

5

Consolidated spending plans

In brief

- Public spending is expected to increase from R1.4 trillion in 2016/17 to R1.8 trillion by 2019/20. This represents real annual average growth of 1.9 per cent.
- Government has reduced the expenditure ceiling by R26.1 billion over the next three years by trimming non-core goods and services and compensation budgets.
- About R30 billion has been reprioritised through the budget process to ensure that, in the context of baseline budget cuts, core expenditure is protected. The largest share of reprioritised funds – R16.1 billion – is allocated to higher education, with strong additional support for social protection and health.
- Obtaining better value for public money will be a central objective over the period ahead. Procurement reforms are expected to realise substantial savings. The National Treasury is stepping up in-year monitoring of funds appropriated to departments and public entities.

Overview

Government has revised its spending plans in light of weak economic growth and lower-than-expected revenue collection. As announced in the 2016 *Medium Term Budget Policy Statement* (MTBPS), the 2017 Budget proposes to lower the spending ceiling over the medium-term expenditure framework (MTEF) period by reducing spending on non-core goods and services, and compensation of employees.

Less revenue means reduced spending on compensation and non-core goods and services

A significant portion of funding has been reprioritised to safeguard the provision of social services, bolster public health programmes, mitigate the increasing costs of higher education for students from low- and middle-income households, and maintain infrastructure investment. Apart from debt-service costs, post-school education is the fastest-growing spending category, followed by health and social protection.

Consolidated spending is expected to increase from R1.4 trillion in 2016/17 to R1.8 trillion by 2019/20, growing by an average of 7.9 per cent per year. This translates to real annual expenditure growth of 1.9 per cent, down from an annual average of 2.3 per cent between 2013/14 and 2016/17.

Revisions to spending plans

Spending ceiling lowered by R10.2 billion and R15.9 billion respectively over next two years

The 2017 Budget proposes large adjustments to spending plans to accommodate critical new requirements, while lowering the spending ceiling to ensure the budget deficit is contained:

- The 2017 Budget lowers the spending ceiling by R10.2 billion in 2017/18 and R15.9 billion in 2018/19.
- Government has mobilised resources to fund additional allocations to higher education budgets and other spending obligations of R6.6 billion in 2017/18 and R7 billion in 2018/19.

To effect these adjustments, government had to identify resources of R16.9 billion in 2017/18 and R23.1 billion in 2018/19.

Sources of reallocation

Contingency reserve drawn down to support reallocation of funds

The sources of reallocated funds are detailed in Table 5.1. One source was the contingency reserve, which is established for exactly such purposes.

Table 5.1 Resources identified for allocation

R million	2017/18	2018/19	2019/20	MTEF total
Drawdowns, savings and reallocations	10 014	17 621	604	28 239
Drawdown on contingency reserve	4 000	5 000	–	9 000
Rescinded provisional allocations	389	11 089	–	11 479
National Skills Fund: drawdown on reserves	4 998	–	–	4 998
Social grants: revised projections	626	1 531	604	2 762
Baseline reductions	6 895	5 463	6 060	18 417
Total resources available for allocation	16 909	23 083	6 664	46 656

Source: National Treasury

Provisional allocations withdrawn from spending framework or delayed

A second source of funds was provisional allocations made in the 2016 Budget. These were included in the MTEF, but not allocated to departmental baselines. During the adjustment process, government withdrew some large provisional allocations from the spending framework and pushed others to the outer year, releasing R11 billion in 2018/19. For example, the R1 billion provisional allocation for the second phase of the SA Connect programme was shifted out by one year because of delays in implementing the first phase of the broadband policy framework. Large provisional allocations intended to augment budgets for municipal infrastructure, household electricity connections, basic education, health and social development were removed from the MTEF.

Drawdown on National Skills Fund surplus forms part of resource adjustments

A third source of funds was the National Skills Fund (NSF). In consultation with the Department of Higher Education and Training, government agreed to use the NSF's reserves to fund the shortfalls in university education for 2017/18. The carry-through costs of these shortfalls – R5.3 billion in 2018/19 and R5.7 billion in 2019/20 – are funded from other sources. In addition, government has made a R5 billion provisional allocation to higher education in 2019/20.

Lower estimates of growth in the number of social grant beneficiaries meant that allocations to grants could be reduced by R2.1 billion over the next two years, while protecting grant values from inflation.

Number of social grant beneficiaries lower than estimated, but grant values are protected

Baseline reductions

In addition to the drawdowns, government proposes a R6.9 billion reduction in baseline budgets in 2017/18 and R5.5 billion in 2018/19. These budget cuts, which affect national, provincial and local government, are shown in Table 5.2.

The 2017 Budget proposes to reduce compensation budget limits in national departments by an additional R437 million in 2017/18, R471 million in 2018/19 and R497 million in 2019/20. Existing headcount and recruitment must be managed within the adjusted ceiling. National departments have completed human resource budget plans, which are assessed by the National Treasury. These plans enable government to manage non-critical vacancies, with savings applied to fill critical posts.

Compensation budget limits in national departments to be reduced

Table 5.2 Baseline reductions by sphere of government

R million	2017/18	2018/19	2019/20	MTEF total	% of baseline
National government	4 348	2 768	3 267	10 382	0.5%
Compensation of employees	437	471	497	1 405	0.3%
Goods and services	649	667	787	2 103	1.0%
Transfers to public entities	2 850	1 240	1 539	5 629	1.7%
Other national spending items ¹	411	390	444	1 245	0.2%
Provincial government	1 757	1 882	1 956	5 594	0.3%
Provincial equitable share	500	529	558	1 587	0.1%
Provincial conditional grants	1 257	1 353	1 397	4 007	1.3%
Local government	791	813	837	2 440	0.8%
Local government conditional grants	791	813	837	2 440	1.8%
Total baseline reductions	6 895	5 463	6 060	18 417	0.4%

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

Source: National Treasury

The proposals will reduce national departments' spending on non-core goods and services such as travel, subsistence and catering. There are significant reductions in transfers to public entities, particularly those with large accumulated reserves. There will be large reductions in transfers to the South African Revenue Service, the Passenger Rail Agency of South Africa, the South African National Roads Agency Limited, the South African Social Security Agency, the National Housing Finance Corporation and the Water Trading Entity.

