

GOVERNMENT SPENDING PLANS

Government has revised its spending plans in light of weak economic growth and lower-than-expected revenue collection. As announced in the 2016 *Medium Term Budget Policy Statement (MTBPS)*, the 2017 Budget proposes to lower the spending ceiling over the medium-term expenditure framework (MTEF) period by reducing spending on non-core goods and services, and compensation of employees.

A significant portion of funding has been reprioritised to safeguard the provision of social services, bolster public health programmes, mitigate the increasing costs of higher education for students from low- and middle-income households, and maintain infrastructure investment. Apart from debt-service costs, post-school education is the fastest-growing spending category, followed by health and social protection.

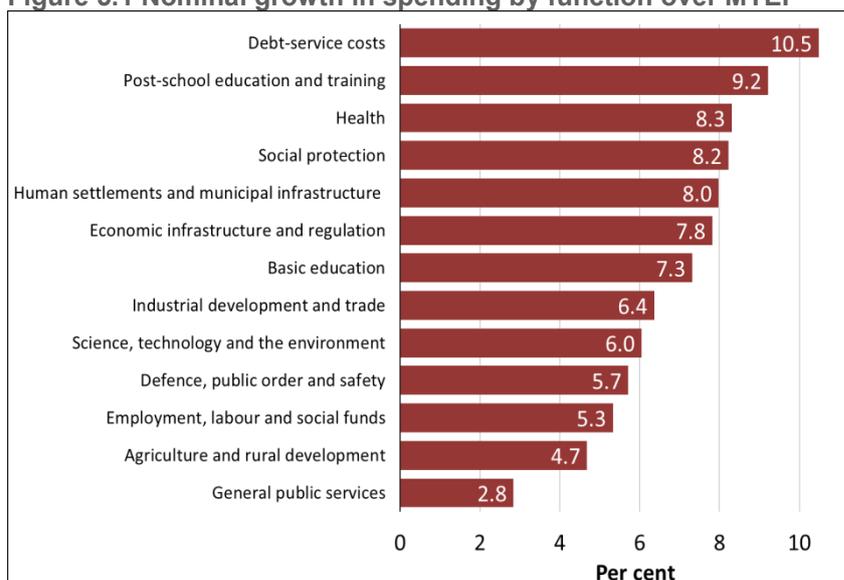
Consolidated spending is expected to increase from R1.4 trillion in 2016/17 to R1.8 trillion by 2019/20, growing by an average of 7.9 per cent per year. This translates to real annual expenditure growth of 1.9 per cent, down from an annual average of 2.3 per cent between 2013/14 and 2016/17.

Consolidated government expenditure

While overall expenditure growth slows over the next three years, growth in spending on compensation of employees remains relatively high at 7.2 per cent per year. Compensation will remain at about 35.3 per cent of consolidated spending over the medium term.

Spending on transfers and subsidies will average growth of 7.7 per cent over the medium term, largely as a result of transfers to higher education institutions, which grow at 10.4 per cent, and transfers to households, which grow at 7.8 per cent to account for social grant increases. Transfers to provinces and municipalities will grow by 8.3 per cent to support basic services, public transport and housing.

Figure 5.1 Nominal growth in spending by function over MTEF



Source: National Treasury

Medium-term spending and the NDP

Government prioritises spending on water, housing, healthcare, education and social security, in line with the Constitution and the Bill of Rights. Government spending is also aligned with the objectives of the National Development Plan (NDP). The medium-term strategic framework sets out NDP priorities from 2014 to 2019. In the 2017 Budget, about two-thirds of consolidated spending is allocated to functional groups dedicated to realising constitutionally mandated social rights.

Government's budget is organised into function groups – departments and entities that pursue similar outcomes across national, provincial and local government. Medium-term allocations for each group are set out in Table 5.6. Detailed information on departmental spending plans can be found in the statistical annexure and in the *Estimates of National Expenditure*. Spending plans for provinces and municipalities are discussed in Chapter 6.

Table 5.6 Consolidated government expenditure by function¹

R million	2016/17 Revised estimate	2017/18 Medium-term estimates	2018/19 Medium-term estimates	2019/20 Medium-term estimates	Percentage of total MTEF allocation by function	Average annual MTEF growth
Basic education²	226 643	242 968	261 292	280 139	17.5%	7.3%
Health	170 888	187 483	201 377	217 131	13.5%	8.3%
Defence, public order and safety	190 036	198 702	210 814	224 956	14.2%	5.8%
Defence and state security	52 341	53 983	56 279	59 998	3.8%	4.7%
Police services	87 521	93 790	99 876	106 528	6.7%	6.8%
Law courts and prisons	41 448	43 756	46 506	49 663	3.1%	6.2%
Home affairs	8 727	7 173	8 152	8 767	0.5%	0.2%
Post-school education and training	68 952	77 550	80 856	89 839	5.5%	9.2%
Economic affairs	201 658	215 047	227 995	244 003	15.3%	6.6%
Industrial development and trade	28 438	28 939	31 662	34 218	2.1%	6.4%
Employment, labour affairs and social security funds	72 275	75 935	79 936	84 462	5.4%	5.3%
Economic infrastructure and network regulation	81 258	89 523	94 792	101 845	6.4%	7.8%
Science, technology, innovation and the environment	19 686	20 650	21 606	23 478	1.5%	6.0%
Human settlements and municipal infrastructure	179 834	195 751	210 170	226 402	14.1%	8.0%
Agriculture, rural development and land reform	25 998	26 534	27 923	29 826	1.9%	4.7%
General public services	69 977	70 694	72 462	75 616	4.9%	2.6%
Executive and legislative organs	12 976	14 340	15 202	16 089	1.0%	7.4%
General public administration and fiscal affairs	45 185	43 943	44 584	46 775	3.0%	1.2%
External affairs and foreign aid	11 816	12 412	12 677	12 752	0.8%	2.6%
Social protection	164 936	180 046	193 548	209 088	13.0%	8.2%
Allocated by function	1 298 923	1 394 774	1 486 437	1 597 001	100.0%	7.1%
Debt-service costs	146 281	162 353	180 652	197 320		10.5%
Contingency reserve	–	6 000	10 000	20 000		
Consolidated expenditure	1 445 205	1 563 127	1 677 089	1 814 321		7.9%

