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Medium-term expenditure framework and division of revenue

■ The budget policy framework

The budget policy framework takes into account the uncertain economic outlook and the need to support structural transformation of the economy. Expanding infrastructure investment will underpin long-term growth and development, and spending on social development priorities will grow in real terms. An economic support package is also proposed.

Over the past decade, government has made substantial inroads in the provision of general public services. Expanded access to services has improved living conditions in poor communities across the country. Yet the broadening of access has not always been accompanied by commensurate improvements in quality, and a focus over the medium term is to improve the quality and pace of service delivery.

To ensure that government can afford its priority programmes now and in the future, the rate of growth in public spending needs to be moderated over the medium term, even as public services, economic investment and job creation are strengthened. Over the next three years, national departments and public entities need to reprioritise and realign existing budget baselines to maximise their impact in achieving targeted outcomes. Government will support reforms that reinforce results-driven performance while encouraging better planning and budgeting.

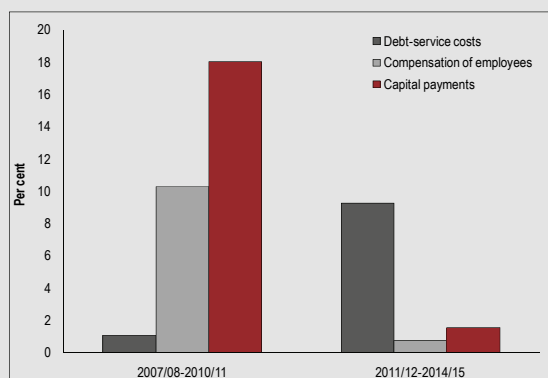
In recent years, personnel spending and debt-service costs have grown rapidly. Over the medium-term expenditure framework (MTEF) period ahead and beyond, the composition of spending needs to shift from consumption to investment in infrastructure and economic development.

Policy framework expands infrastructure investment and maintains commitment to social development

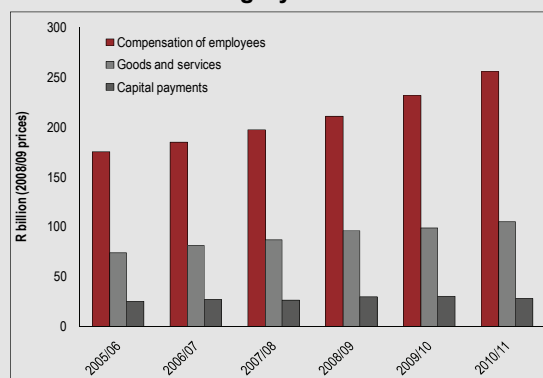
To ensure that government can afford its priorities now and in the future, the rate of public spending growth needs to moderate

Trends in the composition of public expenditure

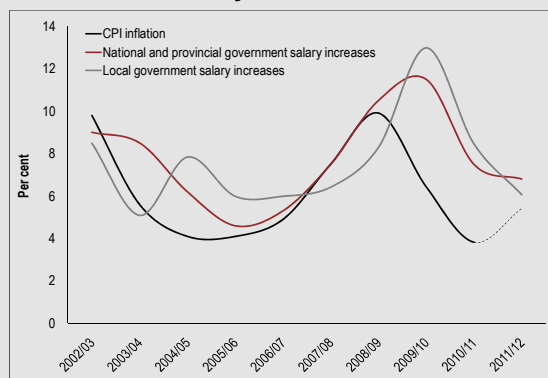
Real growth in areas of expenditure



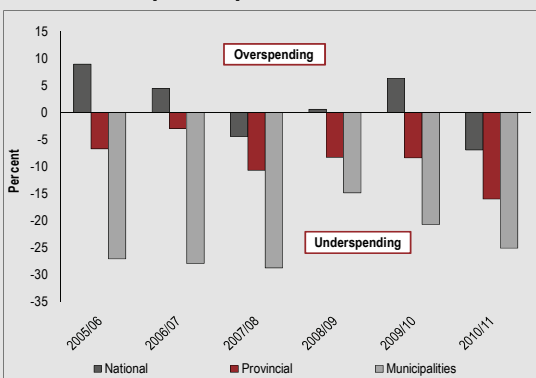
Real non-interest consolidated expenditure by main economic category



Public-service salary increases



Trends in capital expenditure



Several features of the composition of public expenditure need to be addressed over the period ahead.

