4

Expenditure priorities

In brief

- Consolidated government spending is expected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26, growing by an annual average rate of 4 per cent. The bulk of spending supports the social wage.
- Compared with the 2022 Budget, main budget non-interest spending is increased by a net R52.4 billion in 2023/24 and R58.5 billion in 2024/25. This is mainly to extend the *COVID-19 social relief of distress grant* until March 2024, improve investment in infrastructure, and support safety and security, and education and health services.
- Function groups have also reprioritised and reallocated their budgets to fund cost pressures and urgent policy priorities within departments and entities over the medium-term expenditure framework (MTEF) period.
- Net total in-year adjustments to spending amount to R13 billion, mainly for unforeseen and unavoidable expenditure incurred by the Department of Cooperative Governance and the Department of Transport as a result of the April 2022 floods.

Introduction

This *Medium Term Budget Policy Statement* sets out additional funding for health, education, safety and security, and infrastructure investment. These allocations will promote sustainable economic growth and greater access to and quality of services. In addition, it includes funding for a one-year extension of the *COVID-19 social relief of distress grant* while government considers options for social support.

The social wage, totalling R3.56 trillion over the next three years, will continue to take up the biggest share of the budget in support of poor households (Table 4.1). The largest allocations are directed to the education, health and social development sectors.

Table 4.1 Social wage

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		Outcome		Revised		Medium-term estimates	
Community development	**152.5**	**161.6**	**165.1**	**182.8**	**207.3**	**223.4**	**238.1**
Housing development	28.8	23.7	27.0	25.9	27.2	29.1	30.6
Transport	25.3	25.3	29.3	34.4	40.9	45.5	49.3
Water services	4.4	4.0	4.2	4.6	7.8	8.3	11.5
Local government[1]	93.9	108.6	104.5	117.9	131.4	140.5	146.7
Employment programmes	**21.6**	**19.1**	**20.6**	**24.9**	**24.5**	**25.6**	**26.7**
Health	**205.5**	**222.7**	**228.5**	**232.0**	**231.9**	**242.1**	**253.1**
Basic education	**239.3**	**247.6**	**262.5**	**276.6**	**283.5**	**288.2**	**302.2**
Fee-free higher education and training	**44.4**	**44.3**	**55.2**	**61.6**	**63.9**	**68.6**	**73.6**
Social protection	**217.0**	**247.1**	**253.3**	**270.0**	**276.0**	**252.3**	**263.7**
of which: Social grants	*190.3*	*218.9*	*222.7*	*242.8*	*248.4*	*223.8*	*233.8*
Social security funds	**51.9**	**105.7**	**77.5**	**79.8**	**77.8**	**80.5**	**57.2**
Social wage	**932.2**	**1 048.1**	**1 062.7**	**1 127.7**	**1 164.9**	**1 180.6**	**1 214.5**
Percentage of non-interest spending	*58.2%*	*60.5%*	*59.7%*	*59.4%*	*61.0%*	*58.7%*	*57.9%*

1. Includes local equitable share

Source: National Treasury

In recent years, government has restrained expenditure to return the public finances to a sustainable fiscal position. More needs to be done, however, to improve the efficiency of spending. The findings of some spending reviews are being implemented in the peace and security and general public services functions. In most cases, review findings remain under discussion or will take longer to implement because they require legislative amendments.

Revisions to expenditure priorities

Medium-term changes to spending are largely driven by government's decision to extend the *COVID-19 social relief of distress grant* by one year until 31 March 2024.

Additional funding will be provided for safety and security to increase the number of police, boost the investigation and prosecution of serious crimes, and safeguard South Africa's borders and seas. It will also support implementation of the State Capture Commission recommendations. Further allocations will address shortfalls in compensation budgets in provincial education, retain additional health workers appointed during the pandemic and support the provision of free municipal basic services. Funds are allocated to rehabilitate damaged municipal infrastructure and address the backlog in the refurbishment of provincial roads.