Large conditional grants to provinces and municipalities are also being trimmed. The *human settlements development grant*, the *health facility revitalisation grant*, the *educational infrastructure grant*, the *water services infrastructure grant*, the *public transport network grant*, the *municipal infrastructure grant* and others are being reduced.

Table 5.3 shows how the resources made available from these reductions are being allocated over the three-year spending period. Higher education has been allocated an additional R16.1 billion. The antiretroviral treatment programme receives an additional R1 billion and the National School Nutrition Programme receives R390 million.

Largest additions, totalling R16.1 billion, are for higher education

In addition to these reallocations, the budget process reprioritised about R30 billion within departmental baselines to fund critical programmes. These details are contained in the 2017 *Estimates of National Expenditure*.

Table 5.3 Allocation of identified resources

R million	2017/18	2018/19	2019/20	MTEF total
Allocations to budget programmes	6 646	7 004	7 778	21 428
Higher education	4 998	5 346	5 718	16 061
Post- retirement medical subsidies	453	525	676	1 654
Comprehensive HIV/AIDS and TB grant: Antiretroviral therapy	–	–	1 000	1 000
Foreign exchange related budget pressures	735	654	–	1 388
Waste tyre management	210	230	245	685
School Nutrition Programme	120	130	140	390
Integrated Financial Management System	130	120	–	250
Reduction to spending ceiling	10 253	15 858	–	26 111
Total	16 899	22 862	7 778	47 539

Source: National Treasury

Provisional allocations

Provisional allocations of R14.6 billion to support economic growth and social protection

The 2017 Budget makes provisional allocations of about R14.6 billion for several programmes that support economic growth and social protection. These funds, shown in Table 5.4, are included in the MTEF but have not been added to departmental baselines. Departments will have to make representations for these funds, which may be allocated to specific programmes during the next budget cycle, depending on the availability of resources and the robustness of the plans.

Table 5.4 Provisional allocations to be considered for 2018 Budget

R million	2019/20
Higher education	5 000
2014 SA Connect phase 2	2 000
Business incentives for growth and job creation	2 112
Social development	1 654
Local government equitable share	1 800
Small business and innovation fund	1 000
SANRAL: N2 Wild Coast road	1 000
Total	14 566

Source: National Treasury

Some provisional allocations will depend on conditions being met

In some cases the allocations will depend on conditions being met. For example, the R2 billion earmarked for the second phase of SA Connect is conditional on completion of the first phase, which has to connect clinics, schools and other government buildings in eight national health insurance pilot districts.

Preliminary allocations include R2.1 billion for economic competitiveness and support packages. A review of business incentives to be completed in 2017 will indicate which programmes will receive resources. An amount of R5 billion is set aside for higher education. Its use depends on the outcome of deliberations in the sector. A further R1 billion is set aside for the N2 Wild Coast road pending the conclusion of discussions on the

funding model for this project. An amount of R1 billion is also set aside for a fund to support small business and innovation. The National Treasury, and the departments of Science and Technology and Small Business Development, will design this facility.

Improving spending efficiency

Getting value for money is a central objective over the period ahead. In the past two years, the Office of the Chief Procurement Officer has expanded centralised procurement of common goods and services. Over the medium term, the office aims to save R25 billion by renegotiating contracts with government's top 100 suppliers, consolidating spending on common goods, using technology to reduce duplication and cutting red tape.

Government targets procurement savings of R25 billion over three years

For example, government spends more than R3.2 billion annually on mobile and fixed-line communications. By negotiating transversal agreements and consolidating contracts, savings of R1.2 billion will be realised over the MTEF period. A travel policy framework will be in place by 1 April 2017. It will standardise dealings with travel management companies through uniform bid specifications, evaluation principles and a common remuneration model. The policy is expected to save the fiscus R1.3 billion over the next three years. Centrally negotiated software license agreements will save R2.5 billion over the same period.

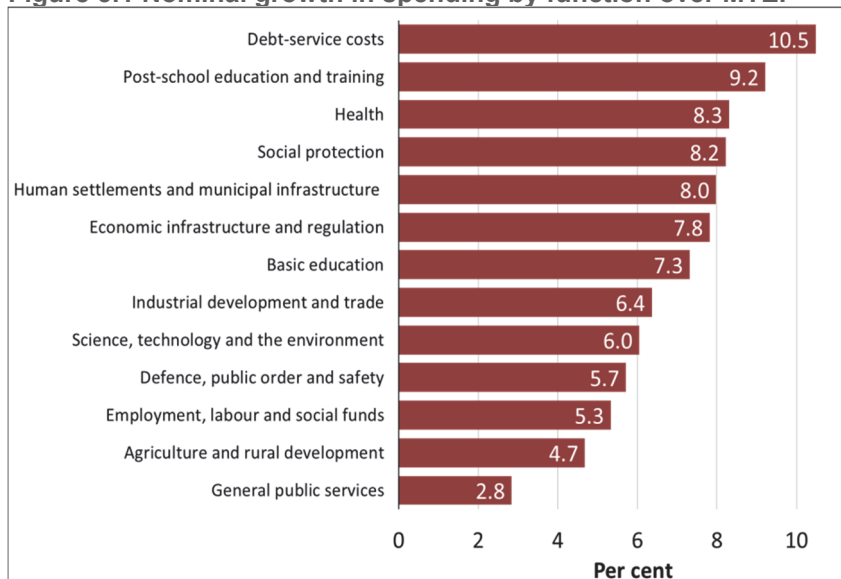
Efforts to strengthen in-year monitoring of appropriated funds are also being stepped up, as discussed in Chapter 3. Over the past five years, unauthorised expenditure in departments and irregular, fruitless and wasteful expenditure in other public authorities have increased. The National Treasury has developed guidelines and will support departments and entities to improve treatment and disclosure of such expenditure. Compliance management and oversight of accounting officers, as set out in the Public Finance Management Act (1999), will be reinforced.

