6

Medium-term expenditure plans

In brief

- The 2014 Budget strikes a balance between continued real growth in expenditure and fiscal consolidation.
- Annual real growth in non-interest spending will average 1.9 per cent over the next three years.
- Resources will continue to be prioritised within the framework of the National Development Plan (NDP), and greater emphasis will be placed on improving performance, achieving value for money and containing costs across government.
- Social spending will remain the largest category of expenditure over the period ahead, and the allocations to education, infrastructure and job creation will grow in real terms.
- Government's interventions to support South African industry are intended to move the economy towards a new growth trajectory.

Overview

Budget gives effect to government's 2030 vision, while maintaining expenditure ceiling

The spending plans contained in the 2014 Budget build on the progress achieved over the past 20 years and give effect to government's vision to 2030, as outlined in the NDP. The budget also reflects the challenging economic environment and the need for fiscal consolidation over the medium term. Government continues to budget within a spending ceiling that allows for moderate real growth in expenditure, while reducing the budget deficit over time. Over the period ahead, departments and agencies throughout government need to target spending on policies and programmes with the greatest developmental impact, and eliminate ineffective or wasteful expenditure.

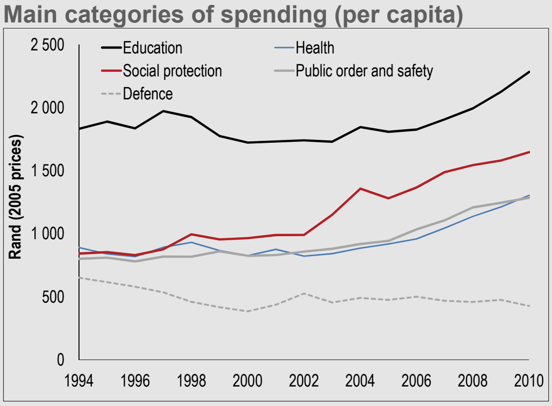
The budget framework allows for average annual real growth in non-interest spending of 1.9 per cent over the 2014/15–2016/17 medium-term expenditure framework (MTEF) period. Over the past five years, non-interest expenditure has increased at an average annual rate of 4.3 per cent. At a time of prolonged global economic uncertainty and sluggish domestic performance, government has been able to expand social services, improve infrastructure delivery and invest in the productive economy.

The 20-year evolution of public spending

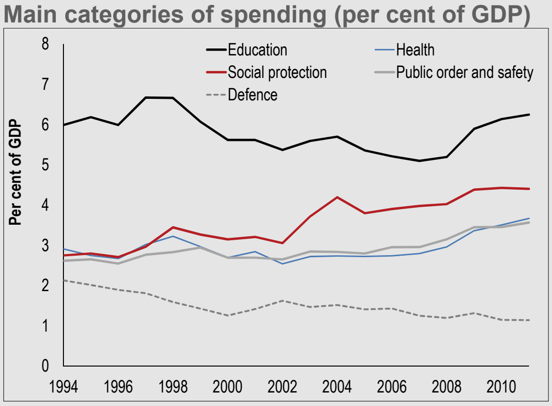
There have been major changes in the scale, structure and focus of public spending over the past 20 years. This evolution reflects the commitment of successive governments to overcome the apartheid legacy, achieve universal access to public services, develop an inclusive economy and extend social assistance. It also reflects a commitment to transparent, accountable and responsive budgeting.

Between 1994 and 1998, public spending was channelled to the immediate challenges of the Reconstruction and Development Programme.

Main categories of spending (per capita)



Main categories of spending (per cent of GDP)



Source: Reserve Bank

The figures above show the main areas of spending from 1994 to 2010; with the exception of defence, expenditure has grown across all categories since 2001. There has been a particularly large increase in social spending, including the introduction and expansion of the *child support grant*.

Government adopted a robust countercyclical response to the global financial crisis that began in 2008. Social grants were expanded, large numbers of teachers and nurses were hired, public employment programmes grew, and a range of industrial support programmes were introduced. There were strong increases in infrastructure investment by government and state-owned companies to relieve structural impediments to growth and generate short-term economic activity.

Public spending has grown from 27.5 per cent of GDP in 1994 to 30.1 per cent of GDP in 2013.

Social spending remains largest component of government expenditure

Over the period ahead, government will continue to increase the breadth and quality of services. Social spending – including social grants, education and health – will remain the largest component of government expenditure. There is strong growth in allocations to public employment programmes, particularly the Community Work Programme. Investment in infrastructure, with a specific focus on commuter rail services and water provision, also increases over the next three years, and there is sustained support for municipalities, as discussed in Chapter 7. Spending on economic and general public services, and defence, public order and safety, is expected to slow, reflecting the need to adjust resources to address spending pressures and priorities.