- The *cost of servicing debt* is forecast to rise sharply over the next three years. Government is expected to spend more on servicing debt than on transfers to local government. To create fiscal space for service delivery now and in the future, these costs must be curtailed by reducing the deficit.
- The *public sector wage bill* has been a major driver of spending growth. Ways of managing this need to be explored. Remuneration should grow at a sustainable pace that supports job creation. For the MTEF period ahead, annual cost-of-living adjustments of 5 per cent a year are provided for, together with built-in pay progression of 1.5 per cent and improvements in overall remuneration. The balance between administration and service delivery staff should be corrected and supernumerary staff numbers reduced.
- Underspending of capital budgets* is a core concern. Underspending by municipalities has risen from 14 per cent in 2008/09 to 25 per cent in 2010/11; provincial underspending rose from 8.3 per cent to 16 per cent over the same period. Government is establishing capacity to help municipalities plan and manage infrastructure better. At provincial level, the third phase of the infrastructure delivery improvement programme will be rolled out.

Funding priorities and eliminating waste

Wasteful public expenditure must be eliminated at all levels of government

The Constitution requires government at all levels to promote budgetary transparency, accountability and effective financial management of the economy and the public sector. Perceptions that government and its officials are living large undermine public trust. Wasteful public expenditure must be eliminated.

In preparing the 2012 MTEF, spending baselines have undergone rigorous review to identify areas of inefficient and non-priority expenditure. More effective use of resources has been sought across national, provincial and

local government departments and public entities. Revised baseline allocations are being prepared taking into account the carry-through costs of the 2011 salary agreement, identified savings and reprioritisation proposals.

The overall impact of these adjustments is a decrease of R0.9 billion in the 2011/12 expenditure estimate, and additional funding totalling R48 billion over the MTEF period, financed within the fiscal framework. This is a marked decrease from the additional amount made available in the 2011 MTEF (R94.1 billion). Revisions to the 2011/12 appropriations and spending estimates are summarised on the next page.

Impact of adjustments is additional funding of R48 billion over MTEF period, compared with R94.1 billion in prior period

The 2012 MTEF proposals provide for average annual real growth in non-interest expenditure over the three-year framework of 2.3 per cent, compared with 7.9 per cent in the three-year period ending in 2011/12. Moderation in spending growth is in line with government's fiscal stance, which targets a stabilisation of the national debt over the medium term and rebuilding of fiscal space.

■ 2010/11 outcomes and 2011/12 mid-year estimates

Details of the 2010/11 expenditure outcomes and estimates for the first half of the current financial year for national votes and provinces are set out in Annexure A. Expenditure on national votes (including transfers to provinces) amounted to R805.1 billion in 2010/11, out of a total adjusted appropriation of R817.4 billion. Provincial expenditure amounted to R330.7 billion, compared with the 2010/11 adjusted budget total of R340.1 billion.

National expenditure in the first six months of 2011/12 amounted to R429.2 billion or 48.3 per cent of the adjusted appropriation for the year, and R34.8 billion more than the spending total for the same period in 2010/11. Expenditure by provinces amounted to R177.1 billion in the first half of 2011/12 or 48.4 per cent of the main appropriation for the year, and R24.5 billion more than for last year. Adjustments to the national budget are tabled alongside the *Medium Term Budget Policy Statement*. Adjustments to expenditure for 2011/12 are presented in the accompanying box.

Expenditure on national votes in first half of 2011/12 was 48.3 per cent of adjusted appropriation for the year

Revised national expenditure estimates, 2011/12

The Adjustments Appropriation Bill and the Division of Revenue Amendment Bill deal with necessary amendments in the current financial year. The bills propose the following changes:

- R3.7 billion in rollovers arising from commitments related to unspent balances in 2010/11
- R1.2 billion to cover the costs of higher-than-expected salary adjustments in national departments
- R185.8 million for natural disasters and the outbreak of animal diseases
- R40.6 million to cover a portion of the costs incurred by the Independent Electoral Commission to extend the casting of special votes in the local government elections
- R116.3 million for contractual penalties incurred by Denel Saab Aerostructures related to the A400M aircraft contracts
- R81.4 million to deploy resources for joint anti-piracy operations in the Mozambican Channel
- R21.2 million to help the National Nuclear Regulator meet its commitments under the Integrated Resource Plan and to retain experts
- R208 million for the management of acid mine drainage in the Witwatersrand area
- R838.1 million refunded to departments for monies paid directly into the National Revenue Fund from department-specific activities
- R266.3 million for a once-off gratuity for non-returning councillors following the 2011 municipal elections.

Revised provincial allocations

- R3.2 billion added to the provincial equitable share for higher-than-anticipated salary costs under the wage settlement
- R49.3 million to the *FET colleges grant* to cover the cost of wage agreements
- R752 million to various provincial conditional grants, including grants for the repair of infrastructure damaged by floods in December 2010 and January 2011.

Revised local government allocations

- R3.2 million rolled over on the *water services operating subsidy grant*
- R28.5 million to the *indirect water services operating subsidy grant*
- R11 million declared as savings from the *local government financial management grant*.

Taking into account funding set aside in the contingency reserve at the time of the 2011 Budget, projected underspending, savings declared by departments and the adjusted state debt cost estimate, the revised estimate of total expenditure in 2011/12 is R888.0 billion. In February 2011 at the tabling of the budget, provision was made for expenditure of R888.9 billion for 2011/12.