National Treasury to step up in-year monitoring of appropriated funds

Consolidated government expenditure

Figure 5.1 shows spending growth by function over the medium term.

Figure 5.1 Nominal growth in spending by function over MTEF



Source: National Treasury

Table 5.5 Consolidated government expenditure by economic classification¹

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates			Percentage of total MTEF	Average annual MTEF growth
Economic classification						
Current payments	873 876	941 432	1 013 735	1 091 056	60.7%	7.7%
Compensation of employees	512 240	550 355	588 652	631 059	35.3%	7.2%
Goods and services	208 276	221 742	237 476	253 631	14.2%	6.8%
Interest and rent on land	153 360	169 335	187 608	206 366	11.2%	10.4%
<i>of which:</i>						
<i>Debt-service costs</i>	146 281	162 353	180 652	197 320	10.8%	10.5%
Transfers and subsidies	471 908	508 754	543 737	590 208	32.7%	7.7%
Provinces and municipalities	112 736	122 192	131 475	143 187	7.9%	8.3%
Departmental agencies and accounts	24 852	25 664	27 283	28 852	1.6%	5.1%
Higher education institutions	30 651	37 883	38 564	41 204	2.3%	10.4%
Foreign governments and international organisations	2 158	1 994	2 116	2 194	0.1%	0.5%
Public corporations and private enterprises	31 941	31 442	33 699	38 413	2.1%	6.3%
Non-profit institutions	29 792	31 595	33 848	36 251	2.0%	6.8%
Households	239 779	257 983	276 753	300 108	16.6%	7.8%
Payments for capital assets	93 013	101 389	104 643	107 839	6.3%	5.1%
Buildings and other capital assets	71 899	79 130	82 648	85 166	4.9%	5.8%
Machinery and equipment	21 115	22 259	21 995	22 673	1.3%	2.4%
Payments for financial assets	6 407	5 552	4 973	5 217	0.3%	-6.6%
Total	1 445 205	1 557 127	1 667 089	1 794 321	100.0%	7.5%
Contingency reserve	–	6 000	10 000	20 000		
Consolidated expenditure	1 445 205	1 563 127	1 677 089	1 814 321		7.9%

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

Source: National Treasury

While overall expenditure growth slows over the next three years, growth in spending on compensation of employees remains relatively high at 7.2 per cent per year. Compensation will remain at about 35.3 per cent of consolidated spending over the medium term.

Transfers to provinces and municipalities grow by 8.3 per cent to support basic services, public transport and housing

Spending on transfers and subsidies will average growth of 7.7 per cent over the medium term, largely as a result of transfers to higher education institutions, which grow at 10.4 per cent, and transfers to households, which grow at 7.8 per cent to account for social grant increases. Transfers to provinces and municipalities will grow by 8.3 per cent to support basic services, public transport and housing.

■ Medium-term spending and the NDP

About two-thirds of spending is directed towards constitutionally mandated social rights

Government prioritises spending on water, housing, healthcare, education and social security, in line with the Constitution and the Bill of Rights. Government spending is also aligned with the objectives of the National Development Plan (NDP). The medium-term strategic framework sets out NDP priorities from 2014 to 2019. In the 2017 Budget, about two-thirds of consolidated spending is allocated to functional groups dedicated to realising constitutionally mandated social rights.

Table 5.6 Consolidated government expenditure by function¹

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF allocation by function	Average annual MTEF growth		
Basic education²	226 643	242 968	261 292	280 139	17.5%	7.3%
Health	170 888	187 483	201 377	217 131	13.5%	8.3%
Defence, public order and safety	190 036	198 702	210 814	224 956	14.2%	5.8%
Defence and state security	52 341	53 983	56 279	59 998	3.8%	4.7%
Police services	87 521	93 790	99 876	106 528	6.7%	6.8%
Law courts and prisons	41 448	43 756	46 506	49 663	3.1%	6.2%
Home affairs	8 727	7 173	8 152	8 767	0.5%	0.2%
Post-school education and training	68 952	77 550	80 856	89 839	5.5%	9.2%
Economic affairs	201 658	215 047	227 995	244 003	15.3%	6.6%
Industrial development and trade	28 438	28 939	31 662	34 218	2.1%	6.4%
Employment, labour affairs and social security funds	72 275	75 935	79 936	84 462	5.4%	5.3%
Economic infrastructure and network regulation	81 258	89 523	94 792	101 845	6.4%	7.8%
Science, technology, innovation and the environment	19 686	20 650	21 606	23 478	1.5%	6.0%
Human settlements and municipal infrastructure	179 834	195 751	210 170	226 402	14.1%	8.0%
Agriculture, rural development and land reform	25 998	26 534	27 923	29 826	1.9%	4.7%
General public services	69 977	70 694	72 462	75 616	4.9%	2.6%
Executive and legislative organs	12 976	14 340	15 202	16 089	1.0%	7.4%
General public administration and fiscal affairs	45 185	43 943	44 584	46 775	3.0%	1.2%
External affairs and foreign aid	11 816	12 412	12 677	12 752	0.8%	2.6%
Social protection	164 936	180 046	193 548	209 088	13.0%	8.2%
Allocated by function	1 298 923	1 394 774	1 486 437	1 597 001	100.0%	7.1%
Debt-service costs	146 281	162 353	180 652	197 320		10.5%
Contingency reserve	–	6 000	10 000	20 000		
Consolidated expenditure	1 445 205	1 563 127	1 677 089	1 814 321		7.9%

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

2. Includes arts, sports, recreation and culture

Source: National Treasury

Government's budget is organised into function groups – departments and entities that pursue similar outcomes across national, provincial and local government. Medium-term allocations for each group are set out in Table 5.6. Detailed information on departmental spending plans can be found in the statistical annexure and in the *Estimates of National Expenditure*. Spending plans for provinces and municipalities are discussed in Chapter 6.