Efficiency of procurement systems needs to be improved and waste eliminated

Crucial to government's success in meeting its developmental mandate is limiting the cost of service delivery. The efficiency of procurement systems needs to be improved and leakage eliminated. Government needs to negotiate fair value in contracting with private-sector partners. Departments need to operate within their current funded establishments. Achieving moderate, inflation-linked wage increases, combined with better control of departmental compensation budgets, will allow future budgets to provide for growth in defined priority professions.

To improve the quality of spending, the Department of Performance Monitoring and Evaluation is working to define performance indicators for each area of expenditure. This will help departments to ensure that their spending plans reflect NDP priorities.

Consolidated government expenditure

Consolidated government expenditure information for the MTEF period is shown in Table 6.1. The estimates in this section cover spending across government, including provinces, public entities, and transfers of nationally raised revenue to municipalities. State-owned companies and spending financed by municipalities' own revenue are excluded.

In 2012/13, underspending at national level was 0.6 per cent

In 2012/13, national expenditure amounted to R965.5 billion (including transfers to provinces and municipalities) out of a total adjusted appropriation of R971.5 billion. This represents underspending of 0.6 per cent, compared with a shortfall of 1.1 per cent in 2011/12. Spending on general public services was relatively low, mainly as a result of low capital spending by the Department of Public Works. Poor performance in addressing school infrastructure backlogs resulted in significant underspending on education, while institutional instability in the Community Work Programme affected spending in employment and social security.

Inflation and other salary adjustments were a major factor in reallocations

In October 2013, government reallocated resources and modified in-year spending plans through the *Adjusted Estimates of National Expenditure*. The function groups with the largest staff establishments received the greatest proportion of funds made available through this process to accommodate inflation-related and other salary adjustments.

The allocation to the health and social protection function was reduced in response to savings accrued though the re-registration of social grant beneficiaries and slow spending on the *national health grant*. The allocations to science and technology, and employment and social security, were reduced in response to lower-than-expected disbursements from the Green Fund and the Jobs Fund. The allocation to economic services was reduced to reflect slow spending on special economic zones.

Strong growth in spending on employment and social security over MTEF period

Excluding debt-service costs, consolidated government expenditure is expected to be R1.05 trillion in 2013/14, rising to R1.31 trillion in 2016/17. This equates to nominal average annual growth of 7.8 per cent, compared with 8.8 per cent over the previous three years. Figure 6.1 shows nominal growth rates across the different categories of spending. Employment and social security will continue to grow strongly over the next three years, rising at an annual average rate of 13.1 per cent compared with 12.6 per cent over the previous three years.

There is strong growth in expenditure on local government, housing and community amenities, while the allocations for education and health also grow in real terms, reflecting above-inflation increases in their salary bills. Spending on economic services, government administration and security will moderate after strong growth over the previous three years, and in line with programmes' capacity to spend.

Table 6.1 Consolidated government expenditure by function, 2013/14 – 2016/17

R million	2013/14 Revised estimate	2014/15	2015/16 Medium-term estimates	2016/17	Average annual MTEF growth
Defence, public order and safety	**154 518**	**163 601**	**172 707**	**184 085**	**6.0%**
Defence and state security	45 208	47 859	50 613	53 812	6.0%
Police services	74 047	78 132	82 537	88 005	5.9%
Law courts	16 514	17 888	18 762	20 187	6.9%
Prisons	18 749	19 722	20 796	22 081	5.6%
Economic infrastructure	**84 657**	**92 805**	**101 235**	**105 032**	**7.5%**
Communication	3 939	2 626	3 263	3 698	-2.1%
Fuel and energy	7 814	8 572	9 902	10 811	11.4%
Transport	72 904	81 607	88 070	90 523	7.5%
Economic services	**47 929**	**50 010**	**52 463**	**55 536**	**5.0%**
Education and related functions	**240 538**	**253 848**	**274 480**	**293 268**	**6.8%**
Pre-school, primary and secondary education	180 090	190 730	204 861	217 570	6.5%
Post-school sector	50 786	52 493	58 437	63 463	7.7%
Arts, sport, recreation and culture	9 662	10 625	11 182	12 235	8.2%
Employment and social security	**47 890**	**57 329**	**64 078**	**69 297**	**13.1%**
General public services	**62 580**	**65 095**	**68 567**	**74 088**	**5.8%**
Health	**134 286**	**145 708**	**155 139**	**164 798**	**7.1%**
Local government, housing and community amenities	**127 222**	**142 889**	**155 526**	**163 539**	**8.7%**
Housing development	29 229	34 767	37 577	40 916	11.9%
Local government and community development	73 932	80 289	87 710	89 032	6.4%
Water supply	24 061	27 833	30 238	33 590	11.8%
Science and technology and environmental affairs	**17 484**	**18 669**	**20 122**	**21 040**	**6.4%**
Social protection	**130 933**	**144 460**	**154 649**	**163 764**	**7.7%**
Allocated expenditure	**1 048 040**	**1 134 413**	**1 218 965**	**1 294 448**	**7.3%**
Debt-service costs	101 256	114 901	126 647	139 201	11.2%
Contingency reserve	–	3 000	6 000	18 000	
Consolidated expenditure[1]	**1 149 295**	**1 252 314**	**1 351 612**	**1 451 648**	**8.1%**