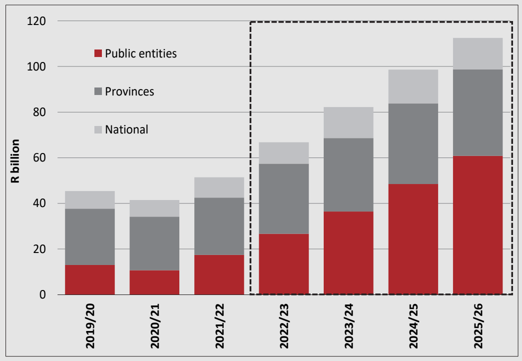
Functions have also reprioritised and reallocated their budgets to fund cost pressures and urgent policy priorities within departments and entities. Chapter 3 and Annexure A highlight a number of short- and medium-term risks to the fiscal outlook. The materialisation of risks such as a public-service wage agreement in excess of available resources would mean reduced funding for other areas of expenditure over the MTEF period.

Infrastructure spending to support economic growth

Government will increase infrastructure budgets over the MTEF period to support economic growth and development. The Development Bank of Southern Africa, Infrastructure South Africa and the Government Technical Advisory Centre are scaling up efforts to build a viable project pipeline. These efforts are being strengthened by providing resources for project preparation. In addition, reforms are under way to reorganise and streamline functions for expedited planning and procurement for public-private partnerships and blended finance projects.

Spending on building and other fixed structures is projected to increase from R66.7 billion in 2022/23 to R112.5 billion by 2025/26, at an annual average of 19 per cent over the medium term.

Figure 4.1 Consolidated expenditure on buildings and fixed structures



Source: National Treasury

The projects recommended through the Budget Facility for Infrastructure at the national and provincial level amount to R4.8 billion in 2023/24, R5.8 billion in 2024/25 and R6.4 billion in 2025/26. These include water-related projects totalling R8.1 billion, the second phase of the South Africa Connect project amounting to R3 billion and the Rural Bridges Programme (Phase 2) amounting to R3.7 billion.

Public entities plan to invest R145.8 billion in infrastructure over the MTEF period, including R85.3 billion in the transport sector and R33.3 billion in the water sector. The South African National Roads Agency Limited will spend R61.8 billion to build new roads infrastructure and rehabilitate key transport routes serving the economy, mainly on the non-toll network, where over 85 per cent of roads are beyond their design life. The Passenger Rail Agency of South Africa plans to spend R23.6 billion to rehabilitate vandalised and stolen rail infrastructure and to continue the modernisation programme, which includes renewing the fleet of rolling stock.

The water boards will spend R27.7 billion over the MTEF period to provide bulk infrastructure. This includes the uMkhomazi water project and upgrading the capacity of various pipelines in the Rand Water service area, including the Zuikerbosch system.

In-year spending adjustments

Net total adjustments to spending included in the 2022 Adjustments Appropriation Bill amount to R13 billion. The largest adjustments (R6.3 billion or 49 per cent) are mainly to the Department of Cooperative Governance and the Department of Transport for disaster management following the April flooding.

Other adjustments include:

- R990.5 million for rollovers
- R1.6 billion for self-financing from the revenue-generating activities of departments to enable them to continue these activities
- R500 million as announced in the 2022 Budget Speech for the Home Affairs digitisation project.

Total declared unspent funds amount to R2 billion, mainly from the Department of Social Development due to a lower-than-expected uptake of the *COVID-19 social relief of distress grant* in 2022/23 as more stringent qualification criteria were introduced.

Table 4.2 In-year adjustments to the main budget

R million	Appropriation (ENE)	Special appropriation	Adjustments appropriation allocations	Adjusted appropriation
Appropriation by vote	**1 057 029**	**–**	**7 454**	**1 064 483**
Unforeseeable and unavoidable expenditure			6 347	
Expenditure earmarked in the 2022 Budget speech for future allocation			500	
Rollovers			990	
Self-financing expenditure			1 580	
Declared unspent funds			-1 963	
Direct charges against the National Revenue Fund	**902 658**		**7 238**	**909 896**
Subtotal	**1 959 687**	**–**	**14 692**	**1 974 379**
Provisional allocations not assigned to votes	1 372		13 380	14 752
Infrastructure Fund not assigned to votes	4 197		-4 197	–
Contingency reserve	10 000		-5 000	5 000
National government projected underspending			-3 917	-3 917
Local government repayment to the National Revenue Fund			-2 000	-2 000
Total adjustments expenditure estimate	**1 975 257**		**12 957**	**1 988 213**
Special Appropriation Bill, 2022		30 014		30 014
Total	**1 975 257**	**30 014**	**12 957**	**2 018 228**

