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Consolidated spending plans

In brief

- Public spending is expected to be R1.67 trillion in 2018/19, R1.8 trillion in 2019/20 and R1.94 trillion in 2020/21.
- An additional R57 billion is allocated to provide fee-free higher education and training for students from households with an income of less than R350 000, and to increase subsidies to higher education and training institutions.
- Departmental budgets have been reduced by R85.7 billion over the medium term. Cuts at the provincial level mainly affect conditional infrastructure grants.
- Expenditure on social grants will increase faster than inflation to protect the poor and to partially compensate for an increase in value-added tax.
- Spending on staff and salaries, which absorbs 35 per cent of expenditure, is expected to grow at 7.3 per cent per year.

Overview

The 2018 Budget reflects major new expenditure commitments and corresponding reductions in line with new policy initiatives. Over the medium-term expenditure framework (MTEF) period, R57 billion is added to the baseline of the Department of Higher Education and Training for fee-free tertiary education and training for students from households earning less than R350 000 a year. Allocations for other national departments as well as provincial and local baselines have been reduced by R85.7 billion over the three-year spending period.

Consolidated spending – the total expenditure of national and provincial government and transfers to local government – is expected to increase from R1.67 trillion in 2018/19 to R1.94 trillion in 2020/21. This represents annual average growth of 7.6 per cent, or 2.1 per cent in real terms. The largest category of expenditure is basic education, which receives 16.5 per cent of total allocations over the MTEF period. Health receives 13.9 per cent. The largest category of spending in terms of inputs required remains compensation of employees, which accounts for 35.2 per cent of expenditure.

The spending proposals reflect the tension between two constitutional obligations: the country's vast service-delivery needs, and the need to manage government's finances sustainably and prudently. While baselines have been reduced, spending plans have been revised to

Budget reflects major new expenditure commitments and corresponding reductions

Spending decisions reflect tension between service-delivery needs and sustainable public finances

minimise the impact on public services, particularly those supporting poor households. These difficult choices are necessary to ensure sustainable public finances so that government can continue to support the economy and social development over the long term.

Revisions to spending plans

There have been three major sources of revision to departmental baselines since the 2017 Budget. First, changes were made during the Medium Term Expenditure Committee (MTEC) process, which allocates any new funding and determines budgetary shifts between votes. Second, baselines were cut in view of a poor revenue outlook at the time of the MTBPS and the need to stabilise government debt. Third, the baseline for the Department of Higher Education and Training has been augmented to implement fee-free higher education and training for students from poor and working-class households.

Table 5.1 Adjustments to the expenditure ceiling

R million	2018/19	2019/20	2020/21	MTEF total
2017 Budget expenditure ceiling¹	1 323 553	1 435 408	1 523 521	4 282 482
Baseline reductions (November 2017)	-26 382	-28 820	-30 473	-85 676
2018 Budget allocations	13 975	23 156	30 179	67 310
Changes to contingency reserve and 2017 provisional allocations	-2 145	-13 146	536	-14 755
2018 provisional allocation	6 000			6 000
2018 Expenditure ceiling	1 315 002	1 416 597	1 523 762	4 255 361

1. Imputed expenditure ceiling for 2020/21

Source: National Treasury

Baseline reductions

Government has reduced departmental baselines by R26.4 billion in 2018/19, R28.8 billion in 2019/20 and R30.5 billion in 2020/21. The cuts fall on large programmes and transfers to government entities. In addition, all national and provincial departments have been required to reduce their spending on administration. Employee compensation, which is already subject to an expenditure ceiling, was not reduced.

Table 5.2 Baseline reductions by sphere of government, before funding fee-free higher education and training

R million	2018/19	2019/20	2020/21	MTEF total	% of baseline
National government	-18 048	-17 221	-18 177	-53 446	-2.1%
Goods and services	-5 165	-5 525	-5 834	-16 523	-7.6%
Transfers to public entities	-10 402	-9 393	-9 917	-29 712	-7.7%
Other national spending items ¹	-2 481	-2 304	-2 427	-7 211	-1.1%
Provincial government	-5 182	-6 387	-6 797	-18 366	-1.0%
Provincial equitable share	-1 437	-1 584	-1 684	-4 705	-0.3%
Provincial conditional grants	-3 745	-4 803	-5 113	-13 661	-0.9%
Local government	-3 152	-5 212	-5 499	-13 863	-3.5%
Local government conditional grants	-3 152	-5 212	-5 499	-13 863	-9.3%
Total baseline reductions	-26 382	-28 820	-30 473	-85 676	-1.8%

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

Source: National Treasury

Allocations were reduced in large programmes including the Special Defence Account; Incarceration; Air Defence; and Trade and Industry: Incentive Development and Administration.

Transfers to the South African National Roads Agency Limited, the South African Revenue Service, the Passenger Rail Agency of South Africa and four water boards were cut. Large provincial conditional grants such as the *school infrastructure backlogs grant*, the *education infrastructure grant*, the *human settlements development grant* and the *provincial roads maintenance grant* were reduced. Similar cuts were made to local government grants, including the *municipal infrastructure grant*, the *integrated national electrification programme grant*, the *urban settlements development grant* and the *public transport network grant*. These cuts will delay the completion of a number of infrastructure projects.

Transfers to several public entities have been reduced

Changes to medium-term allocations

Few additional allocations were made through the MTEC process, and most increases to baselines were achieved through reductions elsewhere.

An additional R4.2 billion is allocated to national health insurance, funded through an amendment to the medical tax credit. An amount of R1.9 billion is added to the baselines of departments in the security cluster to prepare for the 2019 national elections. Statistics South Africa receives R1 billion to prepare for the 2021 Census.

Additional allocations support national health insurance, poll security and 2021 Census

An amount of R570 million was reprioritised away from the National Treasury Jobs Fund due to underspending. Additional funding is provided to the Expanded Public Works Programme and the Community Works Programme to grow employment programmes, and to the Department of Agriculture, Forestry and Fisheries to bolster regulatory capacity to protect local crops and herds, and to enable exports to countries with rigorous product standards.

Additional funding to expanded public works and community works programmes

An amount of R7.3 billion was reallocated from provinces to the Department of Basic Education to complete projects under the *school infrastructure backlogs grant*.

