

# Budget Review

2012

**National Treasury**  
**Republic of South Africa**

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# Foreword

The 2012 Budget is tabled as the global economy is going through a difficult time. Recovery from the financial and economic crisis that opened in 2008 remains slow and uneven. Developed and developing economies alike confront weaker growth prospects. A solution to the European crisis eludes policy-makers, casting a long shadow over the world economy.

In the face of all this, South Africa has demonstrated resilience. The economy is growing, though more slowly than originally projected. More jobs are being created. Household spending is robust and private-sector investment is gathering pace.

The challenge before us is to build on our strengths, taking the steps necessary to improve the competitiveness and productivity of our economy to grow more rapidly, create jobs, and reduce poverty and inequality. Government's infrastructure investment plans provide a foundation for these objectives.

Consistent with the undertaking we made in the 2011 *Medium Term Budget Policy Statement*, this Budget balances support for the economy with the gradual consolidation of South Africa's fiscal position to ensure the long-term health of our public finances. It begins a shift in the composition of expenditure towards investment. Over time, this will release greater resources for pro-growth investment and spending on the initial phases of national health insurance and a reformed social security system.

Government cannot succeed in realising the objectives of our Constitution on its own. South Africa's growth and development path will be forged in partnership with the private sector.

This Budget sets out a clear challenge for government at all levels to achieve more by using public resources with greater efficiency. Our success in achieving the ambitious goals we set ourselves will be determined by our ability to execute our plans in full and on time.

The 2012 Budget is the culmination of hard work by many people:

- The Minister's Committee on the Budget, whose unenviable task is to ensure alignment between technical processes and political imperatives
- Cabinet, which takes the policy decisions that are given monetary expression in the Budget
- Numerous government officials who contribute data and participate in processes culminating in Budget Day.

Special recognition must go to Minister of Finance Gordhan and Deputy Minister Nene for their political skills, unflagging energy and attention to detail. Finally, my very special word of thanks goes to the National Treasury team for their hard work and unwavering support in producing yet another good set of Budget documents.



**Lungisa Fuzile**  
**Director-General: National Treasury**



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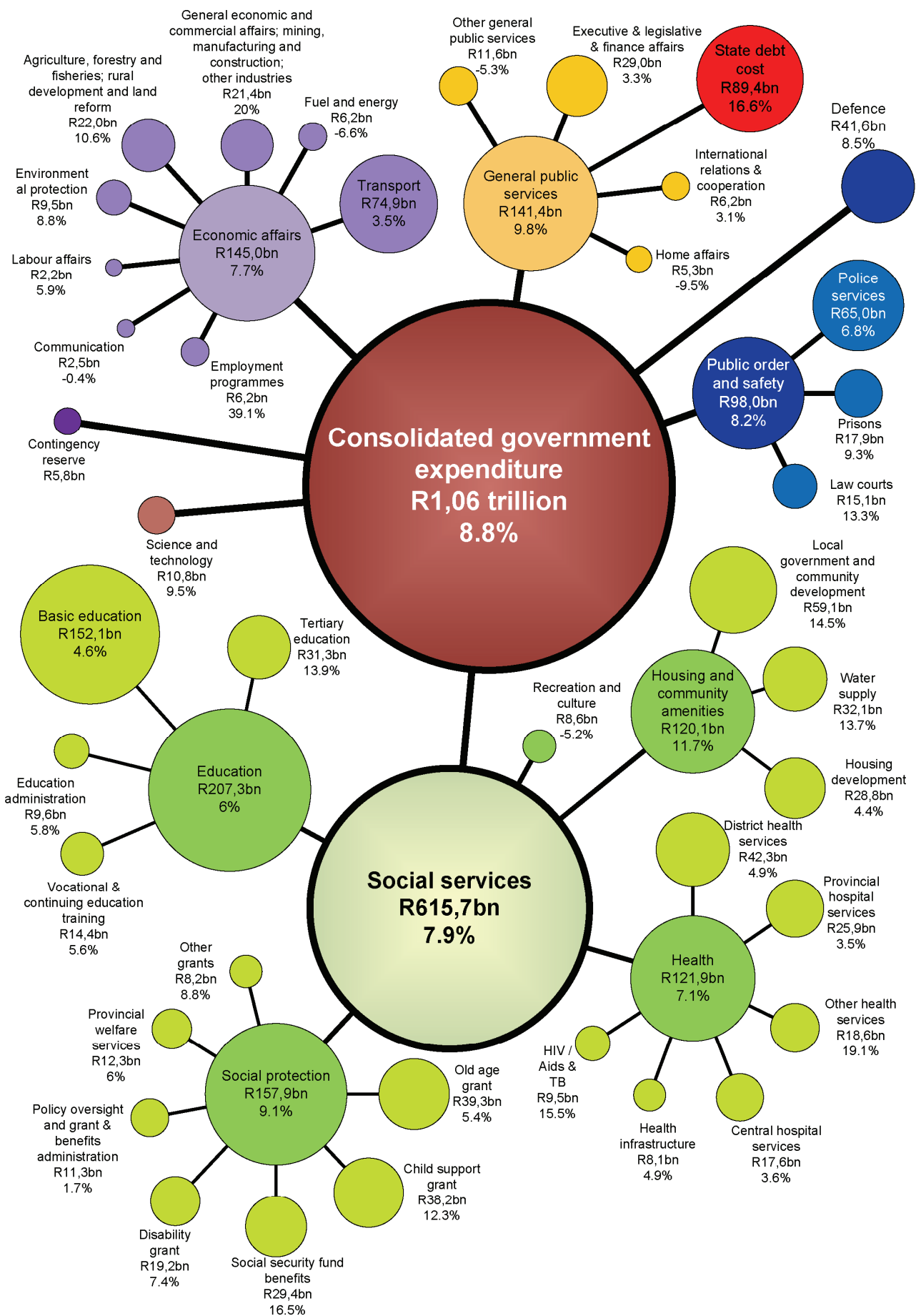
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# 1

## 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.

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.

### 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:

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

*'...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*

- 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.

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.

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

### **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.

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.

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

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

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

## Fiscal sustainability and growth

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

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).

*Total government spending next year will reach R1.1 trillion*

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.

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.

*Procurement reforms required, accompanied by greater transparency and disclosure*

### 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

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.

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

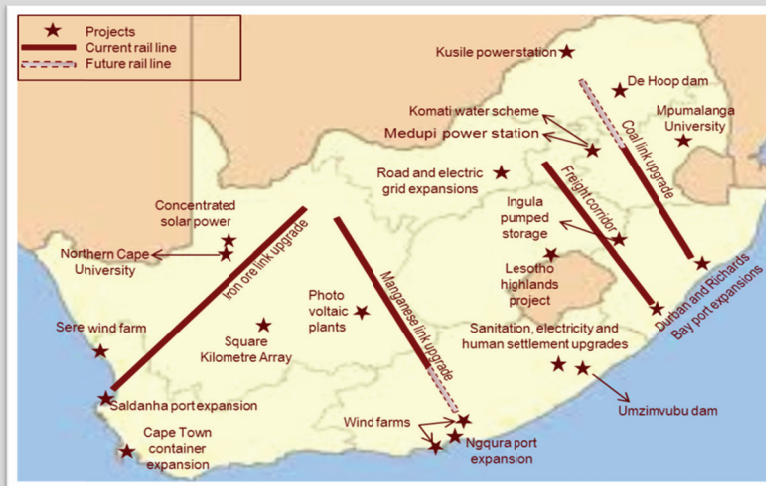
### A new vision for infrastructure delivery

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 Steelpoort 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**

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.

*Projected GDP growth of 2.7 per cent in 2012 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.

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.

*Rand remains subject to changes in global risk appetite*

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.

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.

*Opportunities to expand trade with other emerging markets*

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**

<b>Real growth</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Percentage</b>	<b>Estimate</b>	<b>Forecast</b>		
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
<b>Gross domestic product</b>	<b>3.1</b>	<b>2.7</b>	<b>3.6</b>	<b>4.2</b>
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**

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

*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**

R billion	2011/12		2012/13
	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
<b>National budget revenue</b>	<b>729.9</b>	<b>734.6</b>	
<b>Revenue before tax proposals</b>			<b>828.7</b>
<b>Tax proposals</b>			<b>-2.3</b>
(Net) personal income tax relief			-4.3
Business taxes			-6.4
Taxes on goods and services			8.3
<b>Revenue after tax proposals</b>			<b>826.4</b>
<b>Budget revenue</b>			<b>904.8</b>

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
<b>Net loan debt</b>	<b>997.5</b>	<b>1 189.4</b>	<b>1 370.7</b>	<b>1 537.7</b>
<i>Percentage of GDP</i>	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
<b>State debt cost</b>	<b>76.6</b>	<b>89.4</b>	<b>100.8</b>	<b>109.0</b>
<i>Percentage of GDP</i>	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
<i>Equitable share</i>	291.7	309.1	328.9	349.4
<i>Conditional grants</i>	70.9	75.4	82.2	87.7
Local government allocations	68.2	77.3	83.9	90.7
<b>Total allocations</b>	<b>814.6</b>	<b>874.2</b>	<b>941.2</b>	<b>1 006.5</b>
<b>Changes to baseline</b>				
National allocations	3.6	4.2	7.7	19.2
Provincial allocations	4.7	4.0	6.8	8.5
<i>Equitable share</i>	3.2	3.3	5.3	6.3
<i>Conditional grants</i>	1.5	0.7	1.5	2.2
Local government allocations	-2.0	0.3	1.5	3.5
<b>Total</b>	<b>6.3</b>	<b>8.6</b>	<b>16.1</b>	<b>31.2</b>

## **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](http://www.treasury.gov.za).

# 2

## Economic outlook

### ■ Overview

International economic conditions remain unsettled. While there are signs of a revival in the US economy, much of Europe is expected to fall into recession during 2012. Emerging markets continue to perform strongly, but growth in China and India is projected to moderate in the year ahead. A high degree of risk clouds the global outlook.

*Global economy: hints of recovery alongside substantial risk*

The South African economy has demonstrated resilience in this environment. While global developments are likely to hold back higher growth over the short term, the domestic outlook remains positive. Gross domestic product (GDP) growth is expected to slow from 3.1 per cent in 2011 to 2.7 per cent in 2012. As the world economy strengthens, GDP growth will accelerate to 3.6 per cent in 2013 and 4.2 per cent in 2014, led by robust household consumption, and stronger public- and private-sector investment. Government will focus on capital investment in infrastructure projects and reducing the cost of doing business through targeted interventions, including lowering port charges and broadband costs.

*The domestic economy has proven resilient; growth is expected to reach 4.2 per cent in 2014*

Strengths in the domestic economy will help to sustain growth. Household spending remains robust, private-sector investment is gradually rising and interest rates are low. There are encouraging signs of employment growth in the formal sector, with a net increase of 365 000 jobs reported over the past year. South Africa's banks are well-capitalised. High levels of corporate saving are expected to enable increased investment spending as global uncertainty eases and business confidence strengthens.

*Strengths of the South African economy will help to sustain growth*

Fiscal and monetary policies remain supportive of growth. Government will continue to monitor and adjust policy to changes in the domestic and global environment, while stabilising public debt at sustainable levels.

*South Africa needs to reduce costs of doing business, diversify exports and raise productivity*

To reduce unemployment and poverty on a mass scale, the economy needs more rapid and broad-based growth. This requires policy reforms and actions by business and labour to reduce the cost of doing business, cut red tape, raise productivity, diversify exports, tap new markets for trade and take advantage of opportunities presented by enhanced regional integration.

Over the medium term and beyond, large-scale public-sector infrastructure investments, discussed in detail in Chapter 7, will expand the capacity of the economy to grow more rapidly. Government is also implementing an economic support package to boost productivity, competitiveness, and research and development across the agriculture, mining, manufacturing and technology sectors.

### **National Planning Commission proposals for economic growth and employment**

In June 2012, following broad public consultation, the National Planning Commission will submit a revised draft national development plan to Cabinet. The Commission's proposals include:

- Raising exports in areas where the economy has endowments and comparative advantage
- Increasing the size and effectiveness of the innovation system
- Improving the functioning of the labour market to make it more labour absorbing
- Supporting small business through better coordination of support agencies, development finance institutions, and public and private incubators
- Improving the skills base through better education and vocational training
- Increasing infrastructure investment to lower costs, raise productivity and broaden economic participation
- Reducing regulatory burdens in sectors where the private sector is the main investor
- Improving the capacity of the state to effectively implement economic policy.

*Policy aims to provide efficient infrastructure and create an environment favourable for investment*

Since the onset of the financial crisis in 2008, the state has played a more prominent role in the economy. Sustained spending growth through the 2009 recession supported demand and allowed the public sector to serve as a key source of employment. More rapid and sustainable growth and job creation is reliant on increased private-sector activity. Government will play a supportive role over the medium term by providing high-quality, efficient and affordable network infrastructure, and creating a more favourable environment for business expansion and investment.

## **Domestic outlook**

*Growth in private fixed capital formation is projected to rise from 4 per cent in 2012 to 6.8 per cent by 2014*

The South African economy grew by an estimated 3.1 per cent in 2011. GDP growth is expected to slow to 2.7 per cent in 2012 before accelerating to 3.6 per cent in 2013 and 4.2 per cent in 2014 as the world economy recovers, and stronger domestic consumption and investment support rising job creation. Growth in private fixed capital formation is projected to rise from 4 per cent in 2012 to 6.8 per cent by 2014, underpinned by improving business confidence. Public investment growth will average 4.3 per cent per year over the next three years.

While export growth will accelerate over the medium term, imports are projected to grow more quickly in response to robust 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 (FDI), international investment in the bond

and equity markets, long-term foreign loans to public entities and trade finance.

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 such as US government bonds and higher-yield 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 band, inflation is forecast to fall to 5.3 per cent in 2013 and 5.1 per cent in 2014.

*Higher food, administered and import prices will push CPI inflation to 6.2 per cent in 2012*

**Table 2.1 Macroeconomic projections, 2008 – 2014**

Calendar year	2008	2009	2010	2011	2012	2013	2014
		Actual		Estimate		Forecast	
<i>Percentage change unless otherwise indicated</i>							
Final household consumption	2.2	-1.6	3.7	4.9	3.6	3.8	4.2
Final government consumption	4.5	4.7	4.9	4.6	4.1	4.1	4.1
Gross fixed capital formation	13.3	-3.2	-1.6	4.3	4.1	4.5	6.0
Gross domestic expenditure	3.5	-1.6	4.2	4.1	3.9	4.2	4.9
Exports	1.8	-19.5	4.5	6.0	2.9	5.8	6.6
Imports	1.5	-17.4	9.6	9.4	7.2	7.1	8.3
<b>Real GDP growth</b>	<b>3.6</b>	<b>-1.5</b>	<b>2.9</b>	<b>3.1</b>	<b>2.7</b>	<b>3.6</b>	<b>4.2</b>
GDP inflation	8.3	7.7	7.9	7.2	6.1	6.2	6.1
<b>GDP at current prices (R billion)</b>	<b>2 263</b>	<b>2 398</b>	<b>2 661</b>	<b>2 941</b>	<b>3 204</b>	<b>3 526</b>	<b>3 897</b>
Headline CPI inflation	9.9	7.1	4.3	5.0	6.2	5.3	5.1
Current account balance (% of GDP)	-7.2	-4.0	-2.8	-3.3	-4.3	-4.5	-4.4

**Table 2.2 Macroeconomic projections, 2008/09 – 2014/15**

Fiscal year	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
		Actual		Estimate		Forecast	
<i>Percentage change unless otherwise indicated</i>							
Real GDP growth	2.5	-0.8	3.1	2.7	3.0	3.8	4.3
GDP inflation	8.3	6.8	9.4	5.9	7.0	5.7	5.8
Headline CPI inflation	9.9	6.4	3.8	5.7	5.9	5.3	4.9
<b>GDP at current prices (R billion)</b>	<b>2 304</b>	<b>2 440</b>	<b>2 754</b>	<b>2 996</b>	<b>3 301</b>	<b>3 622</b>	<b>3 997</b>

## Global developments

The world economic outlook has weakened since the October 2011 *Medium Term Budget Policy Statement*. The International Monetary Fund (IMF) expects global growth to decelerate from an estimated 3.8 per cent in 2011 to 3.3 per cent in 2012, down from the previous forecast of 4 per cent. Emerging markets are expected to remain the primary sources of economic expansion, though growth will be slower than in recent years. Advanced economies are projected to grow by only 1.2 per cent in 2012.

*Weaker global economy expected in 2012, with emerging markets providing most growth*

In many developed countries, the process of reducing debt in the public and private sectors will be a considerable drain on growth in the decade ahead. Growth prospects have also declined as a result of rising structural unemployment and lower investment.

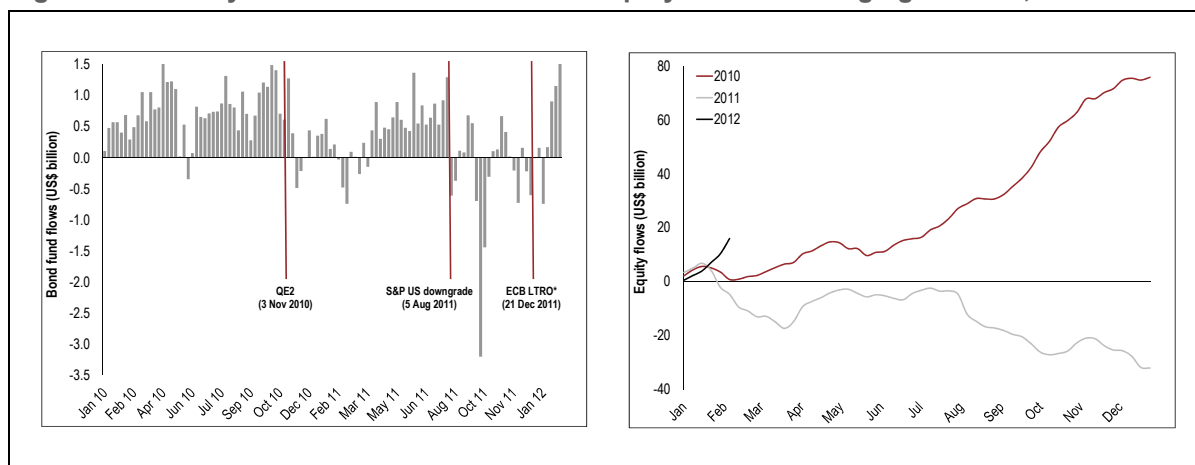
Recent global trends, however, are not linear. There are signs of a nascent recovery in the United States, with growth accelerating in the second half of 2011 and stronger-than-expected employment data. The latest global manufacturing surveys show that activity is picking up. Interventions by the European Central Bank to provide liquidity to banks have helped to calm markets, buying time for a resolution of the debt crises facing Greece, Italy, Spain and Portugal.

*Capital flows will remain volatile, but interest rate differentials will support investment in emerging markets*

Interest rates will remain low in most developed countries over the medium term. The US Federal Reserve has said that interest rates will stay near zero until mid-2014. This should support capital flows to countries where investment returns are higher and underpin demand for commodities, including gold.

The challenges stemming from high levels of global liquidity will continue. While much of the capital flowing to emerging markets reflects structural dynamics and stronger growth prospects, short-term capital flows are highly sensitive to fluctuating interest rate differentials and risk appetite. As seen during the second half of 2011, sharp reversals may occur as a result of uncertainty and swings in investor sentiment, fuelling macroeconomic instability in developing countries.

**Figure 2.1 Weekly bond flows and cumulative equity flows to emerging markets, 2010 – 2012\***



Source: Emerging Portfolio Fund Research

\* Flows are estimates constructed using global fund flows and country allocation shares for funds

\* LTRO means Long Term Refinancing Operation

Trends in major economies and regions include the following:

- US growth is projected to remain at 1.8 per cent in 2012. Non-agricultural employment has expanded by almost 2 million jobs over the past 12 months, supporting demand and reducing unemployment to 8.3 per cent. The housing market, however, remains weak, and fiscal consolidation will reduce demand as public spending slows.
- The eurozone grew by an estimated 1.6 per cent in 2011, but much of the region is expected to experience recession in 2012. The

combination of fiscal austerity, stressed credit markets and concerns about the capitalisation of banks has reduced confidence. The potential for default by Greece is a significant risk that could precipitate dislocation in financial markets and a break-up of the currency union.

- GDP growth in China is projected to slow to 8.2 per cent in 2012, down from an estimated 9.2 per cent in 2011. Brazil's GDP is forecast to grow at 3 per cent in 2012 (2011: 2.9 per cent). GDP growth in India is projected to be 7 per cent in 2012 (2011: 7.4 per cent).
- Sub-Saharan Africa continues to benefit from high commodity prices. Growth in the region is projected to increase from an estimated 4.9 per cent in 2011 to 5.5 per cent in 2012.

**Table 2.3 Annual percentage change in GDP and consumer price inflation, selected regions/countries, 2011 – 2013**

Region / Country	2011	2012	2013	2011	2012	2013
	GDP projections <sup>1</sup>			CPI projections <sup>1</sup>		
<b>World</b>	<b>3.8</b>	<b>3.3</b>	<b>3.9</b>	<b>5.0</b>	<b>3.7</b>	<b>3.2</b>
<b>Advanced economies</b>	<b>1.6</b>	<b>1.2</b>	<b>1.9</b>	<b>2.7</b>	<b>1.6</b>	<b>1.3</b>
US	1.8	1.8	2.2	3.0	1.2	0.9
Euro area	1.6	-0.5	0.8	2.5	1.5	1.7
UK	0.9	0.6	2.0	4.5	2.4	2.0
Japan	-0.9	1.7	1.6	-0.4	-0.5	0.0
<b>Emerging and developing economies</b>	<b>6.2</b>	<b>5.4</b>	<b>5.9</b>	<b>7.2</b>	<b>6.2</b>	<b>5.5</b>
<b>Developing Asia</b>	<b>7.9</b>	<b>7.3</b>	<b>7.8</b>	<b>7.0</b>	<b>5.1</b>	<b>4.4</b>
China	9.2	8.2	8.8	5.5	3.3	3.0
India	7.4	7.0	7.3	10.6	8.6	7.1
<b>Latin America and the Caribbean</b>	<b>4.6</b>	<b>3.6</b>	<b>3.9</b>	<b>6.7</b>	<b>6.0</b>	<b>5.4</b>
Brazil	2.9	3.0	4.0	6.6	5.2	4.2
<b>Sub-Saharan Africa</b>	<b>4.9</b>	<b>5.5</b>	<b>5.3</b>	<b>8.4</b>	<b>8.3</b>	<b>6.4</b>
South Africa <sup>2</sup>	3.1	2.7	3.6	5.0	6.2	5.3

1. IMF, *World Economic Outlook, January 2012 and October 2011*

2. *National Treasury forecasts*

### Long-term shifts in global trade and investment

For some time a shift in the composition of global trade, production and investment has been under way. Emerging markets now account for more than 40 per cent of global imports, exports and industrial production.

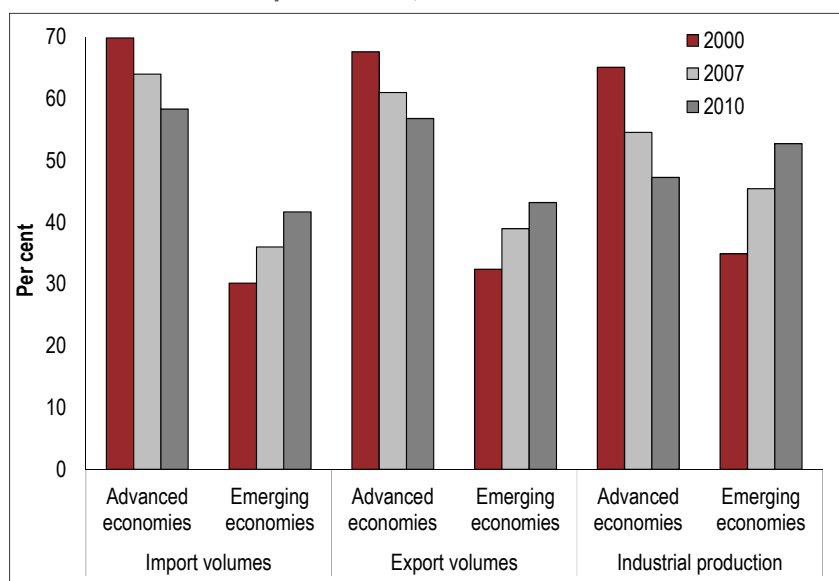
Last year, Brazil overtook the UK to become the sixth-largest economy in the world. By 2016, the IMF expects BRICS (Brazil, Russia, India, China and South Africa) economies to account for 24 per cent of global GDP, up from 7 per cent in 1993, and China is projected to be the largest economy in the world based on purchasing power parity.

*By 2016, BRICS economies will account for 24 per cent of global GDP*

Shifts in the global economy provide considerable opportunities for growth and employment in South Africa and the African continent. For example, the World Bank projects that China could shed 85 million manufacturing jobs in the coming years as the economy's comparative advantage moves away from labour-intensive production and as wages for unskilled labour rise. 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.

**Figure 2.2 Global shares of import volumes, export volumes and industrial production, 2000 – 2010**



Source: United Nations and CPB Netherlands Bureau for Economic Policy

South Africa's regional and global comparative advantages in mining, infrastructure development, retail, distribution, tourism, and financial and professional services offer significant potential for jobs and growth, particularly if underpinned by innovation and productivity gains.

### African growth: past, present and future

The commodity boom, improved political stability and prudent macroeconomic policies have fuelled a sharp increase in African growth over the past decade. GDP growth averaged nearly 5 per cent in the 2000s compared with just over 2 per cent over the preceding two decades.

- Between 2000 and 2016, Sub-Saharan Africa is forecast to almost double its share of global GDP, with per capita incomes rising by 110 per cent based on purchasing power parity.
- Africa's share of global FDI inflows has increased from an average of 1.9 per cent in the 1990s to 4 per cent between 2005 and 2011, and totalled US\$54.4 billion in 2011. FDI inflows are strongest into East Africa, Central Africa and increasingly West Africa.
- Spending on infrastructure is projected to increase sharply over the next 20 years in Nigeria (506 per cent), Angola (347 per cent), Kenya (328 per cent) and Egypt (138 per cent).
- The number of internet users increased from 19 million in 2005 to 91 million in 2010. Mobile phone subscriptions more than tripled to 393 million over the same period.
- Some 70 per cent of Africa's population is under age 30, representing a potential demographic dividend.

South Africa's stock of FDI in Africa has increased more than five-fold, from US\$3 billion in 2005 to US\$16.6 billion in 2010. South African investment has focused on natural resources in Southern and Eastern Africa, along with telecommunications, finance, retail and construction. South African companies in these sectors have operations in more than 15 countries.

Efforts to foster closer economic integration should focus on developing regional infrastructure, one-stop border policies and systems, removing non-tariff barriers such as import permits and reducing barriers to the movement of skilled labour.

Sources: IMF, World Bank, UN Conference on Trade and Development, Royal Bank of Scotland, Eskom

## Real output trends

### Agriculture

Real value added in the agricultural, forestry and fishing sectors expanded by 3.5 per cent in the first nine months of 2011 compared with the same period in 2010. Growth was supported by high prices and greater production of cash crops. Maize, wheat, sunflower seed and soya bean prices rose significantly, with a commensurate increase in production for most of these crops. Wheat production during 2011 is estimated to be 29.4 per cent higher than 2010 and maize farmers have increased planting areas for the 2012 season by 10.9 per cent.

*Agricultural growth was supported by high prices and greater production of cash crops*

### Mining

Mining production was broadly stable, growing by 0.3 per cent in 2011. Production was weighed down by strikes, safety stoppages and maintenance on the Mpumalanga to Richards Bay coal line. Manganese, other metallic minerals and nickel recorded the strongest output growth in response to demand for industrial commodities in Asia. Performance in the largest export commodities was mixed, with platinum group metals and coal expanding by 1.6 and 1.4 per cent respectively, while gold output contracted by 4.1 per cent, despite favourable gold prices.

*Metallic minerals and nickel recorded the strongest output growth in response to Asian demand*

Robust growth in China and other emerging markets should support commodity demand and high prices for some time to come. Large-scale investments in public-sector infrastructure, complemented by private investment, will expand production and export capacity for coal, platinum, palladium, chrome and other minerals from Limpopo and other regions.

**Table 2.4 Growth in mining output by sector, 2007 – 2011**

Percentage	Weights	Change from pre-recession highs <sup>1</sup>	2011	Q4 2011 <sup>2</sup>
Platinum group metals	27.0	-13.5	1.6	-22.0
Coal	24.9	0.8	1.4	28.1
Gold	17.2	-32.4	-4.1	19.5
Diamonds	7.6	-57.8	-21.3	-43.2
Other non-metallic minerals	5.7	-22.5	-2.3	-19.0
Iron ore	5.3	43.3	-1.3	5.0
Nickel	2.8	9.5	7.2	-30.1
Other metallic minerals	2.8	20.7	10.3	7.6
Building materials	2.1	-14.8	1.8	62.6
Copper	1.8	-25.9	5.4	28.7
Manganese	1.5	36.4	21.3	15.3
Chromium	1.3	9.4	-0.8	15.3
<b>Total</b>	<b>100.0</b>	<b>-10.7</b>	<b>0.3</b>	<b>1.7</b>

1. Second half of 2011 compared with first half of 2007

2. Quarter on quarter, seasonally adjusted and annualised

Source: Statistics South Africa

### Promoting clarity and certainty for the mining sector

In 2009, the Department of Mineral Resources commissioned a task team to review factors impeding the competitiveness of the South African mining sector. A competitiveness strategy has been developed outlining several reforms aimed at improving investor confidence. The strategy recognises that simplifying the regulatory framework and policy certainty will support higher investment in mining.

To streamline the processing of applications for prospecting and mining rights, government launched a new licensing system in April 2011. Applications can now be made through the department's website. Complementary amendments to the Mineral and Petroleum Resources Development Act (2004) are to be legislated in the second half of 2012 to provide clarity and certainty about administrative processes for transferring mining rights and to speed up applications for water licences. Amendments to the Mine Health and Safety Act will simplify administrative processes.

### Manufacturing

*Near-term outlook for manufacturing has improved, and purchasing managers' index anticipates growth in 2012*

Manufacturing production increased by 2.5 per cent during 2011, supported by production of motor vehicles and parts, basic iron and steel, and petrochemicals. Although production in most subsectors remains below pre-2008 levels, the near-term outlook has improved, with the Kagiso purchasing managers' index rising to a seven-month high in January 2012 as a result of strong business activity and new sales orders.

**Table 2.5 Growth in manufacturing output by sector, 2008 – 2011**

Percentage	Weights <sup>1</sup>	Change from pre-recession highs <sup>2</sup>	2011	Q4 2011 <sup>3</sup>
Basic iron and steel	22.9	-19.0	2.8	35.9
Petrochemicals	22.1	-6.6	1.4	0.2
Food and beverages	15.4	11.4	2.5	2.4
Motor vehicles and parts	10.9	-12.2	7.4	-31.6
Wood and paper	10.2	-8.9	1.3	38.1
Furniture and other	5.2	-24.9	1.1	-31.4
Textiles and clothing	4.9	-23.2	-2.9	-9.4
Glass, etc	4.8	-14.6	2.4	2.5
Electrical machinery	2.5	5.8	1.9	17.2
Radio and television	1.1	3.2	11.8	-8.9
<b>Total</b>	<b>100.0</b>	<b>-9.3</b>	<b>2.5</b>	<b>4.1</b>

1. Weights are based on Statistics South Africa 2005 Large Sample Survey

2. Second half of 2011 compared with first half of 2008

3. Quarter on quarter, seasonally adjusted and annualised

Source: Statistics South Africa

### Manufacturing competitiveness enhancement programme

The manufacturing competitiveness enhancement programme will begin in 2012/13. It will provide production and distressed funding support to boost productivity and competitiveness, raise investment and create jobs. Investment in capital (machinery, plant and equipment), product development, process redesign, standards accreditation, and feasibility and marketing studies will qualify for the incentive. The programme is aimed at labour-intensive industries, excluding sectors already covered by incentives (clothing, textiles, leather and footwear, and motor vehicles). Government has allocated R5.75 billion to the Department of Trade and Industry over the MTEF period to administer the programme.

### Special economic zones programme

Designated special economic zones will provide infrastructure and incentives to develop clusters of firms, encouraging private investment and employment growth. Incentives will target improvements to business conditions and productivity through skills development, business incubation, reducing red tape, technology transfer and adaptation, and providing assistance with access to markets and logistics. The Development Bank of Southern Africa will support infrastructure development and leverage private investment in the zones. Government has allocated R2.25 billion to this programme over the medium term.

## Electricity, gas and water

Value added in the electricity, gas and water sector grew by 1.6 per cent in the first nine months of 2011 compared with the same period in 2010. The electricity reserve margin – a measure of spare capacity – stood at 16.8 per cent, up from 14.9 per cent in 2010, in part due to disruptions in mining and manufacturing activity. The reserve margin has increased from 5.1 per cent in 2007 but will face renewed pressure as demand picks up. The first units of Eskom's Medupi and Kusile power plants are due to be completed in 2013 and 2014 respectively.

*Eskom's reserve margin has improved owing to softer industrial activity but will face renewed pressure as demand picks up*

Over the medium term, growth in the electricity and gas sector will be supported by investments by independent power producers.

### Improving efficiencies in network infrastructure

Chapter 7 discusses the scope of South Africa's major public-sector infrastructure projects. The private sector can play a complementary role in improving the implementation and efficiency of these investments.

- In the electricity sector, private firms can generate more power and reduce reliance on fossil fuels. Following a competitive bidding process, the Department of Energy has identified 28 preferred independent power producers of renewable energy with a combined potential capacity of 1 416MW.
- Amendments to regulations in the telecommunications sector have allowed more than 400 companies to gain electronic communications network service licences since March 2009. Private firms have made large investments in undersea fibre optic cables, helping to expand broadband access. Further interventions directed at local loop unbundling and regulation of interconnection tariffs will confer significant benefits to consumers and the economy.
- The Ports Regulator has announced an average tariff increase of 2.8 per cent for 2012/13 – well below inflation. Government will work with the regulator and Transnet to improve competitiveness and reduce port charges on manufactured goods by R1 billion during 2012/13. Private firms can help improve the performance of ports with investment and skills, if provided with concessioning opportunities.

### The role of transparent regulation in getting prices right

The correct pricing of utility services provides incentives for efficient production and consumption, spurs productivity gains and ensures cost-reflective tariffs across the value chain.

Government is considering setting up an oversight unit to clarify the roles of regulators and update policy to ensure efficient, transparent regulation of network industries. In addition:

- New regulators in water and transport (including rail) are being considered.
- The Department of Energy is reviewing its electricity pricing policy to provide appropriate guidelines to the National Energy Regulator of South Africa for the third multi-year price determination.
- The Independent System and Market Operator Bill is in the final drafting stages. The bill is intended to ensure that independent power producers have open, competitive access to the electricity grid.

## Transport and communication

In the first nine months of 2011, the transport, telecommunications and storage sector grew by 3.2 per cent compared with 2010. Growth in the sector can be attributed to investments in rail, roads and ports, as well as increased capacity and competition in telecommunications. The volume of land freight increased by 6.5 per cent in the first three quarters of 2011, helped by improved infrastructure and increased demand.

*Investments in rail, roads and ports, and increased capacity in telecommunications, support sector growth*

The number of individual internet users in South Africa surpassed 9.5 million in mid-2011, up from 5.3 million in 2009. Broadband costs have declined somewhat and mobile phone technology has increased accessibility. But South Africa still lags behind peer countries in the quality and cost of telecommunications, with the average price of broadband at US\$39.09 per Mbps – significantly higher than the world average of US\$9.64 per Mbps.

## Construction

*Construction has not performed well but is expected to pick up from the second half of 2012*

Value added in construction grew by 0.6 per cent in the first nine months of 2011 compared with the same period in 2010, underpinned by infrastructure investment by public corporations. Activity in the residential subsector has been depressed due to weak demand. Similarly, the commercial sector is still characterised by oversupply, though conditions have begun to improve. Construction is projected to begin expanding again in the second half of 2012, gradually accelerating as infrastructure expenditure picks up and residential investment slowly improves.

### Greening the economy

“Green” growth policies promote economic advancement in an environmentally sustainable manner. The shift towards a more resource efficient, low-carbon economy can lead to new sources of growth and complement economic reforms that support greater competitiveness.

Internationally, policies such as carbon pricing, environmental taxes, permits and performance standards, along with support for research and innovation, have achieved more efficient outcomes than direct subsidies to green industries. The major challenge is to make green technologies accessible and affordable.

Sectors with green jobs potential include renewable energy, building and construction, and natural resource management. These sectors also offer opportunities to expand labour-intensive employment. Green job growth expectations should be tempered by the observation that, in the short term, the impact on net job creation can be overestimated, partly because there are no clear definitions of such jobs.<sup>1,2</sup>

- Many green jobs will not be new, because existing jobs may be reclassified as companies shift activities to produce greener goods and services.
- In some cases, the shift will come at the expense of jobs in industries with high carbon emissions.

Government is committed to a more environmentally sustainable economy through a range of policies and programmes. The National Treasury is considering the role of market-based instruments, including a carbon tax, to incentivise the transition to a greener economy.

<sup>1</sup> Gulen, G., 2011. *Defining, Measuring and Predicting Green Jobs*, Copenhagen Consensus Centre

<sup>2</sup> Hughes, G., 2011. *The Myth of Green Jobs*, The Global Warming Policy Foundation (GWPF)

## Finance, insurance, real estate and business services

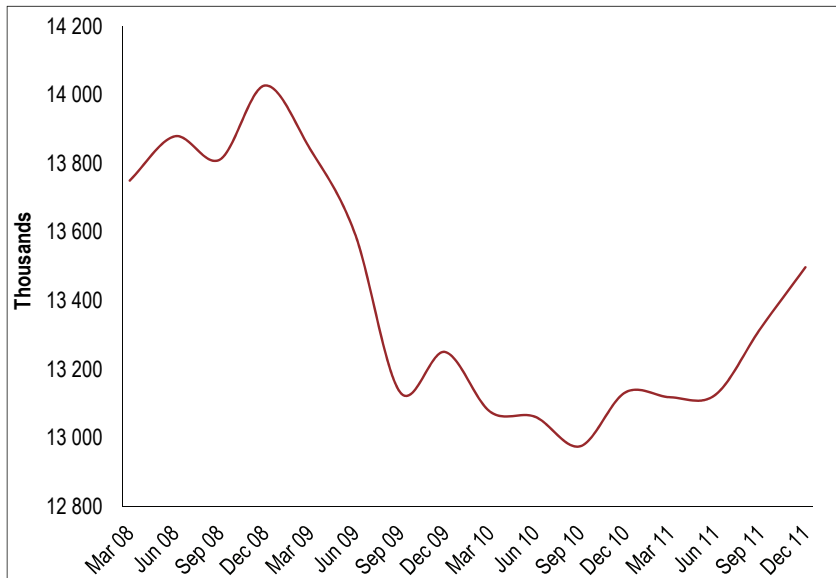
*Banking-sector profitability increased and the banking sector remains well capitalised*

The finance, insurance, real estate and business services sector grew by 3.5 per cent in the first nine months of 2011 compared with 2 per cent during 2010. As impaired advances – a measure of loans that may not be fully repaid – and economic activity have improved, the profitability of the banking sector has recovered, rising by 20.9 per cent year-on-year over the first 11 months of 2011. The banking sector remains well capitalised, with tier one capital adequacy – the highest-quality capital reserves – at 12 per cent in November, well in excess of the 7 per cent required by the international Basel III agreement.

## ■ Employment and remuneration

*Job creation has been concentrated in the formal private sector over the last 12 months*

The labour market has shown signs of improvement over the past year, with total employment rising by 2.8 per cent between December 2010 and December 2011. Job creation has been concentrated in the formal private sector. The economy is projected to add 850 000 new jobs over the next three years, with 80 per cent of these in the private sector, lowering the unemployment rate to about 23 per cent in 2014. Most of these jobs are likely to be concentrated in services and construction as a result of steady growth in domestic demand and infrastructure expenditure, and a pickup in residential investment expected during the outer years of the forecast.

**Figure 2.3 Total employment, 2008 – 2011**

Source: Statistics South Africa, Quarterly Labour Force Survey

Figure 2.3 shows that pre-recession employment peaked in December 2008 at about 14 million. After a period of rapid job losses, about 520 000 new jobs were created between September 2010 and December 2011. Private-sector job creation – which accounted for 60 per cent of new jobs – is gathering pace and has been strongest in finance, real estate and business services, wholesale and retail trade, construction, and mining.

*About 520 000 new jobs created between September 2010 and December 2011*

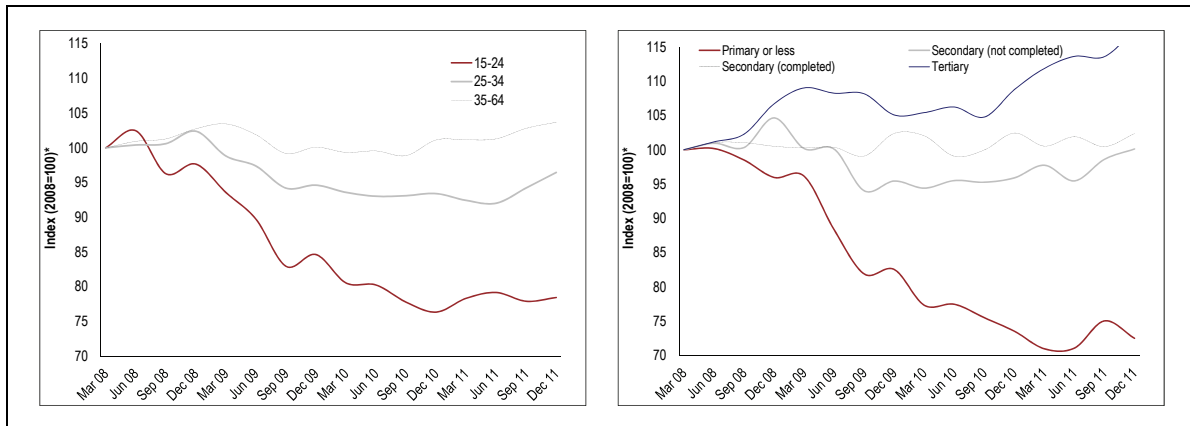
**Table 2.6 Formal sector non-agricultural employment**

	Total employment		Change in employment			
	Thousands	%	Thousands	%	Thousands	%
	Sept 2011		Dec 2008 to Mar 2010		Sept 2010 to Sept 2011	
Mining	521	6.2	-27	-5.2	16	3.2
Manufacturing	1 151	13.8	-88	-6.9	-8	-0.7
Utilities	59	0.7	-3	-5.1	2	3.5
Construction	434	5.2	-56	-11.8	28	6.9
Wholesale and retail trade	1 666	19.9	-117	-6.7	16	1.0
Transport and communications	363	4.3	-7	-1.9	8	2.3
Finance and business services	1 836	22.0	-172	-9.0	53	3.0
Community and personal services	2 329	27.9	44	2.0	89	4.0
<b>Total</b>	<b>8 359</b>	<b>100.0</b>	<b>-426</b>	<b>-5.0</b>	<b>204</b>	<b>2.5</b>

Source: Statistics South Africa, Quarterly Employment Statistics

Unemployment remains high at 23.9 per cent. Labour force participation is low, with almost 15 million South Africans not economically active. After doubling between 2008 and 2011, the number of discouraged work seekers has stabilised at about 2.3 million, and the broad unemployment rate stands at about 33 per cent. Weak job creation for young people and those who have not completed matric has exacerbated the challenge of low-skill and youth unemployment.