Source: National Treasury

Spending priorities by function group

Consolidated government spending is projected to increase from R2.21 trillion in 2022/23 to R2.48 trillion in 2025/26, growing at an annual rate of 4 per cent. Learning and culture, which is allocated R1.43 trillion over the period, accounts for the largest share of this growth. Spending in the economic development function grows at the fastest rate, averaging 8 per cent per year, followed closely by debt-service costs (7.3 per cent). Over the same period, spending in the social development function will contract by an average of 2.4 per cent as the *COVID-19 social relief of distress grant* will end on 31 March 2024.

Spending on payments for capital assets is the fastest-growing item by economic classification, at an average of 15.2 per cent over the three-year period, mainly due to the additional funding allocated for infrastructure investment in municipalities and provincial transport.

Table 4.3 Consolidated expenditure by function[1]

R billion	2021/22 Outcome	2022/23 Revised	2023/24	2024/25 Medium-term estimates	2025/26	Average annual growth 2022/23 – 2025/26
Learning and culture	**413.3**	**447.4**	**455.6**	**473.4**	**496.5**	**3.5%**
Basic education	284.3	301.8	308.4	314.1	329.4	3.0%
Post-school education and training	118.4	134.2	135.4	147.8	155.3	5.0%
Arts, culture, sport and recreation	10.5	11.5	11.7	11.5	11.8	1.1%
Health	**257.4**	**258.4**	**256.1**	**267.5**	**279.4**	**2.6%**
Peace and security	**217.1**	**227.6**	**226.4**	**235.4**	**246.5**	**2.7%**
Defence and state security	49.0	52.5	52.3	52.4	54.5	1.3%
Police services	108.4	112.3	111.9	119.2	125.5	3.8%
Law courts and prisons	49.1	51.7	51.4	53.6	55.9	2.6%
Home affairs	10.6	11.1	10.7	10.2	10.6	-1.5%
Community development	**208.9**	**236.7**	**258.7**	**274.9**	**291.7**	**7.2%**
Economic development	**195.8**	**222.9**	**237.6**	**262.4**	**280.8**	**8.0%**
Industrialisation and exports	40.3	41.0	41.5	42.6	43.1	1.6%
Agriculture and rural development	27.2	29.4	29.1	30.2	31.5	2.3%
Job creation and labour affairs	20.6	24.9	24.5	26.2	27.3	3.1%
Economic regulation and infrastructure	90.9	110.2	125.0	145.1	160.1	13.3%
Innovation, science and technology	16.7	17.4	17.5	18.2	18.8	2.6%
General public services	**67.6**	**71.4**	**73.1**	**74.8**	**78.0**	**3.0%**
Executive and legislative organs	14.0	15.3	16.9	16.4	17.2	3.8%
Public administration and fiscal affairs	45.7	47.4	47.9	49.3	51.5	2.8%
External affairs	7.9	8.6	8.4	9.0	9.4	3.0%
Social development	**342.8**	**365.6**	**370.9**	**350.2**	**340.3**	**-2.4%**
Social protection	257.4	273.6	280.0	256.4	267.9	-0.7%
Social security funds	85.4	92.0	90.9	93.8	72.4	-7.7%
Payments for financial assets	**76.1**	**62.6**	**25.2**	**25.4**	**26.5**	
Allocated by function	**1 779.0**	**1 892.6**	**1 903.5**	**1 963.9**	**2 039.7**	**2.5%**
Debt-service costs	268.1	307.7	332.2	352.9	380.7	7.3%
Unallocated reserve	–	–	–	41.3	47.3	
Contingency reserve	–	5.0	6.0	6.0	10.0	
Consolidated expenditure	**2 047.0**	**2 205.3**	**2 241.7**	**2 364.1**	**2 477.7**	**4.0%**

