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Consolidated government spending plans

In brief

- Government's spending plans are focused on achieving the objectives of the medium-term strategic framework, which have been derived from the National Development Plan.
- Government proposes to reduce the expenditure ceiling by a total of R25 billion in the next two years, with an unallocated reserve provided for in 2017/18.
- Real spending will grow by an annual average of 2.3 per cent over the next three years. Debt-service costs are the fastest-growing category of spending.
- Existing resources will be shifted to policy priorities, while maintaining faster growth in infrastructure and social spending programmes.
- Cost-containment measures will be applied to improve efficiency in all spending programmes.

Overview

The 2015 Budget allocates resources to South Africa's core social and economic priorities while containing aggregate expenditure growth. Spending plans give effect to the priorities of the National Development Plan (NDP) and government's medium-term strategic framework (MTSF). Although aggregate spending, which will reach R1.56 trillion in 2017/18, continues to grow in real terms across a significant proportion of the budget, fiscal realities mean that this is not the case in all areas.

Budget gives effect to NDP and medium-term strategic framework priorities within expenditure ceiling

Relative to expenditure levels announced in the 2014 Budget, total spending in 2015/16 and 2016/17 has been reduced by R25 billion, or about 1 per cent of projected budgets. In addition, government has placed R45 billion in an unallocated reserve for 2017/18 to serve as a buffer against fiscal or economic shocks.

In revising their plans to take account of slower growth in their budgets, departments and agencies have sought to reduce spending on non-critical activities. They have also postponed the inception of new programmes, except where these can be funded by reducing spending elsewhere. As far as possible, spending on infrastructure investment and core social programmes has been protected.

Compensation as a share of expenditure declines slightly over MTEF period

Government continues to register progress in improving the composition of expenditure. Overall, the bulk of budget reductions have fallen on the goods and services budget, which at R200 billion in 2016/17 is more than 5 per cent lower than was projected in the 2014 Budget. Compensation as a share of allocated expenditure also declines from 35.5 per cent to 34.5 per cent over the MTEF period. Achieving this, however, depends on the outcome of public-sector wage talks. Additional steps have been taken to contain public spending.

Containing costs in public spending

Responsibility for managing public resources is shared. Principal responsibility lies with the accounting officers of state institutions, whose job it is to ensure that allocated resources deliver the maximum value for money. Accounting officers are held accountable by external authorities such as the Auditor-General, the National Treasury and Parliament.

Several tools augment these relationships. Treasury instructions, transversal contracts that maximise state purchasing power and other rules impose statutory requirements on accounting officers against which their performance can be audited. Recent initiatives include:

- A review of Treasury Instruction 1 of 2012, which set limits on the costs government can incur in procuring goods and services such as hotel accommodation, flights, rental cars and consultants. In 2015 the National Treasury will expand this instruction to limit spending in a range of areas, such as conferences and workshops. Details of these measures will be published by the end of the first quarter of the fiscal year.
- A national price-referencing system developed by the Chief Procurement Officer, which will help government to improve the quality of spending by providing state institutions with data on the ranges within which the price of commonly used goods and services should fall. The new system will be rolled out on 1 April 2015.
- An eTender portal will widen government's access to potential suppliers. It will allow small firms to evaluate tenders in a transparent manner, and bid on an equal basis, since they will no longer have to pay to see tenders. The system will also increase the level of effective competition between actual and potential suppliers. It will be available for national and provincial use from 1 April 2015 and for local government from 1 July 2015. National and provincial departments must publish all tenders greater than R500 000, and municipalities must publish all tenders greater than R200 000 online. Award notices will be posted, improving transparency and accountability.

Reducing wasteful expenditure and implementing more cost-effective service-delivery models will make more resources available for priority spending areas. As government works to realise the MTSF outcomes, it continues to look for ways to optimise service delivery. Over the medium term, realising the MTSF objectives will help to lay the foundation for stronger economic growth and social development.

Consolidated government expenditure

Consolidated expenditure grows by 7.9 per cent

Consolidated government expenditure is projected to grow by 7.9 per cent over the MTEF period, from R1.24 trillion in 2014/15 to R1.56 trillion in 2017/18. This is 2.3 percentage points a year ahead of projected inflation.

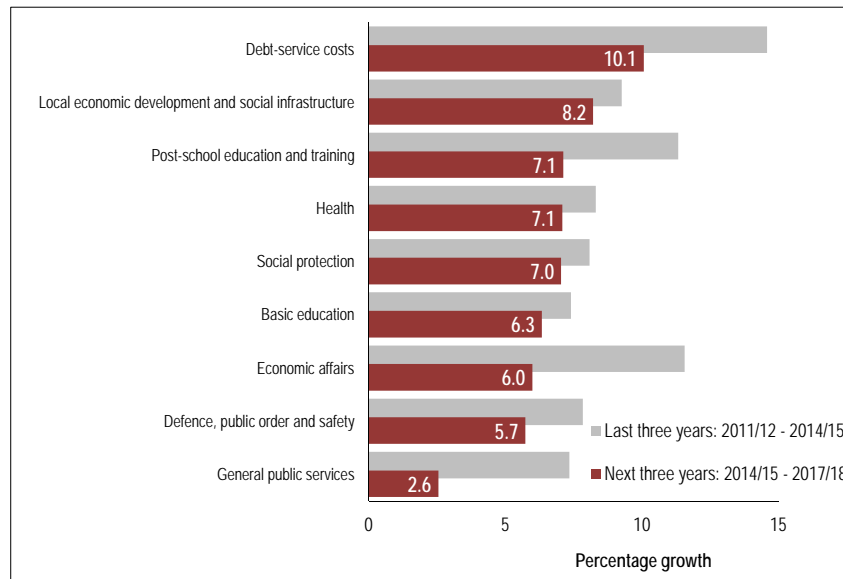
Real expenditure growth over the three-year period ahead will be slower than it has been over the past three years, though the slowdown is not uniform across all functions. For example, spending growth for social

services (including social protection, health, basic education and local economic development) will be 7.2 per cent over the medium term, but spending growth on general public services is expected to slow to 2.6 per cent. Apart from general public services, spending in all functions grows faster than projected inflation.

