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Rebalancing the economy for growth

In brief

- The 2015 Budget proposals support the long-term health of the public finances with a series of revenue and expenditure measures to narrow the budget deficit and stabilise debt. These measures include increases in personal income tax rates and the fuel levies, and a R25 billion reduction in budgeted expenditure over the next two years.
- Per capita public spending grew by about 80 per cent in real terms over the past decade. Since the global financial crisis began in 2008, however, increasing expenditure has been sustained by a large accumulation of debt. In a low-growth environment, this trend cannot be sustained.
- Government continues to prioritise infrastructure investment and social programmes that support those citizens most in need, and these commitments are reflected in the budget allocations. Total public-sector infrastructure spending of R813.1 billion is projected over the next three years.
- To eliminate poverty and reduce inequality, South Africa requires much higher levels of economic growth, supported by accelerated implementation of structural reforms identified in the National Development Plan. Working together, government, business, labour and civil society can speed up these reforms over the period ahead.

Introduction

In the four months since the publication of the 2014 *Medium Term Budget Policy Statement* (MTBPS), the global economic outlook has weakened. There are mounting concerns that the world economy faces a lengthy period of slower growth, punctuated by bouts of volatility. At home, it is now clear that electricity shortages will constrain economic activity over the period ahead.

Budget contributes to long-term changes that will reposition the economy

In this difficult environment, the 2015 Budget contributes to important changes under way that will place the economy on a more solid foundation for sustainable growth in the future. These include shifting from a growth path reliant on consumption to one led by investment, making the transition to a less energy-intensive economy, strengthening tradable sectors with significant potential for job creation, and investing in cities to reverse inequitable and inefficient patterns of human settlement.

These changes all contribute to the vision of the National Development Plan (NDP). The Budget also reflects the policy priorities contained in government's medium-term strategic framework (MTSF), which identifies the key actions required to implement the NDP.

Acknowledging economic realities can strengthen focus on necessary reforms

The economic outlook results in fiscal constraints that will affect the pace and breadth of government's contribution to national development in the medium term. But frank acknowledgement of the realities facing the country can help government, business, labour and civil society focus on the work that can be done today to build for the future.

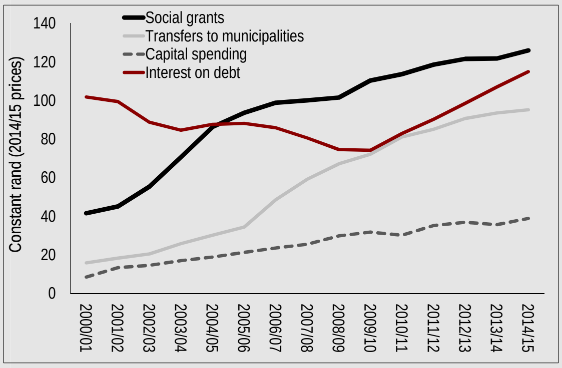
Sustaining the social gains of democracy

Over the past decade, the public finances have supported a large-scale redistributive effort to support national development and reduce poverty. National income, adjusted for inflation, is 50 per cent larger than it was 10 years ago. Over the same period, spending per citizen grew by 80 per cent in real terms, and real expenditure on social services doubled.

Since the global financial crisis began in 2008, however, increasing expenditure has been sustained by a large accumulation of debt. Rising debt-service costs, which amount to R115 billion in 2014/15 alone, threaten the sustainability of social gains achieved over the past decade.

Elements of expenditure

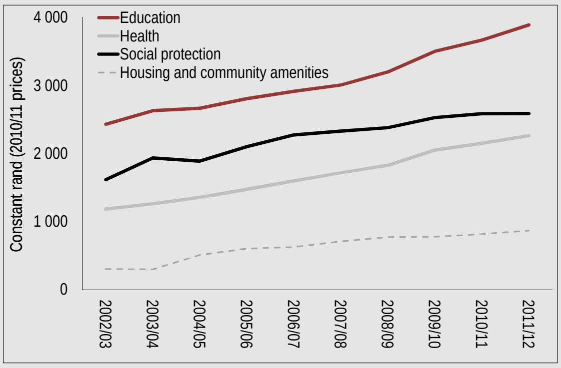
National and provincial government, 2000/01 – 2014/15



