

# 5

## Consolidated spending plans

### In brief

- The expenditure ceiling has been lowered by R25 billion over the next three years by reducing compensation budgets.
- In addition, R31.8 billion has been reprioritised to fund new spending needs, including higher education, drought relief and contributions to the New Development Bank.
- The reductions in compensation budgets were designed to minimise the impact on frontline service delivery personnel, with the bulk of reductions applying to managerial and administrative staff. Additional measures to improve the quality of spending are to be implemented over the medium term.
- Over the next three years, consolidated government expenditure grows in real terms, at an average annual rate of 0.8 per cent, driven mostly by spending on economic infrastructure, employment programmes and education.
- Social protection, post-school education and health are the fastest-growing items of non-interest expenditure over the medium term.

### Overview

The 2016 Budget proposes to revise government's medium-term spending plans to support the fiscal framework and respond to weaker-than-expected economic growth, which has reduced revenue over the medium term. Changes are also necessary to marshal funds for new spending requirements while adhering to lower fiscal limits. Accordingly, government has lowered the spending ceiling in the two outer years of the medium-term expenditure framework (MTEF) and reprioritised significant resources within and across departments.

The reprioritisation and spending reductions have been designed to minimise negative consequences for low-income households. Social grants have been protected, and core social and economic programmes will be maintained. However, these changes will slow the expansion of budgets over the medium term.

Consolidated government spending will rise to R1.69 trillion by 2018/19. Together with rising inflation, the proposals in the budget reduce the rate of real growth in consolidated expenditure to an annual average of 0.8 per cent over the medium term, down from 4 per cent between 2012/13

*Reprioritisation and lower spending ceiling fund new spending priorities and support fiscal stability*

*Debt-service costs remain fastest-growing spending category*

and 2015/16. Debt-service costs remain the fastest-growing spending category.

## ■ Revisions to spending plans

*Spending limits reduced, compensation contained and funds reprioritised*

The main features of revised spending plans are a reduction in spending limits targeted at compensation budgets, reprioritisation to respond to new spending needs, cost containment and steps to improve spending quality.

### Reducing expenditure by limiting compensation

The expenditure ceiling – which limits allocations to departments – has been reduced by R10 billion in 2017/18 and R15 billion in 2018/19. These reductions have been distributed to compensation budgets across national and provincial government. The changes are designed to minimise the impact on frontline service delivery personnel: the bulk of reductions will apply to managerial and administrative staff. In addition, R7.2 billion has been shifted out of the compensation budgets of national departments over the medium term as part of the reprioritisation exercise discussed below.

*Compensation budget growth slows by nearly 1 percentage point compared to 2015 MTBPS*

At the time of the 2015 *Medium Term Budget Policy Statement* (MTBPS), spending on compensation was expected to grow by 8.2 per cent over the three-year period. This reflected the allocation of significant resources to pay for the public-sector wage agreement concluded in May 2015. Revised compensation budgets will grow at 7.4 per cent – although earnings growth will average 8.5 per cent, in line with the agreement. Upward revisions to inflation will be absorbed within these lower compensation budgets.

The 2015 Budget indicated that if increases in costs associated with the wage agreement were to depart significantly from inflation, more stringent controls on public employment would be implemented. To continue operating within budget limits, as required by the Public Finance Management Act (1999), government departments will need to adjust their human resource plans significantly. The National Treasury and the Department of Public Service and Administration will assist in this process. In accordance with measures approved by Cabinet, government will take the following steps:

- Effective 1 April 2016, appointments to non-critical vacant posts will be blocked on government's payroll system, pending the submission of revised human resource plans. Teachers, nurses, doctors, police officers and other critical posts will be excluded from the lock.
- Appointments will be sanctioned only after departments have submitted revised human resource plans aligned with compensation budget limits. Adherence to these limits will be strictly monitored.
- In many cases, departmental plans will reduce personnel headcounts in administrative and managerial posts, eliminate unnecessary positions, and establish a sustainable level of authorised, funded posts.
- The 2016 Appropriation Bill proposes to strictly earmark compensation budgets. Any additions or changes to how the funds are to be spent will require legislative approval.

- Administrative and regulatory changes will limit the appointment of contract staff, reduce posts not on the approved establishment and align organisational structures with approved budgets. Decisions to award performance bonuses and promote staff will need to be balanced against the need to maintain employment of critical staff.

In addition, the National Treasury, the Department of Public Service and Administration, and the Department of Planning, Monitoring and Evaluation are assessing the 2015 public-sector wage negotiation process. The results of the assessment will be used to develop and propose reforms to collective bargaining and remuneration that could further enhance fiscal stability.

*Government working on proposals to reform wage negotiation process*

### Reprioritising expenditure to fund new requirements

Since the tabling of the 2015 MTBPS, government has reprioritised R31.8 billion to support new spending requirements. Of this amount, R16.3 billion over the medium term provides extra support to the higher education system by compensating for the freeze in university fees for the 2016 academic year and clearing student debt accrued in the academic years between 2013 and 2015.

*R31.8 billion reprioritised to new spending needs since 2015 MTBPS*

Over the medium term, R11.8 billion funds South Africa's contributions to the New Development Bank. An amount of R3 billion has been allocated to bolster the contingency reserve in 2016/17 in response to elevated macroeconomic risks. Small business development is allocated an additional R475 million and R300 million goes towards strengthening government's capacity to monitor programme performance.

*R11.8 billion from reprioritisation for subscription to New Development Bank*

**Table 5.1 Additional spending to be funded in the 2016 MTEF**

R million	2016/17	2017/18	2018/19	MTEF total
Higher education	4 882	5 555	5 832	16 269
New Development Bank	3 750	3 500	4 500	11 750
Provision for contingency reserve	3 000	–	–	3 000
Small business development	150	158	167	475
Planning, monitoring and evaluation	50	100	150	300
<b>Total</b>	<b>11 832</b>	<b>9 313</b>	<b>10 649</b>	<b>31 794</b>

*Source: National Treasury*

Resources are mostly drawn from compensation budgets, non-essential operational expenditure items and programmes with a history of underspending. Of the funds reprioritised, 58 per cent is from national government, and 21 per cent from provincial and local government allocations respectively, as detailed in Table 5.2. Chapter 6 provides further details on plans by provinces and municipalities to ensure the reductions do not adversely affect the provision of services.