Health

The NDP envisions a health system that works for everyone, with a sharp reduction in the country's disease burden and a strong public health system. Spending in this function will grow from R170.9 billion in 2016/17 to R217.1 billion in 2019/20. Health expenditure growth is mainly driven by expanded provision of antiretroviral treatment, which now reaches 3.5 million people. Since September 2016, government has been

Antiretroviral programme now reaches 3.5 million people

implementing a universal test-and-treat policy, offering all patients diagnosed with HIV antiretroviral treatment. To sustain this initiative, R1 billion has been earmarked for the *comprehensive HIV, AIDS and TB conditional grant* in 2019/20. As indicated in Chapter 1, government plans to launch a national health insurance fund during 2017/18.

Health expenditure has grown in real terms by about 1.3 per cent between 2012/13 and 2018/19. Public health budgets remain under pressure as a result of increased personnel costs, higher expenditure on the antiretroviral programme and currency depreciation. Although centralised procurement of medicine has resulted in estimated savings of R1.6 billion per year, these savings have largely been offset by the weaker rand, which drives up the cost of imported medicines.

Table 5.7 Health expenditure

R million	2016/17 Revised estimate	2017/18 Medium-term estimates	2018/19 Medium-term estimates	2019/20 Medium-term estimates	Percentage of total MTEF allocation	Average annual MTEF growth
Health expenditure	170 888	187 483	201 377	217 131	100.0%	8.3%
<i>of which:</i>						
<i>Central hospital services</i>	33 055	35 875	38 573	41 578	19.1%	7.9%
<i>Provincial hospital services</i>	29 745	32 293	34 436	36 740	17.1%	7.3%
<i>District health services</i>	75 470	83 640	90 635	98 303	45.0%	9.2%
<i>of which:</i>						
<i>Comprehensive HIV/AIDS and TB grant</i>	15 291	17 558	19 922	22 039	9.8%	13.0%
<i>Emergency medical services</i>	6 600	7 289	7 815	8 357	3.9%	8.2%
<i>Facilities management and maintenance</i>	8 530	9 874	10 614	11 353	5.3%	10.0%
<i>Health science and training</i>	5 332	5 480	5 850	6 238	2.9%	5.4%
<i>National Health Laboratory Service</i>	6 487	7 063	6 542	7 199	3.4%	3.5%
<i>National Department of Health¹</i>	4 465	5 044	5 385	5 700	2.7%	8.5%
Total	170 888	187 483	201 377	217 131	100.0%	8.3%
<i>of which:</i>						
<i>Compensation of employees</i>	108 159	117 288	124 983	133 651	62.0%	7.3%
<i>Goods and services</i>	47 179	52 963	58 187	63 925	28.9%	10.7%
<i>Transfers and subsidies</i>	6 104	5 933	6 378	6 894	3.2%	4.1%
<i>Buildings and other fixed structures</i>	5 793	7 209	7 726	8 090	3.8%	11.8%
<i>Machinery and equipment</i>	3 521	3 967	4 089	4 561	2.1%	9.0%

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

Source: National Treasury

Government has responded by limiting staff numbers, improving efficiencies in medicine procurement and distribution, delaying large infrastructure projects and reprioritising budgets. To compensate provincial health departments and protect them from future currency depreciation, R1 billion will be added to the provincial equitable share in 2019/20.

*South African Health
Products Regulatory
Authority established as
public entity in 2017/18*

In 2017/18, the South African Health Products Regulatory Authority will be established as a public entity. It will regulate the registration, licensing, manufacturing and importing of active pharmaceutical ingredients, medicines and medical devices. It will also conduct clinical trials. The new entity will be funded through R397.6 million in transfers from the

Department of Health over the medium term and fees collected from the pharmaceutical industry.

Social protection

Government aims to provide a social safety net for all South Africans, particularly the young, elderly and disabled, and to standardise social welfare practices as highlighted in the NDP. Spending on this priority is set to rise from R164.9 billion in 2016/17 to R209.1 billion by 2019/20, growing at an annual average of 8.2 per cent over the medium term.

Social protection expenditure grows by annual average of 8.2 per cent

Table 5.8 Social protection expenditure

	2016/17 Revised estimate	2017/18	2018/19	2019/20	Percentage of total MTEF	Average annual MTEF growth
R million		Medium-term estimates				
Social protection expenditure	164 936	180 046	193 548	209 088	100.0%	8.2%
<i>of which:</i>						
Social grants	138 699	151 580	163 223	175 579	84.2%	8.2%
<i>of which:</i>						
Child support	51 351	56 287	60 494	64 768	31.2%	8.0%
Old age	58 327	64 456	70 332	76 779	36.3%	9.6%
Disability	20 018	21 152	22 262	23 362	11.5%	5.3%
Foster care	5 322	5 349	5 446	5 582	2.8%	1.6%
Care dependency	2 677	2 939	3 219	3 442	1.6%	8.7%
South African Social Security Agency	6 909	7 206	7 761	8 196	4.0%	5.9%
Provincial social development	17 606	19 199	20 476	22 459	10.7%	8.5%
Total	164 936	180 046	193 548	209 088	100.0%	8.2%
<i>Social grants as percentage of GDP</i>	3.1%	3.2%	3.2%	3.2%		
Social grant beneficiary numbers by grant type (Thousands)						
Child support	12 051	12 313	12 566	12 821		2.1%
Old age ¹	3 279	3 391	3 505	3 624		3.4%
Disability	1 070	1 061	1 052	1 044		-0.8%
Foster care	425	420	416	413		-1.0%
Care dependency	145	150	156	162		3.8%
Total	16 970	17 335	17 695	18 064		2.1%

1. Includes war veterans

Source: National Treasury

Early childhood development services for children 0-4 years' old have grown over the past five years, but only half of the 2.4 million children from poor households who should benefit are accessing the services. Government has allocated an additional R1.1 billion over the MTEF period for early child development. This will provide subsidies for 113 889 more children.