At an annual average of 10.1 per cent, debt service is the fastest-growing item of expenditure, driven by the increase in government borrowing since 2008/09.

Debt service is fastest-growing item of expenditure

Figure 5.1 Nominal expenditure growth by function, 2011/12 – 2014/15 and 2014/15 – 2017/18



Source: National Treasury

Reflecting the commitment to improving the composition of spending, allocations to local development and social infrastructure grow at 8.2 per cent over the MTEF period.

Spending on post-school education and training, which is critical to alleviating skills constraints and to spreading economic opportunity, also grows strongly at 7.1 per cent a year. Growth in this function is driven by expanded revenues from the skills levy, as well as increased transfers to the National Student Financial Aid Scheme, subsidies to higher-education institutions and continued construction of two new universities.

Spending growth on economic affairs will slow over the medium term because the economic competitiveness support package, a short-term programme introduced in the wake of the global recession, will wind down. Growth in spending on defence, public order and safety, and general government services slows despite increases in average personnel costs.

Strong growth in spending on local development and social infrastructure

Table 5.1 sets out consolidated government expenditure information over the MTEF period. It includes the spending estimates of national and provincial departments and public entities, as well as transfers of nationally raised revenue to municipalities. State-owned companies' revenues from commercial operations are excluded, as are the revenues raised by municipalities.

Table 5.1 Consolidated government expenditure by function,¹ 2014/15 – 2017/18

R million	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates			Percentage of total MTEF allocation by function	Average annual MTEF growth
Basic education	189 454	203 468	216 036	227 816	16.7%	6.3%
Health	144 558	157 294	167 485	177 525	13.0%	7.1%
Defence, public order and safety	163 018	171 150	181 248	192 719	14.1%	5.7%
Defence and state security	47 445	49 364	52 303	55 450	4.1%	5.3%
Police services	78 237	82 724	87 305	93 235	6.8%	6.0%
Law courts and prisons	37 336	39 063	41 639	44 034	3.2%	5.7%
Post-school education and training	56 612	62 238	65 556	69 594	5.1%	7.1%
Economic affairs	189 430	206 164	219 526	225 549	16.8%	6.0%
Industrial development, trade and innovation	64 636	69 688	73 132	74 718	5.6%	5.0%
Employment, labour affairs and social security funds	56 439	64 138	70 111	72 945	5.3%	8.9%
Economic infrastructure and network regulation	68 355	72 338	76 284	77 887	5.8%	4.4%
Local development and social infrastructure	176 612	199 570	210 235	223 813	16.3%	8.2%
Housing development and social infrastructure	157 649	179 224	189 170	201 581	14.7%	8.5%
Rural development and land reform	10 220	10 709	11 443	12 021	0.9%	5.6%
Arts, sport, recreation and culture	8 743	9 638	9 622	10 212	0.8%	5.3%
General public services	64 743	64 385	66 750	69 824	5.2%	2.6%
Executive and legislative organs	12 375	12 335	12 827	13 507	1.0%	3.0%
General public administration and fiscal affairs	37 077	38 622	38 912	41 132	3.1%	3.5%
Home affairs	7 778	6 349	7 483	7 281	0.5%	-2.2%
External affairs and foreign aid	7 513	7 078	7 528	7 905	0.6%	1.7%
Social protection	143 926	155 297	165 997	176 523	12.8%	7.0%
Allocated by function	1 128 354	1 219 566	1 292 833	1 363 364	100.0%	6.5%
Debt-service costs	115 016	126 440	140 971	153 376		10.1%
Unallocated reserves	–	5 000	15 000	45 000		
Consolidated expenditure	1 243 370	1 351 007	1 448 804	1 561 740		7.9%

1. Consisting of the main budget and spending by provinces, public entities and social security funds financed from own revenue

Source: National Treasury

The 2015 Budget includes baseline expenditure reductions of R25 billion over two years (R10 billion in 2015/16 and R15 billion in 2016/17) relative to the projected budgets announced in the 2014 Budget. These reductions include:

- Reductions to current spending by national departments of R2.3 billion in 2015/16 and R3.9 billion in 2016/17, to be achieved mainly through decreases in budgets for non-core goods and services.
- Reductions to capital spending of national departments by R280 million (2015/16) and R911 million (2016/17), mainly on non-critical items of machinery and equipment.
- Reductions in allocations to public entities of R2.4 billion (2015/16) and R2.6 billion (2016/17).

- Reductions in transfers to provinces of R4.4 billion (2015/16) and R6.6 billion (2016/17).
- Reductions in conditional allocations to local government of R921 million in 2015/16 and R1.4 billion in 2016/17. No reductions were made to the local government equitable share.

