4

Expenditure priorities

In brief

- Medium-term spending priorities reflect government's policy of stabilising debt while supporting economic recovery, with a notable shift in the composition of spending from consumption towards growth-enhancing investment.
- Consolidated government spending is expected to total R6.21 trillion over the medium-term expenditure framework (MTEF) period, increasing from R2.04 trillion in 2020/21 to R2.14 trillion in 2023/24, at an average annual growth rate of 1.6 per cent.
- Relative to the 2020 Budget, total main budget non-interest spending is increased by R36 billion in 2020/21.
- To support debt stabilisation, non-interest spending is reduced by R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24 relative to the 2020 Budget estimates. Over the next three years, departments will have to adjust spending priorities and programmes to take into account the revised baseline allocations.
- Government intends to use the findings from spending reviews currently under way to begin implementing the principles of zero-based budgeting in the 2022 MTEF period.

Introduction

The COVID-19 pandemic required government to repurpose and reprioritise the 2020/21 spending plans initially tabled in the 2020 Budget. These changes were outlined in the June 2020 special adjustments budget, and additional adjustments are set out in the 2020 *Adjusted Estimates of National Expenditure*.

South Africa began 2020 in a weak fiscal position. The 2020 Budget included historically high levels of government spending, with consolidated expenditure reaching R1.95 trillion, or 36 per cent of GDP, in 2020/21. High expenditure levels, combined with low economic growth, have led to rising budget deficits and an unsustainable debt burden. To support the stabilisation of debt, significant spending reductions are required. Relative to the 2020 *Budget Review* projections, total main budget non-interest spending – including other adjustments discussed in Chapter 3 – is reduced by R62.9 billion in 2021/22, R92.9 billion in 2022/23 and R150.9 billion in 2023/24.

Reductions to compensation account for about half of the total reduction, while payments for capital assets increase. In this way, the composition of expenditure begins to shift away from consumption towards investment. Over the MTEF period, departments will have to review their spending priorities and programmes to align with revised baseline allocations. The budget framework also provides sufficient flexibility for adjustments to be made within overall ceilings in response to social and economic priorities. Additional details will be set out in the 2021 *Budget Review.*

Revisions to medium-term expenditure priorities

Consolidated government spending will grow below inflation at 1.6 per cent, increasing from R2.04 trillion in 2020/21 to R2.14 trillion in 2023/24. Nevertheless, spending levels remain near historic highs both in nominal terms and as a proportion of economic activity. Main budget spending averages 33.2 per cent of GDP over the MTEF period.

Spending on government programmes has exceeded annual revenues for more than a decade. The persistent gap between spending and government revenue requires difficult decisions about the structure, effectiveness and affordability of certain programmes. To ensure sustainability, high-level policy discussions are needed on:

- The approaches to providing financial support to students in post-school education.
- The subsidy mix for urban transport systems.
- The structure of the human settlements delivery programme.
- The number and size of departments, ministries and public entities in national and provincial governments.
- Management of the functions assigned to the three spheres of government.
- Measures to strengthen the social protection system for the most vulnerable.
- Containing the public-service wage bill.

Progress on spending reviews and zero-based budgeting

South Africa’s public spending levels are not matched by high levels of quality or efficiency in the services delivered by the state. This has led to an over-emphasis on incremental changes to annual budgets – and rising allocations – without adequate analysis of programme effectiveness. To address this problem, some reforms to the budgeting process are necessary, and government proposes to implement the principles of zero-based budgeting.

Since June 2020, the National Treasury has been reviewing government spending to improve efficiency. More than 30 spending reviews across all functions have been conducted. The reviews make use of large data systems to understand service-delivery outcomes, and how these might change under different scenarios. Preliminary findings indicate that:

- Many policies are designed and adopted without considering their total costs and affordability.
- Multiple institutions share overlapping responsibilities or mandates, leading to duplication of work.
- In several high-spending procurement areas, including information and communications technology, and infrastructure, it appears that government is overpaying for goods and services.

The spending reviews will be used to inform the zero-based budgeting approach that government will use to review baseline allocations in the 2022 MTEF period.