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

2. Includes arts, sports, recreation and culture

Source: National Treasury

Health

The NDP envisions a health system that works for everyone, with a sharp reduction in the country's disease burden and a strong public health system. Spending in this function will grow from R170.9 billion in 2016/17 to R217.1 billion in 2019/20. Health expenditure growth is mainly driven by expanded provision of antiretroviral treatment, which now reaches 3.5 million people. Since September 2016, government has been implementing a universal test-and-treat policy, offering all patients diagnosed with HIV antiretroviral treatment. To sustain this initiative, R1 billion has been earmarked for the *comprehensive HIV, AIDS and TB conditional grant* in 2019/20. As indicated in Chapter 1, government plans to launch a national health insurance fund during 2017/18.

Health expenditure has grown in real terms by about 1.3 per cent between 2012/13 and 2018/19. Public health budgets remain under pressure as a result of increased personnel costs, higher expenditure on the antiretroviral programme and currency depreciation. Although centralised procurement of medicine has resulted in estimated savings of R1.6 billion per year, these savings have largely been offset by the weaker rand, which drives up the cost of imported medicines.

Table 5.7 Health expenditure

R million	2016/17 Revised estimate	2017/18 Medium-term estimates	2018/19 Medium-term estimates	2019/20 Medium-term estimates	Percentage of total MTEF allocation	Average annual MTEF growth
Health expenditure	170 888	187 483	201 377	217 131	100.0%	8.3%
<i>of which:</i>						
<i>Central hospital services</i>	33 055	35 875	38 573	41 578	19.1%	7.9%
<i>Provincial hospital services</i>	29 745	32 293	34 436	36 740	17.1%	7.3%
<i>District health services</i>	75 470	83 640	90 635	98 303	45.0%	9.2%
<i>of which:</i>						
<i>Comprehensive HIV/AIDS and TB grant</i>	15 291	17 558	19 922	22 039	9.8%	13.0%
<i>Emergency medical services</i>	6 600	7 289	7 815	8 357	3.9%	8.2%
<i>Facilities management and maintenance</i>	8 530	9 874	10 614	11 353	5.3%	10.0%
<i>Health science and training</i>	5 332	5 480	5 850	6 238	2.9%	5.4%
<i>National Health Laboratory Service</i>	6 487	7 063	6 542	7 199	3.4%	3.5%
<i>National Department of Health¹</i>	4 465	5 044	5 385	5 700	2.7%	8.5%
Total	170 888	187 483	201 377	217 131	100.0%	8.3%
<i>of which:</i>						
<i>Compensation of employees</i>	108 159	117 288	124 983	133 651	62.0%	7.3%
<i>Goods and services</i>	47 179	52 963	58 187	63 925	28.9%	10.7%
<i>Transfers and subsidies</i>	6 104	5 933	6 378	6 894	3.2%	4.1%
<i>Buildings and other fixed structures</i>	5 793	7 209	7 726	8 090	3.8%	11.8%
<i>Machinery and equipment</i>	3 521	3 967	4 089	4 561	2.1%	9.0%

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

Source: National Treasury

Government has responded by limiting staff numbers, improving efficiencies in medicine procurement and distribution, delaying large infrastructure projects and reprioritising budgets. To compensate provincial health departments and protect them from future currency depreciation, R1 billion will be added to the provincial equitable share in 2019/20.

In 2017/18, the South African Health Products Regulatory Authority will be established as a public entity. It will regulate the registration, licensing, manufacturing and importing of active pharmaceutical ingredients, medicines and medical devices. It will also conduct clinical trials. The new entity will be funded through R397.6 million in transfers from the Department of Health over the medium term and fees collected from the pharmaceutical industry.

Social protection

Government aims to provide a social safety net for all South Africans, particularly the young, elderly and disabled, and to standardise social welfare practices as highlighted in the NDP. Spending on this priority is set to rise from R164.9 billion in 2016/17 to R209.1 billion by 2019/20, growing at an annual average of 8.2 per cent over the medium term.