■ Medium-term spending estimates and priorities

Table 4.1 sets out the provisional 2012 Budget consolidated expenditure framework. The consolidated framework makes provision for an unallocated contingency reserve of R6 billion in 2012/13, rising to R24 billion in 2014/15. The baseline estimates reflect current spending priorities and those over the 2012 MTEF, particularly job creation and infrastructure investment.

Work is still in progress on the details of national and provincial expenditure plans. Special efforts are focused on improved value for money and administrative efficiency. Table 4.1 suggests that there is scope for further savings in the goods and services category, which increases markedly from 2011/12 to 2012/13 and beyond.

Table 4.1 Consolidated government expenditure, 2010/11 – 2014/15

	2010/11	2011/12	2012/13	2013/14	2014/15	Average annual growth 2011/12 – 2014/15
	Outcome	Revised	Medium-term estimates			
R billion						
General public services	48.3	53.0	54.7	58.7	64.9	7.0%
Defence	34.0	38.3	41.8	44.4	47.0	7.1%
Public order and safety	83.2	90.6	98.8	105.9	112.1	7.4%
Police	55.4	60.7	65.0	69.8	73.9	6.8%
Law courts	12.9	13.8	15.8	17.1	18.0	9.3%
Prisons	14.9	16.1	18.1	19.1	20.2	7.9%
Economic infrastructure	71.1	77.4	85.5	91.9	101.5	9.5%
Communication	2.4	2.7	3.3	3.4	3.4	8.4%
Fuel and energy	7.2	7.7	7.5	6.6	7.1	-2.7%
Transport	61.5	67.0	74.7	81.8	91.0	10.7%
Economic services and environmental protection	45.7	52.4	56.3	60.2	62.6	6.1%
Local government, housing and community amenities	99.4	121.5	128.4	140.5	146.2	6.4%
Housing development	21.1	25.9	28.7	31.9	34.1	9.5%
Local government and community development	47.5	56.3	61.1	66.9	67.1	6.0%
Water supply	30.7	39.3	38.6	41.7	45.0	4.7%
Health	100.2	113.2	121.5	130.6	140.1	7.4%
Recreation and culture	10.4	9.6	9.6	9.2	9.7	0.2%
Education	167.8	190.8	202.6	218.2	231.7	6.7%
Social protection	131.4	147.8	159.8	172.6	182.3	7.2%
Science and technology	8.1	7.3	8.1	9.2	9.6	9.5%
Allocated expenditure	799.6	901.9	967.2	1 041.3	1 107.9	7.1%
State debt cost	66.2	76.9	89.1	104.1	115.1	14.4%
Eskom loan	20.0	–	–	–	–	
Contingency and policy reserve	–	–	6.0	12.0	24.0	
Consolidated expenditure¹	885.8	978.8	1 062.3	1 157.4	1 247.0	8.4%
Economic classification						
Current payments	523.9	591.5	640.6	695.1	743.3	7.9%
Compensation of employees	309.9	343.0	364.2	387.7	410.9	6.2%
Goods and services	142.4	163.8	178.0	193.8	207.2	8.2%
Interest and rent on land	71.6	84.8	98.4	113.6	125.3	13.9%
of which: state debt cost	66.2	76.9	89.1	104.1	115.1	14.4%
Transfers and subsidies	278.5	312.7	341.1	368.7	389.1	7.6%
Municipalities	65.7	75.2	82.7	89.8	96.6	8.7%
Departmental agencies and accounts	11.7	10.9	13.7	15.7	15.9	13.6%
Higher education institutions	18.0	19.7	21.0	22.4	23.7	6.5%
Foreign governments and international organisations	1.6	1.9	2.3	2.5	2.6	11.8%
Public corporations and private enterprises	25.2	29.9	32.1	33.0	30.2	0.3%
Non-profit institutions	21.9	23.6	25.5	27.4	29.4	7.6%
Households	134.5	151.5	163.8	178.0	190.6	8.0%
Payments for capital assets	61.8	73.8	74.5	81.6	90.6	7.0%
Buildings and other capital assets	45.9	58.5	59.8	67.2	71.5	6.9%
Machinery and equipment	15.9	15.3	14.7	14.4	19.1	7.5%
Payments for financial assets	21.5	0.8	–	–	–	
Total	885.8	978.8	1 056.3	1 145.4	1 223.0	7.7%
Contingency and policy reserve	–	–	6.0	12.0	24.0	
Consolidated expenditure¹	885.8	978.8	1 062.3	1 157.4	1 247.0	8.4%

1. Consisting of national, provincial, social security funds and selected public entities

Government promotes an environment for private-sector job creation and is the country's largest employer