Provisional allocations

In the 2017 Budget, R14.6 billion was pencilled in for specific function groups pending further work and assessment. Of this amount, R12.6 billion is allocated in the 2018 Budget. These provisional allocations are described in Table 5.3.

Provisional allocations include funds for operations of three new TVET colleges

- The provisional allocation of R5 billion in 2019/20 for higher education was approved, with a further allocation of R5.3 billion in 2020/21. These funds are to be used for the NSFAS and the operations of three new TVET colleges.
- The allocation for business incentives was approved, pending the outcome of government's full review of these incentives, after which a decision will be reached about a permanent allocation.
- Provisional allocations for the Small Business and Innovation Fund, the N2 Wild Coast road and the local government equitable share were all approved and added to baselines.

Allocations for fee-free higher education and training

Following the presidential announcement of fee-free higher education and training for students from poor and working class families, the fiscal framework allocates R57 billion to phase this programme in over the medium term, along with approximately R10 billion provisionally allocated in the 2017 Budget. These allocations are shown in the table below.

Additional medium-term education allocations

R million	2018/19	2019/20	2020/21	MTEF
Universities: zero per cent fee increase for 2018 and subsidy funding	2 445	4 050	4 814	11 309
Universities: NSFAS student funding	4 581	13 124	15 315	33 020
TVET colleges: subsidy funding	1 414	2 222	3 014	6 650
TVET colleges: NSFAS student funding	2 585	3 735	3 996	10 316
TVET colleges: infrastructure	1 300	1 484	1 647	4 431
NSFAS: administration	30	35	40	105
Allocations to Department of Higher Education and Training ¹	–	675	712	1 387
Total	12 355	25 325	29 538	67 218

1. Operationalisation of new TVET colleges, examination services and pension payments

Source: Interministerial Committee on Higher Education

An additional allocation to the National Student Financial Aid Scheme (NSFAS) will cover the full cost of study for undergraduate university and technical vocational education and training (TVET) college students from families with annual household incomes below R350 000. This includes tuition fees, prescribed study material, meals, and a certain level of accommodation and/or travel allowances. In 2018, the bursary will apply only to students in their first year of study. More than 340 000 students at universities and over 420 000 full-time equivalent students at TVET colleges will be funded through this new bursary scheme in the 2018 academic year. In 2019, the arrangement will expand to cover first- and second-year students.

Returning NSFAS students from families with household incomes below R122 000 per year in their second, third or fourth year of university study in the 2018 academic year will also be supported. These students will have their loans converted into bursaries under the same conditions as when they first received the financial support. This excludes TVET college students supported by NSFAS, who have always received bursaries, not loans. NSFAS also receives an additional R105 million over the MTEF period to cater for the additional administration costs of the expanded bursary scheme.

Subsidies to universities will increase by R11.3 billion over the MTEF period. This amount covers an 8 per cent increase in tuition fees for students from families with household incomes of between R350 000 and R600 000 a year. Qualifying students will pay the tuition fee set in 2015, because government has absorbed the increases for the 2016, 2017 and 2018 academic years. The subsidy amount includes a general increase to cover university operating costs. Higher subsidies for TVET colleges will cover 80 per cent of the cost of providing programmes by 2022/23, from the current level of 54 per cent of total programme cost. Baseline funding of R4.4 billion for TVET infrastructure over the medium term will support refurbishment of existing campuses, and the purchase of workshop equipment and maintenance.

Policy decisions concerning issues such as historic debt, adjustment of the family income threshold, interventions to decrease dropout rates and the construction of student housing will be taken in due course. These decisions could raise the cost of the programme significantly.

The provisional allocation for SA Connect Phase 2, a programme to connect clinics and schools to the internet, was conditional on performance of phase 1. The initial phase did not commence, so the conditional allocation for phase 2 was not approved but could still be allocated in the 2019 Budget.

R6 billion provisionally set aside in 2018/19 for drought relief and public infrastructure projects

Fewer provisional allocations will be considered in the 2019 Budget. A provisional allocation of R6 billion has been set aside in 2018/19 for drought relief in several provinces, assistance to the water sector, and public investment projects supported by improved infrastructure planning.

Additional funding to support the judicial commission of inquiry investigating allegations of state capture and corruption in the public sector will be finalised in the Adjustments Budget.

An amount of R300 million is provisionally set aside in 2019/20 for the *municipal restructuring grant* for the turnaround of financially distressed municipalities, pending consultations in 2018. These allocations are to be considered as part of the Adjustments Budget process.

Table 5.3 Additional allocations over the MTEF period

R million	2018/19	2019/20	2020/21	MTEF total
Provisional allocations from 2017 Budget	201	11 112	12 040	23 353
Higher education: provisional allocation 2017 Budget	–	5 000	5 275	10 275
Economic competitiveness and support package	–	3 112	3 283	6 395
Local government equitable share: free basic municipal services	–	1 500	1 899	3 399
South African National Roads Agency Limited: N2 Wild Coast road	–	1 000	1 055	2 055
Provincial equitable share: prevention and mitigation of violence against women and children	201	286	301	788
Provincial equitable share: addressing the impact of the Nawongo judgment	–	214	226	440
2018 Budget allocations	13 975	23 156	30 179	67 310
Higher education: IMC funding proposal approved by Cabinet ¹	12 355	20 325	24 263	56 943
National health insurance (NHI) grant (indirect grant): prioritised NHI services	636	1 278	1 918	3 832
Social grants: compensation for VAT increase	328	166	2 134	2 628
2019 national government elections	180	995	702	1 877
Full-scale testing and pilot for 2021 Census	37	145	855	1 037
Establishment of Tirisano Construction Fund Trust	240	125	125	490
NHI: Establishing the interim NHI Fund and related structures, non-communicable disease prevention and health technology assessments	64	122	182	368
Direct charge against the National Revenue Fund: National Revenue Fund payments	135	–	–	135
Total	14 176	34 268	42 219	90 663

1. Interministerial Committee

Source: National Treasury

Consolidated government expenditure

Government expects to spend R1.67 trillion in 2018/19, R1.8 trillion in 2019/20 and R1.94 trillion in 2020/21, resulting in a combined total of R5.41 trillion. Expenditure will grow at 7.6 per cent per year, resulting in real spending growth of 2.1 per cent. Spending on staff and salaries, which absorbs 35 per cent of expenditure, is expected to grow at an average of 7.3 per cent per year. If the public-service wage agreement results in higher salary growth, additional measures will be required.

