4

Expenditure priorities and division of revenue

In brief

- Given lower-than-projected economic growth and revenue collection, government proposes reductions to the spending ceiling of R10 billion in 2017/18 and R16 billion in 2018/19.
- Over the medium term, spending on core social and economic priorities will be sustained. In some cases, funds will be reallocated to ensure priorities are met in response to rising budgetary pressures.
- Government proposes an additional R17.6 billion to post-school education and training in the 2017 Budget. Total allocations to these institutions over the medium term grow at 11 per cent each year.
- Further moderation in employment levels will be required across government as compensation crowds out spending on essential items in budget baselines.

Budget priorities and fiscal restraint

Non-interest expenditure to grow at 1.2 per cent in real terms over the medium term

Government's medium-term spending plans take into account the downward revision in economic growth and fiscal policy challenges set out in Chapters 2 and 3. They include proposed reductions in the expenditure ceiling of R10 billion in 2017/18 and R16 billion in 2018/19. Within this framework, the 2017 Budget will sustain spending on core priorities and shift existing resources to critical needs. Non-interest expenditure will grow by an annual average of 1.2 per cent in real terms over the medium-term expenditure framework (MTEF) period, from R1.25 trillion in 2017/18 to R1.45 trillion in 2019/20.

Spending growth focused in core programmes such as social services and infrastructure

Most of the spending growth will be directed towards core programmes such as social services and infrastructure to boost economic growth. Allocations to post-school education and training will be the fastest-growing element of the budget. University subsidies will grow at an annual average rate of 10.9 per cent and allocations to the National Student Financial Aid Scheme (NSFAS) at 18.5 per cent, providing support to underfunded university students. Public works programmes that contribute directly to employment will continue to grow rapidly. Grants that support people living with HIV/AIDS will increase by an annual average of

13.6 per cent each year. Greater emphasis will be placed on improving spending quality and implementing cost-containment measures.

Rising pressure on budgets

Spending pressures include rising healthcare salaries, and funding to expand and maintain provincial roads

Spending pressures are mounting across the public finances:

- The 2015 public-sector wage settlement continues to limit the availability of funds for crucial public services.
- In the health sector, higher salaries, rising utilisation of services and higher import prices for medicines are straining budgets.
- The local equitable share, which funds free basic electricity and water for the poor, is more thinly stretched as utility prices outpace inflation.
- Congestion is growing on the national road network and the condition of many provincial roads is deteriorating, but there is uncertainty about the funding model for expansion and maintenance.
- As basic social infrastructure is extended further into rural areas, unit connection costs are rising.
- The depreciation of the exchange rate will make it more expensive to run South Africa's international missions.

Child support grant is increased by R10 to R360 to keep pace with inflation

Additional funding requirements include a higher allocation to the *national school nutrition programme grant* to offset the rising price of food. The value of the child support grant is also raised by R10 to R360 to keep pace with inflation. An additional R17.6 billion is needed for higher education, which is discussed in the section on post-school education and training below.

Rising compensation costs have put acute pressure on government departments. Over the past year, Cabinet has introduced strict limits on the compensation budgets and associated planning of national departments. Similar measures are under way in provincial governments. Departments now submit, as part of their budget documents, clear plans that reconcile compensation ceilings with headcount management and recruitment.

Headcounts have stabilised, but further moderation required

Stronger budget control has stabilised headcounts. However, further moderation in employment levels will be required across government in the years ahead, with much of this reduction achieved through attrition. The current public-sector wage agreement expires in March 2018. If government and public-sector workers are able to reach a balanced agreement on wages and productivity, compensation pressures could moderate beginning in April 2018. This would allow departments to plan for additional staff and make resources available to fund new policy priorities.

Finding resources within budgets

Drawdown on contingency reserve will contribute to resource mobilisation

To fund critical requirements and stay within the reduced expenditure ceiling, government will have to make available R16.7 billion in 2017/18 and R23.2 billion in 2018/19 from existing budgets. A drawdown on the contingency reserve will contribute to these requirements, and a number of provisional allocations made in the previous budget will be rescinded. A portion of the resources to support university students will be found elsewhere from within the post-school education system.

Reductions to baselines will make R18.7 billion available over the next three years. Government proposes to reduce the operating budgets of all national departments by 1.1 per cent. Transfers to some public entities that receive more than R300 million per year from the budget are also to be cut, contributing R5.6 billion over the medium term. Reductions to large conditional grants to provinces and local governments are also proposed, with details provided in the technical annexure.

