4

2023 MTBPS

EXPENDITURE PRIORITIES

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

In brief

- Consolidated government spending is expected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing by an annual average rate of 4.6 per cent. The bulk of spending supports the social wage.
- Fiscal consolidation is implemented through a combination of reductions and protection of key functions. Compared with the 2023 Budget, main budget non-interest spending is lowered by a net R37.3 billion in 2024/25 and R47.7 billion in 2025/26.
- Reductions of R21.7 billion are implemented in 2023/24. These are offset by a net increase in budgets for compensation of employees and other items, leading to a net reduction in non-interest spending of R3.7 billion.
- South Africa needs to get better value for money from its budget. Over the next three years, government will reconfigure the state to improve the efficiency and effectiveness of public spending.

INTRODUCTION

Over the next three years, government is projected to spend R7.41 trillion. Although expenditure growth has slowed in recent years, the bulk of spending remains focused on the social wage, primarily for healthcare, education and social protection (Table 4.1). Yet the value received for each rand spent varies across programmes and there is wide scope for improved efficiency. In addition, debt-service costs, estimated at R1.3 trillion, exceed all individual consolidated spending sectors by function, reflecting the increasing extent to which these payments crowd out spending on basic services and other policy priorities. To maximise the value of spending, government needs to contain costs, exercise prudent financial management and eliminate wasteful treatment of public funds and resources.

Table 4.1 Social wage

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
R billion	Outcome			Revised	Medium-term estimates		
Community development	**162.2**	**165.1**	**180.0**	**198.3**	**215.7**	**226.5**	**233.1**
Housing development	23.7	27.0	25.7	26.1	29.3	31.0	32.6
Transport	25.9	29.4	33.7	40.2	42.1	45.1	47.2
Basic services and local government[1]	112.5	108.7	120.5	131.9	144.3	150.3	153.3
Employment programmes	**16.9**	**18.1**	**20.3**	**20.3**	**21.3**	**22.2**	**23.3**
Health	**222.7**	**228.5**	**235.3**	**241.2**	**247.1**	**255.5**	**267.2**
Basic education	**247.6**	**262.5**	**276.2**	**293.6**	**296.1**	**308.5**	**322.6**
Fee-free higher education and training	**44.3**	**54.7**	**61.0**	**64.0**	**62.7**	**65.5**	**69.3**
Social protection	**247.0**	**252.2**	**261.0**	**280.1**	**294.4**	**312.7**	**326.9**
of which: Social grants	*218.9*	*222.7*	*233.0*	*252.1*	*266.5*	*248.4*	*259.8*
Social security funds	**106.9**	**75.9**	**72.6**	**71.4**	**73.9**	**53.3**	**52.1**
Social wage	**1 047.7**	**1 057.0**	**1 106.3**	**1 168.8**	**1 211.3**	**1 244.1**	**1 294.6**
Percentage of non-interest spending	*60.5%*	*59.6%*	*60.2%*	*61.3%*	*61.6%*	*60.8%*	*60.7%*

1. Includes local equitable share
Source: National Treasury

The Department of Public Service and Administration, the National Treasury, the Department of Planning, Monitoring and Evaluation and the Presidency will, over the medium term, review and reconfigure executive functions to address duplication of functions, close ineffective programmes and consolidate departments and institutions. Measures will be proposed based on spending reviews conducted in 2020/21 and 2021/22, which suggest a general need to ensure that programmes are designed to be affordable and avoid overlapping policy mandates. The changes are expected to lead to reduced executive responsibilities, higher fiscal credibility and savings in non-interest expenditure.

REVISIONS TO EXPENDITURE PRIORITIES

Spending revisions are targeted to protect critical frontline services, including basic education, health and police services. Most national and provincial departments will absorb the carry-through costs of the 2023 public-service wage agreement and will reprioritise spending for other priorities. Departments will need to reprioritise and repurpose funds from existing public employment programmes to extend the presidential employment initiative to 2024/25.

In-year spending adjustments

Labour-intensive departments have been allocated additional funding amounting to R23.6 billion in 2023/24 to help implement the 2023 public-service wage agreement. Other departments will reprioritise funds to implement the agreement. Departments need to manage headcounts proactively.

