4

Expenditure priorities

In brief

- Consolidated government spending is expected to increase from R2.13 trillion in 2021/22 to R2.24 trillion in 2024/25, at an average annual growth rate of 1.7 per cent.
- Main budget non-interest spending is increased by a net R59.4 billion in 2021/22. Total in-year upward adjustments to spending amount to R77.3 billion, mainly to reinstate the *special COVID-19 social relief of distress grant* until March 2022, and for costs associated with the implementation of the 2021 public-service wage agreement and the outbreak of public violence in July 2021.
- These additions are partially offset by projected underspending, drawdowns on the contingency reserve and provisional allocations announced in the 2021 Budget.
- A total of R11 billion provisionally set aside in the 2021 Budget is allocated for phase 2 of the presidential employment initiative until the end of March 2022.
- No spending reductions are proposed in the 2021 *Medium Term Budget Policy Statement* (MTBPS). This is largely due to improved revenue, which will help lower the fiscal pressure posed by increasing debt levels over the medium term.
- Over the medium-term expenditure framework (MTEF) period, allocations to provinces increase by R15.7 billion and allocations to local government increase by R1 billion relative to the indicative allocations in the 2021 Budget.

Introduction

Government continues to devote considerable resources to core functions and social priorities, despite slower spending growth in recent years in line with fiscal consolidation. The social wage accounts for nearly 60 per cent of consolidated non-interest spending over the MTEF period (Table 4.1). Healthcare, education and social protection make up the bulk of this amount. Debt-service costs, estimated at R1 trillion over the same period, exceed all individual consolidated spending items by function (except for learning and culture), indicating the effect of South Africa's rising debt stock on basic services.

To maximise the value of spending, government needs to contain costs, exercise prudent and compliant financial management, and eradicate wasteful treatment of public funds and resources.

Over the medium term, the National Treasury will continue working with departments to assess the efficiency, effectiveness and performance of selected programmes. General findings from spending reviews conducted in 2020/21 suggest the need to:

- Improve design to ensure the development of policies that are affordable in the current context, and avoid overlapping mandates.
- Review procurement processes to eradicate corruption and ensure delivery of cost-effective solutions.
- Contain compensation spending through a combination of headcount and remuneration measures.

Compensation of employees remains a major cost pressure. Although additional funding has been allocated to departments to meet the cost implications of the 2021 public-service wage agreement, it remains critical for departments to adhere to compensation ceilings and manage headcounts proactively if government is to improve its fiscal position.

Table 4.1 Social wage

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Community development	**148.8**	**152.9**	**161.3**	**171.0**	**186.8**	**193.7**	**203.9**
Housing development	29.0	28.8	23.7	27.3	28.2	29.5	30.8
Transport	25.3	26.3	25.9	34.4	37.9	40.7	44.1
Water services	5.5	4.4	4.0	4.5	5.7	7.0	7.2
Local government[1]	88.9	93.4	107.8	104.8	115.0	116.6	121.8
Employment programmes	**19.6**	**21.6**	**19.4**	**23.3**	**24.2**	**24.3**	**25.4**
Health	**190.3**	**205.8**	**222.7**	**228.2**	**224.1**	**221.9**	**231.8**
Basic education	**223.9**	**239.3**	**247.6**	**257.6**	**254.2**	**253.9**	**265.3**
Fee-free higher education and training	**35.7**	**44.4**	**44.7**	**56.8**	**52.0**	**52.1**	**54.6**
Social protection	**187.0**	**217.0**	**247.1**	**252.7**	**234.0**	**236.5**	**247.1**
of which: Social grants	*162.7*	*190.3*	*218.9*	*221.7*	*204.3*	*206.1*	*215.3*
Social security funds	**55.0**	**60.1**	**107.1**	**130.0**	**68.2**	**67.3**	**68.8**
Social wage	**860.3**	**941.1**	**1 049.9**	**1 119.6**	**1 043.5**	**1 049.7**	**1 096.9**
Percentage of non-interest spending	*58.9%*	*58.3%*	*60.4%*	*60.2%*	*59.4%*	*59.5%*	*59.5%*

1. Includes local equitable share
Source: National Treasury

Revisions to medium-term expenditure priorities

Departments have reprioritised funds within their available budgets to address spending priorities. These include funds to enhance the governance of state-owned companies; implement the first pilot phase of the Integrated Financial Management System; and strengthen the capacity of the Investigative Directorate to pursue cases of serious and complex corruption flowing from the Commission of Inquiry into State Capture.