**Table 5.2 Consolidated government expenditure by economic classification,¹
2014/15 – 2017/18**

R million	2014/15 Revised estimate	2015/16 Medium-term estimates	2016/17 Medium-term estimates	2017/18 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
Current payments	746 375	799 602	856 695	907 252	59.7%	6.7%
Compensation of employees	445 289	479 511	509 638	539 563	35.6%	6.6%
Goods and services	180 297	187 677	200 297	209 437	13.9%	5.1%
Interest and rent on land	120 788	132 413	146 761	158 251	10.2%	9.4%
<i>of which:</i>						
<i>Debt-service costs</i>	115 016	126 440	140 971	153 376	9.8%	10.1%
Transfers and subsidies	406 947	445 415	473 059	497 762	33.0%	6.9%
Municipalities	96 564	107 235	111 464	118 037	7.8%	6.9%
Departmental agencies and accounts	26 587	30 289	31 333	33 369	2.2%	7.9%
Higher education institutions	26 047	27 021	28 001	29 342	2.0%	4.1%
Foreign governments and international organisations	2 215	2 017	2 198	2 289	0.2%	1.1%
Public corporations and private enterprises	28 509	31 460	33 110	33 256	2.3%	5.3%
Non-profit institutions	26 749	27 884	29 066	30 492	2.0%	4.5%
Households	200 276	219 509	237 886	250 977	16.5%	7.8%
Payments for capital assets	86 302	97 498	103 704	111 361	7.3%	8.9%
Buildings and other capital assets	67 078	77 219	81 953	86 461	5.7%	8.8%
Machinery and equipment	19 224	20 279	21 751	24 900	1.6%	9.0%
Payments for financial assets	3 746	3 492	345	365	0.1%	-54.0%
Total	1 243 370	1 346 007	1 433 804	1 516 740	100.0%	6.8%
Unallocated reserves	–	5 000	15 000	45 000		
Consolidated expenditure	1 243 370	1 351 007	1 448 804	1 561 740		7.9%

1. Consisting of the main budget and spending by provinces, public entities and social security funds financed from own revenue

Source: National Treasury

To accommodate the lower expenditure ceiling while increasing support for spending priorities, the unallocated reserves for 2015/16 and 2016/17 have been reduced. A reserve of R45 billion is provided for in 2017/18 to provide a buffer against economic or fiscal shocks.

The economic classification of the main spending increases over the MTEF period reflects some progress in rebalancing the fiscus and improving the composition of spending. By the end of the MTEF period, a larger proportion of non-interest spending will go towards building capital assets. The main trends are as follows:

- Compensation of employees is projected to grow by 6.6 per cent a year. Subject to the outcome of public-sector wage talks, compensation is expected to make up 34.5 per cent of allocated expenditure in 2017/18 compared with 36.5 per cent in 2011/12.

Cost-containment and reprioritisation measures limit growth in goods and services spending

- Cost-containment and reprioritisation measures limit growth in allocations for goods and services to 5.1 per cent per year. Allocations for critical items such as medicine will grow faster than inflation.
- Transfers to municipalities increase by 6.9 per cent a year, supporting the provision of free basic services to the poor. Transfers to households, which includes housing subsidies, grow by 7.8 per cent.
- Payments for capital assets grow by 8.9 per cent a year, making this the fastest-growing category of expenditure apart from debt service.

National expenditure outcome

National underspending of 0.6 per cent of budgeted expenditure in 2013/14

In 2013/14, national expenditure amounted to R1.048 trillion (including transfers to provinces and municipalities) out of a total adjusted appropriation of R1.054 trillion. This represents underspending of 0.6 per cent – the same level achieved in 2012/13. Underspending on infrastructure programmes, especially in health and education, was the main contributor to the shortfall. This is being addressed through initiatives to improve spending, as discussed in Annexure B. Spending on social grants also came in R1.4 billion under budget following the clean-up of the grants system by the South African Social Security Agency.

Expenditure and performance reviews

The National Treasury and the Department of Planning, Monitoring and Evaluation in the Presidency have completed a series of performance and expenditure reviews. The reviews assess whether services have been designed and delivered in a cost-effective manner, with a view to proposing reforms.

The reviews have observed that policies are often designed without fully assessing the costs and implications of choices being made. Significant savings are possible if departments make adjustments. Recent reviews have taken place in the following areas:

- **Housing:** The full cost of RDP houses significantly exceeds the capital subsidy, with serious implications for the budgets of relevant institutions – especially municipalities – as well as the pace of housing delivery and the affordability of current policy commitments.
- **Public transport:** By a variety of measures, public transport in South Africa is very expensive for both users and government, largely because apartheid's spatial legacy results in inefficient patterns of transport use. Government is working to change the spatial layout of the cities through improvements in land use planning over the long term. In the short term, the densification of the cities in specific nodal areas and along identified corridors will assist in reducing the costs of public transport. Improving the integration of the transport system and its governance would also yield increased efficiency.
- **Foreign missions:** Government spends over R3.5 billion a year to maintain foreign missions. Rapid spending growth is largely attributable to higher property costs and rising staff costs. While the costs of locally recruited staff are too high, cost of living allowances for South African staff are more generous than those offered by other countries and international organisations – between 20 and 50 per cent higher than the United Nations, for example. The location of some of the most expensive missions is not aligned with trade relations or other economic interests.

During 2015/16, expenditure and performance reviews will examine government accommodation, school infrastructure, provincial roads, and information and communication technology costs at schools.

Revised medium-term expenditure plans

Achieving NDP's vision requires partnerships between government, business, labour and civil society

The NDP sets out a long-term vision for a prosperous South Africa, one in which a much higher proportion of adults are working, where poverty has been eliminated and inequality reduced. Achieving that vision requires partnerships between government, business, labour and civil society. It also requires that public institutions deliver the high-quality services and infrastructure needed to achieve rapid and sustained economic growth, while maintaining macroeconomic stability.

The MTSF sets priorities for government's work over the next five years to ensure that such progress is made. The following sections, organised by function group, set out some of government's plans to achieve these goals. More detailed information on departmental spending plans can be found in the statistical tables in the *Budget Review* and the *Estimates of National Expenditure*. Spending plans for provinces and municipalities are discussed in the *Explanatory Memorandum to the Division of Revenue*, available at www.treasury.gov.za, and in provincial and municipal budgets.

Economic affairs

This function group addresses three MTSF outcomes linked to the structure and performance of the economy – *decent employment through inclusive growth; an efficient, competitive and responsive economic infrastructure network; and protect and enhance our environmental assets and natural resources*. Excluding tax rebates afforded to industry amounting to about R19 billion a year, about R650 billion will be spent in pursuit of these goals over the next three years. The winding down of the economic competitiveness support package means that total allocations will grow more slowly, at an annual average of 6 per cent over the medium term.