**Figure 2.4 Employment trends by age and education level, 2008 – 2011**

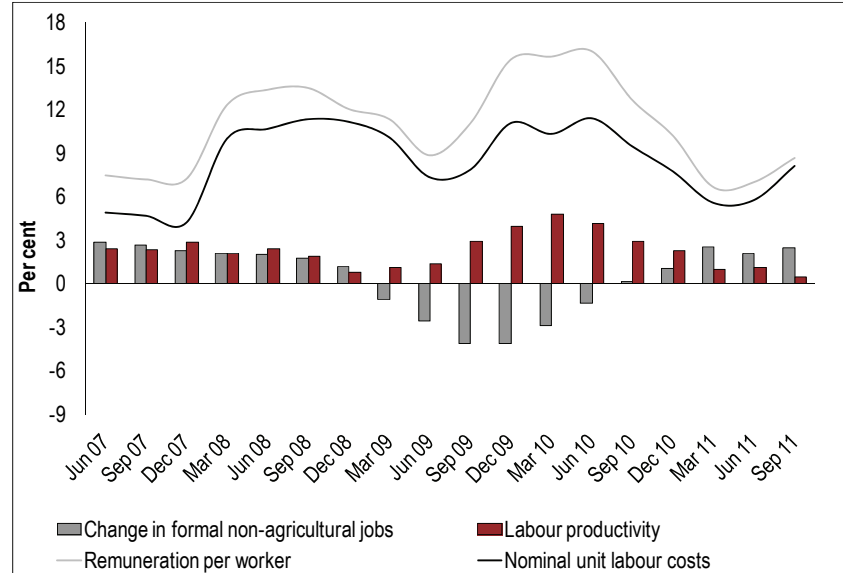


Source: Statistics South Africa, Quarterly Labour Force Survey  
 \* Base for index is March 2008

*Moderation in real wage growth and nominal unit labour costs supported labour market improvements*

Moderation in the growth of real wages and nominal unit labour costs since September 2010 has supported recent improvements in the labour market. Nominal wage settlements averaged 7.7 per cent in 2011 compared with an average settlement level of 8.2 per cent in 2010. More recently, slowing labour productivity growth has contributed to accelerated growth in nominal unit labour costs, which grew from below 6 per cent in the first quarter of 2011 to 8.3 per cent in September 2011.

**Figure 2.5 Annual change in remuneration, unit labour costs, productivity and employment, 2007 – 2011\***



Source: Statistics South Africa, Quarterly Employment Statistics and Reserve Bank  
 \* National Treasury estimates for third quarter of 2011

## Domestic expenditure

Real gross domestic expenditure expanded by an estimated 4.1 per cent between 2010 and 2011, supported by growth in household and government consumption, and renewed growth in fixed capital formation following two years of contraction. Domestic expenditure is expected to expand at an annual average of 4.2 per cent over the medium term.

## Household debt and consumption expenditure

Household consumption rose by 5.2 per cent in the first three quarters of 2011, supported by higher real disposable incomes, an uptick in employment and low interest rates. The expansion was tempered in the final months of the year by weaker consumer confidence and rising inflation.

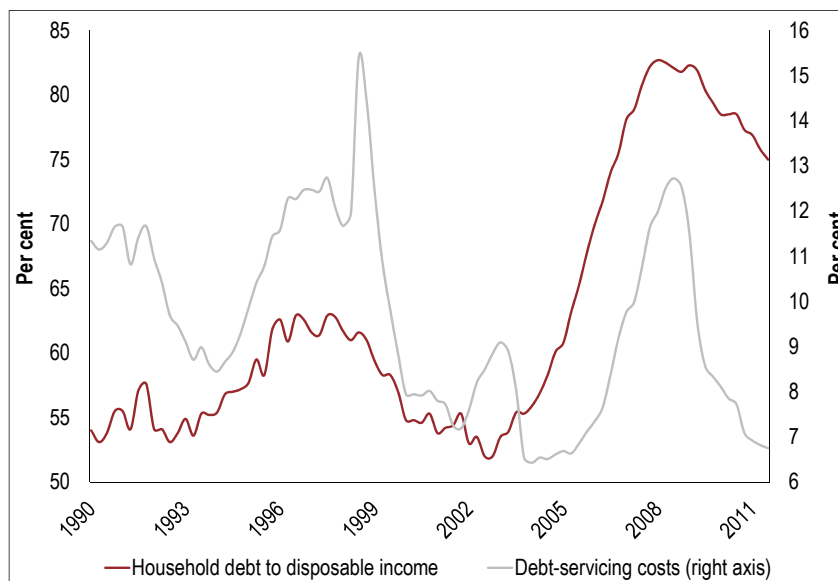
*Household consumption growth supported by higher real disposable income and low interest rates*

Household indebtedness continued to decline in 2011. Lower debt-service costs and strong nominal income growth saw the ratio of debt to disposable income fall from 82.7 per cent in the first quarter of 2008 to 75 per cent in the third quarter of 2011. Despite this improvement, debt levels remain elevated and may restrain household consumption growth if interest rates and debt-service costs rise.

Expenditure on durable goods grew at a robust pace in 2011, continuing a shift in consumption expenditure away from non-durable goods over the past two years. Middle- and high-income households, which account for an increasing share of total consumer spending, were responsible for this shift. High real wage settlements, rather than job creation, have underpinned household disposable income gains, presenting a risk to the sustainability of strong household consumption over the long term.

*Concerns about whether strong gains in household consumption can be sustained over long term*

**Figure 2.6 Ratios of household debt and debt-service costs to disposable income, 1990 – 2011\***



Source: Reserve Bank

\* Data for 2011 is for first three quarters

## Gross fixed capital formation

Real gross fixed capital formation increased by 4.1 per cent in the first three quarters of 2011 compared with the same period in 2010. This recovery reflects accelerated private-sector real investment expenditure, with the fastest rates of growth in mining and manufacturing. Private-sector investment was supported by low interest rates and a relatively strong exchange rate during the first half of 2011, encouraging machinery and equipment imports.

*Low interest rates and relatively strong exchange rate supported investment during first half of 2011*

**Table 2.7 Real investment growth by economic activity, 2007 – 2011**

Percentage	2007	2008	2009	2010	2011 <sup>1</sup>
Mining and quarrying	31.3	27.5	5.8	-5.5	6.6
Manufacturing	5.8	12.9	-22.1	3.3	11.7
Electricity, gas and water	34.2	44.3	35.2	-1.0	3.7
Transport, storage and communication	15.2	30.3	-0.6	7.3	4.8
Financial intermediation, insurance and real estate	5.7	-6.1	-6.7	-6.3	-3.8
Community, social and personal services	22.1	6.3	-2.5	-7.0	2.7

1. First three quarters of 2011 compared with same period in 2010

Source: Reserve Bank

Private-sector investment is expected to lose some momentum, growing by 4 per cent in 2012 compared with an estimated 5.4 per cent in 2011, as a result of slower growth in South Africa and continued global uncertainty. Fixed capital formation by the private sector is expected to pick up in 2013, rising by 5 per cent.

Public corporations continue to invest in large-scale infrastructure projects, including Eskom's Medupi, Kusile and Ingula power stations, and Transnet's construction of its multiproduct pipeline. Major projects to expand mining and minerals export capacity through energy, rail, road and water infrastructure will increase public investment over the longer term.

**Table 2.8 Contribution to overall investment growth, 2007 – 2011**

Percentage	2007	2008	2009	2010	2011 <sup>1</sup>
General government	3.3	1.7	-0.5	-1.5	0.0
Public corporations	4.2	5.1	3.7	0.4	0.6
Private enterprises	6.5	6.4	-6.4	-0.5	3.4
<b>Total<sup>2</sup></b>	<b>14.0</b>	<b>13.3</b>	<b>-3.2</b>	<b>-1.6</b>	<b>4.1</b>

1. First three quarters of 2011 compared with same period in 2010

2. Totals may not add up due to rounding

Source: Reserve Bank

## Balance of payments

*Moderate widening of the current account deficit over the next several years as demand boosts imports*

The current account deficit widened to an estimated 3.3 per cent of GDP in 2011 from 2.8 per cent in 2010. While the trade balance maintained a small surplus, net income payments were pushed up by higher dividend payments to non-residents. The current account deficit is projected to widen to 4.3 per cent of GDP in 2012 and reach 4.4 per cent in the outer year of the forecast as domestic demand boosts imports.

**Table 2.9 Summary of South Africa's current account, 2007 – 2011**

Percentage of GDP	2007	2008	2009	2010	2011 <sup>1</sup>
<b>Total current account</b>	<b>-7.0</b>	<b>-7.2</b>	<b>-4.0</b>	<b>-2.8</b>	<b>-3.1</b>
Trade balance	-1.8	-1.6	0.1	1.0	0.9
Net services, income and current transfer payments	-5.2	-5.6	-4.1	-3.8	-4.0
Net service payments	-0.9	-1.5	-1.0	-1.2	-1.2
Net income payments	-3.4	-3.3	-2.2	-2.0	-2.3
<i>Net dividend payments</i>	<i>-3.1</i>	<i>-2.6</i>	<i>-1.6</i>	<i>-1.5</i>	<i>-1.9</i>
Net current transfer payments (mainly SACU)	-0.8	-0.8	-0.9	-0.6	-0.5
Current account excluding net current transfers	-6.1	-6.3	-3.1	-2.2	-2.6

1. Includes data for the first three quarters of 2011, seasonally adjusted and annualised

Source: Reserve Bank

The financial account recorded a large surplus in the first half of 2011, reflecting strong portfolio inflows and modest FDI. In the second half of the year, the deterioration in the global environment weighed on portfolio inflows as investors reduced exposure to emerging market equities.

**Table 2.10 Summary of South Africa's financial account, 2007 – 2011**

Percentage of GDP	2007	2008	2009	2010	2011 <sup>1</sup>
Net portfolio investment	3.6	-6.0	3.9	2.8	-0.3
Net foreign direct investment	1.0	4.4	1.5	0.4	1.0
Net other investment	3.0	5.8	-0.7	-0.5	2.3
<b>Financial account balance</b>	<b>7.6</b>	<b>4.2</b>	<b>4.7</b>	<b>2.6</b>	<b>3.0</b>
Unrecorded transactions	1.7	4.0	0.0	1.4	2.1
<b>Change in net reserves due to BoP transactions</b>	<b>2.4</b>	<b>1.2</b>	<b>0.7</b>	<b>1.2</b>	<b>1.6</b>

1. Includes data for the first three quarters of 2011

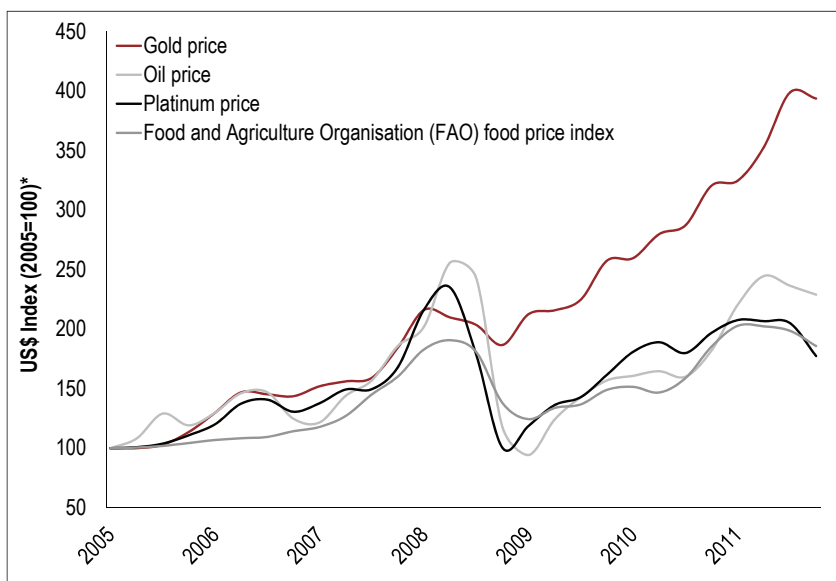
Source: Reserve Bank

### Current account

South Africa's trade balance recorded a surplus of 0.9 per cent of GDP in the first three quarters of 2011 compared with 1 per cent in the whole of 2010. Export volumes grew 5.8 per cent compared with the previous year, while imports of goods and services increased by 9.3 per cent.

*Exports volumes showed positive growth during first three quarters of 2011*

**Figure 2.7 Gold, platinum, oil and food price trends, 2005 – 2011**



Source: Bloomberg, United Nations Food and Agriculture Organisation

\* Base for index is March 2005

Factors affecting the current account included the following:

- Relatively high commodity prices benefited the terms of trade, which were up by 4.1 per cent in the first nine months of 2011 compared with the same period in 2010.
- The price of platinum averaged US\$1 720/oz in 2011, compared with US\$1 612/oz in 2010.

- The gold price soared 34 per cent from January 2011 to a record US\$1 900/oz in September 2011. In January 2012, the average price of US\$1 655/oz was more than double the average for the past decade.
- After spiking to US\$127/bbl at the beginning of 2011, the price of Brent crude oil softened but remained above US\$100/bbl. Geopolitical tensions centred in the Middle East and Persian Gulf are expected to keep the oil price high in the near term.
- The United Nations Food and Agriculture Organisation index of global food prices was 36 per cent higher in the first half of 2011 compared with the same period in 2010. Prices declined moderately in the second half of 2011.

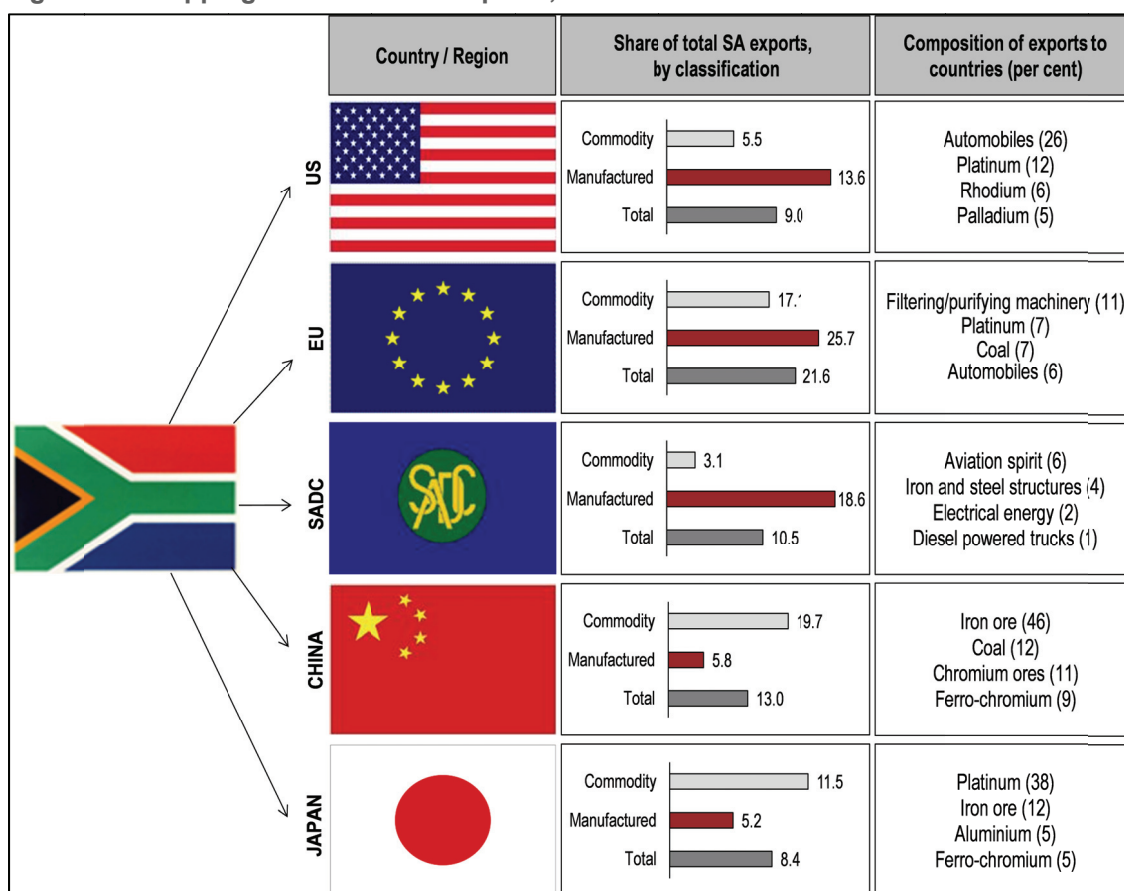
High commodity prices pushed up the share of resources such as gold, platinum, coal and iron ore in South Africa’s export basket to 40 per cent in the first 11 months of 2011 from 36 per cent in 2010.

**Shifting trade patterns**

*South Africa’s share of exports to China and the SADC countries has grown*

South Africa’s trade patterns have changed significantly in response to global growth trends. A rising share of exports to China (from an average of 4.2 per cent between 2005 and 2008 to 13 per cent in 2011) and to Southern African Development Community (SADC) countries has been accompanied by a decline in exports to the European Union, from 33 per cent in 2005 to 21.6 per cent in 2011.

**Figure 2.8 Mapping South Africa’s exports, 2011**



Source: Quantec

Strong growth in developing countries, which absorb about 60 per cent of South Africa's commodity exports and half of its manufactured exports, will continue to support demand. Over the past five years, the strongest export growth has been for mineral products (iron ore), fats and oils, chemical products (soaps and plastics), and transport equipment. Imports of machinery and equipment, chemicals, and motor vehicles components increased strongly in 2011 as domestic demand and investment recovered.

The deficit on the services, income and current transfer account widened marginally to 4 per cent of GDP in the first three quarters of 2011 from 3.8 per cent in 2010 as a whole, primarily due to a strong increase in dividend payments to non-residents as corporate profitability improved. As a share of GDP, net dividend payments remain well below the 2007 peak. Net transfer payments to the Southern African Customs Union are expected to rise as import volumes respond to higher investment.

**Table 2.11 Composition and performance of South Africa's trade with major regions, 2005 – 2011**

	% change in exports 2010–2011 <sup>1</sup>	% share of exports			% share of imports			% change in imports 2010–2011 <sup>1</sup>
		Average 2005–2008	2010	2011 <sup>2</sup>	Average 2005–2008	2010	2011 <sup>2</sup>	
EU	4.5	31.2	23.5	21.6	34.4	32.0	30.9	14.7
Germany	0.2	6.9	7.4	6.5	12.4	11.3	11.1	16.2
UK	0.1	7.9	4.5	4.0	4.9	3.8	4.2	33.7
Netherlands	14.4	4.3	3.0	2.9	1.5	1.8	1.5	0.2
Spain	-3.0	2.6	1.4	1.2	1.4	1.6	1.4	2.8
China	51.6	4.2	10.2	13.0	10.3	14.2	13.5	13.1
SADC	15.2	9.4	10.4	10.5	4.5	4.7	4.3	6.9
Mozambique	19.2	1.8	2.4	2.5	0.3	0.7	1.1	88.3
Zimbabwe	6.3	2.0	2.6	2.4	1.0	0.2	0.5	124.1
Zambia	37.2	2.0	2.0	2.4	0.4	0.4	0.4	34.1
USA	15.7	10.3	8.9	9.0	7.7	7.1	8.2	38.5
Japan	17.0	10.5	8.0	8.4	6.4	5.3	4.6	2.9
Other	10.2	34.5	38.9	37.5	36.8	36.5	38.5	26.2
<b>Total</b>	<b>14.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>19.3</b>

1. January – November 2011 compared with same period in 2010

2. The first 11 months of 2011

Source: Quantec

## Financial account

The financial account of the balance of payments recorded a net increase of R64.8 billion in the first nine months of 2011, despite a net outflow of portfolio assets. The decline in portfolio investment occurred as non-residents sold off equities and South African investors took advantage of higher offshore investment allowances. International investors were net buyers of local bonds worth R47.6 billion in 2011 – down from R55.9 billion in 2010 – and were net sellers of equities worth R19.1 billion, compared with net purchases of R36.2 billion in 2010.

*International investors were net buyers of South African bonds in 2011, but portfolio investment declined*

In the first three quarters of 2011, net FDI inflows more than doubled relative to 2010. Most of these inflows emanated from the US, China and Japan, and were directed primarily to the domestic wholesale and retail trade, mining and manufacturing sectors.

The South African bond market is expected to remain attractive to international investors because domestic interest rates will be higher than

developed market rates for some time to come. Equities should also remain attractive, particularly while commodity prices are high.

### Exchange rate and international reserves

*Global volatility will continue to fuel exchange rate fluctuations*

High levels of uncertainty in the global environment fuelled exchange rate volatility in 2011. Most emerging market currencies weakened against the US dollar in the second half of the year, when risk aversion increased and previously strong capital inflows reversed; the rand, Turkish lira and Indian rupee recorded the largest losses.

The nominal trade-weighted rand declined by 15.4 per cent from the start of 2011 to the end of December, but strengthened somewhat in the first six weeks of 2012. In real terms, the depreciation over the past year has been slightly less pronounced, owing to South Africa's higher inflation compared with its trading partners.

Gross foreign exchange reserves rose to US\$48.9 billion at the end of December 2011 from US\$43.8 billion a year earlier.

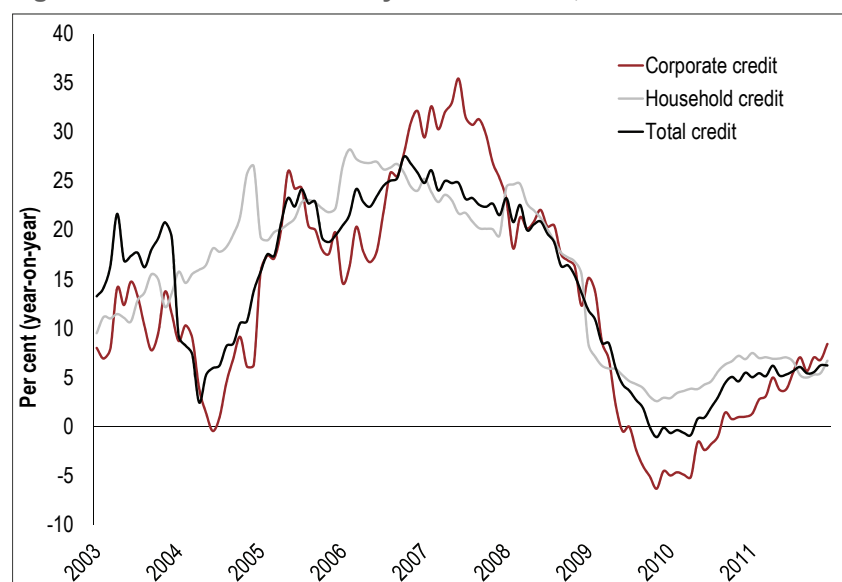
## Monetary and financial sector developments

### Private-sector credit extension

*Growth in private-sector credit extension averaged 5.6 per cent in 2011*

Growth in private-sector credit extension averaged 5.6 per cent in 2011 compared with 2 per cent in 2010. Two factors supported this modest increase: credit extended to the corporate sector grew more quickly in response to revived investment growth, and higher household borrowing was supported by gradual economic recovery, low interest rates and more relaxed lending criteria. Strong demand for unsecured credit and vehicle finance has offset weak growth in mortgage advances.

**Figure 2.9 Credit extension by classification, 2003 – 2011**



Source: Reserve Bank

The ratio of impaired advances to total loans and advances declined from a peak of 6 per cent in November 2009 to 4.8 per cent in November 2011. Despite an improvement in overall debt levels, the number of consumers

with impaired records increased to 8.8 million in the third quarter of 2011 – almost half (46 per cent) of total credit-active consumers. The subdued property market, and risk aversion by households and banks, may limit growth in credit extension in 2012.

### Monitoring shifts in the composition of household debt

Unsecured loans accounted for 21.4 per cent of all new loans in the third quarter of 2011, up from 7.8 per cent at the end of 2007. Over the same period, mortgage loans have fallen to 30.3 per cent of new loans from 51.9 per cent, as uncertainty, high levels of household debt and falling house prices have made banks less willing to extend longer-term credit.

Growth in unsecured lending partly reflects changes in the regulatory framework governing short-term loans following the introduction of the National Credit Act (2005). Previous limits on loan size (R10 000) and repayment duration (up to 36 months) fell away.

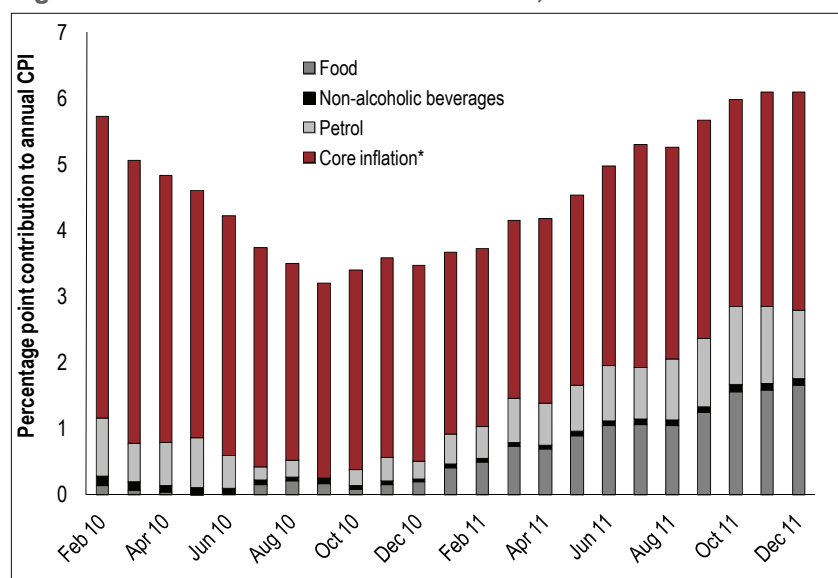
Most unsecured lending is directed towards high-income earners who have more job security, which may reduce household and bank vulnerability. The National Credit Regulator is satisfied that banks are complying with the principles of the act and not engaging in reckless lending. These trends should be monitored to ensure that consumers' growing reliance on unsecured debt does not become a systemic risk.

### Inflation and interest rates

Inflationary pressures intensified during 2011. CPI inflation increased from a low of 3.2 per cent in September 2010 to 6.1 per cent in December 2011 – the result of rising food and fuel prices, and the weaker rand exchange rate. Core inflation (headline inflation excluding food, non-alcoholic beverages and petrol) remained well contained, increasing from 3.6 per cent in September 2010 to 4.4 per cent in December 2011. Administered price inflation remains high, with 14 of the 18 components in the administered price index increasing by more than 6 per cent in 2011. Inflationary pressures are expected to persist in 2012 in response to rising food prices, sustained weakness of the rand, wage pressures and continuing increases in administered prices, including electricity tariffs.

*By end-December 2011, CPI inflation was just above the target band*

Figure 2.10 Contributions to CPI inflation, 2010 – 2011



Source: Statistics South Africa

\* Core inflation is headline inflation excluding food, non-alcoholic beverages and petrol

Inflation expectations are rising in tandem with the CPI. According to the Bureau for Economic Research, trade unions, businesses and analysts

expect inflation to average 6.1 per cent in 2012, up from the June 2011 survey figure of 5.8 per cent.

The Reserve Bank kept the repurchase (repo) rate unchanged at 5.5 per cent during 2011. Real interest rates have been negative since September 2011 as inflation has risen. The challenge for monetary policy is to balance weaker economic prospects and significant global risks alongside rising inflationary pressures.

### **New steps to strengthen South Africa's financial regulatory system**

In the 2011 Budget, the Minister of Finance proposed reforms to strengthen the financial regulatory system. Cabinet has approved the principles, technical work is under way and legislation is expected by 2013. The legislation will propose a new prudential regulator in the Reserve Bank, transform the Financial Services Board into a market conduct regulator and formalise the existing Financial Stability Oversight Committee.

Four related bills will also be tabled in Parliament during 2012:

- Amendments to banking legislation to introduce stronger Basel III capital requirements and introduce "dedicated" banks, which specialise in retail activities such as deposit-taking and/or lending.
- The Financial Markets Bill will replace the Securities Services Act, strengthen the fight against market manipulation (including insider trading) and regulate over-the-counter derivatives.
- The Credit Rating Services Bill will regulate the governance and practices of credit rating agencies.
- A general bill will address gaps in the regulation of pension funds, insurance companies and friendly societies.

Government is working with the financial services industry to improve product disclosure and lower costs.

### **Gateway into Africa and cross-border investments**

Government has undertaken a range of reforms to promote investment into Africa through South Africa. However, significant financial and non-financial barriers still impede the flow of investment between South Africa and the rest of the continent. The National Treasury will consult interested parties to address such blockages, and will also release a new draft of its consultation paper on cross-border investment. The Reserve Bank will make minor refinements to reduce red tape on cross-border transactions.

## **Conclusion**

*The economy has shown resilience and growth prospects are forecast to improve over the medium term*

The South African economy has shown resilience and growth prospects are forecast to improve over the next several years. Over the short term, global uncertainty is likely to hold back higher growth. In this environment, South Africa needs to move forward by building on the inherent strengths of our economy to achieve higher levels of inclusive growth. To do this, government will build on its record of prudent macroeconomic and fiscal management; use public resources more effectively to alleviate poverty and improve service delivery; expand capital infrastructure projects that boost capacity and productivity over the longer term; lower the costs of doing business; take steps to promote a well-regulated environment for the private sector to expand and thrive; and focus on regional and international partnerships to expand and diversify trade and investment. Success in these areas will lay the foundation for strong, sustainable growth and job creation for years to come.

# 3

## Fiscal policy

### ■ Overview

Over the past decade, government has advanced a broad array of social and economic programmes as declining debt-service costs, healthy levels of tax revenue and sound policy choices supported significant increases in public expenditure. The proposed budget of R1.1 trillion in 2012/13 maintains the state's contribution to growth and social development, while taking steps to ensure fiscal sustainability.

*Budget supports growth and social development, while ensuring fiscal sustainability*

- In line with the countercyclical fiscal stance, the budget deficit remains substantial at 4.6 per cent of GDP in 2012/13, but narrows to 3 per cent in the outer year as economic activity accelerates.
- Over the medium term, slower growth in public spending, combined with rising revenue, will strengthen the sustainability of the fiscus. The stabilisation of public debt will arrest the growth of debt-service costs.
- Government will begin to shift the composition of spending from consumption towards capital investment. Moderating growth in the public-sector wage bill, and stabilising the growth in interest payments, will allow more funds to be spent on infrastructure and social spending.

Broadening South Africa's social and economic development in the decades to come requires a sustainable fiscal framework. Later this year, the National Treasury will publish a report on the long-term dynamics that will inform fiscal choices beyond the three-year period.

*National Treasury to publish a report on long-term fiscal trends during 2012*

### Features of the fiscal outlook

During a period of global uncertainty, the 2012 Budget provides continued support for growth, investment and job creation, and maintains the value of the social wage. Key features of the fiscal outlook include:

- Real growth in non-interest expenditure averaging 2.6 per cent over the medium term, bringing spending in line with long-term revenue trends.
- Additional allocations of R55.9 billion over the next three years, including R9.5 billion for an economic support package.
- Tax revenue levels stabilising at about one-quarter of GDP.
- A reduction in the budget deficit from 4.8 per cent in 2011/12 to 3 per cent in 2014/15.
- A shift from consumption to capital spending so that, from 2014/15, new borrowing will support productive investment.

*Fiscal position consolidates in line with improved economic performance*

The fiscal position will consolidate in line with improved economic performance and rising revenue over the medium term. As the economy grows, government will build fiscal space to respond to future crises.

## ■ Fiscal trends and goals

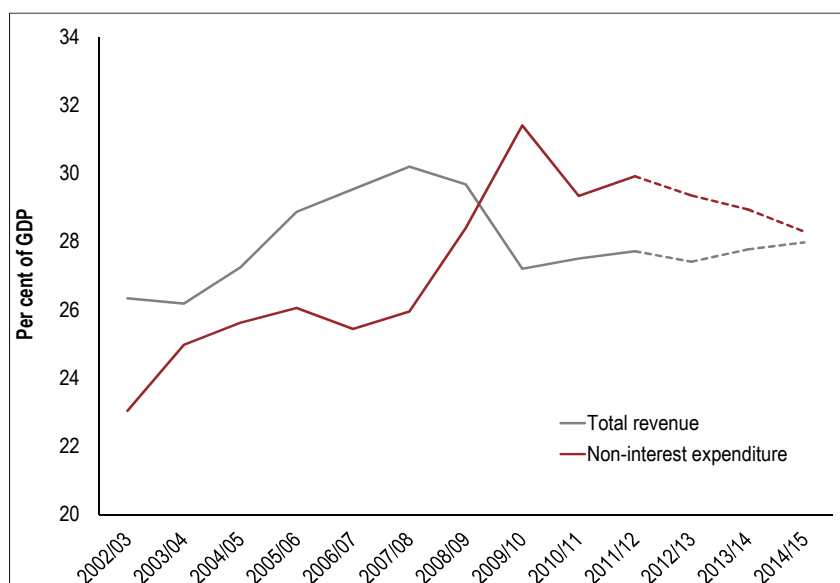
The fiscal guidelines set out in the 2011 Budget form the foundation of the fiscal stance. Applied consistently, the principles of countercyclicality, long-term debt sustainability and intergenerational equity will enable government to improve social conditions in a sustainable manner, and strengthen South Africa's fiscal sovereignty in a volatile global environment.

### Stabilising growth in debt

*By 2014/15, government will have added more than R1 trillion to its debt stock since 2008*

Stable or declining debt stock as a percentage of GDP is a basic indicator of sustainability. Debt grows as a share of GDP when non-interest spending exceeds revenue (a primary deficit), and rising debt-service costs inevitably follow. The large primary deficits since 2009 have resulted in a considerable build-up of public debt. By 2014/15, government will have added more than R1 trillion to its stock of debt since 2008.

**Figure 3.1 Primary balance of consolidated government, 2002/03 – 2014/15**



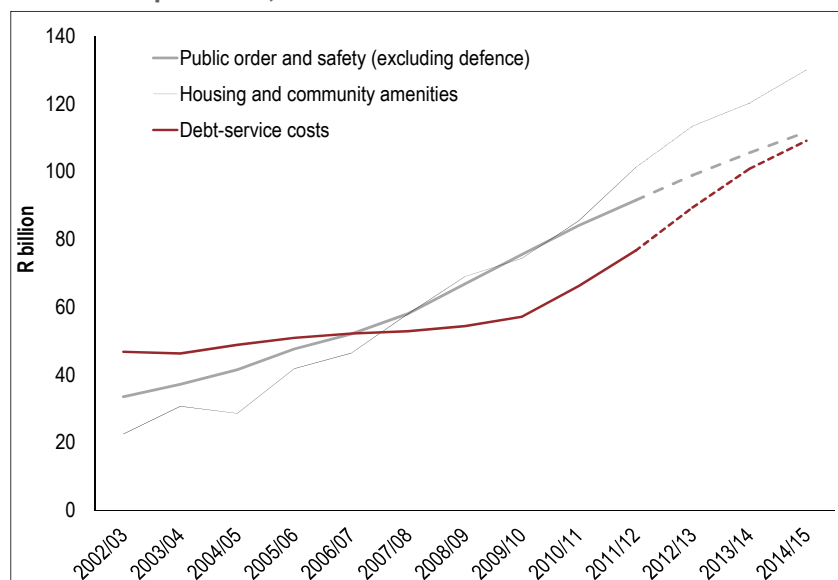
Over the next three years, growth in the economy will outpace growth in non-interest expenditure, and spending as a proportion of GDP will decline. Accelerating GDP growth will lead to stronger growth in revenues.

By 2014/15 government is expected to narrow the primary deficit to 0.3 per cent of GDP, allowing debt to stabilise at about 38.5 per cent of GDP. Debt-service costs are expected to peak at 2.8 per cent of GDP in 2013/14, declining moderately to 2.7 per cent in 2014/15. The benefits of these trends will become apparent over the long term as declining debt-service costs allow a greater share of resources to be allocated for productive investment and social priorities.

*Government will narrow the primary deficit to 0.3 per cent of GDP by the outer year*

Figure 3.2 illustrates the importance of these trends by comparing state debt-service costs with expenditure in two priority areas. Over the past three years, interest payments on government debt have grown more rapidly than spending in both housing and public order and safety.

**Figure 3.2 Spending on debt-service costs compared with other priorities, 2002/03 – 2014/15**



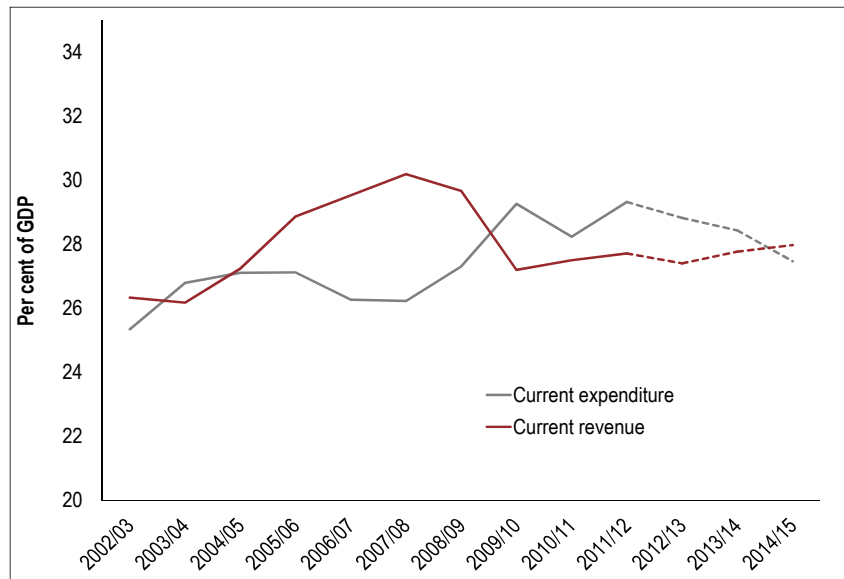
### Shifting the composition of spending

Since 2009, government has been running a sizeable current deficit – meaning that the state has been borrowing to finance spending on recurrent costs such as compensation of employees, and goods and services. Borrowing to finance recurrent spending creates debt obligations that must be paid by future taxpayers who do not share in the benefits of this spending. In contrast, debt incurred to build infrastructure creates durable economic and social benefits.

*Investment in infrastructure creates durable economic and social benefits*

Over the next three years, government has prioritised closing the current balance. Figure 3.3 shows that this gap should close in 2014/15, with the result that new borrowing is expected to finance investment rather than consumption.

**Figure 3.3 Current balance of consolidated government, 2002/03 – 2014/15**

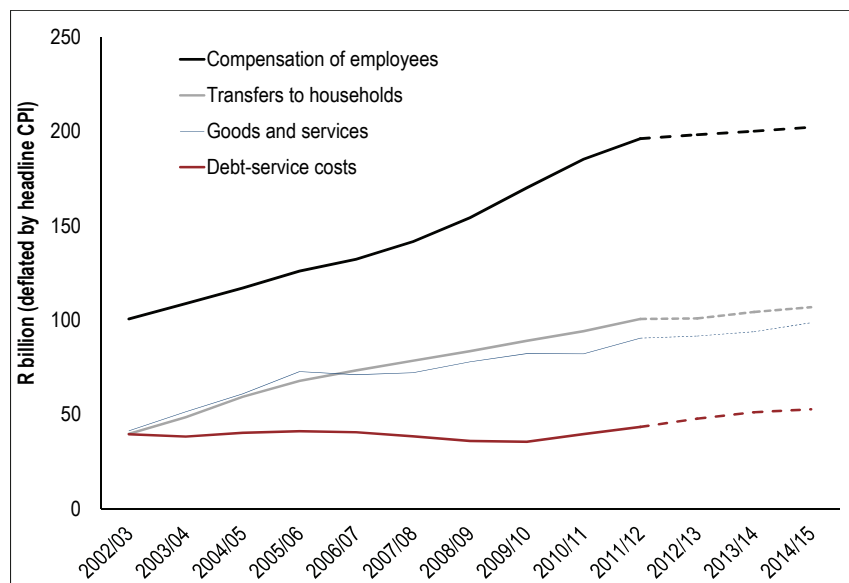


Fiscal policy will complement revenue growth by generating savings in goods and services, moderating growth of employee compensation and improving expenditure on capital budgets. Considerable savings are being realised in goods and services spending, with real growth in this category averaging 1.8 per cent over the medium term, compared with a projection of 3.3 per cent in the 2011 Budget. The 2012 Budget proposes total savings amounting to R27 billion in spending over the MTEF.

*The public-sector wage bill is the largest component of current expenditure*

Most of the improvement in the current balance needs to come from moderation in the growth of the public-sector wage bill. This is the largest component of current expenditure, and has grown considerably over the past 10 years, as shown in Figure 3.4.

**Figure 3.4 Real growth in components of current expenditure, 2002/03 – 2014/15**



Strong growth in compensation of employees is the result of expanded staffing in priority areas such as health care and policing; real wage increases for specific categories of professionals; improved benefits such as the Government Employees' Medical Scheme; and several years of across-the-board salary increases above the rate of inflation.

While many of these improvements were necessary, compensation of employees grew from 35.7 per cent of non-interest spending in 2008/09 to 38.7 per cent in 2011/12. This has resulted in fewer resources available for social and economic infrastructure, and other priorities.

*Compensation bill has resulted in fewer resources to fund investment and other priorities*

The shift in the composition of expenditure by the outer year will enable government to begin redirecting spending towards growth and job creation.

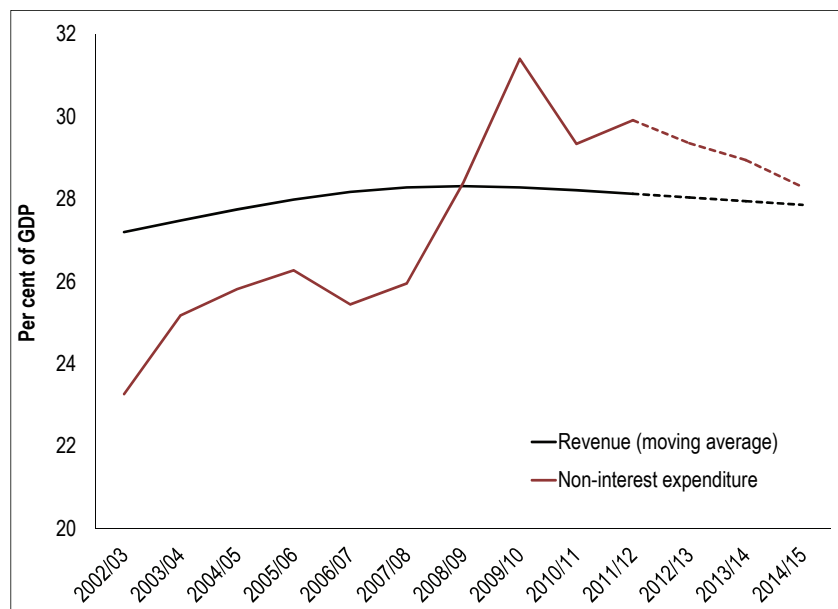
### Long-term fiscal sustainability

Over the long term, government's ability to pay for infrastructure and social programmes requires a higher level of sustainable economic growth that generates adequate tax revenue.

The National Treasury expects budget revenue to recover to 28 per cent of GDP as the economy improves over the medium term. A sustainable fiscal path would see non-interest spending converging at about the same level. The 2012 Budget targets this objective, with non-interest expenditure expected to level off at 28.3 per cent of GDP in 2014/15. This implies a small primary deficit in the outer year of the forecast, and a structural budget deficit of about 3 per cent of GDP, which is consistent with the stabilisation of the government debt.

*Budget revenue to recover to 28 per cent of GDP over the medium term*

**Figure 3.5 Non-interest expenditure and average revenue, 2002/03 – 2014/15**



## The budget framework

The budget framework for consolidated government is summarised in Table 3.1. The consolidated budget includes the national budget, social

security funds, RDP funds, provincial budgets and extra-budgetary institutions such as the South African National Roads Agency and the Trans-Caledon Tunnel Authority.

