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Levers of economic change

Introduction

South Africa's budget policy framework is guided by the challenges of growth, job creation and poverty reduction. The 2012 Budget gives effect to the stance outlined in last year's *Medium Term Budget Policy Statement*, setting out a fiscal framework that will narrow the gap between spending and revenue, support the economy, strengthen capital investment and improve the performance of the public service.

Budget is about growth, job creation, infrastructure investment, education and better service delivery

Faster economic growth must go hand in hand with job creation and generate the tax revenue that enables government to pursue progressive developmental policies. Though gross domestic product (GDP) growth is likely to be subdued in 2012, the strengths of the South African economy, and progress towards a global recovery, will contribute to higher growth over the medium term.

But development is not just the pursuit of faster growth – it is also about creating a more equitable future. As South Africa negotiates its way through the present global transition, we must shift the balance of opportunity towards those for whom work, regular income, decent shelter and adequate nutrition are still aspirations. Expanding construction of economic and social infrastructure, enhancing economic competitiveness, moderating remuneration and consumption, sustaining investment in people and skills, supporting rural development and job creation are among the levers of economic change at our disposal.

'…We will begin to write a new story about South Africa – the story of how, working together, we drove back unemployment and reduced economic inequality and poverty.'
– President Zuma, 2012 State of the Nation Address

Finding a path through the global crisis

The global financial and economic crisis that began in 2008 has confronted the world with a range of difficult challenges and questions. Previously accepted paradigms have been discredited and new solutions are being sought:

- The global system of financial regulation failed to prevent the crisis. A vigorous debate is now under way to determine what constitutes suitable oversight of international and national financial architecture, banking systems, equity and bond markets, and related institutions.
- Excessive accumulation of debt, which set the crisis in motion, has yet to be unwound. Debt burdens continue to weigh on growth in the United States and Europe.
- National budgets in many countries are under pressure, and limited fiscal resources are confronted by rising demand for social services and stimulus measures in the face of weaker growth.
- Widespread inequality, which has risen sharply in many countries, is fuelling public anger and political instability.
- Unemployment has increased, with the challenge of mass joblessness among youth placing many countries in a chronic predicament.
- Unsustainable social security arrangements are creating fiscal and financial instability – particularly in Europe.

South Africa entered the global crisis with its own legacy of inadequate infrastructure, widespread poverty and inequality, structural unemployment and a slow pace of transformation. Entrenched in a long history of unbalanced development, these challenges require a clear change of direction and new momentum.

A healthy fiscal position has enabled government to maintain social and economic spending programmes despite the decline in revenue during the 2009 recession. Yet more effective levers of change are required to accelerate development.

Global dynamics point to the direction of change that South Africa needs to take

Shifting dynamics in the global economy point to the direction of change required. New patterns in trade and finance, investment and technology, skills acquisition and distribution, business restructuring and global cooperation are transforming the international landscape. Given reduced demand from its traditional markets, South Africa's trade and industrial policies will encourage local firms to explore new areas of growth based on improved competitiveness. China, India and Brazil offer significant opportunities. Infrastructure, mining, finance and retail developments across Africa are helping to fuel an impressive growth trajectory in which South African firms can participate.

Competing in this dynamic global environment requires flexibility, innovation and bold leadership in government and the private sector. Moving towards a more adaptable economy requires greater progress in building capable developmental public institutions and a compelling environment for business investment.

Building a stronger economy

Macroeconomic framework includes a countercyclical fiscal and monetary stance that supports growth and investment

South Africa's macroeconomic framework includes a countercyclical fiscal and monetary stance that supports growth and investment. Stable and low inflation protects living standards, particularly of working families and low-income households. Low interest rates, regulatory certainty and enabling public-sector investments encourage the private sector to expand existing businesses and explore undiscovered opportunities. Yet macroeconomic measures are not enough; they need to be complemented by trade support, competition policy and active labour market measures. And the greatest opportunities for inclusive growth lie in the productive mobilisation of South Africa's people. Policies and programmes for a healthy, educated, skilled and capable citizenry are the most powerful levers of social and economic change.