Source: National Treasury

Real spending per capita

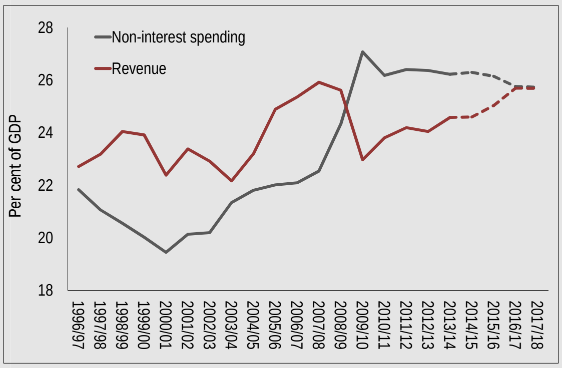
General government, 2002/03 – 2011/12



Source: Reserve Bank and Statistics South Africa

Revenue and non-interest spending

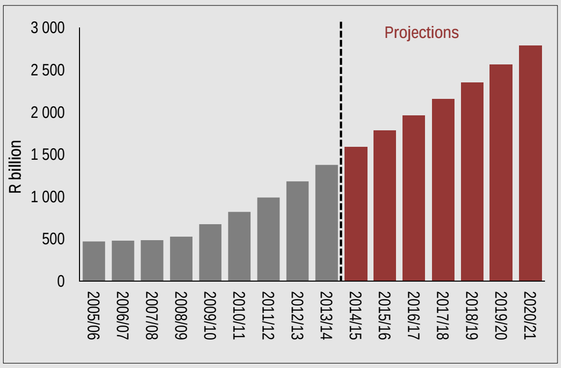
Main budget, 1996/97 – 2017/18



Source: National Treasury

Government debt

Net of cash balances, 2005/06 – 2020/21



Source: National Treasury

Since 2012, government has pointed out that a deterioration of the economic environment would warrant a reconsideration of expenditure and revenue plans, and has taken steps to slow growth in expenditure. The 2014 MTBPS noted that the public finances had reached such a turning point, and outlined measures to reduce the budget deficit and stabilise debt. The burden of these necessary adjustments must be equitably shared as part of the social compact that underpins South Africa's constitutional democracy.

Burden of necessary fiscal adjustments must be equitably shared

Balancing revenue and expenditure

The 2015 Budget builds on the progress made in recent years to limit the growth of government expenditure. Bloated budgets for employee compensation have been curtailed and cost-containment measures have begun to yield results, reflected in reduced spending on goods and services that are not critical for service delivery.

Cost-containment measures have begun to yield results

Over the medium term, government will take several steps to strengthen budget controls. New Treasury instructions will contain costs and additional controls on personnel budgets will be designed. Procurement reforms will be rolled out, including an online tender system that enhances public scrutiny, strengthens competition and levels the playing field for small businesses. A price-referencing system will provide state agencies with a benchmark for costing commonly procured goods.

These measures, combined with hard budget constraints and strong oversight by Parliament, other institutions, the public and the media will help ensure that accounting officers across government direct limited resources to policy priorities. Tighter budgets are an opportunity to eliminate waste, improve efficiency and change the way government does business.

Sustainable public finances cannot be achieved through spending cuts or the expectation of faster growth on its own. A major part of the budget deficit is structural. As a result, in addition to measures aimed at moderating spending, higher tax revenues are required.

Gap between spending and revenue growth will not be closed automatically by improved conditions

Moderate tax increases proposed

There is broad acceptance that South Africa's tax system is fair and efficient. It forms a part of the country's social compact, raising the revenue necessary to support public services. Government is aware that improving the quality of public spending, combating corruption, and eliminating waste and inefficiency are vital to maintaining the goodwill that sustains revenue collection.

Over the past two decades, the tax policy framework has kept the overall burden on individuals stable. At the same time, a broadening of the tax base and efficient collections have contributed to sustained improvements in the social wage and real welfare gains for the poorest South Africans. The tax system is progressive, with a greater share of the burden paid by better-off households.