Table 5.8 Social protection expenditure

	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
R million						
Social protection expenditure	164 936	180 046	193 548	209 088	100.0%	8.2%
<i>of which:</i>						
<i>Social grants</i>	138 699	151 580	163 223	175 579	84.2%	8.2%
<i>of which:</i>						
<i>Child support</i>	51 351	56 287	60 494	64 768	31.2%	8.0%
<i>Old age</i>	58 327	64 456	70 332	76 779	36.3%	9.6%
<i>Disability</i>	20 018	21 152	22 262	23 362	11.5%	5.3%
<i>Foster care</i>	5 322	5 349	5 446	5 582	2.8%	1.6%
<i>Care dependency</i>	2 677	2 939	3 219	3 442	1.6%	8.7%
South African Social Security Agency	6 909	7 206	7 761	8 196	4.0%	5.9%
Provincial social development	17 606	19 199	20 476	22 459	10.7%	8.5%
Total	164 936	180 046	193 548	209 088	100.0%	8.2%
<i>Social grants as percentage of GDP</i>	3.1%	3.2%	3.2%	3.2%		
Social grant beneficiary numbers by grant type (Thousands)						
Child support	12 051	12 313	12 566	12 821		2.1%
Old age ¹	3 279	3 391	3 505	3 624		3.4%
Disability	1 070	1 061	1 052	1 044		-0.8%
Foster care	425	420	416	413		-1.0%
Care dependency	145	150	156	162		3.8%
Total	16 970	17 335	17 695	18 064		2.1%

1. Includes war veterans

Source: National Treasury

Early childhood development services for children 0-4 years' old have grown over the past five years, but only half of the 2.4 million children from poor households who should benefit are accessing the services. Government has allocated an additional R1.1 billion over the MTEF period for early child development. This will provide subsidies for 113 889 more children.

The number of social grant beneficiaries is expected to reach 18.1 million by the end of 2019/20. The *child support grant* will reach an estimated 12.8 million beneficiaries and the *state old age grant* 3.6 million beneficiaries. Due to increases in beneficiary numbers and inflationary adjustments to grant amounts, expenditure on grants is expected to increase at an average annual rate of 8.2 per cent over the medium term, reaching R175.6 billion in 2019/20. Grant amounts are adjusted according to inflation projections to maintain their real value, as shown in Table 5.9. The *state old age grant* is expected to increase by R95 per month in 2017/18, while the *foster care* and *child support grants* will increase by R30 and R25 respectively.

Table 5.9 Average monthly social grant values

Rand	2016/17	2017/18	Percentage
State old age	1 505	1 600	6.3%
State old age, over 75	1 525	1 620	6.2%
War veterans	1 525	1 620	6.2%
Disability	1 505	1 600	6.3%
Foster care	890	920	3.4%
Care dependency	1 505	1 600	6.3%
Child support	355	380	7.0%

Source: National Treasury

Post-school education and training

The NDP recognises that South Africa needs high-quality education and training to build a skilled and capable workforce to support inclusive growth. Spending in this function is expected to reach R89.8 billion by 2019/20, growing at an average annual rate of 9.2 per cent over the medium term.

Table 5.10 Post-school education and training expenditure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
Post-school education and training expenditure	68 952	77 550	80 856	89 839	100.0%	9.2%
<i>of which:</i>						
University subsidies	27 965	31 607	36 153	38 188	42.7%	10.9%
<i>of which:</i>						
University infrastructure	3 397	3 520	3 689	3 867	4.5%	4.4%
NSFAS ¹	14 035	15 251	17 089	21 936	21.9%	16.1%
Technical and vocational education and training	6 915	7 394	8 014	8 588	9.7%	7.5%
<i>of which:</i>						
Compensation of employees	5 255	5 911	6 280	6 756	7.6%	8.7%
Community education and training	2 069	2 234	2 356	2 529	2.9%	6.9%
<i>of which:</i>						
Compensation of employees	1 906	2 070	2 181	2 345	2.7%	7.2%
Skills development levy institutions ²	18 057	21 055	17 192	18 506	22.9%	0.8%
Total	68 952	77 550	80 856	89 839	100.0%	9.2%

1. Total payments made from all the NSFAS income sources, including funds due to the entity from its debtors

2. Includes direct charges from the National Revenue Fund and spending of the 21 sector education and training authorities, and the National Skills Fund

Source: National Treasury

Of this amount, 42.7 per cent is for university subsidies, 21.9 per cent for the National Student Financial Aid Scheme (NSFAS), and 9.7 per cent for technical and vocational education and training.

Over the MTEF period, R21.1 billion has been added to the spending envelope for the sector. This includes the R5 billion provisional allocation in 2019/20 mentioned earlier. It also includes R7.3 billion to compensate universities and technical and vocational education and training colleges for the shortfall caused by the zero per cent fee increase for students from households earning up to R600 000 per year in the 2017 academic year.

A total of 615 000 university students will receive NSFAS loans and bursaries over the next three years. The scheme receives additional allocations of R7.7 billion over this period to help unfunded NSFAS university students from the 2016 academic year continue their studies. Transfers to NSFAS is expected to rise from R11.4 billion in 2016/17 to R13.9 billion in 2019/20.

University enrolments are expected to increase from 1 million in 2016/17 to 1.1 million in 2019/20. Enrolments in technical and vocational education and training colleges will remain stable at 710 535 per year as government works to resolve institutional challenges. Enrolments at community education and training colleges, which target youth and adults who did not attend or complete school, will increase from 310 000 in 2016/17 to 340 000 in 2019/20. Government has allocated a total of R4.2 billion for operational and capital expenditure at the recently opened University of Mpumalanga and the Sol Plaatje University over the medium term. New facilities and student accommodation will allow them to enrol a combined total of 3 875 students for the 2017 academic year.