As part of government's commitment to reducing poverty and income inequality, 17.6 per cent of expenditure, amounting to R948.7 billion over the medium term, is allocated to transfers to households. The bulk of this spending – which includes social grants, land reform grants and fee-free education and training – benefits the poorest households.

About 18 per cent of spending allocated to household transfers over medium term

Growth in national and provincial headcounts has declined

In the 2016 Budget, government reduced the compensation ceilings of national and provincial departments by R10 billion in 2017/18 and R15 billion in 2018/19. The compensation baselines in the 2018 Budget maintain this status quo. As a result of these adjustments, and a generally tighter fiscal environment, total national and provincial headcount growth has declined. Compensation budgets remain under pressure. Some national departments are at risk of breaching their compensation ceilings and will have to actively manage their spending.

Table 5.4 Consolidated government expenditure by economic classification¹

R million	2017/18 Revised estimate	2018/19 2019/20 2020/21 Medium-term estimates			Percentage of total MTEF	Average annual MTEF growth
Economic classification						
Current payments	942 936	1 008 560	1 087 685	1 170 250	60.6%	7.5%
Compensation of employees	548 923	587 124	630 454	677 259	35.2%	7.3%
Goods and services	223 651	233 642	251 145	269 076	14.0%	6.4%
Interest and rent on land	170 362	187 794	206 085	223 915	11.5%	9.5%
<i>of which:</i>						
<i>Debt-service costs</i>	<i>163 155</i>	<i>180 124</i>	<i>197 664</i>	<i>213 859</i>	<i>11.0%</i>	<i>9.4%</i>
Transfers and subsidies	511 677	554 717	603 322	651 787	33.6%	8.4%
Provinces and municipalities	121 240	132 547	138 577	149 399	7.8%	7.2%
Departmental agencies and accounts	26 799	25 905	28 069	29 711	1.6%	3.5%
Higher education institutions	39 928	42 183	44 314	46 758	2.5%	5.4%
Foreign governments and international organisations	2 121	2 127	2 206	2 325	0.1%	3.1%
Public corporations and private enterprises	32 327	29 750	32 126	33 919	1.8%	1.6%
Non-profit institutions	31 966	37 052	40 533	43 666	2.2%	11.0%
Households	257 296	285 152	317 497	346 009	17.6%	10.4%
Payments for capital assets	82 978	93 877	97 719	103 331	5.5%	7.6%
Buildings and other capital assets	65 536	75 066	77 870	81 985	4.4%	7.7%
Machinery and equipment	17 442	18 812	19 848	21 346	1.1%	7.0%
Payments for financial assets	20 368	6 036	6 230	6 580		
Total	1 557 959	1 663 190	1 794 955	1 931 948	100.0%	7.4%
Contingency reserve	–	8 000	8 000	10 000		
Consolidated expenditure	1 557 959	1 671 190	1 802 955	1 941 948		7.6%

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

Source: National Treasury

Medium-term spending and social priorities

More than half of medium-term spending will be allocated to basic education, community development, health and social protection.

Table 5.5 Consolidated government expenditure by function¹

	2017/18 Revised estimate	2018/19	2019/20	2020/21	Percentage of total MTEF allocation by function	Average annual MTEF growth
R million		Medium-term estimates				
Learning and culture	323 075	351 121	385 436	413 066	24.0%	8.5%
Basic education	231 638	246 760	263 279	281 987	16.5%	6.8%
Post-school education and training	81 224	93 704	111 040	119 301	6.8%	13.7%
Arts, culture, sport and recreation	10 213	10 658	11 116	11 778	0.7%	4.9%
Health	191 685	205 448	222 046	240 297	13.9%	7.8%
Social development	234 853	259 401	281 793	305 780	17.7%	9.2%
Social protection	178 330	193 365	207 825	223 890	13.0%	7.9%
Social security funds	56 524	66 037	73 968	81 891	4.6%	13.2%
Community development	183 537	196 264	210 465	227 095	13.2%	7.4%
Economic development	183 487	200 052	211 896	227 068	13.3%	7.4%
Industrialisation and exports	32 432	32 896	37 279	38 965	2.3%	6.3%
Agriculture and rural development	27 219	30 195	30 269	31 805	1.9%	5.3%
Job creation and labour affairs	20 663	23 281	24 793	26 332	1.6%	8.4%
Economic regulation and infrastructure	87 347	97 925	102 465	111 420	6.5%	8.5%
Innovation, science and technology	15 826	15 756	17 089	18 546	1.1%	5.4%
Peace and security	195 731	200 752	213 568	227 684	13.4%	5.2%
Defence and state security	49 723	48 382	50 612	53 679	3.2%	2.6%
Police services	93 711	99 127	105 915	113 108	6.6%	6.5%
Law courts and prisons	43 705	45 372	48 483	51 779	3.0%	5.8%
Home affairs	8 593	7 871	8 557	9 118	0.5%	2.0%
General public services	62 067	63 991	65 859	70 518	4.2%	4.3%
Executive and legislative organs	15 010	15 998	16 525	17 458	1.0%	5.2%
Public administration and fiscal affairs	39 551	40 414	41 937	45 198	2.7%	4.5%
External affairs	7 506	7 579	7 397	7 862	0.5%	1.6%
Payments for financial assets	20 368	6 036	6 230	6 580		
Allocated by function	1 394 803	1 483 066	1 597 292	1 718 089	100.0%	7.2%
Debt-service costs	163 155	180 124	197 664	213 859		9.4%
Contingency reserve	–	8 000	8 000	10 000		
Consolidated expenditure	1 557 959	1 671 190	1 802 955	1 941 948		7.6%

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

As shown in Figure 5.1, the fastest-growing spending category is post-school education and training, which grows by an annual average of 13.7 per cent.