Strengths include sound fiscal and monetary policies and a well-capitalised banking sector

South Africa has considerable strengths on which to build. The banking sector is well capitalised and improvements in capital market regulation will reinforce the resilience of this sector. The introduction of fiscal guidelines has enhanced transparency about long-term fiscal choices. As outlined in the 2012 State of the Nation Address, a public infrastructure plan, overseen by the Presidential Infrastructure Coordinating Commission, will catalyse investment in five major regions.

Proposals to spur growth and development

Key elements of South Africa's growth and employment strategy are elaborated in a draft national development plan published last year by the National Planning Commission, building on the New Growth Path adopted in 2010. The Commission identifies unemployment, income inequality, poor-quality education, poorly located and insufficient infrastructure, the resource intensity of exports and skewed spatial patterns as the main challenges facing the economy.

The proposed interventions aim to expand economic opportunity for all through investing in infrastructure, diversifying exports, strengthening links to faster-growing economies, enacting reforms to lower the cost of doing business, reducing constraints to growth in various sectors, moving to more efficient and climate-friendly production systems, and encouraging entrepreneurship and innovation.

Improving infrastructure and network services that support industries such as mining and agriculture, as well as new, dynamic industries, will be the focus of a more labour-absorbing growth path. Regulatory reform, improved competitiveness and an enabling investment climate will boost employment and growth prospects.

Lower living costs and improvements in the skills base will improve the ability of individuals to respond to job openings and economic downturns. Combined with higher labour market participation, earnings moderation will help to lower the level of income inequality.

South Africa has to use its strengths. This means getting more people working, exploiting our mineral wealth, and making good use of local innovation and business know-how.

For these proposals to become effective levers of change, the quality of leadership and improved cooperation between business, labour and government are critical.

Plans to reform social security and introduce national health insurance for all South Africans

South Africa also has plans to transform public institutions in need of overhaul. Reforms to social security and the organisation of health services will protect the vulnerable and promote inclusion. The introduction of national assessment tests across the school system provides a foundation for monitoring quality improvement. More direct incentives for industrial development and enhancing competitiveness will boost investment and job creation. Improved public administration will reduce the costs of doing business and alleviate bureaucratic delays. Budgetary and financing arrangements in all of these areas are critical to ensure good governance, competitive procurement, value for money and fiscal sustainability.

The 2012 *Budget Review* sets out revenue and spending proposals in the context of the economic outlook. It includes a special focus on infrastructure plans, signalling a new impetus in public-sector investment as a foundation for long-term growth, employment and development. It also reinforces themes emphasised in several past budgets: industrial competitiveness and improving trade performance, moderation in consumption and higher savings, investment in skills, improving the quality of education and enhancing the efficiency of the public service.

Highlights of the 2012 Budget

Economic recovery and employment

- Economic growth forecast to slow from 3.1% in 2011 to 2.7% in 2012, increasing to 4.2% by 2014
- Consumer price inflation to rise from average of 5% in 2011 to 6.2% in 2012, declining to 5.1% in 2014
- Current account deficit to rise from 3.3% of GDP in 2011 to average 4.4% over next three years
- Employment is growing – 365 000 jobs were created in the year to December 2011 and unemployment fell to 23.9%

Budget framework

- Additional R55.9 billion in government expenditure plans over next three years
- Real growth in non-interest expenditure of 2.6% over MTEF
- Budget deficit of 4.6% projected in 2012/13, 4% in 2013/14 and 3% in 2014/15
- National government net loan debt projected to reach R1.5 trillion in 2014/15
- Debt stock and interest costs as percentage of GDP to stabilise over medium term

