

Technical annexure

■ Introduction

This annexure presents the budget framework, expenditure outcomes for 2013/14, mid-year estimates of expenditure for 2014/15 and the division of revenue.

The budget framework consists of the fiscal framework, government spending priorities, the division of resources between national, provincial and local government, and a tabulation of the major conditional grants. The budget framework enables national departments, provinces and municipalities to prepare their detailed budgets for the following year. South Africa has a multi-year budgeting process, so the framework covers the present fiscal year and the three subsequent years.

■ The fiscal framework

The fiscal framework sets out government's revenue projections, spending estimates, borrowing requirements and assumptions concerning debt-service costs. The consolidated fiscal framework comprises the main budget, as well as spending by provinces, social security funds and public entities financed from own revenue.

Revenue considerations

The revenue outcome for 2013/14, revised estimates for 2014/15 and the estimates for 2015/16 are presented in Table A.1.

The tax revenue outcome for 2013/14 was R900 billion, a 10.6 per cent increase on collections in 2012/13 and R1 billion higher than the 2014 Budget target. Some drivers of revenue growth were temporary, such as higher customs duties associated with the depreciating rand exchange rate.

Given downward revisions to nominal GDP, gross tax revenue has been revised downwards by R10 billion in 2014/15, R19.1 billion in 2015/16 and R31.8 billion in 2016/17 compared with the projections tabled in the 2014 Budget. However, after taking account of revenues anticipated from reforms to tax policy and administration to be implemented in 2015/16, the shortfalls are reduced to R7 billion for 2015/16 and R16.8 billion for 2016/17.

Projected revenues from corporate income tax, customs duties, value-added tax (VAT) and the fuel levy have underperformed for the first half of the current fiscal year and consequently been revised downwards. The revisions in customs duties will result in lower payments to South Africa's partners in the Southern African Customs Union (SACU) over the medium-term expenditure framework (MTEF) period. Above-inflation wage settlements have supported stronger personal income tax collection, resulting in an upward revision of R5.6 billion for 2014/15.

Non-tax revenue is expected to be R3.9 billion higher than the 2014 Budget estimate. Mineral royalties are estimated to generate R6.8 billion, a downward revision of R0.4 billion.

Table A.1 Total tax and budget revenue, 2013/14 – 2015/16

| R billion | 2013/14 | 2014/15 | | | 2015/16 |
|---|----------------|----------------|----------------|--------------|----------------|
| | Outcome | Budget | Revised | Deviations | Estimates |
| Persons and individuals | 309.8 | 335.9 | 341.5 | 5.6 | 377.2 |
| Companies | 177.3 | 198.9 | 192.3 | -6.7 | 211.7 |
| Value-added tax | 237.7 | 267.2 | 262.7 | -4.5 | 288.5 |
| Dividend withholding tax | 17.3 | 19.2 | 19.8 | 0.6 | 21.3 |
| Specific excise duties | 29.0 | 31.1 | 32.5 | 1.5 | 33.4 |
| Fuel levy | 43.7 | 47.5 | 46.0 | -1.5 | 47.2 |
| Customs duties | 44.2 | 50.3 | 45.0 | -5.3 | 49.3 |
| Other | 41.0 | 43.5 | 43.8 | 0.4 | 47.3 |
| Tax policy and administration reforms | – | – | – | – | 12.0 |
| Gross tax revenue | 900.0 | 993.7 | 983.6 | -10.0 | 1 088.1 |
| Non-tax revenue | 29.4 | 20.9 | 24.8 | 3.9 | 20.0 |
| <i>of which mineral royalties</i> | 6.4 | 7.2 | 6.8 | -0.4 | 7.4 |
| <i>Receipts from financial transactions</i> ¹ | 11.7 | 2.9 | 8.0 | 5.1 | 2.0 |
| Estimate of SACU payments ² | -43.4 | -51.7 | -51.7 | 0.0 | -52.9 |
| Provinces, social security funds and selected public entities | 126.6 | 136.5 | 137.3 | 0.8 | 144.4 |
| Total budget revenue | 1 012.7 | 1 099.2 | 1 093.9 | -5.4 | 1 199.5 |

1. Consists mainly of premiums and revaluation profits on debt transactions

2. Actual payments will be determined by outcomes of customs and excise revenue collections in line with the Southern African Customs Union agreement

Source: National Treasury

Table A.2 presents outcomes and estimates of receipts and payments from financial transactions. These receipts arise from financial transactions in assets and liabilities that are presented in the 2014 *Adjusted Estimates of National Expenditure* as part of departmental revenue.

Table A.2 Financial transactions receipts and payments, 2013/14 – 2017/18

| R million | 2013/14 | 2014/15 | | 2015/16 | 2016/17 | 2017/18 |
|---|---------------|--------------|--------------|-----------------------|--------------|--------------|
| | Outcome | Budget | Revised | Medium-term estimates | | |
| Receipts | 11 700 | 2 850 | 7 972 | 2 000 | 5 400 | 2 000 |
| Premiums on loan transactions ¹ | 5 510 | – | 4 000 | – | – | – |
| Foreign exchange amnesty proceeds | 399 | – | – | – | – | – |
| Revaluation profits on foreign currency transactions ² | 5 671 | 2 850 | 3 930 | 2 000 | 5 400 | 2 000 |
| Liquidation of SASRIA investment ³ | 75 | – | 40 | – | – | – |
| Proceeds from EDIH ⁴ | 37 | – | – | – | – | – |
| Other ⁵ | 8 | – | 2 | – | – | – |
| Payments | -516 | – | -311 | – | – | – |
| Premiums on loan transactions ¹ | -457 | – | -243 | – | – | – |
| Saambou bank | -31 | – | – | – | – | – |
| Defrayal of GFECRA losses ⁶ | -28 | – | -68 | – | – | – |
| Total | 11 184 | 2 850 | 7 661 | 2 000 | 5 400 | 2 000 |

1. Premiums received or incurred on new loan issues, bond switch and buy-back transactions

2. Revaluation profits or losses on government's foreign exchange deposits at the Reserve Bank when used to meet foreign currency commitments