Basic education

This function group supports the NDP goal of improving the quality of and access to basic education. Outcomes in this sector need to improve for it to make the necessary contribution to skills and economic growth. Spending in this category is expected to increase from R216.9 billion in 2016/17 to R268.8 billion in 2019/20, accounting for 17.5 per cent of government expenditure. Spending growth is largely driven by employee compensation, particularly in provinces.

In total, R12.7 billion will be spent on learner and teacher support materials over the medium term, including expanding access to and improving the use of information and communications technology. The Department of Basic Education aims to increase the number of teachers by providing 40 500 Funza Lushaka bursaries for subjects such as mathematics, science and technology. A total of R3.5 billion has been allocated for this purpose.

The *national school nutrition programme grant* feeds about 9 million learners at 19 800 schools each school day. Over the medium term, an additional R390 million is added to the grant to keep pace with food price inflation, bringing the total allocation to R20.4 billion. And R460 million is added to a new conditional grant to provide access to quality, publicly funded education and support for 8 000 learners with severe intellectual disabilities. The grant will fund training for teachers and officials in 155 identified schools, 31 special schools and 280 special care centres.

Spending on the *education infrastructure grant* will reach R14.1 billion by 2019/20 to support the construction of new schools, upgrading and maintenance of existing infrastructure, and provision of school furniture. The indirect *school infrastructure backlogs grant* will be incorporated into the *education infrastructure grant* from 2018/19. This merger was delayed by a year to allow the Department of Basic Education to complete outstanding infrastructure projects. By 2018/19, the department expects to have replaced 510 inappropriate and unsafe schools, and provided water to 1 120 schools, sanitation to 741 schools and electricity to 916 schools.

Table 5.11 Basic education expenditure

R million	2016/17 Revised estimate	2017/18	2018/19	2019/20	Percentage of total MTEF	Average annual MTEF growth
		Medium-term estimates				
Arts, sports, recreation and culture	9 760	10 389	10 797	11 290	4.1%	5.0%
Basic education	216 884	232 579	250 495	268 849	95.9%	7.3%
Compensation of employees	165 513	178 244	192 585	207 320	73.7%	7.8%
<i>of which:</i>						
<i>Provincial compensation of employees</i>	164 936	177 657	191 962	206 652	73.5%	7.8%
Goods and services	20 572	21 300	23 268	25 259	8.9%	7.1%
<i>of which:</i>						
<i>Workbooks</i>	1 009	1 048	1 109	1 172	0.4%	5.1%
<i>National school nutrition programme</i>	6 060	6 426	6 802	7 186	2.6%	5.8%
<i>Learner and teacher support materials</i>	3 495	3 771	4 313	4 594	1.6%	9.5%
Transfers and subsidies	17 500	18 936	20 370	21 578	7.8%	7.2%
<i>of which:</i>						
<i>Subsidies to schools¹</i>	13 839	15 077	16 155	17 095	6.2%	7.3%
Payments for capital assets	13 209	14 013	14 215	14 633	5.5%	3.5%
<i>of which:</i>						
<i>Education infrastructure grant</i>	9 933	10 046	13 390	14 141	4.8%	12.5%
<i>School infrastructure backlogs grant</i>	2 181	2 595	–	–	0.3%	-100.0%
Total	226 643	242 968	261 292	280 139	100.0%	7.3%

1. Includes some provision for learner teacher support material

Source: National Treasury

Economic affairs

Spending in this function supports the NDP objectives of growing the economy and employment. Over the medium term, spending is expected to increase to R244 billion by 2019/20 at an average annual growth rate of 6.6 per cent, with a focus on developing infrastructure and industry, and creating jobs.

Industrial development

To promote industrialisation, economic transformation and inclusive growth, government continues to provide incentives for special economic zones, critical infrastructure and manufacturing. Over the medium term, R4.2 billion will be allocated for industrial infrastructure projects, with 32 strategic projects expected to be approved for special economic zones and industrial parks. About 1 450 companies are expected to benefit from the Manufacturing Incentive Programme, which is allocated R9.6 billion over the medium term, including R1.3 billion to bolster competitiveness. Government will allocate R95 million to the Industrial Development Corporation to support the establishment of the Steel Development Fund, intended to improve the competitiveness of foundries and steel fabricators.

Economic infrastructure

Road infrastructure expenditure is expected to increase from R40.8 billion in 2016/17 to R47 billion in 2019/20. To improve spending efficiency, a new performance incentive is introduced in the *provincial roads maintenance grant* in 2017. Despite a budget reduction of R687 million over the medium term, the South African National Roads Agency Limited plans to resurface 3 200km and strengthen 1 475km of national roads, ensuring that 95 per cent of the national network meets global standards.

Efforts to expand access to high-speed internet to low-income households have been delayed. With R1.9 billion allocated to broadband over the medium term, the Department of Telecommunications and Postal Services plans to connect 6 135 schools and public buildings to internet services at a speed of 10 megabits per second by 2020. Migration to a digital broadcasting system is expected to be delayed pending the Constitutional Court process. As a result, in 2017/18, R193 million has been shifted from manufacturing of set-top boxes to Sentech for dual illumination, which allows for both analogue and digital broadcasting.

Despite a reduction of R584.5 million, growth in spending on water infrastructure remains strong. The Water Trading Entity, which is responsible for water resource management, receives a medium-term allocation of R6.2 billion. These funds support a long-term solution for acid mine drainage in the Witwatersrand basin, bulk distribution infrastructure for the Olifants River Water Resource Development Project, and improvements to dam safety and storage capacity.