*Debt-service costs stabilise as percentage of GDP in the outer year*

Average annual real revenue growth of 4.8 per cent is projected to outpace GDP growth of 3.7 per cent over the next three years, while expenditure will grow by an average of 2.9 per cent in real terms over this period. A large share of expenditure growth is absorbed by debt-service costs, which amount to R109 billion in 2014/15. An improvement in the deficit from 4.8 per cent of GDP to 3 per cent in 2014/15 will stabilise growth in debt-service costs as a percentage of GDP.

**Table 3.1 Consolidated government budget framework, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Average real growth 2011/12–2014/15
	Outcome			Revised estimate	Medium-term estimates			
<b>R million</b>								
<b>Revenue</b>	<b>683 468</b>	<b>663 736</b>	<b>757 513</b>	<b>830 210</b>	<b>904 830</b>	<b>1 005 871</b>	<b>1 118 183</b>	4.8%
<i>Percentage of GDP</i>	29.7%	27.2%	27.5%	27.7%	27.4%	27.8%	28.0%	
Gross tax revenue	625 100	598 705	674 183	738 735	826 401	913 610	1 019 620	5.7%
<i>Percentage of GDP</i>	27.1%	24.5%	24.5%	24.7%	25.0%	25.2%	25.5%	
<b>Expenditure</b>	<b>708 489</b>	<b>823 323</b>	<b>874 172</b>	<b>972 547</b>	<b>1 058 321</b>	<b>1 149 125</b>	<b>1 239 699</b>	2.9%
<i>Percentage of GDP</i>	30.8%	33.7%	31.7%	32.5%	32.1%	31.7%	31.0%	
Non-interest expenditure	654 095	766 194	807 945	895 903	968 933	1 048 319	1 130 660	2.6%
<i>Percentage of GDP</i>	28.4%	31.4%	29.3%	29.9%	29.3%	28.9%	28.3%	
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039	6.7%
<i>Percentage of GDP</i>	2.4%	2.3%	2.4%	2.6%	2.7%	2.8%	2.7%	
<b>Budget balance</b>	<b>-25 020</b>	<b>-159 587</b>	<b>-116 659</b>	<b>-142 337</b>	<b>-153 491</b>	<b>-143 255</b>	<b>-121 516</b>	
<i>Percentage of GDP</i>	-1.1%	-6.5%	-4.2%	-4.8%	-4.6%	-4.0%	-3.0%	
<i>Primary balance (% of GDP)</i>	1.3%	-4.2%	-1.8%	-2.2%	-1.9%	-1.2%	-0.3%	

### Revenue

Structural increases in revenue over the last 10 years were supported by robust economic growth during the mid-2000s, along with improved tax compliance and administration. Tax revenue has been recovering since 2010/11 and, over the medium term, is projected to increase from 24.7 to 25.5 per cent of GDP.

Budget revenue also includes non-tax revenue, and the income of social security funds, provinces, the RDP Fund and extra-budgetary institutions. Non-tax revenue, made up of departmental revenue and mineral royalties, will account for about 0.5 per cent of GDP. Social security fund revenue is boosted by increased contributions to the Unemployment Insurance Fund and Compensation Funds, while changes in the fuel levy increase the projected income for the Road Accident Fund (see Chapter 4). Provincial and extra-budgetary institution revenue is expected to remain in line with previously published estimates.

*Transfers to SACU partners rises to R42.2 billion in 2012/13*

A significant adjustment to revenue forecasts is made as a result of government's payments to its partners in the Southern African Customs Union (SACU). Transfers rise to an estimated R42.2 billion in 2012/13, up from R21.8 billion in 2011/12, owing to a strong projected recovery in imports and intra-SACU trade, and the adjustment payment for an

overcollection in 2010/11. Reasons for the volatility in the SACU transfers are discussed in the accompanying box.

### **Towards a more developmental Southern African Customs Union agreement**

South Africa is a member of SACU, together with Botswana, Lesotho, Namibia and Swaziland (BLNS). The five countries share a common external tariff, while intra-SACU trade is free of all tariffs.

Under the SACU revenue-sharing agreement, in place for six years, members deposit all customs and excise duties that they collect into a common fund. The formula to pay out from this fund is based on GDP, GDP per capita and the extent of trade with other SACU members. The structure of this arrangement has resulted in the BLNS countries becoming highly dependent on customs duties as the primary source of their budget revenue. SACU revenue accounts for less than 4 per cent of South Africa's budget revenue, but BLNS countries depend on SACU for 25 to 70 per cent of their total revenues.

SACU revenue has been highly volatile since 2008. This partly reflects changes in trade and customs duties during and after the recession. But it is also a function of the structure of the revenue-sharing formula, which relies on forecasts that require significant subsequent revisions.

SACU members are expected to agree on a new revenue-sharing agreement in 2012. Under the envisaged agreement, the revenue collected by SACU will be distributed equitably using a select number of socioeconomic indicators. Members' dependency on customs revenue will be reduced and projects that promote greater economic integration will be supported through the establishment of a development fund.

Taking into account all revenue sources and the adjustments for SACU transfers, consolidated government revenue will improve to 28 per cent of GDP.

**Table 3.2 Consolidated government revenue, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
R million							
<b>Tax revenue</b>	<b>625 100</b>	<b>598 705</b>	<b>674 183</b>	<b>738 735</b>	<b>826 401</b>	<b>913 610</b>	<b>1 019 620</b>
<i>Percentage of GDP</i>	27.1%	24.5%	24.5%	24.7%	25.0%	25.2%	25.5%
Non-tax revenue <sup>1</sup>	12 616	8 889	13 460	17 579	15 091	17 929	19 016
<i>of which:</i>							
<i>Mineral royalties</i>	–	–	3 555	5 500	6 510	7 490	8 620
Estimate of SACU payments <sup>2</sup>	-28 921	-27 915	-14 991	-21 763	-42 151	-37 245	-41 416
Other adjustment <sup>3</sup>	–	–	-2 914	–	–	–	–
Provinces, social security funds and selected public entities	74 673	84 058	87 776	95 659	105 489	111 577	120 963
<b>Budget revenue</b>	<b>683 468</b>	<b>663 736</b>	<b>757 513</b>	<b>830 210</b>	<b>904 830</b>	<b>1 005 871</b>	<b>1 118 183</b>
<i>Percentage of GDP</i>	29.7%	27.2%	27.5%	27.7%	27.4%	27.8%	28.0%
<i>GDP (R billion)</i>	2 303.6	2 440.2	2 754.3	2 995.5	3 301.4	3 622.2	3 997.0

1. Includes mineral and petroleum royalties, mining leases and departmental revenue

2. Estimates are based on National Treasury projections. Actual payment will be determined by outcomes of customs and excise revenue collections in line with the SACU agreement

3. Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement

### **Expenditure**

The 2012 Budget proposals focus on developing infrastructure, supporting job creation and improving local government services. Education, health care and social protection continue to account for the largest share of government resources, with spending on these functional areas growing in average real terms by 1 per cent, 1.5 per cent and 3 per cent respectively.

*Education, health care and social protection continue to account for largest share of non-interest spending*

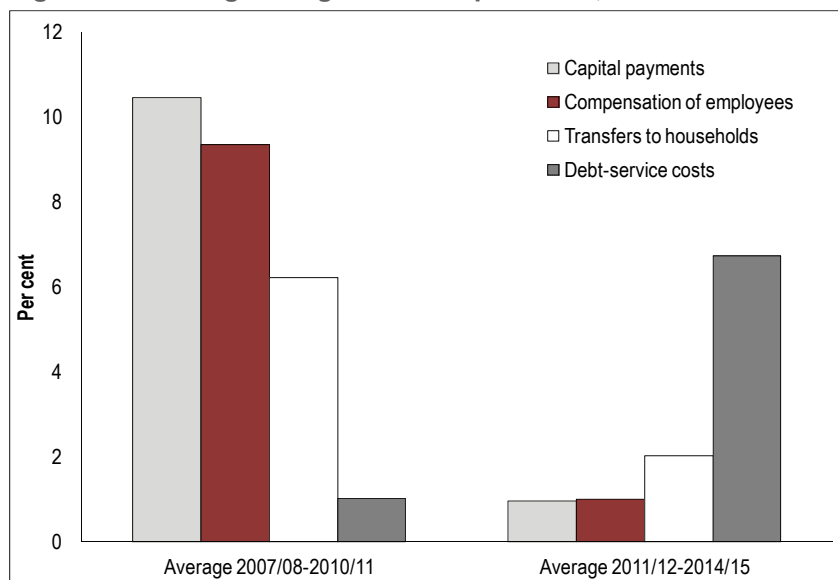
In addition to funds allocated in previous budgets, the budget proposes to add R8.6 billion to expenditure in 2012/13, R16.1 billion in 2013/14 and

R31.2 billion in 2014/15. Total additions to baseline over the MTEF amount to R55.9 billion.

*Contingency reserve of R41.6 billion over the MTEF period*

The budget framework includes a contingency reserve of R41.6 billion over the spending period – R5.8 billion in 2012/13, rising to R24 billion in 2014/15. The contingency reserve serves to finance any unforeseen and unavoidable expenditure that may arise during 2012/13, and is available to finance additional policy priorities in the outer two years.

**Figure 3.6 Average real growth in expenditure, 2007/08 – 2014/15**



The 2012 Budget makes allowance for a 5 per cent cost of living adjustment for all government employees, exclusive of pay progression. As a result, Figure 3.6 shows the average real growth of spending on wages declining from 9.4 per cent between 2007/08 and 2010/11, to 1 per cent over the MTEF period. This trend will begin the process of shifting the composition of expenditure, creating the opportunity for allocations towards capital investment.

*Capital expenditure continues to underperform budgeted amounts, particularly at municipal level*

Capital expenditure continues to underperform budgeted amounts. Since 2006/07, provincial capital expenditure has averaged about 86 per cent of budget allocations. Municipal performance on spending improved from 72.1 per cent in 2006/07 to 85.1 per cent in 2008/09, before declining to 82.9 per cent in 2009/10. Chapter 7 discusses public-sector infrastructure and the steps government is taking to expand planning and implementation capacity. At a broader level, the quality and efficiency of public services must be improved in line with spending plans, as detailed in Chapter 8.

### A new format for the consolidated government account

From 2013, the consolidated government account will be presented in the format provided below. The new format is a more transparent and user-friendly presentation that clearly distinguishes between the government's operating activities, and its plans to invest in capital and infrastructure. A summary representation of the new format appears as Table 7 in Annexure B.

#### Consolidated revenue, expenditure and financing medium term estimates

R million	2012/13	2013/14	2014/15
	Medium-term estimates		
<b>Operating account</b>			
<b>Current receipts</b>	<b>904 745</b>	<b>1 006 060</b>	<b>1 118 332</b>
<b>Current payments</b>	<b>951 637</b>	<b>1 029 817</b>	<b>1 097 977</b>
Compensation of employees	371 170	394 413	417 962
Goods and services	171 339	184 933	197 220
Interest and rent on land	96 070	108 889	117 483
Transfers and subsidies	313 058	341 581	365 312
<b>Current balance</b>	<b>-46 892</b>	<b>-23 757</b>	<b>20 356</b>
<i>% of GDP</i>	<i>-1.4%</i>	<i>-0.7%</i>	<i>0.5%</i>
<b>Capital account</b>			
Capital receipts	188	203	228
Transfers and subsidies	28 029	31 222	34 301
Payments for capital assets	71 198	75 666	82 683
<b>Capital financing requirement</b>	<b>-99 038</b>	<b>-106 685</b>	<b>-116 756</b>
<i>% of GDP</i>	<i>3.0%</i>	<i>2.9%</i>	<i>2.9%</i>
Transactions in financial assets and liabilities	575	-572	-385
Contingency reserve	5 780	11 854	24 000
<b>Budget balance</b>	<b>-152 315</b>	<b>-141 755</b>	<b>-120 016</b>
<i>% of GDP</i>	<i>-4.6%</i>	<i>-3.9%</i>	<i>-3.0%</i>
<b>Primary balance</b>	<b>-62 927</b>	<b>-40 949</b>	<b>-10 976</b>
<i>% of GDP</i>	<i>-1.9%</i>	<i>-1.1%</i>	<i>0.3%</i>
<i>Gross domestic product (GDP)</i>	<i>3 301 374</i>	<i>3 622 155</i>	<i>3 997 026</i>

The balance on the operating account shows the outcome of government's operating activities. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government must borrow to run its operations. In other words, the current balance demonstrates the sustainability of government operations: a long-term operating deficit is unsustainable, while a positive operating balance allows for investment in future productive capacity.

Capital investment activities are presented in the capital account. The capital financing requirement is the outcome of this account, which is calculated as the difference between capital revenue and capital expenditure. This account will be in deficit for many years, owing to continuous investment in infrastructure and substantial capital outlays.

The new format separates out all transactions in financial assets and liabilities, which mainly includes loans extended to public corporations.

If cash generated from operations is insufficient to finance investment, government must borrow. The borrowing requirement, or budget balance, is calculated by adding the operating balance, capital financing requirement, financial transactions and any unallocated expenditure such as the contingency reserve.

Extraordinary receipts and payments are presently included in the financing requirement, but are not part of the budget framework. The introduction of the operating account and capital account makes extraordinary items obsolete; these will be included in the main transaction categories.

More detailed discussion of the government accounts is presented in Annexure W2, available at [www.treasury.gov.za](http://www.treasury.gov.za).

### Revisions and forward estimates: consolidated government budget

The deficit in 2010/11 was R51.9 billion lower than budgeted. Spending outcomes were R32.8 billion below budget estimates, largely as a result of underspending on payments for capital assets. Tax revenue was

R26.3 billion higher than projected, with personal income tax, value-added tax and customs duties accounting for the bulk of the improvement.

*Spending on employee compensation in 2011/12 is R8.1 billion above budgeted amount*

The revised estimate for the deficit in 2011/12 is R12.5 billion narrower than budgeted. Spending is expected to be R6.7 billion lower than the budgeted figure. Underspensing on capital spending is once again a significant contributor to this trend, albeit to a lesser degree than in previous years. The estimated outcome for compensation of employees is estimated to be R8.1 billion above the budgeted amount, as a result of the higher-than-expected salary adjustment. Revenue is also estimated to be R5.7 billion above the budgeted number, contributing to a lower overall deficit.

**Table 3.3 Revised estimates of consolidated government revenue and expenditure, 2010/11 and 2011/12**

R million	2010/11			2011/12		
	Budget estimate	Outcome	Deviation	Budget estimate	Revised estimates	Deviation
<b>Revenue</b>						
Tax revenue	647 850	674 183	26 333	741 620	738 735	-2 885
Non-tax revenue	10 380	13 460	3 080	10 001	17 579	7 579
Less: SACU payments	-14 991	-14 991	–	-21 763	-21 763	–
Other adjustment <sup>1</sup>		-2 914	-2 914	–	–	–
Other <sup>2</sup>	95 165	87 776	-7 389	94 609	95 659	1 050
<b>Budget revenue</b>	<b>738 404</b>	<b>757 513</b>	<b>19 109</b>	<b>824 467</b>	<b>830 210</b>	<b>5 744</b>
<i>Percentage of GDP</i>	<i>27.3%</i>	<i>27.5%</i>		<i>28.3%</i>	<i>27.7%</i>	
<b>Expenditure</b>						
Current payments	527 892	519 281	-8 611	587 702	588 979	1 277
<i>of which:</i>						
<i>Compensation of employees</i>	294 432	309 802	15 370	338 572	346 714	8 142
<i>Debt-service cost</i>	71 358	66 227	-5 131	76 579	76 645	66
Transfers and subsidies	284 016	279 267	-4 749	315 097	314 137	-960
Payments for capital assets	68 163	54 099	-14 064	71 608	68 662	-2 946
Payments for financial assets	20 893	21 525	632	767	770	3
Contingency reserve	6 000	–	-6 000	4 090	–	-4 090
<b>Total expenditure</b>	<b>906 964</b>	<b>874 172</b>	<b>-32 792</b>	<b>979 265</b>	<b>972 547</b>	<b>-6 718</b>
<i>Percentage of GDP</i>	<i>33.6%</i>	<i>31.7%</i>		<i>33.6%</i>	<i>32.5%</i>	
<b>Budget balance<sup>3</sup></b>	<b>-168 560</b>	<b>-116 659</b>	<b>51 901</b>	<b>-154 799</b>	<b>-142 337</b>	<b>12 461</b>
<i>Percentage of GDP</i>	<i>-6.2%</i>	<i>-4.2%</i>	<i>2.0%</i>	<i>-5.3%</i>	<i>-4.8%</i>	<i>0.6%</i>

1. Payments to SACU partners in respect of a previous error in calculation of the 1969 agreement

2. Includes provinces, social security funds and selected entities

3. A positive number reflects a surplus and a negative number a deficit

The 2012 Budget adjusts the forward estimates tabled in the 2011 Budget for 2012/13 and 2013/14 to take account of changes in the economic environment and policy priorities, and adds projections for 2014/15. Table 3.4 illustrates the changes to revenue and expenditure forecasts since February 2011.

A large change to the revenue baseline results from larger-than-expected transfers to SACU. Spending in 2012/13 and 2013/14 is lower than the forward estimates presented at the time of Budget 2011, but these are offset by downward revisions to revenue estimates. Budget deficits are consequently wider than the forward estimates in nominal terms.

**Table 3.4 Consolidated government budget medium-term estimates, 2012/13 – 2014/15**

R million	2012/13			2013/14			2014/15
	2011 Forward estimate	2012 Budget	Change to baseline	2011 Forward estimate	2012 Budget	Change to baseline	2012 Budget
<b>Revenue</b>							
Tax revenue	827 310	826 401	-909	927 960	913 610	-14 350	1 019 620
Non-tax revenue	11 540	15 091	3 551	12 351	17 929	5 578	19 016
Less: SACU payments	-32 432	-42 151	-9 719	-35 997	-37 245	-1 248	-41 416
Other <sup>1</sup>	102 296	105 489	3 193	112 873	111 577	-1 296	120 963
<b>Budget revenue</b>	<b>908 714</b>	<b>904 830</b>	<b>-3 884</b>	<b>1 017 187</b>	<b>1 005 871</b>	<b>-11 316</b>	<b>1 118 183</b>
<i>Percentage of GDP</i>	<i>28.4%</i>	<i>27.4%</i>		<i>28.8%</i>	<i>27.8%</i>		<i>28.0%</i>
<b>Expenditure</b>							
Current payments	635 953	638 579	2 626	684 638	688 236	3 597	732 665
<i>of which:</i>							
<i>Compensation of employees</i>	357 925	371 170	13 245	380 229	394 413	14 184	417 962
<i>Debt-service cost</i>	90 808	89 388	-1 420	104 036	100 806	-3 230	109 039
Transfers and subsidies	340 806	341 087	281	363 099	372 804	9 705	399 613
Payments for capital assets	73 410	71 198	-2 212	80 656	75 666	-4 991	82 683
Payments for financial assets	8	1 647	1 639	4	536	532	738
Contingency reserve	11 405	5 810	-5 595	23 375	11 884	-11 491	24 000
<b>Total expenditure</b>	<b>1 061 582</b>	<b>1 058 321</b>	<b>-3 261</b>	<b>1 151 773</b>	<b>1 149 125</b>	<b>-2 648</b>	<b>1 239 699</b>
<i>Percentage of GDP</i>	<i>33.2%</i>	<i>32.1%</i>		<i>32.6%</i>	<i>31.7%</i>		<i>31.0%</i>
<b>Budget balance<sup>2</sup></b>	<b>-152 868</b>	<b>-153 491</b>	<b>-623</b>	<b>-134 586</b>	<b>-143 255</b>	<b>-8 669</b>	<b>-121 516</b>
<i>Percentage of GDP</i>	<i>-4.8%</i>	<i>-4.6%</i>	<i>0.2%</i>	<i>-3.8%</i>	<i>-4.0%</i>	<i>-0.1%</i>	<i>-3.0%</i>

1. Includes provinces, social security funds and selected public entities

2. A positive number reflects a surplus and a negative number a deficit

## Public-sector borrowing requirement

The public-sector borrowing requirement represents the funds needed by the public sector to cover any deficit in financing its own activities. It includes consolidated government, municipalities and non-financial public institutions such as Eskom and Transnet. Growth of the public-sector borrowing requirement leads to a commensurate increase in the stock of public debt financed in domestic and international markets.

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. This reflects 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.

*Decline in public-sector borrowing requirement reflects, in part, greater contributions from cash flows of state-owned entities*

At the main budget level, the net borrowing requirement is projected to decline from 5.1 per cent in 2011/12 to 3.5 per cent in 2014/15. Taking account of social security funds, provinces and extra-budgetary institutions, the consolidated borrowing requirement will decline from 4.6 per cent of GDP in 2011/12 to 3 per cent in 2014/15.

The municipal borrowing requirement averages 0.2 per cent of GDP over the MTEF. This is partly the result of reductions in projected infrastructure expenditure by local government, reflecting the completion of large projects related to the 2010 soccer World Cup and bus rapid transit systems, and rising levels of underspending. In addition, several large

municipalities are close to their prudential debt limits, reducing their capacity to borrow.

**Table 3.5 Public-sector borrowing requirement<sup>1</sup>, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
R million							
<b>National net government borrowing<sup>2</sup></b>	<b>23 238</b>	<b>161 755</b>	<b>133 232</b>	<b>152 743</b>	<b>168 849</b>	<b>158 036</b>	<b>140 858</b>
Social security funds	-12 362	-10 624	-11 797	-13 510	-13 091	-13 546	-14 201
Provinces	8 690	-108	-5 270	-2 522	-7 432	-7 293	-9 626
Public entities	1 534	2 801	-1 677	1 721	3 988	4 558	2 985
<b>Consolidated government borrowing</b>	<b>21 101</b>	<b>153 824</b>	<b>114 488</b>	<b>138 432</b>	<b>152 315</b>	<b>141 755</b>	<b>120 016</b>
<i>Percentage of GDP</i>	<i>0.9%</i>	<i>6.3%</i>	<i>4.2%</i>	<i>4.6%</i>	<i>4.6%</i>	<i>3.9%</i>	<i>3.0%</i>
Local authorities	9 971	11 119	8 441	7 268	5 925	6 043	6 669
<b>General government borrowing</b>	<b>31 072</b>	<b>164 943</b>	<b>122 929</b>	<b>145 700</b>	<b>158 240</b>	<b>147 798</b>	<b>126 684</b>
<i>Percentage of GDP</i>	<i>1.3%</i>	<i>6.8%</i>	<i>4.5%</i>	<i>4.9%</i>	<i>4.8%</i>	<i>4.1%</i>	<i>3.2%</i>
State-owned enterprises <sup>3</sup>	60 074	70 446	55 964	68 159	76 868	77 539	74 133
<i>Percentage of GDP</i>	<i>2.6%</i>	<i>2.9%</i>	<i>2.0%</i>	<i>2.3%</i>	<i>2.3%</i>	<i>2.1%</i>	<i>1.9%</i>
<b>Public-sector borrowing requirement</b>	<b>91 146</b>	<b>235 389</b>	<b>178 893</b>	<b>213 859</b>	<b>235 108</b>	<b>225 337</b>	<b>200 817</b>
<i>Percentage of GDP</i>	<i>4.0%</i>	<i>9.6%</i>	<i>6.5%</i>	<i>7.1%</i>	<i>7.1%</i>	<i>6.2%</i>	<i>5.0%</i>

1. A negative number reflects a surplus and a positive number a deficit

2. Taking account of extra budgetary receipts and payments

3. 2011/12-2014/15 are based on National Treasury estimates. Note SANRAL and TCTA are included in the consolidated borrowing requirement

*Capital spending by Eskom and Transnet is supported by internal cash flows, equity and debt*

The borrowing of non-financial public institutions is set to decline from 2.3 per cent of GDP in 2011/12 to 1.9 per cent of GDP by the end of the forecast period. The largest contribution to this deficit comes from capital infrastructure programmes of Eskom and Transnet. While their capital spending is expected to grow significantly over the next decade, financing will be supported by a combination of higher cash flows, equity and debt. Government does not envisage their borrowing to expand significantly over the next three years.

## Conclusion

*By consolidating the fiscal position, South Africa will be well placed for future opportunities*

Meeting the country's social and economic goals requires sustainable increases in real expenditure over the decades to come. To achieve this goal, the principles of countercyclicality, debt sustainability and inter-generational equity will continue to anchor fiscal policy choices.

The 2012 Budget maintains countercyclical support, and presents a clear and realistic path towards the stabilisation of debt as a percentage of GDP. A moderately expansionary budget aims to support economic recovery and employment in the short term. Over the medium term, the fiscal position will consolidate in line with improved economic performance.

# 4

## Revenue trends and tax proposals

### ■ Overview

The 2012 tax proposals support a sustainable fiscal framework over the medium term, while facilitating economic growth and a more competitive economy. Reforms will improve the fairness of the tax system, ensuring that income from capital is taxed more appropriately. Measures are proposed to encourage household savings. Financing options for national health insurance as part of a strengthened public health system will be explored.

*Tax proposals support a sustainable fiscal framework*

Meeting South Africa's development challenges requires sufficient revenue to fund key expenditure priorities, while ensuring that public debt and debt-service costs are contained, and avoiding overburdening taxpayers. Government is taking steps to improve the efficiency of public expenditure and to root out corruption.

The revised estimated tax revenue for 2011/12 is R738.7 billion, R10.1 billion higher than the estimate at the time of the 2011 *Medium Term Budget Policy Statement*. This increase is mainly the result of higher corporate income tax collections. The estimated gross tax revenue for the fiscal year 2012/13 is R826.4 billion, a nominal increase of 11.9 per cent.

*Higher estimated revenue for 2011/12 is mainly the result of improved corporate income tax collection*

The main tax proposals for 2012 include:

- Personal income tax relief of R9.5 billion
- Relief for micro and small businesses
- Implementing the dividend withholding tax at 15 per cent
- An increase in effective capital gains tax rates
- Reforms to the tax treatment of contributions to retirement savings
- Further reforms of the tax treatment of medical scheme contributions
- Higher taxes on alcohol and tobacco products.

## Budget revenue – revised estimates

Table 4.1 highlights budget estimates and revenue outcomes of the major tax instruments for 2010/11, and revised projected revenue outcomes for 2011/12. Tables 2 and 3 in Annexure B set out these trends in more detail.

**Table 4.1 Budget estimates and revenue outcome, 2010/11 and 2011/12**

R million	2010/11			2011/12			2010/11 - 2011/12 % change <sup>1</sup>
	Budget	Outcome	Deviation	Budget	Revised	Deviation	
<b>Taxes on income and profits</b>	<b>377 716</b>	<b>379 941</b>	<b>2 225</b>	<b>418 345</b>	<b>423 805</b>	<b>5 460</b>	<b>11.5%</b>
Persons and individuals	224 676	226 925	2 249	252 750	249 700	-3 050	10.0%
Companies	133 650	132 902	- 748	144 165	152 000	7 835	14.4%
Secondary tax on companies	16 500	17 178	678	18 100	19 500	1 400	13.5%
Tax on retirement funds	–	3	3	–	–	–	–
Other taxes on income and profits <sup>2</sup>	2 890	2 934	44	3 330	2 605	- 725	-11.2%
<b>Taxes on payroll and workforce</b>	<b>8 424</b>	<b>8 652</b>	<b>228</b>	<b>9 150</b>	<b>10 100</b>	<b>950</b>	<b>16.7%</b>
<b>Taxes on property</b>	<b>9 960</b>	<b>9 102</b>	<b>- 858</b>	<b>9 590</b>	<b>7 870</b>	<b>-1 720</b>	<b>-13.5%</b>
<b>Domestic taxes on goods and services</b>	<b>230 880</b>	<b>249 490</b>	<b>18 610</b>	<b>274 210</b>	<b>264 650</b>	<b>-9 560</b>	<b>6.1%</b>
Value-added tax	164 000	183 571	19 571	200 880	190 815	-10 065	3.9%
Specific excise duties	24 250	22 968	-1 282	25 085	25 880	795	12.7%
<i>Ad valorem</i> excise duties	1 200	1 596	396	2 230	1 815	- 415	13.7%
General fuel levy	34 600	34 418	- 182	36 900	37 180	280	8.0%
Other domestic taxes on goods and services <sup>3</sup>	6 830	6 938	108	9 115	8 960	- 155	29.2%
<b>Taxes on international trade and transactions</b>	<b>20 850</b>	<b>26 994</b>	<b>6 144</b>	<b>30 325</b>	<b>32 310</b>	<b>1 985</b>	<b>19.7%</b>
Customs duties	20 500	26 637	6 137	29 860	32 260	2 400	21.1%
Miscellaneous customs and excise receipts	300	286	- 14	410	5	- 405	-98.3%
Diamond export levy	50	70	20	56	45	- 11	–
<b>Stamp duties and fees</b>	<b>20</b>	<b>3</b>	<b>- 17</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total tax revenue</b>	<b>647 850</b>	<b>674 183</b>	<b>26 333</b>	<b>741 620</b>	<b>738 735</b>	<b>-2 885</b>	<b>9.6%</b>
Non-tax revenue <sup>4</sup>	10 380	13 460	3 080	10 001	17 579	7 579	30.6%
of which:							
Mineral royalties	3 540	3 555	15	4 890	5 500	610	54.7%
Mining leases and ownership	–	860	860	–	–	–	–
Less: SACU payments	-14 991	-14 991	–	-21 763	-21 763	–	45.2%
Other adjustment <sup>5</sup>		-2 914	-2 914	–	–	–	–
<b>National budget revenue</b>	<b>643 239</b>	<b>669 738</b>	<b>26 499</b>	<b>729 858</b>	<b>734 551</b>	<b>4 693</b>	<b>9.7%</b>
Provinces, social security funds and selected public entities	95 165	87 776	-7 389	94 609	95 659	1 050	9.0%
<b>Budget revenue</b>	<b>738 404</b>	<b>757 513</b>	<b>19 109</b>	<b>824 467</b>	<b>830 210</b>	<b>5 744</b>	<b>9.6%</b>

1. Percentage change 2010/11 outcome versus 2011/12 revised estimate

2. Includes interest on overdue income tax, turnover tax for small businesses and small business tax amnesty levy

3. Includes air departure tax, plastic bags levy, electricity levy, CO<sub>2</sub> tax on motor vehicle emissions, incandescent light bulb levy and Universal Service Fund

4. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets

5. Payments to Southern African Customs Union (SACU) partners for a previous error in calculation

## 2010/11 outcome, 2011/12 revised estimates and 2012/13 estimates

Audited results show that tax revenue for 2010/11 of R674.2 billion was R75.5 billion or 12.6 per cent higher than actual tax revenue collected in 2009/10. Higher customs duties (36.1 per cent higher than in 2009/10), value-added tax (VAT) (24.1 per cent) and personal income tax (10.6 per cent) accounted for this increase. Table 4.2 sets out the estimates of revenues before consideration of the tax proposals for 2012/13.

*2010/11 revenue was R75.5 billion higher than the previous year*

**Table 4.2 Estimates of revenue before tax proposals, 2012/13**

R million	2011/12 Revised	2012/13 Before tax proposals	2011/12– 2012/13 % change
<b>Taxes on income and profits</b>	<b>423 805</b>	<b>486 379</b>	<b>14.8%</b>
Persons and individuals	249 700	295 770	18.5%
Companies	152 000	166 739	9.7%
Secondary tax on companies	19 500	21 000	7.7%
Other taxes on income and profits <sup>1</sup>	2 605	2 871	10.2%
<b>Taxes on payroll and workforce</b>	<b>10 100</b>	<b>11 131</b>	<b>10.2%</b>
<b>Taxes on property</b>	<b>7 870</b>	<b>8 627</b>	<b>9.6%</b>
<b>Domestic taxes on goods and services</b>	<b>264 650</b>	<b>286 212</b>	<b>8.1%</b>
Value-added tax	190 815	209 675	9.9%
Specific excise duties	25 880	26 933	4.1%
<i>Ad valorem</i> excise duties	1 815	2 000	10.2%
General fuel levy	37 180	38 258	2.9%
Electricity levy	6 430	6 616	2.9%
Other domestic taxes on goods and services <sup>2</sup>	2 530	2 730	7.9%
<b>Taxes on international trade and transactions</b>	<b>32 310</b>	<b>36 360</b>	<b>12.5%</b>
Customs duties	32 260	36 160	12.1%
Miscellaneous customs and excise receipts	5	150	–
Diamond export levy	45	50	–
<b>Total tax revenue</b>	<b>738 735</b>	<b>828 709</b>	<b>12.2%</b>
Non-tax revenue <sup>3</sup>	17 579	15 091	-14.2%
<i>of which</i>			
<i>Mineral royalties</i>	5 500	6 510	18.4%
Less: SACU payments	-21 763	-42 151	93.7%
<b>National budget revenue</b>	<b>734 551</b>	<b>801 649</b>	<b>9.1%</b>
Provinces, social security funds and selected public entities	95 659	105 489	10.3%
<b>Budget revenue</b>	<b>830 210</b>	<b>907 138</b>	<b>9.3%</b>

1. Includes interest on overdue income tax and small business tax amnesty levy

2. Includes air departure tax, plastic bags levy, electricity levy, Universal Service Fund, CO<sub>2</sub> tax on motor vehicle emissions and other domestic taxes on goods and services

3. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets

The revised tax revenue estimate for 2011/12 of R738.7 billion is R64.6 billion or 9.6 per cent higher than in 2010/11. This is the result of

strong collections of customs duties (21.1 per cent), corporate income tax (14.4 per cent), and personal income tax (10 per cent).

### Actual revenue collections and medium-term estimates

*Revenue expected to increase in line with economic growth*

Table 4.3 sets out actual revenue collections for 2008/09 to 2010/11, the revised estimate for 2011/12 and estimates for 2012/13 to 2014/15.

After taking into account tax proposals discussed in the next section, tax revenue as a percentage of GDP is expected to increase from 24.7 per cent in 2011/12 to 25.5 per cent in 2014/15.

**Table 4.3 Budget revenue, 2008/09 – 2014/15**

R million	2008/09	2009/10 Outcome	2010/11	2011/12 Revised	2012/13	2013/14	2014/15
					Medium-term estimates		
Taxes on income and profits <sup>1</sup>	383 483	359 045	379 941	423 805	475 729	535 650	606 456
<i>of which:</i>							
Personal income tax	195 115	205 145	226 925	249 700	285 970	328 380	377 650
Corporate income tax	165 378	134 883	132 902	152 000	167 839	183 220	202 220
Taxes on payroll and workforce	7 327	7 805	8 652	10 100	11 131	12 211	13 479
Taxes on property	9 477	8 826	9 102	7 870	8 627	9 500	10 500
Domestic taxes on goods and services	201 416	203 667	249 490	264 650	294 554	318 980	346 110
<i>of which:</i>							
Value-added tax	154 343	147 941	183 571	190 815	209 675	231 740	255 990
Taxes on international trade and transactions	22 852	19 319	26 977	32 310	36 359	37 269	43 075
Stamp duties and fees	572	49	3	–	–	–	–
State miscellaneous revenue <sup>2</sup>	- 27	- 6	17	–	–	–	–
<b>Tax revenue</b>	<b>625 100</b>	<b>598 705</b>	<b>674 183</b>	<b>738 735</b>	<b>826 401</b>	<b>913 610</b>	<b>1019 620</b>
Non-tax revenue <sup>3</sup>	12 616	8 889	13 460	17 579	15 091	17 929	19 016
<i>of which:</i>							
Mineral and petroleum royalties	–	–	3 555	5 500	6 510	7 490	8 620
Less: SACU payments <sup>4</sup>	-28 921	-27 915	-17 906	-21 763	-42 151	-37 245	-41 416
<b>National budget revenue</b>	<b>608 796</b>	<b>579 679</b>	<b>669 738</b>	<b>734 551</b>	<b>799 341</b>	<b>894 293</b>	<b>997 220</b>
Provinces, social security funds and selected public entities	74 673	84 058	87 776	95 659	105 489	113 098	122 393
Repayment of Gautrain loan	–	–	–	–	–	-1 521	-1 430
<b>Budget revenue</b>	<b>683 469</b>	<b>663 737</b>	<b>757 513</b>	<b>830 210</b>	<b>904 830</b>	<b>1005 871</b>	<b>1118 183</b>
Tax revenue as a percentage of GDP	27.1%	24.5%	24.5%	24.7%	25.0%	25.2%	25.5%
Budget revenue as a percentage of GDP	29.7%	27.2%	27.5%	27.7%	27.4%	27.8%	28.0%
GDP (R billion)	2 304	2 440	2 754	2 996	3 301	3 622	3 997
Tax/GDP multiplier	0.83	-0.71	0.98	1.09	1.16	1.09	1.12

1. Also includes secondary tax on companies and interest on overdue income tax and small business tax amnesty levy

2. Revenue received by SARS which could not be allocated to a specific tax instrument

3. Includes mineral royalties, mining leases, departmental revenue and sales of capital assets

4. 2010/11 Southern African Customs Union (SACU) includes adjustment for a previous error in calculation

## Overview of tax proposals

Table 4.4 shows the expected impact of tax proposals on revenue collection in 2012/13, the net effect of which decreases the estimated total tax revenue by R2.3 billion.

*Net effect of 2012/13 tax proposals reduce total tax revenue by R2.3 billion*

**Table 4.4 Impact of tax proposals on 2012/13 revenue**

R million	Effect of tax proposals
<b>Tax revenue (before tax proposals)</b>	<b>828 709</b>
Non-tax revenue	15 091
Less: SACU payments	-42 151
<b>National budget revenue</b>	<b>801 649</b>
Provinces, social security funds and selected public entities	105 489
<b>Budget revenue (before tax proposals)</b>	<b>907 138</b>
<b>Budget 2012/13 proposals:</b>	<b>-2 308</b>
<b>Taxes on individuals and companies</b>	<b>-10 650</b>
Personal income tax	-4 300
<i>Adjustment in personal tax rate structure</i>	<i>-9 500</i>
<i>Adjustment in monetary thresholds</i>	<i>-1 100</i>
<i>Capital gains - individuals</i>	<i>800</i>
<i>Dividend withholding tax</i>	<i>5 500</i>
Business taxes	-6 350
<i>Capital gains - companies</i>	<i>1 200</i>
<i>Small business relief</i>	<i>- 100</i>
<i>Abolition of STC</i>	<i>-7 450</i>
<b>Indirect taxes</b>	<b>8 342</b>
Increase in general fuel levy	4 517
Increase in excise duties on tobacco products and alcoholic beverages	1 840
Increase in electricity levy	1 985
<b>Tax revenue (after tax proposals)</b>	<b>826 401</b>
<b>Budget revenue (after tax proposals)</b>	<b>904 830</b>

As part of its commitment to transparent budgeting, government publishes a tax expenditure statement (see Annexure C). The statement is a summary of tax revenues foregone as a result of various incentives to help achieve social and economic policy objectives.

### Personal income tax relief

To ensure that the direct personal income tax burden on individuals remains reasonable, personal income tax brackets and rebates are adjusted to take account of inflation or “bracket creep”, as well as provide limited real tax relief. The 2012 Budget proposes direct personal income tax relief to individuals amounting to R9.5 billion. Table 4.6 provides a summary of the 2012/13 income tax brackets, rates and rebates for individuals.

*Personal income tax relief of R9.5 billion*

Personal income tax provides the foundation for an equitable and progressive tax system. Table 4.5 shows the distribution of taxpayers and their relative contributions to the income tax base.

**Table 4.5 Estimates of individual taxpayers and taxable income, 2012/13**

Taxable bracket	Taxpayers		Taxable income		Income tax payable		Personal income tax relief	
	Number	%	R million	%	R million	%	R million	%
Below R60 000	4 864 000		99 957					
R60 001 to R160 000	1 792 100	29.0%	187 031	12.1%	12 630	4.3%	-1 333	14.1%
R160 001 to R260 000	2 711 200	43.9%	563 174	36.3%	78 387	26.5%	-3 784	39.9%
R260 001 to R600 000	1 396 200	22.6%	471 950	30.4%	94 582	32.0%	-3 018	31.8%
R600 001 to R1 000 000	175 500	2.8%	130 603	8.4%	38 355	13.0%	- 730	7.7%
> R1 000 001	102 050	1.7%	198 826	12.8%	71 782	24.3%	- 618	6.5%
<b>Total</b>	<b>6 177 050</b>	<b>100.0%</b>	<b>1 551 584</b>	<b>100.0%</b>	<b>295 735</b>	<b>100%</b>	<b>-9 483</b>	<b>100.0%</b>

**Table 4.6 Personal income tax rate and bracket adjustments, 2011/12 – 2012/13**

2011/12		2012/13	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R150 000	18% of each R1	R0 - R160 000	18% of each R1
R150 001 - R235 000	R27 000 + 25% of the amount above R150 000	R160 001 - R250 000	R28 800 + 25% of the amount above R160 000
R235 001 - R325 000	R48 250 + 30% of the amount above R235 000	R250 001 - R346 000	R51 300 + 30% of the amount above R250 000
R325 001 - R455 000	R75 250 + 35% of the amount above R325 000	R346 001 - R484 000	R80 100 + 35% of the amount above R346 000
R455 001 - R580 000	R120 750 + 38% of the amount above R455 000	R484 001 - R617 000	R128 400 + 38% of the amount above R484 000
R580 001	R168 250 + 40% of the amount above R580 000	R617 001	R178 940 + 40% of the amount above R617 000
<b>Rebates</b>		<b>Rebates</b>	
Primary	R10 755	Primary	R11 440
Secondary	R6 012	Secondary	R6 390
Tertiary	R2 000	Tertiary	R2 130
<b>Tax threshold</b>		<b>Tax threshold</b>	
Below age 65	R59 750	Below age 65	R63 556
Age 65 and over	R93 150	Age 65 and over	R99 056
Age 75 and over	R104 261	Age 75 and over	R110 889

### Implementation of dividend withholding tax

*Dividend withholding tax replaces secondary tax on companies on 1 April 2012*

As announced previously, the dividend withholding tax will come into effect on 1 April 2012, bringing an end to the secondary tax on companies. Pension funds that are exempt from income tax will receive their dividends tax free. For equity reasons it is proposed that the dividend withholding tax come into effect at 15 per cent – five percentage points higher than the previous secondary tax on companies rate. Income from capital can be derived as interest income, dividends or capital gains, all of which should be taxed equitably.

High-income individuals tend to receive a larger portion of their income in the form of dividends and capital gains. The higher rate will also help to mitigate some of the revenue losses when switching from the secondary

tax on companies to the new tax. The estimated net loss as a result of these changes will be R1.9 billion.

### **Increase in effective capital gains tax rates**

Capital gains tax was introduced in 2001 at relatively modest rates and has remained unchanged for the past 10 years. This reform has helped to ensure the integrity and progressive nature of the tax system. To enhance equity, effective capital gains tax rates will be increased. The inclusion rate for individuals and special trusts will increase to 33.3 per cent, shifting their maximum effective capital gains tax rate to 13.3 per cent. The inclusion rate for other entities (companies and other trusts) will increase to 66.6 per cent, raising the effective rate for companies to 18.6 per cent and for other trusts to 26.7 per cent. These changes will come into effect for the disposal of assets from 1 March 2012.

*Increased capital gains tax rates*

To limit the impact of capital gains taxation on middle-income households, the exemption thresholds for individual capital gains and for primary residences will be adjusted significantly. The following exemptions for individual capital gains are increased from 1 March 2012:

*Proposals limit impact of capital gains tax on middle-income earners*

- The annual exclusion from R20 000 to R30 000
- The exclusion amount on death from R200 000 to R300 000
- The primary residence exclusion from R1.5 million to R2 million
- The exclusion amount on the disposal of a small business when a person is over age 55 from R900 000 to R1.8 million
- The maximum market value of assets allowed for a small business disposal for business owners over 55 years increases from R5 million to R10 million.