Job creation

Unemployment has grown since the 2009 recession and job creation is a core focus over the medium term. Government will continue to promote an environment conducive to private-sector growth and investment to generate employment. In addition:

- Delivered efficiently, public-sector infrastructure programmes can create a large number of direct jobs in construction and operations. Network infrastructure also provides a platform for expanded investment, more rapid growth and job creation.
- Government is the country's largest employer and has supported the labour market during the recovery. About half of all jobs created over the past 15 months were in the public sector. Provincial government accounts for about three-fifths of public-sector jobs (mainly in education and health), national government about a quarter and local government about 15 per cent. Public-sector hiring needs to support efficient and productive use of resources focused on frontline delivery, and avoid raising staff levels that do not contribute to these objectives.
- The expanded public works programme contributes to poverty alleviation through the creation of short- and longer-term jobs, while providing socially useful services such as early childhood development, fire prevention and fire control, recycling of waste, cultivation of food gardens, removal of alien vegetation, provision of fencing, road maintenance and craft development. Funding of the programme across national, provincial and local government amounts to R73 billion over the MTEF period. The infrastructure sector holds the greatest potential for job creation, but incomplete data provision and a lack of specialised capacity to design labour-intensive projects in provinces and municipalities have led to underperformance. To address this problem, government has assigned 90 data capturers and more technical design staff to work with provinces and municipalities. Over the MTEF, the recently established community work programme, which guarantees two days of work per week, will be expanded to about 250 000 participants by 2014/15.

Social services

Spending on education, primary health care, hospitals, social grants and welfare forms part of the social wage

Spending on social services accounts for more than half of consolidated non-interest expenditure, amounting to R461.5 billion in the current year. Spending on education, primary health care, hospitals, social grants and welfare forms part of the social wage, which benefits poor households in particular.

The size of the social services budget has to be weighed against success in service delivery. The social wage refers to the value of services that people actually receive relative to the money spent on these services. This underlines the importance of the efficient and transparent use of resources at all levels of government.

Education and related functions

Government recognises the need to improve the quality of education at all levels, enhancing the skills base and contributing to a productive labour force. The baseline amounts to R190.8 billion in 2011/12. Projected

spending over the MTEF is estimated to increase at an average annual rate of 6.7 per cent, reaching R231.7 billion by 2014/15.

Spending increases have enabled a broadening of access to education. In 2007, the introduction of no-fee schools began to remove the burden of paying school fees from the poorest learners. In 2010 the policy was extended from the poorest 40 per cent of learners to the poorest 60 per cent, and as a result 8.1 million learners in 20 000 schools did not have to pay school fees.

Spending increases have enabled a broadening of access to education, but quality must be enhanced

Yet despite improved access and comparatively high levels of funding, the quality of education remains a central concern. South African learners fare poorly in global benchmarking exercises. Challenges include inadequate management, inappropriately trained teachers, insufficient time on task and a lack of basic resources in poor schools. Low levels of achievement in literacy and numeracy, illustrated by learner performance in the annual national assessment conducted for grades 1 – 6 in 2011, are symptomatic of these problems.

Over the next three years, funding will be reprioritised to address these challenges. Annual national assessments of literacy and numeracy will continue and be extended to grade 9 in 2011/12. Over 9 000 student teachers are currently enrolled in the Funza Lushaka bursary programme, with many focusing on science and mathematics tuition. School infrastructure will be improved in poor schools and access to grade R will be expanded.

Funding will be reprioritised to school infrastructure improvements and expanded grade R access

Government will continue to enhance skills development by strengthening further education and training (FET) colleges, with support for tuition, machinery and equipment. The links between sector education and training authorities, the national skills fund and FET colleges will be enhanced.

In addition to allocations for higher education institutions, the science and technology vote provides for funding of advanced research and post-graduate bursaries. Over the MTEF period more funding will be provided to expand post-graduate programmes and academic centres of excellence.

Health

Government's medium-term priorities include increasing life expectancy, decreasing maternal and child mortality, and combating HIV and Aids through strengthening the effectiveness of the health system. Reforms to public health are an essential preparatory step towards a system of national health insurance.

Health expenditure has grown strongly in the past three years, rising from R77.3 billion in 2008/09 to R113.2 billion in 2011/12. Significant progress has been made in delivering health services over the past decade. The Aids mortality rate has levelled off, there has been a rapid scaling-up of the antiretroviral treatment programme, and the HIV counselling and testing campaign launched in April 2010 has made progress. The national mother-to-child HIV transmission rate has fallen to 3.5 per cent from 8.5 per cent in 2009. Successes have been made in improving the accuracy of tuberculosis diagnosis and in campaigns for vaccination against measles and polio. Vaccines are offered to all South African children to protect them against pneumonia and diarrhoea.