3. Liquidation of government's investments in the South African Special Risk Insurance Association

4. Proceeds from the Electricity Distribution Industry Holdings

5. Mainly penalties on early withdrawal of retail bonds

6. Realised profits/losses on the Gold and Foreign Exchange Contingency Reserve Account

Source: National Treasury

In 2014/15, total receipts from financial transactions are expected to be R8.0 billion, R5.1 billion above the 2014 Budget estimate of R2.9 billion. This amount is made up of revaluation profits on foreign-currency transactions of R3.9 billion and premiums on loan transactions of R4.0 billion. The increase

reflects premiums on inflation-linked bonds resulting from lower-than-expected real yield. It also reflects revaluation profits on foreign-currency transactions resulting from higher drawdowns on foreign-currency reserves due to the timing of new issuances. Over the medium term, provision is made for receipts from financial transactions of R9.4 billion relating to revaluation profits on foreign-currency transactions. At current forecasted bond yields, no premiums on loan transactions are expected to be realised over the MTEF period.

In 2014/15, payments from financial transactions will amount to R311 million, made up of losses on the Gold and Foreign Exchange Contingency Reserve Account (R68 million) and premiums on loan transactions (R243 million). The premiums paid were on an unscheduled bond switch transaction with the Reserve Bank for monetary management purposes. Over the MTEF period no provision has been made for financial transaction payments.

Consolidated framework

Table A.3 summarises the consolidated fiscal framework, including the proposed fiscal policy package outlined in Chapter 3.

Following revised nominal GDP estimates, lower tax revenue projections and projected underspending by national departments in 2014/15, the consolidated budget deficit is forecast at 4.1 per cent of GDP, a slippage of 0.1 percentage points against the 2014 Budget target. In line with fiscal policy proposals, the budget deficit is projected to moderate over the MTEF period, reaching 2.5 per cent of GDP in 2017/18.

The fiscal framework continues to allow for moderate real growth in consolidated non-interest spending over the next two years – averaging 1.3 per cent – with growth increasing to 2.7 per cent in 2017/18. The fastest-growing expenditure item in the consolidated framework continues to be interest payments. Real growth in interest and rent on land is expected to average 3.1 per cent over the MTEF period, slower than the 7.6 per cent recorded in the past three fiscal years. The moderate pace of growth is due to government's consolidation plans.

Compensation accounts for the largest share of current spending. In 2014/15 compensation is expected to make up 40.3 per cent of total current spending, marginally lower than the 40.5 per cent in 2013/14. The consolidated wage bill increases at a nominal annual average of 6.6 per cent over the MTEF period. Goods and services budgets are expected to decline in real terms over the three-year spending period.

Transfers and subsidies, which account for 31.3 per cent of consolidated current spending, are expected to grow by 7.2 per cent over the three-year period. The nominal growth rate is slower than the 10.0 per cent rate recorded over the past three years. This follows a reduction in growth of transfers to public entities to match the inflation rate.

The current balance shows the gap between revenue and operational spending. The proposed fiscal package is expected to result in a consolidated current surplus of R24.1 billion in 2015/16, increasing to R107 billion in 2017/18. As a share of GDP, the current surplus reaches 2.2 per cent in 2017/18, financing almost 60 per cent of government's capital borrowing needs. Spending on capital is expected to grow by a real annual average of 1.4 per cent over the MTEF period, driven by expenditure on education, transport and water infrastructure. Even as the deficit consolidates in line with fiscal objectives, the capital finance requirement will remain broadly unchanged at about 4 per cent of GDP.

Table A.3 Consolidated fiscal framework, 2011/12 – 2017/18

| R billion | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|---------------|----------------|----------------|----------------|-----------------------|----------------|----------------|
| | Outcome | | | Estimate | Medium-term estimates | | |
| Operating account | | | | | | | |
| Revenue | 830.8 | 893.4 | 997.1 | 1 083.8 | 1 195.8 | 1 315.8 | 1 430.8 |
| Current payments | 838.3 | 919.1 | 1 006.0 | 1 093.1 | 1 171.6 | 1 247.1 | 1 323.7 |
| Compensation | 345.9 | 374.8 | 407.6 | 440.7 | 470.6 | 501.8 | 533.5 |
| Goods and services | 153.8 | 167.9 | 177.8 | 189.5 | 193.8 | 200.2 | 213.0 |
| Interest and rent on land | 81.7 | 93.4 | 107.5 | 120.8 | 133.3 | 145.3 | 155.9 |
| Transfers and subsidies | 257.0 | 283.0 | 313.1 | 342.3 | 373.9 | 399.7 | 421.4 |
| Current balance | -7.5 | -25.6 | -8.9 | -9.3 | 24.1 | 68.7 | 107.0 |
| <i>Percentage of GDP</i> | <i>-0.3%</i> | <i>-0.8%</i> | <i>-0.3%</i> | <i>-0.3%</i> | <i>0.6%</i> | <i>1.6%</i> | <i>2.2%</i> |
| Capital account | | | | | | | |
| Capital receipts | 0.3 | 0.4 | 0.9 | 0.1 | 0.1 | 0.1 | 0.1 |
| Capital payments | 62.5 | 67.3 | 80.3 | 90.2 | 97.7 | 103.6 | 110.6 |
| Capital transfers | 49.2 | 53.8 | 57.2 | 59.7 | 66.2 | 71.1 | 73.7 |
| Capital financing requirement¹ | -111.5 | -120.7 | -136.6 | -149.8 | -163.8 | -174.5 | -184.2 |
| <i>Percentage of GDP</i> | <i>-3.7%</i> | <i>-3.8%</i> | <i>-4.0%</i> | <i>-4.0%</i> | <i>-4.1%</i> | <i>-4.0%</i> | <i>-3.9%</i> |
| Financial transactions ² | 8.2 | 10.1 | 10.8 | 6.0 | 0.2 | 6.7 | 3.4 |
| Unallocated reserves | – | – | – | – | 5.0 | 15.0 | 45.0 |
| Budget balance | -110.8 | -136.2 | -134.7 | -153.2 | -144.5 | -114.1 | -118.7 |
| <i>Percentage of GDP</i> | <i>-3.7%</i> | <i>-4.3%</i> | <i>-3.9%</i> | <i>-4.1%</i> | <i>-3.6%</i> | <i>-2.6%</i> | <i>-2.5%</i> |
| Revenue | 842.3 | 908.9 | 1 012.7 | 1 093.9 | 1 199.5 | 1 323.0 | 1 434.6 |
| Expenditure | 953.1 | 1 045.1 | 1 147.4 | 1 247.1 | 1 344.0 | 1 437.1 | 1 553.4 |
| <i>Non-interest expenditure³</i> | <i>871.4</i> | <i>951.6</i> | <i>1 039.9</i> | <i>1 126.3</i> | <i>1 210.6</i> | <i>1 291.7</i> | <i>1 397.5</i> |
| <i>Interest payments</i> | <i>81.7</i> | <i>93.4</i> | <i>107.5</i> | <i>120.8</i> | <i>133.3</i> | <i>145.3</i> | <i>155.9</i> |
| Primary balance⁴ | -29.1 | -42.8 | -27.1 | -32.4 | -11.2 | 31.3 | 37.1 |
| <i>Percentage of GDP</i> | <i>-1.0%</i> | <i>-1.3%</i> | <i>-0.8%</i> | <i>-0.9%</i> | <i>-0.3%</i> | <i>0.7%</i> | <i>0.8%</i> |