About R650 billion for economic affairs over medium term

Job creation and inclusive economic growth

Faster job creation depends above all on boosting the economic growth rate and greater private-sector investment. Government spending supports this but also makes a direct contribution to job creation by focusing support on productive activities across the economy.

The Competition Commission plays an important role in ensuring greater economic efficiency and increased opportunity for new and smaller businesses. Over the medium term, it will receive additional support of R25 million to investigate private healthcare costs. To support more rapid economic growth, and the development of new sources of energy, a sum of R65 million has been set aside to ensure the optimal regulation of shale gas exploration. Over the medium term, the newly established Department of Small Business Development will spend about R3.5 billion on non-financial support to small businesses through training and mentoring. It will also seek to reduce regulatory barriers to small firms, especially informal businesses in townships.

One element of Operation Phakisa, government's programme to speed up project implementation, is aimed at unlocking the economic potential of South Africa's oceans. This effort is allocated R296 million to fund scientific expeditions by the SA Agulhas II and the Algoa, and to conduct essential research on climate change and deep ocean environments.

Initiative to unlock economic potential of oceans surrounding South Africa

Medium-term allocations of R35.9 billion support government's active labour-market interventions. At 21 per cent a year, the Community Work Programme grows fastest, allowing it to expand its presence to every municipality by 2017. The Jobs Fund is expected to spend about R4 billion over the next three years on projects that create permanent jobs and address structural constraints to growth and employment.

Rapid growth in spending by social security funds reflects the increase in expenditure by the Road Accident Fund, which is discussed in Chapter 8. These increases are funded by an increase in the fuel levy.

Table 5.3 Economic affairs expenditure, 2014/15 – 2017/18

	2014/15 Revised estimate	2015/16 Medium-term estimates	2016/17	2017/18	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth
R million							
Economic infrastructure and network regulation	68 355	72 338	76 284	77 887	226 510	34.8%	4.4%
<i>of which:</i>							
Bulk water infrastructure	19 540	20 086	23 615	23 867	67 568	10.4%	6.9%
Road infrastructure	46 680	51 227	51 604	52 880	155 711	23.9%	4.2%
Employment, labour affairs and social security funds	56 439	64 138	70 111	72 945	207 193	31.8%	8.9%
<i>of which:</i>							
Employment programmes ¹	10 328	10 625	12 428	12 862	35 915	5.5%	7.6%
Social security funds	39 475	47 127	50 837	52 247	150 211	23.1%	9.8%
Industrial development, trade and innovation	64 636	69 688	73 132	74 718	217 537	33.4%	5.0%
<i>of which:</i>							
Environmental programmes	6 121	6 432	6 772	6 971	20 175	3.1%	4.4%
Research and development, including research institutions	14 691	15 786	15 845	16 586	48 217	7.4%	4.1%
Agriculture and farmer support programmes	11 296	11 557	11 893	12 534	35 984	5.5%	3.5%
Economic development and incentive programmes	12 358	13 881	14 858	13 823	42 562	6.5%	3.8%
Total	189 430	206 164	219 526	225 549	651 240	100.0%	6.0%
<i>of which:</i>							
Compensation of employees	35 383	37 884	40 553	43 037	121 474	18.7%	6.7%
Goods and services	42 276	45 225	48 502	50 887	144 614	22.2%	6.4%
Transfers and subsidies	70 154	78 314	84 184	84 951	247 449	38.0%	6.6%
Buildings and other fixed structures	33 063	36 449	38 164	39 262	113 875	17.5%	5.9%
Machinery and equipment	2 486	2 124	2 200	2 479	6 802	1.0%	-0.1%

1. Includes the Expanded Public Works Programme and the Jobs Fund

Source: National Treasury

Transport and telecommunications infrastructure

Policy on broadband spectrum will reduce uncertainty that has held back investment

A policy on broadband spectrum usage will be completed by March 2016, reducing the uncertainty that has held back investment in this sector. The Department of Telecommunications and Postal Services plans to connect 1 296 government institutions and 972 schools to broadband services by March 2016 using a range of technologies. A total of R1.1 billion has been allocated for this purpose over the MTEF period.

To improve road safety, R1.1 billion is reprioritised from the taxi recapitalisation programme and other road budgets to upgrade the R573 (the Moloto Road) in Mpumalanga. An amount of R648 million is also reprioritised for the rehabilitation of road infrastructure damaged in various natural disasters.

Local economic development and social infrastructure

Strong growth in allocations for housing and basic services infrastructure

Expenditure on local economic development and social infrastructure will grow at an average annual rate of 8.2 per cent over the next three years, rising from R176.6 billion to R223.8 billion. Over 90 per cent of expenditure will be allocated to housing and the services provided by local governments in pursuit of several MTSF outcomes:

- Sustainable human settlements and improved quality of household life
- Responsive, accountable, effective and efficient local government
- Vibrant, equitable, sustainable rural communities contributing towards food security for all
- A diverse, socially cohesive society with a common national identity.