Growth in health funding has supported a levelling off of the Aids mortality rate

The quality of health services, however, needs to be significantly improved. Challenges to be addressed include inadequate infrastructure, weak hospital management and a shortage of skilled health workers. Reforms to address these challenges will be piloted as part of the first phase of developing national health insurance.

Piloting national health insurance

National health insurance pilot projects will take place in 10 districts. The pilots will test the feasibility and scalability of proposals in the green paper, which focus on primary health care, health promotion and preventative care. These projects will include:

- District-based clinical specialist support teams
- School-based primary health care services
- Family health teams, including municipal ward-based outreach services
- A new approach to human resources
- General practitioner services.

Social security

15.2 million South Africans now receive some form of social grant

Social assistance and welfare services are effective redistributive and poverty-reduction measures that have expanded considerably over the past decade. Social welfare grants now support about 15.2 million South Africans, up from 2.5 million in 1998. The grants have been expanded in recent years by raising the threshold for the *child support grant* to a child's 18th birthday, and equalising the eligibility age for the old age grant for men and women at age 60. Government spends 10.9 per cent of its total budget on social grants.

For some years, government has been working on reform of South Africa's social security arrangements, of which social grants form a part. The social security system needs to become more efficient, ensuring the effective use of funds and providing better services. A discussion paper on social security reform will be released in the near future. Its proposals will include steps to establish a common administrative platform for social security agencies to eliminate duplication and wastage. Over the period ahead, government will take further steps to reduce fraudulent claims and renegotiate contracts for the delivery of cash grants.

Access to early childhood development services will be expanded

Access to early childhood development services will be expanded, and home- and community-based child care and protection will be given additional support. About half a million children are now receiving subsidised early childhood development services.

Basic household services

Local government provides a basic level of water, sanitation and energy free of charge to low-income households. These services, subsidised by the local government equitable share, improve health outcomes, support social inclusion and encourage economic participation. Better targeting allows municipalities to focus support on low-income households. Improved targeting will continue over the medium term. At the same time, municipalities need to collect revenue from households that can afford to pay for these services.

From next year, the local government equitable share formula will be revised to subsidise a greater share of the institutional costs of poor rural municipalities, which are dependent on transfers from national government. The equitable share formula makes allowance for an expected rise in basic services costs over the medium term to enable municipalities to maintain and extend free basic services to poor households.

Local government equitable share will be revised to subsidise a greater share of the institutional costs of poor rural municipalities

A new cities support programme involving several departments has been initiated to help cities manage the built environment in a way that promotes economic growth, job creation, access to basic services, environmental sustainability and public accountability. It draws on global best practice to link direct capacity support to fiscal and organisational incentives for improved performance, particularly through restructuring the system of fiscal transfers to reward achievement, encourage self-financing and support environmental sustainability.

Infrastructure and economic development

Over the medium to long term, government intends to shift the composition of spending to support higher levels of infrastructure maintenance and capital expenditure. Such investment will promote economic growth and job creation, and support an enabling environment for further investment by the private sector. Eradicating backlogs in basic services and housing, and improving provision of services by local government, will also receive greater attention.

Government is shifting the composition of spending to support higher levels of capital expenditure

Economic infrastructure

Targeted investments support an expansion of capacity in electricity, roads, rail, water and telecommunications. The overall scope of these investments is outlined in Chapter 2.

Long-term capacity expansion of electricity, roads, rail, water and telecommunications

Large-scale investments in transport are being implemented over the medium to long term. Increased delays in train services are largely the result of South Africa's ageing rolling stock and inefficiencies in maintenance. Deterioration in the rail network has put greater pressure on the country's roads. Investments in the national road network have resulted in significant improvements in road quality. There are, however, large maintenance backlogs in provincial and municipal road networks.

Cities need to take greater responsibility for operational costs of integrated public transport networks, which consist of both roads and rail routes. The National Land Transport Act (2009) provides for the devolution of public transport planning, management and funding to local government for the capacity to manage this transition.

Cities need to take more responsibility for integrated public transport networks

To ensure greater efficiency, the *provincial roads maintenance grant* requires provinces to adopt road asset management systems, increasing roads' life expectancy and reducing vehicle operating costs.

In addition to Eskom's large power plant projects, the focus in energy will be on electrification in informal settlements and capacity for the renewable energy sector. The national electrification programme aims to provide electricity connections to all households by 2014.

Improved planning, construction and maintenance of water infrastructure is required

South Africa requires an integrated approach to water provision, with reticulation supported by sufficient resources. Improved planning, construction and maintenance are needed at local level, where there is a lack of capacity. The regulatory function of the Department of Water Affairs needs to be strengthened to enhance management of the resource and minimise pollution of river systems. Support is provided to establish or extend regional bulk water systems in rural district municipalities, and to upgrade wastewater treatment works. Over the longer term, government will develop new waste management infrastructure that incorporates recycling as a core function.