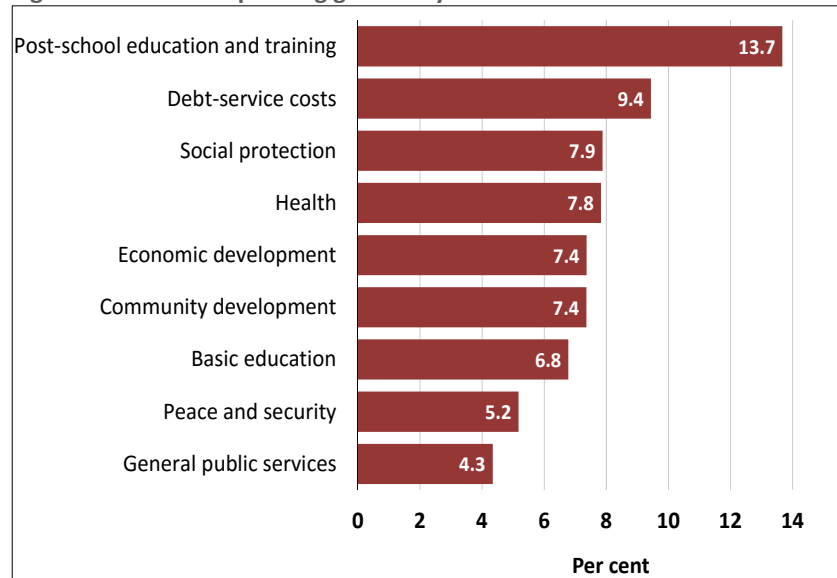
Community development, which includes public transport infrastructure and funds for the provision of water, sanitation and electricity, is allocated R633.8 billion, or 13.2 per cent of total expenditure.

Learning and culture

This function provides access to basic and higher education, skills development and training. It also contributes to social cohesion. Government will spend over R1 trillion on this function over the next three years, of which 70 per cent will be for basic education.

Of more than R1 trillion of spending on learning and culture, 70 per cent is for basic education

Figure 5.1 Nominal spending growth by function over MTEF



Source: National Treasury

Basic education

Compensation of employees accounts for 79 per cent of total provincial education budgets

Compensation of employees in provincial education departments accounts for an average of 53.3 per cent of learning and culture expenditure, 77.3 per cent of the basic education sector expenditure and 79 per cent of total provincial education budgets.

The *school infrastructure backlogs grant* has been shifted back to the Department of Basic Education to complete outstanding projects from the original list of inappropriate and unsafe schools. Over the medium term, R3.8 billion is allocated to this grant to replace 82 inappropriate and unsafe schools, and provide water and sanitation to 325 and 286 schools respectively. In addition, the *education infrastructure grant* is allocated R31.7 billion to build new schools, upgrade and maintain existing infrastructure, and provide school furniture.

To support effective curriculum delivery over the medium term, R15.3 billion is allocated to provide printed and digital content to teachers and learners. This includes the provision of 183 million workbooks and textbooks, teacher support, and increased access to information and communication technology. The *national school nutrition programme grant* is allocated R21.7 billion over the medium term. This grant feeds about 9 million learners at 19 800 schools each school day.

Post-school education and training

Bursary spending to rise from R15.4 billion in 2017/18 to R38 billion in 2020/21

Expenditure on post-school education and training increases by 13.7 per cent per year, mostly as a result of the additional allocation to NSFAS for fee-free higher education and training. Bursary expenditure is expected to rise from R15.4 billion in 2017/18 to R38 billion in 2020/21. Sector education and training authorities fund skills programmes, learnerships, internships and apprenticeships. Workplace experience programmes will help an estimated 25 000 artisans to qualify by 2020/21. Work-based learning opportunities, mainly for TVET students, are expected to increase from 130 000 in 2017/18 to 140 000 in 2020/21.

Table 5.6 Learning and culture expenditure

R million	2017/18 Revised estimate	2018/19	2019/20	2020/21	Percentage of total MTEF	Average annual MTEF growth
Basic education	231 638	246 760	263 279	281 987	68.9%	6.8%
Compensation of employees	177 592	190 741	204 568	219 179	53.5%	7.3%
<i>of which:</i>						
<i>Provincial compensation of employees</i>	177 007	190 114	203 893	218 447	53.3%	7.3%
Goods and services	22 917	24 151	25 536	27 098	6.7%	5.7%
<i>of which:</i>						
<i>Property payments</i>	3 054	3 442	3 658	3 857	1.0%	8.1%
<i>Workbooks and LTSM</i>	4 801	4 869	5 132	5 307	1.3%	3.4%
<i>National school nutrition programme</i>	6 426	6 802	7 186	7 696	1.9%	6.2%
Transfers and subsidies	18 495	19 219	20 402	21 604	5.3%	5.3%
<i>of which:</i>						
<i>Subsidies to schools¹</i>	15 565	16 156	17 121	18 145	4.5%	5.2%
Payments for capital assets	12 585	12 597	12 718	14 049	3.4%	3.7%
<i>of which:</i>						
<i>Education infrastructure backlog grant</i>	10 046	9 918	10 314	11 467	2.8%	4.5%
<i>School infrastructure backlogs grant</i>	1 452	1 321	1 170	829	0.3%	-17.0%
Post-school education and training	81 224	93 704	111 040	119 301	28.2%	13.7%
<i>of which:</i>						
<i>University subsidies</i>	28 083	34 906	38 351	41 019	9.9%	13.5%
<i>of which:</i>						
<i>University infrastructure</i>	3 524	3 692	3 887	4 083	1.0%	5.0%
<i>National student financial aid scheme²</i>	15 364	22 750	33 364	37 983	8.2%	35.2%
<i>Technical and vocational education and training</i>	7 460	10 706	12 664	14 242	3.3%	24.1%
<i>of which:</i>						
<i>Compensation of employees</i>	5 822	6 276	6 753	7 263	1.8%	7.6%
<i>Subsidies</i>	1 496	4 288	5 769	6 837	1.5%	66.0%
<i>Community education and</i>	2 198	2 351	2 515	2 687	0.7%	6.9%
<i>of which:</i>						
<i>Compensation of employees</i>	2 030	2 183	2 347	2 519	0.6%	7.5%
<i>Skills development levy institutions³</i>	24 732	19 346	20 004	19 049	5.1%	-8.3%
Arts and culture, sport and recreation	10 213	10 658	11 116	11 778	2.9%	4.9%
Total	323 075	351 121	385 436	413 066	100.0%	8.5%

1. Includes some provision for LTSM and property payments for schools who manage their own budget

2. Total payments made from all income sources including Funza Lushaka teacher bursaries and debt repayments from students

3. Spending of the 21 SETAs and the National Skills Fund

Source: National Treasury

Arts, sports, recreation and culture

Social cohesion remains the key focus of arts, culture, sport and recreation programmes. Medium-term funding of R33.5 billion will focus on improving the rollout of the Mzansi Golden Economy strategy to

create jobs, increase creation of cultural products and events, and support heritage projects in the arts sector. Allocations will also fund school sport, the indigenous games, sporting federations and transformation in sport.