Since 1994, tax burden on individuals has remained stable

The 2015 Budget proposals build on the progressive character of the tax system by raising all marginal rates by one percentage point, except for the lowest bracket, which remains unchanged. Leaving aside other adjustments, the rate changes will result in individuals with an annual taxable income of R200 000 a year paying about R21 more in monthly taxes. Those earning R500 000 will pay an extra R271 per month; and those earning R1.5 million will pay an extra R1 105 each month. Government also proposes an overall increase in the fuel levies of 80.5 c/litre, of which 30.5 c/litre is an increase in the general fuel levy and 50 c/litre is for the Road Accident Fund (RAF), as described below. South Africa's fuel levies are comparatively low by international standards, and the recent decline in fuel prices creates space for an increase.

These tax proposals (excluding the RAF fuel levy) will add R16.8 billion to revenue in 2015/16, offset by relief for inflation-related earnings increases amounting to R8.5 billion.

Existing levels of revenue cannot finance long-term policy objectives, such as national health insurance

The additional revenue will help to close the gap in the public finances over the medium term. Beyond that, however, several long-term policy objectives, including national health insurance and expanding the post-school education system, imply permanent spending increases that cannot be financed from existing levels of revenue. South Africans need to consider and debate the adjustments required to create room for these progressive spending policies. The impact of any proposed measures on employment and the cost of labour, as well as the long-term growth of the economy, needs to be taken into account.

Earmarked taxes and fiscal imbalances

Several imbalances associated with earmarked taxes have emerged in the fiscal system. The sector education and training authorities and the National Skills Fund receive funding directly from the skills levy. While these institutions continue to budget for large surpluses, other institutions in the post-school education system face significant shortfalls. An interdepartmental team will make recommendations on this matter before the next budget.

Legislation to replace the Road Accident Fund with a more equitable, fair system to be proposed

The structure of the RAF is unaffordable and inequitable, with benefits skewed by income level and absorbed by legal representation. The RAF's existing liability is R98.5 billion and its accumulated deficit is expected to grow by 15 per cent over each of the next three years, as the earmarked fuel levy is insufficient to close the gap. To address the Fund's immediate predicament, government proposes to raise the RAF levy on fuel by 50 c/litre. This steep increase will be insufficient to cover the shortfall. In 2015, government will introduce legislation replacing the RAF with a more affordable and equitable scheme. From 2016/17, the earmarked levy will be reserved to finance the new arrangement.

Once-off UIF relief to put R15 billion back into pockets of workers and employers in 2015/16

By 2013/14, the Unemployment Insurance Fund (UIF) had an accumulated surplus of R72.3 billion. Despite the more generous benefits mandated by a legislative amendment in 2012, the UIF estimates that earmarked contributions will add R51.8 billion to its accumulated surplus over the next three years. While government considers longer-term reforms, it proposes once-off relief for UIF contributors in 2015/16. Workers and employers each contribute 1 per cent of the first R14 872 of an employee's remuneration. This threshold will be lowered to R1 000 with no change in benefits. In effect, employees will pay only R10 in monthly UIF contributions – and employers the same amount per worker – putting about R15 billion back into the pockets of workers and businesses in 2015/16.

Building an economy for the future

Adjusting to slower global growth

World economy faces protracted period of slower growth

The world economy faces a protracted period of slow growth. Over the next three years, the United States is the only major developed economy expected to grow by more than 3 per cent annually, with economic activity remaining depressed in Europe and Japan. The outlook for emerging markets has deteriorated in recent months, with notably slower growth expected in China.

Commodity prices have weakened over the past three years, and the price surge of the 2000s is unlikely to resume over the period ahead. Non-oil commodities make up a large portion of South Africa's exports, and the rate of export growth is expected to be moderate in line with the outlook.

Oil price decline provides a boost for South Africa but is likely to be short-lived

The recent decline in the price of oil is an important boost for the economy and the fiscus, but it is likely to be short-lived. Lower inflation during 2015/16 will strengthen spending and profits, and relieve pressure on the current account of the balance of payments. But the impact on growth will be limited by the effect of electricity supply constraints.

Despite the expected weakness in the global economy as a whole, particular regions and sectors provide growth opportunities. South African firms are well placed to take advantage of rising demand on the African continent. To help businesses realise these opportunities, the capabilities of the state are being enhanced, critical public investments are being made and regulatory obstacles are being identified.