Tax proposals

- Personal income tax relief of R9.5 billion
- Tax incentive to encourage savings
- Reforms to medical scheme contributions and retirement savings deductions
- Tax relief for micro and small businesses
- Dividend withholding tax introduced at 15%
- Capital gains tax increased
- A packet of 20 cigarettes will cost 58c more
- A litre of wine will cost 18c more, a 340ml can of beer will cost 9c more and a 750ml bottle of spirits will cost R6 more
- General fuel levy increase of 20c a litre, and 8c a litre more for the Road Accident Fund
- Electricity levy increased by 1c/kWh

Additions to spending plans over next three years

- R9.5 billion for the economic competitiveness and support package, including R2.3 billion for dedicated special economic zones
- R6.2 billion for job creation
- R3 billion for equalisation of subsidies to no-fee schools and expansion of access to grade R
- R1 billion for national health insurance pilot projects
- R1.4 billion for early childhood development
- R4 billion for passenger rail coaches
- R1 billion for rail signalling and depot infrastructure
- R4.7 billion for solar water geysers
- R1.8 billion for municipal water infrastructure
- R3.9 billion for upgrading informal settlements

Fiscal sustainability and growth

Over the medium term, the deficit will be reduced and public debt stabilised as a percentage of GDP

To achieve its developmental mandate, government requires sufficient tax revenue, which is derived directly from economic activity. In response to the global economic downturn, government temporarily increased borrowing to maintain public services and infrastructure spending. Over the medium-term expenditure framework (MTEF) period, the deficit will be reduced and public debt stabilised as a percentage of GDP.

Fiscal consolidation, phased in as the economy improves, will avoid the social and economic dislocation associated with more rapid adjustments. It takes into account the rising financing requirements of state enterprises and private-sector investment. Over the next three years, budget policy will be guided by the principles expressed in South Africa's fiscal guidelines – countercyclicality, sustainability and intergenerational fairness. Government will continue to focus on value for money, shifting resources from consumption towards infrastructure investment, and support for economic competitiveness.

Value for money

Total government spending next year will reach R1.1 trillion

An uncertain global growth outlook and the need to rebuild fiscal buffers means that state resources will remain constrained for some time to come. The resources made available to government in the 2012 Budget are nevertheless considerable. Total government spending next year will reach R1.1 trillion. This represents a doubling in expenditure since 2002/03 in real terms (after taking account of rising prices).

Despite consistent growth in public spending over the past decade, rising budget allocations have not been matched by a commensurate improvement in service-delivery outcomes. Over the period ahead, government is taking steps to strengthen efficiency in public spending, to eliminate wastage, to improve the alignment between allocations and policy priorities, and to root out corruption.

Procurement reforms required, accompanied by greater transparency and disclosure

Public-sector financial management failures need to be addressed more vigorously, mainly in the procurement of goods and services and in contract management. Changes to regulations may be required, including greater transparency and public disclosure, and more rigorous tender procedures. Stringent oversight and better training programmes are needed. In state institutions and in the business sector, better value for money depends on honesty, transparency and fair rules.

Improving financial management and rooting out corruption in the public sector

Combating corruption requires steps to improve financial management, combat misconduct and ensure transparency in the supply chain. The National Treasury is working with departments in all these areas.

- Making use of reports by the Auditor General, strategic support plans are compiled for departments that obtained qualified, adverse or disclaimed audit opinions. This work has contributed significantly to improved financial management and audit outcomes within Correctional Services and Home Affairs. The National Treasury plans to build on these successes over the period ahead.
- The Treasury has developed a capacity-building model for public-sector financial management. Training for new and existing staff in accounting frameworks and standards is being provided.
- A multi-agency working group on supply chain management has been established. It aims to improve compliance with supply chain management prescripts and prevent tender/bid-related fraud and corruption throughout government. The group includes representatives from the Treasury, the South African Revenue Service and the Financial Intelligence Centre.
- Internal controls are being strengthened, and a public-sector audit committee forum is being established to train audit committee members.