The framework for the implementation of zero-based budgeting was completed in May 2021, and the Department of Public Enterprises and the National Treasury will pilot this approach, which is informed by the ongoing process of spending reviews. The Department of Public Enterprises review focuses on spending efficiency in regard to consultants, travel and subsistence, and operating leases. The National Treasury review focuses on spending efficiency on consultants, the cost of monitoring and reporting in its support functions through the administration programme, and the funding of multilateral banks and the common monetary area. Key findings from both reviews will be included in the 2022 *Budget Review*.

In-year spending adjustments

Total upward adjustments to spending in 2021/22 amount to R77.3 billion. These adjustments include:

- R32.9 billion through the Second Special Appropriation Bill.
- R20.5 billion for implementation of the 2021 public-service wage agreement in national and provincial departments.
- R2.8 billion for rollovers.
- R1.1 billion for self-financing from the revenue-generating activities of departments to be retained by them to continue these activities.

Total declared unspent funds amount to R2 billion, mainly from the *public transport network grant* due to delays in implementing the MyCiTi Phase 2A extension project in the City of Cape Town. In addition, total adjustments include the allocation of R11 billion that was provisionally set aside in the 2021 Budget for phase 2 of the presidential employment initiative. This will support the creation of more than 440 000 short-term jobs until March 2022, as shown in Table 4.2, and other interventions expected to catalyse growth and job creation. The allocation for livelihood support covers income support for self-employed people in areas such as subsistence farming and micro-enterprises.

Spending additions were partially offset by projected underspending, drawdowns on the contingency reserve and provisional allocations from the 2021 Budget totalling R17.9 billion. As a result of the in-year adjustments, total non-interest spending will increase by R59.4 billion, from R1.56 trillion projected in the 2021 Budget to R1.62 trillion in 2021/22.

Details on in-year spending adjustments for national departments are set out in the 2021 *Adjusted Estimates of National Expenditure* published alongside this MTBPS. Changes to conditional grants are included in the 2021 Division of Revenue Amendment Bill and revised provincial appropriations will be tabled in provincial legislatures by December 2021.

Table 4.2 Employment programmes

Department	Programme description	Budget (R thousand)	Short-term jobs
Basic Education	Basic education employment initiatives	6 000 000	287 000
National Treasury	Innovation in post-exposure prophylaxis for metros	841 000	35 000
Trade, Industry and Competition	Social employment fund	800 000	50 000
Women, Youth and Persons with Disabilities	Presidential youth employment intervention/National youth service	400 000	35 000
Cooperative Governance	Municipal Infrastructure Support Agent: Waste separation and treatment solutions	284 000	11 818
Forestry, Fisheries and the Environment	Environmental programmes	318 000	8 150
Higher Education and Training	Presidential youth employment intervention/National skills fund pay for performance model for digital skills	100 000	4 500
	University graduate assistance	90 000	3 000
Social Development	Social workers and National Development Agency programme	150 000	3 880
Health	Staff and assistant nurses, port health screening	365 000	2 568
Tourism	Support to 40 provincial tourism attractions and tourism monitors	108 000	1 064
Science and Innovation	Enviro-champs, water graduates and other	67 000	1 650
Sport, Arts and Culture	District Six, Hip Hop and Phanzi museums	15 000	914
Employment and Labour	Employment counselling at labour centres	20 000	250
Total		**9 558 000**	**444 794**

Source: National Treasury and The Presidency

Table 4.3 Livelihood support programmes

Department	Programme description	Budget (R thousand)	Livelihoods
Agriculture, Land Reform and Rural Development	Support to subsistence farmers	750 000	67 378
Social Development	Early childhood development employment initiative	178 000	42 718
Women, Youth and Persons with Disabilities	Presidential youth employment intervention/Youth enterprise support fund	30 000	2 000
Total		**958 000**	**112 096**

Source: National Treasury and The Presidency

Spending priorities by function group

Spending in the community development function, which mainly provides basic services to households, grows at the fastest rate over the 2022 MTEF period, averaging 5.5 per cent per year. Over the same period, social development spending will contract by an average of 5.9 per cent given that the *special COVID-19 social relief of distress grant* is due to conclude on 31 March 2022. Debt-service costs grow by 10.8 per cent over the medium term.