Responding to the electricity constraint

Net effect of electricity constraint on GDP is uncertain, but government is working to limit its impact

Of the structural weaknesses that need to be addressed for the economy to grow more rapidly, the low and unreliable levels of electricity supply are now the most binding constraint. The net effect on economic growth is difficult to gauge. The revised National Treasury forecast assumes that gross domestic product (GDP) growth will remain below 2.5 per cent for the next two years. However, there is a risk that the economic effect will be even more pronounced.

As discussed in Chapter 2, government is working to limit the effects of inadequate electricity supply on the economy. A predictable pattern of scheduled power cuts for maintenance (load shedding) and timely, accessible communications will help to mitigate the impact. Communication from Eskom and large municipalities will continue to play an important role, helping businesses and households to plan for outages. Additional capacity from co-generation, gas and eventually coal will be fed into the system.

Necessary shift towards cost-reflective prices will encourage reduced reliance on electricity

Medium-term support to help stabilise Eskom includes funding totalling R23 billion, to be raised in a manner that does not widen the deficit. In combination with measures to improve Eskom's efficiency and improve plant maintenance, the continuing shift towards cost-reflective electricity prices will encourage firms to reduce consumption and ensure sufficient investment in power generation over time.

Building a sustainable and innovative economy

Structural reforms outlined in NDP include investment in manufactured exports and productivity growth

Achieving faster growth requires urgent implementation of structural reforms outlined in the NDP. These envisage shifting the economy towards tradable sectors through greater investment in manufactured exports and stronger productivity growth. The economy of the future will expand beyond core mineral sectors and have a stronger, more competitive industrial base.

Tourism, agriculture and agro-processing, light manufacturing and services can boost job creation

Over the medium term, this implies movement towards a less energy-intensive growth path that is able to create work for more South Africans. In the context of binding electricity constraints, government will pay closer attention to growth in tradable sectors that employ more people and consume less electricity for each unit of value they create. Over the next several years, the sectors best-placed to thrive and create jobs include tourism, agriculture and agro-processing, light manufacturing and services such as business process outsourcing.

Table 1.1 Electricity intensity, employment and output, 2007 – 2010

Selected economic sectors	Electricity intensity[1]	Jobs[2]	Gross value added[3]
Construction	1.0	445 846	126 435
Transport equipment	2.1	127 828	28 379
Machinery and equipment	2.9	153 439	22 519
Food, beverages and tobacco	15.6	207 195	85 706
Services	31.0	5 675 819	1 853 305
Textiles and leather	38.2	120 136	10 298
Transport	48.1	290 259	192 587
Wood and wood products	49.2	49 968	8 629
Agriculture	115.7	732 833	72 431
Chemical and petrochemical	154.8	90 123	73 791
Paper and paper products	165.3	88 643	9 929
Mining and quarrying	323.6	502 047	279 691
Non-metallic minerals	342.8	63 376	9 708
Iron and steel	1 426.1	52 313	16 861
Non-ferrous metal (including aluminium smelting)	1 993.0	23 244	9 214

1. Average megawatt-hours per R'000 000 of real gross value added at basic prices over the period
2. Average employment levels over the period. Based on Quarterly Employment Statistics except agriculture, where figures are based on Quarterly Labour Force Statistics
3. In R'000 000, 2013 levels

Regulatory obstacles to faster growth are receiving attention

Government also plans to reduce regulatory obstacles that might hinder growth in these areas. For example, it is reconsidering the implications of visa regulations for tourism and a range of other businesses, aligning incentives and policy to support agriculture and agro processing, and promoting employment-intensive aquaculture projects.

Faster rollout of broadband infrastructure, platforms for innovation in mobile communications and other technology will also be supported to strengthen small, labour-intensive businesses, as well as the economy's overall competitiveness. Regulatory reforms that reduce barriers to entry and promote shared access to broadband infrastructure will soon be proposed. Rationalising state agencies working in information and communication technology will complement this approach. The completion of the digital migration of television broadcasting will lead to greater availability of broadband spectrum.

Reforms promoting shared access to broadband infrastructure will soon be proposed

Government's immediate priorities are framed by the nine-point plan to boost growth and create jobs.