The number of social grant beneficiaries is expected to reach 18.1 million by the end of 2019/20. The *child support grant* will reach an estimated 12.8 million beneficiaries and the *state old age grant* 3.6 million beneficiaries. Due to increases in beneficiary numbers and inflationary adjustments to grant amounts, expenditure on grants is expected to increase at an average annual rate of 8.2 per cent over the medium term, reaching R175.6 billion in 2019/20. Grant amounts are adjusted according to inflation projections to maintain their real value, as shown in Table 5.9.

Social grant beneficiaries to reach 18.1 million by end of 2019/20

The *state old age grant* is expected to increase by R95 per month in 2017/18, while the *foster care* and *child support* grants will increase by R30 and R25 respectively.

Table 5.9 Average monthly social grant values

Rand	2016/17	2017/18	Percentage
State old age	1 505	1 600	6.3%
State old age, over 75	1 525	1 620	6.2%
War veterans	1 525	1 620	6.2%
Disability	1 505	1 600	6.3%
Foster care	890	920	3.4%
Care dependency	1 505	1 600	6.3%
Child support	355	380	7.0%

Source: National Treasury

Post-school education and training

Spending benefits university subsidies, NSFAS and technical education and vocational training

The NDP recognises that South Africa needs high-quality education and training to build a skilled and capable workforce to support inclusive growth. Spending in this function is expected to reach R89.8 billion by 2019/20, growing at an average annual rate of 9.2 per cent over the medium term.

Table 5.10 Post-school education and training expenditure

R million	2016/17 Revised estimate	2017/18 Medium-term estimates	2018/19 Medium-term estimates	2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
Post-school education and training expenditure	68 952	77 550	80 856	89 839	100.0%	9.2%
of which:						
University subsidies	27 965	31 607	36 153	38 188	42.7%	10.9%
of which:						
University infrastructure	3 397	3 520	3 689	3 867	4.5%	4.4%
NSFAS ¹	14 035	15 251	17 089	21 936	21.9%	16.1%
Technical and vocational education and training	6 915	7 394	8 014	8 588	9.7%	7.5%
of which:						
Compensation of employees	5 255	5 911	6 280	6 756	7.6%	8.7%
Community education and training	2 069	2 234	2 356	2 529	2.9%	6.9%
of which:						
Compensation of employees	1 906	2 070	2 181	2 345	2.7%	7.2%
Skills development levy institutions ²	18 057	21 055	17 192	18 506	22.9%	0.8%
Total	68 952	77 550	80 856	89 839	100.0%	9.2%

1. Total payments made from all the NSFAS income sources, including funds due to the entity from its debtors

2. Includes direct charges from the National Revenue Fund and spending of the 21 sector education and training authorities, and the National Skills Fund

Source: National Treasury

Of this amount, 42.7 per cent is for university subsidies, 21.9 per cent for the National Student Financial Aid Scheme (NSFAS), and 9.7 per cent for technical and vocational education and training.

Over the MTEF period, R21.1 billion has been added to the spending envelope for the sector. This includes the R5 billion provisional allocation

in 2019/20 mentioned earlier. It also includes R7.3 billion to compensate universities and technical and vocational education and training colleges for the shortfall caused by the zero per cent fee increase for students from households earning up to R600 000 per year in the 2017 academic year.

A total of 615 000 university students will receive NSFAS loans and bursaries over the next three years. The scheme receives additional allocations of R7.7 billion over this period to help unfunded NSFAS university students from the 2016 academic year continue their studies. Transfers to NSFAS is expected to rise from R11.4 billion in 2016/17 to R13.9 billion in 2019/20.

University enrolments are expected to increase from 1 million in 2016/17 to 1.1 million in 2019/20. Enrolments in technical and vocational education and training colleges will remain stable at 710 535 per year as government works to resolve institutional challenges. Enrolments at community education and training colleges, which target youth and adults who did not attend or complete school, will increase from 310 000 in 2016/17 to 340 000 in 2019/20. Government has allocated a total of R4.2 billion for operational and capital expenditure at the recently opened University of Mpumalanga and the Sol Plaatje University over the medium term. New facilities and student accommodation will allow them to enrol a combined total of 3 875 students for the 2017 academic year.

University enrolments expected to increase from 1 million in 2016/17 to 1.1 million in 2019/20

Basic education

This function group supports the NDP goal of improving the quality of and access to basic education. Outcomes in this sector need to improve for it to make the necessary contribution to skills and economic growth. Spending in this category is expected to increase from R216.9 billion in 2016/17 to R268.8 billion in 2019/20, accounting for 17.5 per cent of government expenditure. Spending growth is largely driven by employee compensation, particularly in provinces.

Growth in basic education spending largely driven by compensation, especially in provinces

In total, R12.7 billion will be spent on learner and teacher support materials over the medium term, including expanding access to and improving the use of information and communications technology. The Department of Basic Education aims to increase the number of teachers by providing 40 500 Funza Lushaka bursaries for subjects such as mathematics, science and technology. A total of R3.5 billion has been allocated for this purpose.