Infrastructure delivery improvement

The infrastructure delivery improvement programme (IDIP) addresses a lack of capacity to plan and implement infrastructure projects at provincial level. Now in its third phase, IDIP works with departments of education, health, public works and provincial treasuries to improve the execution and management of projects. The programme places long-term technical advisors in departments to build a skills base that enables infrastructure units to overcome blockages to project implementation.

Human settlements and community amenities

Eradicating backlogs in basic services and housing, and improving the provision of services by local government, are among government's most important goals.

Local government and human settlements spending reaches R121.5 billion in 2011/12

Spending on local government and human settlements has increased from R68 billion in 2008/09 to R121.5 billion in 2011/12, at an average annual rate of 21.3 per cent. Government is committed to extending community development programmes, including the *human settlements development* and *urban settlements development infrastructure* grants that flow to provinces and metropolitan municipalities.

With about 1.2 million households living in informal settlements (Statistics South Africa, 2009), the medium-term priority is to upgrade such settlements in 45 large cities and towns, providing poor households with improved living conditions in areas where they are able to access economic opportunities.

Capital expenditure forms the largest share of human settlements allocations over the MTEF period

To increase the provision of services to households in informal settlements, capital expenditure forms the largest share of human settlements allocations over the MTEF period. The national upgrading support programme targets long-term interventions required to scale up infrastructure delivery.

Funded through the *human settlements grant to provinces*, the housing programme delivered about 900 000 units between 2007/08 and 2010/11 to households earning below R3 500 per month. The social housing programme, a medium-density rental housing initiative for households earning between R1 500 and R7 500 per month, delivered 8 155 units between 2006/07 and 2011/12.

Promoting efficient revenue and expenditure management in local government

Like national and provincial governments, municipalities need to closely examine their budgets to ensure they are using their available resources to maximise service delivery. This requires both cost-effective spending and revenue collection.

The *Local Government Budgets and Expenditure Review*, published by the National Treasury in September 2011, highlights several important considerations:

- **Revenue management** – To ensure the collection of revenues, municipalities should maintain accurate billing systems, send out accounts to residents and follow up to collect revenues owed.
- **Collecting outstanding debts** – This requires political commitment, sufficient administrative capacity, and pricing policies that ensure that bills are accurate and affordable, especially for poor households.
- **Pricing services correctly** – The full cost of services should be reflected in the price charged to residents who can afford to pay. Many municipalities offer overly generous subsidies and rebates that result in services being run at a loss, resulting in funds being diverted away from other priorities.
- **Underspending on repairs and maintenance** – Often seen as a way to reduce spending in the short-term, underspending on maintenance can shorten the life of assets, increase long-term maintenance and refurbishment costs, and cause a deterioration in the reliability of services.
- **Spending on non-priorities** – Many municipalities spend significant amounts on non-priority items including unnecessary travel, luxury furnishings, excessive catering and unwarranted public relations projects. Consultants are often used to perform routine tasks.

The *Local Government Budgets and Expenditure Review* can be accessed at www.treasury.gov.za.

Agriculture and rural development

Government is working to expand food production and support rural development.

The Land Bank finances investments that improve the productivity of land, increasing production of food and fibre, and supporting economic activity in rural areas. The Land Bank has stabilised its financial position and will increase its developmental lending to emerging farmers over the medium term.

Land Bank aims to increase developmental loans to emerging farmers

The Department of Rural Development and Land Reform and the Department of Agriculture, Forestry and Fisheries are aligning their programmes to facilitate better collaboration within government, and cooperation with the private sector, to improve funding and technical support for farmers. This should boost the commercial viability of newly settled farmers and increase food supply. Partnerships with commercial farmers will improve technology transfer to emerging farmers and their adaptability to changing farming conditions.

Climate change and the environment

Improving environmental management and addressing climate change resilience are key policy objectives. Spending on economic affairs and environmental protection has increased from R38.5 billion in 2008/09 to R52.4 billion in 2011/12, at an average annual rate of 11 per cent.

Through assistance provided to Eskom and municipalities, and Eskom's electricity generation tariff, government has made available more than R6 billion between 2008/09 and 2012/13 for energy-efficiency and electricity demand-side management initiatives. This funding has been used to install energy-efficient lighting, subsidise solar water heating systems and improve energy-efficiency in buildings.

Funding has supported energy-efficiency measures in households and businesses

Larger municipalities are beginning to integrate environmental concerns more directly into their planning

There are several medium-term challenges to supporting environmental sustainability. The skills base to undertake a range of environmental functions, particularly at municipal level, is inadequate. This includes, for example, issuing authorisations for households and businesses to use technologies that reduce greenhouse gas emissions. Larger municipalities, however, are becoming more responsive to environmental concerns. Cape Town, for example, intends to buy electricity from a wind farm, and eThekweni is producing electricity from landfill gas.