Health

Average life expectancy of 70 years targeted for 2030

Government is working to increase life expectancy to at least 70 years by 2030 through interventions such as the continued expansion of antiretroviral therapy and implementing national health insurance. The health budget, which accounts for 13.9 per cent of total spending, will grow at an average annual rate of 7.8 per cent over the medium term. Of this amount, R125.9 billion will be for tertiary hospital services and R66.4 billion will support HIV/AIDS prevention and treatment.

Implementing national health insurance is a policy priority, resulting in additional allocations of R700 million, R1.4 billion and R2.1 billion over the next three years. These amounts are funded through an amendment to the medical tax credit. The personal services component of the *national health insurance grant* includes an initial set of priority services, such as contracting with general practitioners, widening referrals for school optometry and audiology services, and community mental health.

Programme helps 3 million patients collect chronic medicines at their location of choice

The non-personal services component of national health insurance is allocated R2.3 billion over the medium term. This amount will expand the Chronic Disease Medicine Distribution Programme to enable 3 million patients to collect chronic medicines at their collection point of choice instead of at a clinic.

Over the MTEF period, R368 million is allocated to begin a public awareness campaign to complement the health promotion levy on sugary beverages and to establish a health technology assessment unit. The unit will analyse the cost effectiveness of various health interventions.

R1 billion added in 2020/21 for expansion of antiretroviral programme

Government's antiretroviral treatment programme reaches 3.9 million people. Since September 2016, government has been implementing a universal test-and-treat policy, offering all HIV-positive patients antiretroviral treatment regardless of CD4 count. To fully fund the expansion of the programme, R1 billion is added to the *comprehensive HIV, AIDS and TB grant* in 2020/21. Changes to this grant also allow for standardising and monitoring the performance of the Community Health Worker Programme, which delivers home-based care to those suffering from HIV/AIDS or tuberculosis. A total of R4.4 billion has been reprioritised within the grant over the next three years to support the programme.

In 2018/19, the South African Health Products Regulatory Authority will be established as a public entity. It will be responsible for regulating the registration, licensing, manufacturing and importing of active pharmaceutical ingredients, medicines and medical devices. It will also regulate clinical trials in line with national policy. The new authority will receive R396.9 million in transfers, and will generate revenue by collecting fees from the pharmaceutical and health products industry.

Over the MTEF period, the *health facility revitalisation grant* and *indirect health facility revitalisation grant*, which fund infrastructure programmes, have been cut by a total of R820 million. These reductions will be absorbed through reprioritisation and delaying infrastructure projects.

Table 5.7 Health expenditure

R million	2017/18 Revised estimate	2018/19	2019/20	2020/21	Percentage of total MTEF allocation	Average annual MTEF growth
Health expenditure	191 685	205 448	222 046	240 297	100.0%	7.8%
<i>of which:</i>						
<i>Central hospital services</i>	36 884	38 603	41 892	45 369	18.8%	7.1%
<i>Provincial hospital services</i>	32 238	34 274	36 672	39 294	16.5%	6.8%
<i>District health services</i>	84 243	90 200	97 462	105 858	44.0%	7.9%
<i>of which:</i>						
<i>Comprehensive HIV, AIDS and TB grant</i>	17 578	19 922	22 039	24 438	9.9%	11.6%
<i>Emergency medical services</i>	7 284	7 719	8 320	8 851	3.7%	6.7%
<i>Facilities management and maintenance</i>	8 860	8 539	9 110	9 728	4.1%	3.2%
<i>Health science and training</i>	5 095	5 585	5 964	6 299	2.7%	7.3%
<i>National Health Laboratory Service</i>	7 058	7 542	8 025	8 591	3.6%	6.8%
<i>National Department of Health¹</i>	5 073	5 961	6 878	7 888	3.1%	15.9%
Total	191 685	205 448	222 046	240 297	100.0%	7.8%
<i>of which:</i>						
<i>Compensation of employees</i>	120 800	128 787	138 350	148 744	62.3%	7.2%
<i>Goods and services</i>	53 685	57 438	63 184	69 637	28.5%	9.1%
<i>Transfers and subsidies</i>	6 568	6 339	6 777	7 066	3.0%	2.5%
<i>Buildings and other fixed structures</i>	6 416	8 388	8 991	9 906	4.1%	15.6%
<i>Machinery and equipment</i>	4 172	4 466	4 714	4 915	2.1%	5.6%

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

Source: National Treasury

Social protection

This function provides social security and a safety net for low-income South Africans. It also improves social welfare service delivery to vulnerable individuals through policy and legislative reform, expanding the number of social workers, improving access to early childhood development and facilitating food and nutrition initiatives. Spending on social protection is set to rise from R193.4 billion in 2018/19 to R223.9 billion by 2020/21, growing by an average of 7.9 per cent a year.

The number of social grant beneficiaries is expected to reach 18.1 million by the end of 2020/21. An estimated 12.8 million people will receive the *child support grant*, and 3.7 million people will receive the *old age grant*. Expenditure on grants is expected to increase at an average annual rate of 7.9 per cent over the medium term, reaching R189.8 billion in 2020/21.