Reductions to baselines make R18.7 billion available over medium term

Table 4.1 Baseline reductions to support new priorities

R million	2017/18	2018/19	2019/20	Total
National departments (1.1% reduction in operating budgets)	1 580	1 616	1 821	**5 017**
Transfers to public entities	2 850	1 240	1 539	**5 629**
Large conditional grants	2 047	2 166	2 235	**6 448**
Provincial equitable shares	500	529	558	**1 587**
Total	**6 977**	**5 551**	**6 153**	**18 680**

Source: National Treasury

Improving the quality of spending

In an environment of slow economic growth and limited resources, government is committed to reducing waste so that spending produces the intended results. Over the next three years, the legal and regulatory framework will be strengthened to improve the relationship between expenditure and outcomes. These steps, which build on measures taken in recent years, will include new legislation and instruction notes.

Government to improve relationship between spending and outcomes

Procurement reforms

The Office of the Chief Procurement Officer (OCPO) is working to improve spending efficiency and eliminate opportunities for corruption.

A Public Procurement Bill will be considered by Cabinet before April 2017. The aim of the bill is to consolidate the legal and policy framework for supply chain management. It will establish an apex procurement authority as the guardian of section 217 of the Constitution, which requires public procurement to be fair, equitable, transparent, competitive and cost effective. The bill will also empower the Chief Procurement Officer to conduct lifestyle audits and review transactions across the public sector.

Draft Public Procurement Bill to be complete by March 2017

The draft Preferential Procurement Regulations are being revised to ensure that at least 30 per cent of public procurement is reserved for designated groups, including small and medium enterprises, cooperatives, and rural and township enterprises. This is an interim measure while the new procurement bill, which has similar provisions, is finalised.

Over the next year, public procurement systems will be modernised, with greater emphasis on digitisation. Many manual processes will be automated, helping to simplify and speed up supply chain management.

Government is set to expand the scope of transversal contracts over the next three years. These contracts allow multiple organs of state to buy goods and services at competitive pre-negotiated prices, reducing costs and administrative requirements. There are now 50 such contracts covering 23 000 items with an estimated value of R37 billion. The contracts

Scope of transversal contracting to expand over next three years currently being negotiated will cover goods and services such as property and leasing, health technology, medical devices and pharmaceuticals, banking services, information and communications technology, and vehicles. Savings of R400 million per year are expected from centralised procurement of telecommunications services.

An integrated system to modernise public resource management

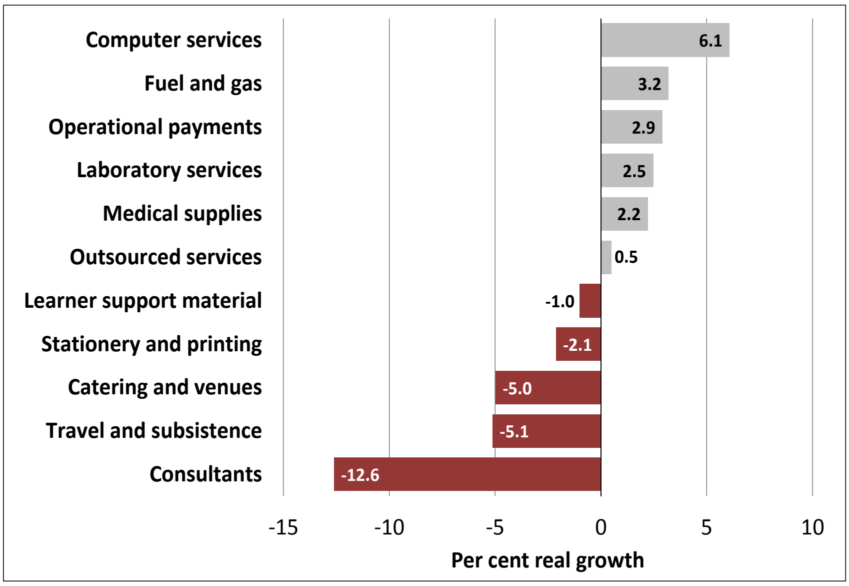
The integrated financial management system (IFMS), to be rolled out over the next three years, will replace ageing and fragmented financial, supply chain and human resource management systems, and their associated technologies, across national and provincial departments. The system will enable government to make its operations more efficient and modernise public resource management. Crucially, procurement reforms undertaken by the OCPO will be integrated into the new system. An additional allocation will be made over the medium term to roll out the new system.

Monitoring and controlling costs

Spending on consultants decreased by 12.6 per cent since 2012/13

Government introduced cost-containment measures in December 2013. Treasury instructions were issued to guide spending on consultants, travel, catering, entertainment and venue hire. These measures, linked with procurement reforms and budget reductions introduced during the same period, have succeeded in curtailing spending on non-essential goods and services. In real terms, spending on these items has fallen by 7.7 per cent. This includes a 12.6 per cent real decline in spending on consultants since 2012/13.