### **Medical deductions converted to medical tax credits**

Medical tax credits are a more equitable form of relief than medical deductions because the relative value of the relief does not increase with higher income levels. As announced in the 2011 Budget, income tax deductions for medical scheme contributions for taxpayers below 65 years will be converted into such credits. Monthly tax credits will be increased from R216 to R230 for the first two beneficiaries and from R144 to R154 for each additional beneficiary with effect from 1 March 2012. From that date onwards (apart from those with disabilities), where medical scheme contributions in excess of four times the total allowable tax credits plus out-of-pocket medical expenses combined exceed 7.5 per cent of taxable income, they can be claimed as a deduction against taxable income.

*Monthly medical scheme contribution tax credits contribute to equity*

To ensure improved equity of the tax system and to help curb increases in health costs, additional medical deductions will be converted into tax credits at a rate of 25 per cent for taxpayers aged below 65 years with effect from 1 March 2014. Also with effect from the same date, employer contributions to medical schemes on behalf of ex-employees will be deemed a taxable fringe benefit and such ex-employees will be able to claim the appropriate tax credits.

*Additional medical expenses converted to tax credits*

Taxpayers 65 years and older, and those with disabilities or with disabled dependants, can currently claim all medical scheme contributions and out-of-pocket medical expenses as a deduction against their taxable income.

The tax credits will, as from 1 March 2014, apply to all taxpayers. However, taxpayers 65 years and older and those with disabilities or disabled dependants will be able to convert all medical scheme contributions in excess of three times the total allowable tax credits plus out-of-pocket medical expenses into a tax credit of 33.3 per cent. Note that the 7.5 per cent threshold will not apply in the case of taxpayers 65 years and older and those with disabilities or with disabled dependants.

### **Funding options for national health insurance**

*A range of funding options for national health insurance will be considered*

National health insurance is to be phased in over a 14-year period beginning in 2012/13. The new system will provide equitable health coverage for all South Africans. Plans to begin the first phase of national health insurance, and initial funding requirements, are discussed in some detail in Chapter 6. Over time, the new system will require funding over and above current budget allocations to public health. Funding options include an increase in the VAT rate, a payroll tax on employers, a surcharge on the taxable income of individuals, or some combination of the above.

Achieving an appropriate balance in the funding of national health insurance is necessary to ensure that the tax structure remains supportive of economic growth, job creation and savings. The role and implications of co-payments or user charges under certain circumstances (for example, to limit overuse and risky behaviours) will also be explored. A discussion paper will be published by end-April 2012.

### **Encouraging household savings**

*To encourage greater savings, tax-preferred savings and investment accounts are proposed*

To encourage greater savings among South Africans, tax-preferred savings and investment accounts are proposed as alternatives to the current tax-free interest-income caps. This will encourage a new generation of savings products. Returns generated within these savings and investment vehicles (including interest, capital gains and dividends) and withdrawals will be tax exempt. Aggregate annual contributions could be limited to R30 000 per year per taxpayer, with a lifetime limit of R500 000, to ensure that high net-worth individuals do not benefit disproportionately. The design and costs (banking and other fees) of these savings and investment vehicles may be regulated to help lower-income earners to participate.

Government proposes to introduce tax-preferred savings and investment vehicles by April 2014. A discussion document will be published by May 2012 to facilitate consultation and refine these proposals.

### **Retirement reforms**

*Changes to the tax treatment of pension and provident funds*

To encourage South Africans to save for retirement, contributions by employees and employers to pension, provident and retirement funds will be tax deductible by individual employees.

Individual taxpayer deductions will be set at 22.5 and 27.5 per cent, for those below 45 years and 45 and above respectively, of the higher of employment or taxable income. Annual deductions will be limited to R250 000 and R300 000 for taxpayers below 45 years and above 45 years respectively. A minimum monetary threshold of R20 000 will apply to

allow low-income earners to contribute in excess of the prescribed percentages. Non-deductible contributions (in excess of the thresholds) will be exempt from income tax if, on retirement, they are taken as either part of the lump sum or as annuity income. Measures to address some of the complexities of defined benefit pension schemes will be considered. These amendments will come into effect on 1 March 2014.

A rollover dispensation similar to the current retirement annuity contributions will be adopted to allow flexibility in contributions for those with fluctuating incomes. Contributions towards risk benefits and administration costs within retirement savings will be included in the maximum percentage allowable deduction.

*Rollover dispensation similar to retirement annuity contributions will be adopted*

Lump sum withdrawals upon retirement from pension and retirement annuity funds are restricted to a maximum of one-third of accumulated savings. Consultations will be held with interested parties on a uniform approach to retirement fund withdrawals, taking into account vested rights and appropriate transitional arrangements.

### **Business taxes**

In addition to the dividend withholding tax and adjustments to capital gains tax discussed earlier, several business tax measures are proposed.

#### *Turnover tax for micro businesses*

Several reforms of the turnover tax for micro businesses (with annual turnover below R1 million) were announced in 2011. Building on these reforms, micro businesses will be given the option of making payments for turnover tax, VAT and employees' tax at twice-yearly intervals from 1 March 2012. It is further envisaged that a single combined return will be filed on a twice-yearly basis from 1 March 2013. The number of returns required for these taxes will fall from about 18 per year to only two a year in 2013. The build-up of tax liability will require such taxpayers to ensure that funds are available when payment is due.

*Cutting red tape and improving cash flow for micro businesses*

#### *Small business corporations*

To encourage the growth of small incorporated businesses, government proposes to increase the tax-free threshold for such firms from R59 750 to R63 556. Taxable income up to R300 000 is taxed at 10 per cent; this threshold is now increased to R350 000 and the applicable rate reduced to 7 per cent. For taxable income above R350 000, the normal corporate tax rate of 28 per cent applies. These amendments will come into effect for years of assessment ending on or after 1 April 2012.

*Relief for small business corporations*

#### *Limiting excessive debt in businesses*

Public debate on section 45 of the Income Tax Act (1962) and private equity acquisitions has highlighted the need to improve the classification of corporate financing. The main problem is the erroneous classification of certain instruments as "debt" to generate interest deductions for the debtor, when such instruments more accurately represent equity financing. Similarly, in some private equity transactions, where creditors receive exempt interest income, the deductibility of interest payments deprives the

*A need to improve the classification of corporate financing*

fiscus of revenue. Excessive debt can also give rise to excessively risky transactions that may represent “credit risk” for the domestic market.

To address these concerns, government will enact a revised set of reclassification rules deeming certain debt to be equivalent to shares. In 2013 government will also consider an “across-the-board” percentage ceiling on interest deductions, relative to earnings before interest and depreciation, to limit excessive debt financing.

#### ***Debt used to fund share acquisitions***

*Use of section 45 as an indirect share acquisition tool is accepted*

Unlike most countries, South Africa does not allow for interest to be deductible when debt is used to acquire shares. Section 45 has been used as an indirect acquisition technique to facilitate the deduction of interest payments by allowing debt to be formally matched against underlying assets as opposed to shares. Given the acceptance of section 45 as an indirect share acquisition tool, it is now proposed that the use of debt to directly acquire controlling share interests of at least 70 per cent be allowed. However, the interest associated with this form of debt acquisition will be subject to the same controls applied to section 45 acquisitions.

#### ***Property loan stock companies and property unit trusts***

Property unit trusts and property loan stock companies typically provide a commitment to distribute a minimum of 90 per cent of their rental income to investors. The distribution of rental income is effectively tax-neutral in the hands of the property unit trust. Property loan stock companies appear to achieve roughly the same result but without official sanction. They issue investors a dual-linked unit that consists of a debenture and a share with the distribution in the form of interest.

The dual-linked structure needs to be eliminated so that other entities do not undertake the same structure to avoid tax by relying on excessive debt. The governance of property loan stock entities will be placed on par with property unit trusts. Rental income from these entities will fall under the pass-through regime that applies to property unit trusts.

#### ***Special economic zones***

*Income tax exemption to attract investors*

Legislation will introduce special economic zones, which will build on industrial development zone policy. The main aim is to improve governance, streamline procedures and provide more focused support to businesses operating within these zones. In support of this initiative, the following tax interventions will be explored:

- A possible reduction in the headline corporate income tax rate for businesses within selected zones (as determined by the Minister of Finance after consultation with the Minister of Trade and Industry).
- An income tax exemption for the operators of special economic zones.
- An additional deduction from taxable income for the employment of workers earning below a predetermined threshold.

*Incentives for the construction of affordable housing*

There is insufficient affordable housing stock for middle-income households above the income thresholds for RDP-type housing, but who cannot afford high mortgage finance. To address this “gap market”, a tax incentive for developers (and employers) to build new housing stock (at least five units in compliance with prescribed standards) for sale below R300 000 per dwelling is under consideration. Options include either a tax credit or a deduction at either a fixed rand amount per unit or as a percentage of the value of the dwelling. This proposal will be refined after public consultation. Policy alignment with existing housing incentives and attempts to unblock regulatory bottlenecks will also be considered.

*Consideration of an incentive for the construction of middle-income housing*

Some low-income employees receive financial assistance from their employers to acquire a house. The current tax hurdles associated with such assistance will also be explored.

**International***Dual-listed companies and other offshore reorganisations*

In 2011, government introduced rollover rules for some offshore reorganisations. The purpose was to give South African multinationals more flexibility when restructuring offshore subsidiaries, and to curtail the use of the offshore participation exemption to avoid tax. Now that steps have been taken to bring misuse of section 45 under control, government proposes to introduce an offshore section 45 provision. It would also appear that unbundlings are used to facilitate dual-linked structures that allow for foreign operations to be shifted outside South Africa’s tax jurisdiction. The participation exemption will be curtailed if the transaction indirectly strips value from a South African multinational.

*Steps to prevent value-stripping from South African multinationals*

*Rationalisation of withholding tax on foreign payments*

International investors are subject to a final withholding tax when receiving royalties unless a tax treaty provides otherwise. They will also be subject to a final withholding tax on interest income as from 2013, subject to tax treaty exemptions. Government proposes to coordinate and streamline the procedures, rates and times for all of these withholding tax regimes, including the adoption of a uniform rate of 15 per cent.

*From 2013, some international investors will be subject to a withholding tax on interest income*

**Indirect taxes***Climate change: carbon emissions tax*

A carbon tax will contribute to the global response to mitigate climate change. A modest carbon tax will begin to price carbon dioxide emissions so that the external costs resulting from such emissions start to be incorporated into production costs and consumer prices. This will also create incentives for changes in behaviour and encourage the uptake of cleaner-energy technologies, energy-efficiency measures, and research and development of low-carbon options.

*Draft policy paper on carbon tax to be published during 2012*

### Proposed design of carbon emissions tax to help mitigate global climate change

Following public consultation, government has revised its concept design for a carbon tax, and a draft policy paper will be published for comment in 2012. The proposed design features include:

- Percentage-based rather than absolute emissions thresholds, below which the tax will not be payable.
- A higher tax-free threshold for process emission, with consideration given to the limitations of the cement, iron and steel, aluminium and glass sectors to mitigate emissions over the near term.
- Additional relief for trade-exposed sectors.
- The use of offsets by companies to reduce their carbon tax liability.
- Phased implementation.

The tax will apply to carbon dioxide equivalent (CO<sub>2</sub>e) emissions calculated using agreed methods. A basic tax-free threshold of 60 per cent (with additional concession for process emissions and for trade-exposed sectors) and maximum offset percentages of 5 or 10 per cent until 2019/20 is proposed. Additional relief will be considered for firms that reduce their carbon intensity during this first phase. The reduction in carbon intensity will be measured with reference to a base year or industry benchmark. Tax-free thresholds will be reduced during the second phase (2020 to 2025) and may be replaced with absolute emission thresholds thereafter. Alignment with the proposed carbon budgets as per the national climate change response white paper (2011) will be important.

A carbon tax at R120 per ton of CO<sub>2</sub>e above the suggested thresholds is proposed to take effect during 2013/14, with annual increases of 10 per cent until 2019/20. Revenues from the tax will not be earmarked, but consideration will be given to spending to address environmental concerns. Incentives such as the proposed energy-efficiency tax incentive and measures to assist low-income households will be supported. See Annexure C for further details.

### Electricity levy increase

*Funding for energy efficiency initiatives*

The electricity levy generated from non-renewable sources will be increased by 1c/kWh to 3.5c/kWh. The additional revenue will be used to fund energy-efficiency initiatives such as the solar water heater programme. This arrangement will replace the current funding mechanism that is incorporated into Eskom's annual tariff application. It will enhance transparency and enable government to use alternative agencies to deliver on energy-efficiency initiatives. The net impact on electricity tariffs should be neutral.

### Increase in general fuel levy and Road Accident Fund levy

*General fuel levy and RAF levy increased by 20c/l and 8c/l respectively*

Government proposes to increase the general fuel levy and Road Accident Fund (RAF) levy by 20c/l and 8c/l respectively with effect from 4 April 2012. Table 4.7 shows the fuel tax rates and estimated fuel tax burden expressed as a percentage of retail and wholesale prices.

**Table 4.7 Total combined fuel taxes on petrol and diesel, 2010/11 – 2012/13**

c / litre	2010/11		2011/12		2012/13	
	93 Octane petrol	Diesel	93 Octane petrol	Diesel	93 Octane petrol	Diesel
General fuel levy	167.50	152.50	177.50	162.50	197.50	182.50
Road Accident Fund levy	72.00	72.00	80.00	80.00	88.00	88.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	0.00	0.01	0.00	0.01	0.00	0.01
<b>Total</b>	<b>243.50</b>	<b>228.51</b>	<b>261.50</b>	<b>246.51</b>	<b>289.50</b>	<b>274.51</b>
Pump price: Gauteng (as in February) <sup>1</sup>	785.00	701.85	884.00	814.05	1 077.00	1 026.69
<i>Taxes as % of pump price</i>	<i>31.0%</i>	<i>32.6%</i>	<i>29.6%</i>	<i>30.3%</i>	<i>26.9%</i>	<i>26.7%</i>

1. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

## Value-added tax (VAT)

### *Square Kilometre Array*

South Africa (in cooperation with other African countries) is bidding to host the Square Kilometre Array (SKA), an international collaboration to build the world's largest radio telescope. SKA is eligible for income-tax exemption under existing public-benefit provisions. Under consideration is providing VAT relief either in the form of a refund mechanism or the zero-rating of consideration received by the project and for imported goods and services if South Africa were to win the bid.

*VAT relief for world's largest radio telescope if South Africa wins the bid*

### *Financial services*

Government will eliminate the VAT zero-rating of interest earned on loans to non-residents to level the playing field.

### *Review of VAT on indirect exports and temporary imports*

The policy, legislation and administration of the VAT treatment of indirect exports of goods by road will be reviewed to ensure that exporters are not prejudiced and that the fiscus continues to be protected against potential abuses.

*Government will review VAT treatment of indirect exports and temporary imports*

Government will review the VAT treatment of temporary imports to promote local processing and beneficiation, while protecting the fiscus.

## Revised gambling tax

The 2011 Budget proposed a withholding tax on gambling winnings above R25 000. After broader consultation, a national gambling tax based on gross gambling revenue will be introduced. This tax, effective from 1 April 2013, will take the form of an additional 1 per cent national levy on a uniform provincial gambling tax base. A similar tax base will be used to tax the national lottery.

*National tax on gross gambling revenue*

## Excise duties on tobacco and alcohol

The excise duties on tobacco products are determined in accordance with a targeted total tax burden (excise duties plus VAT) of 52 per cent of the retail price. Increases in excise duties on tobacco products of between 5 and 8.2 per cent are proposed.

*Excise duties on tobacco products to increase by between 5 and 8.2 per cent*

The current targeted total tax burdens (excise duties plus VAT) on alcoholic beverages are 23, 33, and 43 per cent of the weighted average retail selling price of wine, clear beer and spirits respectively. Following an announcement in Budget 2011, the appropriateness of these benchmark tax burdens was reviewed.

It is now proposed to retain the current benchmark for wine but to increase the targeted benchmark tax burdens for beer and spirits to 35 and 48 per cent respectively. These increases will be phased in over two years. The resulting increases in excise duties on alcoholic beverages for this year range between 6 and 20 per cent. The increase will complement broader efforts to reduce alcohol abuse.

**Table 4.8 Changes in specific excise duties, 2012/13**

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R53.97 / litre of absolute alcohol (91.75c / average 340ml can)	R59.36 / litre of absolute alcohol (100.98c / average 340ml can)	9.99%	3.82%
Traditional African beer	7.82c / litre	7.82c / litre	0.00%	-5.60%
Traditional African beer powder	34.70c / kg	34.70c / kg	0.00%	-5.60%
Unfortified wine	R2.32 / litre	R2.50 / litre	7.76%	1.72%
Fortified wine	R4.33 / litre	R4.59 / litre	6.00%	0.06%
Sparkling wine	R6.97 / litre	R7.53 / litre	8.03%	1.98%
Ciders and alcoholic fruit beverages	R2.71 / litre (92.14c / average 340ml can)	R2.97 / litre (100.98c / average 340ml can)	9.59%	3.45%
Spirits	R93.03 / litre of absolute alcohol (R30.00 / 750ml bottle)	R111.64 / litre of absolute alcohol (R36.00 / 750ml bottle)	20.00%	13.28%
Cigarettes	R9.74/ 20 cigarettes	R10.32/ 20 cigarettes	5.95%	0.02%
Cigarette tobacco	R10.53/ 50g	R11.05/ 50g	4.94%	-0.94%
Pipe tobacco	R2.98/ 25g	R3.22/ 25g	8.05%	2.00%
Cigars	R50.52 / 23g	R53.05 / 23g	5.01%	-0.88%

### Financial transaction tax reform (securities transfer tax)

*Brokers to be taxed at a lower rate*

South Africa has a financial transaction tax in place in the form of the securities transfer tax. This is a tax of 0.25 per cent on purchases of shares, with an exemption for brokers who acquire shares for their own benefit. It is proposed that the current blanket exemption for brokers be abolished and broker transactions, where the beneficial ownership rests with the broker, be taxed at an appropriate lower rate. This reduced rate will also cover the purchase of shares utilised in support of derivative hedging.

These amendments will come into effect on 1 April 2013. Government will also investigate the feasibility of including derivatives in the base of the securities transfer tax.

### Taxation of luxury goods

*More luxury goods subject to ad valorem excise duties*

From 1 October 2012, government proposes to subject the following items to ad valorem tax at the indicated rates:

- Aeroplanes and helicopters with a mass exceeding 450kg but not 5 000kg at 7 per cent
- Motorboats and sailboats longer than 10m at 10 per cent.

### Tax administration

*SARS to focus on cross-border cooperation*

During 2012/13, the South African Revenue Service (SARS) will increase its focus on cross-border cooperation. In addition, several other administrative areas will receive attention.

### *Tax Administration Bill*

The bill has been approved by Parliament. It incorporates the common administrative elements of current tax law into one piece of legislation, and makes further improvements in this area. The bill is expected to be promulgated and most of its provisions brought into force in 2012.

### *Voluntary disclosure programme*

By mid-February 2012, SARS had captured 17 938 applications for relief, concluded agreements to the value of R941 million and collected R718 million in related tax.

*R718 million collected through voluntary disclosure programme*

### *High net-worth individuals*

There is room for improvement in the service offered to this segment and in compliance. This will be a focus area for SARS in the coming year.

### *Corporate income tax modernisation*

Modernisation efforts now shift to corporate income tax. Over the next 12 months SARS will improve its audit capability and align declarations to International Financial Reporting Standards where possible.

### *Customs transformation*

The transformation of SARS customs is starting to gain momentum, and additional steps will be taken over the period ahead to achieve fully integrated electronic customs capability.

### *Tax ombud*

During 2012, South Africa will establish a dedicated ombud for tax matters. The office is intended to provide taxpayers with a low-cost mechanism to address administrative difficulties that cannot be resolved by SARS.

*Dedicated tax ombud to be established during 2012*

## **Tax policy research projects**

The following tax policy research projects will be undertaken or completed during 2012/13:

- Reforms to the primary, secondary and tertiary rebates in the context of a review of the means testing for the *old age grant* and with the intention to introduce a child and/or dependant tax rebate/credit.
- Taxation of financial instruments (including derivatives).
- Long-term insurance companies – review of the taxation, accounting and regulatory practices of the four fund system.
- Taxation of income from capital (interest income, dividends, capital gains, rental) to be reviewed to ensure greater equity and minimise opportunities for tax arbitrage.
- VAT treatment of public passenger transport.
- The implementation and importance of user charges and other fees.
- Taxation of transport fuels – review to determine the equitable treatment of all transport fuels based on their environmental characteristics (for example, CO<sub>2</sub> emissions) and energy content.

*Tax proposals support a sustainable fiscal framework, economic growth and a more competitive economy*

## ■ Conclusion

The 2012 tax proposals support a sustainable fiscal framework, economic growth and a more competitive economy. Reforms will improve the fairness of the tax system, ensuring that income from capital is taxed more appropriately. A discussion document outlining the design of a proposed tax on carbon emissions will be released. Proposals are advanced to support small business, and to encourage household savings. Options to augment and streamline funding for national health insurance as part of a strengthened public health system will be explored.

# 5

## Asset and liability management

### ■ Overview

Over the past three years, public debt has risen to support infrastructure investment, and to fund economic and social priorities. Over the medium term, the fiscal stance will stabilise the growth of debt and maintain long-term sustainability, ensuring that debt and debt-service costs do not crowd out productive expenditure.

In 2012/13, government's net borrowing requirement is expected to reach R168.8 billion, up from R152.7 billion in 2011/12, while state-owned entities will borrow an estimated R76.9 billion to fund their capital expenditure programmes. Development finance institutions will borrow a projected R13.9 billion to meet developmental funding commitments. After increasing in line with budget deficits, government's net debt stock is expected to peak at 38.5 per cent of GDP in 2014/15. As the fiscal position improves over time, debt and debt-service costs will stabilise.

Owing to prudent macroeconomic policies, and deep and liquid capital markets, the state is able to finance its borrowing requirement mainly in the domestic market. Government's debt instruments remain attractive to global investors, as demonstrated by a successful US\$1.5 billion global bond issue in January 2012. Global investors increased their holdings of South African domestic bonds from 12.8 per cent in 2008 to 29.1 per cent in 2011.

State-owned entities and development finance institutions will continue to invest and fund infrastructure development that promotes long-term growth. Government will ensure that these institutions remain financially stable, and facilitate cost-effective funding, enabling them to deliver on their mandates.

*Borrowing requirement has risen in the wake of the 2009 recession*

*Global investors increased their holdings of South African bonds during 2011*

*Reports on debt management will complement investor road shows and new website*

As part of its commitment to transparency, the National Treasury will begin publishing yearly reports on South Africa's public debt management. The first such report will be produced by end-June 2012, complementing regular domestic and international road shows and the recent launch of an investor relations website.

This chapter reviews debt market developments and the debt management strategy, outlines borrowing and financing trends, and discusses the role of state-owned entities and development finance institutions.

### Key medium-term indicators

- Net borrowing requirement of R168.8 billion in 2012/13, decreasing to R140.9 billion in 2014/15.
- Annual Treasury bill net issuance of R22 billion over the medium term.
- Two new fixed-income and three new inflation-linked domestic bonds.
- Borrowing of US\$3 billion in the international capital market over the medium term.
- Switches (exchanges) in domestic and foreign bonds.
- Net loan debt of 36 per cent of GDP in 2012/13, increasing to 38.5 per cent (R1.5 trillion) in 2014/15.
- Debt-service costs peak at 2.8 per cent of GDP in 2013/14 and decline thereafter.

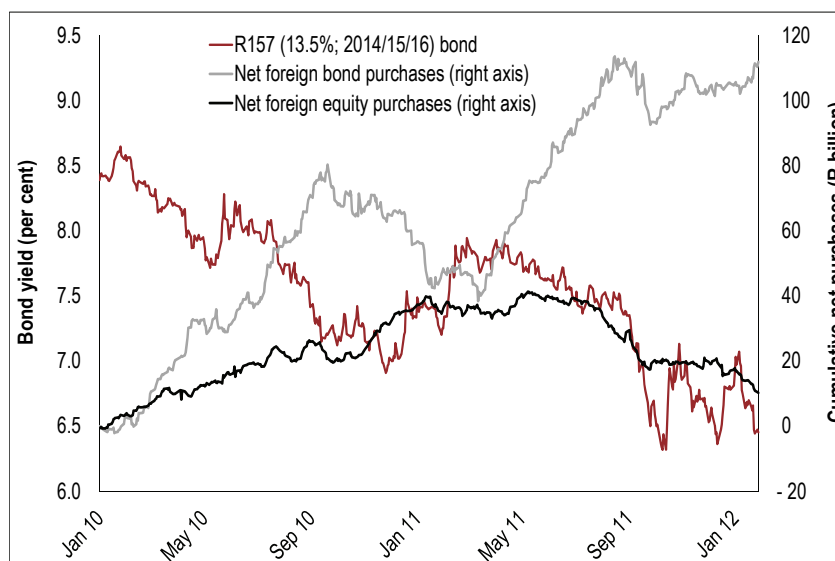
## Developments in South Africa's debt markets

### Domestic bond market

*Domestic bond market benefited from asset reallocation towards higher-yielding emerging markets*

Over the past year concerns about the continuing European debt and banking crises intensified, contributing to shifts in capital flows. While there was a "flight to safety" toward some developed countries, South Africa's bond market benefited from asset reallocation towards higher-yielding emerging markets. Net bond purchases by foreign investors reached R48 billion for the year (2010: R56 billion). In contrast, equity purchases recorded a net foreign outflow.

**Figure 5.1 Bond yields and cumulative net bond and equity purchases by non-residents, 2010 – 2012**



Source: Bloomberg

Weekly bond issuances of R3 billion in 2011 were matched by increased appetite for government debt, leading to a robust performance of the fixed-income market. The BEASSA All Bond Index increased by 8.8 per cent during 2011, compared with the JSE Equity All Share Index (up 2.6 per cent for the year) and cash (STeFI, 5.7 per cent).

*Strong growth in appetite for government debt in 2011 outpaced performances of equities and cash*

The Johannesburg Stock Exchange registered an increase of 23.7 per cent in annual bond turnover in 2011, reaching a record high of R20.9 trillion. The bond market is becoming an increasingly important source of funding for the private sector. During 2011, net issuance by corporations increased by R4 billion to R49 billion, with financial corporations responsible for the largest proportion of this issuance.

Outstanding municipal bonds increased from R11.6 billion in 2010 to R13.2 billion in 2011. Johannesburg, which accounts for 60 per cent of this market, issued R850 million in new debt and Ekurhuleni issued R800 million in new debt. Turnover in municipal debt, however, decreased by R6.9 billion to R17.1 billion.

*Outstanding municipal bonds grew to R13.2 billion in 2011, but turnover decreased*

During 2011, the domestic bond yield curve steepened, with the long end more than 50 basis points higher. Increased demand for inflation-linked bonds, together with higher-yielding long rates, suggests an expectation of higher inflation over the long term.

### **Domestic money market**

During 2011, the Treasury bill rates were anchored by the monetary policy stance. The Reserve Bank kept the repurchase (repo) rate unchanged at 5.5 per cent.

*Reserve Bank kept repo rate unchanged in 2011*

### **International bond market**

Emerging and developing economies were affected by higher risk aversion during 2011. Sovereign bond spreads and credit default swaps for emerging markets as a group continued to widen throughout the year.

Emerging markets issued sovereign debt in excess of US\$20 billion at the beginning of 2012. South Africa also issued a 12-year, US\$1.5 billion note. After two years of low and negative issuance in rand-denominated debt issued in Europe (Eurorand bonds) and Japan (Uridashi bonds), net issuances reached R7 billion and R10 billion respectively in 2011.

## **Managing the debt portfolio**

Recent events in Europe have highlighted how large, poorly structured debt portfolios can make governments more vulnerable to financial and economic shocks. Government's debt management strategies are designed to ensure fiscal sustainability.

The primary aim of the debt management strategy is to meet the financing requirements of the public sector at the lowest possible cost. This is done within prudent risk levels and in support of government's broader economic policies. The principles of openness, transparency and predictability support this goal. Government works to develop the country's capital markets, maintains benchmark bonds, and actively manages the maturity structure and composition of debt.

*Strategy is to meet the financing requirements of the public sector at the lowest possible cost*

*Introduction of Islamic bonds (sukuk) under consideration*

### **Diversifying funding instruments and benchmarking risk**

In recent years, to develop the domestic bond market and broaden the investor base, government expanded its portfolio from mainly Treasury bills and fixed-income bonds to include inflation-linked bonds, floating-rate notes and retail bonds. The introduction of Islamic bonds (sukuk) is now under consideration. The Treasury bill portfolio has been expanded from 91-day and 182-day bills to include 273-day and 364-day bills. Retail bonds were first issued in 2004 to bolster South African savings, and now consist of fixed- and inflation-linked bonds.

Government's risk management framework sets benchmarks for:

- Debt composition, limiting foreign debt to 20 per cent of total debt.
- The composition of domestic debt at 70 per cent fixed and 30 per cent non-fixed to reduce risks associated with interest rate increases and inflation.
- Smoothing the maturity structure – the schedule of debt repayments – to manage refinancing risk.

*Government reduced the share of foreign debt to 5.4 per cent of total net debt in 2011/12*

Financing in international capital markets is intended to meet government's foreign currency commitments, broadening the investor base and establishing benchmarks for state-owned entities to borrow. This strategy reduced the share of foreign debt as a proportion of total net debt from 19.9 per cent in 2007/08 to 5.4 per cent in 2011/12, reaching 2.9 per cent in 2014/15. Low levels of foreign debt reduce currency risk and contribute to the sustainability of the public finances.

### **Sovereign rating outlook**

Persistent uncertainty in the global economy and the European debt crisis have increased pressure on credit rating agencies to communicate their ratings in a manner that reflects the changing environment.

From January 2011 to December 2011, 171 countries had their ratings reviewed by the major rating agencies (Moody's Investor Services, Standard & Poor's, Fitch Ratings, and Ratings and Investment Information Inc.). Of these, 31 countries were upgraded and 55 were downgraded; the ratings of 60 were affirmed; 21 were placed on credit watch; and 4 were assigned ratings for the first time.

South Africa has not been immune to this changing environment. Moody's Investor Services and Fitch Ratings have revised the outlook for South Africa from stable to negative, while affirming the country's long-term foreign currency ratings. The agencies report that the country's rating outlook could be affected negatively in the event of a serious deterioration in the fiscal position, citing lower-than-expected growth and high unemployment among their concerns.

South Africa's prudent macroeconomic policies, fiscal guidelines, debt management policies and sound constitutional institutions support a positive long-term rating outlook.

Domestic debt consists of fixed-income bonds and non-fixed rate debt instruments (short-term loans, floating-rate notes and inflation-linked bonds). Non-fixed rate debt increased from 26.3 per cent in 2007/08 to 36.3 per cent in 2011/12. Since the onset of the global crisis, government has increased the issuance of Treasury bills and inflation-linked bonds to finance the large borrowing requirement, resulting in a deviation from the 30 per cent risk guidelines. As the fiscal outlook improves, reliance on non-fixed rate debt will be reduced to the benchmark.

To improve the tradability of bonds and achieve a liquidity premium requires that large benchmark bonds are created at key maturities across the yield curve. To reduce near-term exposure to refinancing risk

government will continue to exchange maturing bonds before due date for longer-dated bonds, in what is referred to as switch auctions or exchanges.

## Consolidated borrowing and financing

The consolidated government borrowing requirement includes the financing requirements of national and provincial government, the social security funds and national extra-budgetary institutions.

*Consolidated borrowing will increase to R152.3 billion in 2012/13 and decline to R120 billion in 2014/15*

Consolidated borrowing in 2012/13 will increase to R152.3 billion before declining to R120 billion in 2014/15. The consolidated borrowing requirement is lower than that of the national government – mainly because of large investments held by the social security funds and capital reserves held by extra-budgetary institutions, which constitute prefunding for infrastructure investment. Extra-budgetary institutions also raise loans to finance large-scale infrastructure investment. These include the South African National Roads Agency Limited (SANRAL) and Trans-Caledon Tunnel Authority (TCTA) project loans, which amount to about R16.5 billion over the medium term.

**Table 5.1 Financing of consolidated government net borrowing requirement, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
R billion	Actual			Estimate	Medium-term estimates		
<b>Budget balance<sup>1</sup></b>	<b>-25.0</b>	<b>-159.6</b>	<b>-116.7</b>	<b>-142.3</b>	<b>-153.5</b>	<b>-143.3</b>	<b>-121.5</b>
Extraordinary receipts and payments	3.9	5.8	2.2	3.9	1.2	1.5	1.5
<b>Net borrowing requirement</b>	<b>-21.1</b>	<b>-153.8</b>	<b>-114.5</b>	<b>-138.4</b>	<b>-152.3</b>	<b>-141.8</b>	<b>-120.0</b>
Domestic loans	45.9	177.1	176.6	169.5	151.1	157.5	141.3
Foreign loans	-3.7	23.9	4.7	4.4	-7.7	-5.0	-2.7
Change in cash and other balances <sup>2</sup>	-21.1	-47.1	-66.8	-35.5	8.9	-10.7	-18.6
<b>Financing</b>	<b>21.1</b>	<b>153.8</b>	<b>114.5</b>	<b>138.4</b>	<b>152.3</b>	<b>141.8</b>	<b>120.0</b>

1. A negative number reflects a deficit

2. A negative change indicates an increase in cash balances

## National borrowing requirement

The net borrowing requirement for 2010/11, the revised estimate for 2011/12 and estimates for the medium term are set out in Table 5.2. In 2011/12, the net borrowing requirement is expected to amount to R152.7 billion, increasing to R168.8 billion in 2012/13 before declining to R140.9 billion in 2014/15.

*Net borrowing requirement of R168.8 billion in 2012/13*

**Table 5.2 National government net borrowing requirement, 2010/11 – 2014/15**

R million	2010/11	2011/12		2012/13	2013/14	2014/15
	Outcome	Budget	Revised	Medium-term estimates		
<b>National budget balance<sup>1</sup></b>	<b>-135 403</b>	<b>-159 066</b>	<b>-156 648</b>	<b>-170 025</b>	<b>-159 536</b>	<b>-142 358</b>
<b>Extraordinary receipts</b>	<b>3 010</b>	<b>1 350</b>	<b>4 435</b>	<b>1 200</b>	<b>1 500</b>	<b>1 500</b>
Premiums on bond transactions <sup>2</sup>	1 690	1 300	3 500	1 200	1 500	1 500
Special dividends	362	–	–	–	–	–
Saambou Bank curatorship	20	–	30	–	–	–
Revaluation profits on foreign currency transactions <sup>3</sup>	87	–	660	–	–	–
Liquidation of SASRIA investment	150	50	228	–	–	–
Equalisation Fund account transfer	700	–	–	–	–	–
Other <sup>4</sup>	1	–	17	–	–	–
<b>Extraordinary payments</b>	<b>-839</b>	<b>-150</b>	<b>-530</b>	<b>-24</b>	<b>–</b>	<b>–</b>
Premiums on loan transactions <sup>2</sup>	-227	–	–	–	–	–
Revaluation losses on foreign currency transactions <sup>3</sup>	-439	–	-384	–	–	–
Defrayal of GFECRA losses <sup>5</sup>	-173	-150	-146	-24	–	–
<b>Borrowing requirement</b>	<b>-133 232</b>	<b>-157 866</b>	<b>-152 743</b>	<b>-168 849</b>	<b>-158 036</b>	<b>-140 858</b>

1. A negative number reflects a deficit

2. Premiums received or incurred on new loan issues, bond switch and buy-back transactions

3. Revaluation profits or losses on government's foreign exchange deposits at the Reserve Bank when used to meet government's foreign currency commitments

4. Mainly penalties on early withdrawal of retail bonds

5. Realised losses on the Gold and Foreign Exchange Contingency Reserve Account

### Extraordinary receipts and payments

*Extraordinary receipts of R4.4 billion include R3.5 billion premiums on bond transactions*

A total of R4.4 billion in extraordinary receipts is expected in 2011/12, consisting of premiums of R3.5 billion on bond transactions, proceeds of R228 million from government's liquidation of its investments in the South African Special Risk Insurance Association, revaluation profits of R660 million on foreign currency transactions and cash owed to government from the curatorship of Saambou Bank of R30 million. Over the medium term, premiums of R4.2 billion on bond transactions are projected.

Extraordinary payments of R530 million are expected in 2011/12. These consist of losses on the Gold and Foreign Exchange Contingency Reserve Account of R146 million and revaluation losses of R384 million on foreign currency transactions. In 2012/13 provision is made for losses of R24 million on the Gold and Foreign Exchange Contingency Reserve Account.

*Where public enterprises hold assets not associated with service delivery, sale or reprioritisation of funds may be considered*

Government is reviewing its substantial investments in enterprises and public entities. Some of these enterprises and entities hold cash, excess financial reserves or assets that are not associated with public-service delivery. Where such resources can be more productively applied to finance policy priorities, the sale of such assets, or the return of surplus funds to the fiscus, will be considered.

### Financing the national borrowing requirement

Table 5.3 provides information on the funding of government's net borrowing requirement for 2010/11, revised estimates for 2011/12 and projections for the medium term.

**Table 5.3 Financing of national government net borrowing requirement<sup>1</sup>, 2010/11 – 2014/15**

R million	2010/11	2011/12		2012/13	2013/14	2014/15
	Outcome	Budget	Revised	Medium-term estimates		
<b>Domestic short-term loans (net)</b>	<b>34 893</b>	<b>22 000</b>	<b>20 828</b>	<b>22 000</b>	<b>22 000</b>	<b>20 000</b>
Treasury bills	21 610	22 000	20 828	22 000	22 000	20 000
Corporation for public deposits	13 283	–	–	–	–	–
<b>Domestic long-term loans (net)</b>	<b>136 850</b>	<b>135 367</b>	<b>139 925</b>	<b>119 998</b>	<b>130 353</b>	<b>114 259</b>
Market loans	150 386	150 400	155 400	151 367	151 054	142 277
Redemptions <sup>2</sup>	-13 536	-15 033	-15 475	-31 369	-20 701	-28 018
<b>Foreign loans (net)</b>	<b>2 839</b>	<b>4 999</b>	<b>9 546</b>	<b>-7 492</b>	<b>-3 564</b>	<b>-305</b>
Market loans	5 151	7 150	12 025	4 035	10 590	7 320
Arms procurement loan agreements	470	1 009	985	183	25	–
Redemptions (including revaluation of loans) <sup>3</sup>	-2 782	-3 160	-3 464	-11 710	-14 179	-7 625
<b>Change in cash and other balances<sup>4</sup></b>	<b>-41 350</b>	<b>-4 500</b>	<b>-17 556</b>	<b>34 343</b>	<b>9 247</b>	<b>6 904</b>
Cash balances	-48 456	-8 100	-21 156	30 743	5 647	3 304
Other balances <sup>5</sup>	7 106	3 600	3 600	3 600	3 600	3 600
<b>Financing</b>	<b>133 232</b>	<b>157 866</b>	<b>152 743</b>	<b>168 849</b>	<b>158 036</b>	<b>140 858</b>

1. A longer time series is presented in Table 1 of Annexure B

2. Domestic loan redemption figures are net of anticipated switches, reducing redemptions by R15 billion in 2013/14 and R34 billion in 2014/15

3. Foreign loan redemptions in 2014/15 are net of anticipated switches, reducing redemptions by R2.4 billion

4. A negative change indicates an increase in cash balances

5. Mainly surrenders of unspent money requested in previous financial years and late requests with regard to expenditure committed in previous years

The net borrowing requirement excludes loan redemptions – the repurchase of bonds at or before maturity – which also need to be financed. Scheduled loan redemptions are set out in Table 5.4. Loan redemptions in 2011/12 amount to R18.9 billion – R746 million higher than anticipated, mainly due to redemption of foreign loans at weaker-than-forecasted exchange rates and higher retail bond redemptions. Loan redemptions are projected to reach R35.6 billion in 2014/15.

**Table 5.4 Loan redemptions, 2010/11 – 2014/15**

R million	2010/11	2011/12		2012/13	2013/14	2014/15
	Outcome	Budget	Revised	Medium-term estimates		
<b>Domestic loans</b>	<b>13 536</b>	<b>15 033</b>	<b>15 475</b>	<b>31 369</b>	<b>20 701</b>	<b>28 018</b>
<b>Foreign loans</b>	<b>2 782</b>	<b>3 160</b>	<b>3 464</b>	<b>11 710</b>	<b>14 179</b>	<b>7 625</b>
Principal	2 439	2 998	2 982	14 030	13 530	6 940
Revaluation <sup>1</sup>	343	162	482	-2 320	649	685
<b>Total</b>	<b>16 318</b>	<b>18 193</b>	<b>18 939</b>	<b>43 079</b>	<b>34 880</b>	<b>35 643</b>
<i>Excludes switch auctions:</i>						
Domestic	–	–	–	–	15 000	34 000
Foreign	–	–	–	–	–	2 438

1. Forward estimates are based on projections of exchange rates

### Domestic short-term loans

Short-term borrowing consists of Treasury bill issuance and borrowing of surplus cash from the broader public sector through the Corporation for Public Deposits. In 2011/12, Treasury bill issuance increased by R20.8 billion to R157 billion. Demand for Treasury bills remained strong, with auctions on average oversubscribed by 2.3 times. Of the total amount of Treasury bills issued, 76 per cent is held by South Africa's commercial banks, and 1 per cent is held by international investors. Over the medium term, Treasury bill net issuance is expected to average R22 billion a year, concentrated in longer-dated maturities.

*Domestic short-term loans increased by R20.8 billion in 2011/12*

**Table 5.5 Treasury bill issuance, 2011/12 – 2012/13**

Maturity	2011/12			2012/13		2011/12	2012/13
	Opening balance	Net change	Closing balance	Net change	Closing balance	Weekly auction estimates	
R million							
91-day	49 725	-1 007	48 718	1 007	49 725	3 825	3 825
182-day	27 950	7 930	35 880	3 510	39 390	1 380	1 515
273-day	34 125	4 095	38 220	5 850	44 070	980	1 130
364-day	24 350	9 810	34 160	11 633	45 793	660	880
<b>Total</b>	<b>136 150</b>	<b>20 828</b>	<b>156 978</b>	<b>22 000</b>	<b>178 978</b>	<b>6 845</b>	<b>7 350</b>

### Domestic long-term loans

Domestic long-term loan issuance amounts to R155.4 billion in 2011/12. Fixed-income bond issuance was concentrated in the longer maturities.

**Table 5.6 Domestic long-term market loan issuance, 2011/12**

As of 31 January 2012	Cash value	Average yield	Outstanding value
R million		%	
<b>Fixed-income<sup>1</sup></b>	<b>92 842</b>	<b>8.31</b>	
R206 (7.5%; 2014)	4	6.96	31 861
R203 (8.25%; 2017)	13 033	7.71	77 241
R204 (8%; 2018)	8 267	8.09	72 975
R207 (7.25%; 2020)	11 565	8.16	86 080
R208 (6.75%; 2021)	15 258	8.29	77 627
R186 (10.5%; 2025/26/27)	11 094	8.47	95 709
R213 (7%; 2031)	10 217	8.78	25 264
R209 (6.25%; 2036)	8 225	8.67	52 067
R214 (6.5%; 2041)	11 046	8.79	23 740
Retail	4 133	7.47	11 517
<b>Inflation-linked<sup>2</sup></b>	<b>32 807</b>	<b>2.51</b>	
R211 (2.5%; 2017)	102	1.29	19 141
R212 (2.75%; 2022)	7 832	2.45	22 723
R210 (2.6%; 2028)	7 546	2.56	27 276
R202 (3.45%; 2033)	17 247	2.53	55 611
Retail	80	1.51	223
<b>Total</b>	<b>125 649</b>		

1. Includes non-competitive auction allocations of R14 billion

2. Outstanding value is revaluated using the relevant reference inflation rate

*Fixed-income bond issuance was concentrated in longer maturities during 2011/12*

Bonds with a maturity of more than 12 years constitute 43.7 per cent of total fixed-income bond issuance. Over the next two years, domestic long-term loan issuance will average R151.2 billion, decreasing to R142.3 billion in 2014/15. It is anticipated that current weekly auction levels in domestic bonds will be broadly maintained in 2012/13.