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

Table 4.4 Consolidated expenditure by economic classification[1]

R billion	2021/22 Outcome	2022/23 Revised	2023/24	2024/25	2025/26	Average annual growth 2022/23 – 2025/26
			Medium-term estimates			
Current payments	**1 210.3**	**1 305.5**	**1 337.1**	**1 401.0**	**1 478.3**	**4.2%**
Compensation of employees	665.7	693.1	699.8	729.6	763.6	3.3%
Goods and services	267.2	295.6	295.8	309.2	324.9	3.2%
Interest and rent on land	277.3	316.8	341.6	362.3	389.8	7.1%
of which: debt-service costs	*268.1*	*307.7*	*332.2*	*352.9*	*380.7*	*7.3%*
Transfers and subsidies	**683.7**	**737.1**	**761.5**	**760.6**	**770.2**	**1.5%**
Provinces and municipalities	149.2	168.1	182.0	192.8	205.5	6.9%
Departmental agencies and accounts	24.5	26.0	27.4	26.4	25.8	-0.3%
Higher education institutions	50.4	53.7	51.8	58.4	59.2	3.3%
Foreign governments and international organisations	3.2	3.4	3.0	3.4	3.5	1.6%
Public corporations and private enterprises	36.0	38.6	41.5	42.1	44.1	4.5%
Non-profit institutions	41.5	41.4	42.8	41.3	43.0	1.3%
Households	378.9	405.8	413.0	396.2	389.2	-1.4%
Payments for capital assets	**77.0**	**95.1**	**111.9**	**129.8**	**145.4**	**15.2%**
Buildings and other capital assets	55.6	70.9	85.8	101.6	115.5	17.7%
Machinery and equipment	21.4	24.2	26.1	28.3	29.9	7.3%
Payments for financial assets	**76.1**	**62.6**	**25.2**	**25.4**	**26.5**	
Total	**2 047.0**	**2 200.3**	**2 235.7**	**2 316.8**	**2 420.4**	**3.2%**
Unallocated reserve	–	–	–	41.3	47.3	
Contingency reserve	–	5.0	6.0	6.0	10.0	
Consolidated expenditure	**2 047.0**	**2 205.3**	**2 241.7**	**2 364.1**	**2 477.7**	**4.0%**

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

Learning and culture

Learning and culture is made up of the basic and higher education sectors, as well as sports, arts and culture. Over the medium term, provincial education budgets will stabilise as funding is added for compensation of employees to fill teacher vacancies and reduce class sizes, supporting improved learning outcomes. Policy decisions are still required to keep compensation spending in line with resources over the longer term.

To continue providing nutritious meals to 9 million learners each school day, funding will be added to the *national school nutrition programme conditional grant* over the next three years. Following the recent shift of the early childhood development function from social development to basic education, funding is added for the Department of Basic Education to build its oversight and monitoring capacity, and to improve and expand early childhood development services in provinces.

Cabinet received the ministerial task team report on student funding in higher education and training, which recommended more work on a comprehensive funding model. The student bursary for students from families with annual incomes below R350 000 will therefore continue while funding proposals are being developed.

Health

The public health sector experienced two years of severe strain from the COVID-19 pandemic and disruptions to routine healthcare services. As the immediate pressure from the pandemic eases, COVID-19 vaccinations are being integrated into general health services from separate vaccination sites. Over the MTEF period, the sector will refocus on other core health services and address accumulated backlogs.

The 2023 Budget will partly reverse the real reduction in provincial health budgets that occurred following the pandemic, although greater efficiency is also needed. Additional funds will be provided to alleviate critical funding pressures in areas such as healthcare personnel, medicine, laboratory services, medical supplies, and critical goods and services. Funds will also be provided to address service backlogs such as for surgery, oncology, antiretroviral treatment and tuberculosis screening and treatment. In addition, funds will be provided to build the new Limpopo Central Hospital in Polokwane. The National Health Insurance Bill is being considered by Parliament.