The *national school nutrition programme grant* feeds about 9 million learners at 19 800 schools each school day. Over the medium term, an additional R390 million is added to the grant to keep pace with food price inflation, bringing the total allocation to R20.4 billion. And R460 million is added to a new conditional grant to provide access to quality, publicly funded education and support for 8 000 learners with severe intellectual disabilities. The grant will fund training for teachers and officials in 155 identified schools, 31 special schools and 280 special care centres.

Nutrition programme feeds about 9 million learners a day

Spending on the *education infrastructure grant* will reach R14.1 billion by 2019/20 to support the construction of new schools, upgrading and maintenance of existing infrastructure, and provision of school furniture. The indirect *school infrastructure backlogs grant* will be incorporated into the *education infrastructure grant* from 2018/19. This merger was delayed

Education infrastructure grant grows to R14.1 billion in outer year

by a year to allow the Department of Basic Education to complete outstanding infrastructure projects. By 2018/19, the department expects to have replaced 510 inappropriate and unsafe schools, and provided water to 1 120 schools, sanitation to 741 schools and electricity to 916 schools.

Table 5.11 Basic education expenditure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
Arts, sports, recreation and culture	9 760	10 389	10 797	11 290	4.1%	5.0%
Basic education	216 884	232 579	250 495	268 849	95.9%	7.3%
Compensation of employees	165 513	178 244	192 585	207 320	73.7%	7.8%
<i>of which:</i>						
<i>Provincial compensation of employees</i>	164 936	177 657	191 962	206 652	73.5%	7.8%
Goods and services	20 572	21 300	23 268	25 259	8.9%	7.1%
<i>of which:</i>						
<i>Workbooks</i>	1 009	1 048	1 109	1 172	0.4%	5.1%
<i>National school nutrition programme</i>	6 060	6 426	6 802	7 186	2.6%	5.8%
<i>Learner and teacher support materials</i>	3 495	3 771	4 313	4 594	1.6%	9.5%
Transfers and subsidies	17 500	18 936	20 370	21 578	7.8%	7.2%
<i>of which:</i>						
<i>Subsidies to schools¹</i>	13 839	15 077	16 155	17 095	6.2%	7.3%
Payments for capital assets	13 209	14 013	14 215	14 633	5.5%	3.5%
<i>of which:</i>						
<i>Education infrastructure grant</i>	9 933	10 046	13 390	14 141	4.8%	12.5%
<i>School infrastructure backlogs grant</i>	2 181	2 595	–	–	0.3%	-100.0%
Total	226 643	242 968	261 292	280 139	100.0%	7.3%

1. Includes some provision for learner teacher support material

Source: National Treasury

Arts, sports, recreation and culture

Arts, sports, recreation and culture bolstered by R32.5 billion over medium term

To promote a diverse and cohesive society with a common national identity, R32.5 billion is allocated over the MTEF period for arts and culture, and sport and recreation. This will support school sports, the indigenous games and sporting federations, and promote equity, redress and transformation in sports. The arts sector will focus on improving its Mzansi Golden Economy projects to create jobs, and improve heritage and performing arts infrastructure.

Economic affairs

Spending in this function supports the NDP objectives of growing the economy and employment. Over the medium term, spending is expected to increase to R244 billion by 2019/20 at an average annual growth rate of 6.6 per cent, with a focus on developing infrastructure and industry, and creating jobs.

Industrial development

To promote industrialisation, economic transformation and inclusive growth, government continues to provide incentives for special economic zones, critical infrastructure and manufacturing. Over the medium term, R4.2 billion will be allocated for industrial infrastructure projects, with 32 strategic projects expected to be approved for special economic zones and industrial parks. About 1 450 companies are expected to benefit from the Manufacturing Incentive Programme, which is allocated R9.6 billion over the medium term, including R1.3 billion to bolster competitiveness. Government will allocate R95 million to the Industrial Development Corporation to support the establishment of the Steel Development Fund, intended to improve the competitiveness of foundries and steel fabricators.

Support for industrialisation, economic transformation and inclusive growth

Table 5.12 Economic affairs expenditure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
Economic infrastructure and network regulation	81 258	89 523	41.7%	7.8%
<i>of which:</i>				
<i>Water resource and bulk infrastructure</i>	24 732	28 902	13.7%	11.1%
<i>Road infrastructure</i>	40 849	43 476	19.7%	4.8%
Employment, labour affairs and social security funds	72 275	75 935	35.0%	5.3%
<i>of which:</i>				
<i>Employment programmes</i> ¹	19 153	20 410	9.4%	5.9%
<i>Social security funds</i>	53 122	55 525	25.6%	5.1%
Industrial development and trade	28 438	28 939	13.8%	6.4%
<i>of which:</i>				
<i>Economic development and incentive programmes</i>	14 083	12 913	6.3%	4.0%
Science, technology, innovation and the environment	19 686	20 650	9.6%	6.0%
<i>of which:</i>				
<i>Environmental programmes</i>	5 810	6 421	2.9%	6.6%
<i>Research and development, including research institutions</i>	10 830	11 109	5.2%	6.0%
Total	201 658	215 047	100.0%	6.6%
<i>of which:</i>				
<i>Compensation of employees</i>	34 882	37 643	17.7%	7.4%
<i>Goods and services</i>	45 054	51 228	24.2%	9.5%
<i>Transfers and subsidies</i>	76 488	77 992	36.4%	5.5%
<i>Buildings and other fixed structures</i>	32 903	35 869	16.5%	5.8%
<i>Machinery and equipment</i>	3 756	4 396	1.7%	-3.0%

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

Source: National Treasury

Economic infrastructure

Road infrastructure expenditure is expected to increase from R40.8 billion in 2016/17 to R47 billion in 2019/20. To improve spending efficiency, a new performance incentive is introduced in the *provincial roads maintenance grant* in 2017. Despite a budget reduction of R687 million over the medium term, the South African National Roads Agency Limited

plans to resurface 3 200km and strengthen 1 475km of national roads, ensuring that 95 per cent of the national network meets global standards.