*Most reprioritised funds are from national government*

**Table 5.2 Baseline reductions by sphere of government, 2016/17 – 2018/19**

R million	2016/17	2017/18	2018/19	MTEF total	% of baseline
<b>National government</b>	<b>6 163</b>	<b>6 355</b>	<b>6 717</b>	<b>19 235</b>	<b>0.8%</b>
Compensation of employees	1 499	2 981	2 729	7 208	1.5%
Goods and services	1 412	1 504	2 090	5 007	2.5%
Transfers to public entities	2 683	1 539	1 548	5 770	1.7%
Other national spending items <sup>1</sup>	568	331	350	1 249	0.2%
<b>Provincial government</b>	<b>3 551</b>	<b>1 659</b>	<b>1 620</b>	<b>6 830</b>	<b>0.4%</b>
Provincial equitable share	1 500	1 000	800	3 300	0.2%
Provincial conditional grants	2 051	659	820	3 530	1.2%
<b>Local government</b>	<b>2 150</b>	<b>2 015</b>	<b>2 650</b>	<b>6 815</b>	<b>2.2%</b>
Local government equitable share	300	500	1 000	1 800	1.1%
Local government conditional grants	1 850	1 515	1 650	5 015	3.7%
<b>Total baseline reductions</b>	<b>11 864</b>	<b>10 029</b>	<b>10 987</b>	<b>32 880</b>	<b>0.8%</b>

1. Transfers to private enterprises and households, as well as capital items

Source: National Treasury

### Responding to drought

South Africa is in the midst of its worst drought in at least two decades, threatening agricultural output and pushing up food prices. Five provinces – North West, KwaZulu-Natal, Free State, Limpopo and Mpumalanga – were declared disaster areas in 2015, allowing for a coordinated national response.

Government has reprioritised R1 billion for drought relief in 2015/16. The funds consist of:

- R502 million from the Department of Water and Sanitation for drilling boreholes, buying water tankers and related measures.
- R318 million from the Department of Agriculture, Forestry and Fisheries (through conditional grants for the Comprehensive Agricultural Support Programme and *Ilima/Letsema* projects) and from provincial governments for activities such as moving cattle herds to state farms and transporting safe drinking water to drought-affected areas.
- R187 million from the Department of Rural Development and Land Reform to distribute animal feed.

In addition, the 2016 Division of Revenue Bill proposes changes to disaster-relief grants to provinces and municipalities. These grants, which previously provided only for the rehabilitation of infrastructure damaged by disasters, will also provide for operational costs incurred by provinces and municipalities to distribute water.

### Improving spending efficiency

In a tight fiscal environment, government is taking additional steps to improve spending efficiency – ensuring departments and public entities do more with less.

#### *Cost containment*

Government will intensify cost-containment efforts introduced in 2013. An instruction note to be issued in the near future will set out new rules for spending on goods and services, and conferences funded by departments and public entities. Enforcement mechanisms will be strengthened.

#### *Procurement reforms*

The Office of the Chief Procurement Officer works to reduce the cost of doing business with the state, and eliminate waste and duplication. Since the inception of the eTenders portal in 2015, for example, the site has published 2 500 tenders worth about R35 billion. Transparency has improved, and advertising and administrative costs have come down significantly. A national standard for infrastructure procurement and delivery has been distributed throughout government.

Reforms to be implemented in 2016 include the following:

*Instruction note will be issued on new rules for goods and services procurement*

- All companies that wish to do business with government must be registered on the central supplier database from 1 April 2016 for transactions with national and provincial government and their entities, and from 1 July 2016 for municipalities.
- From 1 April 2016, it will be compulsory to procure routine goods and services through the centrally negotiated contracts in place. The process will be managed through the gCommerce portal, which automates ordering and allows for bulk discounts. The automation process is expected to reduce corruption by reducing the risk of human intervention to override established protocols.
- A national travel and accommodation policy has been developed for public servants who travel for work. The policy is expected to reduce spending in this category by R1.6 billion over the medium term.

Government is presently holding talks with its top 100 suppliers to reduce prices. These discussions could yield significant savings over the medium term. A Public Procurement Bill is also being finalised and will be released for comment in the first half of 2016. It will consolidate the fragmented legal and regulatory landscape, align preferential procurement with section 217 of the Constitution, and modernise procurement rules.

#### **Transfers to public entities**

The number of public entities has grown rapidly in recent years. Each of these entities has its own board. Some entities maintain organisational structures that are disproportionately large relative to their mandate. Transfers to public entities constitute 9.9 per cent of government expenditure in 2015/16 and are expected to increase from R123.4 billion in 2015/16 to R155.3 billion in 2018/19.

These transfers will be assessed in the period ahead to ensure that spending in public entities is aligned to their mandates. The assessment will also review the relevant remuneration rules, and ensure that supply-chain policies and procedures are consistent with procurement rules. Government will also consider whether some national and provincial public entities could be merged, closed or restructured in line with the recommendations of the Presidential Review Committee on State-owned Entities.

National and provincial public entities will also be required to implement revised cost-containment measures.

#### *Expenditure reviews*

The National Treasury and the Department of Planning, Monitoring and Evaluation have continued the project started in 2013 to review expenditure and make recommendations that improve spending quality. An additional 10 performance and expenditure reviews were completed in 2015/16, bringing the total to 30. Among them was a review of accommodation leases, which found that savings of as much as 20 per cent of current expenditure on property leases could be realised over the medium term if they were renegotiated to market rates.

An exercise to model remuneration trends is also under way. Preliminary results indicate that increases in the remuneration bill in central, administrative and policy departments are partly driven by increases in employee numbers or salary levels, without a commensurate increase in productivity.

*Increases in remuneration bill not always matched by increases in productivity*

### **Consolidated government expenditure**

Consolidated government expenditure is expected to grow by 7.1 per cent over the medium term, reaching R1.69 trillion in 2018/19. At this rate, spending growth will outpace inflation by 0.8 per cent.

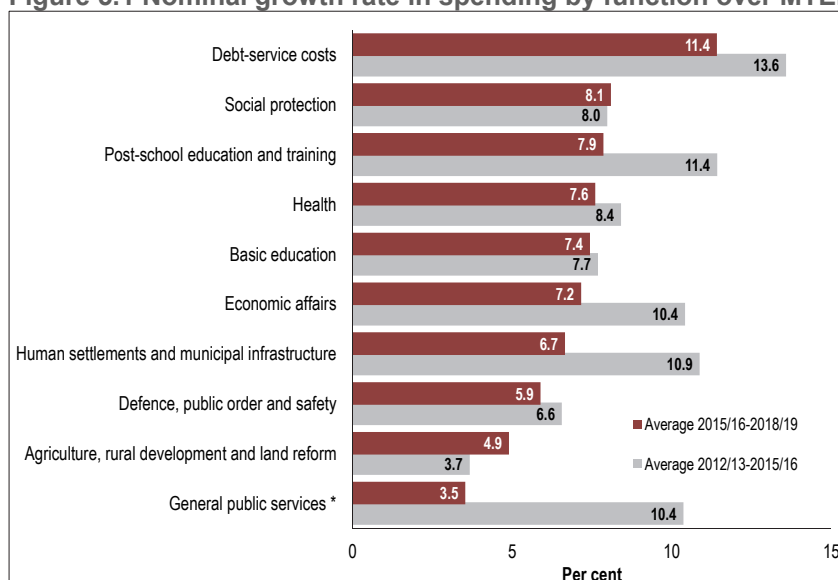
*Spending growth marginally ahead of inflation*

Debt-service costs are the fastest-growing category of spending, increasing at an annual average of 11.4 per cent over the medium term. The rate of increase in this obligation – which arises from government borrowing in the past – is slowing, as shown in Figure 5.1. However, servicing the debt absorbs 10.4 per cent of consolidated government spending over the medium term and continues to crowd out resources for policy priorities.