Table 4.4 Consolidated expenditure by function[1]

R billion	2020/21 Outcome	2021/22 Revised	2022/23	2023/24	2024/25	Average annual growth 2021/22 – 2024/25
			Medium-term estimates			
Learning and culture	**384.4**	**417.8**	**414.3**	**415.6**	**434.8**	**1.3%**
Basic education	268.8	281.8	279.6	279.0	291.7	1.2%
Post-school education and training	106.6	124.7	123.4	125.3	131.5	1.8%
Arts, culture, sport and recreation	9.0	11.2	11.3	11.3	11.7	1.2%
Health	**248.2**	**259.0**	**247.8**	**243.6**	**254.7**	**-0.6%**
Peace and security	**212.4**	**219.3**	**218.2**	**213.3**	**222.8**	**0.5%**
Defence and state security	54.0	49.4	48.9	48.1	50.3	0.6%
Police services	103.4	109.4	109.2	106.2	111.0	0.5%
Law courts and prisons	46.9	49.2	50.4	49.6	51.9	1.8%
Home affairs	8.1	11.3	9.6	9.4	9.7	-5.1%
Community development	**203.3**	**218.0**	**235.9**	**243.5**	**256.2**	**5.5%**
Economic development	**170.2**	**206.3**	**217.8**	**227.6**	**241.8**	**5.4%**
Industrialisation and exports	31.9	39.5	37.6	37.9	39.7	0.2%
Agriculture and rural development	24.4	28.5	28.3	28.2	29.4	1.1%
Job creation and labour affairs	19.4	23.3	24.2	24.3	25.4	3.0%
Economic regulation and infrastructure	79.6	97.7	110.1	119.5	129.0	9.7%
Innovation, science and technology	15.0	17.4	17.7	17.7	18.2	1.6%
General public services	**64.1**	**70.8**	**68.9**	**68.8**	**71.0**	**0.1%**
Executive and legislative organs	15.2	15.3	15.3	15.4	16.1	1.7%
Public administration and fiscal affairs	41.6	46.8	45.3	45.1	46.0	-0.5%
External affairs	7.2	8.7	8.3	8.3	8.9	0.8%
Social development	**365.7**	**399.6**	**321.5**	**320.4**	**333.2**	**-5.9%**
Social protection	251.0	256.8	238.1	240.5	251.3	-0.7%
Social security funds	114.7	142.8	83.3	79.9	81.9	-16.9%
Payments for financial assets	**90.9**	**68.4**	**27.5**	**25.1**	**25.2**	**–**
Allocated by function	**1 739.2**	**1 859.3**	**1 751.8**	**1 758.0**	**1 839.7**	**-0.4%**
Debt-service costs	232.6	269.2	303.1	334.6	365.8	10.8%
Unallocated reserve	–	–	15.1	28.8	29.3	–
Contingency reserve[2]	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 971.8**	**2 128.5**	**2 075.0**	**2 126.3**	**2 239.8**	**1.7%**

1. Consisting of national and provincial departments, social security funds and public entities
2. Allocated to 2021/22 spending
Source: National Treasury

Without further reductions to spending, departments will aim to reprioritise their budgets to provide for longstanding policy priorities. Details of key reprioritisation are outlined in the function sections below.

The 2021 Budget proposed large reductions in employee compensation to ensure fiscal sustainability. Over the medium term, government institutions will continue to manage headcounts and compensation to remain within available budgets, taking into account the cost implications noted in Chapter 3. As discussed in Annexure B, public-service compensation has risen faster than GDP growth between 2007/08 and 2020/21, with the exception of 2013/14. This means that the scope to hire more workers is reduced as higher salaries consume more of the budget. In this regard, government needs to do more to address the trade-off between average remuneration and increased staffing to deliver services. This is particularly important in functions where compensation accounts for large proportions of total budgets, such as learning and culture, health, and peace and security.