Figure 4.1 Real spending growth in selected goods and services, 2012/13 – 2015/16



Source: National Treasury

Budgets for essential goods and services have grown in real terms

In contrast, budgets for essential goods and services – including medicine, fuel, and computer and laboratory services – have grown by as much as 2 per cent in real terms. Spending on infrastructure maintenance contractors and contracted health services has also increased.

Although procurement reforms have led to cost savings on learner and teacher support materials, the real decline in this spending category reflects increasing pressure from the basic education compensation budget.

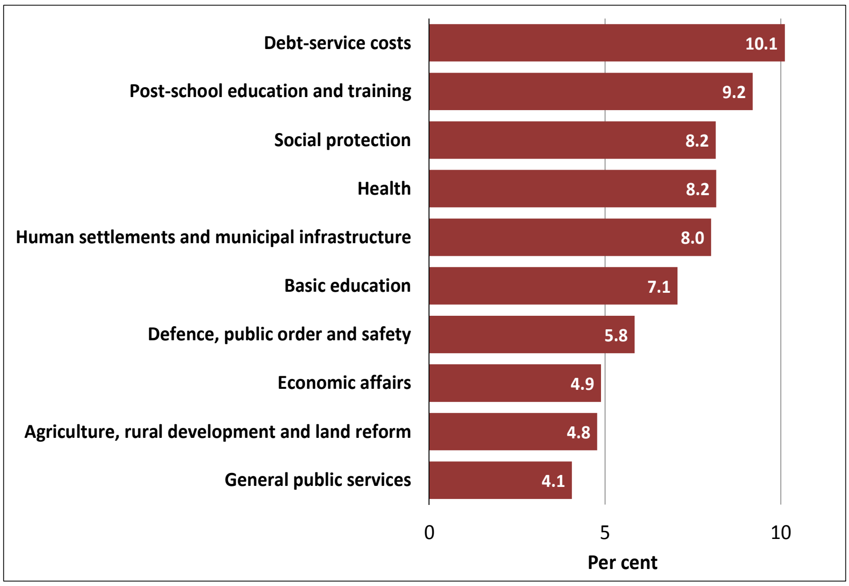
A new cost-control instruction governs school construction. It stipulates that, where final costs exceed the control budget, the project manager must report to the provincial treasury. Such reports provide the opportunity to interrogate cost overruns on projects, track trends, make any necessary changes to the cost model and, where appropriate, take corrective action.

New cost-control instruction to allow corrective action on school construction costs

Medium-term spending proposals

Total government spending is expected to grow at 7.6 per cent in nominal terms over the MTEF period. This section discusses expenditure proposals by function group – a classification of public spending in similar or related areas.

Figure 4.2 Average nominal growth in expenditure, 2016/17 – 2019/20



Source: National Treasury

Figure 4.2 shows that spending in most function groups will grow above inflation. Debt-service costs remain the fastest-growing item, but increase at a slower pace than during the previous three years. The next fastest-growing category is spending on post-school education and training, followed by health and social protection. Slow growth is projected for general public services and economic affairs.

Excluding debt service, post-school education and training is fastest-growing spending category