Table 4.1 Consolidated expenditure by function[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22	2022/23 Medium-term estimates	2023/24	Average annual growth 2020/21 – 2023/24
Learning and culture	**383.4**	**398.3**	**399.0**	**406.7**	**411.3**	**1.1%**
Basic education	261.1	267.8	267.8	272.0	274.5	0.8%
Post-school education and training	111.8	118.7	119.7	123.0	124.9	1.7%
Arts, culture, sport and recreation	10.5	11.8	11.5	11.8	11.9	0.2%
Health	**223.2**	**226.2**	**235.3**	**242.0**	**246.3**	**2.9%**
Peace and security	**212.8**	**216.8**	**210.7**	**213.3**	**214.5**	**-0.4%**
Defence and state security	50.8	52.0	47.2	47.7	48.1	-2.5%
Police services	104.3	104.8	105.3	106.1	106.4	0.5%
Law courts and prisons	47.7	49.5	49.1	49.7	50.0	0.3%
Home affairs	10.0	10.5	9.1	9.9	10.0	-1.7%
Community development	**197.0**	**208.2**	**221.1**	**232.2**	**236.4**	**4.3%**
Economic development	**196.7**	**211.3**	**224.7**	**236.3**	**242.0**	**4.6%**
Industrialisation and exports	37.2	38.6	41.5	41.5	42.3	3.1%
Agriculture and rural development	28.8	29.1	28.2	28.7	28.9	-0.2%
Job creation and labour affairs	21.4	23.1	24.3	25.3	25.6	3.4%
Economic regulation and infrastructure	92.8	103.9	113.7	123.3	127.3	7.0%
Innovation, science and technology	16.5	16.6	17.0	17.5	17.8	2.4%
General public services	**66.2**	**69.8**	**71.0**	**70.4**	**71.2**	**0.6%**
Executive and legislative organs	15.2	15.2	14.6	14.9	15.0	-0.3%
Public administration and fiscal affairs	43.5	46.6	48.4	47.2	47.8	0.9%
External affairs	7.5	8.1	8.0	8.2	8.3	0.9%
Social development	**298.7**	**315.4**	**312.2**	**329.9**	**335.7**	**2.1%**
Social protection	221.7	227.3	228.4	241.0	242.8	2.2%
Social security funds	77.0	88.0	83.7	88.9	92.9	1.8%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	**–**
Allocated by function	**1 644.0**	**1 732.6**	**1 716.7**	**1 757.0**	**1 781.0**	**0.9%**
Debt-service costs	204.8	225.9	271.8	317.6	353.1	16.1%
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.7**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**1 848.7**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

1. Consisting of national and provincial departments, social security funds and public entities
2. 2020/21 excludes June 2020 budget adjustments
Source: National Treasury

Table 4.1 shows consolidated expenditure by function. Over the medium term, the learning and culture function continues to receive the largest allocation of funds, mainly for basic and post-school education and training. Economic development and community development are the fastest-growing functions at 4.6 per cent and 4.3 per cent, respectively, mainly due to above-inflation growth in road infrastructure and expanded access to basic services in line with the economic recovery plan. Spending in the peace and security function will decrease, mainly due to reductions to the special defence account.

Table 4.2 shows consolidated expenditure by economic classification. Debt service is the fastest-growing expenditure item over the medium term, increasingly crowding out spending in most functions. Debt-service costs are projected to increase from R225.9 billion in 2020/21 to

R353.1 billion in 2023/24, at an average annual growth rate of 16.1 per cent.