Digital migration delayed and distribution of set-top boxes put on hold

Efforts to expand access to high-speed internet to low-income households have been delayed. With R1.9 billion allocated to broadband over the medium term, the Department of Telecommunications and Postal Services plans to connect 6 135 schools and public buildings to internet services at a speed of 10 megabits per second by 2020. Migration to a digital broadcasting system is expected to be delayed pending the Constitutional Court process. As a result, in 2017/18, R193 million has been shifted from manufacturing of set-top boxes to Sentech for dual illumination, which allows for both analogue and digital broadcasting.

Despite a reduction of R584.5 million, growth in spending on water infrastructure remains strong. The Water Trading Entity, which is responsible for water resource management, receives a medium-term allocation of R6.2 billion. These funds support a long-term solution for acid mine drainage in the Witwatersrand basin, bulk distribution infrastructure for the Olifants River Water Resource Development Project, and improvements to dam safety and storage capacity.

Small business support

Black Business Supplier Development Programme to support more than 2 000 small and medium firms

Over the medium term, R3.9 billion is provided for small, medium and micro enterprises and cooperatives. The national informal business upliftment scheme aims to develop more than 5 000 informal businesses and cooperatives through financial and other support. This will help improve competitiveness, promote entrepreneurship, advance local content programmes and facilitate market access. The Black Business Supplier Development Programme will provide about 2 000 small, medium and micro enterprises with financial support to help them become competitive, sustainable, job-creating firms.

Human settlements and municipal infrastructure

Urban reform focuses on densification and economic development

The NDP emphasises the need for urban reform, including densification, to overcome apartheid's spatial legacy. Expenditure in this function is expected to grow at an average annual rate of 8 per cent, reaching R226.4 billion by 2019/20. Spending will focus on public transport, housing and improving access to water, sanitation and electricity. As a result, 75.5 per cent of the spending in this function group is allocated to transfers of conditional grants to provinces and municipalities, and transfers to public entities for infrastructure development.

To promote affordable medium-density rental housing, R3.2 billion has been allocated for social housing. This is expected to deliver 55 171 social housing units over the medium term. By 2019/20, government will also provide an additional 623 635 households in informal settlements with access to basic services and 66 554 finance-linked subsidies for the affordable housing market.

To support affordable public transport, funding of R142.6 billion has been allocated over the MTEF period, growing at an annual average of 8.8 per cent. The *public transport network grant* funds planning and construction of integrated public transport networks. A portion of these funds will contribute to integrated public transport networks in 13 cities.

An amount of R3 billion has also been reprioritised from the Passenger Rail Agency of South Africa's capital budget to fund the operations of its mainline passenger service. Spending on Metrorail will subsidise 1.4 billion passenger trips over the medium term.

Table 5.13 Human settlements and municipal infrastructure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates			Percentage of total MTEF	Average annual MTEF growth
Human settlements and municipal infrastructure	179 834	195 751	210 170	226 402	100.0%	8.0%
<i>of which:</i>						
<i>Human settlements</i>	33 784	36 109	38 237	40 457	18.2%	6.2%
<i>Public transport, including commuter rail</i>	39 356	44 124	47 821	50 644	22.6%	8.8%
<i>Municipal equitable share</i>	51 169	57 012	62 732	69 273	29.9%	10.6%
<i>Municipal infrastructure grant</i>	14 914	15 891	16 788	17 734	8.0%	5.9%
<i>Regional and local water and sanitation services</i>	10 886	10 472	11 025	11 705	5.3%	2.4%
<i>Electrification programmes</i>	5 583	6 184	6 432	7 792	3.2%	11.8%
Total	179 834	195 751	210 170	226 402	100.0%	8.0%
<i>of which:</i>						
<i>Compensation of employees</i>	14 872	16 922	18 168	19 481	8.6%	9.4%
<i>Goods and services</i>	11 343	12 292	12 768	13 616	6.1%	6.3%
<i>Transfers and subsidies</i>	136 895	147 561	158 410	171 372	75.5%	7.8%
<i>Buildings and other fixed structures</i>	8 300	11 303	12 657	13 410	5.9%	17.3%
<i>Machinery and equipment</i>	7 894	6 940	7 494	7 863	3.5%	-0.1%

Source: National Treasury

Over the next three years, R189 billion is allocated to the local government equitable share for providing basic services to poor households. Government is also prioritising 27 underserved district municipalities to ensure universal access to electricity by 2030. Spending on the electrification programme, expected to reach R7.8 billion by 2019/20, will provide 723 000 additional households with grid connections and 60 000 households with non-grid access to electricity. The Department of Water and Sanitation will provide R37.7 billion over the three-year spending period to municipalities and implementing agencies to complete 115 regional and 185 small interim water and sanitation projects.

Agriculture, rural development and land reform

Spending in this function aims to stimulate rural development and food production, and assist emerging farmers. Expenditure is expected to grow to R29.8 billion by 2019/20, at an average annual rate of 4.7 per cent, accounting for 1.9 per cent of total government spending over the MTEF period.

Over the next three years, government will spend more than R5.5 billion on Comprehensive Agricultural Support Programme conditional grants to provide about 435 000 subsistence and smallholder farmers with equipment, fencing, fertilisers and seedlings, improved extension services and repairs to flood-damaged infrastructure.

R5.5 billion allocated to support 435 000 small and subsistence farmers

About R4.3 billion to support One Household One Hectare, which provides land to the landless

The Department of Rural Development and Land Reform will intensify the One Household One Hectare initiative to provide land to the landless and fast-track the establishment of agri-parks in district municipalities. In areas where land has been distributed, the department will provide mechanised irrigation, mentorship and inputs so that redistributed land becomes productive and profitable. About R4.3 billion will be spent on this programme over the medium term. Since it began in 2008/09, more than 4.7 million hectares of land have been acquired for redistribution and 1 496 farms have been created.