1. Consisting of national, provincial, social security funds and selected public entities
Refer to Annexure W2 for a detailed list of entities included

Reprioritisation, rather than new funds, will be the defining feature of budgeting over MTEF period

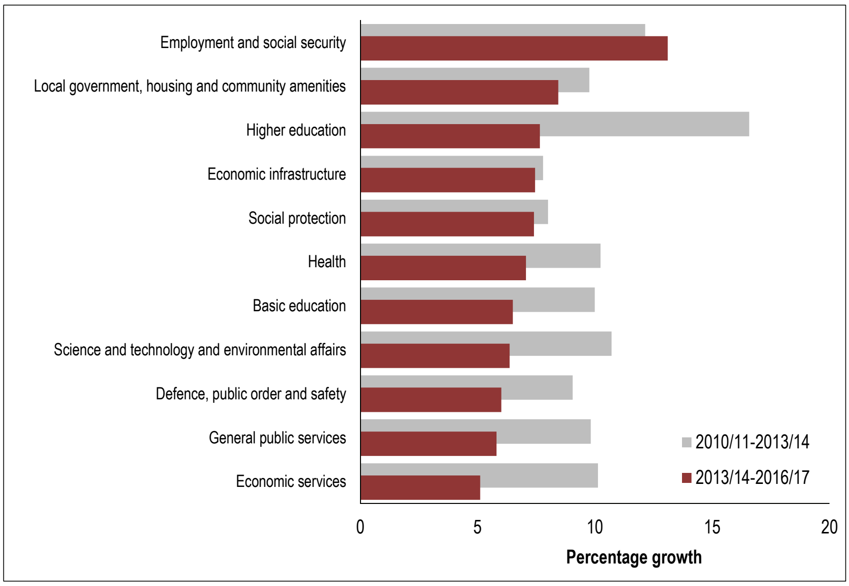
To maintain the expenditure ceiling, additional allocations to priority areas and upward adjustments to the public-sector wage bill have been achieved through reprioritisation across departments. There has also been a drawdown on the contingency reserve. As a result, the contingency reserve for 2014/15 and 2015/16 has been reduced to R3 billion and R6 billion respectively, before rising to R18 billion in 2016/17. Over the next two years, this will limit government's ability to accommodate unforeseeable and unavoidable expenditure and to fund emerging priorities; reprioritisation will be the defining feature of budgeting during this period. Reducing wasteful expenditure and cost controls across government will also make resources available for priority spending items.

Government continues to strive to shift the composition of spending away from consumption and towards productive investment. The wage bill, however, is affected by the higher inflation outlook. Public-sector salaries are linked to inflation: when prices rise, so too must the proportion of resources allocated to compensation.

This is reflected in the economic classification of the main spending increases over the MTEF period:

- R21.9 billion for compensation of employees as a result of higher inflation projections and salary adjustments for clerks, of which R11.7 billion is allocated to provinces and R10.2 billion to national government.
- R5.9 billion for spending on goods and services, including for accommodation leases, maintenance of aircraft by the South African Air Force, expanding employment programmes and a new vaccine for cervical cancer.
- R5.5 billion for infrastructure, including improvements to the railway network, the *municipal human settlement capacity grant*, the *regional bulk infrastructure grant* and to repair infrastructure damaged by natural disasters.
- R5.5 billion for transfers to households and institutions (including public entities) to increase social grants, expand antiretroviral treatment and subsidise the distribution of set-top boxes for the migration to digital broadcasting.

Figure 6.1 Expenditure growth by function



Source: National Treasury

Revised medium-term expenditure plans

This section outlines the principal elements of the overall spending framework for the MTEF period. It is not a comprehensive account of government expenditure, but focuses on NDP priorities. Government's expenditure plans for local government, housing, and community amenities are contained in Chapter 7.

Discussion of expenditure plans focuses on NDP priorities

Full details of spending at main and consolidated budget levels can be found in Annexure B

Comprehensive details of government spending at both the main budget and consolidated budget levels can be found in Annexure B. The *Estimates of National Expenditure* provides detailed information on the spending plans of national departments. The *Explanatory Memorandum to the Division of Revenue* describes transfers to provincial and local government. The spending plans of provinces are published within two weeks of the tabling of the national budget, while draft municipal budgets are tabled in local councils by the end of March.