Table 4.2 Consolidated expenditure by economic classification[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22	2022/23	2023/24	Average annual growth 2020/21 – 2023/24
			Medium-term estimates			
Current payments	**1 087.7**	**1 138.3**	**1 196.2**	**1 256.1**	**1 302.0**	**4.6%**
Compensation of employees	626.1	639.3	639.1	646.5	655.0	0.8%
Goods and services	246.9	262.9	275.3	281.5	283.3	2.5%
Interest and rent on land	214.8	236.1	281.8	328.0	363.8	15.5%
of which: debt-service costs	*204.8*	*225.9*	*271.8*	*317.6*	*353.1*	*16.1%*
Transfers and subsidies	**616.4**	**644.7**	**648.6**	**683.2**	**696.9**	**2.6%**
Provinces and municipalities	136.6	149.3	151.5	159.9	162.9	3.0%
Departmental agencies and accounts	27.7	26.3	24.7	25.4	25.7	-0.7%
Higher education institutions	46.6	47.4	48.0	49.0	49.8	1.6%
Foreign governments and international organisations	2.5	2.9	2.7	2.9	2.9	0.1%
Public corporations and private enterprises	35.1	34.8	37.3	40.2	43.9	8.0%
Non-profit institutions	38.1	40.7	41.8	43.7	44.3	2.9%
Households	329.8	343.4	342.5	362.0	367.4	2.3%
Payments for capital assets	**78.6**	**88.9**	**100.8**	**109.2**	**111.5**	**7.8%**
Buildings and other capital assets	60.3	70.3	79.6	86.6	88.5	7.9%
Machinery and equipment	18.3	18.5	21.2	22.6	23.0	7.5%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	**–**
Total	**1 848.7**	**1 958.4**	**1 988.5**	**2 074.6**	**2 134.2**	**2.9%**
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.7**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**1 848.7**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

1. Consisting of national and provincial departments, social security funds and public entities
2. 2020/21 excludes June 2020 budget adjustments
Source: National Treasury

Compensation expenditure

Employee compensation as a share of total spending will decrease from 32.7 per cent as estimated in the 2020 *Budget Review* to 31.3 per cent over the medium term, largely due to baseline reductions. Consistent with government's aim of shifting spending from consumption to investment, payments for capital assets grow above inflation, increasing from R88.9 billion in 2020/21 to R111.5 billion in 2023/24, at an annual average rate of 7.8 per cent.

The reductions on employee compensation in 2020/21 and over the MTEF period are discussed in Chapter 3. More than 80 per cent of the total compensation reductions occur in the learning and culture, health, and peace and security functions. These labour-intensive functions account for the majority of personnel in the public service.

Over the MTEF period, all departments will be required to control wages and headcounts. In addition, they will have to review and rationalise their organisational structures to minimise the effects on frontline services and ensure that they remain within their compensation expenditure ceilings.

Table 4.3 Reductions to compensation of employees

R million	2020/21	2021/22	2022/23	2023/24	Total
Function					
Community development	-632	-1 636	-2 294	-1 545	-6 107
Economic development	-1 676	-4 469	-6 084	-4 112	-16 341
General public services	-1 268	-4 064	-5 444	-3 765	-14 542
Health	-8 987	-19 147	-27 388	-17 202	-72 723
Learning and culture	-14 007	-30 038	-42 948	-27 207	-114 199
Peace and security	-9 185	-21 644	-28 848	-18 863	-78 541
Social development	-760	-2 190	-3 065	-2 116	-8 132
Total	**-36 515**	**-83 187**	**-116 071**	**-74 811**	**-310 585**

Source: National Treasury

In-year spending adjustments

Relative to the 2020 Budget, total main budget non-interest expenditure for 2020/21 is increased by R36 billion for the COVID-19 fiscal relief package.

The following adjustments, as announced or provisionally allocated in the 2020 Budget, are made:

- R23 billion is allocated to Eskom.
- R6.5 billion is allocated to South African Airways (SAA) for settling its guaranteed debt and interest.
- R84.7 million is allocated to the Independent Communications Authority of South Africa for the licensing of high-demand spectrum.
- R36.5 billion is reduced from compensation of employees, mainly from a freeze on salary increases.

In addition, R10.5 billion is allocated to SAA to implement its business rescue plan. This allocation was mainly funded through reductions to the baselines of national departments and their public entities, and provincial and local government conditional grants.

Specific details on adjustments to in-year spending for national departments are set out in the 2020 *Adjusted Estimates of National Expenditure*. Changes to conditional grants are included in the 2020 Division of Revenue Second Amendment Bill. Revised provincial appropriations will be tabled in provincial legislatures before the end of the current fiscal year.