Social development

The function receives the second-largest share of the consolidated budget over the MTEF period. On 1 October 2022, the old age grant, war veterans grant, disability grant and care dependency grant increased by an additional R10 per month from R1 980 (R2 000 for over 75-year-olds and war veterans) to R1 990 (R2 010 for over 75-year-olds and war veterans).

At present, 7.4 million people receive the *COVID-19 social relief of distress grant*. To give government additional time to consider options for working-age people that can replace, complement or adjust the grant, it has been extended for one year until March 2024. Given the large cost of extending this grant, increases to other social grants in 2023/24 will be slightly below inflation and other social welfare priorities may remain unaddressed.

Community development

The community development function allocates funds for water and sanitation services, household electrification, low-income housing and upgrading of informal settlements, and public transport. The largest component of spending is the local government equitable share allocation to support municipal operations and the provision of free basic services for poor households. This is the largest component and the fastest-growing spending item in the budget. It increases by an annual average of 7.2 per cent over the next three years, mainly due to above-inflation cost increases in bulk water and electricity.

Over the medium term, water services infrastructure will be upgraded. Additional funding will be allocated through the Budget Facility for Infrastructure for projects in Nelson Mandela Bay Metropolitan Municipality, Sol Plaatje Local Municipality, Drakenstein Local Municipality and the City of Johannesburg. Bulk water supply projects to be implemented by water boards will also receive funding.

Economic development

Over the three-year spending period ahead, about 8.8 per cent of this function group's allocation will provide for transfers and subsidies to departmental agencies, public corporations and private enterprises. Medium-term priorities primarily support economic reconstruction and recovery through reindustrialisation, employment protection and creation, greening the economy, agriculture and food security, and investment in infrastructure.

The Department of Agriculture, Land Reform and Rural Development will reprioritise funds over the MTEF period to help contain the spread of foot and mouth disease, while the Department of Small Business Development will work with municipalities to reduce administrative and regulatory burdens for small, medium and micro enterprises and co-operatives.

Government will deepen collaboration with Proudly South African to support over 1 000 informal businesses in 2023/24 and just under 4 000 informal businesses over the MTEF period. It will also provide support to small enterprises in the cannabis industry over the same period.

In the context of a global transition from internal combustion engines to electric vehicles, the Department of Trade, Industry and Competition will reprioritise funds towards the new energy vehicle road map. The associated initiatives will enable South Africa to retain its automotive export markets and employment base. Government will also prioritise large-scale investment in infrastructure and capability to enhance the role of the South African National Space Agency, including to support critical climate data and monitoring services. The Department of Tourism has reprioritised funds towards the pilot phase of the Tourism Equity Fund introduced in 2021.

Peace and security

Over the MTEF period, the peace and security function is allocated additional funding to improve safety and security. The South African Police Service will receive additional funding to increase the number of student constables to improve capacity, mainly in police stations.

The Border Management Authority will become a public entity from April 2023 and will manage the movement of people and goods at the country's borders and ports of entry. The departments of Defence and Home Affairs will receive additional funding to enhance border security and territorial integrity. The defence funding also provides for the procurement of equipment and technology that will support operations, and for the repair and maintenance of navy defence systems to improve maritime security. As recommended in the spending review conducted by the National Treasury, funds will be reprioritised over the MTEF period from commuted overtime within the Military Health Support Programme towards the procurement of ambulances, X-ray machines and deployable medical equipment.

The Department of Justice and Constitutional Development has reprioritised funds to the Financial Intelligence Centre to implement recommendations from the State Capture Commission and the Financial Action Task Force. Additional reprioritisation includes funding for court security, replacing computer equipment, procuring vehicles for provinces, and enhanced capacity in the Thuthuzela care centres.

Funding will also be allocated to the National Prosecuting Authority to increase capacity in specialised tax units and the Investigating Directorate, procure specialist prosecution services for complex matters (especially financial crimes), appoint forensic auditors and accountants to deal with high-priority asset forfeiture matters, establish a digital forensic data centre, and finance increased witness protection operational costs. Additional funding will enable the Financial Intelligence Centre to increase its human resource capacity and help the Special Investigating Unit initiate civil litigation following the State Capture Commission recommendations.