Small business support

Over the medium term, R3.9 billion is provided for small, medium and micro enterprises and cooperatives. The national informal business upliftment scheme aims to develop more than 5 000 informal businesses and cooperatives through financial and other support. This will help improve competitiveness, promote entrepreneurship, advance local content programmes and facilitate market access. The Black Business Supplier Development Programme will provide about 2 000 small, medium and micro enterprises with financial support to help them become competitive, sustainable, job-creating firms.

Table 5.12 Economic affairs expenditure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth
Economic infrastructure and network regulation	81 258	89 523	41.7%	7.8%
<i>of which:</i>				
<i>Water resource and bulk infrastructure</i>	24 732	28 902	13.7%	11.1%
<i>Road infrastructure</i>	40 849	43 476	19.7%	4.8%
Employment, labour affairs and social security funds	72 275	75 935	35.0%	5.3%
<i>of which:</i>				
<i>Employment programmes</i> ¹	19 153	20 410	9.4%	5.9%
<i>Social security funds</i>	53 122	55 525	25.6%	5.1%
Industrial development and trade	28 438	28 939	13.8%	6.4%
<i>of which:</i>				
<i>Economic development and incentive programmes</i>	14 083	12 913	6.3%	4.0%
Science, technology, innovation and the environment	19 686	20 650	9.6%	6.0%
<i>of which:</i>				
<i>Environmental programmes</i>	5 810	6 421	2.9%	6.6%
<i>Research and development, including research institutions</i>	10 830	11 109	5.2%	6.0%
Total	201 658	215 047	100.0%	6.6%
<i>of which:</i>				
<i>Compensation of employees</i>	34 882	37 643	17.7%	7.4%
<i>Goods and services</i>	45 054	51 228	24.2%	9.5%
<i>Transfers and subsidies</i>	76 488	77 992	36.4%	5.5%
<i>Buildings and other fixed structures</i>	32 903	35 869	16.5%	5.8%
<i>Machinery and equipment</i>	3 756	4 396	1.7%	-3.0%

1. Includes the Expanded Public Works Programme and the Jobs Fund

Source: National Treasury

Human settlements and municipal infrastructure

The NDP emphasises the need for urban reform, including densification, to overcome apartheid's spatial legacy. Expenditure in this function is expected to grow at an average annual rate of 8 per cent, reaching R226.4 billion by 2019/20. Spending will focus on public transport, housing and improving access to water, sanitation and electricity. As a result, 75.5 per cent of the spending in this function group is allocated to transfers of conditional grants to provinces and municipalities, and transfers to public entities for infrastructure development.

To promote affordable medium-density rental housing, R3.2 billion has been allocated for social housing. This is expected to deliver 55 171 social housing units over the medium term. By 2019/20, government will also provide an additional 623 635 households in informal settlements with access to basic services and 66 554 finance-linked subsidies for the affordable housing market.

To support affordable public transport, funding of R142.6 billion has been allocated over the MTEF period, growing at an annual average of 8.8 per cent. The *public transport network grant* funds planning and construction of integrated public transport networks. A portion of these funds will contribute to integrated public transport networks in 13 cities. An amount of R3 billion has also been reprioritised from the Passenger Rail Agency of South Africa's capital budget to fund the operations of its mainline passenger service. Spending on Metrorail will subsidise 1.4 billion passenger trips over the medium term.

Table 5.13 Human settlements and municipal infrastructure

R million	2016/17 Revised estimate	2017/18 2018/19 2019/20 Medium-term estimates	Percentage of total MTEF	Average annual MTEF growth		
Human settlements and municipal infrastructure	179 834	195 751	210 170	226 402	100.0%	8.0%
<i>of which:</i>						
<i>Human settlements</i>	33 784	36 109	38 237	40 457	18.2%	6.2%
<i>Public transport, including commuter rail</i>	39 356	44 124	47 821	50 644	22.6%	8.8%
<i>Municipal equitable share</i>	51 169	57 012	62 732	69 273	29.9%	10.6%
<i>Municipal infrastructure grant</i>	14 914	15 891	16 788	17 734	8.0%	5.9%
<i>Regional and local water and sanitation services</i>	10 886	10 472	11 025	11 705	5.3%	2.4%
<i>Electrification programmes</i>	5 583	6 184	6 432	7 792	3.2%	11.8%
Total	179 834	195 751	210 170	226 402	100.0%	8.0%
<i>of which:</i>						
<i>Compensation of employees</i>	14 872	16 922	18 168	19 481	8.6%	9.4%
<i>Goods and services</i>	11 343	12 292	12 768	13 616	6.1%	6.3%
<i>Transfers and subsidies</i>	136 895	147 561	158 410	171 372	75.5%	7.8%
<i>Buildings and other fixed structures</i>	8 300	11 303	12 657	13 410	5.9%	17.3%
<i>Machinery and equipment</i>	7 894	6 940	7 494	7 863	3.5%	-0.1%

Source: National Treasury

Over the next three years, R189 billion is allocated to the local government equitable share for providing basic services to poor households. Government is also prioritising 27 underserved district municipalities to ensure universal access to electricity by 2030. Spending on the electrification programme, expected to reach R7.8 billion by 2019/20, will provide 723 000 additional households with grid connections and 60 000 households with non-grid access to electricity. The Department of Water and Sanitation will provide R37.7 billion over the three-year spending period to municipalities and implementing agencies to complete 115 regional and 185 small interim water and sanitation projects.