*Spending on water, roads and broadband infrastructure boosts growth in economic affairs*

Spending on economic affairs grows at 7.2 per cent over the medium term. The increase is driven by growing investment in water infrastructure – largely through the water boards – roads infrastructure and allocations for the rollout of broadband infrastructure.

**Figure 5.1 Nominal growth rate in spending by function over MTEF**



\* Excludes equity investment in Eskom

Source: National Treasury

*Additional allocation of R11.5 billion over medium term preserves real value of social grants*

Spending on social services continues to show strong growth of 8.1 per cent in the period ahead. Government has acted to preserve the real value of social grants, adding R11.5 billion to social protection over the medium term. Growth in allocations for post-school education reflects the reprioritisation of resources towards universities. Growth in health and basic education spending is largely driven by the need to accommodate the 2015 wage settlement with public servants, and to avoid sharp reductions in the number of teachers and medical personnel. Slower growth in defence indicates the need for medium-term adjustments to human resource plans in this department.

Table 5.3 sets out consolidated government expenditure by economic classification over the MTEF period. It takes into account spending by national and provincial governments, as well as social security funds, public entities and transfers to local government.

*Compensation's share of consolidated spending remains at about 35 per cent over MTEF period*

While overall growth in spending has been slowing, spending on compensation of employees is projected to grow by 7.4 per cent over the medium term as a result of the 2015 wage settlement. Government's efforts to curb unsustainable growth in the wage bill will see the proportion of consolidated spending consumed by compensation of employees remain at about 35 per cent over the medium term.

At 6.9 per cent over the medium term, the growth in expenditure on goods and services has been kept in check by reprioritisation and cost-containment measures, particularly on non-essential items. Growth in this item is mainly driven by increased spending on medicine and contracts for infrastructure maintenance.

*Growth in goods and services results from spending on medicine and infrastructure maintenance*

Transfers and subsidies (including transfers to municipalities, universities and households) grow at 7.2 per cent over the medium term. Transfers to higher education grow by 8.6 per cent, reflecting a higher allocation to fund short-term challenges at universities; transfers to municipalities grow at 7.4 per cent to support implementation of projects on basic services and public transport; and transfers to households grow at 7.4 per cent to increase social grants and inflationary increases. The details of transfers and subsidies to municipalities are contained in Chapter 6.

**Table 5.3 Consolidated government expenditure by economic classification,<sup>1</sup> 2015/16 – 2018/19**

R million	2015/16 Revised estimate	2016/17 Medium-term estimates	2017/18 Medium-term estimates	2018/19 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
<b>Economic classification</b>						
<b>Current payments</b>	<b>805 809</b>	<b>875 839</b>	<b>942 052</b>	<b>1 013 125</b>	<b>60.2%</b>	<b>7.9%</b>
Compensation of employees	476 772	516 801	551 463	590 866	35.3%	7.4%
Goods and services	193 737	204 692	221 901	236 610	14.1%	6.9%
Interest and rent on land	135 300	154 346	168 688	185 648	10.8%	11.1%
<i>of which:</i>						
<i>Debt-service costs</i>	<i>129 111</i>	<i>147 720</i>	<i>161 927</i>	<i>178 556</i>	<i>10.4%</i>	<i>11.4%</i>
<b>Transfers and subsidies</b>	<b>447 566</b>	<b>475 849</b>	<b>509 282</b>	<b>551 571</b>	<b>32.7%</b>	<b>7.2%</b>
Municipalities	108 662	113 131	121 937	134 635	7.9%	7.4%
Departmental agencies and accounts	26 522	25 546	27 224	32 137	1.8%	6.6%
Higher education institutions	27 500	29 350	33 164	35 177	2.1%	8.6%
Foreign governments and international organisations	2 054	2 129	2 255	2 426	0.1%	5.7%
Public corporations and private enterprises	33 407	33 882	36 996	41 539	2.4%	7.5%
Non-profit institutions	28 391	29 534	30 424	31 562	1.9%	3.6%
Households	221 030	242 277	257 281	274 094	16.5%	7.4%
<b>Payments for capital assets</b>	<b>97 880</b>	<b>100 372</b>	<b>105 563</b>	<b>110 479</b>	<b>6.7%</b>	<b>4.1%</b>
Buildings and other capital assets	76 059	79 456	82 406	86 276	5.3%	4.3%
Machinery and equipment	21 820	20 917	23 157	24 203	1.5%	3.5%
<b>Payments for financial assets<sup>2</sup></b>	<b>29 673</b>	<b>5 230</b>	<b>5 165</b>	<b>5 052</b>	<b>0.3%</b>	<b>-44.6%</b>
<b>Total</b>	<b>1 380 926</b>	<b>1 457 291</b>	<b>1 562 062</b>	<b>1 680 227</b>	<b>100.0%</b>	<b>6.8%</b>
Contingency reserve	–	6 000	10 000	15 000		
<b>Consolidated expenditure</b>	<b>1 380 926</b>	<b>1 463 291</b>	<b>1 572 062</b>	<b>1 695 227</b>		<b>7.1%</b>

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

2. Includes R23 billion equity investment in Eskom

Source: National Treasury

## ■ Medium-term spending and the NDP

Government spending seeks to achieve the objectives of the National Development Plan (NDP). The medium-term strategic framework gives expression to NDP priorities over the period 2014 – 2019.

*Government spending plans work towards objectives of NDP*

Government's budget is organised into function groups that encompass departments and entities that pursue similar outcomes across national, provincial and local government. Details on medium-term allocations for each group are set out in Table 5.4. The sections that follow set out their medium-term expenditure allocations and selected performance targets. More detailed information on departmental spending plans can be found in the statistical tables at the back of this publication and in the *Estimates of National Expenditure*. Spending plans for provinces and municipalities are discussed in Chapter 6.