Presidential employment interventions

A provisional allocation of R19.6 billion was set aside in the June special adjustments budget, mainly for job creation and protection. Of this amount, R6.8 billion is allocated to the Department of Social Development to fund the extension of the *special COVID-19 social relief of distress grant* for three months until 31 January 2021. An amount of R12.6 billion is allocated for presidential employment interventions to address unemployment, especially as it affects youth.

The Minister of Finance approved the allocation of these funds in terms of section 6(1)(a) of the Appropriation Act (2020), as amended by section 8 of the Adjustments Appropriation Act (2020). Table 4.4 provides a breakdown of the allocation for presidential employment interventions.

Table 4.4 Major presidential employment initiative projects

Vote	Description of project	Allocation R thousand
Vote 8: National Treasury	Provincial equitable share allocation to employ assistants in public schools. Posts at government-subsidised independent schools will also be supported	6 998 800
Vote 18: Health	Recruitment of outreach team leaders, community health workers, enrolled nurses and auxiliary nurses	393 571
Vote 19: Social Development	Support for early childhood development and social workers, and appointment of registration support officers	588 728
Vote 29: Agriculture, Land Reform and Rural Development	Retention of self-employed subsistence producers and support for food value chains	1 000 000
Vote 32: Environment, Forestry and Fisheries	Creation of jobs across various programmes in the department and its entities	1 983 000
Vote 37: Sports, Arts and Culture	Creation of jobs across the arts, culture, heritage and sports sector, and support for current cultural, creative and sports institutions	665 000
Vote 40: Transport	Creation of jobs for provincial roads maintenance through the S'hamba Sonke Programme	630 000
Other	Job creation opportunities in votes 3, 13, 16, 35 and 39	375 079
Total		**12 634 178**

Source: National Treasury

Spending priorities by function group

A range of policy decisions in each sector, including more efficient and cost-effective methods of implementation, is required to align spending with available resources.

Learning and culture

Over the medium term, this function will focus on ensuring that planned infrastructure projects in basic education, universities and technical and vocational education and training (TVET) colleges, as well as in the sports, arts and culture sector, are delivered on time and within the available budget. Basic education, representing the largest share of expenditure in the function, remains committed to improving educational outcomes. To ensure sustainability of the post-school education and training sector, changes in the pace of enrolment at universities and TVET colleges, as well as the coverage of the National Student Financial Aid Scheme bursaries, are likely.

Figure 4.1 Average nominal growth in spending, 2020/21 – 2023/24

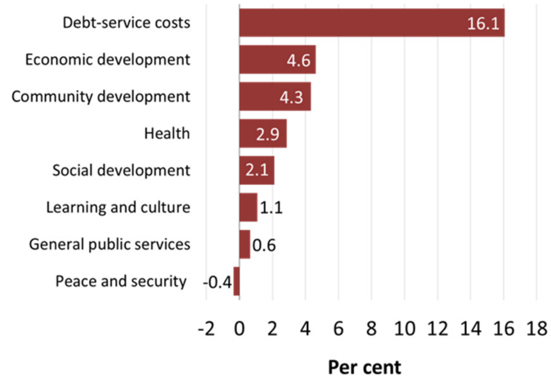
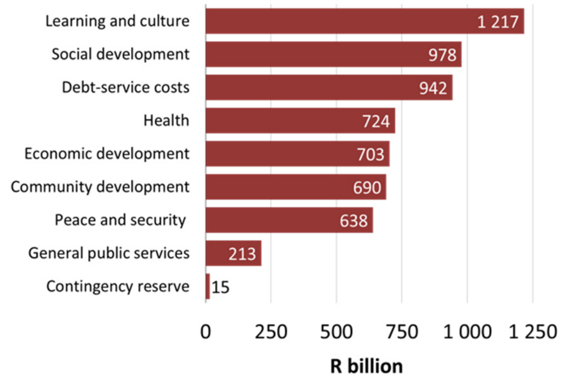


Figure 4.2 Consolidated government expenditure by function, 2021/22 – 2023/24



Source: National Treasury

Health

Over the medium term, greater efficiency and prioritisation is required to protect service delivery in areas such as primary healthcare, immunisation, and HIV prevention and treatment. Large spending reductions in the provincial equitable share formula, which is the main funding instrument for health, will require significant restructuring of provincial health services, with a focus on efficiency savings.