The 17th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 17), which will be hosted in South Africa later this year, has significantly raised awareness of environmental sustainability and climate change throughout the country.

Government will work to strengthen environmental and climate change policies

Over the next three years, government will work to strengthen South Africa's environmental and climate change policies, and to secure global and private sector funding for green interventions. Environmental monitoring linked to appropriate fiscal instruments and capacity support interventions is being considered.

General government services and administration

Well-functioning government systems are essential to provide the services that support economic growth, poverty eradication and public safety.

Government administration systems provide general public services, including those related to financial management, the public debt and tax collection. The aim is to achieve an efficient, effective and development-oriented public service.

While some state institutions require significant work to improve their efficiency, other parts of the public sector are performing well. For example, as a result of reforms within the Department of Home Affairs, the turnaround time for issuing an identity document was reduced from 127 days in 2008 to 46 days in 2011, and passports can now be issued in three weeks.

Substantial challenges remain in the provision of public works

Government faces substantial challenges in the management of government buildings and accommodation, including underspending of budgets by departments. Problems emanate largely from a shortage of technical and project management capacity, and incomplete asset registers. The Government Immovable Asset Management Act (2011) provides for the issuance of guidelines and minimum standards for immovable asset management by a national or provincial department. More needs to be done to improve administration in national and provincial departments of public works.

Defence, public order and safety

A safe and secure environment is a necessary condition for the well-being of citizens. The policy focus for policing and justice over the medium term is to reduce the high level of serious crimes, improve investigative capacity and increase access to justice services in underserved areas.

Expenditure for the defence and criminal justice cluster, excluding self-financing entities, provincial departments, and the military health support programme, increased from R93 billion in 2008/09 to R123.6 billion in

2011/12, growing at an annual rate of 10 per cent. Expenditure is projected to increase to R150.4 billion in 2014/15. Due to the labour-intensive nature of the function, the bulk of funding goes toward compensation of employees.

Over the last three financial years, there has been a 4 per cent decline in the overall crime rate, from 4 310 crimes per 100 000 of the population in 2008/09 to 4 144 in 2010/11, owing in part to increased personnel in detective services and improved crime intelligence. Overcrowding in correctional facilities fell from 41 per cent in 2009/10 to 35 per cent in 2010/11. The security provided by departments under this function contributed to the success of the 2010 soccer World Cup.

Over the MTEF period investigative capacity in the criminal justice sector will be strengthened, as well as the control of the country's borders. The Independent Police Investigative Directorate Act (2011) will be implemented, allowing for the transformation of the Independent Complaints Directorate into an agency tasked with investigating police misconduct and offences, but with a broader focus on additional categories of serious and priority crimes.

A 4 per cent decline in the overall crime rate between 2008/09 and 2010/11

■ Division of revenue, 2012/13 – 2014/15

The fiscal framework makes available an additional R48 billion over the next three years. Allocations to national departments are increased by R1.9 billion in 2012/13, R5.8 billion in 2013/14 and R15.1 billion in 2014/15. The provincial share is revised upwards by R20.2 billion over the MTEF and local government allocations are increased by R5 billion. The proposed allocation of resources recognises the need for national, provincial and local government to redirect spending towards frontline services, and to reduce non-core and ineffective expenditure.

Proposed allocation recognises need for government at all levels to prioritise frontline services

Significant additions are made to transfers to provinces and municipalities over the MTEF period. Of the R48 billion available for baseline revisions, 42 per cent goes to provinces and 10.5 per cent to local government. Table 4.2 sets out the proposed division of nationally collected revenue and changes to baseline allocations

Table 4.2 Division of revenue, 2011/12 – 2014/15

R billion	2011/12	2012/13	2013/14	2014/15
National allocations	377.8	410.3	444.7	474.7
Provincial allocations	363.2	384.5	411.0	437.8
<i>Equitable share</i>	291.7	308.5	328.4	348.8
<i>Conditional grants</i>	71.5	76.0	82.6	89.0
Local government allocations	70.1	77.0	83.8	90.8
Total allocations	811.2	871.9	939.5	1 003.3
Changes to baseline				
National allocations	-2.3	1.9	5.8	15.1
Provincial allocations	5.3	4.1	6.7	9.4
<i>Equitable share</i>	3.2	2.8	4.8	5.8
<i>Conditional grants</i>	2.0	1.3	2.0	3.6
Local government allocations	–	–	1.5	3.5
Total	2.9	6.0	14.0	28.0

Section 214 of the Constitution and section 9 of the Intergovernmental Fiscal Relations Act (1997) require the Financial and Fiscal Commission to make recommendations at least 10 months before the budget is tabled on the division of revenue for the coming budget. The commission tabled its submission in Parliament in May 2011. Government will formally respond to the matters raised in the submission when it tables the 2012 Budget in February 2012.