Nine-point plan to boost growth and create jobs

1. Resolving the energy challenge
2. Revitalising agriculture and agro-processing
3. Adding more value to our mineral wealth
4. Industrial Policy Action Plan
5. Encouraging private investment
6. Moderating workplace conflict
7. Unlocking small business potential
8. Boosting the role of state companies
9. Operation Phakisa, aimed at the ocean economy and other sectors

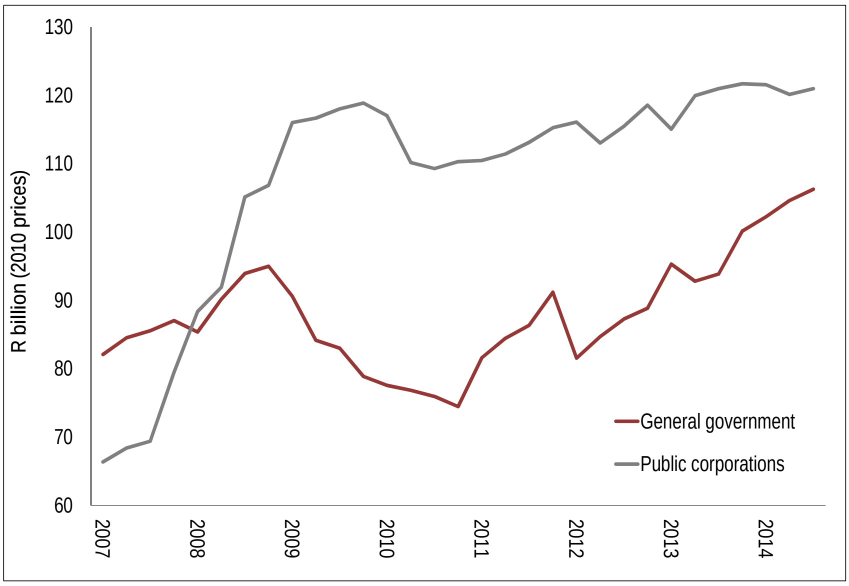
Towards investment-led growth

At the heart of the NDP is the need to shift South Africa's economic growth trajectory from one led by consumption to higher levels of investment and exports. Investment should be in dynamic sectors that transform ownership and economic structure, and draw in a larger proportion of the economically inactive population.

Economy needs to shift from consumption to investment

Investment has risen from 15 per cent of GDP in 2002 to 20 per cent in 2014, supported by large public-sector infrastructure investments. But high levels of consumption by government and households have made South Africa vulnerable to shifts in global investor sentiment.

Figure 1.1 Real investment spending by general government and public corporations, 2007 – 2014



Source: Reserve Bank

The current account deficit was 5.8 per cent in 2014, indicating continued reliance on foreign savings. Household debt remains high, making consumers vulnerable to interest rate increases.

Government consumption and capital spending

Capital spending is fastest-growing element of expenditure

The 2015 Budget continues to prioritise investment. Apart from debt-service costs, capital spending, both directly and through transfers to municipalities, is the fastest-growing element of the budget. Over the next three years, national, provincial and local governments have budgeted R362.4 billion for infrastructure spending. The fiscal framework achieves a balance between current spending, largely on consumption items, and revenue. Consequently, as the deficit narrows over the next three years, the capital financing requirement will remain at 3.8 per cent of GDP.

Sustaining high levels of capital spending depends largely on moderating consumption expenditure, the largest share of which is the public-sector wage bill. Over the past decade, public-sector unit labour costs have increased by more than 80 per cent in real terms, with an average annual growth rate of more than 6 per cent above inflation. Compensation of employees has contributed in large measure to the structural fiscal deficit.

Government budgeting for wage agreement that protects real buying power of public servants

Government is budgeting for a wage agreement that protects the real buying power of public servants. If current negotiations result in a settlement that departs significantly from inflation, government will have to effect substantial reductions in capital expenditure, introduce more stringent controls on public employment or find ways to curtail spending on other critical priorities.

Investment by state-owned companies

New economic assets in electricity, rail, ports and pipelines will promote faster economic growth

Most public investment in economic infrastructure is financed on the balance sheets of state-owned companies. The creation of economic assets in electricity, rail, ports and pipelines is building a platform for faster economic growth. In certain areas, these investments have already begun to lift constraints. Transnet’s seven-year, R310 billion capital investment programme is modernising the freight logistics network and upgrading railways, ports and pipelines. Sixty trains now run daily between Durban and Johannesburg, compared with fewer than 20 a decade ago.