1. Includes payments for capital assets, receipts from the sale of capital assets and capital transfers

2. Transactions in financial assets and liabilities including net receipts from financial transactions

3. All spending except for consolidated interest payments

4. Revenue less non-interest expenditure

Source: National Treasury

Borrowing requirement and national debt outlook

Table A.4 shows the financing of the national government borrowing requirement for 2013/14, revised estimates for 2014/15 and projections over the medium term. The main budget borrowing requirement is projected to moderate from R179.7 billion in the current fiscal year to R143.8 billion in 2017/18, in line with government's consolidation proposals.

Government's medium-term funding strategy focuses on addressing loans maturing in 2017/18 and beyond. The strategy includes the accumulation of cash using higher borrowing in 2014/15. In addition, government will continue to exchange short-dated bonds for longer-term bonds as market conditions permit.

As cash is accumulated, short-term loans will be reduced to minimise cash balances. The net increase in short-term loan issues in 2014/15 and 2015/16 will be R23 billion compared with R47 billion in the 2014 Budget. In the last two years of the MTEF period, the net increases will be R64 billion to provide for the financing of high loan redemptions.

New bond issuance in 2014/15 will total R187.6 billion, R20.5 billion higher than the 2014 Budget estimate, mainly due to high take-up of non-competitive auctions. Over the next two years new bond issuance will be R14.7 billion lower than the 2014 Budget levels, increasing to R176.9 billion in the outer year. The maturity profile of bonds will continue to favour issuing bonds with longer maturities.

**Table A.4 Financing of national government borrowing requirement,
2013/14 – 2017/18**

| R million | 2013/14 | 2014/15 | | 2015/16 | 2016/17 | 2017/18 |
|--|-----------------|-----------------|-----------------|-----------------------|-----------------|-----------------|
| | Outcome | Budget | Revised | Medium-term estimates | | |
| Main budget balance¹ | -161 701 | -179 781 | -179 711 | -167 187 | -139 016 | -143 770 |
| Financing | | | | | | |
| Domestic short-term loans (net) | 23 048 | 23 000 | 10 000 | 13 000 | 24 000 | 40 000 |
| Treasury bills | 20 221 | 23 000 | 10 000 | 13 000 | 24 000 | 40 000 |
| Corporation for Public Deposits | 2 827 | – | – | – | – | – |
| Domestic long-term loans (net) | 149 414 | 132 098 | 153 926 | 137 712 | 107 694 | 88 845 |
| Market loans (gross) | 172 112 | 167 103 | 187 360 | 165 500 | 165 500 | 176 914 |
| Loans issued for switches ² | -1 135 | – | 243 | – | – | – |
| Redemptions | -21 563 | -35 005 | -33 677 | -27 788 | -57 806 | -88 069 |
| Foreign loans (net) | 378 | 1 288 | 8 263 | 5 879 | 3 418 | 12 406 |
| Market loans (gross) | 19 619 | 16 290 | 22 952 | 9 826 | 16 635 | 16 005 |
| Redemptions (including revaluation of loans) | -19 241 | -15 002 | -14 689 | -3 947 | -13 217 | -3 599 |
| Change in cash and other balances³ | -11 139 | 23 395 | 7 522 | 10 596 | 3 904 | 2 519 |
| Total | 161 701 | 179 781 | 179 711 | 167 187 | 139 016 | 143 770 |

1. A negative number reflects a deficit

2. Net of loans issued and redeemed in switch transactions

3. A negative change indicates an increase in cash balances

Source: National Treasury

To manage currency risk, government's foreign borrowing programme will remain focused on financing foreign-currency commitments arising from interest payments and repaying of maturing loans. Over the medium term, US\$4 billion will be borrowed in international markets.

Table A.5 shows total national government debt over the period 2013/14 to 2017/18. National government's net debt is estimated to increase from 42.8 per cent in 2014/15 to 45.9 per cent in 2017/18, while gross debt is projected to remain below 50 per cent of GDP over the MTEF period.