Table 4.5 Consolidated expenditure by economic classification[1]

R billion	2020/21 Outcome	2021/22 Revised	2022/23 Medium-term estimates	2023/24	2024/25	Average annual growth 2021/22 – 2024/25
Current payments	**1 121.5**	**1 234.1**	**1 258.5**	**1 281.2**	**1 354.6**	**3.2%**
Compensation of employees	635.4	665.7	665.2	656.0	685.1	1.0%
Goods and services	246.0	290.3	281.4	281.6	294.2	0.4%
Interest and rent on land	240.1	278.1	311.9	343.6	375.3	10.5%
of which: debt-service costs	*232.6*	*269.2*	*303.1*	*334.6*	*365.8*	*10.8%*
Transfers and subsidies	**694.3**	**736.4**	**669.5**	**681.1**	**712.9**	**-1.1%**
Provinces and municipalities	149.1	147.6	159.5	161.5	167.8	4.4%
Departmental agencies and accounts	29.8	25.0	24.0	24.8	24.5	-0.6%
Higher education institutions	46.9	47.2	51.1	51.4	53.5	4.3%
Foreign governments and international organisations	2.4	3.5	3.0	3.0	3.4	-1.4%
Public corporations and private enterprises	30.1	38.7	41.2	45.4	51.8	10.3%
Non-profit institutions	45.4	41.3	42.1	42.7	45.2	3.1%
Households	390.7	433.1	348.7	352.3	366.6	-5.4%
Payments for capital assets	**65.0**	**89.7**	**99.4**	**105.1**	**112.9**	**8.0%**
Buildings and other capital assets	47.2	65.3	75.9	80.0	84.9	9.1%
Machinery and equipment	17.9	24.3	23.5	25.1	28.0	4.8%
Payments for financial assets	**90.9**	**68.4**	**27.5**	**25.1**	**25.2**	**–**
Total	**1 971.8**	**2 128.5**	**2 055.0**	**2 092.5**	**2 205.6**	**1.2%**
Unallocated reserve	–	–	15.1	28.8	29.3	
Contingency reserve[2]	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 971.8**	**2 128.5**	**2 075.0**	**2 126.3**	**2 239.8**	**1.7%**

1. Consisting of national and provincial departments, social security funds and public entities
2. Allocated to 2021/22 spending
Source: National Treasury

Learning and culture

In the basic education sector, compensation absorbs an average of 80 per cent of provincial education budgets. Provinces have reduced compensation budgets and chosen not to fill all vacant posts, resulting in an increase in class sizes. More policy decisions are needed to bring compensation spending in line with available resources. Nonetheless, the lower number of teachers combined with lost learning days due to the COVID-19 pandemic will have negative effects on educational outcomes.

The pandemic and associated restrictions in economic activity interrupted school construction, rehabilitation and maintenance, which delayed the achievement of all schools meeting basic school infrastructure norms and standards. Schools also undertook rotational schedules to adhere to COVID-19 protocols, which hampered the daily rollout of meals to learners through the *national school nutrition programme grant*.

In the post-school education and training sector, growth in subsidies and grants has slowed for universities, technical and vocational education and training colleges, and the National Student Financial Aid Scheme. A ministerial task team is conceptualising a new student financial funding model for the higher education and training system. The team will table a report in Cabinet in November 2021.

The operating model for the rollout of community libraries will be reviewed over the medium term to ensure that construction of new libraries is matched with their full operating and maintenance costs, and with a greater focus on providing information and communications technology.

Health

The health function remains severely affected by the pandemic. There have been three large waves of COVID-19 infection to date. As of 21 October 2021, there had been 2.9 million confirmed cases of COVID-19, 88 835 confirmed deaths and 433 606 admissions to hospitals. This has put considerable pressure on provincial health departments. Although the volume of other services such as primary healthcare visits and overall hospital admissions has declined during the pandemic, service backlogs may have accumulated as a result. After several delays, the vaccination rollout started accelerating in June 2021. As at 23 October 2021, 21 million doses had been administered to 14.7 million individuals and 37 per cent of adults had received at least one dose.

Absorbing the budget reductions implemented in the 2021 Budget remains a challenge in the health sector. Nonetheless, discussions are under way on how to respond to future waves of infection and continue the vaccination programme in 2022/23, including for younger groups and with booster doses if necessary. The sector needs to continue to improve efficiency to sustain service delivery and alleviate backlogs in a constrained budgetary environment. Spending pressures associated with absorbing the large cohorts of medical graduates needing internships and community service posts are being considered. Infrastructure allocations will be delayed and allocated in future in line with revised cash flow projections.