National health insurance could improve healthcare services from both public and private providers. However, progress has been slow. The National Health Insurance Bill is being processed by Parliament and capacity building within the national Department of Health has been delayed. Nonetheless, there are useful lessons from public- and private-sector collaboration during the COVID-19 pandemic.

Provisional funding has been made available from 2021/22 to build the Tygerberg Regional Hospital and Klipfontein Hospital in the Western Cape, subject to certain conditions. These hospitals will alleviate pressure on existing health facilities in these areas with rapid population growth.

Progress on health response to COVID-19

To support the public health response to the coronavirus pandemic, national and provincial governments reprioritised about R20 billion and allocated about R2.9 billion in new funding to the health sector during 2020/21. This funding was used to purchase protective and medical equipment, employ additional staff and upgrade facilities. Since July, new daily COVID-19 cases and deaths have declined significantly. The health sector, while maintaining capacity in case of another wave of infections, is now addressing backlogs in other service areas, such as elective surgeries.

The course of the pandemic remains uncertain. As the economy opens up, continued efforts to contain the spread of the virus will be required. Government is exploring options to ensure access to vaccines when they become available, including participation in the COVAX facility, a global initiative to ensure equitable access to future vaccines.

Social development

This function includes programmes aimed at income protection and social welfare, addressing the challenges of job losses and increasing poverty.

To continue mitigating food insecurity and poverty, an additional R6.8 billion is allocated to the Department of Social Development to extend the *special COVID-19 social relief of distress grant* for three months until 31 January 2021. In addition, R1 billion is allocated for food relief to vulnerable households. In total, short-term social grant-based relief amounts to R48 billion in 2020/21. During the year, more than 12 million new recipients received income protection. Implementation of the special grant shows the need for measures to cross-check applicants across databases, such as common social security registries.

The sector will be supported from October 2020 to March 2021 through the presidential employment interventions shown in Table 4.4. Over the MTEF period, responsibility for early childhood development will be transferred to the basic education sector.

Community development

This function funds access to services such as water, electricity, sanitation, housing and public transport. Government will review programmes related to the provision of mass housing, public transport standards and the levels of free basic services. The introduction of the *informal settlements upgrading partnership grant* in 2021 for provinces and metropolitan municipalities empowers communities to improve their living conditions.

Deteriorating water services and electricity distribution infrastructure affects the ability of municipalities to provide reliable services. This is exacerbated by weak technical skills and inadequate spending on repairs and maintenance. In the short term, a programmatic approach to asset management is required while the relevant departments undertake institutional reviews. The *municipal infrastructure grant* will be adjusted to facilitate this work.

Government is reviewing the operating model of the Passenger Rail Agency of South Africa to return the agency to sustainability. The Department of Transport is also exploring ways to integrate public transport funding.

Economic development

The economic development function group supports job creation, industrial development, and inclusive and sustainable economic growth. Spending in this function group is mainly driven by transfers and subsidies for incentive programmes, many of which are part of the economic recovery plan. The function will prioritise areas such as finalising outstanding restitution claims and supporting resettled farmers to sustain productivity, create jobs and reduce poverty.

Government and the tourism sector will collaborate to maintain tourism assets. Government will extend the short-term tourism relief fund to mid-2021 to assist eligible small, medium and micro-enterprises with working capital. Over the medium term, government has set aside about R540 million for a tourism equity fund to support black-owned and commercially viable enterprises to acquire shares in tourism enterprises.

Peace and security

The security cluster's medium-term priorities are to fight crime and ensure territorial integrity. Because most departments in this function are labour intensive, spending reductions will mainly affect staff.

The South African Police Service is allocated a rollover of R252.8 million, mainly for personal protective equipment procured in 2019/20 but delivered in 2020/21. The State Capture Commission of Inquiry is allocated an additional R63 million from the Department of Justice and Constitutional Development to finalise investigations and produce a close-out report.