Table A.5 Total national government debt, 2013/14 – 2017/18

| As at 31 March | 2013/14 | 2014/15 | | 2015/16 | 2016/17 | 2017/18 |
|--------------------------------|----------------|----------------|----------------|-----------------------|----------------|----------------|
| R billion | Outcome | Budget | Revised | Medium-term estimates | | |
| Domestic debt | | | | | | |
| Gross loan debt ¹ | 1 441.1 | 1 630.7 | 1 634.0 | 1 828.5 | 2 014.4 | 2 207.2 |
| Cash balances | -120.8 | -107.2 | -112.1 | -112.1 | -107.2 | -107.2 |
| Net loan debt ² | 1 320.3 | 1 523.5 | 1 521.9 | 1 716.4 | 1 907.2 | 2 100.0 |
| Foreign debt | | | | | | |
| Gross loan debt ¹ | 143.7 | 147.2 | 155.8 | 169.6 | 165.9 | 172.2 |
| Cash balances ³ | -84.5 | -81.7 | -89.0 | -87.0 | -83.4 | -80.3 |
| Net loan debt ² | 59.2 | 65.5 | 66.8 | 82.6 | 82.5 | 91.9 |
| Total gross loan debt | 1 584.8 | 1 777.9 | 1 789.8 | 1 998.1 | 2 180.3 | 2 379.4 |
| Total net loan debt | 1 379.5 | 1 589.0 | 1 588.7 | 1 799.0 | 1 989.7 | 2 191.9 |
| <i>As percentage of GDP:</i> | | | | | | |
| Total gross loan debt | 45.9% | 46.9% | 48.2% | 49.5% | 49.7% | 49.8% |
| Total net loan debt | 40.0% | 41.9% | 42.8% | 44.6% | 45.4% | 45.9% |
| Foreign debt as percentage of: | | | | | | |
| Gross loan debt | 9.1% | 8.3% | 8.7% | 8.5% | 7.6% | 7.2% |
| Net loan debt | 4.3% | 4.1% | 4.2% | 4.6% | 4.1% | 4.2% |

1. Forward estimates are based on projections of exchange and inflation rates

2. Net loan debt is calculated with due account of the cash balances of the National Revenue Fund (bank balances of government's account with the Reserve Bank and commercial banks)

3. Foreign currency deposits revalued at forward estimates of exchange rates

Source: National Treasury

2013/14 outcomes and 2014/15 mid-year estimates

Table A.6 presents a summary of the national and provincial appropriated expenditure outcomes for 2013/14 and estimates for the first half of 2014/15. Details are presented in Tables A.10 and A.11.

Main budget expenditure amounted to R1.048 trillion in 2013/14, which was R1.8 billion lower than the adjusted budget estimate and R1.3 billion lower than the 2014 Budget estimate.

Table A.6 National and provincial expenditure: 2013/14 outcomes and 2014/15 mid-year estimates

| | 2013/14 | | | | 2014/15 | | |
|--|-----------------|-------------------|---------------------|-------------------|-----------------|--------------------------------|------------------------------------|
| | Original budget | Adjusted estimate | Preliminary outcome | Over(-)/ under(+) | Original budget | Adjusted estimate ¹ | Actual spending April to September |
| R billion | | | | | | | |
| National Revenue Fund Expenditure | 1 055.1 | 1 049.6 | 1 047.8 | 1.8 | 1 142.6 | 1 136.3 | 551.7 |
| Debt-service costs | 99.7 | 100.5 | 101.2 | -0.7 | 114.9 | 114.5 | 56.6 |
| Provincial equitable share | 337.6 | 338.9 | 338.9 | – | 362.5 | 362.5 | 181.2 |
| Other direct charges | 25.0 | 25.1 | 24.9 | 0.2 | 26.8 | 26.9 | 11.5 |
| National votes | 592.7 | 585.0 | 582.7 | 2.3 | 638.3 | 632.5 | 302.4 |
| <i>of which:</i> | | | | | | | |
| <i>Compensation of employees</i> | 111.9 | 113.4 | 112.0 | 1.4 | 120.4 | 121.0 | 61.0 |
| <i>Transfers and subsidies</i> | 402.6 | 397.8 | 395.1 | 2.7 | 433.1 | 434.1 | 212.9 |
| <i>Payments for capital assets</i> | 14.3 | 14.3 | 14.1 | 0.2 | 17.7 | 16.7 | 4.6 |
| <i>Unallocated reserves</i> | 4.0 | – | – | – | 3.0 | – | – |
| <i>National government projected underspending</i> | – | -3.5 | – | -3.5 | – | -3.7 | – |
| <i>Local government repayment to the National Revenue Fund</i> | – | -0.5 | – | -0.5 | – | -0.5 | – |
| Provincial expenditure | 418.5 | 430.9 | 424.7 | 6.2 | 454.5 | n/a | 220.2 |
| <i>of which:</i> | | | | | | | |
| <i>Compensation of employees</i> | 251.7 | 254.9 | 254.4 | 0.5 | 275.3 | n/a | 136.1 |
| <i>Transfers and subsidies</i> | 57.7 | 61.2 | 60.5 | 0.7 | 62.5 | n/a | 31.0 |
| <i>Payments for capital assets</i> | 29.1 | 32.5 | 30.2 | 2.3 | 31.4 | n/a | 13.3 |

1. Provinces will table adjusted estimates during November 2014

Source: National Treasury

For 2014/15, main budget spending was revised down by R6.3 billion to R1.136 trillion compared with the 2014 Budget estimate. This represents an increase in expenditure of 8.5 per cent over the 2013/14 outcome. Of the appropriations to national departments, spending amounted to R582.7 billion in 2013/14, or 99.9 per cent of the February 2014 revised estimate of R583.5 billion. In the first six months of 2014/15, R302.4 billion was spent, or 47.8 per cent of the October 2014 revised estimate of R632.5 billion for the year. Transfers and subsidies form the largest economic category of national government expenditure. This includes transfers to provincial and local government through conditional grants, as well as payments for social grants, housing subsidies and transfers to universities, science councils and public entities.

Provincial expenditure in 2013/14 amounted to R424.7 billion, or 98.6 per cent of the 2014 Budget estimate. Expenditure by provinces was R220.2 billion in the first six months of 2014/15, representing 48.4 per cent of the original budget for the year. Provinces are primarily responsible for the delivery of social services, including basic education and health services. Compensation of employees is consequently the largest economic category of expenditure in provincial budgets, accounting for 61.8 per cent of expenditure in the first half of 2014/15.