**Table 5.4 Consolidated government expenditure by function,<sup>1</sup> 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17 Medium-term estimates	2017/18 Medium-term estimates	2018/19 Medium-term estimates	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>						
<b>Basic education</b>	<b>213 676</b>	<b>228 803</b>	<b>245 414</b>	<b>264 969</b>	<b>17.6%</b>	<b>7.4%</b>
<b>Health</b>	<b>159 377</b>	<b>168 393</b>	<b>183 629</b>	<b>198 556</b>	<b>13.1%</b>	<b>7.6%</b>
<b>Defence, public order and safety</b>	<b>171 522</b>	<b>181 519</b>	<b>192 444</b>	<b>203 644</b>	<b>13.7%</b>	<b>5.9%</b>
Defence and state security	49 900	52 344	54 063	56 373	3.9%	4.1%
Police services	82 648	87 508	94 095	100 225	6.7%	6.6%
Law courts and prisons	38 974	41 667	44 285	47 047	3.2%	6.5%
<b>Post-school education and training</b>	<b>64 158</b>	<b>68 715</b>	<b>74 715</b>	<b>80 493</b>	<b>5.3%</b>	<b>7.9%</b>
<b>Economic affairs</b>	<b>187 796</b>	<b>211 962</b>	<b>217 965</b>	<b>231 091</b>	<b>15.7%</b>	<b>7.2%</b>
Industrial development and trade	29 550	31 844	31 938	35 314	2.4%	6.1%
Employment, labour affairs and social security funds	65 915	73 127	75 270	77 358	5.4%	5.5%
Economic infrastructure and network regulation	73 613	87 105	90 493	97 460	6.5%	9.8%
Science, technology, innovation and the environment	18 718	19 886	20 263	20 959	1.5%	3.8%
<b>Human settlements and municipal infrastructure</b>	<b>178 233</b>	<b>182 631</b>	<b>199 821</b>	<b>216 215</b>	<b>14.2%</b>	<b>6.7%</b>
<b>Agriculture, rural development and land reform</b>	<b>25 249</b>	<b>26 417</b>	<b>27 744</b>	<b>29 147</b>	<b>2.0%</b>	<b>4.9%</b>
<b>General public services<sup>2</sup></b>	<b>97 450</b>	<b>73 652</b>	<b>77 770</b>	<b>82 611</b>	<b>5.6%</b>	<b>-5.4%</b>
Executive and legislative organs	12 485	13 378	13 988	14 768	1.0%	5.8%
General public administration and fiscal affairs	67 802	41 597	44 701	46 491	3.2%	-11.8%
Home affairs	7 247	7 391	7 052	8 935	0.6%	7.2%
External affairs and foreign aid	9 916	11 286	12 029	12 417	0.8%	7.8%
<b>Social protection</b>	<b>154 353</b>	<b>167 479</b>	<b>180 634</b>	<b>194 945</b>	<b>12.9%</b>	<b>8.1%</b>
<b>Allocated by function</b>	<b>1 251 815</b>	<b>1 309 571</b>	<b>1 400 135</b>	<b>1 501 671</b>	<b>100.0%</b>	<b>6.3%</b>
Debt-service costs	129 111	147 720	161 927	178 556		11.4%
Contingency reserve	–	6 000	10 000	15 000		
<b>Consolidated expenditure</b>	<b>1 380 926</b>	<b>1 463 291</b>	<b>1 572 062</b>	<b>1 695 227</b>		<b>7.1%</b>

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

2. Includes R23 billion equity investment in Eskom

Source: National Treasury

## Health

The NDP envisions a South Africa where life expectancy is at least 70 years, under-20s are largely HIV-free and the burden of disease is reduced. The health budget will be R168.4 billion in 2016/17, of which R31.9 billion will be for primary healthcare services, R88.2 billion for



hospitals, and R15.9 billion for HIV/AIDS treatment and prevention. Several priority areas receive additional medium-term allocations:

- R984 million to expand coverage of HIV/AIDS treatment and prevention initiatives, including supply of antiretrovirals. The goal is to ensure that by 2020, 90 per cent of all people living with HIV know their status, are receiving treatment and have undetectable viral loads.
- R740 million for the treatment of tuberculosis, including enhanced screening and earlier detection and diagnosis.
- R300 million to develop a national electronic medicine stock management system.

**Table 5.5 Health expenditure, 2015/16 – 2018/19**

R million	2015/16 Revised estimate	2016/17 Medium-term estimates	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>Health expenditure</b>	<b>159 377</b>	<b>168 393</b>	<b>183 629</b>	<b>198 556</b>	<b>100.0%</b>	<b>7.6%</b>
<i>of which:</i>						
Central hospital services	28 986	32 430	34 955	37 469	19.0%	8.9%
Provincial hospital services	30 032	29 442	32 020	34 055	17.3%	4.3%
District health services	70 206	74 967	81 820	88 375	44.5%	8.0%
<i>of which:</i>						
Comprehensive HIV and AIDS and tuberculosis grant	13 671	15 115	17 620	20 032	9.6%	13.6%
Emergency medical services	6 261	6 653	7 460	7 897	4.0%	8.0%
Facilities management and maintenance	8 268	8 329	8 829	9 293	4.8%	4.0%
Health science and training	4 533	4 858	5 206	5 499	2.8%	6.7%
National Health Laboratory Service	5 466	5 672	6 193	6 542	3.3%	6.2%
National Department of Health <sup>1</sup>	2 421	3 094	3 694	4 429	2.0%	22.3%
<b>Total</b>	<b>159 377</b>	<b>168 393</b>	<b>183 629</b>	<b>198 556</b>	<b>100.0%</b>	<b>7.6%</b>
<i>of which:</i>						
Compensation of employees	100 095	107 990	116 379	123 996	63.3%	7.4%
Goods and services	44 545	46 463	51 725	58 045	28.4%	9.2%
Transfers and subsidies	5 640	4 687	4 950	5 252	2.7%	-2.3%
Buildings and other fixed structures	6 019	5 994	7 230	7 838	3.8%	9.2%
Machinery and equipment	2 942	3 140	3 225	3 418	1.8%	5.1%

1. Excludes grants and transfers reflected as expenditure in appropriate sub-functional areas

Source: National Treasury

National health insurance, which is being implemented at 390 sites, is allocated R4.5 billion over the medium term. The information system used at these sites to manage patient records will be improved, with an additional R276 million for this purpose allocated over the medium term to the information systems component of the *national health insurance indirect grant*.

*National health insurance is being implemented at 390 sites and receives R4.5 billion over MTEF*

The *health facility revitalisation grant* – which has been underspending in recent years – has been reduced by R365 million over the medium term to support reprioritisation. The reduction, which represents 2.1 per cent of the grant, is not expected to adversely affect service delivery.

## Social protection

The primary aims of the social protection function are to provide a social safety net to all South Africans, particularly the young, elderly or disabled, and reform and standardise practices in the social welfare sector. These are in line with the NDP's call to work towards broader social protection. Spending to support this priority is set to grow from R154.4 billion in 2015/16 to R195 billion by 2018/19, accounting for 12.9 per cent of total government spending over the MTEF period.

*Additional R813 million allocated for early childhood development strategy*

A new *early child development conditional grant* has been created and an additional R813 million allocated over the MTEF period to implement the Cabinet-approved early childhood development (ECD) strategy. The funds provide subsidies for more poor children to attend ECD centres and support related capital maintenance programmes. About 104 000 children are to be subsidised through this grant over the medium term and 4 000 ECD centres will benefit from the maintenance programme.

An additional R166 million has been allocated to substance-abuse in-patient centres in the North West, Northern Cape, Free State and Eastern Cape. These funds allow for each province to have at least one such public facility fully operational by 2017/18.