Shifting the composition of spending

Maintaining the value of social expenditure while shifting emphasis to capital investment

Over the past decade, substantial increases in social service spending and social grant transfers have improved welfare and reduced poverty. In the period ahead, budgeting will give greater emphasis to infrastructure, employment and economic growth. International experience demonstrates that higher levels of public and private investment in economic and social infrastructure promotes more rapid GDP growth, rising employment and per capita incomes, and a broadening of economic activity.

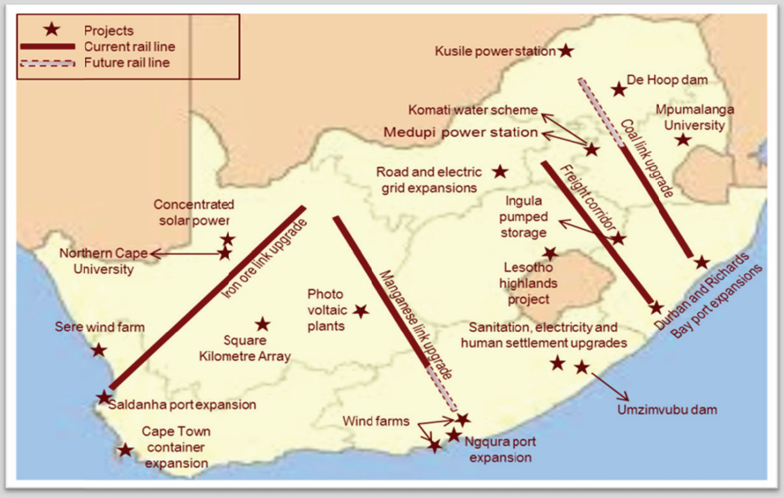
A new vision for infrastructure delivery

The Presidential Infrastructure Coordinating Commission, comprising Cabinet ministers, provincial premiers and metropolitan mayors, and led by the President and the Deputy President, has identified several regional investment plans, each with a series of large interconnected projects.

These initiatives aim to open up agricultural, mining and industrial opportunities that are dependent on energy, water and transport capacity. They include several large projects that fall within the investment plans of state-owned entities, and some that are still at a conceptualisation phase and which may require fiscal support. In summary, the proposed regional investment plans are as follows:

- Rail, road and water infrastructure investment in the Waterberg and Steelport regions of Limpopo to support mining and beneficiation, including rail connections to Mpumalanga's coal-fired power stations.
- Further investment in the Durban-Free State-Gauteng logistics corridor, including freight rail improvements, and the expansion of coal freight rail capacity to Richards Bay.
- A southeastern development node, linking industry and agriculture with the export capacity of the Eastern Cape, a new dam on the Umzimvubu River, and various water, sanitation, electricity, roads, housing and airport improvements.
- Water, roads, rail and electricity projects in North West province.
- West Coast projects, including expansion of the iron-ore rail line between Sishen and Saldanha Bay.

In addition, Transnet is to invest in a new manganese export line to the Ngqura port.



Source: Presidency, State of the Nation Address, 2012

Promoting a more competitive economy

Well-maintained network infrastructure (electricity, rail, roads, ports) is a precondition for a globally competitive economy. Economic infrastructure allows businesses to grow and access new markets by providing critical inputs such as water, power, telecommunications, access to technology and a skilled workforce, as well as logistics to distribute goods and services. Social infrastructure improves the health, education and mobility of the population, who are able to become more productive.

Regional infrastructure corridors to expand manufacturing and agriculture

In building on existing public-infrastructure investments, government has identified several regional infrastructure packages. These initiatives combine new and existing projects and will boost exports, expand manufacturing and agricultural potential, and stimulate further investment.