The non-competitive auctions in domestic fixed-income bonds, which provide primary dealers a 48-hour option of taking up an additional 30 per cent of their allocation at the auction clearing yield, will remain a source of funding.

To create benchmark bonds and smooth the maturity structure, government will introduce five new bonds in 2012/13.

**Table 5.7 New domestic bonds, 2012/13**

Fixed-income		Inflation-linked	
Bond code	Maturity date	Bond code	Maturity date
R2023	28 February 2023	RI2025	31 January 2025
R2048 <sup>1</sup>	28 February 2047	RI2038	31 January 2038
	28 February 2048		31 December 2049
	28 February 2049	RI2050 <sup>1</sup>	31 December 2050
			31 December 2051

1. Bond of which the maturity value is split equally over three years

The two fixed-income bonds will have 11-year and 36-year maturities, and the three inflation-linked bonds will have 13-year, 26-year and 39-year maturities. To improve liquidity and manage refinancing risk, government will re-introduce bonds with the maturity split over three years, similar to the current R157 and R186 benchmark bonds.

Government will continue with its switch auction programme in which short-term bonds are exchanged for longer-dated bonds. Over the past two years, this programme has reduced the maturity value of the R205 bond maturing on 31 March 2012 by R7.5 billion to R270 million and the revalued amount of the R189 bond maturing 31 March 2013 by R30.4 billion to R27.2 billion. Over the medium term, switch auctions to reduce the maturity value of the R206 (7.5 per cent; 2014) and R201 (8.75 per cent; 2014) bonds will be announced and switches (exchanges) in foreign bonds will also be considered.

*Switch auction programme will continue to reduce refinancing risk*

Retail bonds amount to R12.1 billion or 1.1 per cent of total debt. During 2011/12, investments in retail bonds amounted to R4.6 billion, of which R1.3 billion were reinvestments of maturing bonds and capitalised interest. More retail bond products are under consideration.

*Retail bonds worth R12.1 billion account for 1.1 per cent of total debt and aim to increase savings*

### Foreign loans

Despite challenging market conditions, government successfully issued a 30-year US\$750 million bond in March 2011 and a 12-year US\$1.5 billion bond in January 2012. The 30-year bond provides an ultra-long global benchmark for state-owned entities.

Over the medium term, government intends to borrow about US\$3 billion in global markets to maintain benchmarks in major currencies and meet part of its foreign currency commitments. The balance of these commitments will be met from foreign currency bank balances and purchases of foreign currency in the domestic market. To diversify funding options, government is considering entering the sukuk market. Banking institutions have been invited to submit proposals on advisory services for the structuring and issuing of such bonds.

*Global borrowing to maintain benchmarks in major currencies and meet foreign currency commitments*

Drawdowns on the arms procurement loan agreements in 2012/13 amount to R183 million, with final drawdowns of R25 million in 2013/14.

### Cash balances

Table 5.8 shows the projected change in government's cash balances over the medium term. Government's total cash consists of deposits in rands

and in foreign currency held with commercial banks and the Reserve Bank.

**Table 5.8 Change in cash balances, 2011/12 – 2014/15**

R million	2011/12		2012/13	2013/14	2014/15
	Budget	Revised	Medium-term estimates		
<b>Rand currency</b>					
<b>Opening balance</b>	<b>109 053</b>	<b>111 413</b>	<b>129 425</b>	<b>109 060</b>	<b>103 413</b>
Cash utilised for domestic funding	-6 896	18 012	-20 365	-5 647	-1 256
<b>Closing balance</b>	<b>102 157</b>	<b>129 425</b>	<b>109 060</b>	<b>103 413</b>	<b>102 157</b>
<i>Of which:</i>					
Tax and loan accounts	35 000	62 268	41 903	36 256	35 000
Sterilisation deposits	67 157	67 157	67 157	67 157	67 157
<b>Change in cash balance<sup>1</sup></b> (opening less closing balance)	<b>6 896</b>	<b>-18 012</b>	<b>20 365</b>	<b>5 647</b>	<b>1 256</b>
<b>Foreign currency<sup>2</sup></b>					
<b>Opening balance</b>	<b>57 241</b>	<b>62 143</b>	<b>65 287</b>	<b>54 909</b>	<b>54 909</b>
Domestic foreign exchange purchases	22 285	3 444	8 352	13 917	9 034
International borrowing	8 159	13 010	4 218	10 615	7 320
Cash utilised for foreign funding	-15 448	-13 310	-22 948	-24 532	-18 402
<b>Closing balance</b>	<b>72 237</b>	<b>65 287</b>	<b>54 909</b>	<b>54 909</b>	<b>52 861</b>
US\$ equivalent	10 064	8 881	7 624	7 624	7 335
<b>Change in cash balance<sup>1</sup></b> (opening less closing balance)	<b>-14 996</b>	<b>-3 144</b>	<b>10 378</b>	<b>-</b>	<b>2 048</b>
<b>Total change in cash balances<sup>1</sup></b>	<b>-8 100</b>	<b>-21 156</b>	<b>30 743</b>	<b>5 647</b>	<b>3 304</b>
<b>Total closing cash balance</b>	<b>174 394</b>	<b>194 712</b>	<b>163 969</b>	<b>158 322</b>	<b>155 018</b>

1. A negative value indicates an increase in cash balances and a positive value indicates that cash is utilised to finance part of the borrowing requirement

2. Rand values at which foreign currency was purchased or borrowed

The foreign exchange deposits with the Reserve Bank are made from money borrowed in the international markets and from purchases of foreign currency in the local market. It is expected that total foreign currency balances will decrease to US\$7.3 billion over the medium term.

*A portion of cash will be used to finance part of the gross borrowing requirement*

Total cash with the Reserve Bank and commercial banks will reach a high of R194.7 billion in 2011/12, declining to R155 billion in 2014/15 as cash is used to finance part of the gross borrowing requirement.

The losses and profits on the foreign exchange activities of the Reserve Bank are accounted for on the Gold and Foreign Exchange Contingency Reserve Account. The balance on this account is split into transactions with a cash flow and non-cash flow (valuation) impact. Due to a weaker currency, the balance of valuation gains and losses increased to a net R78.3 billion as of 31 December 2011, R59.9 billion higher than a year earlier.

## ■ Debt-service costs

Debt-service costs are influenced by the volume of debt, new borrowing and market variables such as interest, inflation and exchange rates. Table 5.9 summarises trends and projections to 2014/15. Debt-service costs as a percentage of GDP are expected to peak in 2013/14.

**Table 5.9 National government debt-service costs, 2010/11 – 2014/15**

R million	2010/11	2011/12		2012/13	2013/14	2014/15
	Outcome	Budget	Revised	Medium-term estimates		
Domestic	60 812	70 797	70 550	82 563	94 578	103 103
Short-term loans	8 732	9 661	9 826	10 864	13 983	15 569
Long-term loans	52 080	61 136	60 724	71 699	80 595	87 534
Foreign	5 415	5 782	6 095	6 825	6 228	5 936
<b>Total</b>	<b>66 227</b>	<b>76 579</b>	<b>76 645</b>	<b>89 388</b>	<b>100 806</b>	<b>109 039</b>
<i>As percentage of:</i>						
GDP	2.4	2.6	2.6	2.7	2.8	2.7
Expenditure	8.2	9.4	8.6	9.2	9.6	9.6
Revenue	9.9	11.9	10.4	11.2	11.3	10.9

## Government's debt portfolio

### Total loan debt

Net loan debt consists of total domestic and foreign debt, less cash balances. Net loan debt is expected to be R1 trillion by the end of 2011/12, or 33.3 per cent of GDP, increasing to 36 per cent of GDP in 2012/13 and reaching 38.5 per cent of GDP in 2014/15.

**Table 5.10 Total national government debt, 2008/09 – 2014/15**

R billion	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
		Outcome		Estimate	Medium-term estimates		
<b>Domestic debt</b>							
Gross loan debt <sup>1</sup>	529.7	705.5	892.7	1 072.9	1 247.4	1 430.6	1 595.6
Cash balances	-101.3	-106.6	-111.4	-129.4	-109.1	-103.4	-102.2
Net loan debt <sup>2</sup>	428.4	598.9	781.3	943.5	1 138.3	1 327.2	1 493.4
<b>Foreign debt</b>							
Gross loan debt <sup>1</sup>	97.3	99.5	97.9	129.5	107.5	97.6	99.3
Cash balances <sup>3</sup>	–	-25.3	-60.4	-75.5	-56.4	-54.1	-55.0
Net loan debt <sup>2</sup>	97.3	74.2	37.5	54.0	51.1	43.5	44.3
<b>Total gross loan debt</b>	<b>627.0</b>	<b>805.0</b>	<b>990.6</b>	<b>1 202.4</b>	<b>1 354.9</b>	<b>1 528.2</b>	<b>1 694.9</b>
<b>Total net loan debt</b>	<b>525.7</b>	<b>673.1</b>	<b>818.8</b>	<b>997.5</b>	<b>1 189.4</b>	<b>1 370.7</b>	<b>1 537.7</b>
<i>As percentage of GDP:</i>							
Total gross loan debt	27.2	33.0	36.0	40.1	41.0	42.2	42.4
Total net loan debt	22.8	27.6	29.7	33.3	36.0	37.8	38.5
<i>Foreign debt as percentage of:</i>							
Gross loan debt	15.5	12.4	9.9	10.8	7.9	6.4	5.9
Net loan debt	18.5	11.0	4.6	5.4	4.3	3.2	2.9

1. Forward estimates are based on projections of exchange and inflation rates

2. Net loan debt is calculated with due account of the cash balances of the National Revenue Fund (bank balances of government's accounts with the Reserve Bank and commercial banks)

3. Foreign currency deposits revaluated at forward estimates of exchange rates

### Composition of government loan debt

Table 5.11 presents the maturity distribution of the domestic bond portfolio. The average term-to-maturity of government bonds – the time between when a bond is issued and when it is repaid – is expected to reach 10.9 years in 2011/12. This compares favourably to Germany, Canada, Japan, France, Italy (about six years) and the UK (13 years). The longer the average term-to-maturity, the lower the refinancing risk.

*Bond maturity profile compares favourably with other countries*

**Table 5.11 Maturity distribution of domestic marketable bonds, 2009/10 – 2011/12**

Percentage of total	Portfolio <sup>1</sup>		2011/12 Estimates	
	2009/10	2010/11	Funding <sup>2</sup>	Portfolio <sup>1</sup>
Years				
0 – 3	5.7	11.6	–	13.3
3 – 7	31.5	25.3	16.4	24.6
7 – 10	24.4	18.9	28.2	21.9
10 – 19	29.6	31.3	23.3	24.3
Longer than 19	8.8	12.9	32.1	15.9
<i>Weighted average years to maturity</i>	<i>10.1</i>	<i>10.4</i>	<i>15.3</i>	<i>10.9</i>

1. The total bond portfolio as at the end of the period

2. Bond issuances for the fiscal year

Table 5.12 shows the composition of domestic debt by various funding instruments, which are broadly categorised as bonds and Treasury bills. Treasury bills as a percentage of the total domestic portfolio increased from 12.3 per cent in 2008/09 to 15.9 per cent in 2011/12. The non-fixed rate debt component of the domestic portfolio will increase from 29.6 per cent in 2008/09 to 36.3 per cent in 2011/12. Over time, government will return the debt portfolio to the optimal risk ratio.

**Table 5.12 Composition of domestic debt by instrument, 2008/09 – 2014/15**

End of period	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
R billion	Outcome			Estimate	Medium-term estimates		
<b>Short-term loans</b>	<b>65.0</b>	<b>114.8</b>	<b>149.6</b>	<b>170.4</b>	<b>192.4</b>	<b>214.4</b>	<b>234.4</b>
Shorter than 91-days <sup>1</sup>	–	0.3	13.5	13.5	13.5	13.5	13.5
91-days	37.7	48.2	49.7	48.7	49.7	49.7	49.7
182-days	13.8	24.3	28.0	35.9	39.4	43.2	46.2
273-days	12.9	27.8	34.1	38.2	44.0	50.1	55.6
364-days	0.6	14.2	24.3	34.1	45.8	57.9	69.4
<b>Long-term loans</b>	<b>464.7</b>	<b>590.7</b>	<b>743.1</b>	<b>902.5</b>	<b>1 055.0</b>	<b>1 216.2</b>	<b>1 361.2</b>
Fixed-income	369.0	445.7	553.9	670.3	798.6	907.7	998.9
Inflation-linked <sup>2</sup>	83.9	130.4	170.8	219.0	242.4	293.2	343.2
Retail	1.7	4.6	9.5	12.1	12.9	14.2	18.0
Floating rate	7.8	7.8	7.8	–	–	–	–
Zero coupon	2.1	2.1	1.0	1.0	1.0	1.0	1.0
Other <sup>3</sup>	0.2	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total</b>	<b>529.7</b>	<b>705.5</b>	<b>892.7</b>	<b>1 072.9</b>	<b>1 247.4</b>	<b>1 430.6</b>	<b>1 595.6</b>
<i>As percentage of total domestic debt:</i>							
Short-term loans	12.3	16.3	16.8	15.9	15.4	15.0	14.7
Non-fixed rate debt	29.6	35.9	36.8	36.3	34.9	35.5	36.2

1. Mainly borrowing from the Corporation for Public Deposits

2. Includes revaluation as a result of changes in inflation rates

3. Loan levies, former regional authorities and Namibian debt

The consolidated maturity schedule of total government and state-owned entities' debt as of 31 December 2011 shows that 63.1 per cent of total debt will mature within the next 10 years.

As shown in Table 5.13, non-residents' holdings as a percentage of total domestic government bonds increased to 29.1 per cent in 2011 from 21.8 per cent the previous year.

**Table 5.13 Ownership of domestic government bonds, 2007 – 2011**

Percentage of total	2007	2008	2009	2010	2011
Pension funds	47.2	43.9	39.9	36.5	33.0
Foreign investors	10.6	12.8	13.8	21.8	29.1
Monetary institutions	16.5	18.0	18.3	17.7	16.3
Insurers	11.6	13.7	12.4	14.1	11.6
Other financial institutions	12.2	10.2	13.2	8.1	8.0
Other	1.9	1.4	2.4	1.8	2.0

Source: Share Transactions Totally Electronic Ltd. (STRATE)

## Provisions and contingent liabilities

Projections for provisions and contingent liabilities are shown in Table 5.14. Provisions are liabilities for which the payment date or amount is uncertain.

**Table 5.14 Composition of provisions and contingent liabilities<sup>1</sup>, 2010/11 – 2014/15**

End of period	2010/11	2011/12	2012/13	2013/14	2014/15
R billion	Outcome	Estimate	Medium-term estimates		
<b>Net loan debt</b>	<b>818.8</b>	<b>997.5</b>	<b>1 189.4</b>	<b>1 370.7</b>	<b>1 537.7</b>
<b>Provisions</b>	<b>74.4</b>	<b>94.4</b>	<b>97.2</b>	<b>92.8</b>	<b>94.8</b>
Special drawing rights	0.8	0.8	0.8	0.8	0.8
International Monetary Fund <sup>2</sup>	40.5	40.5	40.5	40.5	40.5
International Bank for Reconstruction and Development <sup>2</sup>	10.4	11.6	12.3	10.8	11.2
Multilateral Investment Guarantee Agency <sup>2</sup>	0.1	0.1	0.1	0.1	0.1
African Development Bank <sup>2</sup>	7.5	25.8	27.3	23.8	24.7
Development Bank of Southern Africa Limited <sup>3</sup>	4.8	4.8	4.8	4.8	4.8
Government employees leave credits	10.3	10.8	11.4	12.0	12.7
<b>Contingent liabilities</b>	<b>288.6</b>	<b>310.8</b>	<b>338.9</b>	<b>352.6</b>	<b>358.9</b>
Guarantees	149.6	170.1	198.6	217.3	228.2
Post-retirement medical assistance	56.0	56.0	56.0	56.0	56.0
Road Accident Fund	47.6	49.2	47.5	44.6	40.7
Government Employees Pension Funds	–	–	–	–	–
Claims against government departments	20.6	20.6	20.6	20.6	20.6
Export Credit Insurance Corporation of SA Limited	9.6	9.6	10.7	8.2	6.9
Unemployment Insurance Fund	3.3	3.4	3.6	4.0	4.6
Other <sup>4</sup>	1.9	1.9	1.9	1.9	1.9
<b>Total</b>	<b>1 181.8</b>	<b>1 402.7</b>	<b>1 625.5</b>	<b>1 816.1</b>	<b>1 991.4</b>
<i>Total as percentage of GDP</i>	<i>42.9</i>	<i>46.8</i>	<i>49.2</i>	<i>50.1</i>	<i>49.8</i>

1. Medium-term forecasts of some figures are not available and are kept constant

2. Represents the unpaid portion of government's subscription to these institutions

3. Represents callable capital provided for in terms of the Development Bank of Southern Africa Act

4. Represents a liability to Reserve Bank in respect of old coinage in circulation and other unconfirmed balances by departments

5. The annual Consolidated Financial Information of National Government contains more information on provisions and contingent liabilities

The National Treasury carefully monitors contingent liabilities and their potential impact on the fiscus. As at 31 March 2012, net loan debt, provisions and contingent liabilities are expected to amount to 46.8 per cent of GDP, and are projected to reach 49.8 per cent of GDP by 2014/15. This remains below the Southern African Development Community's macroeconomic convergence target of 60 per cent of GDP, and compares favourably with many developed countries.

The major public entities that hold guarantees are shown in Table 5.15 with details of guarantee commitments set out in Table 10 of Annexure B. No new guarantees were issued during 2011/12. Fees of R59.8 million were received in 2011/12 on the various guarantees provided.

*No new guarantees were issued to public entities during 2011/12*

**Table 5.15 Guarantee exposure against major state-owned entities and development finance institutions, 2010/11 – 2011/12**

Institution R billion	2010/11		2011/12	
	Guarantee	Exposure	Guarantee	Exposure
<b>Total</b>	<b>470.2</b>	<b>149.6</b>	<b>470.2</b>	<b>170.1</b>
<i>Of which:</i>				
<i>Eskom</i>	350.0	67.1	350.0	86.1
<i>South African National Roads Agency Limited</i>	40.0	18.6	40.0	23.8
<i>Development Bank of Southern Africa</i>	28.3	25.9	28.3	25.9
<i>Trans-Caledon Tunnel Authority</i>	25.4	18.5	25.4	18.5
<i>Transnet</i>	9.5	9.9	9.5	6.9
<i>Land Bank</i>	3.8	1.8	3.8	1.1

## ■ Financing borrowing by state-owned entities

*State-owned entities need to borrow against their balance sheets*

To invest in infrastructure that contributes to long-term economic growth and broader developmental goals, state-owned entities need to borrow against their balance sheets. Government helps these entities to access financing wherever possible, and provides guarantees where necessary.

During 2011/12, government support through the provision of guarantees reduced the state-owned entities' costs of borrowing on the domestic capital markets by an estimated R70 million. Domestic bond issuances by the entities amounted to about R10.3 billion at end-December 2011 (2010/11: R19.8 billion). During this period Eskom and Transnet increased their foreign bond issuances, while demand for SANRAL and Transnet's domestic bond issuances declined.

Government continues to support efforts by state-owned entities to increase their investor base and encourages them to develop cost-effective financing models. In 2011/12, state-owned entities continued to access financing through multilateral development finance institutions such as the African Development Bank (US\$1.3 billion), the World Bank's Clean Technology Fund (US\$350 million) and the Agence Française de Développement (€100 million). Over the medium term, state-owned entities will increasingly fund capital expenditure through higher internally generated cash flows, which are estimated to increase from R88.1 billion in 2012/13 to R145.2 billion in 2015/16.

*Total borrowing by state-owned entities to amount to R76.9 billion in 2012/13*

The National Treasury forecasts that total borrowing by state-owned entities will amount to R76.9 billion in 2012/13, R77.5 billion in 2013/14 and R74.1 billion in 2014/15.

## ■ Development finance institutions

Government ensures that development finance institutions have stable financial capacity and access to a mix of funding sources to deliver on their mandates. As shown in Table 5.16, the 57 per cent growth in their asset base from 2006/07 to 2010/11 supported a 58 per cent increase in developmental loans.

**Table 5.16 Financial position of development finance institutions, 2006/07 – 2010/11**

R billion	2006/07	2007/08	2008/09	2009/10	2010/11
Total assets	119.5	151.0	141.9	161.0	187.9
Total debt	42.2	47.8	48.0	50.7	58.0
Equity	99.5	100.8	91.5	110.7	125.4
Developmental loans	42.4	45.5	52.2	58.5	67.1

Over the medium term, development finance institutions will take advantage of cost-effective funding opportunities, including accessing multilateral funding.

**Table 5.17 Projected major sources of funding for development finance institutions, 2010/11 – 2015/16**

R billion	2010/11	2011/12		2012/13	2013/14	2014/15	2015/16
	Outcome	Budget	Revised				
<b>Domestic loans (gross)</b>	<b>7.6</b>	<b>11.8</b>	<b>8.6</b>	<b>10.5</b>	<b>20.4</b>	<b>19.2</b>	<b>9.5</b>
Short-term	2.9	2.7	2.9	2.1	3.5	3.5	2.0
Long-term	4.7	9.1	5.7	8.4	16.9	15.7	7.5
<b>Foreign loans (gross)</b>	<b>1.3</b>	<b>4.2</b>	<b>6.9</b>	<b>3.4</b>	<b>9.7</b>	<b>9.8</b>	<b>7.7</b>
Long-term	1.3	4.2	6.9	3.4	9.7	9.8	7.7
Of which:							
Multilateral institutions	1.3	4.2	2.4	1.2	0.8	1.0	2.0
<b>Total</b>	<b>8.9</b>	<b>16.0</b>	<b>15.5</b>	<b>13.9</b>	<b>30.1</b>	<b>29.0</b>	<b>17.2</b>
<i>As percentage of total:</i>							
Domestic loans	85.4	73.8	55.5	75.5	67.8	66.2	55.2
Foreign loans	14.6	26.3	44.5	24.5	32.2	33.8	44.8

### *Development Bank of Southern Africa*

As an infrastructure bank, the Development Bank of Southern Africa (DBSA) will play an important role in plans to expand public-sector infrastructure. Government will strengthen the DBSA's balance sheet in line with the role it is expected to play. The bank will also play a larger role in funding and co-funding regional infrastructure projects, alongside other multilateral organisations, to expand economic opportunities within the Southern African Development Community region. The DBSA plans to commit development loans of R77.4 billion over the next five years.

*DBSA key to implementing government's priority infrastructure investments*

### *Land Bank*

The Land Bank will focus its resources on supporting developing farmers. In 2009/10, government approved a R3.5 billion guarantee that proportionately decreases with any capital appropriated for the Bank. To date, government has recapitalised the Land Bank with R2.5 billion. The remaining R1 billion will be allocated to the Land Bank over the medium term. Government is helping the Land Bank to explore other funding options, including accessing cost-effective funding from multilateral institutions such as the African Development Bank.

### *Housing*

Government will recapitalise the Rural Housing Loan Fund and National Urban Reconstruction and Housing Agency (NURCHA), the two housing development finance institutions, with R51.9 million and R200 million respectively over the medium term. The Fund will focus on incremental lending for housing development in rural areas, while NURCHA will support lending for developing contractors to build low-cost housing.

*Rural Housing Loan Fund and NURCHA are being recapitalised*

*IDC plans to invest R107 billion in industrial development over the next five years*

### ***Industrial Development Corporation***

The Industrial Development Corporation (IDC) plans to invest R107 billion in industrial development over the next five years. Over the medium term, the IDC will fund its investment through funds generated from new borrowings, sale of shares, loan repayments and profits.

### ***Recommendations of development finance institutions review***

In October 2011, in line with the review's recommendation on rationalisation, Cabinet endorsed the merger of Khula, the South African Micro Finance Apex Fund and the IDC's small business activities. This step supports the policy objectives of the New Growth Path and efforts to grow small business. In addition, government is considering rationalising the National Housing Finance Corporation, NURCHA and Rural Housing Loan Fund.

## **■ Conclusion**

Government's debt management strategies will remain focused on financing borrowing at the lowest possible cost. Debt stock will increase in line with budget deficits and then stabilise in the outer years. The fiscal stance will ensure long-term sustainability of the public finances. Government will continue to support state-owned entities and development finance institutions, enabling them to increase their support for infrastructure development, growth and jobs.

# 6

## Social security and national health insurance

### ■ Overview

The global economic crisis has affected living standards and employment levels in many countries, but in different ways. Where social security and labour policies are effective and well aligned, the loss of jobs and incomes has been more moderate, and economic recovery more rapid. Well-designed systems contribute to both income security and economic resilience.

*Well-designed social security and labour policies contribute to income security and economic resilience*

South Africa confronts severe inequality and high unemployment, and seeks to improve both its social security system and the effectiveness of labour market institutions. 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.

Employment is the most effective route out of poverty, and boosting long-term job creation remains an overriding objective of economic policy. Over the short term, government provides temporary work through the expanded public works programme and related initiatives. Public employment services help work seekers to find jobs or training. Further education and skills development programmes are intended to bolster higher employment and productivity. But job creation has to be complemented by a well-designed social insurance framework, both as protection against unemployment and income vulnerability, and as part of the broader social wage.

*Boosting long-term job creation remains an overriding objective of economic policy*

The Constitution recognises that everyone has the right to fair labour practices, and to have access to health care services and social security.

Financing arrangements and the scope of statutory protection are central to the realisation of these rights. Reforming social security and health care, and the way these are financed, presents an opportunity to improve the scope and fairness of social expenditure.

Although there are many variants around the world, social security arrangements are typically built on three main pillars:

- A statutory framework for social insurance and earnings-related pensions, funded through mandatory contributions
- Regulation and encouragement of supplementary retirement savings and voluntary insurance
- Direct state assistance for those whose basic income security is at risk.

*Proposed reforms to social security to be published for public consultation during 2012*

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

*First steps to phase in national health insurance over the medium term*

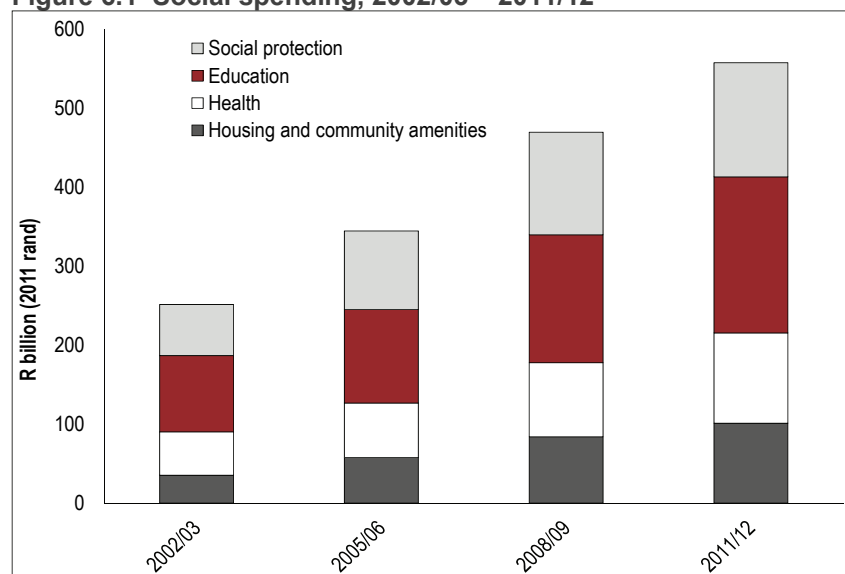
Over the medium-term expenditure framework (MTEF) period, government will take the first steps to implement national health insurance. As in the envisaged design of social security arrangements, the principle of social solidarity lies at the heart of health reforms: national health insurance coverage will extend to everyone, while its funding will be distributed on the basis of ability to pay.

## ■ Social security and labour policies

### Composition of the social wage

Figure 6.1 shows how expenditure on social services, which is targeted at low-income households, has doubled in real terms over the past decade. Social spending now comprises 57 per cent of total government expenditure, compared with 49 per cent a decade ago.

**Figure 6.1 Social spending, 2002/03 – 2011/12**



Over the long term, government spending on social services has to complement rising employment, productivity and real wage improvements, alongside a broader contributory social security and health financing framework. These reforms need to be managed in a way that maintains long-term fiscal sustainability.

### **Social security and the European crisis**

Two important lessons for social security design emerge from post-2008 Europe.

The first is that social security arrangements can help employers and employees adjust to an economic downturn, avoiding retrenchment, business closures and unemployment. Germany and the Netherlands undertook social security and labour market reforms prior to the 2008/09 recession that focused on flexibility in work-hours and the wage structure. These reforms helped to limit the impact of the recession on employment, for example, through subsidies to employers who kept workers in part-time employment.

In several countries, the response to the recession also included a marked increase in supplementary welfare support or subsidies to people employed in temporary or low-wage jobs. Through such measures, the Netherlands has kept unemployment below 5 per cent despite faltering economic growth. Flexible labour contracts and wage negotiations that take explicit account of economic circumstances have allowed companies to retain workers. A plan launched in 2009 focuses on enhancing job-placement services and providing apprenticeships and training schemes for young workers. By contrast, in several other countries, rigid wage structures have contributed to steep job losses and business failures.

The second lesson is that the hidden costs of unfunded social security systems can contribute to fiscal and financial instability. The difficulties of Greece, Italy and Spain arise not only from high levels of debt and unsustainable budget deficits, but also from unfunded pension commitments, and the challenge of reducing benefits or raising retirement ages to compensate for higher life expectancy and declining revenue. Many social security systems in Europe have an adverse effect on labour supply because they provide strong incentives for workers to retire at a relatively young age, even though they are still able to work. Reduced labour force participation threatens the solvency of unfunded social security arrangements.

### **Active labour market policies**

Active labour market policies help people find work and accelerate job creation. Labour activation policies include training programmes that enhance skills; incentive schemes that provide subsidies to employers, employees, entrepreneurs and new firms; public works programmes; and job-search and job-matching services. Because labour activation programmes are expensive, and demonstrate varying results, they need to be well designed and customised to meet national and local circumstances. South Africa has a range of labour activation policies:

- Training programmes have focused on expanding learnerships and apprenticeships to fast-track skills development through qualifications.
- The national skills accord reflects a commitment to increase the number of artisans, interns and apprentices, increase firms' spending on training to between 3 and 5 per cent of payroll, and strengthen the performance of further education and training colleges.
- Employment services are provided by both the public and private sector and help to create a more efficient labour market. The Department of Labour offers job-search and job-matching services at 125 labour centres across the country.
- Expanded public works programmes provide mainly short-term jobs. While progress of participants into formal employment is uneven, the programme delivers valuable income support and on-the-job learning. In rural areas, the community work programme, which provides participants with two days of work a week, has proved to be popular and cost-effective, and will expand rapidly over the period ahead.

*South Africa's labour activation policies include training and skills programmes, job services and public employment*

- In 2010 the National Treasury proposed a youth employment incentive to reduce the initial cost of hiring young and inexperienced workers, and encourage firms to expand hiring. Organised labour has expressed concern that the proposal would lead to the displacement of older workers, the distortion of wage bargaining and the subsidisation of employer profits. The proposal continues to be debated in the National Economic Development and Labour Council as part of a multi-pronged strategy for youth employment.

*National Planning Commission has proposed a placement subsidy to support matric graduates*

The National Planning Commission's proposed national development plan recommends several policies to improve labour market efficiency and speed up job creation. These include a placement subsidy to get matric graduates into work, staff retention schemes that offer short-time work during periods of low demand, and a more open approach to skilled immigration to boost the supply of high-skilled workers in the short term.

## ■ Social security and retirement reform

Government's proposed social security reforms are intended to establish a fair and sustainable system that provides adequate protection for all South Africans, while continuing to encourage supplementary savings and risk protection by those with higher incomes and/or diverse needs.

*A mandatory statutory fund would provide pensions, life insurance and disability benefits*

The main proposal is to establish a mandatory statutory fund to provide pensions, life insurance and disability benefits. In the absence of such a fund, a large number of occupational and voluntary schemes have been established, but many workers – primarily low-income earners – are inadequately protected. The proposed national social security fund will be based on the principle of social solidarity: risk will be shared across the workforce and the state will stand behind the fund.

### Savings and reform of the retirement landscape

Too few South Africans receive an adequate income in retirement. Many are unable to put enough money aside for their future or do not have access to appropriate savings vehicles. The introduction of mandatory contributions to a public pension fund will address some of these issues. The structure of the retirement industry itself, however, contributes to retirees' low income-replacement rates. There are four principal concerns:

- **Inadequate lifetime savings:** Many households maintain unsustainable consumption levels, and do not save enough to provide for economic shocks and post-retirement needs.
- **Low levels of preservation and portability:** Workers often withdraw their retirement savings when they change jobs rather than moving their accumulated funds to a new employer or preservation fund.
- **High fees and charges:** Pension, provident and retirement annuity funds impose fees and administrative charges on their members' savings. In some cases, these fees are excessive and substantially reduce the value of member benefits.
- **Low levels of annuitisation:** At retirement, members of provident funds seldom convert the lump sum they receive into an annuity. As a result, they risk outliving their savings. Annuities, which pay a guaranteed monthly income until death, are the best way of mitigating this risk, but certain products incur high up-front costs or management fees, and do not offer value for money to workers who do not expect to live long after retirement.

Alongside reform of the social security system, government seeks to encourage higher voluntary savings and improved retirement provision. Proposed reforms include mandatory preservation and portability, harmonisation of the tax treatment of contributions to retirement funds, reform of the annuities market and better incentives for saving. There will be consultation with trade unions, industry and other interested parties during 2012.

Over time, government proposes to introduce several other reforms:

- Means test thresholds for social assistance will be raised and grant values aligned with personal income tax rebates, increasing support for low-income households and streamlining grant system administration.
- There will be an institutional consolidation across current social security arrangements, enabling coherent policy-making, administrative efficiency, and effective regulation and oversight.
- Higher-income earners will be encouraged to contribute to approved supplementary pension and insurance plans, in addition to their national social security fund contributions.
- The health-related benefits provided by the Compensation Funds and the Road Accident Fund (RAF) will be aligned with national health insurance funding arrangements as the latter is implemented over time.

## ■ National health insurance

Government's green paper on national health insurance, released in 2011, sets out the principles and direction of proposed reforms. Within this framework, a wide range of technical, operational and financial aspects require further elaboration. Recognising the cost and complexity of these plans, the green paper proposes a 14-year transition over three phases. The first five years will focus on strengthening the public sector in preparation for the new system.

*First five years of national health insurance will focus on strengthening the public health system*

### Financing health care

Table 6.1 shows that South Africa spent about R258.4 billion (8.6 per cent of GDP) on health services in 2011/12, split about equally between public and private expenditure. Provincial health departments are the largest public providers of health services. Private health spending is largely paid or reimbursed by medical schemes.

Over the medium term, general taxes will remain the primary financing mechanism for the public health system and national health insurance pilot projects. Over the longer term, new sources of financing will be required to fill the funding gap associated with improved access to more comprehensive health services. Funding options could include a payroll tax (payable by both employees and employers), a higher value-added tax (VAT) rate or a surcharge on taxable income, or some combination of these.

It is expected that an additional revenue source will be needed in 2014/15 amounting to about R6 billion in that year, which is not currently provided for in the MTEF. Longer-term financing requirements will depend on the progress of institutional reforms and health service delivery capacity, and cannot yet be reliably determined. Preliminary modelling suggests that full implementation of national health insurance by 2025 may require public health financing to rise from about 4 per cent of GDP at present to 6 per cent. Alongside options for increased tax revenue, the role of user charges is also being investigated. A discussion paper on revenue options will be released later this year, together with a review of associated transition issues, including the role of medical schemes.

*Financing requirement will depend on progress of institutional reforms and health service delivery capacity*

**Table 6.1 Health expenditure in public and private sectors, 2008/09 – 2013/14**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Annual real change 2008/09 – 2013/14
<b>R million</b>							
<b>Public sector</b>							
Department of health <sup>1</sup>	1 436	1 645	1 736	1 784	1 864	1 961	0.9%
Provincial departments health	75 120	88 593	98 066	110 014	119 003	126 831	5.3%
Defence	2 177	2 483	2 770	2 961	3 201	3 377	3.6%
Correctional services	282	300	318	339	356	374	0.4%
Local government (own revenue)	1 793	1 829	1 865	1 977	2 096	2 221	-1.0%
Workmens' compensation	1 415	1 529	1 651	1 718	1 804	1 894	0.5%
Road Accident Fund	797	740	860	980	1 029	1 080	0.8%
Education	2 134	2 350	2 503	2 653	2 812	2 981	1.4%
<b>Total public sector health</b>	<b>85 154</b>	<b>99 469</b>	<b>109 769</b>	<b>122 426</b>	<b>132 165</b>	<b>140 719</b>	<b>4.9%</b>
<b>Private sector</b>							
Medical scheme	74 089	84 863	90 973	98 069	105 718	113 964	3.4%
Out-of-pocket	15 429	16 200	17 172	18 202	19 294	20 452	0.3%
Medical insurance	2 452	2 660	2 870	3 094	3 336	3 596	2.4%
Employer private	1 172	1 271	1 372	1 479	1 594	1 718	2.4%
<b>Total private sector health</b>	<b>93 142</b>	<b>104 994</b>	<b>112 387</b>	<b>120 844</b>	<b>129 942</b>	<b>139 730</b>	<b>2.9%</b>
Donors or NGOs	5 212	6 319	5 787	5 308	5 574	5 853	-2.9%
<b>Total</b>	<b>183 508</b>	<b>210 782</b>	<b>227 943</b>	<b>248 578</b>	<b>267 681</b>	<b>286 302</b>	<b>3.7%</b>
Total as % of GDP	8.0%	8.6%	8.3%	8.3%	8.1%	7.9%	
Public as % of GDP	3.7%	4.1%	4.0%	4.1%	4.0%	3.9%	
Public as % of total government expenditure (non-interest)	13.0%	13.0%	13.6%	13.7%	13.6%	13.4%	
Private financing as % of total	50.8%	49.8%	49.3%	48.6%	48.5%	48.8%	
Public sector real rand per capita 10/11 prices	2 300	2 512	2 635	2 812	2 812	2 816	
Public per family of four per month real 10/11 prices	767	837	878	922	937	939	

1. Includes selected public entities

## Pooling

*Transition to comprehensive health insurance involves a consolidation of funding pools and broadening of coverage*

Pooling refers to the financing arrangements through which health services can be pre-funded and risks shared. There are several broad models internationally. The UK, Australia and Canada have single-payer arrangements, although purchasing and provision networks are typically geographically decentralised. Countries using multi-payer systems with some form of risk equalisation between funds include Germany, the Netherlands, Japan and South Korea. The transition to an integrated comprehensive health insurance system typically takes several decades, involving a progressive consolidation of funding pools and broadening of health service coverage.

The national health insurance green paper favours a single-payer option to maximise purchasing power and promote equity. The green paper suggests that a new public fund be established towards the end of the first five-year phase; its capacity would be built up within the department before being launched as a separate public entity.

At present, there are about 100 private medical schemes in South Africa. Government sponsors several medical schemes for public service employees and contributes to medical plans for retired civil servants. Still to be considered is the future role and possible consolidation of these funds within the national health insurance framework. The green paper envisages a supplementary role for medical schemes in future, but the details of this transition and its financial implications will need to be carefully planned.

## Purchasing

In a health insurance system, there is a separation between payment for and provision of services. At present, in the public sector, these functions are not separated, whereas in an insurance arrangement, the fund pays for services rendered by hospitals or doctors, but does not own or employ them. The separation of these functions is complex and will require reorganisation of public health services and financial management.

*The new system will separate two functions: payment for and provision of services*

In the early years, public purchasing authorities will contract primarily with public providers, but over the long term more private providers will become involved. Because strengthening primary health care will be a focus of national health insurance during the first five-year phase, district health authorities will be the main purchasers of primary care services. The benefit package will initially resemble the package of services provided by a typical set of public health facilities. Other benefits may be added, over time, based on specific clinical, health and economic evaluations.

*Benefits will initially mirror the package of services provided by a typical set of public health facilities*

The gradual separation of the purchasing and provision functions within the public sector will be accompanied by new models of contracting and reimbursement. The purchasing arm will develop volume, price and quality-level agreements with public hospitals. Drawing on international experience in such systems, new forms of reimbursement will be introduced that will match hospital workload with funding levels, for example. Various models of capitation – in which service providers are paid a set fee per patient – will be piloted at the primary care level.

### Piloting national health insurance

In 2012/13, pilot sites will be established in selected districts to begin laying the foundations of national health insurance – improved facilities, skilled managers and re-engineering of primary health care. A new conditional grant for these pilot projects is established in the 2012 Budget, with allocations amounting to R150 million, R350 million and R500 million over the MTEF period. The pilot projects will provide practical lessons on the new models for primary care services, including:

- Municipal ward-based primary health care. There will be a greater role for doctors and community health workers in disease prevention.
- District-based clinical specialist support teams. Integrated teams of specialists (obstetricians, gynaecologists, family physicians, anaesthetists, midwives and nurses) will provide clinical services at this level. In particular, pregnant women and women who have recently given birth, as well as children, are expected to benefit from the greater involvement of specialists at primary level.
- School-based primary health care. Professional nurses will be responsible for immunisation, curative services and health promotion in schools.

The *national health insurance conditional grant* will serve as an interim funding mechanism. It is likely to last about five years until a permanent funding stream for the new system is established.

*A need to level the playing field for public and private health service providers*

## Provision

Internationally, consumers of national health insurance services exercise choice between service providers, within a common funding framework. This requires a level playing field between public and private providers for standards, reimbursement and tax treatment. At present, the organisation and cost structure of public and private health services in South Africa differ markedly. This limits the scope and affordability for national health insurance contracting with private providers in the early years, and underlines the importance of investing in public health facilities.

*Five public hospitals to be strengthened in public-private partnerships over the MTEF period*

Strengthening public hospitals is a key component of national health insurance. Five hospitals will be prioritised in the first phase of a public-private partnership programme for improving health facilities: Chris Hani Baragwanath, George Mukhari Hospital, Limpopo Academic Hospital, King Edward VIII Hospital and Nelson Mandela Academic Hospital. Part of the *hospital revitalisation grant* has been allocated to these projects over the MTEF period. Implementation will begin once feasibility studies have been completed and plans approved.

As national health insurance progresses, the public sector will need to recruit more doctors and nurses, and expand contracting with selected general practitioners. Similar arrangements, for example with private pharmacies or for trauma services, will be phased in over time.

The establishment of the Office of Standards Compliance will improve monitoring and raise standards across all health facilities. The office, currently functioning in the Department of Health, is expected to be established as an independent public entity in 2012/13.

## ■ Social assistance

*Nearly 15.3 million people now benefit directly from social grants*

The social assistance programme is government's most direct means of combating poverty. At the end of 2011, nearly 15.3 million people were eligible for social grants, up from 2.5 million in 1998. Although grants are targeted to assist potentially vulnerable members of society – the young, the old and the disabled – more than half of all households benefit from social assistance.