Table 5.4 Local development and social infrastructure expenditure, 2014/15 – 2017/18

	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth		
R million							
Arts, sport, recreation and culture	8 743	9 638	9 622	10 212	29 472	4.7%	5.3%
Housing development and social infrastructure	157 649	179 224	189 170	201 581	569 975	90.0%	8.5%
<i>of which:</i>							
<i>Human settlements</i>	32 441	33 393	36 042	38 201	107 636	17.0%	5.6%
<i>Public transport, including commuter rail</i>	35 646	41 270	44 681	48 724	134 675	21.3%	11.0%
<i>Municipal equitable share</i>	43 290	50 208	52 869	55 512	158 589	25.0%	8.6%
<i>Municipal infrastructure grant</i>	14 429	14 956	15 548	16 435	46 939	7.4%	4.4%
<i>Regional and local water and sanitation services</i>	6 906	10 134	9 617	10 667	30 418	4.8%	15.6%
<i>Electrification programmes</i>	4 220	5 778	6 034	6 393	18 206	2.9%	14.9%
Rural development and land	10 220	10 709	11 443	12 021	34 172	5.4%	5.6%
<i>of which:</i>							
<i>Land reform</i>	932	1 177	1 254	1 412	3 842	0.6%	14.8%
<i>Agricultural land holding account</i>	1 773	1 672	1 738	1 716	5 126	0.8%	-1.1%
<i>Restitution</i>	2 681	2 603	3 181	3 341	9 125	1.4%	7.6%
Total	176 612	199 570	210 235	223 813	633 619	100.0%	8.2%
<i>of which:</i>							
<i>Compensation of employees</i>	18 547	20 962	22 091	23 384	66 437	10.5%	8.0%
<i>Goods and services</i>	15 269	16 098	17 846	18 890	52 833	8.3%	7.4%
<i>Transfers and subsidies</i>	123 775	137 843	145 055	153 511	436 410	68.9%	7.4%
<i>Buildings and other fixed structures</i>	8 976	13 789	13 415	15 292	42 496	6.7%	19.4%
<i>Machinery and equipment</i>	8 571	9 184	10 204	11 079	30 467	4.8%	8.9%

Source: National Treasury

A budget of R570 billion over the MTEF period for local government infrastructure and services includes reductions of R3.76 billion (0.7 per cent). This reduction is in response to persistent underspending on these budgets and the presence of surpluses in the accounts of the entity responsible for trading raw water.

Apart from the local government equitable share, human settlement investment makes up a major area of expenditure in this function. Over the next three years R107.6 billion will be allocated to develop bulk municipal infrastructure and to finance affordable housing, including social housing.

Using the R18.2 billion allocated for national electrification over the MTEF period, government aims to connect 810 000 poor households to the electricity grid. A further R489.2 million is provided for 65 000 non-grid connections in remote areas. In addition, 229 water and sanitation projects will be implemented, with 76 new regional bulk water schemes expected to be completed by 2017/18. Allocations also provide for expanding sanitation services to an additional 182 275 households. A total of R1.5 billion has

810 000 poor households to be connected to electricity grid over medium term

been added to grants for post-disaster rehabilitation and reconstruction of housing, roads, water and municipal infrastructure.

44 new passenger rail train sets to be acquired over next three years

Rapid growth in expenditure on public transport is driven by allocations to the Passenger Rail Agency of South Africa for the rolling stock fleet renewal programme. The agency is expected to take delivery of 44 train sets (528 coaches) over the next three years. An allocation of R134.7 billion provides for rail- and road-based public transport over the MTEF period.

Municipal infrastructure grants administered by the Department of Cooperative Governance will rise from R14.4 billion in 2014/15 to R16.4 billion by 2017/18. Budgeted growth in this area flows from reprioritisation of funds previously allocated to support municipal administration costs in newly demarcated areas.

Review under way to reduce overlap and duplication between departments

The Departments of Agriculture, Forestry and Fisheries, and Rural Development and Land Reform will review their programmes to reduce overlap and duplication. The land restitution process was reopened in 2014 and claims will be accepted until 2019. Rural Development and Land Reform has reprioritised funds within its baseline to open new offices to accept applications.

An allocation of R4.7 billion will support land reform over the medium term. This will focus on smallholder farm development and acquisition of strategically located land for redistribution. Government plans to acquire about 1.2 million hectares of land over the next three years and over 1 000 farms will benefit from the recapitalisation and development programme.

Post-school education and training

Government to spend about R200 billion on post-school education and training

This function supports the MTSF's outcome, *a skilled and capable workforce to support an inclusive growth path*. Expenditure of nearly R200 billion is anticipated over the medium term and will support an expansion of access to quality education and training to broaden economic opportunities and build skills.

Transfers to universities for subsidies and infrastructure make up 42 per cent of expenditure in this function. These increase from R26.2 billion in 2015/16 to R29 billion in 2017/18, including R3.2 billion for the on-going construction of two new universities (Mpumalanga and Sol Plaatje).

Rising allocations boost enrolments

Spending and loan disbursements by the National Student Financial Aid Scheme are expected to reach R11.9 billion in 2017/18, up from R9.2 billion in 2014/15. Rising allocations for this function will support an increase in university enrolments from 972 000 to just over 1 million, as well as increased enrolments in technical and vocational education and training college enrolments from 800 000 to just under 1.2 million. In addition to providing work placements for students and graduates, the 21 Sector Education and Training Authorities and the National Skills Fund (funded through a ring-fenced payroll tax) will focus spending on increasing the number of people training for and qualifying as artisans.

Table 5.5 Post-school education and training expenditure, 2014/15 – 2017/18

	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth		
R million							
Post-school education and training expenditure	56 612	62 238	65 556	69 594	197 387	100.0%	7.1%
<i>of which:</i>							
University subsidies	21 455	22 942	24 131	25 340	72 414	36.7%	5.7%
University infrastructure	2 700	3 301	3 503	3 676	10 480	5.3%	10.8%
National Student Financial Aid Scheme ¹	9 222	9 974	11 324	11 885	33 182	16.8%	8.8%
Vocational and continuing education and training	8 096	8 516	8 986	9 439	26 941	13.6%	5.2%
Skills development levy institutions ²	13 808	16 742	16 787	18 361	51 890	26.3%	10.0%
Total	56 612	62 238	65 556	69 594	197 387	100.0%	7.1%

1. Includes cash disbursements from the NSFAS capital account

2. Includes direct charges from the National Revenue Fund for the 21 Sector Education and Training Authorities and spending of the National Skills Fund

Source: National Treasury

Basic education

This function supports the MTSF outcome, *quality basic education*, which is a central priority of the NDP. The sector's policy focus over the medium term will be to improve curriculum delivery, providing sufficient learner and teacher support material, and increasing the supply of qualified teachers. Accelerating the delivery and improvement of school infrastructure has also been prioritised.