Table 4.2 Consolidated expenditure by function,[1] 2015/16 – 2019/20

R billion	2015/16 Outcome	2016/17 Revised	2017/18 Medium-term estimates	2018/19	2019/20	Average annual growth 2016/17 – 2019/20
Basic education	**212.5**	**228.4**	**244.8**	**261.9**	**280.6**	**7.1%**
Basic education	203.0	218.3	233.8	250.7	268.8	7.2%
Arts, sport, recreation and culture	9.5	10.1	11.0	11.2	11.9	5.5%
Health	**159.8**	**169.3**	**184.4**	**198.9**	**214.2**	**8.2%**
Defence, public order and safety	**179.1**	**189.5**	**197.9**	**210.7**	**224.6**	**5.8%**
Defence and state security	49.4	52.2	53.7	56.0	59.8	4.7%
Police services	83.2	87.0	93.1	99.3	106.0	6.8%
Law courts and prisons	39.2	41.5	43.8	46.6	49.8	6.2%
Home affairs	7.4	8.8	7.3	8.8	9.1	1.0%
Post-school education and training	**64.5**	**68.6**	**76.6**	**81.1**	**89.3**	**9.2%**
Economic affairs	**187.2**	**207.6**	**216.4**	**225.8**	**239.6**	**4.9%**
Industrial development and trade	28.8	27.9	29.9	32.1	34.4	7.3%
Employment, labour affairs and social security funds	62.5	73.7	76.2	78.0	79.0	2.3%
Economic infrastructure and network regulation	76.0	86.8	90.4	94.7	103.1	5.9%
Science, technology, innovation and the environment	19.8	19.2	19.9	20.9	23.1	6.2%
Human settlements and municipal infrastructure	**174.5**	**181.1**	**197.6**	**212.1**	**228.3**	**8.0%**
Agriculture, rural development and land reform	**25.2**	**26.3**	**26.9**	**28.4**	**30.3**	**4.8%**
General public services	**88.5**	**67.8**	**69.8**	**73.0**	**76.4**	**4.1%**
Executive and legislative organs	12.7	13.0	13.6	14.5	15.3	5.7%
General public administration and fiscal affairs	65.8	43.2	43.7	45.9	47.9	3.5%
External affairs and foreign aid	10.1	11.6	12.4	12.7	13.2	4.3%
Social protection	**153.0**	**165.1**	**180.0**	**193.3**	**208.9**	**8.2%**
Allocated by function	**1 244.3**	**1 303.8**	**1 394.3**	**1 485.2**	**1 592.2**	**6.9%**
Debt-service costs	128.8	147.7	163.6	180.8	197.2	10.1%
Contingency reserve	–	–	6.0	10.0	20.0	–
Consolidated expenditure	**1 373.1**	**1 451.5**	**1 564.0**	**1 676.0**	**1 809.4**	**7.6%**

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

Table 4.3 shows consolidated expenditure by economic classification. Following the proposed 1.1 per cent reduction of national departments' operating budgets, spending on goods and services is projected to grow in line with inflation. Government also proposes to reduce large conditional grants over the medium term. However, at 7.3 per cent, growth in spending on transfers continues to outpace inflation. Payment for capital assets will grow at 5.2 per cent over the medium term. The contingency reserve will increase from R6 billion in 2017/18 to R20 billion in 2019/20.

Table 4.3 Consolidated expenditure by economic classification,[1] 2015/16 – 2019/20

R billion	2015/16 Outcome	2016/17 Revised	2017/18 Medium-term estimates	2018/19	2019/20	Average annual growth 2016/17 – 2019/20
Current payments	**798.9**	**874.1**	**939.9**	**1 010.1**	**1 085.3**	**7.5%**
Compensation of employees	472.8	515.0	549.4	587.0	629.7	6.9%
Goods and services	190.9	204.5	219.7	234.6	249.9	6.9%
Interest and rent on land	135.3	154.5	170.7	188.5	205.6	10.0%
of which: Debt-service costs	*128.8*	*147.7*	*163.6*	*180.8*	*197.2*	*10.1%*
Transfers and subsidies	**441.4**	**470.1**	**508.6**	**541.7**	**580.9**	**7.3%**
Provinces and municipalities	108.2	113.1	120.3	129.5	142.9	8.1%
Departmental agencies and accounts	26.1	24.9	26.9	28.6	29.9	6.4%
Higher education institutions	27.5	30.5	37.5	39.7	45.0	13.8%
Foreign governments and international	2.1	2.2	2.0	2.1	2.7	7.1%
Public corporations and private enterprises	30.7	30.8	34.3	36.9	35.0	4.4%
Non-profit institutions	28.2	30.1	31.3	32.7	34.5	4.6%
Households	218.7	238.6	256.3	272.3	290.9	6.8%
Payments for capital assets	**102.6**	**101.1**	**104.4**	**109.2**	**117.9**	**5.2%**
Buildings and other capital assets	81.0	78.7	79.9	83.9	89.2	4.3%
Machinery and equipment	21.6	22.5	24.5	25.4	28.7	8.5%
Payments for financial assets	**30.3**	**6.2**	**5.2**	**5.1**	**5.3**	**–**
Total	**1 373.1**	**1 451.5**	**1 558.0**	**1 666.0**	**1 789.4**	**7.2%**
Contingency reserve	–	–	6.0	10.0	20.0	–
Consolidated expenditure	**1 373.1**	**1 451.5**	**1 564.0**	**1 676.0**	**1 809.4**	**7.6%**

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

Source: National Treasury

Basic education, arts and sport

Education accounts for about 40 per cent of public-sector employment, and absorbs the largest share of provincial budgets. In 2015/16, R153.4 billion or 78 per cent of total provincial education expenditure went to employee compensation.