Table 5.14 Agriculture, rural development and land reform

	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
R million						
Agriculture, rural development and land reform	25 998	26 534	27 923	29 826	100.0%	4.7%
<i>of which:</i>						
Land reform	1 231	1 189	1 342	1 437	4.7%	5.3%
Agricultural land holding account	1 495	1 420	1 396	1 481	5.1%	-0.3%
Restitution	3 168	3 247	3 441	3 651	12.3%	4.8%
Farmer support and development	3 431	3 787	4 058	4 335	14.5%	8.1%
Total	25 998	26 534	27 923	29 826	100.0%	4.7%
<i>of which:</i>						
Compensation of employees	11 035	11 881	12 555	13 441	44.9%	6.8%
Goods and services	6 497	6 738	7 023	7 461	25.2%	4.7%
Transfers and subsidies	6 694	6 607	7 025	7 492	25.1%	3.8%
Buildings and other fixed structures	747	696	704	784	2.6%	1.6%
Machinery and equipment	482	418	437	457	1.6%	-1.8%

Source: National Treasury

Defence, public order and safety

Defence, public order and safety account for 14.2 per cent of total expenditure

The NDP underlines the need for greater safety and security through an effective criminal justice system and responsive police services. The consolidated three-year budget for the defence, public order and safety function group, which accounts for 14.2 per cent of total expenditure, will grow from R190 billion in 2016/17 to R225 billion in 2019/20 at an average annual rate of 5.8 per cent. Spending will focus on fighting transnational crimes, improving policing, peace support operations and military health services.

Police services account for 47.3 per cent of the total functional allocation. Over the medium term, the South African Police Service will intensify its implementation of the Back to Basics strategy to improve police performance and conduct. A total of R2.5 billion is allocated to the department to upgrade and maintain police stations, with a further R10.2 billion to procure and maintain transport equipment.

Additional investment in advanced passenger processing system

The Department of Home Affairs has implemented the advanced passenger processing system. The system examines passenger data to prevent individuals who are wanted by the authorities, or prohibited from travelling internationally, from entering South Africa. Over the medium term, an amount of R153 million has been reprioritised from the Department of Police to the Department of Home Affairs to augment the

baseline budget of R352.5 million for this system to adjust for currency depreciation. Since its implementation, 4 213 people have been prevented from boarding South Africa-bound flights, and 3 083 people using lost or stolen South African passports were denied exit.

The Department of Defence plans to spend R3.3 billion over the next three years to safeguard national borders. Allocations of R4.1 billion and R1.4 billion support peacekeeping operations in the Democratic Republic of the Congo and anti-piracy operations in the Mozambique Channel respectively. A total of R951.6 million has been reprioritised within the department to cover the growing costs of essential medicine and medical supplies for South African National Defence Force members, their dependants and retired military personnel.

Funds for peacekeeping in Democratic Republic of Congo and anti-piracy operations in Indian Ocean

Table 5.15 Defence, public order and safety expenditure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF allocation	Average annual MTEF growth
Defence and state security	52 341	53 983 56 279 59 998	26.8%	4.7%
Police services	87 521	93 790 99 876 106 528	47.3%	6.8%
Law courts and prisons	41 448	43 756 46 506 49 663	22.1%	6.2%
Home affairs	8 727	7 173 8 152 8 767	11.0%	0.2%
Total	190 036	198 702 210 814 224 956	100.0%	5.8%
<i>of which:</i>				
Compensation of employees	126 673	132 266 140 178 150 637	66.7%	5.9%
Goods and services	44 716	43 819 46 775 49 376	22.1%	3.4%
Transfers and subsidies	12 474	14 216 15 081 16 116	7.2%	8.9%
Buildings and other fixed structures	2 822	3 749 4 118 4 200	1.9%	14.2%
Machinery and equipment	3 271	4 502 4 568 4 551	2.1%	11.6%

Source: National Treasury

General public services

This function aims to build a people-centred, professional and ethical public service. Expenditure grows by 2.6 per cent over the MTEF period from R70 billion in 2016/17 to R75.6 billion in 2019/20.

Spending on general public services grows by 2.6 per cent

Table 5.16 General public services expenditure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
Executive and legislative organs	12 976	14 340 15 202 16 089	20.9%	7.4%
External affairs and foreign aid	11 816	12 412 12 677 12 752	17.3%	2.6%
General public administration and fiscal affairs	45 185	43 943 44 584 46 775	61.8%	1.2%
Total	69 977	70 694 72 462 75 616	100.0%	2.6%
<i>of which:</i>				
Compensation of employees	27 862	30 223 31 759 33 229	43.5%	6.0%
Goods and services	20 800	20 447 20 719 21 358	28.6%	0.9%
Transfers and subsidies	11 579	11 459 12 166 12 808	16.7%	3.4%
Buildings and other fixed structures	1 953	1 926 1 916 2 087	2.7%	2.2%
Machinery and equipment	1 132	1 037 760 747	1.2%	-12.9%

Source: National Treasury

Systems for inspecting service-delivery sites, and promoting citizen feedback, to be strengthened

Of the baseline allocation, 43.5 per cent is for compensation of employees, and 28.6 per cent for goods and services.

Spending on general public administration and fiscal affairs is expected to grow from R45.2 billion in 2016/17 to R46.8 billion by 2019/20. This will support improved responsiveness of the public service through the revitalisation of the Batho Pele programme and the implementation of the Public Service Charter. Systems for overseeing and inspecting service-delivery sites, and for using citizen feedback to drive improvements in service delivery, will be strengthened.

■ Summary

The 2017 Budget implements further reductions to the spending ceiling over the medium term by reducing expenditure on non-core goods and services and compensation of employees. Social protection, health and post-school education remain core priorities. Reprioritisation through cost-cutting savings and drawing down on the contingency reserve has allowed additional resources to be allocated to these functions.