The annual volume of investment by public enterprises has increased by more than 260 per cent in real terms over the past 10 years. However, the rate of investment growth by public corporations has begun to slow. Eskom’s budgeted capital spending is declining as several of its major construction projects near completion. Transnet has trimmed its capital expenditure estimates in response to lower commodity prices and slower global growth. The South African National Roads Agency Limited’s investment plans for national roads cannot proceed if the entity is unable to raise sufficient revenue. Coordinating investment decisions across numerous public and private agents has led to delays in the water sector.

Unresolved policy and regulatory concerns often hold back investment

Financial constraints are sometimes perceived as an obstacle to investment. But in many cases unresolved policy and regulatory concerns, along with governance and operational weaknesses, are at the root of the problem. For example, the outcome of debates on the user-pays principle and how it should be applied to achieve equity and efficiency will affect the business plans of all large state-owned companies. In addition, mandates need to be well specified, lines of accountability should be clear and developmental work that cannot be financed from commercial operations must be made explicit.

The 2015 Cabinet Lekgotla discussed a range of interventions, drawing on the Presidential Review Committee on State-owned Entities report of 2012, to ensure that state-owned companies are reformed to contribute more effectively to national development.

Strengthening state-owned entities

The Presidential Review Committee on State-owned Entities noted that there are about 715 such entities serving various objectives. The committee has recommended that government develop the following:

- A single governing law and an overarching, long-term strategy for public entities.
- A framework for appointing boards, clarifying the roles of executive authorities, boards and CEOs.
- A clearer approach to funding, including separate and adequate funding of developmental activities.
- A plan to rationalise the number of entities.
- Expanded private-sector partnerships to deliver economic and social infrastructure.
- A central remuneration agency to improve salary consistency, with incentives linked to performance.
- A streamlined empowerment framework to encourage transformation.
- Improved monitoring and evaluation against public entities mandates.

Reviving investment by the private sector

Despite strong corporate balance sheets, private-sector investment growth remains weak. Restoring confidence in the future growth of the economy is the key to unlocking the long-term investment commitment of private funds. Regulatory and other obstacles to private investment are receiving attention. Government plans to build on the success of its initiative to purchase renewable energy from independent producers. The programme illustrates the benefits of public-private cooperation, clear policy frameworks and the potential for South African firms to innovate.

Investment to transform urban spaces

Expanded investment in urban built environment aims to draw in private capital

South Africa's urban infrastructure must be renewed. Population growth places enormous pressure on ageing transport systems, roads, housing, water and other amenities. Moreover, apartheid spatial planning dominates the urban landscape. Over the next three years, government will expand investment in the urban built environment, using resources more effectively to transform human settlements, and drawing in private investment to support more dynamic and inclusive economic growth.

The 2015 Budget begins a fundamental realignment to achieve these goals. The National Treasury will work directly with municipal governments, development finance institutions and the private sector to expand investment in urban infrastructure and housing. A series of transformative projects valued at over R128 billion has been identified for potential investment in large cities, supported by a project preparation facility at the Development Bank of Southern Africa (DBSA). To broaden funding streams, city governments will focus on improving their systems for revenue collection, expenditure management and land-use zoning.

New fiscal package will encourage large cities to find innovative ways to finance large projects

Government will introduce a new fiscal package to mobilise additional financial resources for metropolitan municipalities to effectively finance these investment projects. The system of local government infrastructure grants, which currently finances more than half of capital spending in cities, will be reformed. Grants will be consolidated, conditions streamlined, and allocations made more predictable and responsive to the needs of specific investment projects. Financial incentives for better municipal performance will be strengthened. Government will also propose legislative reforms to strengthen the efficiency and fairness of municipal development charges. Working with the DBSA and private financial institutions, the National Treasury will help cities to borrow at lower rates and for longer periods.

Metropolitan municipalities will announce further details on their investment plans when they table their budgets. An investor conference showcasing projects will take place in the next several months.

Overview of the 2015 Budget

Economic outlook

GDP growth of 2 per cent projected in 2015, rising to 3 per cent by 2017

The National Treasury projects GDP growth of 2 per cent in 2015, rising to 3 per cent by 2017. The moderately improving growth outlook will be supported by continued economic growth in much of sub-Saharan Africa and, over the short term, better terms of trade and lower inflation associated with the oil price decline. Inadequate electricity supply, however, will impose a constraint on output and exports.