Funds have been set aside over the medium term to establish the Border Management Authority, which will consolidate border management functions. The bulk of its financing and staff will be shifted, over time, from the government departments currently performing this function.

Funds will be reprioritised to capacitate the Information Regulator, which monitors and enforces compliance with the Protection of Personal Information Act (2013) and Promotion of Access to Information Act (2000).

General public services

This function group aims to build a professional state to develop and transform the public service. The Department of Public Service and Administration will reprioritise funds for personnel expenditure reviews in national, provincial and local government, public entities and state-owned companies over the next two years. These will assist in developing measures to manage the public-service wage bill sustainably.

The Department of Public Enterprises will reprioritise funds to support the Presidential State-Owned Enterprises Council, an advisory body to assist with strengthening state-owned companies. The Department of Planning, Monitoring and Evaluation will reprioritise funds to enhance public-service reporting on planning and performance.

Reductions to departmental baselines may delay the introduction of efficiency-enhancing initiatives such as e-Cabinet, and the full operationalisation of new units such as the project management office in the Presidency.

Division of revenue

Provinces are responsible for basic education and health services, roads, housing, social development and agriculture. Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services. Provincial and municipal governments face multiple pressures over the medium term as government reduces expenditure growth and poor economic performance affects other revenues and funding sources. During the 2021 MTEF period, transfers to provinces and municipalities are growing below inflation or contracting.

Over the medium term, government proposes to allocate 48.2 per cent of available non-interest expenditure to national departments, 42.2 per cent to provinces and 9.6 per cent to local government. Over this period, national government resources decline at an annual average of 3 per cent, provincial resources increase by 0.9 per cent and local government resources increase by 2.1 per cent.

Table 4.5 Division of revenue framework

R billion	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
		Outcome		Revised		Medium-term estimates	
Division of available funds							
National departments	**592.6**	**634.3**	**749.7**	**806.7**	**718.7**	**732.7**	**736.9**
Provinces	**538.6**	**572.0**	**613.1**	**628.3**	**629.4**	**641.8**	**645.6**
Equitable share	441.3	470.3	505.6	520.7	514.0	522.0	523.1
Conditional grants	97.2	101.7	107.6	107.6	115.4	119.8	122.5
Local government	**111.1**	**118.5**	**123.3**	**139.9**	**138.7**	**146.5**	**149.1**
Equitable share	55.6	60.8	65.6	85.7	78.0	83.1	83.7
General fuel levy sharing with metropolitan municipalities	11.8	12.5	13.2	14.0	14.6	15.3	15.4
Conditional grants	43.7	45.3	44.5	40.2	46.1	48.0	50.0
Provisional allocations not assigned to votes	–	–	–	–	37.6	31.3	34.9
Projected underspending	–	–	–	-2.1	–	–	–
Total	**1 242.3**	**1 324.8**	**1 486.2**	**1 572.7**	**1 524.3**	**1 552.2**	**1 566.5**
Percentage shares							
National departments	47.7%	47.9%	50.4%	51.2%	48.3%	48.2%	48.1%
Provinces	43.4%	43.2%	41.3%	39.9%	42.3%	42.2%	42.1%
Local government	8.9%	8.9%	8.3%	8.9%	9.3%	9.6%	9.7%

Source: National Treasury

Managing the effect of reductions in planned expenditure

Relative to the 2020 Budget, the provincial equitable share will be reduced by R60 billion in 2021/22, R85.6 billion in 2022/23 and R64.1 billion in 2023/24. These reductions include compensation reductions announced in the 2020 Budget and in this *Medium Term Budget Policy Statement* (MTBPS), which account for about 85 per cent of the total, and reductions to conditional grants of R12.1 billion.

Rural provinces, which are more dependent on transfers from national government, are likely to be more affected than urban provinces with additional revenue sources. The current review of the provincial equitable share formula will include refinements to assist in addressing the costs associated with service delivery in rural and urban locations. To respond to the planned adjustments to expenditure, all provinces will need to reprioritise and increase efficiency.