### Social grants

*Child support is the largest grant by number of beneficiaries*

The social grant system has been expanded in recent years by extending the *child support grant* to a child's 18<sup>th</sup> birthday, while the age at which men are eligible for the *old age grant* has been reduced from 65 to 60. A higher *old age grant* for those over 75 was introduced in 2011, and the means test threshold for the *old age grant* and *disability grant* was increased significantly in the same year.

In 2012/13, R104.9 billion is allocated to social assistance, rising to R122 billion in 2014/15. The number of grant recipients is set to rise from 15.6 million in 2011/12 to 16.8 million in 2014/15.

Table 6.2 shows the cost-of-living adjustments for grants in 2012/13. The *old age*, *war veterans*, *disability*, and *care dependency* grants will increase by R60 in line with inflation. The *foster care grant* will increase by R30.

**Table 6.2 Social grants values, 2011/12 and 2012/13**

Rand	2011/12	2012/13	Increase
State old age grant	1 140	1 200	60
State old age grant, over 75s	1 160	1 220	60
War veterans grant	1 160	1 220	60
Disability grant	1 140	1 200	60
Foster care grant	740	770	30
Care dependency grant	1 140	1 200	60
Child support grant <sup>1</sup>	265	280	15

1. R265 average value for 2011/12

### Social assistance beneficiary and expenditure trends

Table 6.3 shows the growth in grant recipients by grant type and province since 2008/09. Table 6.4 sets out grant expenditure since 2008/09 and spending forecasts over the MTEF period.

**Table 6.3 Social grants beneficiary numbers by type and province, 2008/09 – 2014/15**

	2008/09	2009/10 Actual	2010/11	2011/12 Revised estimate	2012/13	2013/14 Projected	2014/15	% Growth per year
<b>Thousands</b>								
<b>Type of grant</b>								
Old age	2 344	2 490	2 647	2 724	2 773	2 835	2 881	3.5%
War veterans	2	1	1	1	1	1	1	-10.9%
Disability	1 372	1 299	1 212	1 216	1 192	1 196	1 196	-2.3%
Foster care	476	489	490	598	671	769	874	10.7%
Care dependency	107	119	121	126	131	141	147	5.4%
Child support	8 765	9 381	10 154	10 903	11 301	11 549	11 659	4.9%
<b>Total</b>	<b>13 066</b>	<b>13 779</b>	<b>14 625</b>	<b>15 568</b>	<b>16 069</b>	<b>16 491</b>	<b>16 758</b>	<b>4.2%</b>
<b>Province</b>								
Eastern Cape	2 347	2 416	2 544	2 677	2 827	2 904	2 955	3.9%
Free State	766	806	869	934	957	979	991	4.4%
Gauteng	1 538	1 702	1 815	1 955	2 093	2 147	2 181	6.0%
KwaZulu-Natal	3 315	3 456	3 633	3 838	3 963	4 076	4 151	3.8%
Limpopo	1 894	1 974	2 100	2 167	2 221	2 280	2 317	3.4%
Mpumalanga	978	1 009	1 069	1 202	1 232	1 264	1 283	4.6%
Northern Cape	327	348	373	414	426	436	442	5.2%
North West	1 015	1 071	1 103	1 154	1 095	1 124	1 143	2.0%
Western Cape	886	997	1 119	1 227	1 255	1 281	1 295	6.5%
<b>Total</b>	<b>13 066</b>	<b>13 779</b>	<b>14 625</b>	<b>15 568</b>	<b>16 069</b>	<b>16 491</b>	<b>16 758</b>	<b>4.2%</b>

1. Projected numbers at fiscal year end

Source: Provincial budgets and expenditure review / Socpen system

- Average annual growth in the number of grant recipients was 6 per cent over the four years to 2011/12. The number of beneficiaries is projected to increase at an average rate of 2.5 per cent a year over the medium term.
- Social assistance expenditure increased at an average annual rate of 11 per cent between 2008/09 and 2011/12, and is projected to increase by 8 per cent per year over the MTEF period.

- In 2011/12 the *child support grant* was the largest programme by number of beneficiaries (almost 11 million) and the *old age grant* was the largest by expenditure (R37.3 billion).
- Almost 600 000 caregivers receive *care dependency* or *foster care* grants. The number of *foster care* beneficiaries grew at an annual rate of 7.9 per cent between 2008/09 and 2011/12, and is projected to grow at an annual average of 13.5 per cent over the next three years as a result of the growing number of orphans associated with the impact of Aids.
- More than 2.7 million people receive the *old age grant*.
- There has been an 11.4 per cent reduction in the number of *disability grant* beneficiaries between 2008/09 and 2011/12, largely as a result of an improved assessment process.

**Table 6.4 Social grants expenditure by type and province, 2008/09 – 2014/15**

	2008/09	2009/10 Actual	2010/11	2011/12 Revised estimate	2012/13	2013/14 Projected	2014/15	% Growth per year
<b>R million</b>								
Old age	25 934	29 826	33 751	37 318	39 323	42 526	45 823	10.0%
War veterans	20	17	14	12	13	10	11	-9.8%
Disability	16 474	16 567	16 840	17 834	19 152	20 410	21 992	4.9%
Foster care	3 934	4 434	4 616	5 245	5 952	6 216	6 697	9.3%
Care dependency	1 292	1 434	1 586	1 948	1 857	2 107	2 270	9.9%
Child support	22 348	26 670	30 342	34 036	38 237	41 553	44 774	12.3%
Grant-in-aid	90	146	170	192	188	203	219	15.9%
Social relief of distress	623	165	174	118	165	183	197	-17.5%
<b>Total</b>	<b>70 715</b>	<b>79 260</b>	<b>87 493</b>	<b>96 703</b>	<b>104 888</b>	<b>113 208</b>	<b>121 982</b>	<b>9.5%</b>
<b>Province</b>								
Eastern Cape	12 557	13 914	15 281	16 761	18 119	19 556	21 073	
Free State	4 573	5 055	5 530	6 234	6 698	7 229	7 790	
Gauteng	8 289	9 390	10 539	11 871	13 030	14 063	15 153	
KwaZulu-Natal	17 590	19 454	21 308	23 507	25 301	27 307	29 424	
Limpopo	9 656	10 855	11 986	12 318	14 111	15 231	16 410	
Mpumalanga	4 943	5 567	6 024	7 431	7 558	8 157	8 790	
Northern Cape	5 711	2 227	2 497	2 816	3 021	3 260	3 514	
North West	1 962	6 366	6 869	7 241	7 851	8 474	9 131	
Western Cape	5 434	6 432	7 460	8 524	9 199	9 930	10 698	
<b>Total</b>	<b>70 715</b>	<b>79 260</b>	<b>87 493</b>	<b>96 703</b>	<b>104 888</b>	<b>113 208</b>	<b>121 982</b>	

Source: Socpen system

### South African Social Security Agency

The South African Social Security Agency (SASSA) administers the social assistance system. Progress has been made in turning around its financial position: in 2010/11 SASSA posted a surplus of R463 million, bringing down the accumulated deficit to R137 million. The remaining deficit is likely to be cleared by the end of 2011/12.

Despite rapid growth in the number of beneficiaries in recent years, spending on social grants will decline as a percentage of GDP from 3.5 per cent in 2011/12 to 3.2 per cent over the MTEF (see Table 6.5). This is because there are no major grant increases planned over the medium term and because economic growth is expected to outpace growth in the number of recipients.

*Spending on social grants will decline as a percentage of GDP over the medium term as no new increases are planned*

SASSA has reduced the average turnaround time for new grant applications to nine days and is working to bring down the cost of grant payments. It is encouraging beneficiaries to open bank accounts: at present 40 per cent of beneficiaries access their grants at banks or the post office at a much lower cost than if they were to receive a cash payment. A new tender has been awarded for cash payments that will sharply reduce the unit cost per payment.

As a result of these measures, SASSA's administrative costs are expected to decline from 6.1 per cent of grant expenditure to 5.4 per cent over the next three years. Steps are also being taken to strengthen social grants administration. An Inspectorate of Social Security has been set up to improve oversight of grant payments, and plans are under way to automate the application process.

*An inspectorate has been set up to improve oversight of social grant payments*

**Table 6.5 Social grant trends as a percentage of GDP**

	2008/09	2009/10 Actual	2010/11	2011/12 Revised estimate	2012/13	2013/14 Projected	2014/15
<b>R million</b>							
Grants	70 715	79 260	87 493	96 703	104 888	113 208	121 982
Administration	4 700	5 254	5 768	6 238	6 309	6 645	6 994
<b>Total</b>	<b>75 415</b>	<b>84 514</b>	<b>93 261</b>	<b>102 941</b>	<b>111 197</b>	<b>119 853</b>	<b>128 976</b>
<i>Administration as % of total</i>	6.2%	6.2%	6.2%	6.1%	5.7%	5.5%	5.4%
GDP (R billion)	2 304	2 440	2 754	2 996	3 301	3 622	3 997
<i>Total as % of GDP</i>	3.3%	3.5%	3.4%	3.4%	3.4%	3.3%	3.2%

1. Administration includes SASSA, payment contractors and appeals tribunal

## Social welfare

The Department of Social Development and provincial departments work with non-governmental organisations on a range of social welfare initiatives. Major projects include the early childhood development programme, the victim empowerment programme and Isibindi, a community scheme to help poor children.

The early childhood development subsidy will increase in 2013/14. Additional funding has been made available to raise the number of beneficiaries from 500 000 to 580 000, to improve facilities and to provide learning materials. Additional early childhood development centres will be established, salaries for practitioners will be improved and more stringent monitoring of programmes established.

*Early childhood development subsidy to be increased, supporting an increase to 580 000 beneficiaries*

Under the Isibindi programme, some 10 000 unemployed people will be trained to become child and youth care workers. They will help orphans and vulnerable children in their homes and schools, and with health and general government services. The programme will benefit an estimated 858 000 children, particularly in rural communities.

## ■ Social security funds

Social insurance funds provide benefits under specific circumstances:

- The Unemployment Insurance Fund (UIF) provides short-term unemployment insurance to qualifying workers.
- The funds established under the Compensation Fund for Occupational Injuries and Diseases Act, and the Occupational Diseases in Mines and Works Act, pay medical care and income benefits to workers who suffer a disability or illness related to their employment.
- The RAF provides compensation for losses incurred due to injuries caused by the wrongful or negligent driving of another vehicle.

The financial position of these funds is reflected in Table 6.6.

**Table 6.6 Social security funds, 2008/09 – 2014/15**

R million	2008/09	2009/10 Outcome	2010/11	2011/12 Revised estimate	2012/13	2013/14	2014/15 Medium-term estimates
<b>Unemployment Insurance Fund</b>							
Revenue	13 691	14 199	14 865	15 769	17 028	18 120	19 196
Expenditure	4 636	6 581	6 435	8 159	9 166	10 040	11 029
<b>Compensation Funds</b>							
Revenue	6 860	7 334	6 950	7 224	7 785	8 374	9 025
Expenditure	3 451	3 893	4 065	3 175	3 470	3 612	3 764
<b>Road Accident Fund</b>							
Revenue	11 865	11 785	14 293	15 733	17 662	19 695	21 798
Expenditure	11 966	12 221	13 810	13 883	16 748	18 991	21 026
<b>Total: Social security funds</b>							
Tax revenue	23 288	26 956	29 602	32 104	35 180	38 310	41 599
Non-tax revenue	6 619	6 353	6 494	6 583	7 279	7 860	8 399
Grants received	2 509	10	12	39	17	19	20
<b>Total revenue</b>	<b>32 416</b>	<b>33 319</b>	<b>36 108</b>	<b>38 726</b>	<b>42 475</b>	<b>46 189</b>	<b>50 019</b>
<b>Total expenditure</b>	<b>20 054</b>	<b>22 695</b>	<b>24 311</b>	<b>25 216</b>	<b>29 385</b>	<b>32 643</b>	<b>35 818</b>
<b>Budget balance<sup>1</sup></b>	<b>12 362</b>	<b>10 624</b>	<b>11 797</b>	<b>13 510</b>	<b>13 091</b>	<b>13 546</b>	<b>14 201</b>

1. A positive number reflects a surplus and a negative number a deficit

### Unemployment Insurance Fund

*Annual growth in UIF claims is expected to slow over the medium term*

For the first nine months of 2011/12, the number of new claimants for UIF benefits averaged 59 924 a month.

Average monthly benefit payments amounted to about R481 million to 214 556 beneficiaries, compared with 207 646 beneficiary payments a month over the same period in 2010/11. Benefit expenditure increased at an average annual rate of 20.7 per cent between 2008/09 and 2011/12 as a result of the economic downturn. Periods of unemployment have been lasting longer, and there has been an increase in higher-income claimants. Annual growth in claims is expected to slow to about 13 per cent over the medium term.

**Table 6.7 UIF benefits and recipient numbers,  
2008/09 – 2011/12**

	2008/09	2009/10 Outcome	2010/11	2011/12 Revised estimate
<b>Benefits (R million)</b>				
Unemployment	2 834	4 536	4 173	5 244
Illness	212	232	233	473
Maternity/adoption	538	625	659	1 103
Dependant	264	317	317	652
<b>Total paid<sup>1</sup></b>	<b>3 848</b>	<b>5 710</b>	<b>5 382</b>	<b>7 472</b>
<b>Beneficiaries (thousand)</b>				
Unemployment	475	629	582	640
Illness	26	25	29	31
Maternity/adoption	94	105	108	119
Dependant	16	22	20	22
<b>Total beneficiaries</b>	<b>611</b>	<b>781</b>	<b>739</b>	<b>812</b>

1. Numbers are recorded on an accrual basis, excluding provisions

The UIF also supports initiatives to boost employment. In 2009, the fund invested R1.2 billion in the training layoff scheme to protect workers at risk of retrenchment. By the end of December 2011, the scheme had assisted 17 companies and 4 221 workers. The UIF also supported the Industrial Development Corporation's issuance of bonds to stimulate industrial employment and has sponsored training programmes.

### Compensation Fund

The Compensation Fund is administered by the Department of Labour. It derives its revenue from levies paid by employers on the basis of the annual earnings of their employees. The fund registered 215 493 claims during 2010/11, of which 144 081 were finalised. The remaining 33 per cent are claims where the medical condition of the employee has not yet stabilised, and will only be assessed in the next financial year. Fewer payments were made in 2010/11 (329 091 compared with 340 159 in 2009/10), but the rand value of claims was 4 per cent higher at R802 million. Over the past few years, the Compensation Fund has shortened turnaround time for benefit claims.

*Compensation Fund has shortened turnaround time for benefit claims*

### Compensation for occupational diseases

Government's compensation arrangements continue to be split between several entities. The Compensation Commissioner for Occupational Diseases, administered under the Department of Health, compensates about 3 500 former mine workers for occupational lung disease. The Department of Health is investigating the possibility of outsourcing some of this body's functions to Rand Mutual, which operates the compensation dispensation in the mining industry on behalf of the Compensation Fund.

### Road Accident Fund

The RAF is funded from a dedicated fuel levy collected by the South African Revenue Service. The levy will be increased by 8c to 88c/l on 1 April 2012.

*RAF levy will be increased by 8c to 88c/l*

The RAF's surplus grew to R1.9 billion in 2011/12 due to a fall in the number of claims finalised caused by a delay in implementing a new operating model. As a result, outstanding claims increased by about 35 500 in 2009/10 to 244 652 in 2010/11, equating to a liability of R49 billion in 2011/12. Provision for outstanding claims will be reduced over the MTEF period as the fund's processing capacity increases, and as the provisions of the RAF Amendment Act (2005) come into effect. The act limits liability for certain types of claims and places a cap on compensation.

*Legislation for no-fault insurance plan is being prepared for public consultation*

It is expected that the Road Accident Benefit Scheme, which will operate on a no-fault basis, will eliminate the need for legal costs associated with claims, and accelerate processing and payment. The policy was approved by Cabinet in 2011 and the legislation is being finalised for public consultation. The scheme will shift the focus towards health care and be more closely aligned with other social security arrangements.

## Conclusion

*Proposals complement initiatives to support job creation and economic participation over long term*

Government is committed to a major restructuring of South Africa's social protection arrangements that will eliminate gaps in coverage, improve service delivery and roll out national health insurance. These reforms give expression to the principle of social solidarity: all South Africans will benefit from new arrangements and risk will be shared.

Social security and health financing reforms are also key elements in improving the social wage – improved access to social insurance enhances workplace earnings and contributes to fairer labour standards on affordable terms. Better social protection complements initiatives to support job creation and economic participation, which provide a sustainable route to reducing poverty and inequality.

# 7

## Infrastructure

### ■ Overview

South Africa's investment in infrastructure gained momentum in the years leading up to the 2010 soccer World Cup, and is set to expand as the foundation of a national growth and development strategy. The country's electricity, water, transport and telecommunications networks are being extended, education and health capacity is being expanded, and human settlements are being built and upgraded to strengthen the fabric of communities.

*Investments in electricity, water, transport, telecommunications and housing*

Over the medium-term expenditure framework (MTEF) period, budgeted and approved public-sector projects total R844.5 billion. As announced in the State of the Nation Address, the Presidential Infrastructure Coordinating Commission will give new impetus to the planning and implementation of major capital projects, described in Chapter 1, raising the level of investment spending and contributing to industrial and regional development.

All public-sector infrastructure projects will be subject to rigorous assessment to determine their feasibility. Not all of the R3.2 trillion of infrastructure projects under consideration (see Table 7.1) will be approved for implementation. Government will choose the most cost-effective projects that provide optimal long-term benefits.

*All projects will be subject to rigorous assessment, and not all will be funded*

Major infrastructure projects can take more than a decade to implement. Meeting the complex challenges of a diverse and geographically dispersed set of capital projects requires long-term planning, detailed analysis, and continual learning and adaptation. Government acknowledges that public-sector capacity to implement projects is presently inadequate, and is taking steps to strengthen planning and implementation capacity at all levels.

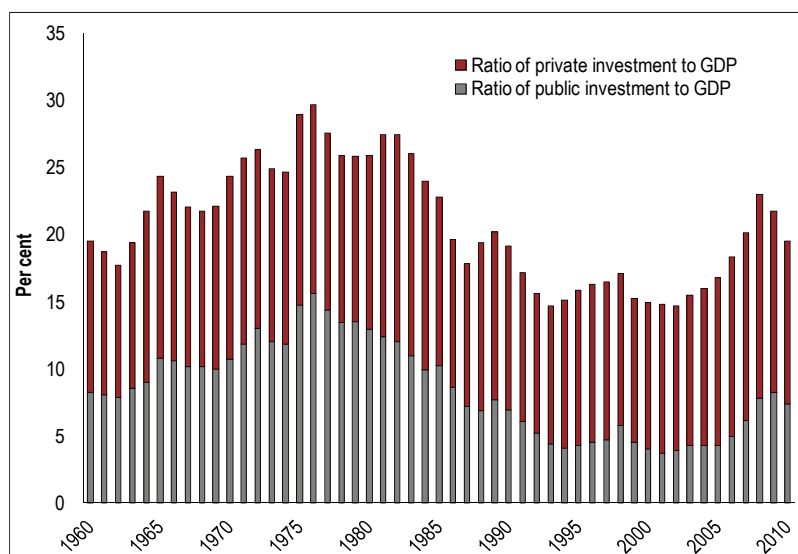
*Coordinating the infrastructure matrix requires improved planning and project assessment*

*Sharp rise in capital investment began in the mid-1990s*

### Reversing a pattern of underinvestment

South Africa's critical infrastructure needs are in part the outcome of two decades of underinvestment. As shown in Figure 7.1, public infrastructure spending tailed off from the early 1980s. From the mid-1990s, government began to increase capital spending, with a sharp rise after 2003 as prudent management of the economy created the fiscal space for long-term investment. Private-sector capital formation has also increased strongly, rising by 84 per cent between 2002 and 2008.

**Figure 7.1 Public and private-sector capital investment, 1962 – 2010**



Source: Reserve Bank

*In 2010, public-sector capital investment was 7.4 per cent of GDP and private investment was 12.2 per cent of GDP*

The experience of other developing countries shows that capital investment equivalent to about 25 per cent of GDP is generally needed for a substantial rise in per capita income. In recent years, government has sought to accelerate public infrastructure spending, while also encouraging greater private-sector investment. South Africa's public-sector capital investment stood at 7.4 per cent of GDP in 2010, while investment by private enterprises amounted to 12.2 per cent of GDP.

Table 7.1 summarises the sectoral breakdown of the estimated R3.2 trillion worth of large-scale projects currently under consideration or in progress. Of this total, about a quarter are being financed and implemented, and the remaining three-quarters are under assessment.

*A need for thorough assessments of project feasibility*

Expanding the range of capital projects under way will depend on thorough feasibility assessments, improved regulatory and oversight processes, and enhanced planning and implementation capacity.

This chapter reviews major developments in key infrastructure sectors. It discusses how government plans to overcome hurdles in managing the infrastructure pipeline and financing capital projects in a sustainable way.

**Table 7.1 Mega-projects under consideration, 2012 – 2020**

R billion	Project stage								Total
	Concept	Pre-feasibility	Feasibility	Financing	Detailed design	Tender	Construction	Ongoing programmes <sup>1</sup>	
Water	20	–	–	32	–	5	18	–	74
Transport	310	–	78	17	12	88	8	71	583
Electricity	720	268	314	–	95	103	345	101	1 945
Liquid fuels	–	–	211	–	2	–	–	–	213
Education	20	–	–	40	–	–	–	125	185
Health	–	–	50	29	–	–	–	31	110
Telecommunication	12	–	–	–	–	–	3	–	15
Human settlement	–	–	–	78	–	–	–	–	78
<b>Total</b>	<b>1 082</b>	<b>268</b>	<b>653</b>	<b>195</b>	<b>109</b>	<b>195</b>	<b>374</b>	<b>328</b>	<b>3 204</b>
% total expenditure	33.8%	8.4%	20.4%	6.1%	3.4%	6.1%	11.7%	10.2%	100.0%

1. Ongoing programmes include multiple projects at different stages of development, such as universal access to electricity and school building programme

## Sector review

### Electricity

South Africa's programme to increase electricity generation capacity is well under way. Eskom's two large coal-fired plants – Medupi and Kusile – are under construction and expected to start operating in 2013 and 2014, with full electricity generation expected by 2017 and 2018 respectively. The Ingula pumped storage scheme is on track to assist with peak capacity supply from 2014. Several mothballed plants have been returned to service and most of their units are operational.

*Medupi and Kusile are under construction and expected to start operating in 2013 and 2014*

### Switching on renewable energy capacity

Renewable energy features strongly in South Africa's long-term energy plans. The Integrated Resource Plan sets an ambitious target of providing 21 per cent or 18.9GW of generation capacity from renewable sources by 2030.

It is envisaged that 9.2GW will be generated from wind, 8.4GW from photovoltaic sources (solar panels) and 1.2GW from concentrated solar power that use mirrors and lenses to concentrate the sun's rays. Other technologies, such as biogas and small hydroelectric installations, are included in the mix.

Strengthening renewable energy involves developing local supply chains, diversifying supply and helping meet the environmental goals set out in the *National Climate Change Response Paper* adopted in 2011. Several other renewable energy projects complement these efforts:

- Government's renewable energy independent power producer programme aims to procure 3 725MW of renewable energy by 2016. In late 2011, 28 bidders were selected to produce 1 415MW of renewable energy, mostly from wind and solar power. There will be a separate bidding process to encourage smaller producers (<5MW) and to test innovative technologies not included under the main programme.
- Eskom plans to build a 100MW concentrated solar power plant.
- Government is exploring the feasibility of a large solar park of between 1 000MW and 5 000MW in the Northern Cape to accommodate independent power producers.

**Table 7.2 Major infrastructure projects**

<b>Project name/ Implementing agent</b>	<b>Total project cost R billion</b>	<b>Project objective and completion target date</b>	<b>Status</b>
<b>Energy</b>			
Kusile power station (Eskom)	121.0	Build 4 800MW coal-fired power station, first unit commissioned by 2014	Under construction
Medupi power station (Eskom)	99.0	Build 4 788MW coal-fired power station, first unit commissioned by 2013	Under construction
Grootvlei (Eskom)	7.8	Return to service of 1 180MW power station, scheduled completion in 2012	Civil works complete, commissioning in progress
Komati (Eskom)	12.9	Return to service of 1 000MW power station, scheduled for completion in 2012	Civil works complete, commissioning in progress
Ingula pump-storage scheme (Eskom)	21.4	Build 1 332MW hydroelectric power station to begin operating in 2014	Dam constructed, pipe installation in progress
Renewable energy (independent power producers)	120.0	3 725MW of renewable energy procured into national grid by 2016	Tender process under way, 1 415MW of bids in first procurement round confirmed
Open-cycle gas turbine (independent power producers)	15.4	Build 1 000MW power plant, scheduled completion in 2021	Tendering process undertaken
Distribution backlog (Eskom and municipalities)	27.5	Refurbishment and new distribution network	Ongoing programme
New transmission lines (Eskom)	95.0	Upgrade and new transmission lines over 5 years	Work in progress
<b>Transport</b>			
Passenger railways (PRASA)	80.0	Acquire a new fleet of rolling stock over 20 years	Procurement has commenced
National road improvements (SANRAL)	45.4	Maintenance improvements, refurbishment and new roads	Ongoing programme
Rolling stock and locomotives for freight rail (Transnet)	7.7	Acquire rolling stock and locomotives for general freight rail	Procurement under way
Provincial road improvements (Provincial Department of Roads)	25.5	Maintenance, refurbishment and new roads over next 3 years	Work in progress
Ngqura container terminal (Transnet)	7.9	Improve port capacity by 800 000 units, first phase completed in 2012	Port complete, dredging of 2 berths and construction of port rail line in progress
<b>Water</b>			
Lesotho Highlands water project phase II (TCTA)	7.5	Generation of hydroelectric power and development of water transfer scheme	Recent decision to proceed with financing options being developed
Komati (TCTA)	1.7	Construction of a water pipeline in Mpumalanga to be completed in 2012	Design complete, construction commenced
Mokolo-Crocodile water augmentation project (TCTA)	15.0	Phase 1 to deliver water in 2014	Financing phase II in progress
Olifants River water resource development project (TCTA)	16.1	Construction of a dam and bulk distribution to be completed in 2016	Dam construction nearing completion; bulk distribution design negotiations in progress
Sedibeng regional sanitation scheme (Sedibeng district municipality, Midvaal and Emfuleni local municipalities)	5.0	Increasing capacity of wastewater treatment system	Appointment of service provider in progress
<b>Housing</b>			
Cornubia housing development (Housing Development Agency and eThekweni)	5.1	Construction of 19 313 mixed-income, mixed-density houses, to be completed in 2016/17	80 ha of land will be made available for sale during 2012
<b>Telecommunications</b>			
Digital terrestrial television (Sentech)	0.8	Start analogue terrestrial network by December 2013	Signal testing phase recently completed
National wireless broadband network (Infracore)	1.0	Acquire additional broadband capacity	Cables are being laid

**Table 7.3 Major infrastructure projects in concept, pre-feasibility and feasibility stages**

Project name/ Implementing agent	Total project cost R billion	Project objective and completion target date	Status
<b>Energy</b>			
Nuclear fleet build (Eskom)	300.0	Generation of 9 600MW scheduled for completion by 2029	Final stages of consideration before financial proposal can be determined
Grand Inga (Government of the Democratic Republic of Congo)	200.0	First phases of hydroelectricity project of 40 000MW	South Africa assessing support options
Imported hydroelectricity options (Eskom)	52.2	Hydroelectric, gas and coal projects in Southern African countries	Options of off-take agreements and financial support for projects being considered
Solar park (Central Energy Fund)	200.0	Build 5GW scale solar park in the Northern Cape	Feasibility study to be completed in 2012
Closed cycle gas turbine (Independent Power Producers)	13.6	Construction of 2 450MW of additional gas turbines by 2029	Option under the Integrated Resource Plan
Coal Three (Eskom)	111.0	Build third coal-fired power plant	Feasibility aspects being considered
<b>Transport</b>			
Moloto rail (Transnet)	10.0	Construction of 140km line from Pretoria to Siyabuswa	Feasibility study under way
Manganese rail and terminal (Transnet)	18.0	Upgrade rail, port and terminal capacity for manganese export	Feasibility study under way
Iron-ore line (Transnet)	13.0	Expand Sishen-Saldanha iron ore railway line	Feasibility studies completed
Coal line (Transnet)	37.0	Upgrade of the coal line from Mpumalanga to Richards Bay to 80mt over 10 years	Feasibility studies completed
High speed rail (Department of Transport)	300.0	Build a passenger or freight line between Durban and Johannesburg	Concept
<b>Water</b>			
Mzimvubu water resources development (Department of Water Affairs)	20.0	Build dam for hydroelectricity and agricultural irrigation scheme	Feasibility studies to be undertaken
<b>Liquid fuels</b>			
Oil and gas exploration on the west coast (Central Energy Fund)	11.0	Exploration of commercially recoverable oil and gas volumes	Feasibility studies under way
Project Mthombo (PetroSA)	200.0	Build 360 000bpd crude oil refinery at Coega and supporting infrastructure	Feasibility studies under way for smaller-sized refinery
<b>Education</b>			
Mpumalanga University (Mpumalanga Province)	10.0	A new university	Funding committed to project development
Northern Cape University (Northern Cape Province)	10.0	A new university	Funding committed to project development
<b>Hospitals</b>			
Limpopo Academic Hospital (Limpopo Department of Health)	6.0	Develop academic hospital	Feasibility studies in progress
Nelson Mandela Hospital (Eastern Cape Department of Health)	6.0	Upgrade and rehabilitation of hospital	Feasibility studies in progress
Chris Hani Baragwanath Hospital (Gauteng Department of Health)	6.0	Upgrade and rehabilitation of hospital	Feasibility studies in progress
Dr George Mukhari Hospital (Gauteng Department of Health)	6.0	Upgrade and rehabilitation of hospital	Feasibility studies in progress
King Edward VIII Hospital (KZN Department of Health )	6.0	Upgrade and rehabilitation of hospital	Feasibility studies in progress

To complement these efforts and introduce competition into the electricity generation sector, government has launched a 3 725MW renewable energy procurement programme, with the first round of over 1 415MW of mainly wind and solar projects successfully tendered to independent power producers in late 2011. Also under consideration is a nuclear power programme to generate 9 600MW of electricity.

*Until the new plants are operating, electricity supply will remain tight*

In combination, these initiatives will enable the country to meet long-term demand. Until the new plants are up and running, however, electricity supply will remain tight. While this has implications for industry growth in the short term, there are benefits in the adaptations that are taking place to promote greater energy efficiency, use of renewable energy and co-generation at industrial plants. Eskom is also working to manage demand through initiatives such as solar water geysers, pumped-water hydroelectric systems and consumer awareness campaigns.

*Investment in transmission and distribution required*

To ensure that electricity can reach businesses and households, simultaneous investments in transmission and distribution are also needed. Eskom plans to upgrade existing transmission systems and build new ones, taking into account growth in demand from current and potential customers, spatial development patterns and changes in the economy. Large investments are needed to build, refurbish and maintain distribution networks, and the Department of Energy is working with Eskom and municipalities to ensure these meet the country's needs.

#### **Setting tariff levels**

*Tariffs need to reflect costs and be affordable for households and businesses*

Delivering on electricity projects has involved expanding the range of technologies and the number of producers contributing to the national grid – and this requires additional regulatory, technical, financial and project management capacity. In addition, tariff levels need to reflect the price of electricity so that the industry is sustainable and new investment can take place to meet growth in demand. Tariffs must also be affordable for homes and businesses – with particular sensitivity to low-income households. While price increases for electricity are necessary, they should go hand in hand with improved efficiencies and accountability by suppliers, reliable billing and revenue collection services, and increased cost transparency.

#### **Liquid fuels**

Liquid fuel powers most of South Africa's transport and has a range of industrial uses. To ensure that supply is available to customers when and where they need it, logistical systems need to be reviewed and upgraded at regular intervals, taking into account shifts in population growth, spatial development, demand for different grades of fuel, changing transport patterns and regional trends.

*First phase of Transnet's R23.4 billion multiproduct pipeline has recently been completed*

Public-sector investments in this sector are focused on logistics infrastructure. Phase 1 of Transnet's R23.4 billion new multiproduct pipeline has recently been completed and commissioned. The pipeline will increase capacity to meet inland demand and moderate road congestion by reducing the number of fuel tankers traveling between

Durban and Johannesburg. Port infrastructure is also being upgraded to handle more fuel shipments, both inland and around the coast. An amount of R300 million has been invested in widening and deepening the Durban harbour entrance, and upgrading the berths.

Additional investment is needed for oil refineries to adapt production processes to meet cleaner fuel standards. The national oil producer, PetroSA, is investigating further exploitation of gas fields off the coast to provide feedstock for the gas-to-liquids Mossel Bay Refinery. This would prolong the facility's useful lifespan and help diversify the country's energy sources.

Monitoring of demand trends, and the oil and gas industry's production and import capacity, is important to ensure predictable supply. South Africa's reliance on imports of refined fuel and recent shortages of bitumen (a key ingredient in road building) underline the importance of coordinated investment and logistical arrangements in the sector. Government will need to work closely with industry to ensure alignment of supply and demand.

*Monitoring of demand trends, and production and import capacity, is important to ensure predictable supply of hydrocarbon fuels*

### **Water and sanitation**

South Africa is a "water-stressed" country: not only does it have a limited amount of available water resources, but there is also insufficient capacity and quality of the infrastructure required to capture and distribute water to households and industry. Agriculture, mining and electricity generation are all dependent on large-volume water supply.

Government has increased investment in this sector in recent years and plans several large projects over the next two decades. The Trans-Caledon Tunnel Authority, the state-owned entity responsible for project financing and construction, is undertaking large investments. These include the Komati water scheme augmentation projects, which will provide water to Eskom's power stations; phase 2 of the Lesotho Highlands water project, which will augment water supply for domestic and industrial users in Gauteng; and the Olifants River water resources development project, which will provide water for domestic use to semi-urban and rural communities in Limpopo, and will support new mining projects that boost economic development.

*Major water investments benefit households, power stations, mines and industry in several provinces*

Over the MTEF period, R75 billion is allocated to water infrastructure, quality management, resource planning and support to local government. Improved billing, revenue collection and more cost-reflective pricing will support greater capacity for investment in distribution networks and local connections. To this end, the Department of Cooperative Governance will spend R599 million over the medium term to support municipal infrastructure management.

*R75 billion allocated to water infrastructure, quality management, planning and local government support*

On current projections, South Africa's water demand will outstrip available supply between 2025 and 2030. Avoiding this outcome requires better management and adjusted pricing mechanisms to support efficient and sustainable use of water. The Department of Water Affairs plans to review the water pricing strategy in 2013.

*Independent water sector regulator under consideration*

Adequate access is only one part of the equation: water supply must also adhere to quality standards. While 97 per cent of South Africa's drinking water meets minimum standards, only 71 per cent of wastewater is compliant, and the quality of the latter shows some deterioration. To address these issues, government is developing a national water resource management plan, looking at institutional reforms to bolster service providers, and the possible introduction of an independent water sector regulator to set prices at each stage of the value chain. Government has also put aside R433 million for short-term interventions to tackle acid mine drainage contaminating the Gauteng water table. Service providers have been procured to identify financially sustainable institutional models for a long-term solution to this problem.

### **Transport**

*Transport investments account for 27 per cent of public-sector infrastructure budget over MTEF*

Government and state enterprises are expected to allocate funding of R262 billion over the next three years to transport and logistics infrastructure. This includes Transnet's spending on pipelines, and accounts for 27 per cent of the total public-sector infrastructure budget over this period. These investments will improve public transport and the mobility of people and services, overcome spatial inequalities, boost the economic potential of certain regions, and increase domestic and international trade capacity.

Funding these investments will require both support from the fiscus and pricing that better reflects costs. The national and provincial budgets include funding for road construction and maintenance. The fiscus also contributes to the capital costs and subsidises the operations of public transport systems such as Metrorail and bus commuter services. But tax revenue cannot carry the full costs of transport systems. User charges make important contributions both to the fairness and sustainability of transport financing arrangements.

*Major projects in roads, rail, ports and airports*

Major investments in roads, rail, ports and airports over the MTEF period and beyond include the following:

- The South African National Roads Agency (SANRAL), which is responsible for maintaining and expanding the 16 170km national road network, will spend R25 billion on new roads and infrastructure, and R18 billion on maintenance. Recent non-toll projects include construction of the N4 Nelspruit bypass, rehabilitation of sections of the N2 (Eastern Cape, Western Cape and KwaZulu-Natal), upgrading the R300 in the Western Cape, the N8 Bloemfontein airport interchange and N6 upgrades in the Eastern Cape. SANRAL recently completed phase 1 of the Gauteng freeway improvement project (GFIP), which will be funded by a combination of tolls and a contribution from the fiscus (see Chapter 8). Options for phase 2 of the GFIP and other toll projects such as the N1/N2 Winelands upgrade and the N2 Wild Coast highway are being assessed. In addition to SANRAL expenditure, private firms such as N3TC (for the N3 toll road) and Bakwena (N1 and N4 toll roads) maintain the roads under their concessions.

- Provinces will spend a projected R25.5 billion to maintain provincial and rural roads. Funding is also provided to rural municipalities to develop road asset management systems.
- Transnet is planning to invest about R300 billion over the next seven years, of which R107.7 billion is included in approved plans over the MTEF period. These investments focus on the freight rail network, large capacity upgrades on the iron ore and coal export lines, acquiring modern rolling stock and refurbishing existing infrastructure. The increased capacity will boost general freight and mining exports. The Saldanha port's handling capacity will be expanded to accommodate increased iron ore throughput. Investments in the Richards Bay port will increase bulk export and cargo capacity.
- The Passenger Rail Agency of South Africa (PRASA) has begun a long-term project to renew its fleet of rolling stock and upgrade stations nationwide. The cost of the 20-year programme exceeds R80 billion, with a projected R4 billion to be spent over the MTEF period. These investments will improve reliability and safety for the 2.4 million passengers who travel on the network each work day.
- The bus rapid transport systems that began operating in Johannesburg and Cape Town in 2010 continue to be expanded. Nelson Mandela Bay has completed plans for its public transport network and has purchased a fleet of buses; Tshwane, Rustenburg and eThekweni are finalising their operational plans.
- Over the past two years the Airports Company South Africa (ACSA) completed the King Shaka Airport in Durban and carried out major upgrades at OR Tambo in Johannesburg and Cape Town International. These investments have improved South Africa's ability to handle growing numbers of travellers and freight volumes. Projected investments to support other airport upgrades amount to about R2.9 billion over the 2011/12 to 2013/14 period.

### Telecommunications

While progress has been made in expanding access, South Africa is some way from achieving the goal of high-quality, affordable telecommunications accessible to all. Progress in this area, which is crucial for building a modern economy, requires additional investment and improved regulation. Recent investment has focused on upgrading broadband internet, and mobile and land-based telephone infrastructure. Increased competition has begun to lower costs to consumers.

The private sector is the major provider of telecommunications services. Service providers have expanded their land-based and wireless networks, and increased international connections via submarine cables. Broadband capacity has grown and become more affordable, reflected in the growth of internet users from 5.3 million in 2009 to 9.5 million in 2011.

*Recent investment has focused on upgrading broadband internet*

*State investment supports connectivity for large scientific and research projects*

The public sector provides additional investment to accelerate access and service provision. State-owned Infracore has committed over R1 billion in capital investment to support the West Africa Cable System, increase service provision in rural areas, and ensure sufficient connectivity for projects such as the Square Kilometre Array, the South African Large Telescope and the South African National Research Network. Sentech plans to spend R1.3bn over the MTEF period, largely to digitise the television broadcasting network by December 2013.

### **Human settlements**

*As demand for housing increases, higher building and land costs are slowing the pace of delivery*

Providing affordable housing and addressing the spatial disparities of South Africa's urban landscapes are policy priorities. More than 3 million housing units have been delivered since 1994, but there is a remaining backlog estimated at 2.1 million houses. Population growth trends, including continued urban-rural migration patterns, put pressure on cities to adapt and expand infrastructure quickly. Nearly 70 per cent of the housing backlog is in urban areas. While demand is increasing, the pace of delivery has declined, partly due to higher building and land costs.

The persistence of large informal settlements has necessitated a shift towards developing serviced sites, security of tenure and affordable rental housing. To support this outcome, R50.5 billion is allocated for low-income housing and upgrading informal settlements in secondary cities, as well as R27 billion for upgrading informal settlements in large cities over the next three years.

*Over the medium term, accountability for housing will shift from provinces to metropolitan municipalities*

Coordinating the installation of bulk services is a complex matter that requires comprehensive planning and cooperation between national, provincial and local government. This needs to be improved to achieve higher rates of delivery. A shift of accountability for housing from provinces to metropolitan municipalities is in progress, and should be completed over the MTEF period. This will allow for better alignment in the planning and implementation of residential infrastructure and housing projects.

### **Special economic zones**

*Special economic zones intended to promote widespread industrialisation*

The Department of Trade and Industry recently released a draft bill on special economic zones. As part of the economic competitiveness enhancement package, government has allocated R2.3 billion over the MTEF period to support business investment in targeted economic zones. This initiative broadens the present industrial development zone framework, which is limited to regions adjacent to international airports (OR Tambo) or sea ports (Coega, East London and Richards Bay). The special economic zones will promote exports and more widespread industrialisation. The cluster developments are intended to attract manufacturers by providing high-quality infrastructure, incentives and support services, with minimal red tape.

## Improving infrastructure delivery

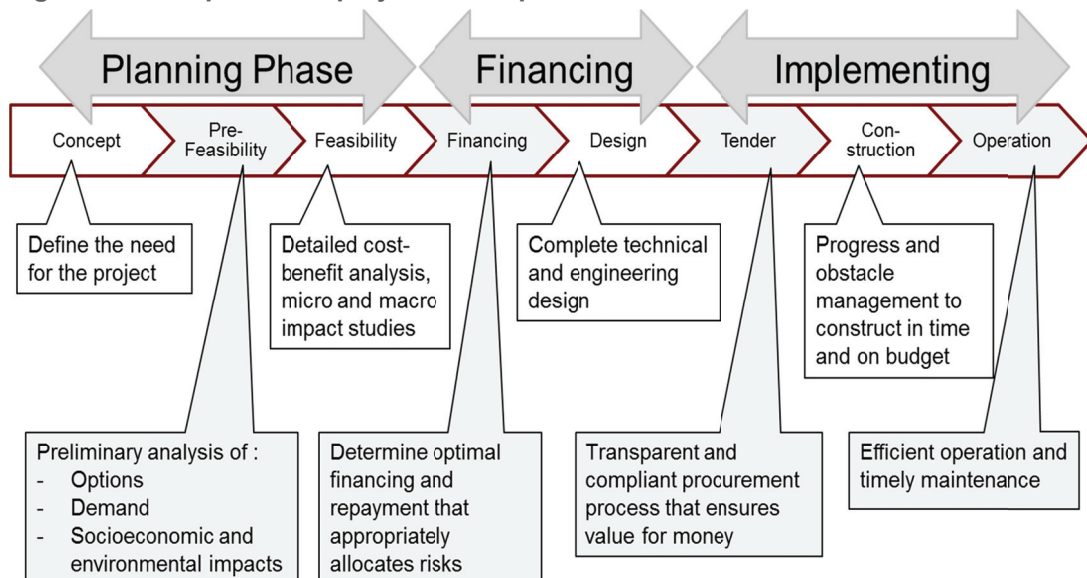
The President's State of the Nation address set out a vision for taking forward a large-scale infrastructure development drive. It outlined a pipeline of projects that are geographically and economically related, and organised into clusters, with sequenced project schedules and prioritised according to their strategic and economic importance.

The record of infrastructure investment to date demonstrates that South Africa can assemble the capacity to implement large, complex projects, yet many public entities struggle to manage their planning responsibilities or spend their capital budgets. Institutional capacity to plan, deliver and maintain infrastructure will be strengthened across the public sector as government accelerates its investments.