**Table 5.6 Social protection expenditure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>						
<b>Social protection expenditure</b>	<b>154 353</b>	<b>167 479</b>	<b>180 634</b>	<b>194 945</b>	<b>100.0%</b>	<b>8.1%</b>
<i>of which:</i>						
<i>Social grants</i>	<i>128 868</i>	<i>140 499</i>	<i>152 207</i>	<i>164 754</i>	<i>84.2%</i>	<i>8.5%</i>
<i>of which:</i>						
<i>Child support</i>	<i>47 459</i>	<i>51 951</i>	<i>56 287</i>	<i>60 981</i>	<i>31.2%</i>	<i>8.7%</i>
<i>Old age</i>	<i>53 274</i>	<i>58 927</i>	<i>64 656</i>	<i>70 833</i>	<i>35.8%</i>	<i>10.0%</i>
<i>Disability</i>	<i>19 298</i>	<i>20 418</i>	<i>21 447</i>	<i>22 522</i>	<i>11.9%</i>	<i>5.3%</i>
<i>Foster care</i>	<i>5 480</i>	<i>5 522</i>	<i>5 781</i>	<i>6 029</i>	<i>3.2%</i>	<i>3.2%</i>
<i>Care dependency</i>	<i>2 431</i>	<i>2 677</i>	<i>2 939</i>	<i>3 219</i>	<i>1.6%</i>	<i>9.8%</i>
South African Social Security Agency	6 643	6 909	7 416	7 876	4.1%	5.8%
Provincial social development	16 632	17 718	18 567	20 124	10.4%	6.6%
<b>Total</b>	<b>154 353</b>	<b>167 479</b>	<b>180 634</b>	<b>194 945</b>	<b>100.0%</b>	<b>8.1%</b>
<i>Social grants as percentage of GDP</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.2%</i>		
<b>Social grant beneficiary numbers by grant type (Thousands)</b>						
Child support	12 052	12 349	12 609	12 844		2.1%
Old age <sup>1</sup>	3 182	3 300	3 419	3 542		3.6%
Disability	1 096	1 086	1 078	1 072		-0.7%
Foster care	456	461	466	471		1.1%
Care dependency	142	148	153	158		3.6%

1. Includes war veterans  
Source: National Treasury

### Social grant increases for 2016/17

*R11.5 billion added to allocations for social grants for inflation and beneficiary growth*

Allocations of R11.5 billion over the MTEF period have been added to the budget for social assistance. The additional funds provide for inflation-linked adjustments to grant values, and the growth in the number of

beneficiaries, primarily those receiving old-age pension and child-support grants. Beneficiary numbers in these categories are growing as the aged population increases each year and child mortality rates decline. The old-age grant is set to increase by R80 per month in April 2016 and a further R10 in October 2016. The child-support grant increases by R20 per month in April 2016.

**Table 5.7 Social grants values,<sup>1</sup> 2015/16 – 2016/17**

<b>Rand</b>	<b>2015/16</b>	<b>2016/17</b>	<b>Percentage increase</b>
State old age	1 415	1 505	6.4%
State old age, over 75s	1 435	1 525	6.3%
War veterans	1 435	1 525	6.3%
Disability	1 415	1 505	6.4%
Foster care	860	890	3.5%
Care dependency	1 415	1 505	6.4%
Child support	330	350	6.1%

1. Average monthly grant value

Source: National Treasury

### Post-school education and training

The Department of Higher Education and Training coordinates government's efforts to build a skilled and capable workforce to support an inclusive growth path. Key to realising this outcome is providing access to high-quality education and training, in line with the NDP.

Expenditure in this function is set to increase from R64.2 billion in 2015/16 to R80.5 billion in 2018/19. Of this spending, 41.6 per cent is for university subsidies and infrastructure, which increase at an annual rate of 9.1 per cent over the medium term. Funding for the National Student Financial Aid Scheme increases from R9.2 billion in 2015/16 to R14.2 billion in 2016/17.

*Bulk of post-school education and training funding goes to university subsidies*

### Expanding equitable access to higher education and training institutions

In October 2015, the President established a task team to investigate the short-term student funding challenges at universities. Based on its recommendations, R16.3 billion was added to medium-term allocations for the post-school education and training function group. Of this, R5.7 billion goes towards the funding shortfall at universities caused by keeping fees for the 2016 academic year at 2015 levels, and the carry-through costs over the MTEF period. An amount of R2.5 billion in 2016/17 is transferred to the National Student Financial Aid Scheme to clear the debt of 71 753 students for the 2013 to 2015 academic years, along with a further R8 billion over the medium term to support underfunded current students to complete their studies.

A Presidential Commission of Inquiry into Higher Education and Training was established in January 2016. The commission is to report within 10 months of its formation on the feasibility of making higher education and training fee free in South Africa.

In addition, an interdepartmental task team chaired by the National Treasury is working on the longer-term project of investigating financing options for the White Paper for Post-School Education and Training. The task team includes representatives of the Department of Higher Education and Training, the Department of Planning, Monitoring and Evaluation, and the Financial and Fiscal Commission.

The number of students enrolled in higher education institutions is projected to increase from 1 million in 2015/16 to 1.1 million in 2018/19, and the number of postgraduates and doctoral graduates from 48 300 and 2 060 to 56 600 and 2 500, respectively, over the same period.

**Table 5.8 Post-school education and training expenditure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>		<b>Medium-term estimates</b>				
<b>Post-school education and training expenditure</b>	<b>64 158</b>	<b>68 715</b>	<b>74 715</b>	<b>80 493</b>	<b>100.0%</b>	<b>7.9%</b>
<i>of which:</i>						
<i>University subsidies</i>	22 985	24 568	28 069	29 827	36.8%	9.1%
<i>University infrastructure</i>	3 301	3 397	3 538	3 708	4.8%	4.0%
<i>National Student Financial Aid Scheme<sup>1</sup></i>	9 247	14 292	13 187	13 722	18.4%	14.1%
<i>Technical and vocational education and training</i>	6 843	6 917	7 414	7 866	9.9%	4.8%
<i>of which:</i>						
<i>Compensation of employees</i>	5 455	5 521	5 914	6 282	7.9%	4.8%
<i>Community education and training</i>	1 564	2 070	2 237	2 380	3.0%	15.0%
<i>of which:</i>						
<i>Compensation of employees</i>	1 444	1 906	2 070	2 201	2.8%	15.1%
<i>Skills development levy institutions<sup>2</sup></i>	18 758	15 894	18 575	20 587	24.6%	3.2%
<b>Total</b>	<b>64 158</b>	<b>68 715</b>	<b>74 715</b>	<b>80 493</b>	<b>100.0%</b>	<b>7.9%</b>

1. Includes cash disbursements from the National Student Financial Aid Scheme 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

The newly established University of Mpumalanga and the Sol Plaatje University in the Northern Cape have been allocated R3.9 billion for operational costs and capital expenditure over the medium term. These additional funds will allow for the universities to expand enrolments to 2 010 students in 2016, up from the 1 234 admitted in 2015.