As announced in the *Medium Term Budget Policy Statement*, the 2012 Budget introduces an economic competitiveness and support package. It includes measures to support manufacturers temporarily in distress, build special economic zones, and improve skills and technology in agriculture, mining beneficiation, renewable energy and manufacturing. A total of

R25 billion will be made available over six years, with R9.5 billion allocated in the current MTEF.

South Africa's open books: transparency and accountability in public finances

Government's transparent budget process ensures that Parliament and the public are provided with comprehensive information on the public finances, strengthening oversight and accountability. Over the next 12 months the National Treasury is building on this commitment to transparency:

- Later this year, the Treasury will publish a report on South Africa's long-term fiscal dynamics and the choices facing the country.
- During 2012, the Treasury will begin publishing yearly reports on public debt management.
- From 2013, the consolidated government account will be presented in a more transparent format that clearly distinguishes between government's operating activities, and its plans to invest in capital and infrastructure.
- Collaboration with national departments, together with the Department of Performance Monitoring and Evaluation, will be stepped up to strengthen the quality of strategic and annual performance plans.

Summary of the 2012 Budget Review

Economic outlook

Projected GDP growth of 2.7 per cent in 2012 and 4.2 per cent in 2014

Chapter 2 describes the outlook for the economy and its adjustment to a changing international environment. While developments in Europe will hold back growth somewhat in 2012, South Africa's financial institutions and public finances are sound, and serve as the foundation for higher growth over the medium term. Real growth in GDP is expected to average 2.7 per cent in 2012. Buoyant household consumption expenditure, improved business confidence and investment, rising exports and improved public-sector infrastructure spending are expected to boost economic growth to 3.6 per cent in 2013 and 4.2 per cent in 2014.

Over the medium term, imports are projected to grow quicker than exports in response to strong domestic demand. This will contribute to the current account deficit widening from an estimated 3.3 per cent of GDP in 2011 to 4.4 per cent of GDP in 2014. This level of deficit should be comfortably financed through a combination of foreign direct investment, international investment in the bond and equity markets, long-term foreign loans to public entities and trade finance.

Rand remains subject to changes in global risk appetite

The trade-weighted rand exchange rate depreciated by 13.2 per cent between July and December 2011. In the year ahead, the currency will remain subject to swings in global risk appetite as investors choose between low-yield "safe haven" assets and higher-yielding investments in emerging markets.

Headline consumer price index (CPI) inflation is projected to increase from an average of 5 per cent in 2011 to 6.2 per cent in 2012 as a result of high food prices, rising administered prices and higher prices of imported goods due to the weaker rand. After temporarily rising above the upper limit of the 3-6 per cent target, inflation is forecast to fall to 5.3 per cent in 2013 and 5.1 per cent in 2014.

Opportunities to expand trade with other emerging markets

Shifts in the global economy provide considerable opportunities for domestic growth and employment. This is reflected in the growing share of South Africa's exports to China and the Southern African Development Community, and the relative decline in the share of exports to traditional markets such as Europe.

South Africa can capture a greater share of world manufacturing through focused efforts to achieve a competitive position in global production networks and supply chains. Local firms can also find growing investment opportunities in the African continent, where the commodity boom, improved political stability and prudent macroeconomic policies have fuelled a considerable increase in growth over the past decade.

Policy reforms and actions needed to reduce the cost of doing business, cut red tape, raise productivity and diversify exports

Making the most of these opportunities requires policy reforms and actions by business and labour to reduce the cost of doing business, cut red tape, raise productivity, diversify exports and promote enhanced regional integration. The country's regional and global comparative advantages in mining, infrastructure development, retail and distribution, tourism and financial and professional services offer significant potential for jobs and growth, particularly if underpinned by innovation and productivity gains.