Social development

This function includes programmes aimed at income protection and social welfare, and for women, youth and persons with disabilities. Three main priorities are being considered for the 2022 MTEF period: addressing shortfalls in social grants, introducing the *extended child support grant* for children who have lost both parents (double orphans), and researching possible new social support options once the *special COVID-19 social relief of distress grant* ends in March 2022. However, given that all three have significant financial implications, a final decision must still be made on what is affordable given the current fiscal context.

To continue mitigating food insecurity and poverty in 2021/22, an additional R26.7 billion is allocated to the Department of Social Development to reinstate and administer the *special COVID-19 social relief of distress grant* for eight months from August 2021 to March 2022, and enable coverage of eligible *child support grant* caregivers. In total, social grant-based relief of distress will amount to R28.3 billion in 2021/22. During the year, more than 9.5 million recipients will receive this short-term income protection. Excluding the *special COVID-19 social relief of distress grant*, 18.3 million South Africans receive one or another form of social grant.

The early childhood development programme will be transferred from the Department of Social Development to the education sector from April 2022, and plans for implementation are largely in place.

Community development

Providing basic services to poor households is the main priority in the community development function. As a result, the local government equitable share accounts for the largest portion of expenditure and grows faster than other items in the function over the MTEF period.

A range of conditional grants is allocated to local government to help fulfil its mandate. In some cases, these direct transfers are converted to indirect allocations that national departments spend on behalf of municipalities. Government proposes to apply transparent and consistent criteria to create a more systematic approach to these conversions. This will give national departments more flexibility in using funds where they are most needed, while strengthening governance.

To provide for a more systematic response to improve water and wastewater management in municipalities, from 2022/23 conditional grants will include conditions that are aimed at incentivising improved asset management and performance. National departments are expected to improve monitoring and regulatory compliance through periodic reporting and building capacity.

Economic development

Over the medium term, about 80 per cent of this function group's allocation will provide transfers and subsidies to departmental agencies, public corporations and private enterprises. The baseline is expected to grow by 5.4 per cent over the next three years. Medium-term priorities include reindustrialising through implementation of the master plans; growing exports through the African Continental Free Trade Area; implementing the Tourism Sector Recovery Plan; supporting township and rural economies; and promoting localisation, inclusive economic growth and job creation.

In response to the third wave of the COVID-19 pandemic and the destruction of infrastructure in Gauteng and KwaZulu-Natal, R2.3 billion is allocated in 2021/22 to help businesses rebuild. Of this amount, R1 billion is reprioritised from the departments of Trade, Industry and Competition (R700 million) and Small Business Development (R300 million).

The Department of Science and Innovation will implement its recently approved decadal plan on science, technology and innovation for 2021–2031. The plan aims to rejuvenate sectors such as mining, agriculture and manufacturing, while improving research and innovation across government. In addition, the department has reprioritised funds over the MTEF period to support technology localisation, beneficiation, advanced manufacturing and research by the National Research Foundation. The Department of Tourism has also reprioritised funds to support short-term public jobs in the tourism sector and transform the sector through the rollout of the Tourism Equity Fund.

To support critical climate forecasting and improve infrastructure capacity, the Department of Forestry, Fisheries and the Environment has reprioritised funds for the South African Weather Service. The department has also reprioritised funds to support operations and address the budget shortfall of South African National Parks.

Peace and security

This function expects to spend an average of R218.1 billion per year over the 2022 MTEF period, of which more than 60 per cent will go to compensation of employees. Over the medium term, the function will reprioritise funds to enhance capacity in institutions combating crime and corruption, and upgrade information and communications technology infrastructure for greater efficiency.

Earlier this year, public violence in KwaZulu-Natal and Gauteng illustrated the need for improved capacity in this function. Both the South African Police Service and South African National Defence Force received additional funding through the Second Special Appropriation Bill to provide for unforeseen costs resulting from the unrest. Over the next few years, the Department of Defence will reprioritise funds to set up a rapid response unit. It will also implement reforms to manage longstanding pressure on compensation that is resulting in irregular spending.

General public services

This function focuses on building a state that can play a developmental and transformative role. It has reprioritised R2.4 billion over the medium term from goods and services to cover key policy initiatives, as well as information and communications technology upgrades in departments.