Contributing to more inclusive economic growth

Industrial policy

Industrial Policy Action Plan aims to put economy on more labour-intensive path

Government has adopted a multifaceted approach to broadening participation in the economy and enhancing the competitiveness of domestic producers. Many of these initiatives are part of the Industrial Policy Action Plan, which seeks to put the economy on a higher, more labour-intensive growth path. Its sector strategies include the Automotive Production and Development Programme, which subsidises international vehicle manufacturers to incorporate local producers into their supply chains, and the Clothing and Textile Competitiveness Programme, which aims to counter the effects of illegal imports and increase domestic producers' participation in local and global markets.

Manufacturing development incentives receive substantial budget support

Table 6.2 identifies government's main industrial policy initiatives. Manufacturing development incentives are allocated R10.3 billion over the next three years. Government also supports small, medium and micro enterprises (SMMEs) through entities such as the Small Enterprise Development Agency and the Small Enterprise Finance Agency.

Table 6.2 Government support for industrial policy, 2013/14 – 2016/17

R million	2013/14	2014/15	2015/16	2016/17	Total 2014/15 – 2016/17
Funding for SMMEs across government	2 243	2 035	2 295	2 190	**6 520**
Provincial investment agencies	1 586	1 747	1 813	1 858	**5 418**
Science and technology support	260	305	515	542	**1 362**
Research and development: agriculture, minerals and health	348	440	320	337	**1 097**
Sub-programmes on Trade and Industry vote:					
Broadening participation development incentives	367	400	400	400	**1 200**
Service sector development incentives	610	570	570	610	**1 750**
Special economic zones	888	650	1 200	1 734	**3 584**
Critical infrastructure programme	140	190	190	190	**570**
Manufacturing development incentives	3 019	3 290	3 425	3 632	**10 347**
Export market and investment incentives	219	240	240	250	**730**
Clothing and textile incentive production incentive	682	723	856	901	**2 480**
Total	**10 362**	**10 591**	**11 824**	**12 645**	**35 059**

In addition to direct support to companies, government provides considerable indirect support in the form of tax expenditures. In 2011/12, the most recent year for which information is available, revenue foregone amounted to R2.4 billion for tax incentives and R19.9 billion for tariff expenditures. The latter relates principally to the R16.6 billion spent on the

Automotive Production and Development Programme. Further details of tax expenditure can be found in Annexure C.

R15.2 billion for the economic competitiveness and support package over the next three years

Government established the economic competitiveness and support package in 2011 with an allocation of R25 billion. Its purpose was to counter the effects of the global economic downturn on local companies. Over the next three years, this initiative will make R15.2 billion available to support a number of the programmes identified in Table 6.2 and to help businesses upgrade machinery and increase productivity.

Over the MTEF period, special economic zones are allocated R3.6 billion to promote value-added exports and generate jobs in economically disadvantaged parts of the country. Preparatory work is under way to attract investors to the zones through tax incentives, infrastructure enhancements and other initiatives.

R7 billion in conditional grants to support subsistence and smallholder farmers

Government is developing an agricultural policy to support the NDP's target of creating 1 million jobs in agriculture by 2030. Expenditure over the medium term will focus on improving agricultural productivity. Over R7 billion will be spent on conditional grants to provinces to support about 435 000 subsistence and 54 500 smallholder farmers, and to improve agricultural extension services. Since April 2012, 200 farms have been recapitalised through government grants and 728 farmers have received training. Government aims to recapitalise 867 farms by 2016/17.

To boost domestic food production and reduce reliance on imports, the Fetsa Tlala initiative aims to bring an additional 1 million hectares into cultivation by 2019, creating 300 000 jobs. Meanwhile, the *comprehensive agriculture support programme grant,* which receives R1.6 billion per year over the medium term, works to increase farm output, especially for the beneficiaries of land reform.

Transport and basic services infrastructure

More than R20 billion to be invested in passenger rail infrastructure over next three years

Over the three-year spending period, large investments by the Passenger Rail Agency of South Africa will significantly improve the efficiency and safety of train travel. The agency will spend R16.3 billion to upgrade Metrorail coaches, R1.1 billion to modernise 140 stations and R5.5 billion to buy locomotives. Signalling and telecommunication infrastructure and systems will receive investment of R3.6 billion. Improvements to urban bus systems are detailed in Chapter 7.

To ensure that communities have access to basic amenities, improvements to bulk water infrastructure will be prioritised over the MTEF period and 830 000 households will be connected to electricity. In addition, there will be strong growth in the resources made available to local government to deliver water and improve sanitation, including eliminating bucket toilets.