Over the MTEF period, government will roll out the Second Chance Matric Programme. This offers learners who wrote grade 12 exams after 2008, but did not pass, an opportunity to earn a national senior certificate. An early-grade reading assessment will also be launched to solidify learners' reading proficiency in their home languages, and ensure an easier transition to using English as a language of learning and teaching in the intermediate phase.

New programme to give learners a second chance to write matric

To increase the number of qualified teachers aged 30 and below entering the public service, the Department of Basic Education plans to award 39 000 Funza Lushaka bursaries over the medium term. The bursaries will go to teachers in priority subject areas such as mathematics, science and technology. The department also plans to print and distribute about 180 million workbooks to schools over the MTEF period at a projected cost of R3.2 billion.

Through the *school infrastructure backlogs grant*, the department expects to replace 510 inappropriate and unsafe school facilities by 2018/19. Over the same period, the grant will fund water provision for 1 120 schools, sanitation for 741 schools and electricity for 916 schools.

Over the medium term, 510 inappropriate and unsafe school facilities to be replaced

In the sport sector, medium-term funding is targeted to support school sports, the Indigenous Games, sporting federations, and to promote transformation. Social cohesion remains the cornerstone of arts and culture programmes. Over the medium term, the sector will focus on an improved rollout of Mzansi Golden Economy arts, culture and heritage initiatives, and heritage legacy projects.

Post-school education and training

NSFAS receives additional allocations for underfunded university students

In the 2016 Budget, R5.6 billion was added to university subsidies to fund the zero per cent fee increase for the 2016 academic year. NSFAS received additional funding of R10.6 billion over the 2016 MTEF period. Of this amount, R2.5 billion was allocated in the current year for short-term debt relief for 71 753 unfunded or inadequately funded students who were at universities in the 2013, 2014 and 2015 academic years. The remaining R8 billion was for unfunded new and continuing students for the 2016 academic year and beyond.

In the 2017 MTEF, government will fund the increase in fees at higher learning institutions for the 2017 academic year, up to a maximum of 8 per cent, for students from households earning up to R600 000 per year. Significant top-ups are also made to NSFAS.

Table 4.4 Additions to support universities and students, 2016/17 – 2019/20

R million	2016/17	2017/18	2018/19	2019/20	Total
2016 additions	**4 882**	**5 555**	**5 832**	**–**	**16 269**
NSFAS historical debt relief	2 543	–	–	–	2 543
NSFAS extension	2 039	2 992	3 013	–	8 044
Zero fee increase	300	2 563	2 819	–	5 682
2017 additions	**1 543**	**4 988**	**5 346**	**5 717**	**17 594**
NSFAS extension	1 543	2 370	2 560	2 764	9 237
Universities: Fee increase subsidy	–	2 460	2 618	2 775	7 853
TVET colleges: Fee increase subsidy	–	158	168	178	504
Total	**6 425**	**10 543**	**11 178**	**5 717**	**33 863**

Source: National Treasury

Government is working to expand post-school education and training to produce a larger pool of mid- to high-level skills as envisioned in the National Development Plan (NDP). Improving learner throughput rates by developing teaching and learning support plans for technical and vocational education and training (TVET) colleges is a priority. These colleges will also receive support to refurbish workshop facilities, and to obtain equipment and protective gear for practical training. Training for artisans will be expanded, and community education and training will receive support.

Public expenditure reviews

On 31 October, the National Treasury will publish the results of 27 performance and expenditure reviews, which were co-initiated with the Department of Planning, Monitoring and Evaluation in 2013. The reviews scrutinise expenditure and programme performance data to assess and improve the cost effectiveness of public policy and budget planning. A key observation emerging from the studies is that policies are sometimes designed with unrealistic expectations regarding the availability of funding.

The reviews, compiled by consultants, should be considered advisory submissions that do not necessarily reflect government's views or assessment. Sample observations from the reviews include the following:

- Housing – A comparison of six housing programmes funded through the *human settlement development grant* shows that only 123 000 housing units are delivered per year, against the published number of 254 000 units. The full cost of an RDP house is calculated at R169 000, compared with a subsidy of just R90 000 at the time of the study. The additional costs are largely met from municipal infrastructure funding. Mobilisation of private finance is insufficient. At the present pace of delivery, it would take 30 years to eradicate the estimated backlog of 2 million housing unit using the RDP and informal settlement model of delivery, at a cost of R600 billion.
- Water and sanitation – A study covering four municipalities found that weak revenue management, a failure to bill consumers, low payment levels and ineffective debt collection undermine the sustainability of water services. Should non-revenue water be reduced to 25 per cent through repairs, maintenance and refurbishment, the municipalities in the study could realise an additional R800 million per year.
- TVET colleges – From 2010 to 2014, enrolments in TVET colleges nearly doubled, from 358 393 to 702 383. Colleges receive over 85 per cent of their funding from government. In 2013, the estimated throughput rate for the National Certificate Vocational was just 10.6 per cent, which means that for every 10 students that enrol in a certificate course, only one completes the course after six years.
- Partnering of science councils with private sector – As a group, the science councils are not effective in partnering with the private sector. Mintek and the Council for Scientific and Industrial Research (CSIR) are exceptions. For every R1 that government invests in the science councils, only R0.62 in private income is generated, compared with the global norm of 1:1.
- Cost drivers in foreign missions – Over the past three years, the rate of spending growth at foreign missions has exceeded the rate of rand depreciation. Spending growth was driven largely by higher property costs, allowances for South African staff, and growth in the number of locally recruited personnel. Cost-of-living allowances for South African staff at missions are exceptionally generous, ranging from R600 000 to R1.3 million per year, and are paid on top of full salaries, accommodation, education and other allowances.

Health

Antiretroviral treatment programme now reaches 3.5 million people

Spending growth in health is mainly to support the expansion of the HIV/AIDS programme, in particular antiretroviral treatment, which now reaches 3.5 million people. A significant increase in antiretroviral therapy is expected with the implementation of universal test-and-treat (treatment initiation in all age groups regardless of CD4 count) in September of this year. Government has also adopted the 90-90-90 HIV and AIDS targets (90 per cent of people living with HIV know their status, 90 per cent of those who know their status have been introduced to antiretroviral therapy, and 90 per cent of those receiving treatment have suppressed viral loads).

Compensation costs and growing utilisation have put pressure on healthcare budgets

Health-sector budgets are under pressure due to compensation costs, rising utilisation of public health services, higher import prices of medicines as a result of currency depreciation, and sector priorities that require additional funding. The latter includes the Nelson Mandela Children's Hospital in Johannesburg, which is to be opened later this financial year and needs operational funding.

The health sector accounts for about 12 per cent of public expenditure and it is important to use these resources efficiently. The public health system is realising lower pharmaceutical costs as a result of centralised tendering, market intelligence, medicine stock surveillance and new distribution systems.

Proposed sugar tax to be introduced alongside health promotion interventions

The proposed sugar-sweetened beverage tax is expected to help reduce the incidence of non-communicable disease associated with high sugar intake, such as heart disease, stroke and type 2 diabetes. Health promotion interventions, including primary prevention and early detection of non-communicable diseases, will be implemented alongside the proposed tax.

Social protection

As announced in the 2016 Budget Speech, the old-age, disability and care dependency grants each increase by R10 in October 2016. Government has now decided to also increase the child support grant by R10 to R360 to offset the effects of high food inflation recorded earlier this year.

In addition, Cabinet has approved in principle an extended child support grant for orphans who have lost both parents but are in the care of extended family members. The grant, which could be implemented in 2018/19, brings the income protection afforded to these orphans closer to parity with that provided to orphans in foster care.

New conditional grant to expand early childhood development services to be introduced

With effect from 2017/18, a new conditional grant to provinces will support the employment of social worker graduates from the national scholarship programme. Social workers will be employed by provinces and non-profit organisations. A second conditional grant will expand early childhood development services and the maintenance of related infrastructure. The National Treasury is working with the Department of Social Development on a strategy to guide future financing for early childhood development.

Agriculture, rural development and land reform

In line with the aims of maximising agriculture's contribution to jobs and growth, and more efficient use of public resources, several government departments are working to improve coordination of farmer support programmes. This will eliminate existing overlaps and double-dipping of funding from the agriculture and rural development departments.

Government provides a further R553.3 million for drought relief

National and provincial government reprioritised R1.6 billion towards emergency funding for drought-relief initiatives between April 2015 and June 2016. The funding was used to provide water-tankering services and animal feed, and to refurbish and drill boreholes. The 2016 *Adjusted Estimates of National Expenditure* allocates a further R553.3 million for the acquisition of a mobile desalination plant and animal feed, ahead of rains expected later in the year.

Over the medium term, the agri-parks initiative will be rolled out. These parks are intended to help small farmers with production, processing, logistics, marketing and training within district municipalities. They are expected to contribute to rural job creation.

Science, technology and the environment

National Research Foundation to grow number of masters students supported to 5 350

Over the medium term, the Department of Science and Technology will focus on increasing research and development. The CSIR will perform relevant research, strengthen the skills base, and transfer skills and technology. Each year the CSIR will fund research that will result in at least 25 new technology demonstrators and 15 new patents. National

Research Foundation funds will increase the number of masters students supported to 5 350 per year over the three-year period.