Net total adjustments to spending included in the 2023 Adjustments Appropriation Bill amount to R10.3 billion. This includes reductions due to significant and unforeseeable economic events totalling R21.7 billion. The largest adjustments are to local conditional grants, healthcare programmes and infrastructure, and social grants. Allocations are also proposed to the Department of Cooperative Governance for the reconstruction and rehabilitation of damaged infrastructure due to flooding in four provinces and to replenish the *disaster response grant*. Other adjustments include:

- R578.4 million for rollovers
- R2 billion for self-financing from the revenue-generating activities of departments to enable them to continue these activities
- R1 billion, as announced in the 2023 Budget Speech, for the South African Revenue Service to improve revenue-raising capabilities.

Total unspent funds amount to R2 billion, mainly from unallocated local government equitable share funds and R502 million allocated for the recapitalisation of the Land Bank.

Details on in-year spending adjustments for national departments are set out in the 2023 *Adjusted Estimates of National Expenditure*. Changes to conditional grants are included in the 2023 Division of Revenue Amendment Bill.

SPENDING PRIORITIES BY FUNCTION GROUP

Consolidated government spending is projected to increase from R2.3 trillion in 2023/24 to R2.6 trillion in 2026/27, growing at an annual average rate of 4.6 per cent. The economic development function accounts for the largest share of this growth. Debt-service costs grow at the fastest rate, averaging 8.7 per cent per year. Spending on payments for capital assets is the fastest-growing item by economic classification, mainly due to buildings and other capital assets, which grow by an average of 13.9 per cent over the three-year period.

Table 4.2 Consolidated expenditure by function[1]

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual growth 2023/24 – 2026/27
	Outcome	Revised	Medium-term estimates			
Learning and culture	**441.5**	**464.9**	**474.2**	**492.1**	**515.4**	**3.5%**
Basic education	300.4	319.7	322.8	335.4	350.8	3.1%
Post-school education and training	129.9	133.3	140.2	145.4	152.8	4.7%
Arts, culture, sport and recreation	11.2	11.9	11.2	11.4	11.7	-0.6%
Health	**256.4**	**264.5**	**268.4**	**277.6**	**290.0**	**3.1%**
Peace and security	**227.7**	**234.9**	**234.9**	**246.0**	**256.6**	**3.0%**
Defence and state security	54.2	53.5	51.6	53.6	56.0	1.5%
Police services	112.5	117.0	121.4	127.7	133.6	4.5%
Law courts and prisons	51.6	52.0	52.2	54.4	57.0	3.0%
Home affairs	9.5	12.4	9.8	10.4	10.1	-6.5%
Community development	**232.2**	**251.9**	**265.6**	**278.4**	**287.5**	**4.5%**
Economic development	**214.9**	**239.6**	**254.7**	**281.7**	**287.4**	**6.2%**
Industrialisation and exports	39.4	41.4	40.4	40.9	42.5	0.9%
Agriculture and rural development	27.4	27.7	27.0	28.2	29.1	1.8%
Job creation and labour affairs	23.0	23.0	24.3	25.3	26.5	4.8%
Economic regulation and infrastructure	107.6	128.1	144.9	169.7	170.7	10.1%
Innovation, science and technology	17.4	19.5	18.0	17.6	18.5	-1.6%
General public services	**72.1**	**77.6**	**72.9**	**75.3**	**78.3**	**0.3%**
Executive and legislative organs	14.9	17.5	15.8	16.2	16.5	-1.9%
Public administration and fiscal affairs	48.7	51.5	48.5	50.2	52.4	0.6%
External affairs	8.6	8.6	8.6	8.9	9.4	2.9%
Social development	**345.1**	**369.7**	**387.5**	**385.1**	**398.8**	**2.6%**
Social protection	263.5	283.7	298.2	316.6	331.1	5.3%
Social security funds	81.6	86.0	89.3	68.5	67.8	-7.6%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Allocated by function	**1 836.8**	**1 907.1**	**1 961.7**	**2 040.2**	**2 118.2**	**3.6%**
Debt-service costs	308.5	354.5	385.9	425.5	455.9	8.7%
Contingency reserve	–	0.4	5.0	7.6	14.5	
Consolidated expenditure	**2 145.2**	**2 262.0**	**2 352.5**	**2 473.3**	**2 588.6**	**4.6%**