Job creation

While broad-based economic growth remains the cornerstone of government's approach to job creation, public employment programmes will also contribute directly to reducing joblessness. These initiatives play an important role in promoting economic activity among the unemployed, and fulfil a wide range of social, economic and environmental objectives.

Expanded Public Works Programme aims to create 6 million short- to medium-term jobs

Government will launch the third phase of the Expanded Public Works Programme in April 2014. Over the next five years, it aims to create 6 million short- to medium-term jobs, up from just over 4 million in the elapsing five-year period. Table 6.3 shows the funding allocated to public employment programmes over the MTEF period. When provincial and municipal infrastructure funding are taken into account, the total funding for expanded public works is considerably higher than shown here.

Table 6.3 Funding for employment programmes, 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Average annual MTEF growth
		Outcome		Revised estimate		Medium-term estimates		
National								
Community Work Programme	449	624	1 290	1 731	2 258	2 505	3 710	28.9%
Expanded Public Works Programme management unit	206	210	237	275	262	268	291	1.9%
Non-state sector	180	154	283	438	477	485	600	11.1%
Tourism programmes	270	301	314	306	401	594	738	34.1%
Environmental programmes	1 568	1 977	2 699	2 857	3 392	3 519	3 999	11.9%
Jobs Fund	–	272	590	1 258	1 900	1 318	1 388	3.3%
National Rural Youth Service Corps	3	96	414	509	528	543	573	4.0%
Provincial								
Incentive grant for provincial infrastructure	182	225	293	357	349	357	412	4.9%
Incentive grant for social sector	57	200	217	258	258	268	375	13.3%
Local government								
Incentive grant for municipal infrastructure	280	364	662	611	632	661	696	4.5%
Total	**3 195**	**4 424**	**6 999**	**8 600**	**10 458**	**10 517**	**12 781**	**14.1%**

The Community Work Programme will become the largest component of expanded public works over the medium term. Additional resources have been made available for the programme to achieve a presence in every municipality by 2016/17. There will be an emphasis on improving the quality of work so that participants are better able to move into the formal economy. There will also be a concerted effort to link employment programmes with initiatives to foster small enterprises and collectives.

Environmental programmes are well funded and help protect natural resources

Environmental programmes – principally Working for Water and Working on Fire – will also expand over the period ahead. These successful programmes have made a significant impact in protecting the country's natural resources.

Matching public-sector support with private-sector funding to create jobs

The Jobs Fund provides a model for tackling unemployment and promoting growth. It matches private-sector funding for projects that will generate sustainable jobs and catalyse economic activity.

The fund has supported initiatives ranging from agricultural projects working on market linkages in rural areas to emerging entrepreneurs in Johannesburg's townships. With a strong focus on evaluation and learning, the fund has also started to generate lessons that can inform policy, particularly in the areas of business incubation and workplace-readiness training.

The fund has contracted 61 projects that will receive grant funding of R3.2 billion over the next three years. These projects are expected to create 96 102 permanent jobs and place 48 933 individuals into existing jobs by 2016. The fund concluded its third funding round in December 2013, when an additional 27 projects were approved. Over the MTEF period, the fund is allocated R4.6 billion.

Employment tax incentive boosts prospects for young job seekers

Government is also helping the private sector to create jobs through the employment tax incentive, which began in January 2014. The incentive subsidises the salaries of newly recruited workers aged between 18 and 29, who are paid in line with minimum wage requirements, for a maximum of two years.

Health

National health insurance gives effect to NDP's vision for health sector

The bulk of health expenditure is channelled through provincial government, but over the MTEF period national health spending will grow at a higher rate. This reflects the centralisation of certain functions and the fact that the phased introduction of national health insurance (NHI) is funded principally through a grant controlled by the national department.

The implementation of NHI over a 14-year period gives effect to the NDP's vision for a health sector that works for everyone. The Department of Health's white paper for NHI and a financing paper by the National Treasury have been completed and will be tabled in Cabinet in the near future. Table 6.4 shows total health spending by the public sector, which amounts to R492.4 billion over the MTEF period. Medium-term allocations strengthen HIV/AIDS treatment, and support the rollout of new vaccines. These aspects of health expenditure are discussed in Chapter 7.