### Basic education

*Basic education allocated  
17.6 per cent of government  
spending*

This function group supports the NDP goal of improving the quality of and access to basic education. Expenditure in the function group will increase to R265 billion over the medium term, accounting for 17.6 per cent of total government spending. Spending growth is driven largely by the 2015 public-sector wage agreement, particularly in provinces, where 73.1 per cent of education spending is on compensation of employees.

Provinces have been allocated R11.7 billion over the medium term for the provision of learner and teacher support materials. Over this period, 180 million workbooks will be provided to learners at a cost of R3.2 billion, along with targeted support programmes to help teachers improve the quality of learning.

**Table 5.9 Basic education expenditure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>		<b>Medium-term estimates</b>				
<b>Arts, sports, recreation and culture</b>	<b>9 390</b>	<b>9 962</b>	<b>10 664</b>	<b>11 153</b>	<b>4.3%</b>	<b>5.9%</b>
<b>Basic education</b>	<b>204 286</b>	<b>218 840</b>	<b>234 749</b>	<b>253 815</b>	<b>95.7%</b>	<b>7.4%</b>
<b>Compensation of employees</b>	<b>155 469</b>	<b>167 977</b>	<b>180 889</b>	<b>197 082</b>	<b>73.9%</b>	<b>8.2%</b>
of which:						
Provincial compensation of employees	154 911	167 150	178 998	194 539	73.1%	7.9%
<b>Goods and services</b>	<b>19 508</b>	<b>19 410</b>	<b>20 791</b>	<b>22 471</b>	<b>8.5%</b>	<b>4.8%</b>
of which:						
Workbooks	954	1 008	1 059	1 120	0.4%	5.5%
National school nutrition programme	5 685	6 006	6 306	6 672	2.6%	5.5%
Learner and teacher support materials	3 442	3 671	3 897	4 128	1.6%	6.3%
<b>Transfers and subsidies</b>	<b>16 480</b>	<b>17 444</b>	<b>17 973</b>	<b>18 537</b>	<b>7.3%</b>	<b>4.0%</b>
of which:						
Subsidies to schools <sup>1</sup>	13 500	14 398	15 284	16 193	6.2%	6.3%
<b>Payments for capital assets</b>	<b>12 737</b>	<b>13 925</b>	<b>15 008</b>	<b>15 666</b>	<b>6.0%</b>	<b>7.1%</b>
of which:						
Education infrastructure grant	9 354	9 614	12 780	13 512	4.9%	13.0%
School infrastructure backlogs grant	2 047	2 375	–	–	0.3%	0.0%
<b>Total</b>	<b>213 676</b>	<b>228 803</b>	<b>245 414</b>	<b>264 969</b>	<b>100.0%</b>	<b>7.4%</b>

1. Includes some provision for learner teacher support material

Source: National Treasury

To ensure school buildings and facilities meet the gazetted minimum norms and standards, allocations to the direct *education infrastructure grant* grow at 13 per cent over the medium term, reaching R13.5 billion in 2018/19. In addition, the indirect *school infrastructure backlogs grant* will be incorporated into the *education infrastructure grant* by 2017/18. By 2017/18, the grant is expected to have replaced 510 inappropriate and unsafe schools, supplied 1 120 schools with water, and provided 740 schools with sanitation and 916 schools with electricity.

To support the outcome of a diverse, socially cohesive society with a common national identity, R31.8 billion is allocated over the MTEF period for the arts and culture and sport and recreation sectors. The arts and culture sector's work will focus on implementing the Mzansi Golden Economy strategy projects to support job creation and to improve heritage and museum infrastructure. Sport and recreation will focus on implementing the National Sport and Recreation Plan – including providing infrastructure, and opportunities for communities and learners to participate in sport.

### **Economic affairs**

Activities funded through the economic affairs function support the NDP objectives of growing the economy and employment, and shifting to a low-carbon economy. Over the medium term, spending on these activities, focusing on infrastructure development, job creation and industrial

*Economic spending grows at 7.2 per cent over medium term*

development, is expected to increase to R231.1 billion at an average annual rate of 7.2 per cent.

### *Industrial development*

*R10.2 billion allocated to manufacturing incentives*

Government has a range of targeted incentives to support industrialisation. A total of R10.2 billion over the medium term has been allocated to manufacturing development incentives and R3.4 billion to the special economic zones programme, largely for bulk infrastructure. The infrastructure programmes in industrial parks receive additional funding of R260 million in 2016/17 and 2017/18 through reprioritisation.

### *Economic infrastructure*

*Spending on water resources and bulk infrastructure grows at 16.1 per cent*

Spending on water resources and bulk infrastructure is expected to increase to R36.4 billion over the medium term, at an average annual rate of 16.1 per cent. The major projects driving this growth include managing acid-mine drainage, raising the Clanwilliam Dam wall and constructing pipelines for the Olifants River water development project. Water boards will also increase spending in the period ahead by R6 billion, mainly for bulk water infrastructure in the Bushbuckridge area (Rand Water), the Pilanesberg water project (Magalies Water) and the Kwazulu-Natal bulk water-supply masterplan (Umgeni Water).

*SANRAL receives R27.4 billion to strengthen and improve non-toll road network*

The South African National Roads Agency has been allocated R27.4 billion over the medium term to strengthen and improve the national non-toll road network. At present, over 75 per cent of this network is beyond its 25-year design life and is in need of refurbishment. The upgrade of the R573 Moloto Road has been allocated R3.7 billion over the MTEF period, and work to address immediate safety concerns such as potholes has begun. Upgrades over the MTEF period include improving lane configuration and introducing centre barriers to reduce the risk of head-on collisions.

Over the medium term, an additional R480 million is allocated to subsidise set-top boxes for 766 242 poor households. A total of R1.6 billion will be spent over the medium term to extend broadband access to 3 158 government institutions and 4 408 schools over the medium term.

Funds were reprioritised to appoint a transactional advisor to assist the Department of Energy with the call for proposals for the nuclear build programme. An amount of R200 million has been set aside to support preparatory work for nuclear procurement.