Achieving faster sustainable growth and large-scale job creation requires structural shifts in the economy, higher exports, moderate real wage increases and, crucially, growing private-sector investment based on confidence in the long-term business environment.

Table 1.2 Macroeconomic outlook – summary

Real percentage growth	2014 Estimate	2015	2016 Forecast	2017
Household consumption	1.2	2.0	2.6	3.0
Gross fixed-capital formation	-0.6	2.2	3.4	3.8
Exports	0.9	3.3	4.6	5.0
Imports	-0.3	4.6	5.3	5.5
Real GDP growth	**1.4**	**2.0**	**2.4**	**3.0**
Consumer price inflation (CPI)	6.1	4.3	5.9	5.7
Current account balance (% of GDP)	-5.8	-4.5	-4.9	-5.2

Across all tables in the Budget Review, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "–". If data is not available it is denoted by "N/A"
Source: National Treasury

Fiscal policy

Proposals aim to narrow budget deficit, stabilise debt and begin rebuilding fiscal space

The 2015 Budget implements government's commitments to narrow the budget deficit, stabilise debt and begin to rebuild fiscal space. A combination of a lower expenditure ceiling and higher taxes will narrow the deficit to 2.5 per cent of GDP by 2017/18. Given weak economic conditions, these proposals have been designed to limit the dampening effect on economic growth in the short term.

Over the medium term there are three main risks to the fiscal outlook: weaker-than-expected economic growth, a public-sector wage settlement significantly above CPI inflation, and the provision of additional direct fiscal support, equity injections or guarantees to public entities.

Table 1.3 Consolidated government fiscal framework

R billion/percentage of GDP	2014/15 Revised estimate	2015/16	2016/17	2017/18
		Medium-term estimates		
Revenue	**1 091.0**	**1 188.9**	**1 331.5**	**1 439.5**
	28.1%	*28.4%*	*29.3%*	*29.2%*
Expenditure	**1 243.4**	**1 351.0**	**1 448.8**	**1 561.7**
	32.0%	*32.2%*	*31.9%*	*31.7%*
Budget balance	**-152.4**	**-162.2**	**-117.3**	**-122.2**
	-3.9%	*-3.9%*	*-2.6%*	*-2.5%*

Source: National Treasury

Revenue trends and tax proposals

Tax revenue grows to 25.8 per cent of GDP in 2015/16

Tax revenue as a percentage of GDP is expected to increase from 25.2 per cent in 2014/15 to 25.8 per cent in 2015/16. The 2015 Budget tax proposals are expected to add R16.8 billion to revenue in the next year, before accounting for fiscal drag, and carry forward over subsequent years.

The main tax proposals include:

- Increasing marginal personal income tax rates by one percentage point for all taxpayers earning more than R181 900, and adjusting tax brackets and rebates to account for fiscal drag.
- Raising the general fuel levy by 30.5 c/litre and the Road Accident Fund levy on fuel by 50 c/litre (a total increase of 80.5 c/litre).
- Providing a more generous turnover tax regime for small businesses.
- Strengthening the energy-efficiency savings tax incentive.

Table 1.4 Summary of tax proposals

R million	2015/16 Budget estimate	
Budget revenue (before tax proposals)		**1 180 579**
Personal income tax	**–**	
Fiscal drag relief	-8 500	
Rate increase in income tax	9 420	
Medical credits	-920	
Business income tax	**-150**	
Energy-efficiency savings tax incentive	-150	
Taxes on property	**100**	
Adjustment in transfer duty	100	
Indirect taxes	**8 325**	
Increase in general fuel levy	6 490	
Increase in excise duties on tobacco products	602	
Increase in alcoholic beverages	1 234	
Tax proposals after fiscal drag 2015/16 (net):		**8 275**
Tax revenue (after tax proposals)		**1 081 275**
Budget revenue (after tax proposals)		**1 188 855**

Source: National Treasury

Medium-term expenditure plans

Aggregate spending will reach R1.56 trillion in 2017/18

The 2015 Budget allocates resources to core social and economic priorities while containing aggregate expenditure growth. Spending plans give effect to the priorities of the NDP and the 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, this is not the case in all areas. Reducing wasteful expenditure and implementing more cost-effective service-delivery models will make more resources available for priority spending areas.