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

Source: National Treasury

Table 4.3 Consolidated expenditure by economic classification[1]

R billion	2022/23	2023/24	2024/25	2025/26	2026/27	Average annual growth 2023/24 – 2026/27
	Outcome	Revised	Medium-term estimates			
Current payments	**1 292.5**	**1 395.4**	**1 446.3**	**1 528.0**	**1 602.1**	**4.7%**
Compensation of employees	689.1	724.3	740.2	768.8	804.7	3.6%
Goods and services	286.1	307.5	310.9	324.0	331.8	2.6%
Interest and rent on land	317.2	363.6	395.3	435.1	465.6	8.6%
of which: debt-service costs	*308.5*	*354.5*	*385.9*	*425.5*	*455.9*	*8.7%*
Transfers and subsidies	**720.6**	**751.4**	**774.9**	**788.4**	**818.3**	**2.9%**
Provinces and municipalities	165.5	172.1	182.9	191.5	197.8	4.8%
Departmental agencies and accounts	26.7	27.3	24.1	24.2	25.8	-1.9%
Higher education institutions	53.5	51.3	55.6	56.3	58.9	4.7%
Foreign governments and international organisations	3.3	3.3	3.5	3.6	3.8	4.2%
Public corporations and private enterprises	39.7	42.9	40.3	42.2	42.8	0.0%
Non-profit institutions	40.6	42.8	39.5	41.1	42.9	0.1%
Households	391.3	411.6	429.1	429.4	446.2	2.7%
Payments for capital assets	**85.4**	**110.9**	**122.9**	**145.4**	**149.4**	**10.4%**
Buildings and other capital assets	63.0	81.1	95.2	115.6	120.0	13.9%
Machinery and equipment	22.4	29.8	27.7	29.8	29.5	-0.4%
Payments for financial assets	**46.8**	**3.9**	**3.4**	**3.9**	**4.3**	
Total	**2 145.2**	**2 261.6**	**2 347.5**	**2 465.7**	**2 574.1**	**4.4%**
Contingency reserve	–	0.4	5.0	7.6	14.5	
Consolidated expenditure	**2 145.2**	**2 262.0**	**2 352.5**	**2 473.3**	**2 588.6**	**4.6%**

1. Consisting of national and provincial departments, social security funds and public entities
Source: National Treasury

Learning and culture

Learning and culture consists of the basic and higher education sectors, as well as sport, arts and culture. Although additional funding has been provided to implement the 2023 public-service wage agreement, provincial education departments are constrained in hiring additional teachers. This could lead to larger class sizes and higher learner-teacher ratios, possibly resulting in weaker educational outcomes. To mitigate this, the sector will improve the approach to allocating teachers to schools, ensure that learner and teacher support materials are used cost-effectively, manage infrastructure projects more tightly and focus on plans to catch up on lost teaching time.

Institutions in the post-school education and training sector, including the National Student Financial Aid Scheme, will need to bring their student enrolment and bursary allocations in line with their budgets. Planned infrastructure spending will be brought in line with institutions' ability to spend.

Health

The health sector is aiming to maintain service delivery amid budgetary constraints. While additional funding is provided to cover wage increases, baseline reductions are being implemented as part of fiscal consolidation.

To minimise negative effects, the sector will need to improve efficiency in areas such as overtime payments, medical supplies and security services, and to delay infrastructure projects. The South African Law Reform Commission is finalising a report on legal reform to manage medico-legal claims, which constitute a significant financial risk.

To address funding fragmentation for oncology services, allocations will be shifted from the *national health insurance grant* to the *national tertiary services grant*. A single grant is also proposed to consolidate the existing personal and non-personal services components of the *national health insurance indirect grant*. Funding is also redirected towards the Office of Health Standards Compliance to strengthen the Health Ombud.

Social development

The social grant baseline includes inflation-linked increases in 2024/25 and 2025/26. The *COVID-19 social relief of distress grant* will be extended for another year until March 2025 while government considers social security policy reforms and a funding model.