Spending on social protection grows by 7.9 per cent annually over next three years

Table 5.8 Social protection expenditure

R million	2017/18 Revised estimate	2018/19 2019/20 2020/21 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
Social protection expenditure	178 330	193 365	207 825	223 890	100.0%	7.9%
<i>of which:</i>						
<i>Social grants</i>	150 880	162 961	175 656	189 774	84.5%	7.9%
<i>of which:</i>						
<i>Child support</i>	56 017	60 631	65 467	70 836	31.5%	8.1%
<i>Old age</i>	64 276	70 531	76 751	83 689	37.0%	9.2%
<i>Disability</i>	20 952	22 105	23 078	24 172	11.1%	4.9%
<i>Foster care</i>	5 299	5 132	5 281	5 447	2.5%	0.9%
<i>Care dependency</i>	2 939	3 138	3 430	3 762	1.7%	8.6%
South African Social Security Agency	7 206	7 761	8 196	8 646	3.9%	6.3%
Provincial social development	18 863	20 558	22 044	23 322	10.5%	7.3%
Total	178 330	193 365	207 825	223 890	100.0%	7.9%
<i>Social grants as percentage of GDP</i>	3.2%	3.2%	3.3%	3.3%		
Social grant beneficiary numbers by grant type (Thousands)						
Child support	12 239	12 402	12 631	12 815	70.7%	1.5%
Old age ¹	3 392	3 513	3 627	3 741	20.3%	3.3%
Disability	1 057	1 050	1 041	1 034	5.8%	-0.7%
Foster care	400	398	394	391	2.2%	-0.8%
Care dependency	149	154	160	165	0.9%	3.5%
Total	17 237	17 517	17 853	18 146	100.0%	1.7%

1. Includes war veterans

Source: National Treasury

Grant amounts are adjusted according to inflation projections to maintain their real value. All but one grant will increase faster than inflation over the medium term to offset the increase in the VAT rate. The grant values are published in Table 5.9. A proposal for a higher *child support grant* for children who have lost both parents is contained in the Social Assistance Amendment Bill, which is expected to be tabled in Parliament in 2018/19. This will provide improved social protection for orphans and relieve pressure on the foster care system.

Table 5.9 Average monthly social grant values

Rand	2017/18	2018/19	Percentage increase
State old age	1 600	1 695	5.9%
State old age, over 75	1 620	1 715	5.9%
War veterans	1 620	1 715	5.9%
Disability	1 600	1 695	5.9%
Foster care	920	960	4.3%
Care dependency	1 600	1 695	5.9%
Child support	380	405	6.6%

Source: National Treasury

113 000 additional early
childhood development
subsidies

Over the next three years, R1.3 billion is allocated to provinces to subsidise early childhood development for an additional 113 000 poor children. A further R250.6 million is allocated to enable about 1 165 early childhood development centres to meet minimum norms and standards of the Children's Act (2005).

The *social worker employment grant* to provinces amounts to R636.3 million over the three-year spending period. It aims to sustain the employment of about 560 social workers.

Community development

This function's objectives include urban reform and development, and ensuring access to basic services, housing and transport. Expenditure is expected to grow at an average annual rate of 7.4 per cent, from R183.5 billion in 2017/18, to R227.1 billion in 2020/21.

Expenditure on public transport, housing, water, sanitation and electricity occurs largely through transfers of conditional grants for infrastructure development to provinces, municipalities and transfers to public entities. This accounts for 77 per cent of total functional expenditure. Integrated public transport is key to transforming the urban landscape. The *public transport network grant* funds the infrastructure and operations of integrated public transport networks in 13 cities. The number of weekday passenger trips in cities already operating bus services on these networks is expected to increase to 260 240 in 2020/21.

Public transport grant funds infrastructure and operations of integrated public transport networks in 13 cities

Modernisation efforts will focus on improving passenger rail network services, including increasing accessibility, reliability and safety. This includes provision for 125 new Metrorail trains, signalling upgrades and improvements to depots and stations. In addition, maintenance of current rolling stock will be prioritised. Spending on Metrorail will subsidise 1 billion passenger trips over the medium term.

Table 5.10 Community development expenditure

R million	2017/18 Revised estimate	2018/19	2019/20	2020/21	Percentage of total MTEF allocation	Average annual MTEF growth
Community development	183 537	196 264	210 465	227 095	100.0%	7.4%
<i>of which:</i>						
<i>Human settlements</i>	39 478	38 766	40 579	43 954	19.5%	3.6%
<i>Public transport, including commuter rail</i>	33 645	38 590	43 862	46 714	20.4%	11.6%
<i>Municipal equitable share</i>	55 312	62 732	68 973	75 683	32.7%	11.0%
<i>Municipal infrastructure grant</i>	15 891	15 288	15 734	16 599	7.5%	1.5%
<i>Regional and local water and sanitation services</i>	10 742	12 269	10 667	11 253	5.4%	1.6%
<i>Electrification programmes</i>	6 220	5 435	5 845	6 168	2.8%	-0.3%
Total	183 537	196 264	210 465	227 095	100.0%	7.4%
<i>of which:</i>						
<i>Compensation of employees</i>	16 028	17 551	18 883	20 299	9.0%	8.2%
<i>Goods and services</i>	12 955	13 197	14 920	15 805	6.9%	6.9%
<i>Transfers and subsidies</i>	146 182	152 721	160 836	174 302	77.0%	6.0%
<i>Buildings and other fixed structures</i>	5 897	8 691	10 216	10 785	4.7%	22.3%
<i>Machinery and equipment</i>	2 349	3 926	5 435	5 735	2.4%	34.6%

Source: National Treasury

Over the next three years, R207.4 billion is allocated to the local government equitable share. This allocation includes spending on free basic services such as water, sanitation and electricity. Government's housing programme will provide more than 417 000 households in

informal settlements with access to basic services. To promote density, integration and sustainable urban living, over 62 000 affordable medium-density rental housing units are expected to be built, and an additional 98 000 finance-linked individual subsidies for the affordable housing market will be provided. Bulk infrastructure for water and sanitation services will be supported through funding for 73 regional projects and 180 small interim projects amounting to R34.2 billion.

Economic development and industrialisation

Economic development spending will support small enterprise development and job creation

In line with its mandate to strengthen and expand the economy, this function group will focus on assisting small businesses, boosting small-scale agricultural production, investing in roads and infrastructure, and supporting new investment in manufacturing. Expenditure will increase to R195.3 billion in 2020/21.