Revised national expenditure estimates for 2014/15

The Adjustments Appropriation Bill and the Division of Revenue Amendment Bill set out amendments in the current financial year. The bills include the following proposed changes:

- R66.3 million in funds rolled over arising from commitments related to unspent balances in 2013/14.
- R620 million for digital broadcast migration.
- R350 million to cover the impact of the depreciation of the rand on foreign-currency denominated expenditure.
- R67.4 million for expenditure incurred for the funeral of former President Nelson Mandela.
- R65.7 million for the 2014 national macro organisation of the state.¹
- R63.1 million for contractual penalties incurred by Denel Aerostructures related to the A400M military aircraft contracts.
- R34.6 million for water infrastructure interventions.
- R32.6 million for the introduction of Ebola control and prevention measures in South Africa, and for the deployment of mobile laboratories, experts, training and technical support to affected countries.
- R15 million for claims received from the Compensation Fund related to the administration of public servant occupational diseases and on-duty injury claims.
- R4.3 million for the relocation of the Gauteng regional office of the Department of Mineral Resources due to fire damage.
- R705.1 million refunded to departments for monies paid directly into the National Revenue Fund from department-specific activities.
- R1 billion that will not be spent in 2014/15 and has been declared as unspent funds by departments.

Revised provincial allocations

- R9.7 million is rolled over from unspent balances in 2013/14.
- R397.7 million is shifted from the indirect *school infrastructure backlogs grant* in the national sphere to the *education infrastructure grant*.
- R262 million is shifted from the indirect *national health grant* (health facility revitalisation component) in the national sphere to the *health facility revitalisation grant*.

Revised local government allocations

- R81.7 million is rolled over from unspent balances in 2013/14.
- R157 million for the repair of infrastructure damaged by natural disasters.

Details of the revised national spending allocations are set out in the 2014 *Adjusted Estimates of National Expenditure*, including rollovers of unspent funds from 2013/14, approved allocations for unforeseeable and unavoidable expenditure, the appropriation of expenditure earmarked in the 2014 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

The largest share of the consolidated fiscal framework 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. This section outlines the proposed substantial adjustments to provincial and local government allocations not already discussed in Chapter 4.

¹ The national macro organisation of the state gives effect to Presidential proclamations regarding the establishment of new or amended executive portfolios, the renaming and establishment of new departments, and the transfer of legislation between Cabinet ministers in terms of the Constitution.

Table A.7 Main budget framework,¹ 2011/12 – 2017/18

| R billion | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|--------------|--------------|--------------|----------------|-----------------------|----------------|----------------|
| | Outcome | | | Revised | Medium-term estimates | | |
| Division of available funds | | | | | | | |
| National departments | 389.2 | 419.5 | 452.6 | 494.7 | 523.1 | 553.2 | 585.0 |
| Provinces | 356.0 | 381.4 | 411.1 | 440.2 | 468.5 | 496.8 | 527.0 |
| Equitable share | 289.9 | 311.0 | 336.8 | 360.2 | 383.0 | 405.6 | 429.3 |
| Conditional grants | 66.1 | 70.4 | 74.3 | 80.0 | 85.4 | 91.2 | 97.7 |
| Local government | 68.3 | 76.4 | 82.8 | 91.1 | 99.2 | 103.9 | 110.0 |
| Equitable share | 33.2 | 37.1 | 39.0 | 44.5 | 50.2 | 52.9 | 55.5 |
| General fuel levy sharing with metropolitan municipalities | 8.6 | 9.0 | 9.6 | 10.2 | 10.7 | 11.2 | 11.8 |
| Conditional grants | 26.5 | 30.3 | 34.3 | 36.4 | 38.4 | 39.8 | 42.7 |
| Total | 813.5 | 877.4 | 946.6 | 1 026.0 | 1 090.8 | 1 153.9 | 1 222.0 |
| <i>Percentage shares</i> | | | | | | | |
| National departments | 47.8% | 47.8% | 47.8% | 48.2% | 48.0% | 47.9% | 47.9% |
| Provinces | 43.8% | 43.5% | 43.4% | 42.9% | 42.9% | 43.1% | 43.1% |
| Local government | 8.4% | 8.7% | 8.8% | 8.9% | 9.1% | 9.0% | 9.0% |

1. Includes function shifts between spheres

Source: National Treasury

Over the 2015 MTEF period, national departments are allocated 48 per cent of available non-interest expenditure, provinces 43 per cent and local government 9 per cent. Medium-term allocations to national departments increase by an average annual rate of 5.7 per cent, provincial resources grow by 6.2 per cent and local government allocations grow by 6.5 per cent. Slightly faster growth in allocations to provincial and local government reflects the priority placed on front-line services such as health, education and basic services. The proposed changes to the division of revenue for the 2015/16 – 2016/17 period are outlined in Table A.8.

Table A.8 Changes to the division of revenue, 2014/15 – 2016/17

| R billion | 2014/15 | 2015/16 | 2016/17 |
|---|-------------|-----------------------|--------------|
| | Revised | Medium-term estimates | |
| Changes to baseline | | | |
| National allocations | -2.0 | -4.3 | -5.2 |
| <i>of which:</i> | | | |
| Indirect grants to provinces ¹ | -0.8 | -0.3 | -0.4 |
| Indirect grants to local | 0.1 | 0.7 | 0.7 |
| Provincial allocations | 0.7 | -4.0 | -6.0 |
| Equitable share | – | -2.6 | -4.0 |
| Conditional grants | 0.7 | -1.4 | -2.1 |
| Local government allocations | -1.5 | -0.8 | -1.3 |
| Total | -2.8 | -9.2 | -12.5 |

1. Amounts may be shifted between direct and indirect grants to provinces and local government before the 2015 Budget is tabled

Source: National Treasury

In line with Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act (1997), the Financial and Fiscal Commission tabled its submission on the national budget in Parliament in May 2014. Government will formally respond to matters raised by the Commission when it tables the 2015 Budget.

Changes to provincial allocations

From 2015/16 three functions performed by provinces – further education and training, adult education and training, and the port health function – will be transferred to national government, with funds shifted from the provincial equitable share and the *further education and training colleges grant*.