Savings from closure of foreign missions

In June 2020, Cabinet approved the closure of 10 diplomatic missions in the following cities: Bucharest (Romania), Chicago (United States of America), Helsinki (Finland), Holy See (the Vatican), Lima (Peru), Milan (Italy), Minsk (Belarus), Muscat (Oman), Port of Spain (Trinidad and Tobago) and Suva (Fiji). Six of these have been closed, at a cost of R16.5 million and resulting in savings of R51 million, mainly from compensation of employees. Some officials have been moved to other missions. The remaining four missions will be closed by the end of 2021. These savings helped the Department of International Relations and Cooperation to reduce its shortfall on compensation, with savings on goods and services reallocated to fund other missions.

Over the medium term, the function will reprioritise funds to enhance the governance of state-owned companies, facilitate the population census in February 2022, implement the Integrated Financial Management System and support recapitalisation of the World Bank and the African Development Bank in line with South Africa’s shareholding duties in these institutions. The Department of Public Service and Administration will continue reviewing personnel spending to reduce unsustainable growth in the public-service wage bill.

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 spending growth, and poor economic performance affects other revenue and funding sources. Over the 2022 MTEF period, transfers to provinces and municipalities will grow below inflation.

Over the next three years, government proposes to allocate 48.4 per cent of available non-interest expenditure to national departments, 42 per cent to provinces and 9.6 per cent to local government. National resources contract by an annual average of 1.8 per cent, provincial resources increase by 0.7 per cent and local government resources increase by 4.1 per cent.

Table 4.6 Division of revenue framework

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
R billion		**Outcome**		**Revised**		**Medium-term estimates**	
Division of available funds							
National departments	**634.3**	**749.8**	**790.5**	**817.4**	**764.7**	**743.0**	**774.4**
of which:							
Provincial indirect grants	*3.9*	*2.9*	*3.1*	*4.0*	*4.6*	*4.5*	*4.0*
Local indirect grants	*6.3*	*5.6*	*4.1*	*4.9*	*8.4*	*9.0*	*9.4*
Provinces	**572.0**	**613.4**	**628.8**	**661.2**	**658.4**	**647.2**	**676.1**
Equitable share	470.3	505.6	520.7	544.8	538.8	525.3	548.9
Conditional grants	101.7	107.9	108.1	116.4	119.6	121.9	127.2
Local government	**118.5**	**123.0**	**137.1**	**137.6**	**146.3**	**148.9**	**155.4**
Equitable share	60.8	65.6	83.1	78.0	83.1	83.6	87.3
General fuel levy sharing with metropolitan municipalities	12.5	13.2	14.0	14.6	15.3	15.4	16.1
Conditional grants	45.3	44.2	40.0	45.0	47.9	49.9	51.9
Provisional allocations not assigned to votes[1]	–	–	–	11.0	5.3	29.3	33.1
Unallocated reserve	–	–	–	–	15.1	28.8	29.3
Projected underspending	–	–	–	-6.3	–	–	–
Non-interest allocations	**1 324.8**	**1 486.2**	**1 556.4**	**1 620.9**	**1 589.8**	**1 597.1**	**1 668.3**
Debt-service costs	181.8	204.8	232.6	269.2	303.1	334.6	365.8
Contingency reserve	–	–	–	3.0	5.0	5.0	5.0
Main budget expenditure	**1 506.6**	**1 691.0**	**1 789.0**	**1 893.1**	**1 897.9**	**1 936.7**	**2 039.1**
Percentage shares							
National departments	47.9%	50.4%	50.8%	50.6%	48.7%	48.3%	48.2%
Provinces	43.2%	41.3%	40.4%	40.9%	42.0%	42.0%	42.1%
Local government	8.9%	8.3%	8.8%	8.5%	9.3%	9.7%	9.7%

1. Includes support to Eskom, amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations

Source: National Treasury

The provincial equitable share

The provincial equitable share – the main revenue source for provinces – is made up of six components: education, health, basic, institutional, poverty and economic activity. To ensure fair funding allocations to each province, the provincial equitable share formula is updated annually to reflect demographic changes and demand for services based on need. Between 2022/23 and 2024/25, changes will be phased into the health component – which accounts for 27 per cent of the formula.

Update to health component

Changes in the health component of the provincial equitable share follow a recent review that updated the risk-adjusted capitation index – a guide to healthcare costs per person that accounts for 75 per cent of the component – by assessing the factors and weights used to compose the index. The last review was done in 2010. In the updated component, the standalone HIV variable will be integrated into other variables. Three variables will be added: premature mortality, which uses deaths below the age of 65 as a proxy for the burden of disease; a multiple deprivation index, which adjusts for differences in the social determinants of health (such as education and sanitation); and sparsity, which accounts for the higher cost of delivering healthcare in remote and low-density areas. The next review will cover the education component.