Small enterprise development

Government will soon finalise the design of an enterprise development fund to improve access to and reduce the cost of finance, increase risk appetite for investment in start-ups and improve early-stage small enterprise survival rates. The fund, announced in the 2017 MTBPS, will be capitalised with the approved provisional allocation of R2.1 billion over the medium term and begin operating in 2019/20. Funding will be allocated to the Department of Small Business Development, which will manage the fund in collaboration with the Department of Science and Technology and the National Treasury.

Incentives to improve industrialisation capacity

R18.8 billion allocated for industrialisation incentives over medium term

Government continues to provide business incentives in the form of grants, loans and tax allowances. Over the next three years, R18.8 billion is allocated for industrialisation incentives, with an additional R3.3 billion for the economic competitiveness and support package to support growth and job creation.

From the incentives budget, R4.9 billion is allocated for infrastructure in special economic zones. Thirteen industrial parks in the Eastern Cape, Mpumalanga, KwaZulu-Natal, the Free State and the Western Cape will be prioritised for bulk water supply, road and electrical upgrades projects. In addition, three special economic zones – Atlantis in the Western Cape, Nkomazi in Mpumalanga and Mogwase in North West – are to be designated.

Inclusive economic participation in the construction sector

Tirisano Construction Fund Trust will support inclusion in construction sector

Following the Competition Commission's investigation of collusion in the construction sector, government and some of the firms involved reached a settlement. Under the agreement, the companies will contribute R1.5 billion earmarked for the Tirisano Construction Fund Trust over a 12-year period that began in 2017. Over the medium term, the Industrial Development Corporation, as the trust administrator, will facilitate programmes set out in the agreement. These include developing and promoting construction firms owned and managed by black people, providing bursaries to black people in the engineering fields, and building quantity surveying skills. The fund will support about 75 aspiring engineers, 135 artisans and 12 emerging contractors.

Job creation and labour affairs

Over the next three years, R74 billion is allocated to the Expanded Public Works Programme and other employment programmes. Expenditure is expected to grow by an annual average of 8.4 per cent, from R20.7 billion in 2017/18 to R26.3 billion in 2020/21. The programme is expected to create 3 million jobs of short to medium duration over the next three years.

R74 billion allocated to employment programmes over the next three years

Table 5.11 Economic development expenditure

R million	2017/18 Revised estimate	2018/19	2019/20	2020/21	Percentage of total MTEF allocation	Average annual MTEF growth
Economic regulation and infrastructure	87 347	97 925	102 465	111 420	57.0%	8.5%
<i>of which:</i>						
<i>Water resource and bulk infrastructure</i>	23 208	29 011	28 510	34 122	16.8%	13.7%
<i>Road infrastructure</i>	46 726	50 504	51 755	54 592	28.7%	5.3%
Job creation and labour affairs	20 663	23 281	24 793	26 332	13.6%	8.4%
<i>of which:</i>						
<i>Employment programmes¹</i>	20 172	22 768	24 251	25 755	13.3%	8.5%
Industrialisation and exports	32 432	32 896	37 279	38 965	20.0%	6.3%
<i>of which:</i>						
<i>Economic development and incentive programmes</i>	13 406	14 533	15 285	16 207	8.4%	6.5%
Innovation, science and technology	15 826	15 756	17 089	18 546	9.4%	5.4%
<i>of which:</i>						
<i>Environmental programmes</i>	5 499	5 910	6 521	6 876	3.5%	7.7%
Total	156 267	169 857	181 627	195 263	100.0%	7.7%
<i>of which:</i>						
<i>Compensation of employees</i>	34 548	37 477	40 290	43 970	22.3%	8.4%
<i>Goods and services</i>	46 410	48 912	54 301	58 643	29.6%	8.1%
<i>Transfers and subsidies</i>	33 572	37 175	39 852	42 105	21.8%	7.8%
<i>Buildings and other fixed structures</i>	30 394	34 392	35 097	36 716	19.4%	6.5%
<i>Machinery and equipment</i>	3 899	3 883	3 546	3 696	2.0%	-1.8%

1. Includes the Expanded Public Works Programme, the Community Works Programme and the Jobs Fund
Source: National Treasury

Rural development and agriculture

Over the MTEF period, an allocation of R5.6 billion to the Comprehensive Agricultural Support Programme will provide about 435 000 subsistence and smallholder farmers with inputs such as farm equipment, fencing, fertilisers and seedlings and improved extension services. The Department of Agriculture, Forestry and Fisheries aims to support 450 profitable black commercial producers over a five-year period.

435 000 subsistence and smallholder farmers to be supported with equipment, inputs and extension services

Over the medium term, R10.8 billion is allocated to settle 2 851 land restitution claims, with R8.8 billion allocated for land redistribution. Government will acquire about 290 000 hectares of strategically located land, with the goal of creating farms that are productive and profitable.

Table 5.12 Agriculture and rural development expenditure

R million	2017/18 Revised estimate	2018/19	2019/20	2020/21	Percentage of total MTEF allocation	Average annual MTEF growth
Agriculture and rural development	27 219	30 195	30 269	31 805	100.0%	5.3%
<i>of which:</i>						
<i>Land reform</i>	1 269	1 377	1 480	1 569	4.8%	7.3%
<i>Agricultural land holding account</i>	1 069	1 217	1 011	1 064	3.6%	-0.2%
<i>Restitution</i>	3 235	3 371	3 604	3 811	11.7%	5.6%
<i>Farmer support and development</i>	5 018	4 934	5 140	5 506	16.9%	3.1%
Total	27 219	30 195	30 269	31 805	100.0%	5.3%
<i>of which:</i>						
<i>Compensation of employees</i>	11 594	12 430	13 342	14 200	43.3%	7.0%
<i>Goods and services</i>	7 356	7 744	7 906	8 231	25.9%	3.8%
<i>Transfers and subsidies</i>	6 754	8 046	7 125	7 324	24.4%	2.7%
<i>Buildings and other fixed structures</i>	831	816	995	1 119	3.2%	10.4%
<i>Machinery and equipment</i>	406	464	524	538	1.7%	9.9%

Source: National Treasury

Economic infrastructure

Spending on roads infrastructure is expected to increase from R46.7 billion in 2017/18 to R54.6 billion in 2020/21. The *provincial roads maintenance grant* provides roads maintenance funding to provinces based on road conditions, weather patterns and traffic volumes. To address significant backlogs in roads maintenance, the grant is expected to increase from R10.3 billion in 2017/18 to R12.1 billion in 2020/21.