Table 5.6 Basic education expenditure, 2014/15 – 2017/18

	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth		
R million							
Basic education	189 454	203 468	216 036	227 816	647 320	100.0%	6.3%
Compensation of employees	144 731	156 490	165 849	175 777	498 116	77.0%	6.7%
<i>of which:</i>							
Provincial compensation of employees	144 317	156 049	165 379	175 276	496 705	76.7%	6.7%
Goods and services	17 150	17 001	17 579	17 856	52 436	8.1%	1.4%
<i>of which:</i>							
Workbooks	916	958	1 008	1 059	3 025	0.5%	5.0%
National school nutrition programme	5 462	5 704	6 006	6 306	18 016	2.8%	4.9%
Learner and teacher support materials (LTSM) ¹	3 655	3 446	3 551	3 973	10 970	1.7%	2.8%
Transfers and subsidies	28 637	32 339	33 665	35 486	101 490	15.7%	7.4%
<i>of which:</i>							
Subsidies to schools ²	12 137	13 539	14 217	14 897	42 653	6.6%	7.1%
Payments for capital assets	11 658	12 593	14 341	15 011	41 946	6.5%	8.8%
<i>of which:</i>							
Education infrastructure grant	7 327	9 518	9 774	10 331	29 622	4.6%	12.1%
School infrastructure backlogs grant	2 541	2 309	2 430	2 620	7 359	1.1%	1.0%
Total	189 454	203 468	216 036	227 816	647 320	100.0%	6.3%

1. Includes the cost of the CAPS (Curriculum Assessment Policy Statements) rollout completed in 2014/15

2. Section 21 (including some provision for LTSM) Special and Independent schools

Source: National Treasury

Compensation of employees averages 77 per cent of expenditure in provincial departments

Proposed allocations to basic education over the MTEF period reach nearly R650 billion and grow at an annual average of 6.3 per cent. These account for nearly 17 per cent of total functional expenditure. Compensation of employees in the provincial departments is the largest component of spending, averaging 77 per cent of the total. Provincial personnel planning will receive more attention to ensure that appropriate learner:teacher ratios are maintained.

Government aims to increase the number of qualified teachers entering the public service from 8 227 in 2012/13 to 10 200 in 2017/18, compensating for teachers who are leaving the system. To this end, the department plans to award R3.1 billion in bursaries.

Every learner in Grades R to 9 to receive two workbooks per year in main subjects

An amount of R3 billion is allocated over the medium term to print and distribute 170 million workbooks to learners in Grades R to 9 at 23 562 public schools, with each learner receiving two books per year in numeracy, mathematics, literacy, language and life skills. Braille workbooks will be supplied to learners who require them.

All schools are expected to meet minimum norms and standards for school infrastructure by 2016. The *school infrastructure backlogs grant* and the *education infrastructure grant* to provinces are allocated R7.4 billion and R29.6 billion respectively over the medium term.

More than 500 unsafe and inappropriately constructed schools to be replaced

Because spending on the backlogs grant has been slow since its inception in 2011/12, Cabinet reduced the grant's planned medium-term expenditure by R413.6 million. The grant will be used to replace 510 unsafe and inappropriately constructed schools. It will also provide water to 1 120, sanitation to 741 and electricity to 916 schools. Cabinet also reduced the budget of the *education infrastructure grant* by R687.5 million. This grant continues to grow, but more slowly than before, at an average annual rate of 12.1 per cent over the medium term.

Social protection

This function supports MTSE outcome, *a comprehensive, responsive and sustainable social protection system*, a necessity in a country with high levels of poverty and unemployment. The spending focus is primarily on increasing access to social assistance, and reforming and standardising practices in the social welfare sector. Social protection expenditure will grow from R143.9 billion in 2014/15 to R176.5 billion by 2017/18, accounting for 12.8 per cent of functional spending during the MTEF period.

By the outer year, about 17.5 million people will be receiving social grants at a cost of R148.9 billion

The budget for social assistance has been increased by R7.1 billion since the 2014 Budget to cater for increases to beneficiary numbers (mostly in the child support grant) and the carry-through costs of increasing grant values. By 2017/18, it is expected that 17.5 million beneficiaries will be receiving social grants, the budget for which will be R148.9 billion. Overall, social grant expenditure remains at a stable 3 per cent of GDP.

Improved efficiencies at the South African Social Security Agency mean that administrative costs will fall from 5.5 per cent of expenditure on social grants in 2013/14 to 5 per cent in 2017/18. This has facilitated a reduction of R354 million in the amount budgeted for the agency's administrative fee.

Table 5.7 Social protection expenditure, 2014/15 – 2017/18

R million	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth		
Social protection expenditure	143 926	155 297	165 997	176 523	497 818	100.0%	7.0%
of which:							
Social grants	120 702	130 093	139 556	148 934	418 584	84.1%	7.3%
of which:							
Child support	43 428	47 842	51 174	54 117	153 134	30.8%	7.6%
Old-age	49 422	53 518	58 110	62 993	174 620	35.1%	8.4%
Disability	18 957	20 210	21 333	22 481	64 023	12.9%	5.8%
Foster care	5 851	5 535	5 671	5 807	17 012	3.4%	-0.3%
Care dependency	2 259	2 461	2 685	2 922	8 067	1.6%	9.0%
South African Social Security Agency	6 705	7 088	7 425	7 619	22 132	4.4%	4.3%
Provincial social development	15 319	16 714	17 545	18 428	52 687	10.6%	6.4%
Total	143 926	155 297	165 997	176 523	497 818	100.0%	7.0%
Social grants as percentage of GDP	3.1%	3.1%	3.1%	3.0%			
Social grants beneficiary							
Child support	11 677	11 925	12 131	12 280		70.4%	1.7%
Old-age	3 070	3 190	3 311	3 431		19.2%	3.8%
Disability	1 133	1 144	1 153	1 161		6.7%	0.8%
Foster care	478	478	478	478		2.8%	0.0%
Care dependency	138	144	150	156		0.9%	4.2%