Table 1.1 Macroeconomic outlook – summary

Real growth Percentage	2011 Estimate	2012	2013 Forecast	2014
Household consumption	4.9	3.6	3.8	4.2
Gross fixed capital formation	4.3	4.1	4.5	6.0
Exports	6.0	2.9	5.8	6.6
Imports	9.4	7.2	7.1	8.3
Gross domestic product	**3.1**	**2.7**	**3.6**	**4.2**
Consumer price inflation (CPI)	5.0	6.2	5.3	5.1
Current account balance (% of GDP)	-3.3	-4.3	-4.5	-4.4

Fiscal policy and trends

Chapter 3 discusses fiscal policy – the management of revenue, expenditure and debt – alongside changes to the budget framework. By defining a sustainable fiscal path, government is able to pay for existing programmes without jeopardising the affordability of public services and national priorities.

Table 1.2 Consolidated government fiscal framework

R billion	2011/12 Revised estimate	2012/13	2013/14 Medium-term estimates	2014/15
Revenue	**830.2**	**904.8**	**1 005.9**	**1 118.2**
Percentage of GDP	*27.7%*	*27.4%*	*27.8%*	*28.0%*
Expenditure	**972.5**	**1 058.3**	**1 149.1**	**1 239.7**
Percentage of GDP	*32.5%*	*32.1%*	*31.7%*	*31.0%*
Budget balance	**-142.3**	**-153.5**	**-143.3**	**-121.5**
Percentage of GDP	*-4.8%*	*-4.6%*	*-4.0%*	*-3.0%*
Gross domestic product	*2 995.5*	*3 301.4*	*3 622.2*	*3 997.0*

Budget deficit expected to fall from 4.8 per cent of GDP in 2011/12 to 3 per cent in 2014/15

Growth in government spending alongside falling tax revenue during the economic crisis resulted in the budget deficit reaching 6.5 per cent of GDP in 2009/10. Since then, public spending growth has moderated, which together with a recovery in revenues will allow debt to be stabilised as a percentage of GDP by 2014/15. The budget deficit is expected to fall from 4.8 per cent of GDP in 2011/12 to 3 per cent in 2014/15.

To create the space for a higher share of resources to be allocated to capital and other priority areas, growth in compensation of employees will need to moderate. In addition to normal pay progression, the 2012 Budget makes allowance for a 5 per cent cost of living adjustment for civil servants.

The public-sector borrowing requirement is forecast to decline from 7.1 per cent of GDP in 2011/12 to 5 per cent in 2014/15. The improvement represents a greater contribution from the internally generated cash flows of state corporations to fund their capital expenditure programmes, as well as lower municipal debt issuance.

Tax policy

Chapter 4 discusses tax policy and proposals. Tax revenues have improved in 2010/11 and 2011/12, and should continue to recover in line with growth in economic activity. Revenue has performed well across most tax categories, with corporate income taxes and customs revenue having performed particularly strongly.

Tax revenues should continue to recover in line with economic growth

Table 1.3 Summary of tax proposals

	2011/12		2012/13
R billion	**Budget estimate**	**Revised estimate**	**Budget estimate**
Tax revenue (gross)	741.6	738.7	828.7
Non-tax revenue	10.0	17.6	15.1
Less: SACU payments	-21.8	-21.8	-42.2
National budget revenue	**729.9**	**734.6**	
Revenue before tax proposals			**828.7**
Tax proposals			**-2.3**
(Net) personal income tax relief			-4.3
Business taxes			-6.4
Taxes on goods and services			8.3
Revenue after tax proposals			**826.4**
Budget revenue			**904.8**

The 2012 Budget tax proposals improve the fairness of the tax system. Effective capital gains tax rates are increased. Measures to encourage household saving for retirement and other needs are proposed. Personal income tax brackets are adjusted to take account of inflation. Tax relief is provided for small business. Reforms to the tax treatment of contributions to retirement savings, and further reforms to the tax treatment of medical scheme contributions, are put forward.

Proposals will improve the fairness of the tax system and bolster household savings

Long-term challenges for tax policy include options for funding national health insurance reforms and phasing in the taxation of carbon emissions.