Table A.9 shows the preliminary equitable share allocations to each province in 2014/15 and over the 2015 MTEF.

Table A.9 Provincial equitable share, 2014/15 – 2017/18

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|------------------|----------------|----------------|----------------|----------------|
| R million | | | | |
| Eastern Cape | 51 700 | 54 356 | 57 415 | 60 118 |
| Free State | 20 661 | 21 775 | 22 794 | 23 999 |
| Gauteng | 68 153 | 73 484 | 78 311 | 83 679 |
| KwaZulu-Natal | 77 855 | 82 326 | 86 961 | 91 509 |
| Limpopo | 43 053 | 45 412 | 48 157 | 50 540 |
| Mpumalanga | 29 155 | 31 054 | 32 996 | 35 140 |
| Northern Cape | 9 608 | 10 145 | 10 737 | 11 404 |
| North West | 24 502 | 26 173 | 27 699 | 29 517 |
| Western Cape | 35 549 | 38 279 | 40 540 | 43 349 |
| Total | 360 236 | 383 003 | 405 610 | 429 254 |

Source: National Treasury

Changes to provincial conditional grants over the period ahead include the reprioritisation of funds out of the *provincial roads maintenance grant* to the South African National Roads Agency Limited for the upgrading of the R573 (Moloto Road), and out of the *human settlements development grant* to fund the expanded scope of work for planning and developing housing projects, now to be undertaken by the Housing Development Agency. Reprioritisation takes place from the indirect *national health grant*, and the *social sector expanded public works programme grant* for provinces.

A new *maths, science and technology grant* for provinces will be created through the merger of the *technical secondary schools recapitalisation grant* and the *Dinaledi schools grant*, allowing for these similar and overlapping programmes to be better administered and expanded to more schools.

Funding for the immediate costs of disaster response is made available to provinces and municipalities through special conditional grants that remain unallocated until they are disbursed. In recent years, the amounts assigned to these grants have exceeded actual needs. As a result, over the 2015 MTEF, R200 million will be reprioritised out of these grants. Funds for disaster recovery are also provided through conditional grants. In the 2015, MTEF funds for recovery from disasters that took place in 2013 and 2014 will be added to the *municipal disaster recovery grant*, and funds will be reprioritised and ring-fenced in the *provincial roads maintenance grant*, the *human settlements development grant*, the *education infrastructure grant*, the *comprehensive agricultural support programme*, and the *health facility revitalisation grant*. Amounts allocated are based on assessments conducted by the National Disaster Management Centre.

Changes to local government allocations

The fiscal package outlined in Chapter 3 proposes reductions across all spheres of government. For local government, reductions will only be made to conditional grants and not the local government equitable share. Reductions will be spread across the grants, but with larger reductions on grants with a history of underspending and on non-infrastructure grants. This translates to a reduction of baseline allocations for local government conditional grants of R920.6 million in 2015/16 and R1.4 billion in 2016/17.

The *municipal human settlements capacity grant* was introduced in 2014/15 to facilitate the development of capacity to manage human settlements programmes in Cape Town, Ekurhuleni, eThekweni, Johannesburg, Nelson Mandela Bay and Tshwane metropolitan municipalities. While the process of

assigning the housing function is being reviewed, strengthening the capacity of these cities to manage the built environment remains a priority. Allocations for this grant will be reduced and the structure and conditions of the grant amended to reflect these changes. Details will be announced in the 2015 Budget.

A new grant is proposed to fund the administrative costs of municipalities in KwaZulu-Natal and Gauteng affected by mergers that will take effect after the 2016 local government elections. Additions are also proposed for the *regional bulk infrastructure grant* and *municipal water infrastructure grant*. These allocations will allow government to accelerate the provision of clean water to households.

While the review of local government infrastructure grants discussed in Chapter 4 will continue in 2015, two changes emerging from the review's recommendations are proposed for 2015/16:

- Rationalising four grants administered by the Department of Water and Sanitation. These grants, which have overlapping objectives, are the *municipal water infrastructure grant*, *water services operating subsidy grant*, *rural households infrastructure grant* and *regional bulk infrastructure grant*.
- Merging the *public transport infrastructure grant* and the *public transport network operations grant* into a single grant that provides more flexibility to cities in choosing public transport solutions.

