safety function grows at an average annual rate of 6.1 per cent to R184.4 billion in 2016/17. This function is highly labour-intensive, with compensation of employees constituting 63 per cent of expenditure. To finance the higher wage bill, the indicative baseline has been increased.

The Department of Correctional Services has reprioritised funds to the electronic monitoring system to ease prison overcrowding, and it will upgrade skills development programmes for offenders. Funds are also reprioritised from the case backlog project to provide for the permanent appointment of prosecutors, public defenders and court support personnel.

The Department of Defence has reprioritised funds away from computer services and the special defence account for weapons procurement to the operational budget of the South African Air Force, and essential medical equipment and supplies. The Independent Police Investigative Directorate has reprioritised funds to enhance its investigative capacity.

Economic infrastructure: Transport, energy, communications

Support for infrastructure modernisation through the fiscus

The NDP calls for maintenance of the road network, renewal of the commuter rail fleet and unblocking constraints to spectrum allocation in the information technology sector. It stresses the importance of an energy sector that is competitively priced, reliable, efficient, equitable and environmentally friendly.

Over the MTEF period, state-owned companies will account for the largest investments in economic infrastructure by the public sector. In addition, R2.5 billion has been reprioritised through the fiscus to support infrastructure modernisation projects. The baseline of the transport, energy and communications function grows by an average annual rate of 7.9 per cent to R105.8 billion in 2016/17.

More than 300 six-car passenger rail trains to be purchased over next decade

Additional funding will support the Passenger Rail Agency of South Africa's procurement of rolling stock. The agency plans to purchase more than 300 six-car trains over the next decade, with initial deliveries in 2015/16. Money will also be made available to provide set-top boxes to more than 5 million low-income households in preparation for the switch to digital television in 2015.

The Nuclear Energy Corporation of South Africa will receive additional funding for research and development, and to refurbish existing research facilities. The Department of Transport is currently reviewing the impact of the taxi recapitalisation programme; a portion of the programme's funding will be delayed until the end of the spending period.

Economic services

The economic services function includes a broad range of incentives to support economic competitiveness to enhance South Africa's industrial capacity, boost exports and encourage inward investment. It also includes funding for small enterprise development, promotion of special economic zones and support for broad-based black economic empowerment. The baseline of this function grows by an average annual rate of 4.2 per cent to R53.4 billion in 2016/17.

Funds are reprioritised to invest in rural development and agricultural research

The 2014 MTEF provides significant budgetary support for research and development in the industrial sector, and for development finance institutions. Substantial funding is also made available for rural development, including land reform and restitution. Funds are also reprioritised from land acquisition to invest in emerging commercial farms and those acquired through the land reform programme. Agricultural research will continue to be prioritised, and the Department of Agriculture, Forestry and Fisheries will receive funding over the next two years to repair infrastructure damaged by floods.

Education

The NDP recognises the importance of education in addressing poverty and building a more capable workforce. Better basic education means better schools, better teachers and better student results. South Africa also needs many more people to attend and complete tertiary education.

Education – the largest category of public spending – is central to building a capable workforce

Education is the largest category of government expenditure. The function's baseline increases by an annual average rate of 7 per cent over the MTEF period to R286.5 billion in 2016/17. Spending on employee compensation accounts for, on average, 61 per cent of the function. To finance additional wage pressures (including an occupation-specific dispensation for therapists), the indicative baseline has been increased, and the *school infrastructure backlogs grant* and *education infrastructure grant* have been trimmed. These two grants continue to grow strongly over the spending period, by 10.2 per cent and 14.8 per cent respectively.

Employment and social security

By 2016/17, the community work programme will be operating in every municipality

This function group includes public employment programmes, the Department of Labour and its agencies, and the social security funds. Its baseline grows at an annual average rate of 13.8 per cent over the medium term to R74.6 billion, due largely to increased expenditure by the Unemployment Insurance Fund, the compensation funds and the Road Accident Fund. Additional money is also made available for employment programmes and labour services in 2016/17.

Over the MTEF period, employment programmes will improve the quality of their reporting and stabilise their administrative arrangements. These improvements will support a planned scaling up to meet the NDP target of providing work to 2 million people per year, up from 1 million in 2012/13. Supported by a significant funding increase in 2016/17, the community work programme will be present in every municipality by the end of the spending period.