Table 6.4 Public health expenditure,[1] 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Average annual MTEF growth
		Outcome		Revised estimate		Medium-term estimates		
National department	1 442	1 809	1 932	2 297	3 725	3 731	3 612	16.3%
Provincial departments	95 148	108 094	118 334	127 389	137 068	146 090	155 496	6.9%
Defence	3 150	3 400	3 460	3 762	3 849	4 059	4 325	4.8%
Correctional services	508	519	584	657	694	748	780	5.9%
Local government (own revenue)	1 865	1 977	2 096	2 221	2 355	2 496	2 628	5.8%
Public entities	3 636	3 249	4 950	4 601	4 916	5 318	5 690	7.3%
Workmen's compensation	55	148	154	221	255	260	260	5.6%
Road Accident Fund	768	785	1 138	1 202	1 267	1 336	1 406	5.4%
Total	**106 573**	**119 982**	**132 648**	**142 350**	**154 129**	**164 039**	**174 198**	**7.0%**
Total as % of GDP	*3.9%*	*4.0%*	*4.1%*	*4.1%*	*4.1%*	*4.0%*	*3.8%*	

1. This table covers a broader range of public health spending than the consolidated figures in Table 6.1

Government recognises that the health system needs to be strengthened as a precondition for NHI. The Office of Health Standards Compliance will be launched in 2014/15 as an independent public entity responsible for inspecting health facilities and improving the quality of health provision. The new office receives funding of R369.5 million over the medium term.

NHI expenditure focuses on new financial arrangements and pilot innovations

The rollout of NHI is currently financed by two conditional grants: the nationally managed *national health grant* and the provincially managed *national health insurance grant*.

Within the NHI component of the *national health grant*, R1.2 billion is budgeted over the MTEF period to begin contracting with general practitioners, develop new reimbursement mechanisms for central hospitals and improve their revenue management. Spending on this component has been low in 2013/14 because of delays in reaching agreement on remuneration of general practitioners. The *national health insurance grant* receives a medium-term allocation of R221.9 million to strengthen district health structures, improve procurement and pilot innovations within targeted districts. A total of R18.1 billion is budgeted over the MTEF period for the infrastructure components of the two grants.

Education

Higher compensation costs drive growth in education spending over MTEF period

Education receives 20 per cent of consolidated government expenditure, significantly higher than any other category. Provincial education departments receive the majority of this funding to pay teachers' salaries. To fund increased wage settlements resulting from the upward revision of inflation forecasts and to establish an occupation-specific dispensation for therapists, the education budget rises by an average of 7 per cent a year over the MTEF period. Table 6.5 shows total education spending.

Table 6.5 Education expenditure, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Average annual MTEF growth
R million		Outcome		Revised estimate		Medium-term estimates		
Total education	**177 891**	**202 615**	**218 364**	**240 538**	**253 848**	**274 480**	**293 268**	**6.8%**
Of which:								
Provincial compensation of employees	*111 050*	*123 473*	*131 266*	*142 313*	*149 500*	*159 968*	*169 321*	*6.0%*
Post-school sector	*32 454*	*40 282*	*45 629*	*50 786*	*52 493*	*58 437*	*63 463*	*7.7%*
School infrastructure backlogs grant	*–*	*76*	*860*	*999*	*2 939*	*2 433*	*2 611*	*37.8%*
Education infrastructure grant	*3 163*	*5 311*	*5 802*	*6 160*	*6 929*	*9 469*	*10 038*	*17.7%*

Access to free education has increased rapidly since government introduced no-fee schools in 2007. Today, 60 per cent of schools do not charge fees, up from 40 per cent five years ago. In 2007, 5 million learners had access to free education; by this year the number had risen to 8.8 million. In recent years, there has also been a notable increase in the number of children who attend Grade R.

More than 400 schools to be rebuilt, and number of qualified teacher trainees increases

The Department of Basic Education's long-term plan to improve the quality of education, Schooling 2025, focuses on literacy, numeracy, science and languages. A total of 433 schools will be rebuilt over the medium term through the *school infrastructure backlogs grant*. The Funza Lushaka bursary scheme for students wanting to teach in public schools is intended to increase the number of better-qualified teachers; an estimated 3 262 graduates qualified in 2013 for placement in 2014, up from 2 396 placed in 2013.

A partnership to improve the quality of education

The National Education Collaboration Trust is a partnership between government, business, labour and civil society launched in July 2013 to support implementation of the NDP and improve education outcomes. The trust has started by profiling 4 000 schools, serving about 2 million learners in eight education districts across five provinces. Next, it will bring in specialists to address specific needs, such as repairing infrastructure or improving teaching. The Department of Basic Education has an allocation of R111 million over the MTEF period for collaboration with the private sector, part of which will go to the trust. Provincial education departments are also supporting the initiative.

Post-school education and training accounts for about 21 per cent of total education spending, with R78 billion allocated for university subsidies and R19 billion to National Student Financial Aid Scheme for bursaries and loans over the MTEF period. Funds are also provided for bursaries at universities and colleges through the sector education and training authorities and the National Skills Fund. The Department of Higher Education and Training is working with these institutions to improve throughput rates at universities and colleges. At present, a high percentage of students drop out; others fail to complete their courses within the allotted time frames.

Money is set aside to pilot new administration of National Student Financial Aid Scheme

The white paper for post-school education and training, released in 2013, is targeting the enrolment of 1.6 million students at universities and 2.5 million in further education and training colleges by 2030.