General public services

This function contributes to building a state that can play a developmental and transformative role. The function has reprioritised funds over the MTEF period from goods and services to cover key policy initiatives and enhance capacity in departments.

As recommended by the National Treasury in the 2020/21 spending review, the Department of International Relations and Cooperation has completed the closure of 10 missions approved by Cabinet in July 2020. The savings realised helped the department to reduce its shortfall on compensation of employees over the MTEF period. In 2023/24, the department will close its missions in Sofia, Bulgaria, and Toronto, Canada.

Funds will be shifted from the Department of Public Works and Infrastructure to the Presidency to increase capacity in the Project Management Office, which supports other government departments to develop programmes that provide work opportunities for youth. The South African Revenue Service will receive additional funds to improve information and communications technology capacity and revenue-collection capabilities, and to report on tax administration digital resilience during the COVID-19 pandemic. Funds have been reprioritised over the medium term for the Government Communication and Information System to prioritise campaigns on gender-based violence and femicide, anti-corruption and the economic recovery plan.

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 pressures from rising costs of basic and social services over the medium term as government contains spending growth and weak economic growth affects other sources of funding. Over the next three years, government proposes allocating 48.4 per cent of available non-interest spending to national departments, 41.4 per cent to provinces and 10.1 per cent to local government.

Table 4.5 Division of revenue framework

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
R billion		Outcome		Revised		Medium-term estimates	
Division of available funds							
National departments	**749.8**	**790.5**	**823.0**	**857.9**	**817.7**	**822.2**	**859.1**
of which:							
Provincial indirect grants	*2.9*	*2.9*	*3.7*	*4.6*	*4.2*	*4.4*	*4.8*
Local indirect grants	*5.6*	*4.1*	*5.7*	*8.2*	*9.9*	*10.7*	*14.0*
Provinces	**613.4**	**628.8**	**660.8**	**684.5**	**684.3**	**709.5**	**743.3**
Equitable share	505.6	520.7	544.8	560.8	556.4	576.5	602.9
Conditional grants	107.9	108.1	116.0	123.7	128.0	133.0	140.4
Local government	**123.0**	**137.1**	**135.6**	**154.2**	**164.9**	**174.6**	**183.5**
Equitable share	65.6	83.1	76.2	87.3	95.1	102.4	109.4
General fuel levy sharing with metropolitan municipalities	13.2	14.0	14.6	15.3	15.4	16.1	16.8
Conditional grants	44.2	40.0	44.8	51.5	54.4	56.1	57.3
Provisional allocations not assigned to votes[1]	–	–	–	14.8	36.5	38.0	39.3
Unallocated reserve	–	–	–	–	–	41.3	47.3
Projected underspending	–	–	–	-5.9	–	–	–
Non-interest allocations	**1 486.2**	**1 556.4**	**1 619.4**	**1 705.5**	**1 703.4**	**1 785.6**	**1 872.5**
Debt-service costs	204.8	232.6	268.1	307.7	332.2	352.9	380.7
Contingency reserve	–	–	–	5.0	6.0	6.0	10.0
Main budget expenditure	**1 691.0**	**1 789.0**	**1 887.5**	**2 018.2**	**2 041.6**	**2 144.5**	**2 263.2**
Percentage shares							
National departments	50.4%	50.8%	50.8%	50.6%	49.1%	48.2%	48.1%
Provinces	41.3%	40.4%	40.8%	40.3%	41.1%	41.6%	41.6%
Local government	8.3%	8.8%	8.4%	9.1%	9.9%	10.2%	10.3%

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

While cost pressures are growing, municipalities are in worsening financial distress. By March 2022, almost 90 per cent of municipalities displayed at least one trigger requiring the support and intervention of national and provincial government. Over the medium term, government is allocating additional funds to support service delivery, stabilising municipalities in immediate distress, and developing longer-run plans to improve capability.

The National Treasury is reviewing the conditional grants system to determine if it is structured in a way that supports efficient service delivery, rollout of infrastructure, building of capacity and provision of operational support. The findings will be used to reform the grant system for greater impact. In light of this review, no large-scale changes will be introduced to existing conditional grants in the 2023 Budget. Preliminary results may inform initial changes to conditional grants in the 2024 Budget.