**Table 5.10 Economic affairs expenditure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>		<b>Medium-term estimates</b>				
<b>Economic infrastructure and network regulation</b>	<b>73 613</b>	<b>87 105</b>	<b>90 493</b>	<b>97 460</b>	<b>41.6%</b>	<b>9.8%</b>
of which:						
Water resource and bulk infrastructure	23 275	29 438	31 012	36 403	14.7%	16.1%
Road infrastructure	43 704	45 799	47 984	50 765	21.9%	5.1%
<b>Employment, labour affairs and social security funds</b>	<b>65 915</b>	<b>73 127</b>	<b>75 270</b>	<b>77 358</b>	<b>34.2%</b>	<b>5.5%</b>
of which:						
Employment programmes <sup>1</sup>	10 183	11 822	12 871	13 574	5.8%	10.1%
Social security funds	47 839	52 651	53 535	54 979	24.4%	4.7%
<b>Industrial development and trade</b>	<b>29 550</b>	<b>31 844</b>	<b>31 938</b>	<b>35 314</b>	<b>15.0%</b>	<b>6.1%</b>
of which:						
Economic development and incentive programmes	13 200	14 103	13 299	14 716	6.4%	3.7%
<b>Science, technology, innovation and the environment</b>	<b>18 718</b>	<b>19 886</b>	<b>20 263</b>	<b>20 959</b>	<b>9.2%</b>	<b>3.8%</b>
of which:						
Environmental programmes	6 445	7 097	7 506	7 753	3.4%	6.4%
Research and development, including research institutions	16 116	16 635	16 758	17 146	7.6%	2.1%
<b>Total</b>	<b>187 796</b>	<b>211 962</b>	<b>217 965</b>	<b>231 091</b>	<b>100.0%</b>	<b>7.2%</b>
of which:						
Compensation of employees	32 043	35 091	37 398	39 869	17.0%	7.6%
Goods and services	38 972	48 233	52 778	54 313	23.5%	11.7%
Transfers and subsidies	71 497	77 947	77 757	84 714	36.4%	5.8%
Buildings and other fixed structures	34 888	40 060	40 336	42 508	18.6%	6.8%
Machinery and equipment	3 289	2 569	2 471	2 320	1.1%	-11.0%

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

Source: National Treasury

### Support to small business

Over the medium term, R475 million has been reprioritised to the Department of Small Business Development. This amount bolsters the department's MTEF baseline commitments, which include:

*R475 million reprioritised to support small businesses and cooperatives*

- R772 million to support 1 650 small, medium and micro enterprises
- R237 million for the start-up costs and working capital needs of 1 220 cooperatives
- R298 million to support development of informal and small businesses
- R150.6 million for the Enterprise Incubator Programme, which encourages partnerships with the private sector to create successful firms.

## Human settlements and municipal infrastructure

*Bulk of human settlements and municipal infrastructure allocation transferred to provinces and municipalities*

The NDP recognises that the fragmentation in South Africa's cities and towns imposes high costs on households and the economy. Transforming human settlements and providing necessary transport infrastructure reduces the burden of commuting for low-income households. To support transformation of human settlements, over 70 per cent of spending in this function group is allocated to transfers of conditional grants to provinces and municipalities, mainly for basic services and transport, and to support economic development in cities and towns.

*R4 billion reprioritised to local government equitable share for basic services for the poor*

Spending in this function group is expected to grow to R216.2 billion over the next three years, at an average annual rate of 6.7 per cent. Funds have been reprioritised across departments to priority budget areas such as the local government equitable share, which receives an additional R4 billion to expand the access of poor households to free basic services.

The Department of Human Settlements is reviewing the laws and policies that govern its activities, with the aim of proposing revisions to improve service delivery. In the interim, R3.8 billion has been reprioritised from the *human settlements development grant* to provinces and the *urban settlements development grant* to municipalities over the medium term. Despite the decrease, funding allocated to these grants over the period is expected to provide 364 451 fully subsidised housing units and 55 878 finance-linked individual subsidies, and upgrade 612 118 households in informal settlements.

**Table 5.11 Human settlements and municipal infrastructure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>		<b>Medium-term estimates</b>				
<b>Human settlements and municipal infrastructure</b>	<b>178 233</b>	<b>182 631</b>	<b>199 821</b>	<b>216 215</b>	<b>100.0%</b>	<b>6.7%</b>
<i>of which:</i>						
<i>Human settlements</i>	34 055	33 113	36 544	38 685	18.1%	4.3%
<i>Public transport, including commuter rail</i>	31 870	34 558	40 208	42 563	19.6%	10.1%
<i>Municipal equitable share</i>	50 507	52 569	57 012	61 732	28.6%	6.9%
<i>Municipal infrastructure grant</i>	14 956	14 914	15 991	16 894	8.0%	4.1%
<i>Regional and local water and sanitation services</i>	9 126	9 657	9 865	10 465	5.0%	4.7%
<i>Electrification programmes</i>	5 811	5 700	6 216	6 466	3.1%	3.6%
<b>Total</b>	<b>178 233</b>	<b>182 631</b>	<b>199 821</b>	<b>216 215</b>	<b>100.0%</b>	<b>6.7%</b>
<i>of which:</i>						
<i>Compensation of employees</i>	13 988	15 518	16 658	17 726	8.3%	8.2%
<i>Goods and services</i>	10 058	10 197	12 533	13 080	6.0%	9.2%
<i>Transfers and subsidies</i>	132 256	136 748	148 920	162 473	74.9%	7.1%
<i>Buildings and other fixed structures</i>	12 221	9 676	10 312	10 873	5.2%	-3.8%
<i>Machinery and equipment</i>	9 011	10 020	10 867	11 510	5.4%	8.5%

Source: National Treasury



Public transport is the second-largest spending area in this function group. Operations are subsidised to ensure that transport is affordable. Operational subsidies of R13.5 billion are allocated over the MTEF period for Metrorail and Shosholoza Meyl to subsidise over 500 million passenger trips per year and 700 000 long-distance passengers. The *public transport operations grant* receives an additional R700 million to ensure the subsidy for provincially contracted bus services keeps pace with cost escalations in bus contracts. Provinces augment this additional funding with a contribution of their own from the provincial equitable share.

*R13.5 billion to subsidise passenger rail over medium term*

The Department of Water and Sanitation will provide funding and institutional support to municipalities and implementing agents to complete 234 wastewater services projects over the MTEF period. The funding is provided through the new *water services infrastructure grant*, which receives R2.8 billion in 2016/17, R3.7 billion in 2017/18 and R4 billion in 2018/19.

### Agriculture, rural development and land reform

The NDP recognises the importance of building an inclusive rural economy to contribute to growing the economy and employment. Spending in this function aims to stimulate rural development and support agriculture in line with NDP objectives. Spending on the agriculture, rural development and land reform function will increase to R29.1 billion in 2018/19, at an average annual rate of 4.9 per cent, accounting for 2 per cent of total government spending over the MTEF period.