Table A.10 Expenditure by vote, 2013/14 and 2014/15

| | 2013/14 ¹ | | | | 2014/15 | | |
|---|----------------------|------------------|---------------------|-------------------|------------------|------------------|------------------------------------|
| | Main budget | Adjusted budget | Preliminary outcome | Over(-)/ Under(+) | Main budget | Adjusted budget | Actual spending April to September |
| R million | | | | | | | |
| 1 The Presidency | 621 | 621 | 576 | 45 | 1 178 | 652 | 288 |
| 2 Parliament ² | 1 419 | 1 419 | 1 535 | -116 | 1 508 | 1 508 | 671 |
| 3 Cooperative Governance and Traditional Affairs | 58 253 | 58 459 | 56 402 | 2 057 | 63 213 | 63 454 | 23 434 |
| 4 Home Affairs | 6 568 | 6 995 | 6 993 | 2 | 6 624 | 7 224 | 3 614 |
| 5 International Relations and Cooperation | 5 548 | 5 755 | 5 871 | -117 | 5 754 | 6 104 | 2 716 |
| 6 Performance Monitoring and Evaluation ³ | – | – | – | – | 208 | – | – |
| 7 Public Works | 6 170 | 6 175 | 6 023 | 153 | 6 121 | 6 121 | 3 014 |
| 8 Women, Children and People with Disabilities ³ | – | – | – | – | 219 | – | – |
| 9 Government Communication and Information System | 397 | 437 | 441 | -4 | 413 | 425 | 209 |
| 10 National Treasury | 25 556 | 25 232 | 25 107 | 125 | 27 265 | 26 704 | 11 405 |
| 11 Public Enterprises | 237 | 294 | 272 | 22 | 260 | 323 | 103 |
| 12 Public Service and Administration | 816 | 830 | 809 | 21 | 875 | 875 | 400 |
| 13 Statistics South Africa | 1 738 | 1 742 | 1 728 | 13 | 2 243 | 2 243 | 872 |
| 14 Arts and Culture | 2 915 | 2 915 | 2 755 | 160 | 3 525 | 3 525 | 1 551 |
| 15 Basic Education | 17 592 | 17 619 | 17 011 | 608 | 19 680 | 19 690 | 10 768 |
| 16 Health | 30 707 | 30 528 | 29 825 | 703 | 33 955 | 33 901 | 16 212 |
| 17 Higher Education and Training | 34 322 | 34 334 | 34 332 | 2 | 36 867 | 36 867 | 27 374 |
| 18 Labour | 2 415 | 2 445 | 2 371 | 74 | 2 527 | 2 546 | 1 202 |
| 19 Social Development | 120 519 | 118 539 | 117 109 | 1 429 | 128 799 | 128 594 | 63 306 |
| 20 Sport and Recreation South Africa | 1 073 | 1 073 | 1 073 | – | 970 | 970 | 412 |
| 21 Correctional Services | 18 748 | 18 748 | 18 700 | 48 | 19 721 | 19 722 | 9 291 |
| 22 Defence and Military Veterans | 40 243 | 40 658 | 40 448 | 211 | 42 831 | 42 857 | 18 713 |
| 23 Independent Police Investigative Directorate | 217 | 217 | 193 | 24 | 235 | 235 | 86 |
| 24 Justice and Constitutional Development | 14 134 | 14 206 | 13 731 | 476 | 15 162 | 15 162 | 6 602 |
| 25 Police | 67 917 | 68 791 | 68 791 | – | 72 507 | 72 507 | 34 320 |
| 26 Agriculture, Forestry and Fisheries | 6 178 | 6 182 | 6 111 | 71 | 6 692 | 6 692 | 3 441 |
| 27 Communications | 2 044 | 2 372 | 2 363 | 9 | 1 593 | 2 237 | 872 |
| 28 Economic Development | 771 | 771 | 771 | – | 697 | 697 | 318 |
| 29 Energy | 6 598 | 6 503 | 6 477 | 26 | 7 416 | 7 438 | 3 514 |
| 30 Environmental Affairs | 5 431 | 5 207 | 5 200 | 7 | 5 668 | 5 680 | 2 409 |
| 31 Human Settlements | 27 930 | 27 975 | 27 443 | 532 | 30 521 | 29 418 | 11 423 |
| 32 Mineral Resources | 1 394 | 1 394 | 1 387 | 7 | 1 471 | 1 476 | 832 |
| 33 Rural Development and Land Reform | 9 460 | 9 460 | 9 454 | 6 | 9 455 | 9 455 | 4 459 |
| 34 Science and Technology | 6 198 | 6 198 | 6 169 | 29 | 6 470 | 6 480 | 3 609 |
| 35 Tourism | 1 501 | 1 521 | 1 513 | 8 | 1 662 | 1 583 | 994 |
| 36 Trade and Industry | 9 573 | 9 516 | 9 380 | 135 | 9 835 | 9 919 | 4 001 |
| 37 Transport | 42 275 | 42 402 | 43 037 | -635 | 48 727 | 48 771 | 25 938 |
| 38 Water Affairs ³ | – | – | – | – | 12 480 | – | – |
| 39 Planning, Monitoring and Evaluation ³ | 665 | 665 | 647 | 18 | – | 734 | 363 |
| 42 Water and Sanitation ³ | 10 367 | 10 656 | 10 506 | 150 | – | 13 647 | 3 566 |
| 43 Women ³ | 171 | 171 | 163 | 8 | – | 185 | 77 |
| Total appropriation by vote | 588 682 | 589 026 | 582 719 | 6 306 | 635 349 | 636 619 | 302 381 |
| Plus: | | | | | | | |
| Direct charges against the National Revenue Fund | | | | | | | |
| President and Deputy President salary (The Presidency) | 3 | 3 | 3 | – | 3 | 5 | 2 |
| Members' remuneration (Parliament) ² | 454 | 454 | 402 | 52 | 481 | 481 | 193 |
| Debt-service costs (National Treasury) | 99 741 | 100 485 | 101 185 | -700 | 114 901 | 114 485 | 56 563 |
| Provincial equitable share (National Treasury) | 337 572 | 338 937 | 338 937 | – | 362 468 | 362 468 | 181 234 |
| General fuel levy sharing with metropolitan municipalities (National Treasury) | 9 613 | 9 613 | 9 613 | – | 10 190 | 10 190 | 3 397 |
| National Revenue Fund payments (National Treasury) ⁴ | – | 200 | 516 | -316 | – | 311 | 311 |
| Skills levy and sector education and training authorities (Higher Education and Training) | 12 403 | 12 300 | 12 090 | 210 | 13 440 | 13 200 | 6 416 |
| Judges' and magistrates' salaries (Justice and Constitutional Development) | 2 576 | 2 576 | 2 299 | 277 | 2 730 | 2 730 | 1 207 |
| Total direct charges against the National Revenue Fund | 462 363 | 464 567 | 465 044 | -478 | 504 213 | 503 871 | 249 322 |
| Unallocated reserves | 4 030 | – | – | – | 3 000 | – | – |
| National government projected underspending | – | -3 500 | – | -3 500 | – | -3 650 | – |
| Local government repayment to the National Revenue Fund | – | -500 | – | -500 | – | -500 | – |
| Total | 1 055 075 | 1 049 593 | 1 047 764 | 1 829 | 1 142 562 | 1 136 340 | 551 703 |

1. Adjusted to include function shifts

2. The preliminary outcome for Parliament is converted from accrual to cash

3. Funds appropriated in the main budget shifted to newly created department with historical numbers adjusted accordingly