SANRAL to resurface 3 200km and strengthen 1 475km of national roads

Despite a reduction of R2.6 billion to its allocation, the South African National Roads Agency Limited plans to resurface 3 200km and strengthen 1 475km of national roads over the medium term. An amount of R29.1 billion has been provided for capital investment in non-toll roads. In addition, the Moloto Road (R573) upgrade receives R4.3 billion and R18.2 billion is allocated to strengthen and maintain roads. Furthermore, R2.1 billion in 2019/20 and 2020/21 has been allocated for the N2 Wild Coast highway.

A medium-term allocation of R557.6 million will connect 795 schools and public buildings to high-speed internet services.

To facilitate the shift from analogue to digital signals, the broadcasting digital migration programme is expected to deliver about 87 000 set-top boxes over the medium term.

R91.6 billion allocated to water infrastructure projects over next three years

Water resource management, through the provision of water infrastructure by the Water Trading Entity, will be prioritised over the medium term. Water infrastructure projects are allocated R91.6 billion over the next three years.

Peace and security

South Africa needs an efficient policing and justice system. As part of efforts to ensure that poor South Africans can access the courts, the Department of Justice and Constitutional Development has reprioritised an amount of R121 million. The amount is allocated to the Office of the Chief Justice, the National Prosecuting Authority and Legal Aid South

Africa to begin operations at the Mpumalanga High Court, which is scheduled to open in 2018.

The 2017 Adjustments Budget included a shift of R264 million from the South African Police Service to the Department of Home Affairs to upgrade the National Identification System. Medium-term funding of R243 million is set aside for this purpose. The upgrade will allow police and other agencies to conduct advanced biometric fingerprint identification searches.

Table 5.13 Peace and security expenditure

R million	2017/18 Revised estimate	2018/19 2019/20 2020/21 Medium-term estimates			Percentage of total MTEF allocation	Average annual MTEF growth
Defence and state security	49 723	48 382	50 612	53 679	23.8%	2.6%
Police services	93 711	99 127	105 915	113 108	49.6%	6.5%
Law courts and prisons	43 705	45 372	48 483	51 779	22.7%	5.8%
Home affairs	8 593	7 871	8 557	9 118	12.7%	2.0%
Total	195 731	200 752	213 568	227 684	100.0%	5.2%
<i>of which:</i>						
<i>Compensation of employees</i>	<i>129 971</i>	<i>137 061</i>	<i>147 654</i>	<i>158 347</i>	<i>69.0%</i>	<i>6.8%</i>
<i>Goods and services</i>	<i>43 963</i>	<i>43 753</i>	<i>46 005</i>	<i>48 525</i>	<i>21.5%</i>	<i>3.3%</i>
<i>Transfers and subsidies</i>	<i>13 616</i>	<i>12 409</i>	<i>12 675</i>	<i>13 227</i>	<i>6.0%</i>	<i>-1.0%</i>
<i>Buildings and other fixed structures</i>	<i>3 521</i>	<i>2 978</i>	<i>3 150</i>	<i>3 293</i>	<i>1.5%</i>	<i>-2.2%</i>
<i>Machinery and equipment</i>	<i>4 360</i>	<i>4 135</i>	<i>3 729</i>	<i>3 928</i>	<i>1.8%</i>	<i>-3.4%</i>

Source: National Treasury

Over the medium term, the South African Police Service has reprioritised R158.5 million for the Independent Police Investigative Directorate to increase staffing and finalise the review of its founding legislation in line with the 2016 Constitutional Court judgement. The allocation will also be used to address weaknesses in internal controls and the case management system.

*Funds reprioritised for
Independent Police
Investigative Directorate*

General public services

General public services helps government to function smoothly and provides support to other departments. The total baseline is set to grow by an annual average of 4.3 per cent over the medium term, from R64 billion in 2018/19 to R70.6 billion in 2020/21. Of the baseline allocation, 49.7 per cent is absorbed by employee compensation and 32 per cent by goods and services.

*Cuts to spending on general
public services, which grows by
4.3 per cent over MTEF period*

The medium-term baseline of this function group has been reduced by R4.9 billion. The transfer to the South African Revenue Service is reduced by about R1.5 billion per year, which will be absorbed in its operational budget.

An amount of R451.7 million was reprioritised from existing baselines to support priority expenditure. The largest amount (R329.3 million) was shifted within the Department of International Relations and Cooperation from information technology, stationery and foreign accommodation leases to fund critical vacant posts.

Additional allocations of R37.1 million in 2018/19, R145.3 million in 2019/20 and R855 million in 2020/21 have been made to Statistics South Africa for the 2021 Census.

Preparing for Census 2021

Census 2021 will make use of an internet-based platform. This will require the purchase of about 165 000 specialised tablets linked to cloud-based servers, with communications on secure mobile infrastructure, at a cost of about R750 million. About 150 000 fieldworkers will be employed. The technology is expected to improve data quality and collection rates, and to allow for real-time monitoring and supervision. Quicker results will support timely, evidence-based policymaking. Statistics South Africa estimates that the new technology and methods for the Census will cost R3.4 billion.

Table 5.14 General public services expenditure

	2017/18 Revised estimate	2018/19 2019/20 2020/21 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
R million						
Executive and legislative organs	15 010	15 998	16 525	17 458	24.9%	5.2%
Public administration and fiscal affairs	39 551	40 414	41 937	45 198	63.7%	4.5%
External affairs	7 506	7 579	7 397	7 862	11.4%	1.6%
Total	62 067	63 991	65 859	70 518	100.0%	4.3%
<i>of which:</i>						
<i>Compensation of employees</i>	29 152	31 096	32 964	35 448	49.7%	6.7%
<i>Goods and services</i>	20 514	21 093	20 961	21 975	32.0%	2.3%
<i>Transfers and subsidies</i>	8 780	8 545	8 893	9 361	13.4%	2.2%
<i>Buildings and other fixed structures</i>	2 044	2 279	1 979	2 078	3.2%	0.6%
<i>Machinery and equipment</i>	1 014	640	776	1 355	1.4%	10.2%

Source: National Treasury