Source: National Treasury

A nationwide service delivery initiative, Project Mikondzo, will be implemented in 737 wards in 2015/16. This aims to monitor service delivery at community level, facilitating the development of plans for improving performance. Government continues to roll out community nutrition and development centres. By 2017, 72 centres will feed 900 000 people, up from 600 000 in 2015/16. A programme office, to be established by 2015, will support faster rollout of early childhood development.

Social grant increases for 2015/16

The proposed social grant values for 2015/16 are presented in Table 5.8. There is an unusually high degree of uncertainty about grant beneficiary numbers in the coming year associated with a recent re-registration of grantees, and some uncertainty about the impact of the oil price on short-term inflation. Given these considerations, government proposes moderate increases in social grants in line with inflation projections for the first half of the fiscal year (4.1 per cent) and will review these values during the October 2015 MTBPS.

Value of social grants to be reviewed in October 2015

Table 5.8 Social grants values,¹ 2014/15 – 2015/16

Rand	2014/15	2015/16	Percentage increase
State old age	1 350	1 410	4.4%
State old age, over 75s	1 370	1 430	4.4%
War veterans	1 370	1 430	4.4%
Disability	1 350	1 410	4.4%
Foster care	830	860	3.6%
Care dependency	1 350	1 410	4.4%
Child support	315	330	4.8%

1. Average monthly grant value
Source: National Treasury

Health

This function group supports MTSF outcome, *a long and healthy life for all South Africans*. Considerable progress has been made in this area in recent years, with declining infant mortality rates and rising life expectancy at birth.

Table 5.9 Health expenditure, 2014/15 – 2017/18

R million	2014/15 Revised estimate	2015/16 Medium-term estimates	2016/17	2017/18	Total 2015/16 – 2017/18	% of Total
Health expenditure	144 558	157 294	167 485	177 525	502 303	100.0%
<i>of which:</i>						
Central hospital services	24 410	25 852	27 057	28 356	81 265	16.2%
Provincial hospital services	28 396	30 189	32 056	33 711	95 955	19.1%
District health services	62 022	66 747	72 665	77 696	217 108	43.2%
Emergency medical services	5 579	6 208	6 513	6 845	19 566	3.9%
Facilities management and	7 408	8 123	8 734	9 361	26 217	5.2%
Health science and training	4 417	4 499	4 736	4 953	14 188	2.8%
National Health Laboratory Service	4 834	5 466	5 742	6 047	17 256	3.4%
National Department of Health ¹	2 269	3 200	3 113	3 370	9 683	1.9%
Total	144 558	157 294	167 485	177 525	502 303	100.0%
<i>of which:</i>						
Compensation of employees	92 962	99 312	105 721	111 681	316 714	63.1%
Goods and services	38 939	43 207	45 356	47 902	136 464	27.2%
Transfers and subsidies	5 170	4 716	4 904	5 140	14 760	2.9%
Buildings and other fixed structures	5 091	6 264	7 306	7 791	21 361	4.3%
Machinery and equipment	2 360	3 784	4 187	4 997	12 969	2.6%

1. Excludes grants and transfers reflected as expenditure in appropriate sub-functional areas
Source: National Treasury

The consolidated health budget is projected to grow by 7.1 per cent over the MTEF period, reaching nearly R178 billion by 2017/18. This is despite reductions in projected budgets for 2015/16 and 2016/17 totalling about R2.4 billion. These have been targeted at slow-spending and under-performing components of the infrastructure budget. Of the total budget reductions, R1.4 billion has come from direct conditional grants to provincial departments of health, R239 million has come from the goods and services budget of the national department and R767 million has come from the *national health grant: NHI component*.

In the 2014 Budget, government allocated R200 million per year for the human papilloma virus vaccination programme. Targets in this programme, which aims to reduce the incidence of cervical cancer, have been exceeded: 82 per cent of eligible Grade 4 schoolgirls were vaccinated against a first-year target of 80 per cent.

Human papilloma virus vaccination programme has met targets ahead of plan

A sum of R1.2 billion has been added to the *HIV and AIDS conditional grant* in 2017/18 to expand access to the antiretroviral medication programme. Efforts to prevent mother-to-child transmission of HIV continue to yield success, with the transmission rate having declined to only 2 per cent in 2013/14 from 20 per cent in 2003.

In 2015/16, the Office of Health Standards Compliance will be listed as a public entity responsible for inspecting and accrediting all public and private health facilities. An amount of R85.2 million has been reprioritised from the *national health grant: health facility revitalisation component*, to strengthen the capacity of the office, which conducted inspections at 583 public establishments, 15 per cent of the total number, in 2013/14.

In line with the National Health Amendment Act (2013), government is shifting R380.4 million from provinces to the national Department of Health to centralise management of disease control at South African ports.

A new funding model for National Health Laboratory Service will be instituted in 2015/16. The National Institute of Communicable Diseases, the National Institute for Occupational Health, and the teaching and research functions will henceforth be funded directly through a transfer from the national department. Currently they are cross-subsidised by the laboratory test fees paid by provinces to the National Health Laboratory Service. Streamlining of operations will reduce forensic testing backlogs.

National health insurance (NHI) programme spending has been lower than anticipated over the past two years, partly due to difficulties in contracting general practitioners. Over the three-year spending period, the focus of the indirect *national health grant: NHI component* will expand to include piloting the contracting of allied and other health care professionals.