4. Previously classified as extraordinary payments

Source: National Treasury

Table A.11 Expenditure by province, 2013/14 and 2014/15

| | 2013/14 | | | | | 2014/15 | |
|----------------------|----------------|-----------------|---------------------|-------------------|--------------------------------|----------------|---|
| | Main budget | Adjusted budget | Preliminary outcome | Over(-)/ Under(+) | Deviation from adjusted budget | Main budget | Actual spending April to September ¹ |
| R million | | | | | | | |
| Eastern Cape | 59 258 | 61 376 | 60 772 | 604 | 1.0% | 62 141 | 29 880 |
| Education | 26 972 | 27 539 | 27 451 | 88 | 0.3% | 27 935 | 13 606 |
| Health | 16 584 | 17 184 | 17 048 | 135 | 0.8% | 17 509 | 8 435 |
| Social Development | 2 015 | 2 044 | 1 965 | 79 | 3.9% | 2 159 | 1 056 |
| Other functions | 13 687 | 14 610 | 14 308 | 301 | 2.1% | 14 538 | 6 782 |
| Free State | 26 872 | 27 649 | 27 364 | 285 | 1.0% | 27 925 | 13 846 |
| Education | 10 456 | 10 613 | 10 917 | -304 | -2.9% | 11 259 | 5 946 |
| Health | 7 895 | 7 992 | 7 779 | 213 | 2.7% | 8 155 | 4 007 |
| Social Development | 951 | 965 | 963 | 2 | 0.2% | 973 | 458 |
| Other functions | 7 569 | 8 079 | 7 705 | 374 | 4.6% | 7 538 | 3 435 |
| Gauteng | 75 965 | 79 596 | 77 334 | 2 262 | 2.8% | 86 969 | 41 022 |
| Education | 29 276 | 30 695 | 30 362 | 333 | 1.1% | 32 845 | 16 211 |
| Health | 27 993 | 28 771 | 27 416 | 1 355 | 4.7% | 31 524 | 15 281 |
| Social Development | 2 896 | 2 917 | 2 900 | 17 | 0.6% | 3 525 | 1 569 |
| Other functions | 15 800 | 17 213 | 16 658 | 555 | 3.2% | 19 074 | 7 961 |
| KwaZulu-Natal | 89 792 | 91 966 | 92 009 | -43 | -0.0% | 96 718 | 48 664 |
| Education | 37 009 | 37 597 | 37 560 | 37 | 0.1% | 39 447 | 20 093 |
| Health | 28 648 | 29 219 | 29 531 | -312 | -1.1% | 30 914 | 15 826 |
| Social Development | 2 325 | 2 316 | 2 330 | -14 | -0.6% | 2 498 | 1 165 |
| Other functions | 21 811 | 22 834 | 22 588 | 246 | 1.1% | 23 859 | 11 580 |
| Limpopo | 48 435 | 48 407 | 46 597 | 1 810 | 3.7% | 51 460 | 24 009 |
| Education | 23 475 | 23 948 | 23 388 | 561 | 2.3% | 24 966 | 12 219 |
| Health | 13 077 | 13 481 | 13 138 | 343 | 2.5% | 14 371 | 6 867 |
| Social Development | 1 378 | 1 381 | 1 315 | 66 | 4.8% | 1 469 | 673 |
| Other functions | 10 505 | 9 597 | 8 756 | 840 | 8.8% | 10 655 | 4 250 |
| Mpumalanga | 33 659 | 34 226 | 33 701 | 524 | 1.5% | 36 470 | 17 661 |
| Education | 14 897 | 15 103 | 14 933 | 170 | 1.1% | 16 103 | 8 006 |
| Health | 8 085 | 8 122 | 8 065 | 57 | 0.7% | 8 992 | 4 271 |
| Social Development | 1 154 | 1 170 | 1 133 | 37 | 3.1% | 1 232 | 566 |
| Other functions | 9 524 | 9 831 | 9 570 | 261 | 2.7% | 10 143 | 4 818 |
| Northern Cape | 12 248 | 13 293 | 13 131 | 162 | 1.2% | 13 123 | 6 727 |
| Education | 4 448 | 4 528 | 4 559 | -31 | -0.7% | 4 744 | 2 469 |
| Health | 3 342 | 3 477 | 3 402 | 75 | 2.2% | 3 696 | 1 934 |
| Social Development | 604 | 608 | 604 | 3 | 0.5% | 651 | 293 |
| Other functions | 3 854 | 4 680 | 4 565 | 115 | 2.5% | 4 031 | 2 030 |
| North West | 28 566 | 30 267 | 30 129 | 137 | 0.5% | 31 770 | 15 442 |
| Education | 11 321 | 11 522 | 11 756 | -234 | -2.0% | 12 423 | 6 037 |
| Health | 7 667 | 8 353 | 8 393 | -40 | -0.5% | 8 184 | 4 274 |
| Social Development | 1 082 | 1 057 | 1 046 | 11 | 1.0% | 1 242 | 550 |
| Other functions | 8 495 | 9 334 | 8 933 | 401 | 4.3% | 9 920 | 4 580 |
| Western Cape | 43 704 | 44 081 | 43 667 | 414 | 0.9% | 47 935 | 22 945 |
| Education | 15 602 | 15 669 | 15 502 | 167 | 1.1% | 16 425 | 8 134 |
| Health | 15 872 | 16 030 | 15 917 | 113 | 0.7% | 17 338 | 8 359 |
| Social Development | 1 578 | 1 587 | 1 580 | 7 | 0.4% | 1 756 | 830 |
| Other functions | 10 653 | 10 795 | 10 668 | 127 | 1.2% | 12 416 | 5 623 |
| Total | 418 499 | 430 859 | 424 705 | 6 154 | 1.4% | 454 511 | 220 195 |
| Education | 173 456 | 177 214 | 176 427 | 787 | 0.4% | 186 147 | 92 720 |
| Health | 129 162 | 132 629 | 130 690 | 1 938 | 1.5% | 140 684 | 69 254 |
| Social Development | 13 984 | 14 044 | 13 836 | 208 | 1.5% | 15 505 | 7 161 |
| Other functions | 101 897 | 106 972 | 103 752 | 3 220 | 3.0% | 112 175 | 51 060 |

1. September expenditure numbers obtained from Vulindlela

Source: National Treasury