Agriculture, rural development and land reform

Spending in this function aims to stimulate rural development and food production, and assist emerging farmers. Expenditure is expected to grow to R29.8 billion by 2019/20, at an average annual rate of 4.7 per cent, accounting for 1.9 per cent of total government spending over the MTEF period.

Over the next three years, government will spend more than R5.5 billion on Comprehensive Agricultural Support Programme conditional grants to provide about 435 000 subsistence and smallholder farmers with equipment, fencing, fertilisers and seedlings, improved extension services and repairs to flood-damaged infrastructure.

The Department of Rural Development and Land Reform will intensify the One Household One Hectare initiative to provide land to the landless and fast-track the establishment of agri-parks in district municipalities. In areas where land has been distributed, the department will provide mechanised irrigation, mentorship and inputs so that redistributed land becomes productive and profitable. About R4.3 billion will be spent on this programme over the medium term. Since it began in 2008/09, more than 4.7 million hectares of land have been acquired for redistribution and 1 496 farms have been created.

Table 5.14 Agriculture, rural development and land reform

R million	2016/17 Revised estimate	2017/18	2018/19	2019/20	Percentage of total MTEF	Average annual MTEF growth
Agriculture, rural development and land reform	25 998	26 534	27 923	29 826	100.0%	4.7%
<i>of which:</i>						
<i>Land reform</i>	1 231	1 189	1 342	1 437	4.7%	5.3%
<i>Agricultural land holding account</i>	1 495	1 420	1 396	1 481	5.1%	-0.3%
<i>Restitution</i>	3 168	3 247	3 441	3 651	12.3%	4.8%
<i>Farmer support and development</i>	3 431	3 787	4 058	4 335	14.5%	8.1%
Total	25 998	26 534	27 923	29 826	100.0%	4.7%
<i>of which:</i>						
<i>Compensation of employees</i>	11 035	11 881	12 555	13 441	44.9%	6.8%
<i>Goods and services</i>	6 497	6 738	7 023	7 461	25.2%	4.7%
<i>Transfers and subsidies</i>	6 694	6 607	7 025	7 492	25.1%	3.8%
<i>Buildings and other fixed structures</i>	747	696	704	784	2.6%	1.6%
<i>Machinery and equipment</i>	482	418	437	457	1.6%	-1.8%

Source: National Treasury

Defence, public order and safety

The NDP underlines the need for greater safety and security through an effective criminal justice system and responsive police services. The consolidated three-year budget for the defence, public order and safety function group, which accounts for 14.2 per cent of total expenditure, will grow from R190 billion in 2016/17 to R225 billion in 2019/20 at an average annual rate of 5.8 per cent. Spending will focus on fighting transnational crimes, improving policing, peace support operations and military health services.

Police services account for 47.3 per cent of the total functional allocation. Over the medium term, the South African Police Service will intensify its implementation of the Back to Basics strategy to improve police performance and conduct. A total of R2.5 billion is allocated to the department to upgrade and maintain police stations, with a further R10.2 billion to procure and maintain transport equipment.

The Department of Home Affairs has implemented the advanced passenger processing system. The system examines passenger data to prevent individuals who are wanted by the authorities, or prohibited from travelling internationally, from entering South Africa. Over the medium term, an amount of R153 million has been reprioritised from the Department of Police to the Department of Home Affairs to augment the baseline budget of R352.5 million for this system to adjust for currency depreciation. Since its implementation, 4 213 people have been prevented from boarding South Africa-bound flights, and 3 083 people using lost or stolen South African passports were denied exit.

The Department of Defence plans to spend R3.3 billion over the next three years to safeguard national borders. Allocations of R4.1 billion and R1.4 billion support peacekeeping operations in the Democratic Republic of the Congo and anti-piracy operations in the Mozambique Channel respectively. A total of R951.6 million has been reprioritised within the department to cover the growing costs of essential medicine and medical supplies for South African National Defence Force members, their dependants and retired military personnel.

Table 5.15 Defence, public order and safety expenditure

	2016/17 Revised estimate	2017/18	2018/19	2019/20	Percentage of total MTEF allocation	Average annual MTEF growth
R million		Medium-term estimates				
Defence and state security	52 341	53 983	56 279	59 998	26.8%	4.7%
Police services	87 521	93 790	99 876	106 528	47.3%	6.8%
Law courts and prisons	41 448	43 756	46 506	49 663	22.1%	6.2%
Home affairs	8 727	7 173	8 152	8 767	11.0%	0.2%
Total	190 036	198 702	210 814	224 956	100.0%	5.8%
<i>of which:</i>						
<i>Compensation of employees</i>	126 673	132 266	140 178	150 637	66.7%	5.9%
<i>Goods and services</i>	44 716	43 819	46 775	49 376	22.1%	3.4%
<i>Transfers and subsidies</i>	12 474	14 216	15 081	16 116	7.2%	8.9%
<i>Buildings and other fixed structures</i>	2 822	3 749	4 118	4 200	1.9%	14.2%
<i>Machinery and equipment</i>	3 271	4 502	4 568	4 551	2.1%	11.6%

Source: National Treasury

General public services

This function aims to build a people-centred, professional and ethical public service. Expenditure grows by 2.6 per cent over the MTEF period from R70 billion in 2016/17 to R75.6 billion in 2019/20.