Focus of NHI grant will be to pilot contracting of health care professionals

Defence, public order and safety

This function group supports MTSF outcomes, *all people in South Africa are and feel safe; and create a better South Africa, and contribute to a better Africa and a better world*. The main focus over the MTEF period is to improve the effectiveness of the criminal justice system, and to reduce corruption in the public and private sectors. To support these objectives, the budget, which accounts for 14 per cent of consolidated spending, will grow by an annual average of 5.7 per cent, reaching R192.7 billion in 2017/18.

To cover a funding shortfall created by higher-than-anticipated remuneration costs, the Departments of Defence and Police have reprioritised R2.4 billion and R1.1 billion respectively from their goods and services budgets. This brings the total compensation budget for the function to R106.1 billion in 2014/15, a figure that is projected to reach R128.4 billion in 2017/18, accounting for 66.7 per cent of the budget.

Defence and Police have reprioritised goods and services budgets to cover higher-than-expected remuneration costs

Table 5.10 Defence, public order and safety expenditure, 2014/15 – 2017/18

R million	2014/15 Revised estimate	2015/16 Medium-term estimates	2016/17	2017/18	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth
Defence and state security	47 445	49 364	52 303	55 450	157 117	28.8%	5.3%
Police services	78 237	82 724	87 305	93 235	263 264	48.3%	6.0%
Law courts and prisons	37 336	39 063	41 639	44 034	124 737	22.9%	5.7%
Total	163 018	171 150	181 248	192 719	545 117	100.0%	5.7%
<i>of which:</i>							
Compensation of employees	106 118	113 822	121 143	128 350	363 315	66.6%	6.5%
Goods and services	38 752	38 655	40 531	42 806	121 992	22.4%	3.4%
Transfers and subsidies	12 143	12 369	13 016	13 852	39 237	7.2%	4.5%
Buildings and other fixed structures	2 639	2 912	3 123	3 259	9 294	1.7%	7.3%
Machinery and equipment	3 282	3 337	3 390	4 415	11 142	2.0%	10.4%

Source: National Treasury

The Department of Defence plans to spend R2.8 billion on safeguarding South Africa's borders and R4.5 billion on regional security initiatives over the medium term.

*Reprioritised funds support
Legal Aid South Africa,
National Prosecuting
Authority and Public
Protector*

To improve the effectiveness of the criminal justice system, a total of R492 million over the MTEF period has been reprioritised to several institutions. Legal Aid South Africa will receive R126.8 million to increase the number of legal practitioners by 167, helping to clear a backlog in the courts. The National Prosecuting Authority will receive R81 million to appoint 41 additional prosecutors.

Government will also strengthen institutions involved in fighting corruption. Over the medium term, R60 million has been reprioritised to the Public Protector of South Africa to increase its investigative capacity and to retain 70 trainee investigators. An additional R60 million is allocated to the Financial Intelligence Centre to employ additional permanent staff with investigative and analytical skills.

The Independent Police Investigative Directorate has reprioritised R93.9 million over the medium term to establish a national specialised investigative team that will focus on priority investigations.

General public services

This function supports two MTSF outcomes – *create a better South Africa, a better Africa and a better world*, and *an efficient, effective and development-oriented public service*.

*Projected expenditure on
foreign missions and
property management
reduced over medium term*

The MTEF allocation to this function totals R201 billion, and grows at an annual average of 2.6 per cent, reaching nearly R70 billion in 2017/18. Over half the amount is allocated to compensation of employees, and 31 per cent to goods and services. Modest growth is partly a result of R1 billion in medium-term budget reductions effected to this function. These reflect reductions in projected spending on foreign missions and property management. Government expects to save a further R700 million in the 2016 MTEF period by reviewing the legislative framework guiding the work of the Department of International Relations and Cooperation.

Table 5.11 General public services expenditure, 2014/15 – 2017/18

	2014/15 Revised estimate	2015/16 2016/17 2017/18 Medium-term estimates	Total 2015/16 – 2017/18	% of Total	Average annual MTEF growth
R million					
Executive and legislative organs	12 375	12 335 12 827 13 507	38 668	19.2%	3.0%
External affairs and foreign aid	7 513	7 078 7 528 7 905	22 511	11.2%	1.7%
General public administration and fiscal affairs	37 077	38 622 38 912 41 132	118 667	59.1%	3.5%
Home affairs	7 778	6 349 7 483 7 281	21 113	10.5%	-2.2%
Total	64 743	64 385 66 750 69 824	200 959	100.0%	2.6%
<i>of which:</i>					
<i>Compensation of employees</i>	29 236	31 909 33 993 36 012	101 914	50.7%	7.2%
<i>Goods and services</i>	19 802	18 406 20 982 21 228	60 615	30.2%	2.3%
<i>Transfers and subsidies</i>	7 235	6 852 7 271 7 647	21 770	10.8%	1.9%
<i>Buildings and other fixed structures</i>	2 284	2 061 2 211 2 460	6 732	3.4%	2.5%
<i>Machinery and equipment</i>	1 851	1 195 1 109 1 265	3 570	1.8%	-11.9%

Source: National Treasury

An amount of R509 million has been set aside for Statistics South Africa to conduct a large-scale community survey in 2016 that will support improved planning, while R215 million is set aside for the Public Service Sector Education and Training Authority to upgrade public-sector skills.

Over the medium term, the Department of Home Affairs will spend an additional R148 million to hire 111 immigration inspectors, increasing the number to 762 by 2017/18. The Property Management Trading Entity, operating separately from the Department of Public Works, will be responsible for acquiring, managing and disposing of immovable assets owned by the state. It will also manage on a cost-recovery basis the leases of privately owned properties accommodating national departments.

*Property Management
Trading Entity to acquire,
manage and dispose of
immovable assets*

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