Social infrastructure

Spending on social infrastructure – which includes health, education and community facilities – is projected to increase from R30 billion in 2012/13 to R43 billion in 2016/17. Priority will be given to eradicating school infrastructure backlogs, and refurbishing clinics and hospitals. The allocations for education and health account for more than 65 per cent of the social infrastructure budget.

Social protection

Social assistance is government's most direct means of combating poverty. As shown in Table 6.6, spending on the social grant system is projected to rise from R118 billion in 2013/14 to R145 billion by 2016/17. Social grant expenditure will remain significant at over 3 per cent of GDP. There has been a substantial reduction in the cost of paying grants over the past five years, from an average of R32 per beneficiary per month to a fixed rate of R16.40 per beneficiary per month.

About 15.8 million South Africans benefit from some form of social assistance

Table 6.6 Social grant trends as a percentage of GDP, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million		Actual		Revised estimate		Medium-term estimates	
Grants	87 493	95 962	103 899	111 007	120 952	129 493	137 556
Administration[1]	5 313	5 358	5 932	6 975	7 074	7 320	7 402
Total	**92 806**	**101 320**	**109 830**	**117 982**	**128 026**	**136 814**	**144 958**
Administration as % of total	*5.7%*	*5.3%*	*5.4%*	*5.9%*	*5.5%*	*5.4%*	*5.1%*
Total as % of GDP	*3.4%*	*3.4%*	*3.4%*	*3.4%*	*3.4%*	*3.3%*	*3.2%*

1 Includes SASSA, social security policy and appeals tribunal

Growth in social grant spending shown in Table 6.7 is driven by changes to the grant values and the number of people receiving the grants. The *child support* and *old age* grants are the two largest grant programmes, constituting about 75 per cent of total grant spending.

Table 6.7 Social grants expenditure by type, 2010/11– 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Average annual MTEF growth
		Actual		Revised estimate		Medium-term estimates		
Type of grant								
Child support	30 342	34 319	38 088	40 029	43 600	46 098	48 257	6.4%
Old age	33 765	37 131	40 475	44 767	49 779	54 138	58 788	9.5%
Disability	16 840	17 375	17 637	18 034	18 816	19 942	20 692	4.7%
Foster care	4 616	5 011	5 335	5 478	5 974	6 308	6 618	6.5%
Care dependency	1 586	1 736	1 877	2 028	2 251	2 422	2 594	8.6%
Grant-in-aid	170	204	238	249	278	305	317	8.4%
Social relief of distress	174	185	239	422	253	280	291	-11.7%
Total	**87 493**	**95 962**	**103 889**	**111 007**	**120 952**	**129 493**	**137 556**	**7.4%**

Source: Socpen system

Increases in social grant values for 2014/15 are shown in Table 6.8. All grants will increase at or slightly above projected consumer price inflation except the *foster care grant*, pending the development of a new dispensation for orphans.

Table 6.8 Social grant values, 2013/14 and 2014/15

Rand	2013/14[1]	2014/15[2]	% Increase
State old age grant	1 265	1 350	6.7%
State old age grant, over 75s	1 285	1 370	6.6%
War veterans grant	1 285	1 370	6.6%
Disability grant	1 265	1 350	6.7%
Foster care grant	800	830	3.8%
Care dependency grant	1 265	1 350	6.7%
Child support grant (CSG)	295	315	6.8%

1. Average grant value

2. The value of the CSG will rise to R310 in April and to R320 from October

All grants but one increased at or slightly above projected inflation rate

Over the past decade, the number of social-grant beneficiaries has doubled from 7.9 million in 2003/04 to 15.8 million in 2013/14, largely due to an expansion of the *child support grant*. As Table 6.9 shows, growth in grant recipients over the medium term remains moderate and in line with demographic trends. The means test threshold for the *old age grant* will be raised as an interim step towards phasing out the test.

Re-registration tackles social grants fraud

During 2012 and 2013, all social grant beneficiaries were required to re-register with the South African Social Security Agency (SASSA). The process was intended to eliminate fraud and corruption in the social grant system and clean up the beneficiary database.

In August 2013, 340 000 *old age* and *disability* grants were cancelled because beneficiaries failed to re-register. In October 2013, 300 000 children were removed from the system because primary care givers failed to present the children on whose behalf they were claiming. From 1 April 2012 to 31 December 2013, 299 000 grants were voluntarily cancelled by ineligible beneficiaries and by the removal of beneficiaries who had not claimed their grants. The re-registration process included the collection of biometric information for all beneficiaries, including fingerprints and/or voiceprints. This will prevent fraudulent claims in the future.