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 formula is updated annually to reflect demographic changes and demand for services based on need. The changes introduced in 2022/23 as a result of the review of the health component will continue to be phased in over 2023/24 and 2024/25. The provincial equitable share task team, made up of representatives from the National Treasury and provincial treasuries, is reviewing the education component in partnership with relevant departments and agencies.

Table 4.6 Provincial equitable share

R million	2022/23	2023/24	2024/25	2025/26
Eastern Cape	72 231	71 682	74 059	77 422
Free State	31 107	30 815	31 798	33 157
Gauteng	120 042	118 566	123 219	128 844
KwaZulu-Natal	114 558	113 240	116 758	121 688
Limpopo	64 056	64 175	66 774	70 276
Mpumalanga	45 962	45 834	47 581	49 882
Northern Cape	14 942	14 878	15 441	16 182
North West	39 540	39 373	41 027	43 091
Western Cape	58 367	57 822	59 844	62 359
Total	**560 805**	**556 385**	**576 501**	**602 900**

Source: National Treasury

Changes to the structure of local government allocations

Over the MTEF period, R523 billion will be transferred to local government, including R167.8 billion in conditional grants. The largest transfer to municipalities is the local government equitable share, which grows by 9 per cent in 2023/24, 7.6 per cent in 2024/25 and 6.8 per cent in 2025/26. These above-inflation increases account for growth in household numbers, and higher bulk water and electricity costs.

The local government equitable share formula has been updated to account for projected household growth and increases in the cost of services. The formula will be refined over the 2023 MTEF period through a review of the cost factors driving basic services, creation of a fire services sub-component and estimates of household growth. This refinement, which is part of the five-year local government reform plans adopted by the Budget Forum in 2021, will be underpinned by high-quality, credible and verifiable data.

Update on long-term borrowing for municipalities

In August 2022, Cabinet approved the updated municipal borrowing policy framework. This framework will support the development and growth of an efficient and liquid market for municipal borrowing by:

- Introducing reforms needed to expand the scope of municipal borrowing and attract more investors to municipal debt markets.
- Clarifying the role of development finance institutions to ensure that they do not crowd out the private sector.
- Outlining infrastructure financing mechanisms for municipalities.

The National Treasury will lead consultations with stakeholders such as development finance institutions and commercial banks on how to implement these changes.

To complement the borrowing reforms, Cabinet has also approved the Municipal Fiscal Powers and Functions Amendment Bill for tabling in Parliament. This bill will improve and standardise the regulation of development charges, a source of municipal revenue charged to developers for connecting new developments to municipal services.

Building capability for service delivery

Government spent R9.1 billion across 40 state agencies in 2019/20 to help municipalities build capacity and function efficiently. Following the National Treasury's review of this capacity-building system, government is developing a multi-year programme to improve its outcomes and cost-effectiveness. The National Treasury, with the support of the Government Technical Advisory Centre, will finalise the design of a revised programme and agree an integrated approach to local government capability development during 2023.

Restoring the financial health of the 43 municipalities in crisis

By the end of the third quarter of 2021/22, 43 municipalities were experiencing financial and service delivery crises as defined in the Municipal Finance Management Act (2003). To date, interventions have been ineffective largely because of poor coordination among stakeholders, reluctance to address dysfunctional councils, ineffective monitoring and implementation of financial recovery plans, and incorrect application of the framework in section 139 of the Constitution.

The National Treasury is strengthening its early warning system and implementing effective remedial actions to assist these and other municipalities to return to financial sustainability. It aims to address municipal performance failures by prioritising six essential components (funded budgets, revenue management, asset management, audit outcomes, supply chain management and the Municipal Standard Chart of Accounts) and strengthening monitoring and enforcement of financial recovery plans. In addition, inductions are under way to educate new councils on the intervention and how it benefits the municipality. To date, 27 of the 43 municipal councils have been inducted. The 2023 Budget will provide more detail on these efforts.

Conclusion

Over the medium term, additional funding will be provided for health, education, safety and security, and infrastructure investment. Municipalities will receive support to cover cost increases in free basic services. Government is working to improve the efficiency of spending.