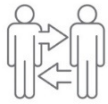
Transfers to local government will be reduced by R17.7 billion, including R14.5 billion from the local government equitable share, R2.7 billion from the general fuel levy and R569 million in direct conditional grants. The majority of municipalities increased wages by 6.3 per cent from July 2020 in line with their existing multi-year wage agreement. The implications of these reductions will be set out in more detail in the 2021 *Budget Review*.

Underperforming programmes will be revisited. For example, some cities receiving the *public transport network grant* have not launched their integrated public transport networks. Over the MTEF period, at least two more poorly performing cities will be suspended from this grant and the remaining cities will be required to reduce costs and demonstrate their effectiveness to remain funded.

Changes to the structure of provincial allocations

Several changes are proposed to the structure of conditional human settlements grants over the medium term.

The *title deeds restoration grant* will end in 2020/21. The grant established mechanisms, processes and capacity within each province to help eradicate the backlog in providing title deeds to subsidised houses delivered before 2014. The funds from this grant will be shifted back into the *human settlements development grant* from 2021/22, which will fund these eradication initiatives. Once a province has cleared its backlog, it can allocate the remaining funds to other projects within the grant.



Following an allocation in the 2019 Budget, a component within the *human settlements development grant* and the *urban settlements development grant* was allocated a minimum amount for informal settlement upgrades, in partnership with communities. From 2021/22, a new *informal settlements upgrading partnership grant* will be introduced for provinces and metros. The design of this grant incorporates the lessons learnt, including requirements for informal settlement upgrading strategies and planning individual upgrading projects with communities.

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

Table 4.6 Provincial equitable share

R million	2020/21	2021/22	2022/23	2023/24
Eastern Cape	69 195	66 799	67 158	66 620
Free State	28 934	28 516	28 891	28 885
Gauteng	108 310	109 360	112 109	113 395
KwaZulu-Natal	107 608	105 139	106 499	106 449
Limpopo	60 299	58 915	59 382	59 058
Mpumalanga	42 637	42 034	42 627	42 656
Northern Cape	13 749	13 662	13 873	13 901
North West	36 307	36 111	36 791	36 989
Western Cape	53 677	53 438	54 656	55 159
Total	**520 717**	**513 973**	**521 988**	**523 111**

Source: National Treasury

Changes to the structure of local government allocations

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. To help municipalities improve their asset management practices, an indirect component of the *municipal infrastructure grant* will be introduced in 2021/22, and funded from the direct component.

Additional instruments to finance infrastructure in municipalities

Beyond infrastructure grants, municipalities can access other instruments to finance the development of infrastructure that boosts economic growth.

Municipalities earn revenue from charging developers to connect new developments to municipal services. The draft Municipal Fiscal Powers and Functions Amendment Bill proposes new, uniform regulations for these development charges, strengthening the revenue-raising framework for municipalities. After processing comments, the National Treasury will submit the bill to Cabinet and Parliament for consideration in 2021.

Creditworthy municipalities can also borrow in capital markets. The National Treasury has updated the original municipal borrowing policy framework, which guides this borrowing, and will shortly submit it to Cabinet for approval. The proposed changes aim to increase the term maturity of borrowing, improve the secondary market for the trade of municipal debt instruments and define the role of development finance institutions to avoid crowding out the private sector.

Reviewing the structure of the local government fiscal framework

Following an announcement by the Minister of Finance, a meeting on local government finances took place in August 2020. The special lekgotla of the Budget Forum – the intergovernmental structure established to facilitate consultation on local government finances – is addressing the problem of unfunded budgets, municipal sustainability, and structural and operational challenges impeding the effective functioning of municipalities.

Conclusion

Current trends in South Africa's public finances – high levels of expenditure, lower levels of revenue and growing government debt – are unsustainable. The 2020 MTBPS proposes a fiscal consolidation to stabilise debt and promote economic growth. Spending reductions will lower the budget deficit and are weighted towards the wage bill to shift the composition of spending from consumption to investment. At the same time, reductions will require both improvements in efficiency and high-level decisions on government priorities. Finally, government will implement the principles of zero-based budgeting to address the negative impact of waste and unsustainable incremental increases to spending.