Government borrowing

Chapter 5 discusses government's debt management and borrowing strategy. Sound economic and fiscal policies, deep and liquid domestic capital markets, and the availability of international funding have enabled government to finance substantially increased debt levels since the 2008 recession. As the economy recovers and fiscal consolidation proceeds, government borrowing will moderate, with debt projected to peak at 38.5 per cent of GDP in 2014/15. Government continues to finance its borrowing requirement mainly in the domestic capital market.

As the economy recovers and fiscal consolidation proceeds, government borrowing will moderate

Table 1.4 Projected state debt and debt costs

R billion	2011/12	2012/13	2013/14	2014/15
Net loan debt	**997.5**	**1 189.4**	**1 370.7**	**1 537.7**
Percentage of GDP	*33.3%*	*36.0%*	*37.8%*	*38.5%*
Net domestic debt	943.5	1 138.3	1 327.2	1 493.4
Foreign debt	54.0	51.1	43.5	44.3
State debt cost	**76.6**	**89.4**	**100.8**	**109.0**
Percentage of GDP	*2.6%*	*2.7%*	*2.8%*	*2.7%*

State debt-service costs will peak at 2.8 per cent of GDP in 2013/14 and decline thereafter

Government debt-service costs will reach 2.8 per cent of GDP in 2013/14 and are forecast to decline to 2.7 per cent in 2014/15. Lower debt-service costs create more space to fund priority expenditure. The moderation in government borrowing takes into account rising financing requirements of state-owned enterprises and the private sector as infrastructure spending and business investment gather momentum.

Measures are in progress to improve coordination of the financing arrangements for major infrastructure projects and to enhance the role of the Development Bank of Southern Africa in mobilising appropriate long-term capital. Development finance institutions also have important roles in funding industrial development, extending credit to small enterprises, promoting housing development and supporting agriculture. Government will ensure that these institutions remain financially stable, and facilitate cost-effective funding, enabling them to deliver on their mandates.

Social security and national health insurance

Chapter 6 reviews the role of the social security system in providing income support and helping to alleviate poverty. Despite limited fiscal resources, government provides a safety net for nearly one-third of the population through the social grant programme. Contributory social security reforms and a national health insurance framework are now under consideration, alongside measures to boost job creation and improve work conditions.

Green paper proposing social security reforms to be published in 2012

This year government will publish a green paper proposing major social security reforms. It will recommend that the present fragmented arrangements be replaced by an integrated contributory social security system that includes provision for a basic retirement pension and shared death, disability and unemployment insurance for all workers.

Over the next three years, government will take the first steps to implement national health insurance. As in the envisaged design of social security arrangements, the principle of social solidarity lies at the heart of health reforms: national health insurance coverage will extend to everyone, while its funding will be distributed on the basis of ability to pay.

Infrastructure

Chapter 7 discusses public-sector infrastructure investment. South Africa's investment in infrastructure gained momentum in the years leading up to the 2010 soccer World Cup. In recent years there has been a strong acceleration in investment spending by state-owned enterprises, including Eskom's large power generation projects and several major transport improvement programmes. In some areas, however, project implementation has lagged behind budget allocations.

Budgeted and approved public-sector infrastructure projects over the next three years currently total R844.5 billion. The full list of mega-projects under consideration comprises investments worth an estimated R3.2 trillion. All proposed public-sector infrastructure projects will be subject to rigorous assessment to determine their feasibility. Financing and implementation plans will depend on value for money, impact on regional and sectoral development, and demonstrate long-term benefits.

All proposed infrastructure projects will be subject to rigorous assessment to ensure value for money

Providing financing for social and economic infrastructure that support development will remain a priority for budgets in future years. Similarly, development finance institutions and state-owned enterprises will be expected to continue to expand their contribution to the economy through the financing and development of new infrastructure.

Achieving the planned acceleration in capital investment will require strengthened capacity to plan, assess and implement complex projects, improved coordination between the public and private sectors, and appropriate financing and regulatory arrangements.