Table 1.5 Consolidated government expenditure by function

R billion	2014/15 Revised estimate	2015/16 Budget estimate	Average growth 2014/15 – 2017/18
Basic education	189.5	203.5	6.3%
Health	144.6	157.3	7.1%
Defence, public order and safety	163.0	171.2	5.7%
Post-school education and training	56.6	62.2	7.1%
Economic affairs	189.4	206.2	6.0%
Local development and social infrastructure	176.6	199.6	8.2%
General public services	64.7	64.4	2.6%
Social protection	143.9	155.3	7.0%
Allocated expenditure	**1 128.4**	**1 219.6**	**6.5%**
Debt-service costs	115.0	126.4	10.1%
Unallocated reserves	–	5.0	
Consolidated expenditure[1]	**1 243.4**	**1 351.0**	**7.9%**

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

Source: National Treasury

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. The bulk of reductions has fallen on the goods and services budget. Capital spending and transfers to local government for capital projects are among the fastest-growing expenditure categories.

Division of revenue

Provincial and local governments must renew focus on service delivery and reduce costs

Fiscal constraints mean that transfers to provinces and municipalities will grow more slowly in the period ahead than they have in the past. Accordingly, provincial and local governments must renew their focus on core service delivery functions and reduce costs without adversely affecting basic services. The National Treasury is working with provinces and municipalities to improve the performance of conditional grants. Similar work is being done to help cities mobilise their own revenues and borrowing to finance infrastructure investments.

Over the next three years, of the funds available after providing for debt costs and the contingency reserve, 47.9 per cent are allocated to national government, 43.1 per cent to provincial government and 9 per cent to local government.

Table 1.6 Division of revenue

R billion	2014/15	2015/16	2016/17	2017/18
National allocations	491.4	523.0	553.8	586.1
Provincial allocations	439.7	468.2	496.3	526.4
Equitable share	*359.9*	*382.7*	*405.3*	*428.9*
Conditional grants	*79.7*	*85.5*	*91.0*	*97.5*
Local government allocations	89.1	99.8	103.9	110.0
Total allocations	**1 020.1**	**1 090.9**	**1 154.0**	**1 222.5**
Percentage shares				
National	48.2%	47.9%	48.0%	47.9%
Provincial	43.1%	42.9%	43.0%	43.1%
Local government	*8.7%*	*9.1%*	*9.0%*	*9.0%*

Source: National Treasury

Debt management

Over the past five years, government has expanded its borrowing programme in response to difficult economic circumstances. As a percentage of GDP, net debt has grown from 21.8 per cent at the start of the financial crisis in 2008/09 to 40.8 per cent in 2014/15.

Debt projected to stabilise at 43.7 per cent of GDP in 2017/18

Government's borrowing plans over the next three years reflect a prudent approach to accumulating and managing debt. The medium-term fiscal framework will result in debt stabilising at 43.7 per cent of GDP in 2017/18. The net borrowing requirement of R180.9 billion in 2014/15 is R1.1 billion higher than projected in the 2014 Budget, and is expected to decrease to R173.1 billion in 2015/16. Domestic capital markets will remain the main source of financing.

Table 1.7 Projected state debt and debt-service costs

R billion/percentage of GDP	2014/15	2015/16	2016/17	2017/18
Net loan debt	**1 584.0**	**1 781.3**	**1 958.1**	**2 151.7**
	40.8%	*42.5%*	*43.1%*	*43.7%*
Debt-service costs	**115.0**	**126.4**	**141.0**	**153.4**
	3.0%	*3.0%*	*3.1%*	*3.1%*

Source: National Treasury

The balance sheets of public institutions

Public-sector institutions make important contributions to government's economic development strategy. Although the solvency of these institutions is strong overall, several poorly performing and inefficient entities represent significant specific risks to public finances.

Government working to align its portfolio of institutions and mandates to national development

Government is working with these institutions to develop sustainable financial frameworks supported by turnaround plans. Many of the interventions that have been launched will, in the short-term, focus on stabilising the finances of these institutions – in particular bolstering liquidity. Over the longer term, government will better align its portfolio of institutions and mandates to national development, and design complementary financing models.

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