Table 6.9 Social grants beneficiary numbers by type, 2010/11 – 2016/17

Thousands	2010/11	2011/12	2012/13	2013/14[1]	2014/15	2015/16	2016/17	Average annual MTEF growth
		Actual		Revised estimate		Medium-term estimates		
Type of grant								
Child support	10 154	10 675	11 213	11 050	11 194	11 319	11 392	1.0%
Old age	2 648	2 711	2 846	2 946	3 074	3 188	3 308	3.9%
Disability	1 212	1 172	1 154	1 118	1 116	1 114	1 113	-0.2%
Foster care	490	518	515	519	534	549	563	2.7%
Care dependency	121	122	129	132	135	139	144	2.8%
Total	**14 625**	**15 199**	**15 857**	**15 765**	**16 052**	**16 309**	**16 520**	**1.6%**

1. Projected numbers at fiscal year end
Source: Socpen system

Spending on social grants moderates over medium term, partly due to lower administrative costs

Workers, employers and motorists finance South Africa's principal social security arrangements: the Unemployment Insurance Fund (UIF), the funds established under the Compensation Fund for Occupational Diseases and Injuries Act (1993) and the Road Accident Fund. Table 6.10 shows the revenues and expenditure of these funds over the MTEF period.

Over the next three years, expenditure by the UIF is projected to grow strongly due to amendments to the Unemployment Insurance Act (2001) that will increase the level of benefits provided. The Road Accident Fund will also increase its claims payments, while the Compensation Fund expects to increase both its revenue collection and its claims payments as a result of progress in its turnaround strategy. The administrative costs of all the social security funds will increase significantly to recruit additional staff and expand their presence across the country.

Table 6.10 Social security funds, 2010/11 – 2016/17

R million	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
		Outcome		Revised estimate		Medium-term estimates	
Unemployment Insurance Fund							
Revenue	13 878	15 206	16 532	20 254	21 947	23 664	25 483
Expenditure	6 435	6 780	7 287	9 207	11 490	14 485	15 599
Compensation funds							
Revenue	6 919	6 177	9 041	10 320	10 919	11 531	12 162
Expenditure	4 032	2 569	2 383	3 521	4 530	4 849	5 158
Road Accident Fund							
Revenue	14 339	16 472	18 116	20 361	22 390	24 384	26 451
Expenditure	13 857	13 364	16 217	20 262	24 019	27 155	28 221
Total revenue	**35 137**	**37 855**	**43 689**	**50 935**	**55 256**	**59 580**	**64 096**
Tax revenue	30 334	32 681	37 975	42 793	46 286	49 868	53 552
Non-tax revenue	4 791	5 135	5 697	8 124	8 949	9 690	10 521
Grants received	12	39	17	19	20	21	23
Total expenditure	**24 324**	**22 713**	**25 888**	**32 990**	**40 039**	**46 489**	**48 978**
Budget balance[1]	**10 813**	**15 142**	**17 801**	**17 945**	**15 216**	**13 090**	**15 117**

1. A positive number reflects a surplus and a negative number a deficit

A capable developmental state

National School of Government allocated R434 million to start operations

As part of building the capable state envisioned in the NDP, government is replacing the Public Administration Leadership and Management Academy with a National School of Government. Over the three-year spending period, R434 million is allocated to the school.

For the next three years, the Department of Police will focus on skills development and management training. Police services will be made more accessible through infrastructure development; a rural safety strategy will be implemented; and the family, child and sexual offences unit will be strengthened.

Transition to Smart ID cards will take place over six years

The Department of Home Affairs launched the Smart ID card in July 2013 as part of a broader modernisation programme. The new card will replace the green barcoded ID book, which is susceptible to fraud. It will also help the department to remove fraudulent entries from the national population register and eradicate duplicate identity numbers. The transition from ID books to Smart IDs will take place over six years. The first two years will target pensioners and people who are receiving their first ID cards; both groups will receive the Smart ID card free of charge. Other citizens will be charged for the new cards, with costs similar to those of the current ID book.

Support for African peacekeeping operations

The Department of Defence will spend about R5 billion on peace-support operations over the medium term. South African troops are supporting peacekeeping operations in the Democratic Republic of the Congo and Sudan, and are participating in anti-piracy operations in the Mozambique Channel. A total of R1.5 billion is allocated for the maritime security strategy.

Conclusion

The spending plans for the MTEF period ahead prioritise the NDP. They also build on the successes that have been achieved since 1994 in developing a budget framework that is accountable, transparent and responsive to the needs of the country. Over the next three years, government will strike a balance between its commitment to fiscal consolidation and the need to increase spending on key areas to expand the economy's long-term growth potential. This will be achieved through maintaining the expenditure ceiling, reprioritising resources to areas where they are most needed, eliminating wasteful expenditure and adopting rigorous cost-containment measures in every aspect of public spending.