Provincial budget allocations will not increase in line with inflation, leading to a funding gap for core services and transfers to non-profit organisations. The sector needs to reprioritise and realign resources to avoid adverse effects on service delivery.

Community development

This function allocates funds for services to low-income households, including housing, water and sanitation, public transport, electrification and solid waste removal. Transfers and subsidies to municipalities and public entities account for the largest share of spending in this function over the medium term.

Urgent intervention is required in the urban water business in metropolitan municipalities. Turnaround plans will be implemented in 2024, including the provision of technical assistance and financing through the *urban settlements development grant*. The plans aim to improve performance, professionalise service management and establish a business unit with authority to manage revenue and investment. A clear investment strategy will be developed through the Cities Support Programme, enabling municipalities to become creditworthy and access commercial finance for water resources management.

Economic development

Government will spend an annual average of R274.6 billion in this function over the 2024 medium-term expenditure framework (MTEF) period to enable inclusive economic growth and job creation. Over 7 per cent of this amount provides for transfers and subsidies to departmental agencies, public corporations and private enterprises.

The Department of Agriculture, Land Reform and Rural Development is focusing on monitoring and controlling pest and disease outbreaks, particularly highly pathogenic avian influenza and foot-and-mouth disease, which have disrupted local chicken and beef supply and export. The department is working with farmers to ensure a constant supply of these products. The Department of Forestry, Fisheries and the Environment will finalise the waste tyre management plan and strengthen the economic instruments supporting the producer responsibility regulations.

Over the medium term, government will merge the Small Enterprise Finance Agency, Small Enterprise Development Agency and Co-operative Banks Development Agency to improve cohesion and support to small businesses. The Department of Trade, Industry and Competition will reprioritise funds to support the implementation of the electric vehicle roadmap. Work is under way to merge the Trans-Caledon Tunnel Authority and the Water Trading Entity under the new National Water Resource Infrastructure Agency. This will help to allocate risks more efficiently and ensure transparency in long-term water financing.

To address the deteriorating condition of roads, the South African National Roads Agency Limited and provincial roads authorities will prioritise preventative maintenance on high-traffic roads.

Peace and security

The peace and security function aims to combat crime and maintain territorial integrity. Over the MTEF period, the focus is on improving efficiency and reprioritising funds towards key programmes. As most of the departments within this function are labour-intensive, reductions will primarily affect personnel spending. Organisational structures will need to be rationalised as a result.

The South African Police Service will contain costs and streamline operations as headcounts decline due to natural attrition. It will foster partnerships with communities and implement reforms to optimise resource allocation, training and technology.

The Department of Justice and Constitutional Development will reallocate funds over the MTEF period to capacitate the Office of the Legal Services Ombud. Funding will also be shifted from the Department of Agriculture, Land Reform and Rural Development to Legal Aid South Africa to improve its capacity to provide legal representation in land rights matters. To strengthen its independence, the Judicial Inspectorate for Correctional Services will become a government component in 2024/25. Concomitant resources, currently in the baseline of the Department of Correctional Services, will be transferred with the inspectorate.

Government will continue to fill critical posts in the Border Management Agency and verify assets transferred from departments to the agency. To reduce employee compensation pressure, the Department of Defence will implement human resource reforms and review commuted overtime and allowance policies. Furthermore, funds will be reallocated in the Department of Defence to provide for day-to-day maintenance and emergency repairs.

General public services

This function helps build a capable state that is able to play a transformative and developmental role. In 2023/24, it accounts for 3.4 per cent of consolidated spending.

Budget reductions will be absorbed through cost-containment measures and realigning goods and services budgets.

The Department of Public Works and Infrastructure has identified underspending amounting to R306.1 million in programmes. Recommendations to address underspending include reviewing corporate service spending, implementing a shared service model and reducing operational leases, consultants and reporting requirements for Statistics South Africa, the National Treasury and the Department of Public Enterprises.