During the MTEF period, government will establish the Waste Bureau, which will be responsible for overseeing the implementation of industry waste management plans. This includes managing and disbursing revenue collected from waste management charges, and putting in place a new institutional arrangement to manage the recycling of tyres and associated revenue collection.

Bureau to oversee implementation of industry waste management plans to be established

Employment, labour and social security funds

Spending in this area is aligned to medium-term strategic framework targets to be achieved by 2019: creating 6 million short- to medium-term jobs through the Expanded Public Works Programme, increasing statutory workplace inspections by the Department of Labour, and promoting industrial development and trade.

Government expects to roll out the Community Work Programme in every municipality by March 2017. Over the next three years, the Jobs Fund is expected to spend R3.7 billion on projects that create permanent jobs, and address structural constraints to growth and employment. While spending on the fund has been slow, it has created permanent employment at a cost of R52 000 per job, which compares favourably with other government programmes.

A proposed R45 billion will be allocated to promote industrialisation, economic transformation and sustainable resource management over the medium term. A significant portion of this amount will be provided through incentives, industry promotion, and assistance to small enterprises and cooperatives.

Medium-term allocation of R45 billion to support industrialisation and transformation

Human settlements and municipal infrastructure

Human settlements and municipal infrastructure investments are focused on improving access to housing, water, sanitation, electricity, and safe and reliable public transport. Over the medium term, funding will support water, sanitation and electrification infrastructure demand in rural areas, and improve mobility and access to shelter in urban areas.

To improve the provision of social housing subsidies, which help poor households access affordable rental housing, government proposes shifting funds from the *human settlements development grant* to the Social Housing Regulatory Authority. This shift is expected to speed up the delivery of 4 944 rental housing units for households with an income of below R3 500 per month.

Delivery of rental housing units for low-income households to be speeded up

Over the medium term, funds are shifted from the *human settlements development grant* to the Housing Development Agency for project planning of catalytic projects intended to change the structure of towns and cities. The projects are to be implemented between 2016 and 2030.

The NDP targets 2030 for universal access to electrification. With a focus on 27 underserviced districts, connection costs are increasing, because targeted areas are less accessible and further from the grid. Government is increasingly making use of advances in non-grid, renewable technology.

Over medium term, 772 650 households are to be connected to the grid

Over the medium term, the Integrated National Electrification Programme expects to provide 772 650 households with access to electricity. An amount of R99.3 million will be reallocated from the programme to establish the National Radioactive Waste Disposal Institute, which is responsible for disposing waste at Koeberg and Pelindaba. The allocation is for the start-up costs as the institute's operations are to be self-funded.

Above-inflation increases to bulk services and household growth increase municipal financial obligations significantly. As a result, R1 billion is added to the local government equitable share in 2018/19.

Economic infrastructure and network regulation

Government continues to invest in economic infrastructure in line with the NDP.

N2 Wild Coast road project to reduce travel time between Durban and East London

The baseline allocation of the South African National Roads Agency Limited includes planning for the construction of the N2 Wild Coast road, upgrades to the R573 Moloto Road, and the maintenance of 21 403km of the national road network. The N2 Wild Coast road is to be approximately 410km, of which 112km is new and includes nine bridges. Funding for the major bridges crossing the Msikaba and Mtentu river gorges will be from the budget and the road upgrades will be tolled. The project will reduce travel time between East London and Durban by up to three hours. In addition, a medium-term allocation to the *provincial roads maintenance grant* is expected to maintain 5 390km of provincial roads.

Government plans to begin connecting public buildings to high-speed internet over the MTEF period and will provide broadband to 6 135 government sites at a minimum speed of 10 megabits per second. Given delays as a result of litigation, government proposes to shift funds away from subsidies for set-top boxes in 2017/18. The funds will be reallocated to the dual illumination project, which will operate both digital and analogue signals for an interim period before shutting off the analogue signal as part of the migration to digital.

Funds are reassigned to support the capacity of the Ports Regulator, and to develop the capacity for rail economic regulation in anticipation of the proposed single transport economic regulator. To improve management of water resources and strengthen coordination with other institutions involved in water-related matters, funds are shifted to establish water catchment management agencies.

Defence, public order and safety

Over the medium term, the South African Police Service will strengthen implementation of its back-to-basics strategy. The strategy seeks to promote an approach to policing focused on every police officer doing the basics of policing properly and consistently.

Funds shifted within Department of Defence for healthcare costs of defence force members

Funds are to be reallocated within the Department of Defence to provide comprehensive health care to South African National Defence Force members, their dependents and military veterans. These funds will cover the increasing costs of essential medicine and medical supplies. Refurbishment of military hospitals will also limit outsourcing of these health services.