Table 5.16 General public services expenditure

	2016/17 Revised estimate	2017/18	2018/19	2019/20	Percentage of total MTEF	Average annual MTEF growth
R million		Medium-term estimates				
Executive and legislative organs	12 976	14 340	15 202	16 089	20.9%	7.4%
External affairs and foreign aid	11 816	12 412	12 677	12 752	17.3%	2.6%
General public administration and fiscal affairs	45 185	43 943	44 584	46 775	61.8%	1.2%
Total	69 977	70 694	72 462	75 616	100.0%	2.6%
<i>of which:</i>						
<i>Compensation of employees</i>	27 862	30 223	31 759	33 229	43.5%	6.0%
<i>Goods and services</i>	20 800	20 447	20 719	21 358	28.6%	0.9%
<i>Transfers and subsidies</i>	11 579	11 459	12 166	12 808	16.7%	3.4%
<i>Buildings and other fixed structures</i>	1 953	1 926	1 916	2 087	2.7%	2.2%
<i>Machinery and equipment</i>	1 132	1 037	760	747	1.2%	-12.9%

Source: National Treasury

Of the baseline allocation, 43.5 per cent is for compensation of employees, and 28.6 per cent for goods and services.

Spending on general public administration and fiscal affairs is expected to grow from R45.2 billion in 2016/17 to R46.8 billion by 2019/20. This will support improved responsiveness of the public service through the revitalisation of the Batho Pele programme and the implementation of the Public Service Charter. Systems for overseeing and inspecting service-delivery sites, and for using citizen feedback to drive improvements in service delivery, will be strengthened.

Provincial revenue and spending

Allocations to provinces total R1.7 trillion over the MTEF period, growing at an average annual rate of 7.5 per cent. This is slightly higher than the annual average growth rate of 7.3 per cent in the previous MTEF period as a result of additions to enable provinces to continue to provide public health and schooling in line with population growth. To support improvements in health and education, R3 billion will be added to the equitable share in 2018/19 and R4.3 billion in 2019/20. The provincial equitable share grows at an annual average rate of 7.2 per cent over the medium term.

Conditional grants overseen by national departments are used to fund specific programmes and account for 18.3 per cent of provincial transfers over the medium term. Changes to provincial conditional grants include:

- A new *early childhood development grant* to expand access and improve facilities for young learners. The grant is allocated a total of R1.3 billion over the MTEF period.
- A new grant in 2017/18 to fund the education of learners with intellectual disabilities.
- A new grant in 2017/18 to expand social development services by employing additional social workers.
- Pushing back the scheduled consolidation of the indirect *school infrastructure backlogs grant* (through which the Department of Basic Education delivers projects on behalf of provinces) into the direct *education infrastructure grant* from 2017/18 to 2018/19 to allow projects currently under way to be completed.
- Adding R390 million to the *national school nutrition programme grant* over the MTEF period to compensate for rising food costs and maintain the provision of daily meals to more than 9 million schoolchildren.
- Reprioritising R660 million over the MTEF period from the *human settlements development grant* to the Social Housing Regulatory Authority to speed up the provision of affordable rental housing units.

Provinces have improved infrastructure planning in response to the incentives embedded in health and education infrastructure grants. Now these incentives are being refocused to promote improved delivery.

To support fiscal consolidation and reprioritisation, several allocations have been reduced over the MTEF period, including R4 billion from the previous baselines of various provincial conditional grants and a R1.6 billion reduction to the provincial equitable share. These reductions mostly affect capital rather than operational funds. In total, conditional grants grow by an annual average of 8.6 per cent over the medium term.

Table 6.2 Provincial equitable share

	2016/17	2017/18	2018/19	2019/20	Average annual MTEF growth
		Medium-term estimates			
R million					
Eastern Cape	58 060	61 848	66 167	70 961	6.9%
Free State	22 995	24 522	26 285	28 165	7.0%
Gauteng	79 600	86 643	93 030	100 227	8.0%
KwaZulu-Natal	87 898	93 757	99 741	106 841	6.7%
Limpopo	48 709	51 960	55 386	59 371	6.8%
Mpumalanga	33 450	36 082	38 489	41 214	7.2%
Northern Cape	10 863	11 720	12 501	13 418	7.3%
North West	28 062	30 330	32 473	34 857	7.5%
Western Cape	41 062	44 470	47 452	51 049	7.5%
Total	410 699	441 331	471 522	506 104	7.2%