*South Africa has the ability to implement large projects, but many public entities struggle with planning and expenditure*

The National Planning Commission has highlighted that better outcomes will be achieved through coordination of integrated development approaches. This would involve a range of interested parties, from business to provincial and local governments.

**Figure 7.2 The phases of project development**



Source: National Treasury

### Planning, assessing and prioritising

Infrastructure projects produce short-term benefits, such as boosting the construction and supplier industries, with an associated increase in employment. The real value of capital projects, however, is in the economic and social development they enable over the long term – including lower business costs, improved access to markets and increased productivity. Every project needs to be assessed on its own merits. Projects that are not properly assessed or planned will not create lasting value for the country.

*Infrastructure projects are designed to meet South Africa's long-term economic and social needs*

Many public-sector infrastructure projects are now in the first phase of planning, which includes verifying the concept, and undertaking pre-feasibility and feasibility studies.

### Appraising infrastructure projects

South Africa needs to make prudent infrastructure investment decisions. Concept proposals will always exceed available resources. To get value for money, project appraisals need to take account of the following:

- **Context** – A project should make a large contribution to support the economy or promote quality of life.
- **Demand** – Investments should prioritise projects that demonstrate strong demand for the service.
- **Viability** – Project benefits must offset investment costs and represent value for money.
- **Funding the cost to society** – The cost-recovery burden needs to be fairly distributed, with allowances made for assistance to low-income households. Users should pay where they benefit, and taxpayers should contribute where benefits extend beyond the users, or when affordability hampers the delivery of basic rights and services.
- **Delivery mechanism** – Capital projects need to be backed by sound institutional arrangements that have an appropriate mandate, proper incentives and the capacity to deliver.

### Capital planning guidelines

The National Treasury publishes capital planning guidelines each year for departments submitting infrastructure proposals. The guidelines are designed to promote efficiency in planning and budgeting, and to ensure that funding is directed to projects that offer maximum social and economic benefits. Large and mega-projects will now be evaluated throughout the year. Appraised projects that are ready for funding can be submitted for consideration of a budget allocation.

**Table 7.4 Public-sector infrastructure expenditure by area of responsibility, 2008/09 – 2010/11**

	2008/09			2009/10			2010/11		
	Budget	Actual	Percentage spent	Budget	Actual	Percentage spent	Budget	Actual	Percentage spent
<b>R million</b>									
National departments	5 408	4 882	90.3%	6 382	5 717	89.6%	5 813	5 799	99.8%
Provincial departments	41 163	34 094	82.8%	41 185	37 280	90.5%	45 649	39 083	85.6%
Local government	46 518	39 577	85.1%	47 785	39 625	82.9%	42 265	30 945	73.2%
Extra-budgetary institutions	7 633	6 194	81.1%	10 859	8 119	74.8%	11 617	8 671	74.6%
Public private partnerships	4 895	4 942	101.0%	13 751	13 832	100.6%	11 974	7 308	61.0%
Non-financial public enterprises	90 192	103 322	114.6%	125 504	99 064	78.9%	143 087	85 992	60.1%
<i>of which</i>									
<i>Transnet</i>	19 965	19 300	96.7%	21 912	18 400	84.0%	22 831	21 500	94.2%
<i>Eskom</i>	47 946	43 632	91.0%	69 395	47 524	68.5%	52 409	44 325	84.6%
<i>CEF</i>	11 260	1 987	17.6%	9 099	1 442	15.8%	11 672	236	2.0%
<i>TCTA</i>	300	651	217.0%	534	290	54.3%	3 955	352	8.9%
<i>ACSA</i>	5 521	5 996	108.6%	4 983	5 241	105.2%	1 255	505	40.2%
<i>Rand Water</i>	880	965	109.7%	1 000	905	90.5%	1 200	1 012	84.3%
<b>Total</b>	<b>195 809</b>	<b>193 011</b>	<b>98.6%</b>	<b>245 466</b>	<b>203 637</b>	<b>83.0%</b>	<b>260 407</b>	<b>177 799</b>	<b>68.3%</b>

### Project implementation: a mixed record

*Public sector lacks sufficient skills in engineering and project management*

The allocation of public resources to infrastructure investment has not always yielded the desired results. As illustrated in Table 7.4, in 2010/11 actual spending was about 68 per cent of budget allocations for government infrastructure projects. This figure, however, masks wide disparities in delivery capacity. Some agencies and municipalities have a strong record of spending implementation; in others, there are serious deficiencies in infrastructure delivery capacity. This reflects the lack of sufficient skills in the public sector, particularly with regard to engineers and project managers.

Cost overruns are a frequent challenge in major infrastructure projects. Examples include the Green Point stadium, Medupi and Kusile,

De Hoop Dam and the Gautrain. Project cost overruns may reflect an inadequate original budget, lack of adequate cost control, project delays or unforeseen extraneous factors.

**Table 7.5 Public-sector infrastructure expenditure and estimates by sector, 2010/11 – 2014/15**

R billion	2010/11 Budget	2010/11 Actual	2011/12	2012/13	2013/14	2014/15	MTEF Total	Percentage of total
<b>Economic services</b>	<b>218.0</b>	<b>147.1</b>	<b>184.0</b>	<b>211.7</b>	<b>228.3</b>	<b>237.1</b>	<b>677.1</b>	<b>80.2%</b>
Energy	102.8	52.2	73.1	91.7	100.2	104.3	296.2	35.1%
Water and sanitation	21.0	14.9	22.0	25.5	24.7	25.0	75.2	8.9%
Transport and logistics	80.5	68.6	75.3	81.2	88.6	92.3	262.0	31.0%
Other economic services <sup>1</sup>	13.7	11.3	13.6	13.3	14.8	15.5	43.6	5.2%
<b>Social services</b>	<b>36.9</b>	<b>25.6</b>	<b>34.9</b>	<b>38.6</b>	<b>48.5</b>	<b>53.1</b>	<b>140.2</b>	<b>16.6%</b>
Health	8.5	6.7	7.7	8.1	13.1	14.8	36.0	4.3%
Education	6.8	6.1	8.1	10.9	14.5	15.3	40.7	4.8%
Community facilities	16.7	11.6	17.5	17.7	18.9	21.0	57.6	6.8%
Other social services <sup>2</sup>	4.9	1.1	1.7	1.9	1.9	2.0	5.9	0.7%
<b>Justice and protection services</b>	<b>3.1</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.7</b>	<b>10.6</b>	<b>1.3%</b>
<b>Central government and administrative services</b>	<b>2.0</b>	<b>1.7</b>	<b>3.8</b>	<b>7.9</b>	<b>3.5</b>	<b>2.8</b>	<b>14.2</b>	<b>1.7%</b>
<b>Financial services</b>	<b>0.1</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.9</b>	<b>2.4</b>	<b>0.3%</b>
<b>Total</b>	<b>260.1</b>	<b>177.8</b>	<b>226.6</b>	<b>262.3</b>	<b>284.6</b>	<b>297.6</b>	<b>844.5</b>	<b>100.0%</b>
% of GDP	9.4%	6.5%	7.6%	7.9%	7.9%	7.4%		

1. Other economic services includes agriculture and environmental infrastructure, telecommunications etc

2. Other social services includes infrastructure such as labour centres, heritage institutions, national libraries, etc

### *Improving infrastructure maintenance*

Maintenance of infrastructure requires considerable improvement. According to the second “infrastructure report card” released in 2011 by the South African Institute of Civil Engineers, some sectors are performing better than others. The report indicated an overall improvement since the 2006 assessment (2011: C-, 2006: D-), which reflects accelerated public investment over the past five years and an improvement in the condition of some assets.

The report points out that municipal infrastructure is deteriorating in many places. Bulk water facilities, particularly in small towns and rural areas, sanitation in many municipalities and provincial and rural roads are particular areas of concern. The report gives high marks to South Africa’s major airports, and points out that national roads are generally in good repair, and freight rail and port infrastructure are satisfactory.

*Report cites a need to improve maintenance, particularly in municipalities*

The report identifies the following as matters of critical importance:

- The severe shortage of skills and the impact this has on planning, procurement, design, construction and maintenance.
- Inadequate funding of maintenance for the existing asset base and new assets that are being developed.
- The practice of not charging true economic costs of infrastructure.

### *Improving project management capacity*

Making use of the project management expertise gained and lessons learnt in preparing for the 2010 soccer World Cup will support

infrastructure development. A key element of the approach was the role of a coordinated structure dedicated to planning and overseeing implementation of interlinked sub-projects. These arrangements ensured that deadlines were met.

*World Cup experience showed importance of project and risk management, cost control, skills and communication*

The following considerations were central to the success of World Cup infrastructure projects:

- Expert conceptual, project management and project execution skills to increase the pace of delivery
- Use of effective management tools to bring discipline to programme oversight, including role and responsibility matrixes, budget and delivery schedules, cash-flow tracking and regular tender reviews
- Pre-emptive risk management to allow early resolution of difficulties
- Tight cost control and ring-fenced accounts to track monetary flows
- Solution-oriented specialists capable of making strategic decisions
- Continuous communication.

### Getting the financing mix right

*Budget emphasises a shift from current to capital expenditure*

As discussed in Chapter 3, the fiscal framework and projected public-sector borrowing requirement take into account rising infrastructure finance requirements, particularly in energy and transport, while maintaining a sustainable outlook for public debt.

### Financing options

There are various ways to finance public infrastructure:

- **Financing from fiscal revenues**, in which construction costs are paid from current or future tax revenues of national or local government. Generally, such financing would be considered for projects that promote redistribution, offer large external benefits to society, address market failures or provide services considered to be constitutional rights in poorer communities, such as education or rural roads.
- **Public entities** finance infrastructure from internal reserves and debt raised in the capital markets. Repayment requires that sufficient revenue can be generated from user charges to cover the capital, operation and maintenance costs. State-owned enterprises and development finance institutions play an important role in expanding the number of projects that can be financed and delivered.
- **Hybrid financing**, in which taxpayer contributions supplement funding for projects implemented by public entities. This is often used to ensure that poor communities have access to essential services normally paid for through user charges. Examples include water infrastructure connections for households that are financed partly on the national budget, with user charges for consumers.
- **Private-sector participation** augments the state's capacity to build and operate infrastructure. Public-private partnerships place the risk and responsibility for infrastructure development with the private sector, while retaining long-term public ownership. The private sector also makes a significant independent contribution to infrastructure funding in telecommunications, airlines, mining, small energy projects and community services, such as hospitals and education institutions.

### Raising finance

Options to raise debt or equity for infrastructure include commercial banks, capital markets and development finance institutions.

The allocations for the MTEF period reflect projects that have been assessed and subsequently approved by accounting officers. These projects will receive budgeted funds.

## Building capacity

As noted from the World Cup experience, the inclusion of experienced engineers, project managers and other delivery experts will help to ensure better planning, assessment and implementation of projects. Training programmes continue to receive significant resources, while leadership programmes, mentoring schemes and opportunities for on-the-job learning are in place to ensure the appropriate acquisition and application of skills.

This is complemented by the following infrastructure-specific capacity building initiatives:

- The infrastructure delivery improvement programme assists national and provincial departments with finance, training and technical assistance in planning, procurement, and project management. The programme team includes the National Treasury, the Development Bank of Southern Africa and the Construction Industry Development Board, supported by 45 technical assistants. Since its inception, R255 million has been spent on the programme, which will spend about a further R98 million a year over the MTEF period. The national and provincial departments of Education, Health, Public Works and provincial treasuries are currently benefitting from the programme. Several of these departments have set up dedicated infrastructure units. Assistance has been provided to the national Department of Education to develop a standardised approach to costing the construction of schools, which facilitates large-scale multiple-school building programmes and contracts.
- The cities support programme, now under consideration, is designed to help cities with governance, spatial planning, public transport systems and environmental management – initially in eight metropolitan cities.
- The municipal infrastructure support agency is being set up by the Department of Cooperative Governance. It will deploy technical experts to assist rural municipalities that lack planning capacity.
- The *infrastructure skills development grant* provides funding to train interns in engineering and spatial planning. Since 2011/12, the grant has paid for 150 graduates at six large municipalities and water boards. The grant will be extended to 43 smaller municipalities over the period ahead. Funding of R281 million is allocated over the medium term, providing for over 1 000 graduates to be trained.
- The neighbourhood development programme aims to assist the development of townships by supporting well-planned capital projects. A cumulative R10 billion grant is committed to over 150 townships. It has more than 220 approved project plans with a value of R4.3 billion, and planned infrastructure spending over the MTEF period of R1.8 billion. Investment focuses on developing economic nodes and corridors, small business facilities, transport and utility infrastructure, parks and community facilities.

*Various government programmes are working to build infrastructure implementation capacity*

*Building rigorous oversight capacity is part of ensuring public accountability*

Building rigorous oversight capacity is critical to ensure that services are being delivered as intended. This will open the way for greater problem-solving to keep projects on track through all stages of the project cycle. It is also required to enforce public accountability among all parties responsible for or involved in service delivery. This will be supported by putting in place more robust operational processes and regulatory functions, bolstering risk management, stiffening penalties and encouraging continued learning from experience.

*Improved planning and management, alongside greater private-sector involvement, will support implementation*

## ■ Conclusion

Government is investing on a large-scale to provide water, transport, electricity, telecommunications, housing and other infrastructure. These investments will remove critical bottlenecks and allow the economy and employment to grow at a more rapid pace; they will facilitate intra-regional and international trade; and they will allow South Africans to enjoy a better quality of life. Improved planning and management of infrastructure projects are critical if these outcomes are to be achieved, alongside accelerated private-sector investment.

# 8

## Medium-term expenditure and division of revenue

### ■ Enhancing growth and service delivery

Government is committed to accelerating the pace of economic expansion and job creation, ensuring that the benefits of growth are shared more equitably and improving the quality of service delivery. The 2012 Budget supports these objectives while encouraging more efficient and effective use of resources over the medium-term expenditure framework (MTEF) period.

*Budget encourages a more efficient and effective use of public resources*

Spending plans focus on developing infrastructure, supporting employment creation and improving local government services. These allocations complement efforts to transform the structure of the economy, broaden participation and reduce inequality. To promote more rapid recovery over the medium term, an economic competitiveness and support package is introduced. This initiative focuses on expanding manufacturing and trade, support for small businesses, investments in network infrastructure and identified special economic zones, and support for innovation and new technology.

South Africa has limited fiscal resources. In the context of an uncertain global outlook, public spending must be carefully managed to ensure maximum developmental impact and sustainable improvements in public services.

*Spending must be managed to ensure improvements in public services*

### Spending trends

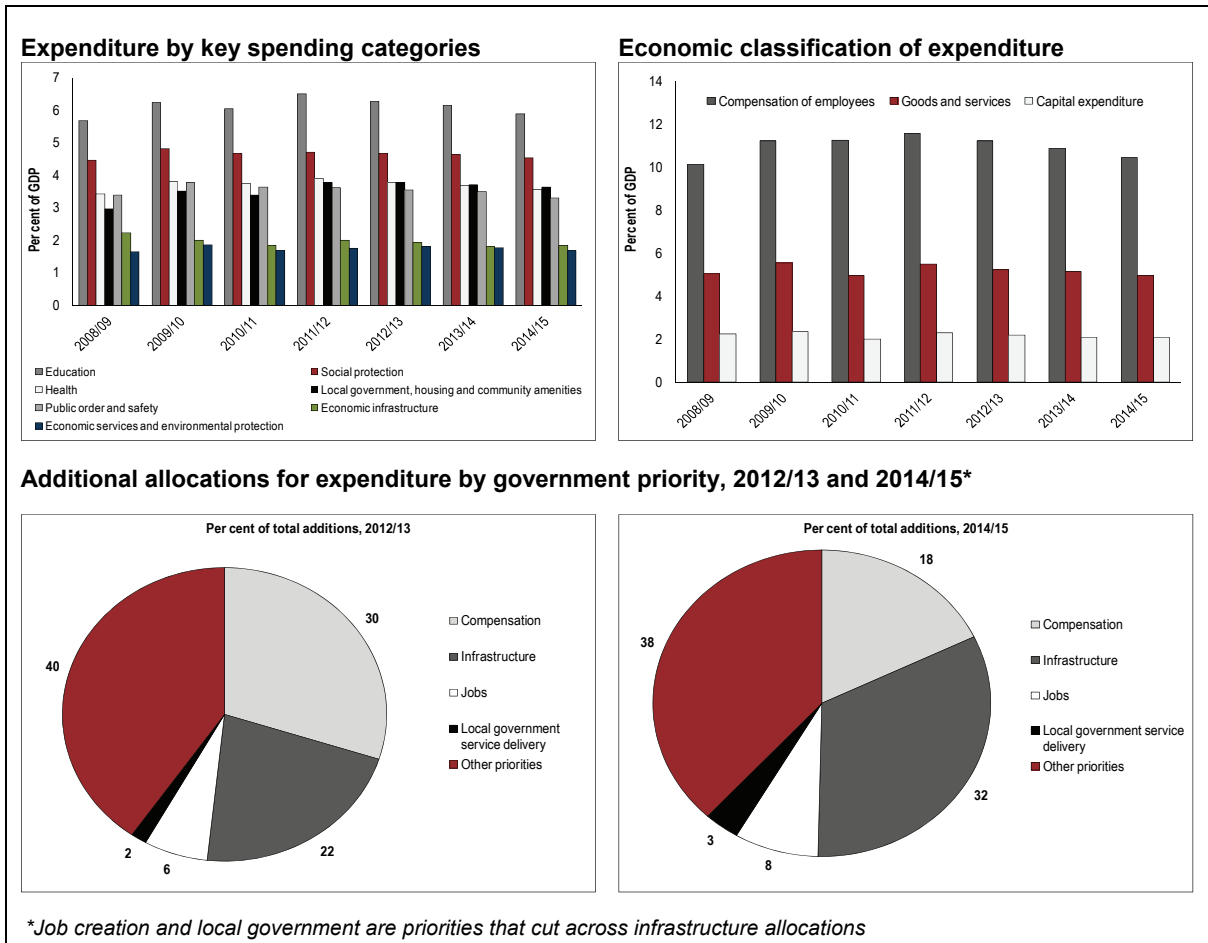
South Africa enjoyed strong economic growth from 2003 to 2008. This enabled government to significantly increase public spending. Since the global downturn began in 2008, economic performance has been weaker and government revenue has lagged behind expenditure growth. Between

2008/09 and 2011/12, government spending as a share of GDP increased from 30.7 per cent to 32.6 per cent.

*Budget balances spending on personnel, goods and services, and capital assets in a manner consistent with developmental objectives*

The 2012 Budget adds R55.9 billion to funds already allocated over the next three years. A balance is sought to ensure that spending on personnel, goods and services, and capital assets is consistent with government’s growth and broad-based development objectives. More moderate growth in the wage bill means that most of the additional resources are allocated to infrastructure, employment-related programmes, local government infrastructure and enhancing economic competitiveness.

**Figure 8.1 Key spending trends, 2008/09 – 2014/15**



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 reprioritised these funds.

## Division of revenue

*Nationally raised funds are apportioned through the division of revenue*

In keeping with the requirements of the Constitution, nationally raised revenue is apportioned between national, provincial and local government in the Division of Revenue Bill. Provinces and municipalities receive equitable shares as a general allocation and conditional grants to achieve specific outputs. Funding is also set aside on national department budgets as allocations in-kind; these are used by national departments to provide

services and infrastructure on behalf of provinces and municipalities. For statutory purposes, in-kind allocations form part of national expenditure.

The Explanatory Memorandum to the Division of Revenue explains the provincial and municipal allocations, and outlines how the division takes into account the recommendations of the Financial and Fiscal Commission. The memorandum is available as Annexure W1 of the *Budget Review* on the National Treasury website ([www.treasury.gov.za](http://www.treasury.gov.za)).

Excluding 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. The 2012 Budget makes available a total of R83 billion above budget baseline, consisting of R55.9 billion in additional non-interest expenditure allocations, R20.2 billion in savings identified on national departments' budgets, R5.4 billion from provincial conditional grants and R1.4 billion from local government conditional grants.

*In aggregate, R83 billion is made available above baseline over MTEF period*

National government receives R31.2 billion, provinces R19.4 billion and local government R5.3 billion of these allocations. Total non-interest spending, including the contingency reserve, grows by 8.5 per cent a year over the period ahead, or about 3.3 per cent in real terms.

In 2011/12, provinces in aggregate received 97.1 per cent of their budgets through transfers from national government. In the 2010/11 municipal financial year, transfers from other spheres accounted for 75 per cent of municipal budgets. Own revenues in the metropolitan municipalities account, on average, for 81 per cent of budgets, but in the poorest municipalities own revenues account for less than half of budgets.

*Own revenues account for 81 per cent of metropolitan municipality budgets*

Table 8.1 summarises the division of revenue for the 2012 Budget, taking account of the revenue-raising capacities and spending responsibilities of each sphere of government.

**Table 8.1 Division of nationally raised revenue, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039
Non-interest expenditure	581 560	690 068	738 914	814 554	879 977	953 024	1 030 539
<i>Percentage increase</i>	19.0%	18.7%	7.1%	10.2%	8.0%	8.3%	8.1%
<b>Total expenditure</b>	<b>635 953</b>	<b>747 197</b>	<b>805 141</b>	<b>891 199</b>	<b>969 365</b>	<b>1 053 830</b>	<b>1 139 579</b>
<i>Percentage increase</i>	17.5%	17.5%	7.8%	10.7%	8.8%	8.7%	8.1%
Contingency reserve	–	–	–	–	5 780	11 854	24 000
<b>Division of available funds</b>							
<b>National departments</b>	<b>289 236</b>	<b>345 366</b>	<b>355 189</b>	<b>383 747</b>	<b>412 368</b>	<b>446 220</b>	<b>478 828</b>
<b>Provinces</b>	<b>246 836</b>	<b>293 164</b>	<b>322 822</b>	<b>362 626</b>	<b>384 487</b>	<b>411 092</b>	<b>437 004</b>
Equitable share	201 796	236 891	265 139	291 736	309 057	328 921	349 351
Conditional grants	45 040	56 273	57 682	70 891	75 430	82 171	87 653
<b>Local government</b>	<b>45 487</b>	<b>51 537</b>	<b>60 904</b>	<b>68 180</b>	<b>77 342</b>	<b>83 858</b>	<b>90 707</b>
Equitable share <sup>1</sup>	25 560	23 845	30 541	32 876	37 873	40 582	43 639
General fuel levy sharing	–	6 800	7 542	8 573	9 040	9 613	10 190
Conditional grants	19 928	20 892	22 821	26 732	30 429	33 663	36 878
<b>Total</b>	<b>581 560</b>	<b>690 068</b>	<b>738 914</b>	<b>814 554</b>	<b>874 197</b>	<b>941 170</b>	<b>1 006 539</b>
<i>Percentage shares</i>							
National departments	49.7%	50.0%	48.1%	47.1%	47.2%	47.4%	47.6%
Provinces	42.4%	42.5%	43.7%	44.5%	44.0%	43.7%	43.4%
Local government	7.8%	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of Regional Services Council (RSC) and Joint Services Board levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant is only allocated to district municipalities.

### Transfers to provinces

Table 8.2 shows the transfers to provinces for 2012 MTEF. After taking account of savings, R19.4 billion is added to the provincial fiscal framework over the next three years, of which R15 billion is added to the equitable share and R4.4 billion to conditional grants.

**Table 8.2 Total transfers to provinces, 2010/11 – 2014/15**

R million	2010/11	2011/12		2012/13	2013/14	2014/15
	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	47 460	53 016	53 815	56 624	60 095	63 347
Free State	20 211	22 497	22 909	24 051	25 410	26 682
Gauteng	58 919	65 094	65 647	70 168	75 618	81 160
KwaZulu-Natal	69 340	76 241	76 921	82 230	88 145	94 286
Limpopo	39 249	43 261	44 044	46 267	48 988	51 645
Mpumalanga	25 288	28 576	29 097	30 495	32 450	34 304
Northern Cape	9 090	10 216	10 681	11 337	11 960	12 605
North West	21 294	23 813	24 257	25 554	27 289	28 938
Western Cape	31 972	34 910	35 255	37 581	40 328	43 178
Unallocated	–	305	–	180	809	858
<b>Total</b>	<b>322 822</b>	<b>357 929</b>	<b>362 626</b>	<b>384 487</b>	<b>411 092</b>	<b>437 004</b>

Additions to the equitable share provide for the carry-through costs of the higher-than-anticipated wage settlement in 2011, the expansion of grade R

in public ordinary schools, the extension of no-fee schools and the standardisation of subsidies paid to early childhood development centres.

Over the MTEF period, an additional R3.5 billion is added to conditional grants in the health sector, including provision for hospital revitalisation, piloting of national health insurance district health services, and the expansion of HIV and Aids prevention and treatment programmes. Conditional grants to provinces by sector are shown in Table 8.3.

The Department of Health is working with the Council for Scientific and Industrial Research and the Development Bank of Southern Africa to strengthen health infrastructure delivery. A detailed audit on the state of health facilities will be concluded in early 2012 and future infrastructure plans will take this data into account.

Funds are reallocated within health conditional grants to create the new *nursing colleges and schools grant*, amounting to R450 million over the three-year spending period to fund the rehabilitation and upgrading of these facilities. The national department will exercise a greater oversight role in the provincial procurement process.

*Funds allocated to rehabilitate and upgrade nursing colleges*

Additions to the *human settlements development grant* of R1 billion over the medium term provide for informal settlements upgrading, increasing the three-year baseline amount for the grant to R50.5 billion.

The *expanded public works programme grants* have been restructured and simplified so that provinces and municipalities are better positioned to create jobs. The in-year calculation of performance and incentive payouts earned under the previous structure of the incentive grants made it difficult for provinces and municipalities to plan for and spend the grant effectively. From 2012/13, provinces and municipalities will be given greater certainty on the size of their allocations and more guidance on how to implement labour-intensive projects. The incentive to create jobs will be preserved by including past performance as a factor in calculating allocations for the grant.

*Expanded public works grants restructured to encourage provinces and municipalities to create jobs*

**Table 8.3 Conditional grants to provinces, 2011/12 – 2014/15**

R million	2011/12 Revised estimate	2012/13	2013/14	2014/15	Total for MTEF
<b>Agriculture, Forestry and Fisheries</b>	<b>1 652</b>	<b>2 066</b>	<b>2 147</b>	<b>2 194</b>	<b>6 407</b>
Comprehensive agricultural support programme <sup>1</sup>	1 189	1 535	1 600	1 665	4 800
Ilima/Letsema projects	405	416	438	461	1 315
Land care programme: Poverty relief and infrastructure development	58	116	109	68	292
<b>Arts and Culture</b>	<b>570</b>	<b>565</b>	<b>598</b>	<b>632</b>	<b>1 794</b>
Community library services	570	565	598	632	1 794
<b>Basic Education</b>	<b>10 737</b>	<b>11 247</b>	<b>11 923</b>	<b>12 321</b>	<b>35 491</b>
Dinaledi schools	70	100	105	111	316
Education infrastructure <sup>1</sup>	5 678	5 822	6 198	6 270	18 290
HIV and Aids (life skills education)	199	209	220	233	661
National school nutrition programme	4 579	4 906	5 179	5 474	15 559
Technical secondary schools recapitalisation	211	209	221	233	664
<b>Cooperative Governance and Traditional Affairs</b>	<b>–</b>	<b>180</b>	<b>190</b>	<b>201</b>	<b>571</b>
Provincial disaster	–	180	190	201	571
<b>Health</b>	<b>23 877</b>	<b>25 692</b>	<b>28 750</b>	<b>31 794</b>	<b>86 235</b>
Comprehensive HIV and Aids	7 398	8 763	10 534	12 211	31 508
Forensic pathology services	590	–	–	–	–
Health infrastructure	1 690	1 621	1 721	1 836	5 179
Health professions training and development	1 977	2 076	2 190	2 322	6 588
Hospital revitalisation	4 172	4 104	4 184	4 556	12 844
National health insurance	–	150	350	500	1 000
National tertiary services	8 049	8 878	9 620	10 168	28 667
Nursing colleges and schools	–	100	150	200	450
<b>Higher Education and Training</b>	<b>4 375</b>	<b>4 757</b>	<b>5 318</b>	<b>5 618</b>	<b>15 693</b>
Further education and training colleges	4 375	4 757	5 318	5 618	15 693
<b>Human Settlements</b>	<b>15 122</b>	<b>15 726</b>	<b>16 984</b>	<b>17 808</b>	<b>50 518</b>
Human settlements development <sup>1</sup>	15 122	15 726	16 984	17 808	50 518
<b>National Treasury</b>	<b>1 090</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Infrastructure grant to provinces	1 090	–	–	–	–
<b>Public Works</b>	<b>2 161</b>	<b>2 429</b>	<b>2 671</b>	<b>2 824</b>	<b>7 924</b>
Devolution of property rate funds	1 803	1 919	2 052	2 168	6 138
Expanded public works programme integrated grant for provinces	157	293	362	383	1 038
Social sector expanded public works programme incentive grant for provinces	200	217	258	273	748
<b>Sport and Recreation South Africa</b>	<b>452</b>	<b>470</b>	<b>498</b>	<b>526</b>	<b>1 493</b>
Mass participation and sport development	452	470	498	526	1 493
<b>Transport</b>	<b>10 856</b>	<b>12 299</b>	<b>13 093</b>	<b>13 736</b>	<b>39 128</b>
Gautrain rapid rail link	5	–	–	–	–
Provincial roads maintenance <sup>1</sup>	6 697	7 982	8 540	8 953	25 475
Public transport operations	4 153	4 317	4 553	4 783	13 652
<b>Total conditional grants</b>	<b>70 891</b>	<b>75 430</b>	<b>82 171</b>	<b>87 653</b>	<b>245 255</b>
<b>Indirect transfers</b>	<b>700</b>	<b>2 315</b>	<b>5 189</b>	<b>5 500</b>	<b>13 004</b>
School infrastructure backlogs	700	2 315	5 189	5 500	13 004

1. Includes funding for disasters

**Transfers to local government**

Table 8.4 sets out the proposed transfers to local government over the three-year period. Direct transfers to local government increase by R5.3 billion over the baseline allocations. Of this, R2.2 billion is added to the equitable share and R3.1 billion to conditional grants. Additions to the equitable share provide for increased support for the institutional costs of poor municipalities and for the anticipated increase in the costs of basic services in the second and third years of the MTEF period.

Providing basic services infrastructure to cater for growing populations while eliminating backlogs is a major challenge for larger cities. Over the next three years, R2.9 billion is added to the *urban settlements development grant* to accelerate the upgrading of informal settlements. This increases the total baseline to R27 billion over the medium term. An additional R600 million has been provided to extend the *electricity demand-side management grant* so that more municipalities can retrofit energy-saving technologies in public lighting and buildings. The *regional bulk infrastructure grant*, which provides bulk water to municipalities, increases by R1.8 billion, bringing the three-year baseline to R8.8 billion.

*Additional support to help cities provide basic infrastructure*

**Improving the performance of government**

National departments are responsible to support and oversee provinces and municipalities, and need the skills and capacity to steer implementation through legislated norms and standards. They also need to balance the tension between supporting institutions and holding them accountable.

Institutional challenges in provinces and municipalities require long-term remedial action. The challenges are manifest in persistent overspending on personnel, which reduces funds for infrastructure and service delivery. New rules aimed at regulating aspects of infrastructure delivery are under consideration to take effect next year. Organisational designs will soon be introduced to prevent appointments being made without budgets and to ensure that the right skills are obtained through appointments. Stronger internal controls should return provinces to sustainable cash positions.

*Steps being taken to improve financial management in provinces and municipalities*

Although the deterioration in municipal finances is slowing, financial management in many municipalities needs attention. Municipalities need to find the right balance between investing in new infrastructure, clearing backlogs and spending on maintenance to avoid disruption of services. Benchmarks for expenditure on asset management and a change of emphasis in some conditional grants will improve the situation in the period ahead. Recent legislative amendments will help distinguish between managerial and political accountability.

**Table 8.4 National transfers to local government, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
<b>Direct transfers</b>							
<b>Equitable share and related</b>	<b>25 560</b>	<b>23 847</b>	<b>30 541</b>	<b>32 876</b>	<b>37 873</b>	<b>40 582</b>	<b>43 639</b>
<b>Fuel levy sharing</b>	<b>–</b>	<b>6 800</b>	<b>7 542</b>	<b>8 573</b>	<b>9 040</b>	<b>9 613</b>	<b>10 190</b>
<b>Infrastructure</b>	<b>18 562</b>	<b>18 759</b>	<b>20 870</b>	<b>24 846</b>	<b>28 029</b>	<b>31 222</b>	<b>34 301</b>
Municipal infrastructure grant	6 986	8 788	9 704	11 444	13 882	14 643	15 764
Urban settlement development grant	3 572	4 418	4 968	6 267	7 392	9 077	10 546
Public transport infrastructure and systems grant	2 920	2 418	3 699	4 803	4 988	5 550	5 871
Integrated national electrification programme grant	589	900	1 033	1 097	1 151	1 315	1 488
Neighbourhood development partnership grant	181	508	832	750	578	598	591
2010 FIFA World Cup stadiums development grant	4 295	1 661	302	–	–	–	–
Rural roads asset management grant	9	13	10	35	37	39	41
Municipal drought relief grant	9	54	320	450	–	–	–
<b>Capacity building and other current transfers</b>	<b>1 366</b>	<b>2 132</b>	<b>1 951</b>	<b>1 886</b>	<b>2 400</b>	<b>2 440</b>	<b>2 577</b>
2010 FIFA World Cup host city operating grant	–	508	210	–	–	–	–
Financial management grant	180	300	365	424	403	425	449
Municipal systems improvements grant	200	200	212	220	230	243	257
Expanded public works programme incentive grant for municipalities	–	100	280	420	599	702	744
Infrastructure skills development grant	–	–	–	–	75	100	106
Water services operating subsidy grant	986	849	664	542	562	421	450
Electricity demand side management grant	–	175	220	280	200	200	200
Municipal disaster grant	–	–	–	–	330	350	371
<b>Sub total direct transfers</b>	<b>45 487</b>	<b>51 537</b>	<b>60 904</b>	<b>68 180</b>	<b>77 342</b>	<b>83 858</b>	<b>90 707</b>
<b>Indirect transfers</b>							
<b>Infrastructure transfers</b>	<b>2 038</b>	<b>2 763</b>	<b>2 682</b>	<b>3 781</b>	<b>4 956</b>	<b>5 348</b>	<b>5 509</b>
Regional bulk infrastructure grant	441	577	851	1 686	2 517	2 922	3 351
Backlogs in the electrification of clinics and schools	90	149	–	–	–	–	–
Backlogs in water and sanitation at clinics and schools	186	350	–	–	–	–	–
Integrated national electrification programme (Eskom) grant	1 241	1 616	1 720	1 738	1 879	1 983	2 099
Neighbourhood development partnership grant	80	70	50	100	80	55	58
Rural households infrastructure grant	–	–	62	258	480	389	–
<b>Capacity-building and other current transfers</b>	<b>380</b>	<b>326</b>	<b>314</b>	<b>247</b>	<b>133</b>	<b>313</b>	<b>328</b>
Financial management grant (DBSA)	50	–	–	–	–	–	–
Electricity demand-side management grant	–	75	109	119	–	–	–
Water services operating subsidy grant	330	251	205	128	133	313	328
<b>Sub total indirect transfers</b>	<b>2 418</b>	<b>3 088</b>	<b>2 996</b>	<b>4 029</b>	<b>5 088</b>	<b>5 661</b>	<b>5 836</b>
<b>Total</b>	<b>47 906</b>	<b>54 626</b>	<b>63 899</b>	<b>72 209</b>	<b>82 430</b>	<b>89 519</b>	<b>96 543</b>

## Expenditure outcome and revised estimate: 2010/11 and 2011/12

Expenditure on national votes (including transfers to provinces and municipalities) amounted to R805.1 billion in 2010/11, out of a total adjusted appropriation of R817.4 billion, or 98.5 per cent of available funds. Provinces spent R330.7 billion against an adjusted budget of R340.1 billion, or 97.2 per cent of their budgets. Municipalities underspent their budgets by a net R16.7 billion (2009/10: R16.8 billion). Overspending on personnel costs is evident in several provincial education and health departments, with underspending apparent in the transport and human settlements votes. The revised estimate of expenditure for 2011/12 shows projected underspending of R8.3 billion on national department allocations and provincial overspending of R4.8 billion, or 1.3 per cent.

*Municipalities underspent their budgets by a net R16.7 billion in 2010/11*

## Consolidated government expenditure

Trends in consolidated government expenditure are set out in Table 8.5.

**Table 8.5 Consolidated government expenditure by function, 2011/12 – 2014/15**

R million	2011/12	2012/13	2013/14	2014/15	Average annual growth	
	Revised estimate	Medium-term estimates			2008/09–2011/12	2011/12–2014/15
<b>General public services</b>	<b>52 068</b>	<b>51 991</b>	<b>55 413</b>	<b>58 631</b>	<b>5.9%</b>	<b>4.0%</b>
<b>Defence</b>	<b>38 367</b>	<b>41 617</b>	<b>44 348</b>	<b>46 992</b>	<b>7.3%</b>	<b>7.0%</b>
<b>Public order and safety</b>	<b>90 544</b>	<b>97 991</b>	<b>104 530</b>	<b>110 575</b>	<b>11.0%</b>	<b>6.9%</b>
Police services	60 886	65 047	69 653	73 675	11.9%	6.6%
Law courts	13 325	15 092	16 000	16 892	10.7%	8.2%
Prisons	16 333	17 852	18 877	20 008	8.0%	7.0%
<b>Economic infrastructure</b>	<b>81 494</b>	<b>83 595</b>	<b>90 224</b>	<b>98 298</b>	<b>3.0%</b>	<b>6.4%</b>
Communication	2 471	2 461	2 581	2 729	-4.4%	3.4%
Fuel and energy	6 659	6 218	6 186	6 808	-19.2%	0.7%
Transport	72 364	74 917	81 457	88 760	6.9%	7.0%
<b>Economic services and environmental protection</b>	<b>53 077</b>	<b>61 393</b>	<b>66 439</b>	<b>70 575</b>	<b>11.4%</b>	<b>10.0%</b>
<b>Local government, housing and community amenities</b>	<b>107 482</b>	<b>120 051</b>	<b>129 576</b>	<b>139 322</b>	<b>16.7%</b>	<b>9.0%</b>
Housing development	27 589	28 792	31 099	32 568	18.9%	5.7%
Local government and community development	51 639	59 134	64 476	68 326	16.6%	9.8%
Water supply	28 253	32 125	34 000	38 429	15.1%	10.8%
<b>Health</b>	<b>113 796</b>	<b>121 906</b>	<b>130 536</b>	<b>139 352</b>	<b>13.9%</b>	<b>7.0%</b>
<b>Recreation and culture</b>	<b>9 043</b>	<b>8 571</b>	<b>9 543</b>	<b>9 940</b>	<b>-6.0%</b>	<b>3.2%</b>
<b>Education</b>	<b>195 483</b>	<b>207 281</b>	<b>223 100</b>	<b>236 067</b>	<b>14.2%</b>	<b>6.5%</b>
<b>Social protection</b>	<b>144 693</b>	<b>157 930</b>	<b>171 394</b>	<b>184 792</b>	<b>11.1%</b>	<b>8.5%</b>
<b>Science and technology</b>	<b>9 856</b>	<b>10 797</b>	<b>11 333</b>	<b>12 116</b>	<b>8.1%</b>	<b>7.1%</b>
<b>Allocated expenditure</b>	<b>895 903</b>	<b>963 123</b>	<b>1 036 435</b>	<b>1 106 660</b>	<b>11.1%</b>	<b>7.3%</b>
Debt-service cost	76 645	89 388	100 806	109 039	12.1%	12.5%
Contingency reserve	–	5 780	11 854	24 000		
Unallocated	–	30	30	–		
<b>Consolidated expenditure<sup>1</sup></b>	<b>972 547</b>	<b>1 058 321</b>	<b>1 149 125</b>	<b>1 239 699</b>	<b>11.1%</b>	<b>8.4%</b>

1. Consisting of national, provincial, social security funds and selected public entities. Refer to Annexure W2 for a detailed list of entities included.

*Consolidated government expenditure is projected to reach R1.1 trillion in 2014/15*

These estimates include spending by provinces, government agencies, public entities and transfers to municipalities, but do not include municipal spending from own revenue. Consolidated government expenditure is projected to increase from R972.5 billion in 2011/12 to R1.2 trillion in 2014/15, largely financed through the national budget. Over the MTEF, non-interest government expenditure grows by an annual average of 8.4 per cent, compared with annual average growth of 11.1 per cent over the previous three years. State debt cost, in contrast, increases by 12.5 per cent over the MTEF period, compared with an annual average increase of 12.1 per cent over the previous three years.

The budget framework includes a contingency reserve of R5.8 billion, R11.9 billion and R24 billion over the next three years, which allows for new priorities or unavoidable commitments to be accommodated within the projected framework. Additional allocations and adjustments to consolidated expenditure plans by spending category over the MTEF period are summarised in Table 8.6.

*Estimates of National Expenditure provides greater detail on national government spending*

The *Estimates of National Expenditure* provides greater detail on national government spending across all departments. The *Explanatory Memorandum to the Division of Revenue* describes in detail the transfers to provincial and local government. The spending plans of provinces are published in the two weeks following the tabling of the national budget, and draft budgets of municipalities are tabled in municipal councils by 31 March (90 days before commencement of the municipal financial year).

## ■ Revised medium-term expenditure plans

### Job creation

*Additional support for a range of public employment initiatives*

Job creation is a central priority of government. An additional R4.8 billion over the 2012 MTEF period is provided for the expanded public works programme, bringing its allocations to a total of R77.8 billion.

- The community work programme receives an additional R3.5 billion, enabling the number of people employed to increase to 332 000 in 2014/15 from 89 689 in March 2011. This initiative guarantees participants 100 days of work on local community priorities.
- The natural resource management programme (Working for Water, Working on Fire) receives an additional R1.1 billion, providing for a total of 135 006 jobs over the medium term from 114 000 jobs in April 2011.
- The non-state sector programme receives an additional R345 million, which will fund about 127 009 cumulative short-term jobs by 2014/15 – up from 48 358 jobs in April 2011.

The National Rural Youth Services Corps receives an additional R200 million over the next three years. This skills development programme for rural youth has enrolled 7 500 participants and plans to enrol an additional 5 000 per year over the next three years.

An additional allocation of R300 million over the MTEF period will support the creation of about 16 000 short-term jobs through the Mzansi Golden Economy strategy in the arts and culture sector.