Funding for additional labour inspectors over the medium term

The budget of the expanded public works management team in the Department of Public Works will be reduced over the MTEF period to encourage streamlining of operations. Funding allocated to the Department of Labour for unfilled posts over the next two years has been cut, but the department receives additional funds in the final year to recruit labour inspectors and information technology staff.

General public services

Public Works, National Youth Development Agency allocations are reduced

The baseline for general public services grows by an average annual rate of 4.6 per cent to R71 billion in 2016/17. Several departments will significantly cut their goods and services budgets over the next three years. Transfers to the South African Revenue Service, the African Renaissance Fund and the National Youth Development Agency will also be reduced. The allocation to the Department of Public Works is lowered to reflect slow spending on infrastructure projects.

The Department of International Relations and Cooperation will receive additional funding for staff to support the Chair of the African Union and for the South African Development Partnership Agency to finance development initiatives in Africa. In addition to funding made available for next year's elections in the previous budget, funding is provided in 2014/15 for the presidential inauguration. The Department of Home Affairs allocation is increased in 2016/17 to support the rollout of a new "smart" identity card that will in time replace identity books.

Health and social protection

The health and social protection function group's baseline grows at an average annual rate of 7.3 per cent to R328.4 billion in 2016/17. Health is a labour-intensive function and receives additional funding to accommodate wage pressures. A further R2.2 billion has been added to the function's indicative baseline in 2016/17 for antiretroviral treatment and social grants.

New vaccine to be introduced to curb incidence of cervical cancer

The Department of Health will introduce a new vaccine to reduce incidence of cervical cancer. The department has reduced the allocation to the *national health grant* in response to slow spending. Additional funds will allow for the purchase of new equipment for forensic chemistry laboratories. Funds have been reprioritised to the Department of Social Development to establish shelters for victims of gender-based violence and substance-abuse centres.

Errors and fraud being weeded out of social grant expenditure

Spending on social grants will increase over the medium term to accommodate an increase in beneficiaries and inflation adjustments to the value of grants. Growth in grant expenditure will be offset by savings from the reregistration of beneficiaries. This process, which began in March 2012, is designed to eliminate erroneous or fraudulent claims. A clearer picture of the number of legitimate grant recipients should emerge by the time of the 2014 Budget.

Local government, housing and community amenities

The local government, housing and community amenities function receives additional resources over the spending period for capital infrastructure projects. The function's baseline grows by an annual average rate of 8.4 per cent to R163.2 billion in 2016/17.

New support for bulk water provision, and to build project management and regulatory capacity

Government will make substantial investments in water services over the next three years. Additional resources will be made available through the *regional bulk infrastructure grant* to enable the Department of Water Affairs to fast-track projects in this area. Funds will also be provided to strengthen the department's project management and regulatory capacity. Funding is in place to commence work on the Umzimvubu Dam in the two outer years.

Additional funding is made available to strengthen city-support programmes over the medium term, and for provinces to upgrade informal settlements in mining towns. The *urban settlement development grant* is reduced by R130 million to reflect slow spending and the *municipal infrastructure grant* is reduced by R850 million to support reprioritisation towards bulk water projects. The Municipal Infrastructure Support Agency receives additional funds to assist with infrastructure delivery.

Science and technology and environmental affairs

Substantial support for Square Kilometre Array and biotechnology

The science and technology and environmental affairs function grows by an average annual rate of 5.2 per cent to R19.5 billion in 2016/17. Budgetary support is provided to finance research, upgrade facilities and improve regulatory oversight. The Square Kilometre Array receives substantial funding, and money has also been made available for vaccine production, biotechnology and disease management. Transfers to several science councils have been trimmed to encourage greater private-sector collaboration and investment.

Conclusion

While maintaining an expenditure ceiling, government continues to fund its core priorities

The medium-term budget framework shows how government has adapted its plans in a challenging economic and fiscal environment. While maintaining an expenditure ceiling, government continues to fund core economic and social priorities. Economic infrastructure, local community development and job creation will receive additional support over the spending period ahead. To fund other priorities in future, government will have to divert funds from non-performing or non-essential programmes, and eliminate wasteful expenditure.