Improving responsiveness to extreme weather events and climate change

Government is developing a disaster risk financing strategy to address the challenges posed by natural disasters. Despite a robust legal framework, gaps exist in financing and implementation, including overreliance on budget reallocations. The National Treasury is analysing fiscal vulnerability and implementing policy reform to improve disaster resilience, reduce risks and ensure resources are efficiently allocated. The strategy adopts a risk-layering approach, incorporating multiple financing instruments based on the incidence and severity of shocks. It aims to strengthen governance, improve data quality and build financial and fiscal sustainability. The draft is expected to be ready during 2024/25.

Separately, the National Treasury has initiated the design and piloting of a climate budget tagging system to incorporate climate considerations into public financial management processes. The first phase of the project, from October 2020 to October 2022, involved consulting on the design of this system, conducting workshops to raise awareness, reviewing international experience and piloting the system in eight sites across the three spheres of government. The next phase is expected to conclude in December 2023. It will involve refining the climate budget tagging framework for additional testing and formal rollout, consulting stakeholders, revising guidance materials and setting up governance arrangements.

DIVISION OF REVENUE

Provinces provide basic education and healthcare services, road infrastructure, housing, social development and agriculture. Municipalities are responsible for basic services such as water, sanitation, electricity reticulation, roads and community services. Over the next three years, government proposes allocating 48 per cent of available non-interest spending to national departments, 42.1 per cent to provinces and 9.9 per cent to local government.

Provinces and municipalities face both spending pressures from rising costs of basic and social services and revenue pressures from lower economic growth and high borrowing costs. These pressures imply the need for greater spending efficiency and strong financial management.

Table 4.4 Division of revenue framework

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Division of available funds							
National departments	**790.5**	**822.8**	**855.9**	**826.3**	**840.9**	**846.4**	**884.2**
of which:							
Provincial indirect grants	*2.9*	*3.8*	*3.9*	*4.0*	*4.0*	*4.3*	*4.4*
Local indirect grants	*4.1*	*5.7*	*7.2*	*8.3*	*8.0*	*8.3*	*8.7*
Provinces	**628.8**	**660.8**	**694.1**	**706.4**	**720.5**	**752.4**	**784.6**
Equitable share	520.7	544.8	570.9	585.1	589.5	616.4	644.3
Conditional grants	108.1	116.0	123.3	121.3	131.0	136.1	140.3
Local government	**137.1**	**135.6**	**150.7**	**160.6**	**169.2**	**177.3**	**182.9**
Equitable share	83.1	76.2	83.9	95.2	101.2	106.1	110.7
General fuel levy sharing with metropolitan municipalities	14.0	14.6	15.3	15.4	14.5	15.2	15.9
Conditional grants	40.0	44.8	51.4	50.0	53.5	56.0	56.4
Provisional allocations not assigned to votes[1]	–	–	–	–	2.3	38.0	47.1
Projected underspending	–	–	–	-3.3	–	–	–
Non-interest allocations	**1 556.4**	**1 619.2**	**1 700.7**	**1 690.1**	**1 732.8**	**1 814.1**	**1 898.8**
Debt-service costs	232.6	268.1	308.5	354.5	385.9	425.5	455.9
Contingency reserve	–	–	–	0.4	5.0	7.6	14.5
Main budget expenditure	**1 789.0**	**1 887.3**	**2 009.2**	**2 044.9**	**2 123.7**	**2 247.2**	**2 369.2**
Percentage shares							
National departments	50.8%	50.8%	50.3%	48.8%	48.6%	47.7%	47.8%
Provinces	40.4%	40.8%	40.8%	41.7%	41.6%	42.4%	42.4%
Local government	8.8%	8.4%	8.9%	9.5%	9.8%	10.0%	9.9%

1. Includes amounts for projects approved through Budget Facility for Infrastructure and other provisional allocations
Source: National Treasury

The debt-relief arrangement for Eskom outlined in the 2023 Budget noted that a large proportion of outstanding municipal debt is owed to Eskom. National government subsequently invited municipalities to apply for debt relief for arrears debt to Eskom up to 31 March 2023. The debt will be written off over a three-year period, in equal annual tranches, provided the municipality complies with set conditions. These include enforcing strict credit controls and collecting revenue to pay for bulk expenses like electricity and water. Municipalities that fail to meet the conditions will need to repay the remainder of their arrears debt to Eskom, including interest and penalties.