Public-sector capacity to plan, assess and implement complex projects will be strengthened

Medium-term expenditure and the division of revenue

Chapter 8 presents government's spending priorities over the medium term and the division of nationally raised revenue. Spending plans focus on developing infrastructure, supporting job creation and improving local government services. In the functional composition of expenditure, development imperatives will lead to shifts over the period ahead. Education will remain the largest category of spending, but investment in economic infrastructure has to be strengthened and support for emerging farmers stepped up. Public health spending will rise as national health insurance reforms are implemented.

Improving the efficiency of government by redirecting spending to priority areas is a central focus of the budget process. Departments and public entities have again cut budgets in selected areas and shifted these funds towards government priorities.

Efficient allocation of resources and cost-reducing initiatives

The budget process evaluates spending to improve alignment between resources and priorities. Provincial and national departments and public entities have been asked to identify areas of inefficient and non-priority expenditure. Particular focus is given to shifting resources from administrative components to frontline services. The overall impact of this exercise on the Budgets tabled for 2009 to 2012 is shown below.

Year	Baseline reprioritisation	General baseline reduction	Total savings realised over MTEF
2009	R9.5 billion	R9.5 billion	R19 billion
2010	R2.6 billion	R23 billion	R25.6 billion
2011	R24.6 billion	R6 billion	R30.6 billion
2012	R17.8 billion	R9.2 billion	R27 billion

After setting aside a contingency reserve of R41.6 billion and provision made for debt-service costs, the MTEF provides for a total of R874.2 billion to be allocated in 2012/13, R941.2 billion in 2013/14 and R1 trillion in 2014/15. Aggregate expenditure over the next three years includes R55.9 billion in additional non-interest expenditure over the baseline projections of the 2011 Budget. National government receives R31.2 billion, provinces R19.4 billion and local government R5.3 billion of these additional allocations. Including the contingency reserve, total non-interest spending by consolidated government grows by 8.1 per cent a year over the period ahead, or about 2.6 per cent in real terms.

Table 1.5 Division of revenue

R billion	2011/12	2012/13	2013/14	2014/15
National allocations	383.7	412.4	446.2	478.8
Provincial allocations	362.6	384.5	411.1	437.0
Equitable share	*291.7*	*309.1*	*328.9*	*349.4*
Conditional grants	*70.9*	*75.4*	*82.2*	*87.7*
Local government allocations	68.2	77.3	83.9	90.7
Total allocations	**814.6**	**874.2**	**941.2**	**1 006.5**
Changes to baseline				
National allocations	3.6	4.2	7.7	19.2
Provincial allocations	4.7	4.0	6.8	8.5
Equitable share	*3.2*	*3.3*	*5.3*	*6.3*
Conditional grants	*1.5*	*0.7*	*1.5*	*2.2*
Local government allocations	-2.0	0.3	1.5	3.5
Total	**6.3**	**8.6**	**16.1**	**31.2**

Budget documentation

The 2012 *Budget Review* includes the following annexures:

- A: Report of the Minister of Finance to Parliament
- B: Statistical tables
- C: Miscellaneous tax amendments
- D: Details of specific excise duties
- E: Budget summary
- F: Glossary.

Two additional annexures are available on the National Treasury website: W1 (Explanatory memorandum to the division of revenue) and W2 (Structure of the government accounts).

The *Budget Review* accompanies several other documents and submissions tabled in Parliament on Budget Day. These include:

- The Budget Speech
- The Division of Revenue Bill, the Appropriation Bill, the Additional Adjustments Appropriation Bill (2011/12 Financial Year) and the Finance Bill (2012)
- *Estimates of National Expenditure*
- *People's Guide* to the Budget
- *Response of the National Treasury to the Budgetary Review and Recommendation Reports of the Portfolio Committees.*

These and other fiscal and financial publications are available at www.treasury.gov.za.