Table 4.7 Provincial equitable share

R million	2021/22	2022/23	2023/24	2024/25
Eastern Cape	70 950	69 197	67 310	70 166
Free State	30 342	29 836	29 085	30 383
Gauteng	115 621	115 641	112 804	117 936
KwaZulu-Natal	111 592	109 809	106 982	111 701
Limpopo	62 556	61 375	59 891	62 631
Mpumalanga	44 543	44 110	43 105	45 141
Northern Cape	14 469	14 338	13 953	14 548
North West	38 294	38 017	37 089	38 775
Western Cape	56 467	56 444	55 085	57 613
Total	**544 835**	**538 767**	**525 304**	**548 895**

Source: National Treasury

Changes to the structure of provincial allocations

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

Over the years, a number of components have been introduced into the *HIV, TB, malaria and community outreach grant*. From 2022/23, the grant will consist of only a comprehensive HIV/AIDS component, funding HIV/AIDS- and tuberculosis-related services; and a district health component, funding community outreach services and services related to COVID-19, human papillomavirus and malaria. The grant will be renamed the *district health programme grant*. The mental health and oncology components introduced in this grant in the 2021 MTEF will be shifted to the direct *national health insurance grant*.

The colleges of agriculture have been shifted to the national government, as will the funding provided through the *comprehensive agricultural support programme grant*.

Alongside responsibility for early childhood development, the *early childhood development grant* will be moved from the Department of Social Development to the Department of Basic Education from 2022/23.

The *provincial roads maintenance grant* includes an incentive component allocated based on provincial performance. In the 2021 Budget, this component was allocated using the main formula of the conditional grant. Due to delays in developing objective allocation criteria, the incentive component will be removed from the grant baseline for 2022/23. The National Treasury will continue to work with the Department of Transport to develop objective criteria for the incentive component.

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. The 2021 Budget stated that the scope of the *municipal infrastructure grant* would be expanded to help municipalities improve their asset management practices. This change has been delayed, so funds will not be allocated to a new indirect component of the grant at the beginning of 2022/23. Funds may be transferred during the year if the Department of Cooperative Governance and Traditional Affairs does the work required to identify municipalities that need this intervention.

Reviewing the structure of the local government fiscal framework

Between August 2020 and July 2021, the special lekgotla of the Budget Forum – the intergovernmental structure established to facilitate consultation on local government finances – met three times to discuss municipal sustainability, the local government fiscal and functional framework, and asset management and infrastructure funding. Flowing from these deliberations, the National Treasury, Department of Cooperative Governance, South African Local Government Association, Financial and Fiscal Commission and provinces are implementing and monitoring joint working plans for a five-year local government reform.

Towards building capable local government

Many municipalities have insufficient capacity to fulfil their financial responsibilities. This is evident in overreliance on external financial consultants: municipalities spent over R1 billion on financial reporting consultants in 2019/20, even though financial reporting is a core responsibility of their internal finance units.

National government provides a range of support and resources to help municipalities to build capacity. In 2021, the National Treasury reviewed the system of capacity-building for local government. It found that the focus needs to shift from building capacity to a broader measure of developing capability. While capacity is closely linked to individual improvements – for example, developing skills – measures of capability consider a larger context and range of factors, including the environment in which the individual works, and the systems and processes they use. This has implications for the way the state designs support and the type of resources it provides to local government. Capacity-building programmes often fail because the problem is inadequately diagnosed, and there is a fragmented approach to building capacity. These programmes cannot create an internal culture of accountability and commitment: that is the responsibility of political and administrative leaders in local government.

Substantive changes are required to improve municipal capabilities. The review proposed a new framework to build a capable local government by improving the current system incrementally and identifying pilot sites for innovation and experimentation. The 2022 Budget will detail the next steps in this project.

Conclusion

Over the MTEF period ahead, consolidated government spending is expected to increase from R2.13 trillion in 2021/22 to R2.24 trillion in 2024/25, at an average annual growth rate of 1.7 per cent. To maximise the value of this spending, government needs to contain costs, exercise prudent and compliant financial management, and eradicate wasteful treatment of public funds and resources.

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