Source: National Treasury

Table 6.3 Conditional grants to provinces

R million	2016/17	2017/18	2018/19	2019/20	MTEF total
Direct conditional grants¹					
Comprehensive agricultural support programme	1 642	1 646	1 751	1 876	5 273
Ilima/Letsema projects	491	522	552	583	1 658
Community library services	1 357	1 420	1 499	1 580	4 499
Education infrastructure	9 933	10 046	13 390	14 141	37 576
Maths, science and technology	362	365	386	408	1 160
National school nutrition programme	6 060	6 426	6 802	7 186	20 414
Comprehensive HIV/AIDS and TB	15 291	17 558	19 922	22 039	59 519
Health facility revitalisation	5 273	5 654	5 916	6 247	17 817
Health professions training and development	2 477	2 632	2 784	2 940	8 357
National tertiary services	10 847	11 676	12 395	13 178	37 248
Human settlements development	18 284	19 969	21 115	22 338	63 423
Mass participation and sport development	556	586	618	653	1 857
Provincial roads maintenance	10 478	10 754	11 536	12 182	34 471
Public transport operations	5 400	5 723	5 990	6 326	18 039
Other direct grants	1 242	1 852	2 436	2 614	6 902
Total direct conditional grants	89 692	96 829	107 092	114 292	318 213
Indirect transfers	3 654	4 258	1 765	1 864	7 886
School infrastructure backlogs	2 181	2 595	–	–	2 595
Comprehensive agricultural support programme indirect	212	–	–	–	–
National health insurance indirect	1 261	1 663	1 765	1 864	5 292

1. Excludes provisional allocations

Source: National Treasury

Municipal revenue and spending

Municipalities need to balance their plans to extend and improve services with available resources. Unlike provinces, municipalities can raise substantial own revenues through property rates and service charges. Where revenue collection is not well planned or managed, or where tariffs are not properly set, serious financial problems can arise. Eskom's recent move to cut off power supply to municipalities that have not paid electricity bills is an indication of what can happen when municipalities fail to manage this risk.

The intergovernmental fiscal system is designed to take into account the varying abilities of urban and rural municipalities to raise their own revenue. Free basic services for poor households are funded through the local government equitable share. Over the 2017 MTEF period, the formula for allocating these funds will be updated with data from the 2016 Community Survey to ensure that the correct number of households in each municipality is funded. The formula is also updated annually with cost data on bulk water and electricity price increases.

The 2016 Community Survey confirmed that the number of households continues to grow significantly faster than the population, reflecting a trend towards smaller average household sizes. To help municipalities provide services to these households, the local government equitable share grows at an average annual rate of 10.6 per cent over the MTEF period.

District municipalities play a coordination and support function for local municipalities in their area. They also provide several services directly. In 2006, the Regional Services Council and Joint Service Board levies were abolished, removing a major revenue source for district municipalities. Since then, districts have been receiving the *Regional Services Council/Joint Service Board levies replacement grant* to compensate them for funds they would have collected under the previous system.

Government intends to introduce a new funding model for district municipalities once the Department of Cooperative Governance has completed its review of their functional role. In the meantime, some

adjustments will be made to the way the annual increases in the *Regional Services Council/Joint Service Board levies replacement grant* are determined. The growth rate of allocations to the wealthiest district municipalities will be reduced so that districts with the smallest allocations (which tend to be in very poor areas) will receive increased funding.

Conditional grants fund the expansion of municipal infrastructure to serve poor households. A review of this grant system has already resulted in several changes. These include allowing grant funds to be used to refurbish ageing infrastructure. Other rules for the appropriate use of these refurbishment funds will be introduced in 2017/18. Several conditional grants have been merged in previous years and the consolidation trend is expected to continue. The National Treasury will work with the Department of Energy and Department of Human Settlements to implement the parliamentary recommendation to consolidate electrification funding for metropolitan municipalities into the *urban settlements development grant*.

To account for the lower expenditure ceiling and make resources available for urgent priorities, four large infrastructure conditional grants are being reduced over the medium term. Despite the reductions, however, the grants continue to grow by at least 5 per cent annually over the medium term.

Table 6.4 Transfers to local government

R million	2016/17	2017/18	2018/19	2019/20	MTEF total
Equitable share and related¹	51 169	57 012	62 732	67 473	187 217
General fuel levy sharing with metros	11 224	11 785	12 469	13 167	37 420
Direct conditional grants	40 863	43 727	46 270	49 836	139 833
Municipal infrastructure	14 914	15 891	16 788	17 734	50 413
Water services infrastructure	2 845	3 329	3 559	3 757	10 646
Urban settlements development	10 839	11 382	11 956	12 631	35 969
Integrated national	1 946	2 087	2 204	3 328	7 619
Public transport network	5 593	6 160	6 583	6 962	19 704
Neighbourhood development partnership	624	663	702	741	2 106
Local government financial management	465	502	531	561	1 594
Regional bulk infrastructure	1 850	1 865	2 060	2 175	6 100
Municipal demarcation transition	297	112	–	–	112
Other direct grants	1 488	1 735	1 886	1 947	5 569
Total direct transfers	103 255	112 524	121 470	130 477	364 471
Indirect transfers	7 824	7 338	7 596	8 015	22 948
Integrated national electrification	3 526	3 846	3 962	4 182	11 991
Neighbourhood development partnership	22	28	29	31	88
Regional bulk infrastructure	3 479	2 774	2 881	3 037	8 692
Water services infrastructure	362	587	608	642	1 838
Municipal systems improvement	84	103	115	122	340
Bucket eradication programme	350	–	–	–	–

1. Excludes provisional allocations

Source: National Treasury

■ The Budget Review

The *Budget Review* describes the economic outlook and policies to promote growth; the fiscal policy choices of government; the revenue proposals for 2017/18; national spending proposals; the division of revenue; the financing strategy; and the financial position of public-sector institutions.

Annexures present the Minister of Finance's report to Parliament; tax expenditures and tax amendments; data on public sector infrastructure and public-private partnerships; and an update on financial-sector regulation and reform.

The full Budget Review, budget data and further information are available at www.treasury.gov.za