Funding provincial government

Provincial government delivers education, health, welfare services, housing, agricultural support, and provincial and rural roads. In line with the need to streamline and prioritise expenditure, provincial governments need to identify savings in non-essential expenditure in their existing budgets to fund core programmes, particularly in health and education. Rising personnel spending strains provincial budgets, especially in labour-intensive departments, limiting resources for infrastructure and complementary inputs needed for the delivery of quality services.

A focus on improving quality of education and health in the provinces

Resources are targeted to improve the quality of education and health services, and to take into account the general government salary agreement. Over the 2012 MTEF, transfers to provinces are increased by R20.2 billion, of which R13.4 billion is added to the provincial equitable share and R6.8 billion to provincial conditional grants.

Provincial equitable share

Resources will help provinces to address the developmental needs of the very young

Additions to the provincial equitable share provide for the carry-through costs of higher-than-anticipated wage agreements in 2011/12 and designated priorities in social development and education. In social development, the focus will be on increasing the subsidies and the number of days the subsidy is paid to non-profit organisations providing early childhood programmes. For education, additions are made to provide for the progressive equalisation of per learner subsidies paid to the poorest 60 per cent of schools, and to expand grade R provision at ordinary schools. These additional resources will put provinces in a stronger position to address the developmental needs of the very young, which will boost long-term education and skills outcomes.

The provincial equitable share formula was reviewed during 2010, leading to the introduction of a new health component; minor revisions that improve the transparency and simplicity of this component are made for the 2012 division of revenue. The data used in the provincial equitable share formula will be updated.

Provincial conditional grants

Further resources to fund repairs to roads and buildings damaged during floods in early 2011

Additions to conditional grants provide for costs of the wage agreements in further education and training colleges, additional access to HIV and Aids treatment in response to the lowering of the CD4 count threshold, and for upgrading of informal settlements in municipalities that lack capacity. Further resources are made available over the MTEF to fund repairs to roads, buildings and other infrastructure damaged by the floods in January and February 2011.

Additional resources are also set aside for piloting district-based health services as part of national health insurance reforms.

Funding local government

Local government is responsible for the provision of water and sanitation, electricity, refuse removal, municipal health services, storm water management and municipal transport and roads. The functions performed by local government rely largely on self-financing. Substantial progress has been made in overcoming the service disparities of the past through transfers from the national fiscus, but large backlogs remain. The major need is to provide municipal infrastructure to poor households and, increasingly, to pay for the institutional and governance needs of poor municipalities.

At local level, the major need is to provide infrastructure to poor households

Over the 2012 MTEF, transfers to local government grow by R5 billion, of which R2.2 billion is added to the local government equitable share and R2.8 billion to local government conditional grants. An amount of R994 million is also made available through indirect grants that will be spent by national departments on behalf of municipalities. Funding priorities for metropolitan municipalities and larger cities include informal settlement upgrading, social housing, and rehabilitation and maintenance of bulk infrastructure. High levels of service delivery backlogs have to be addressed in rural municipalities, which are characterised by poverty and geographical challenges to service delivery.

Local government equitable share

The local government equitable share helps municipalities to provide free basic services to poor households and subsidises the basic costs of running a municipal administration. Additions to the equitable share cater for the increased cost of providing free basic services to poor households and subsidising poor municipalities.

Over the last three years several adjustments have been made to the equitable share formula that have increased the allocations to poor rural municipalities. Further work will be done to review the formula, with revisions making use of the data from the 2011 Census, due to be released in March 2013. Allocations using the revised formula will be introduced from 2014/15.

Adjustments to formula increase allocations to poor rural municipalities

Local government conditional grants

The *urban settlements development grant* will be increased to enable metropolitan municipalities and larger cities to speed up delivery of serviced land for poor households to expand sustainable human settlements. Additions will also be made to the *integrated national electrification programme grant* to support the upgrading of informal settlements.

Support for large cities to speed up delivery of serviced land for poor households

Additions will support bulk infrastructure and solid waste management in rural municipalities. The lack of these services forms a major constraint to the further rollout of basic services connections to households. Bulk infrastructure is significantly more expensive to develop than reticulation infrastructure; as a result, transfers will be the main source of funding for this infrastructure.

■ Conclusion

The 2012 MTEF is marked by moderate growth in overall expenditure, taking into account the weaker economic outlook and the need to begin rebuilding fiscal space. Emphasis is placed on expanding infrastructure investment and job creation, while maintaining real growth on social development priorities. Rising allocations to municipalities reflect the need to improve basic services and bulk infrastructure. Allocations to provinces will accommodate higher personnel costs and infrastructure backlogs in education and health.

A shift in the composition of public expenditure will reinforce economic recovery and reform

Over the medium term, a change in the composition of government expenditure is needed to reinforce economic recovery and reform, and achieve a more efficient balance between personnel, goods and services, and capital spending.