Funds will be reprioritised to the Department of Home Affairs to augment the budget for the implementation of the advanced passenger processing system. The system will prevent people who are prohibited or undesirable persons as defined in the Immigration Act (2002) from boarding flights to South Africa. It will also allow authorised agencies to conduct risk profiling of passenger information.

Funds reprioritised to Department of Home Affairs for advanced passenger processing

General public services

The focus over the medium term will be on improving service delivery, complemented by effective accountability to citizens. A central task will be implementing the IFMS and cleaning up the PERSAL human resources system for the public service.

The Department of Planning, Monitoring and Evaluation will step up service delivery monitoring over the medium term. This will include 90 unannounced visits to service delivery facilities per year. Over the medium term, sites to be visited include hospitals, clinics, police stations, Home Affairs local offices and magistrate courts.

Division of revenue

Over the three-year spending period ahead, national departments are allocated 47.5 per cent of available non-interest expenditure, provinces are allocated 43.4 per cent, and local governments are allocated 9.1 per cent. These allocations equate to spending growth of 5.3 per cent for national government (excluding indirect grants), 7.5 per cent for provinces and 8 per cent for local government. Strong growth in allocations to provincial and local government reflects the priority placed on frontline services such as health, education and basic services, as well as the rising cost of these services due to higher wages, population growth, and bulk electricity and water costs.

Strong growth in allocations to provinces and local government prioritises frontline services

Table 4.5 Division of revenue, 2016/17 – 2019/20

R billion	2016/17	2017/18	2018/19	2019/20	Average annual growth 2016/17 – 2019/20
National allocations	559.8	589.7	631.3	681.5	6.8%
Provincial allocations	500.5	538.1	578.6	621.0	7.5%
Local government allocations	104.9	112.5	121.5	132.3	8.0%
Total allocations	**1 165.2**	**1 240.4**	**1 331.4**	**1 434.8**	**7.2%**
Percentage shares					
National departments	48.0%	47.5%	47.4%	47.5%	
Provincial	43.0%	43.4%	43.5%	43.3%	
Local government allocations	9.0%	9.1%	9.1%	9.2%	

Source: National Treasury

Provincial funding challenges: equitable share reductions

Provinces continue to face funding challenges over the MTEF period, mainly as a result of the 2015 public-sector wage settlement, which increased compensation costs above budgeted amounts. In addition, fiscal consolidation and reprioritisation affects all spheres of government. As a result, reductions are proposed for the provincial equitable share, and a small number of provincial and municipal conditional grants. However, funds are added in the outer years of the MTEF period to compensate for rising costs in the services funded through the provincial and local government equitable shares.

Review of provincial equitable share formula to be completed in 2018

The National Treasury, working with provincial treasuries, Statistics South Africa, Financial and Fiscal Commission and related national departments, has begun an in-depth review of the provincial equitable share formula. The first phase of this process is complete, and the review is expected to be completed in 2018.

Efficient municipal expenditure to support basic services

Newly elected municipal councils are responsible for drawing up integrated development plans that will guide their investments over the next five years. Given budgetary constraints, all municipalities need to focus on more efficient spending and value for money to improve basic service delivery. Rigorous financial management – including transparent procurement practices, effective billing and revenue collection, and timely payment of creditors – is a prerequisite for improving municipal performance. Measures to support municipalities and, where appropriate, enforce compliance, will be strengthened.

Coordinated action in infrastructure delivery key to promoting growth

National government will also work with municipalities to plan their infrastructure investments in ways that promote economic growth and reverse apartheid spatial planning patterns. This requires coordinated action in the delivery of infrastructure, housing and public transport services to create denser, more inclusive and productive settlements. Initiatives to accelerate investment in fully subsidised and affordable housing, and to accelerate the integrated in-situ upgrading of informal settlements, will be introduced. These will complement work to prepare a pipeline of land development programmes in larger cities.

Measures to improve coordination of urban public transport systems will be introduced to complement ongoing investment in commuter rail and bus rapid transit systems. Government will also work with financially sound municipalities to expand their investment programmes on the strength of their own balance sheets. Programmes to this effect are under development in partnership with the private sector and development finance institutions.

Details of changes to transfers to provinces and local government over the MTEF period are contained in the technical annexure.

Conclusion

Downward revisions to revenue forecasts and new spending pressures have prompted revisions to spending plans, including reductions to operating budgets, and transfers to provinces and public entities. Headcounts have come down and future public-sector wage agreements, if balanced, could allow growth. Given the constrained fiscal environment, improving spending quality is a necessity.