*Agriculture, rural development and land reform spending grows at 4.9 per cent*

**Table 5.12 Agriculture, rural development and land reform, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>						
<b>Agriculture, rural development and land reform</b>	<b>25 249</b>	<b>26 417</b>	<b>27 744</b>	<b>29 147</b>	<b>100.0%</b>	<b>4.9%</b>
<i>of which:</i>						
<i>Land reform</i>	1 177	1 241	1 397	1 472	4.9%	7.7%
<i>Agricultural land holding account</i>	1 342	1 502	1 488	1 580	5.5%	5.6%
<i>Restitution</i>	2 603	3 168	3 346	3 545	12.1%	10.9%
<i>Farmer support and development</i>	3 420	3 634	3 875	4 065	13.9%	5.9%
<b>Total</b>	<b>25 249</b>	<b>26 417</b>	<b>27 744</b>	<b>29 147</b>	<b>100.0%</b>	<b>4.9%</b>
<i>of which:</i>						
<i>Compensation of employees</i>	10 408	11 448	12 176	12 951	43.9%	7.6%
<i>Goods and services</i>	6 244	6 195	6 488	6 742	23.3%	2.6%
<i>Transfers and subsidies</i>	6 325	6 774	7 449	7 741	26.4%	7.0%
<i>Buildings and other fixed structures</i>	946	621	608	588	2.2%	-14.7%
<i>Machinery and equipment</i>	614	465	491	515	1.8%	-5.7%

Source: National Treasury

The Department of Agriculture, Forestry and Fisheries has set aside about R205 million in 2015/16 for government's drought-relief interventions. It has also reprioritised R2.8 billion over the medium term to *Fetsa Tlala*, a food security initiative. The funds will bring about 120 000 hectares of land into productive use, benefitting 145 000 subsistence and smallholder producers in each of the next three years.

*Agri-parks to be developed  
in 44 rural districts*

The Department of Rural Development and Land Reform has set aside R2 billion over the medium term to develop agri-parks in 44 rural districts. The agri-parks are expected to contribute to government's rural job creation targets. The department will also spend R4.6 billion to acquire about 1.1 million hectares of land and create 1 107 farms. About 31 per cent of the department's budget, or R10 billion, is allocated for settling land restitution claims, which increase over the next three years.

### Defence, public order and safety

*Spending on defence,  
public order and safety  
slows to 5.9 per cent*

The NDP calls for safer communities through an effective criminal justice system and police services responsive to community needs. Spending on this function over the medium term is focused on improving the effectiveness of the criminal justice system, reducing corruption in the public and private sectors, and ensuring that the borders are defended, secure and well managed. Spending on defence, public order and safety will grow from R171.5 billion in 2015/16 to R203.6 billion in 2018/19, accounting for 13.7 per cent of functional spending over the medium term. This function will grow at an average annual rate of 5.9 per cent.

Police services account for 49 per cent of the total medium-term allocation to this function group. In line with the NDP's vision of professionalising the police service, a white paper on this topic has been developed for Cabinet approval. The department has established an independent panel of experts to review and amend all prescripts relevant to public order policing in line with international best practice. An additional amount of R597.8 million over the medium term has been allocated to the South African Police Service to strengthen public order policing. This will also support the implementation of the recommendations of the Farlam Commission of Inquiry.

An amount of R3.3 billion has been reprioritised within the function group, mainly for additional capacity in the Protection and Security Services programme of the South African Police Service, maintenance of defence capabilities, case management in the Department of Correctional Services and increasing the number of prosecutors.

**Table 5.13 Defence, public order and safety expenditure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>		<b>Medium-term estimates</b>				
Defence and state security	49 900	52 344	54 063	56 373	28.2%	4.1%
Police services	82 648	87 508	94 095	100 225	48.8%	6.6%
Law courts and prisons	38 974	41 667	44 285	47 047	23.0%	6.5%
<b>Total</b>	<b>171 522</b>	<b>181 519</b>	<b>192 444</b>	<b>203 644</b>	<b>100.0%</b>	<b>5.9%</b>
<i>of which:</i>						
Compensation of employees	112 961	122 525	128 518	136 012	67.0%	6.4%
Goods and services	39 550	40 225	42 639	44 897	22.1%	4.3%
Transfers and subsidies	12 575	12 650	13 788	14 746	7.1%	5.5%
Buildings and other fixed structures	2 870	3 043	3 121	3 243	1.6%	4.2%
Machinery and equipment	3 410	3 023	4 338	4 707	2.1%	11.3%

Source: National Treasury

The defence, public order and safety function group is labour intensive, with compensation of employees as the function's largest budget item. An amount of R16.9 billion has been reduced within the baseline of the function over the medium term to support fiscal stability. Of this amount, R14.2 billion is from compensation of employees, R2.3 billion from goods and services and R380 million from payments for capital assets. Over the medium term, this function group will restructure its personnel in line with government's plan to return compensation spending to sustainable levels.

### General public services

Spending in general public services supports the NDP's call for building a capable state and positioning South Africa in the world. Allocations are expected to decrease from R97.5 billion in 2015/16 to R82.6 billion in 2018/19, at an average annual rate of 5.4 per cent. The decrease is largely due to a once-off special appropriation of R25 billion in 2015/16 for recapitalisation of Eskom and initial capitalisation of the New Development Bank. Reprioritisations fund a further medium-term allocation of R11.8 billion for remaining capital transfers to the bank.

#### South Africa's initial subscription to the New Development Bank

The New Development Bank is a multilateral lending institution operated by the BRICS states (Brazil, Russia, India, China and South Africa). It was launched in 2015 to promote greater financial and development cooperation among developing nations. Each of the five founding members makes a capital contribution of US\$2 billion, which forms their initial subscription. South Africa's contributions have been scheduled over seven years. The first instalment of US\$150 million was paid in December, with funds raised through the special appropriation bill from the sale of government's stake in Vodacom. The second instalment of US\$250 million will be paid in 2016/17, followed by a third tranche of US\$300 million in the following year.

Additional medium-term baseline reductions of R7.2 billion include R2 billion from transfers to public entities, R1.1 billion reduction from the Jobs Fund and R2.2 billion from compensation of employees.

**Table 5.14 General public services expenditure, 2015/16 – 2018/19**

	2015/16 Revised estimate	2016/17	2017/18	2018/19	Percentage of total MTEF allocation by function	Average annual MTEF growth
<b>R million</b>		<b>Medium-term estimates</b>				
Executive and legislative organs	12 485	13 378	13 988	14 768	18.0%	5.8%
External affairs and foreign aid	9 916	11 286	12 029	12 417	15.3%	7.8%
General public administration and fiscal affairs	67 802	41 597	44 701	46 491	56.7%	-11.8%
Home affairs	7 247	7 391	7 052	8 935	10.0%	7.2%
<b>Total</b>	<b>97 450</b>	<b>73 652</b>	<b>77 770</b>	<b>82 611</b>	<b>100.0%</b>	<b>-5.4%</b>
<i>of which:</i>						
<i>Compensation of employees</i>	29 873	32 141	33 661	35 460	43.3%	5.9%
<i>Goods and services</i>	23 176	21 983	22 286	23 953	29.2%	1.1%
<i>Transfers and subsidies</i>	10 799	11 712	13 051	14 614	16.8%	10.6%
<i>Buildings and other fixed structures</i>	1 821	2 208	2 387	2 509	3.0%	11.3%
<i>Machinery and equipment</i>	1 525	797	873	787	1.0%	-19.8%

Source: National Treasury

The Department of Planning, Monitoring and Evaluation receives an additional allocation of R300 million over the medium term. The funds are mainly to add 118 posts to strengthen the capacity to fulfil current and new mandates for planning and monitoring.

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