By October 2023, 67 applications had been submitted, totalling R56.8 billion or 97 per cent of total municipal debt owed to Eskom at end-March 2023. Twenty-eight applications have been approved; the remainder are being assessed and verified with provincial treasuries. Municipalities that receive this debt relief are expected to sustain the improvement in their financial condition.

The provincial equitable share

The provincial equitable share is the primary revenue source for provinces and is made up of six key components: education, health, basic, institutional, poverty and economic activity. The provincial equitable share formula is updated annually to ensure that funding is allocated fairly to each province, reflecting demographic changes and the demand for services based on need. Changes introduced in 2022/23 as a result of a review of the health component will be fully phased in at the end of 2024/25. The provincial equitable share task team, made up of representatives from the National Treasury and provincial treasuries, is reviewing the education component.

To cover implementation costs associated with the 2023 public-service wage agreement, the education and health sectors will receive additional allocations amounting to R68.2 billion during the 2024 MTEF period. These allocations will be disbursed to provinces using the provincial equitable share formula and conditional grants.

Table 4.5 Provincial equitable share

R million	2023/24	2024/25	2025/26	2026/27
Eastern Cape	75 605	76 680	80 125	82 768
Free State	32 429	32 487	33 972	35 578
Gauteng	124 465	125 652	131 405	137 629
KwaZulu-Natal	119 722	118 932	124 127	129 745
Limpopo	67 359	68 354	71 637	75 192
Mpumalanga	48 051	48 596	50 825	53 237
Northern Cape	15 573	15 849	16 608	17 429
North West	41 289	42 034	44 089	46 314
Western Cape	60 593	60 937	63 584	66 447
Total	**585 086**	**589 520**	**616 371**	**644 338**

Source: National Treasury

Major in-year adjustments

In 2023/24, direct conditional grants to municipalities are reduced by R3.4 billion and provincial direct conditional grants are reduced by R6.2 billion. To create a resource pool to respond to future disasters, R372 million has been added to the *municipal disaster response grant*, while R1.2 billion has been added to the *municipal disaster recovery grant* to cover the repair and rehabilitation of infrastructure damaged by flooding in February and March 2023. An amount of R1.4 billion was included in the local government equitable share to fund electricity-related pressures that have not materialised. These funds revert to the National Revenue Fund.

Revisions to medium-term expenditure priorities

Transfers to both provinces and municipalities will change significantly relative to the 2023 Budget. Reductions are focused on grants and programmes where there has been significant underspending in recent years. Nonetheless, provinces and municipalities will have to consider their strategies for prioritising resources to avoid negative effects on critical services.

Changes to the structure of provincial and local government grants

The National Treasury is reviewing the conditional grant system, so no major changes are proposed to conditional grants for the 2024 MTEF period. To improve water management and wastewater systems, changes will be made to the *urban settlements development grant* for metropolitan municipalities, the *integrated urban development grant* for intermediate cities and the *municipal infrastructure grant* for other local and district municipalities. The conditions of the grants will change to require alignment with the Green Drop, Blue Drop and No Drop assessments.

Update on the conditional grant review process

Government is due to complete its review of the conditional grants system in 2024. The system is a complex and significant component of intergovernmental fiscal relations. One-third of conditional grant funding is allocated to local government to augment other sources of revenue and the balance is allocated to provincial government, which has fewer other options to raise revenue.

The system is generally viewed as a robust and prudent way to support service delivery. The conditions of the grants support effective performance, although performance can be highly uneven. Streamlining of some grants would improve intersectoral and interdepartmental coordination and minimise duplications.

The increased reliance on indirect grants – which allow national departments to perform a function on behalf of a province or municipality – indicates declining trust in the ability of subnational government to deliver on its mandates.

Progress with the review of the local government fiscal framework

The 2023 Budget noted that the National Treasury is developing compulsory national norms and standards to regulate municipal surcharges on electricity and identify alternative sources of revenue to replace these surcharges. A draft report is under review. The next step will be to consult with stakeholders on the recommendations.

CONCLUSION

Over the medium term, government is focused on improving the efficiency of spending. Targeted revisions to departmental baselines direct resources to key functions. In addition, work continues on a range of initiatives aimed at improving the management of municipalities.