**Table 8.6 2012 Budget priorities – additional MTEF allocations, 2012/13 – 2014/15**

R million	2012/13	2013/14	2014/15	Total
<b>Job creation</b>				
Community work programme	590	1 089	1 780	<b>3 459</b>
Working for water	150	200	400	<b>750</b>
Working on fire	80	100	200	<b>380</b>
Mzansi Golden Economy	50	100	150	<b>300</b>
National rural youth service corps	200	–	–	<b>200</b>
Other job related items	145	429	524	<b>1 098</b>
<b>Education and related functions</b>				
Equalisation of no-fee schools and expansion of access to Grade R	–	1 116	1 899	<b>3 015</b>
Annual national assessments	–	75	160	<b>235</b>
University infrastructure	150	300	400	<b>850</b>
<b>Health and social protection</b>				
National health insurance pilot project	150	350	500	<b>1 000</b>
HIV and Aids and ARVs	–	–	968	<b>968</b>
Revitalisation of hospital infrastructure	–	132	294	<b>426</b>
Early childhood development	–	650	700	<b>1 350</b>
<b>Economic infrastructure</b>				
Passenger Rail Agency of South Africa (rolling stock)	–	–	4 000	<b>4 000</b>
Sentech: Digital terrestrial television (DTT) infrastructure	–	141	–	<b>141</b>
SABC: Digital library and Playout centre	–	76	62	<b>138</b>
Integrated national electrification programme (municipal) grant	–	100	200	<b>300</b>
Electricity demand-side management grant: Eskom (solar water geysers)	1 000	1 700	2 000	<b>4 700</b>
Electricity demand-side management grant: (municipalities)	200	200	200	<b>600</b>
Repair of flood damaged infrastructure	1 302	1 125	665	<b>3 092</b>
Signalling and depot infrastructure	279	350	400	<b>1 029</b>
<b>Human settlements and community amenities</b>				
Regional bulk infrastructure grant	382	606	896	<b>1 884</b>
Informal settlement upgrading: Local conditional grant	–	950	1 931	<b>2 881</b>
Informal settlement upgrading: Provincial conditional grant	139	526	363	<b>1 028</b>
Social housing	220	200	200	<b>620</b>
<b>Economic support and environmental affairs</b>				
Upgrading of tourism facilities: SANPARKS	–	150	200	<b>350</b>
Special economic zones	500	750	1 000	<b>2 250</b>
Manufacturing competitiveness enhancement programme	1 250	2 000	2 500	<b>5 750</b>
Green fund	300	500	–	<b>800</b>
<b>General public services</b>				
Who Am I project	–	349	425	<b>774</b>
Border post infrastructure upgrading	110	130	160	<b>400</b>
<b>Defence, public order and safety</b>				
Court infrastructure	100	100	100	<b>300</b>
Strategic defence procurement programme	150	200	250	<b>600</b>
<b>Compensation of employees adjustment</b>	5 688	6 249	6 757	<b>18 694</b>
<b>Other priorities</b>	5 862	5 212	7 534	<b>18 608</b>
<b>Total</b>	<b>18 997</b>	<b>26 155</b>	<b>37 818</b>	<b>82 970</b>

## Education

*Education remains the largest category of government spending*

Education remains the largest category of government spending. Improving the quality of education is the key to sustaining long-term growth and reducing inequality. Progress has been made in expanding access, including the phasing in of no-fee schools. Over the medium term, government's primary objectives are to improve the quality of education at all levels and to reduce skills shortages in the labour market.

**Table 8.7 Education expenditure, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012 MTEF total
	Outcome			Revised estimate	Medium-term estimates			
National departments	15 839	17 635	20 014	23 173	26 912	31 571	33 579	92 062
Provinces	107 198	125 878	137 967	156 973	163 855	173 935	183 773	521 562
Public entities	8 121	9 218	9 213	15 338	16 515	17 595	18 714	52 824
<b>Total</b>	<b>131 158</b>	<b>152 731</b>	<b>167 193</b>	<b>195 483</b>	<b>207 281</b>	<b>223 100</b>	<b>236 067</b>	<b>666 448</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	84 855	100 125	111 037	124 172	128 640	135 317	142 674	406 631
<i>Goods and services</i>	12 116	13 628	13 673	16 975	18 286	20 154	21 442	59 882
<i>Capital expenditure</i>	5 164	5 901	5 811	7 975	10 282	13 395	13 872	37 549

Spending on education increased by an annual average of 12.9 per cent from 2008/09 to 2011/12, and will grow from R207.3 billion in 2012/13 to R236.1 billion in 2014/15, at an average annual growth rate of 6.7 per cent. Provincial education spending is expected to grow by 5.9 per cent over the next three years from R163.9 billion in 2012/13 to R183.8 billion in 2014/15. Additional allocations of R18.8 billion over the medium term are accommodated, mainly for baseline adjustments in provincial education departments and for other key objectives.

*Funding to equalise per learner subsidies paid to the poorest 60 per cent of schools*

Over the medium term, funding is added to the provincial equitable share to equalise per learner subsidies paid to the poorest 60 per cent of schools and to increase access to grade R. Learner performance in literacy and numeracy remains a challenge, as shown by national assessments of all grade 3 and 6 learners conducted in 2011. The assessments identify problem areas in each school and allow for tailored interventions to be developed. An amount of R235 million is added to the baseline of the national department over the three-year spending period to extend assessments to grade 9 and to strengthen the assessments in grades 1 to 6. Learner and teacher workbooks in literacy and numeracy will be provided to all grade 1 to 9 learners from 2012.

*Support for poor students to attend universities and colleges*

Over the three-year period, R17.1 billion is allocated to the National Student Financial Aid Scheme to provide poor students with loans and bursaries. An additional R850 million is allocated to improve university infrastructure, including student accommodation facilities.

## Health and social protection

Medium-term priorities in health include infrastructure, the comprehensive HIV and Aids treatment and prevention programme, and hospital

revitalisation. Progress in these areas will strengthen the public health system, paving the way for the introduction of national health insurance.

The health sector is allocated an additional R12.3 billion over the next three years. Of this, R1 billion is allocated for national health insurance pilot projects and increasing primary health care visits. The health insurance project will include establishing 10 pilot district sites and developing an improved district health authority model. Functioning models of a reengineered primary health care system will be established.

*R1 billion for national health insurance pilot projects and increased primary care*

To improve health infrastructure, R450 million has been provided to upgrade about 30 nursing colleges. A further R426 million is allocated to the initial stages of a large-scale revitalisation project to be conducted through public-private partnerships. The hospitals are Chris Hani, King Edward, George Mukhari, Limpopo Academic and Nelson Mandela Academic.

**Table 8.8 Health and social protection expenditure, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012
		Outcome		Revised estimate	Medium-term estimates			MTEF total
National departments	73 001	87 055	92 804	103 414	111 391	119 970	129 061	360 422
Provinces	80 871	94 781	105 007	119 705	128 745	138 312	147 672	414 729
Public entities	28 620	31 533	33 692	35 370	39 700	43 648	47 411	130 759
<b>Total</b>	<b>182 493</b>	<b>213 369</b>	<b>231 503</b>	<b>258 489</b>	<b>279 837</b>	<b>301 930</b>	<b>324 144</b>	<b>905 911</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	<i>49 754</i>	<i>52 020</i>	<i>60 942</i>	<i>69 009</i>	<i>75 141</i>	<i>80 162</i>	<i>85 457</i>	<i>240 759</i>
<i>Goods and services</i>	<i>29 754</i>	<i>34 119</i>	<i>35 176</i>	<i>39 381</i>	<i>41 609</i>	<i>45 218</i>	<i>48 615</i>	<i>135 442</i>
<i>Capital expenditure</i>	<i>7 418</i>	<i>8 027</i>	<i>7 817</i>	<i>10 274</i>	<i>10 109</i>	<i>10 312</i>	<i>10 739</i>	<i>31 160</i>

To accommodate provision of antiretroviral treatment at the CD4 threshold of 350, an additional R968 million is made available over the medium term, bringing the number of antiretroviral recipients from 1.5 million in 2011 to about 3 million by 2014/15. This will be funded through provincial conditional grants.

An additional R1.4 billion is allocated over the medium term to support early childhood development programmes, and the implementation of an in-house and community-based childcare and protection programme (Isibindi). This will increase access to early childhood development from the current 500 000 to 580 000 children, and will cater for the increase in subsidy from R12 to R15 per child per day over the MTEF period. The Isibindi model will serve 858 000 children and adolescents, with a focus on rural communities, orphans and child-headed households. About 10 000 youth workers will be employed in this programme.

*Early childhood development programmes to be expanded*

Allocations for social assistance will grow from R111.2 billion in 2012/13 to R129 billion in 2014/15, at an average annual growth rate of 7.9 per cent. The increase will cater for the expected increase in the social grant beneficiaries from 15.6 million in 2012/13 to 16.8 million in 2014/15. A new payment model for social grants is being implemented to improve grant administration.

*A new payment model will improve social grant administration*

## Economic infrastructure

*Devolution of provincial bus services to large municipalities is a step towards integrated public transport*

With an additional R14 billion allocated over the medium term, the budget for economic infrastructure increases from R83.6 billion in 2012/13 to R98.3 billion in 2014/15, rising by an annual average of 7.3 per cent. Provincial transport expenditure increased marginally between 2008/09 and 2011/12, from R12.3 billion to R13.7 billion. Public transport expenditure in provinces provides for the operational subsidisation of bus services. These services will largely be devolved to metropolitan municipalities, allowing for the development of integrated public transport networks that are aligned with rail and bus rapid transit systems.

**Table 8.9 Economic infrastructure expenditure, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012
	Outcome			Revised estimate	Medium-term estimates			MTEF total
National departments	23 016	40 758	32 508	14 915	15 767	16 159	17 479	49 406
Provinces	29 445	29 303	28 194	30 822	30 329	32 074	34 388	96 791
Public entities	22 222	32 333	29 342	35 757	37 499	41 991	46 430	125 920
<b>Total</b>	<b>74 683</b>	<b>102 394</b>	<b>90 044</b>	<b>81 494</b>	<b>83 595</b>	<b>90 224</b>	<b>98 298</b>	<b>272 117</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	7 193	8 425	9 355	10 664	11 642	12 490	13 256	37 388
<i>Goods and services</i>	13 773	16 547	18 009	21 431	22 334	23 809	25 155	71 298
<i>Capital expenditure</i>	18 458	24 634	20 658	25 301	23 716	25 934	30 107	79 756

Rail commuter transport services are severely constrained by the age and poor condition of much of the rolling stock. A Cabinet-approved programme to replace the current fleet will be phased in over 20 years.

In 2014/15, an additional R4 billion is allocated to the Passenger Rail Agency of South Africa to begin purchasing 233 coaches. The agency also receives R1 billion to build three depots and upgrade signalling in Gauteng, KwaZulu-Natal and the Western Cape.

*Steps to roll out digital terrestrial television and transition from analogue programming*

Over the medium term the Department of Communications plans to roll out digital terrestrial television. Sentech will receive R141 million to purchase 30 television and 30 radio transmitters. A total of R643 million is provided over the period for the dual illumination of analogue and digital television, and for digital broadcasting infrastructure. To ensure analogue programming content is available in digital format, a playout centre will be established and technology provided for a digital library for the South African Broadcasting Corporation, for which it receives R138 million as part of a total allocation of R478.6 million.

*Initiatives to address the impact of limited electricity supply*

In energy, the focus is on demand-side management to address the impact of limited supply until new generation capacity comes online. Over the medium term, Eskom receives R4.7 billion to complete installation of 1 million solar water geysers. An additional R600 million is allocated to municipalities to install low-energy lighting, water treatment pumps and traffic signals. To support electrification of informal settlements, an additional R300 million is allocated to the integrated national electrification programme, which has previously focused on formal household connections.

### Financing the Gauteng freeway improvement project

The Gauteng freeway improvement project began in 2007. It involves widening, upgrading, surfacing, and building or rebuilding 185km of the road network, and the provision of associated infrastructure. Debt-financed investments for these upgrades totalled R20 billion.

Tolling enables the South African National Roads Agency (SANRAL) to construct and maintain a strategic national highway network to standards that cannot be afforded across the entire road system. Road users benefit through lower vehicle operating costs, improved road safety and time savings. Tolls also contribute, over time, to reducing congestion on major routes. Taxis and other public transport operators will be exempt from tolls on the Gauteng freeway network.

However, the impact of introducing toll fees in a metropolitan environment has raised affordability concerns. To allow for lower tariffs on the Gauteng freeway network and steeper discounts for regular road-users, a special appropriation of R5.75 billion is proposed in the 2011/12 financial year.

To ensure sustainability, attention will be given to alternative routes that can support mobility, with more focus on maintenance of the entire network. Continued investment in rapid public transport networks in metropolitan areas aims to attract more users to scheduled, safe and affordable services.

### Human settlements and community amenities

Investment in municipal infrastructure provides for the extension of basic services and is a key component in government's developmental strategy. Spending under this function increased by 12.1 per cent a year from 2008/09 to 2011/12, and will grow from R120.1 billion in 2012/13 to R139.3 billion in 2014/15, at an average annual growth rate of 9 per cent. National spending is expected to grow by 8.5 per cent over the next three years, from R73.7 billion in 2012/13 to R86.7 billion in 2014/15. Additional allocations of R9.9 billion over the medium term are accommodated, mainly for service delivery expansion.

*Allocations to support extension of basic services*

**Table 8.10 Local government, housing and community amenities expenditure, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012 MTEF total
R million	Outcome			Revised	Medium-term estimates			
National departments	39 328	47 897	56 153	63 878	73 689	81 477	86 667	241 833
Provinces	13 952	16 154	18 840	22 439	22 012	22 571	23 340	67 923
Public entities	14 294	15 677	16 276	21 165	24 349	25 528	29 316	79 194
<b>Total</b>	<b>67 574</b>	<b>79 728</b>	<b>91 268</b>	<b>107 482</b>	<b>120 051</b>	<b>129 576</b>	<b>139 322</b>	<b>388 949</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	5 690	6 844	7 687	8 744	9 655	10 342	11 053	31 049
<i>Goods and services</i>	7 409	8 397	7 384	8 662	11 485	13 242	14 280	39 006
<i>Capital expenditure</i>	4 556	5 784	5 813	10 430	11 684	11 031	12 782	35 497

A key focus is to develop sustainable settlements. Additional funding of R1 billion is allocated to the *human settlements development grant* to support informal settlement upgrading in provinces. About 58 per cent of households in informal settlements are in the eight metropolitan municipalities, and R950 million in 2013/14 and R1.9 billion in 2014/15 has been added to the *urban settlements development grant* for informal settlement upgrading.

*R1 billion to support informal settlement upgrading in provinces*

The Department of Water Affairs is allocated R400 million to build a wastewater treatment plant in Sedibeng district municipality; R889 million to construct regional bulk water distribution systems in Sekhukhune district municipality to connect with De Hoop dam; and R595 million for water and wastewater systems in the OR Tambo District municipality.

*Social housing projects to benefit households earning between R1 500 and R7 500 a month*

Funding in local government, housing and community amenities has been reprioritised to reflect revised implementation schedules and to support a more focused approach to delivery. Over the MTEF period, R680 million is shifted from the *neighbourhood development partnership grant* to subsidise investment in social housing projects targeted at households with earnings between R1 500 and R7 500 a month. Funds from the underperforming *rural household infrastructure grant* have been shifted to the *regional bulk infrastructure grant*; from 2014/15 this grant is incorporated into the *municipal infrastructure grant* to allow for improved planning, delivery and maintenance of sanitation services.

Substantial increases to the finance-linked individual subsidy programme will be introduced in the 2012 budget. This subsidy aims to improve households' ability to access home loans by providing a deposit. The subsidy value that households earning between R3 500 and R15 000 per month can access has increased from R54 000 to R83 000 on a maximum property value of R300 000. These changes will improve participation of low- and middle-income working families in housing programmes, and keep the subsidy level aligned with residential property market price trends.

### **Economic services and environmental protection**

Over the medium term, spending on economic services and environmental protection increases by an annual average of 7.2 per cent, reaching R70.6 billion in 2014/15. An additional allocation of R15.8 billion is provided over the period.

**Table 8.11 Economic services and environmental protection expenditure, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012
<b>R million</b>	<b>Outcome</b>			<b>Revised estimate</b>	<b>Medium-term estimates</b>			<b>MTEF total</b>
National departments	16 789	17 021	19 691	23 536	27 965	31 189	33 516	92 670
Provinces	13 527	15 484	15 711	16 744	18 211	19 364	20 369	57 944
Public entities	8 072	9 511	11 024	12 797	15 217	15 886	16 690	47 793
<b>Total</b>	<b>38 388</b>	<b>42 016</b>	<b>46 425</b>	<b>53 077</b>	<b>61 393</b>	<b>66 439</b>	<b>70 575</b>	<b>198 406</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	<i>10 034</i>	<i>12 567</i>	<i>13 104</i>	<i>15 244</i>	<i>17 050</i>	<i>18 264</i>	<i>19 355</i>	<i>54 669</i>
<i>Goods and services</i>	<i>10 968</i>	<i>13 528</i>	<i>15 331</i>	<i>17 901</i>	<i>21 625</i>	<i>22 735</i>	<i>24 753</i>	<i>69 113</i>
<i>Capital expenditure</i>	<i>2 429</i>	<i>2 009</i>	<i>2 438</i>	<i>2 871</i>	<i>2 501</i>	<i>2 244</i>	<i>1 944</i>	<i>6 689</i>

### **Economic support and environmental protection**

*Additional R350 million to help SANParks upgrade visitor capacity*

Protecting South Africa's ecological heritage benefits the environment and can yield economic benefits through tourism. An additional R350 million is allocated over the medium term for South African National Parks to acquire and upgrade tourism infrastructure, increasing capacity from 4.5 million visitors in 2011/12 to a target of 4.7 million by 2014/15. Funds have also been allocated to provide equipment for institutions supporting environmental management.

**Climate change and the environment**

Improving environmental management and addressing climate change are key policy objectives. Government is making progress on a number of fronts.

- South Africa hosted the 17<sup>th</sup> Conference of the Parties to the United Nations Framework Convention on Climate Change in Durban at the end of 2011. The conference succeeded in extending the Kyoto Protocol until 2017 and approved the Durban Platform, which provides a roadmap towards an accord that will apply to all emitters of greenhouse gases. The meeting also launched a global fund to help developing countries mitigate climate change.
- Cabinet endorsed a strategy and action plan for sustainable development in November 2011. The plan includes over 100 interventions to promote five priorities: sustaining ecosystems and using natural resources efficiently, building sustainable communities, promoting a green economy, responding effectively to climate change, and enhancing systems for planning and implementation. Interventions cut across multiple government functions and funding instruments.
- Government will initiate a national green fund in April 2012, with capitalisation of R800 million over two years to support green-economy activities.

The Department of Trade and Industry will receive an additional R150 million for equipment and facilities for the National Metrology Institute of South Africa.

An economic competitiveness support package to promote more rapid recovery and job creation is introduced in the 2012 MTEF; the six-year programme receives R9.5 billion over the medium term.

**Economic competitiveness and support package**

Department	Programme	Objective
Trade and Industry	Manufacturing competitiveness enhancement programme: R5.8 billion Special economic zones: R2.3 billion	Provide strengthened financial support to manufacturers to enhance competitiveness. To finance special economic zones.
Agriculture, Forestry and Fisheries	Provincial and rural agricultural colleges: R150 million Agricultural Research Council: R400 million	For research, facilities improvement, equipment acquisition and increasing student intake. Research and production of animal vaccines; support to smallholder farmers.
Mineral Resources	Council for Geoscience: R200 million Council for Mineral Technology: R150 million	Upgrade laboratory equipment and facilities. For mineral projects: semi-precious gemstones, rare earth pilot plant, metal atomising plant, mining discharge and exposed rocks facilities.
Science and Technology	Technology localisation: R60 million Internship programme: R110 million Research: R180 million	Support local and technology-intensive manufacturers. Placement of postgraduate students at small companies. Commercialise new technology in satellite development, titanium, nanotechnology, renewable energy and waste.

### *Agriculture and rural development*

Government aims to improve the effectiveness of land usage and agricultural productivity. Over the medium term, the Department of Agriculture, Forestry and Fisheries receives a total allocation of R18.1 billion, of which R1.9 billion is an additional allocation.

*Further support for agricultural productivity and emerging farmers*

The Land Bank receives R1 billion over the medium term. This amount represents the remaining recapitalisation amount owed to the bank to support its developmental mandate. An additional R995 million has been made available to the Department of Agriculture, Forestry and Fisheries for the *comprehensive agricultural support programme*. Under the economic competitiveness and support package, R150 million is made available for provincial and municipal agricultural colleges. The Department of Rural Development and Land Reform has prioritised the settlement of 4 000 restitution claims over the MTEF period.

### **Science and technology**

*Support for research and innovation*

The medium-term priorities in science and technology include space science, bioeconomy and energy research, and stimulating scientific and technological innovation. Spending in these areas is intended to enhance public-sector infrastructure and job creation initiatives, and to promote more rapid economic growth. The Department of Science and Technology and its portfolio of science councils receive R34.2 billion over the 2012 MTEF.

**Table 8.12 Science and technology expenditure, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012 MTEF total
R million	Outcome			Revised estimate	Medium-term estimates			
National departments	2 253	2 680	1 960	1 815	2 324	2 829	3 109	8 263
Public entities	5 541	6 007	7 044	8 041	8 473	8 503	9 006	25 983
<b>Total</b>	<b>7 794</b>	<b>8 686</b>	<b>9 003</b>	<b>9 856</b>	<b>10 797</b>	<b>11 333</b>	<b>12 116</b>	<b>34 246</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	2 427	2 674	3 021	3 369	3 524	3 730	4 006	11 260
<i>Goods and services</i>	2 212	2 417	2 615	2 951	3 052	3 157	3 269	9 479
<i>Capital expenditure</i>	373	371	379	459	689	560	701	1 950

Over the next three years, total expenditure increases to R10.7 billion in 2014/15, at an average annual rate of 8 per cent. Of this, R1 billion goes to the economic competitiveness and support package, as follows:

- R400 million to the Agricultural Research Council for research into vaccines, crop production and extension services to smallholder farms.
- R350 million for technology localisation and research
- R200 million to the Council for Geoscience for minerals and energy research
- R150 million to Mintek for upgrading laboratories and mining research.

## General public services

With an additional R5.4 billion allocated over the medium term, the budget for general public services increases from R141.4 billion in 2012/13 to R167.7 billion in 2014/15, rising by an annual average of 8.4 per cent. Provincial spending is expected to grow by 4.3 per cent over the next three years, from R16.2 billion in 2012/13 to R18.7 billion in 2014/15.

In the two outer years, the Department of Home Affairs receives an additional R774 million for an integrated information technology system that will help the department to process transactions for issuing documents, certificates, permits and passports. Additional amounts will improve the turnaround time for identity documents and passports. The department will receive an additional R400 million to upgrade border post infrastructure and provide employee housing.

*Integrated IT system will help Home Affairs process IDs, passports and other documents*

**Table 8.13 General public services expenditure, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2012
	Outcome			Revised estimate	Medium-term estimates			MTEF total
National departments	68 205	72 650	76 992	88 947	100 315	110 619	119 269	330 203
Provinces	12 767	13 541	14 491	15 605	16 153	18 226	18 691	53 069
Public entities	17 239	18 746	20 422	24 161	24 911	27 374	29 711	81 995
<b>Total</b>	<b>98 211</b>	<b>104 937</b>	<b>111 905</b>	<b>128 713</b>	<b>141 379</b>	<b>156 219</b>	<b>167 671</b>	<b>465 268</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	<i>16 540</i>	<i>19 259</i>	<i>21 152</i>	<i>23 839</i>	<i>25 938</i>	<i>27 984</i>	<i>29 961</i>	<i>83 882</i>
<i>Goods and services</i>	<i>15 034</i>	<i>14 939</i>	<i>14 132</i>	<i>17 371</i>	<i>15 168</i>	<i>16 567</i>	<i>17 384</i>	<i>49 119</i>
<i>Capital expenditure</i>	<i>5 172</i>	<i>3 978</i>	<i>4 235</i>	<i>4 857</i>	<i>5 234</i>	<i>5 047</i>	<i>5 083</i>	<i>15 364</i>

Funding allocated to the Department of Performance Monitoring and Evaluation amounts to R21 million in 2012/13, R20 million in 2013/14 and R21 million in 2014/15 to adjust the baseline of the presidential hotline, which addresses citizens' complaints and concerns.

The Richtersveld Community filed a land claim for a parcel of land in Alexander Bay against Alexkor and the state under the Restitution of Land Rights Act (1994). The deed of settlement was signed on 22 April 2007. An amount of R350 million is earmarked for transfer to Alexkor Limited for the settlement of any outstanding and unfunded obligations, and a tax obligation of R69.9 million.

*Finalisation of Alexkor claim*

## Defence, public order and safety

Government is committed to intensifying the fight against crime. While progress has been made in this area, much more needs to be done to reduce violent crime, root out corruption and increase access to justice.

Spending on defence, public order and safety (excluding provincial departments of community safety) has increased by 9.7 per cent a year from 2008/09 to 2011/12, and will grow from R139.6 billion in 2012/13 to R157.6 billion in 2014/15, at an average annual growth rate of 6.3 per cent. The sector receives additional funding of R7.6 billion over the MTEF period to cater mainly for improved conditions of service, additional personnel and infrastructure.

*Spending caters for improved conditions of service in defence, public order and safety*

**Table 8.14 Defence, public order and safety expenditure, 2008/09 – 2014/15**

<b>R million</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2012</b>
	<b>Outcome</b>			<b>Revised estimate</b>	<b>Medium-term estimates</b>			<b>MTEF total</b>
National departments	92 590	104 970	111 939	123 735	134 154	143 054	151 503	428 712
Provinces	1 411	1 522	1 628	1 716	1 918	2 032	2 147	6 097
Public entities	3 313	3 125	3 489	3 459	3 535	3 792	3 917	11 245
<b>Total</b>	<b>97 315</b>	<b>109 617</b>	<b>117 055</b>	<b>128 911</b>	<b>139 608</b>	<b>148 878</b>	<b>157 567</b>	<b>446 053</b>
<i>Of which:</i>								
<i>Compensation of employees</i>	<i>55 299</i>	<i>63 963</i>	<i>74 236</i>	<i>80 945</i>	<i>87 422</i>	<i>93 283</i>	<i>98 580</i>	<i>279 285</i>
<i>Goods and services</i>	<i>24 542</i>	<i>26 913</i>	<i>28 933</i>	<i>32 728</i>	<i>35 373</i>	<i>37 450</i>	<i>39 500</i>	<i>112 324</i>
<i>Capital expenditure</i>	<i>5 679</i>	<i>6 054</i>	<i>6 446</i>	<i>5 768</i>	<i>6 443</i>	<i>6 686</i>	<i>6 960</i>	<i>20 090</i>

The Independent Police Investigative Directorate Act, which comes into effect in April 2012, establishes a new entity in place of the Independent Complaints Directorate. An amount of R127 million is allocated to recruit 212 additional personnel, and to procure machinery and equipment. The number of cases finalised by the directorate is expected to increase from 5 750 in 2011/12 to 6 750 in 2014/15.

Additional funding of R300 million is allocated over the medium term to supplement the capital works budget for court infrastructure, particularly in previously disadvantaged areas. Two new high courts will be built in Polokwane and Nelspruit, scheduled for completion in 2012/13 and 2014/15, respectively. The additional allocation will increase the total infrastructure budget for the Department of Justice and Constitutional Development from R1 billion in 2011/12 to R1.1 billion in 2014/15.

*Additional allocation for the Public Protector to intensify the fight against corruption and promote good governance*

The Office of the Public Protector is allocated an additional R60 million over the three-year period to intensify the fight against corruption and promote good governance. This will enable the number of investigators to increase from 98 in 2011/12 to 155 in 2014/15. The number of complaints investigated and finalised is expected to increase from 16 416 in 2011/12 to 21 888 in 2014/15.

To boost border control, an additional R749 million is allocated over the medium term to deploy members of the South African National Defence Force along the borders. Expenditure on this initiative increases from R400 million in 2011/12 to R617 million in 2014/15. The number of deployed personnel increases by 1 142, bringing the total to 3 300.

An amount of R700 million is to be allocated to Denel in 2012/13 to recapitalise Denel Aerostructures.

## Conclusion

*The 2012 Budget is about creating more jobs, investing in infrastructure and improving delivery*

The division of resources between national, provincial and local government reflects their distinct and complementary roles in accelerating growth and development. South Africa's priorities have to be achieved within a sustainable and responsible fiscal trajectory. A key determinant of progress in managing public-sector expenditure is government's ability to achieve an efficient mix between personnel, capital, and goods and services spending – and for national departments, provinces and municipalities to make better use of public funds.

# ANNEXURES

In addition to the material published in the *Budget Review*, the following annexures are available at [www.treasury.gov.za](http://www.treasury.gov.za)

- Annexure W1: Explanatory memorandum to the division of revenue
- Annexure W2: Structure of the government accounts

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# A

## Report of the Minister of Finance to Parliament

### ■ Introduction

Section 7(4) of the Money Bills Amendment Procedure and Related Matters Act (2009, the Act) prescribes that the Minister of Finance (the Minister) must submit a report to Parliament at the time of the budget explaining how the Division of Revenue Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in:

- Budgetary review and recommendation (BRR) reports submitted by committees of the National Assembly in terms of Section 5 of the Act.
- Reports on the fiscal framework proposed in the Medium Term Budget Policy Statement (MTBPS) submitted by the finance committees in terms of section 6 of the Act.
- Reports on the proposed division of revenue and the conditional grant allocation to provinces and local governments set out in the MTBPS submitted by the appropriations committees in terms of section 6 of the Act.

### ■ Budgetary review and recommendation reports

Section 5 of the Act sets out a procedure to be followed prior to the introduction of the national budget by the National Assembly, through its committees, for assessing the performance of each national department. This procedure provides for committees to prepare budgetary review and recommendation reports which:

- Must provide an assessment of the department's service delivery performance given available resources.
- Must provide an assessment of the effectiveness and efficiency of the department's use and forward allocation of available resources.
- May include recommendations on the forward use of resources.

At the time of tabling the annual budget the Minister is required to explain how the budget gives effect to these recommendations, or why they have not been taken into account.

The BRR reports were tabled by the relevant portfolio committees between October and December 2011. Due to the large number of BRR reports, a separate document will be tabled in Parliament with detailed responses to the Portfolio Committees' recommendations. In many cases, however, the different committees have made the same recommendations to a number of departments. This report contains a summary of these overarching concerns, drawing on responses to the specific issues raised on each committee's report set out in the detailed document.

### **General issues**

The concerns consistently raised by the BRR reports across departments are often related, and it is neither possible nor necessary to prioritise between them; their ordering below is not significant.

- **Filling vacant positions:** Many departments are struggling to fill vacant positions. In a number of cases, the committees raised concerns that even critical and high-level positions such as Director-General are unfilled. The committees also felt that acting appointments should be kept to a minimum, and that irregular or 'ghost' employees were unacceptable.
- **Reducing staff turnover:** A connected issue is the high staff turnover in some departments. The committees recommended that this be addressed, in part through human-resource development strategies.
- **Enhancing capacity:** Committees questioned whether certain departments had adequate capacity to spend their budget. Enhancing skills within departments should be a priority of government; performance agreements play a key role in evaluating employees' progress and strengthening accountability.
- **Use of external consultants:** A number of committees noted the high expense incurred by some departments in recruiting external consultants. Recourse to consultants should be reduced across government, in part by developing skills within departments.
- **Disabled workers:** Departments were reminded of the importance of adhering to their commitment regarding the employment of people with disabilities.
- **Monitoring and evaluation:** Departments must establish mechanisms for monitoring and evaluating the programmes for which they are responsible. This requires departments to attach measurable objectives to these projects, as well as clear timeframes.
- **Stronger internal audit and financial controls:** Internal audit capacity should be strengthened in a number of departments to ensure compliance with relevant legislation. Financial controls are needed to reduce irregular spending as well as fruitless or wasteful expenditure.
- **Engagement with the Auditor General:** The committees urge departments to engage regularly with the Auditor General and to adhere to the recommendations that emerge from these engagements.
- **Better supply chain management:** Departments should place emphasis on proper supply chain management in order to combat corruption.
- **Prompt payment of service providers.** Departments have a responsibility for the prompt payment of service providers.
- **Regular and credible reporting:** Committees noted the importance of regular and credible reporting by departments.
- **Greater coordination across government:** A number of committees called for greater coordination of activities within departments, as well as between departments and across the three spheres of government.

## ■ Recommendations of the Standing Committee on Appropriations on the 2011 Medium Term Budget Policy Statement

### Support the capacity of underperforming provinces and municipalities

*The Department of Human Settlements should support the capacity of underperforming provinces and municipalities to speed up the delivery of housing development projects considering the increase of the medium-term expenditure framework (MTEF) allocations in this area.*

The Department of Human Settlements has various programmes in place to build capacity and provide project support to provinces and municipalities. This includes support for unblocking projects, for priority projects and for informal settlement upgrading.

### Stringent measures to manage unanticipated and unforeseen increases in compensation

*National Treasury and the Labour Federation unions should put more stringent measures in place to manage the always unanticipated and unforeseen increases in the compensation of employees across government which lead to increases in the wage bill for government.*

The Minister notes and supports the recommendation. This matter is also dealt with under the response to the recommendation made by the Standing Committee on Finance on the 2011 *Medium Term Budget Policy Statement* on reducing the wage bill.

### Prioritising health infrastructure

*The National Treasury and Department of Health should prioritise health infrastructure in the 2012/13 financial year. Also, the Department of Health should ensure that programmes such as hospital revitalisation are well implemented before the introduction of national health insurance.*

A new grant, the *nursing colleges and schools grant*, is introduced in 2012/13 to fund the upgrading and rehabilitation of nursing colleges and schools. Funds from the first years of the MTEF period have been shifted to the outer year of the MTEF of the *hospital revitalisation grant* and R128 million has been added to the baseline of this grant for the construction of large hospitals. The rescheduling will provide sufficient time for the planning of the construction of these large facilities. The National Department of Health will complete an audit of all health facilities in the country in early 2012 and is working with the Council for Scientific and Industrial Research (CSIR) and the Development Bank of Southern Africa to develop a targeted response to the infrastructure needs of the sector.

In addition, the *national health insurance grant*, a new provincial conditional grant, is introduced in 2012/13 to pilot innovations as part of the phased implementation of national health insurance.

### Ensuring conditional grant expenditure to avoid rollovers

*The Department of Agriculture Forestry and Fisheries should ensure that the Comprehensive Agriculture Support Programme (CASP) and Illima/Letsema conditional grants are completely spent to avoid rollovers to the next financial year since these conditional grants are meant to ensure poverty alleviation and sustainable livelihoods.*

The Department of Agriculture Forestry and Fisheries convenes the National Assessment Panel (NAP) in December each year, at which all provinces present their business plans. Each province's business plan is interrogated by specialists from the national department and the provinces are guided as to how to strengthen their business plans. There have been notable improvements to these business plans in the last two years due to the work of the NAP. During 2012/13 the Department will finalise a framework for a

standard operating procedure for CASP that will require greater involvement of private sector and non-profit organisations in farmer support, which should facilitate improved performance and impact of the grant.

### **Measures to ensure increase in education spending produces quality**

*The Department of Basic Education should put in place measures to ensure that the increase in education spending produces not only quantity but also quality of outcomes for South African people.*

The Annual National Assessments performed on grades 3 and 6 last year provided an indication of the specific problem areas in each school. Interventions can now be tailored to address these challenges. Additional funds (R235 million over the 2012 MTEF period) are allocated for the extension of these assessments to grade 9 and to strengthen the existing annual national assessments for grades 1 to 6.

### **Action to ensure no under expenditure from schools infrastructure backlogs grant**

*The Department of Basic Education should take action to ensure that there is no under-expenditure emanating from the schools infrastructure backlogs grant of R700 million to avoid rollovers.*

To achieve the impact intended from the schools infrastructure backlogs grant within the envisaged timeframes, it is critical that the Department of Basic Education have a thorough and comprehensive roll-out plan. The Department has taken care to ensure that contracts funded from this grant will lead to accelerated delivery and value for money. The full allocation for the grant is committed to projects and National Treasury will recommend that committed funds be rolled over from 2011/12 into the 2012/13 financial year as long as the Department provides a credible plan.

## **Recommendations of the Select Committee on Appropriations on the 2011 Medium Term Budget Policy Statement**

### **Resolving capacity issues in provinces and municipalities**

*All government departments should ensure that capacity issues (especially in provincial and local government) are resolved urgently if the goals of the 2011 Medium Term Budget Policy Statement with respect to infrastructure investment, education, health, rural development and others are to be achieved.*

The Minister notes and welcomes the recommendation. National Treasury continues to work with provincial departments of education and health to strengthen their infrastructure delivery units as part of the Infrastructure Delivery Improvement Programme and engages with all national departments to ensure that they provide the necessary support to provinces and municipalities in the implementation of national policies. National Treasury works closely with provincial treasuries to ensure that government's policy objectives are adequately funded. National Treasury drives a range of interventions aimed at building the capacity of municipalities, including support for implementation of the Municipal Finance Management Act.

Additions were made to the baseline of the Department of Basic Education over the 2011 MTEF period to strengthen their planning and provincial oversight. The National Department of Health has entered into a partnership with the DBSA and CSIR to assist with the delivery of health infrastructure.

### **Proper mechanisms for financing national health insurance**

*National Treasury should provide details regarding the financing of the national health insurance's pilots and the overall national health insurance's financing mechanism. It is critical that the process of choosing the most viable financing*

*mechanism is transparent from the beginning of the process in order to secure buy-in from stakeholders, namely tax payers.*

The national health insurance green paper was released in August 2011 for comment and the period for comment closed in December 2011. Drafting of the white paper can now begin and the legislative reform will follow, which will be a consultative processes. *The national health insurance conditional grant* to provinces, which starts in 2012/13, will pilot a range of interventions in district health authorities and central hospitals, including testing and refining financing mechanisms. The National Department of Health will evaluate and refine the interventions and engage with stakeholders before rolling these out on a national scale.

## **Recommendations of the Select Committee on Appropriations on the 2011 Division of Revenue Amendment Bill**

### **Continued enhancement and capacity building in municipalities and provincial departments**

*The committee recommends that there should be continuous enhancement and capacity building in municipalities and provincial departments that are unable to spend and manage conditional grants.*

The Minister welcomes and supports this recommendation. There are a number of initiatives across government aimed at building capacity in local government. The Municipal Infrastructure Support Agency is being established in the Department of Cooperative Governance. Its aim is to accelerate service delivery and enhance capacity through focusing on municipal infrastructure assessment and the identification of solutions to challenges; to provide municipal infrastructure support and municipal implementation support; to provide capacity development including internships for unemployed graduates within municipalities; and to focus on effective monitoring and evaluation.

The *financial management grant* continues to provide support in building the financial administration capacity necessary to implement conditional grants. A new internship programme focussing on engineering skills is also being introduced in 2012. This is in addition to the continued efforts of national departments to build capacity in their sectors. Provinces also have substantial capacity-building programmes for municipalities.

On the provincial side, National Treasury continues to support provinces in building capacity to implement infrastructure programmes through the Infrastructure Delivery Improvement Programme. Commencing on 1 April 2012, National Treasury will implement the Financial Management Improvement Programme in provincial treasuries which will strengthen the support given to provincial departments, including addressing weaknesses in conditional grants performance. In addition, National Treasury provides support to provinces on an ad-hoc basis, including the placement of specialists in provincial departments.

### **Dealing with the adjustments for increased cost of salaries**

*The Committee recommends that in dealing with the adjustments for increased cost of salaries as well as the expansion and implementation of the occupation specific dispensation, government should be mindful of the rising public sector wage bill relative to other priorities. Government should consider entering into multi-year wage agreements with organised labour.*

The Minister notes and supports the recommendation. This matter is also dealt with under the response to the recommendation made by the Standing Committee on Finance on the 2011 *Medium Term Budget Policy Statement* on reducing the wage bill.

### **Technical assistance to smaller municipalities**

*The Department of Public Works should provide technical assistance to smaller municipalities in order for them to benefit from the expanded public works programme incentive grant.*

Grants for the Expanded Public Works Programme have been revised to make them easier to plan for and spend. They also now include a bias towards rural municipalities in their allocations. The Department of Public Works will provide technical assistance to provinces and municipalities (with a focus on municipalities with weak capacity) to assist with the technical design of labour-intensive projects, the implementation of these projects and improvements in reporting.

## **Recommendations of the Standing Committee on Finance on the 2011 Medium Term Budget Policy Statement**

### **Changing spending patterns**

*National Treasury should present a detailed plan to the Committee on how it plans to change spending patterns from current consumption expenditure to productive spending.*

The 2012 Budget Review provides Parliament with further details regarding the spending plans of government over the MTEF period. These reflect the policy priorities outlined in the *Medium Term Budget Policy Statement*, including detailed plans to change the composition of spending.

As outlined in the *Medium Term Budget Policy Statement*, our goal is to realise a current balance in 2013/14. This means that revenue would be sufficient to cover all current spending, and borrowing will be required only to finance investment. Shifting expenditure patterns towards infrastructure will be a critical part of this objective, and three issues stand out as necessary in achieving this:

- Moderating the rapid growth in the government wage bill witnessed over the last five years;
- Realising substantial savings from goods and services expenditure; and
- Ensuring that capital budgets are spent as allocated.

### **Reducing leakage from public finances**

*National Treasury should present a detailed plan to the Committee on the steps to be taken to reduce leakage from the public financial system.*

The problem of leakage from the public financial systems is of on-going concern to the Minister and is regularly discussed in the Ministers Committee on the Budget. National Treasury continues to look into ways of improving financial management and measuring the performance of budgets in order to address these issues.

### **Contingency plan for economic downturn**

*National Treasury should provide the Committee with a contingency plan in the event that macro-economic variables do not result as expected in the revised fiscal framework.*

Government remains committed to fiscal sustainability. Should the economy fail to recover as forecast, resulting in lower-than-expected tax revenues, meeting this commitment might require a combination of slower spending growth and policy measures to raise tax revenue, including measures to reduce tax fraud and increase compliance. National Treasury routinely considers a range of scenarios and their consequences for policy formulation; even under assumptions of slower GDP and revenue growth, national debt is forecast to stabilise and fiscal sustainability will be achieved.

In these uncertain times, it is incumbent on policy makers to devote even greater attention to contingency plans that take account of different scenarios. While attending to this task, we should carefully consider the usefulness and potential risks of committing ourselves to a particular course of action associated with one or more outcomes that may or may not happen. In particular, National Treasury would be concerned about the effect that this would have on the flexibility of our response in an uncertain, complex and dynamic situation.

Also, the path of economic recovery is strongly related to the expectations of private agents. The messages contained in documents such as the *Medium Term Budget Policy Statement* or *Budget Review* aim to guide these expectations. Placing detailed contingency plans in the public domain could have the unintended consequence of diluting these messages or adding to uncertainty, with consequences for our economy.

### **Keeping inflation within the target range**

*National Treasury and the South African Reserve Bank should take due care to ensure that the inflation rate remains in the target range of 3 to 6 per cent within the next three years.*

In developing the budget we take cognisance of the need to coordinate fiscal and monetary policy in order to support the South African Reserve Bank's role in managing inflation.

### **Reducing the wage bill**

*National Treasury should take all the necessary steps to ensure that the percentage of the state wage bill is brought back to under 40 per cent of GDP in the next three years.*

Returning the wage bill to a sustainable path will require us to ensure that the extent of public-sector wage settlements must be balanced by the consideration of the share of spending allocated to social and economic priorities, such as infrastructure and social security. In terms of the expenditure path outlined in the *Medium Term Budget Policy Statement*, government's wage bill will be reduced from 35 per cent of consolidated government spending in the current year to below one third in the outer year.

One element in realising this path is the wage settlements reached with public sector unions. Given the rapid real growth in public sector wages over the past few years – in part a consequence of the settlement on occupational specific dispensations – an opportunity exists for a more moderate path of wage growth over the next few years.

A second element of the wage bill is the number of government employees. Should wage growth be more moderate this could result in greater scope for government employment. In order to meet the objectives outlined in the *Medium Term Budget Policy Statement*, government will have to strike a balance between the size of wage settlements and the number of people the state can afford to employ.

### **Policy plans**

*National Treasury should provide the Committee with a detailed plan on the following:*

- *Intergenerational equity policy,*
- *Counter-cyclical fiscal policy, and*
- *Debt management policy.*

As reported in the *Medium Term Budget Policy Statement*, the fiscal guidelines proposed in the 2011 *Budget Review* are the foundation of our fiscal stance. Applied consistently, the principles of counter-cyclicity, long-term debt sustainability and intergenerational equity will enable government to

improve social conditions in a sustainable manner, and strengthen South Africa's fiscal sovereignty in a turbulent global environment.

We do not see these principles as a fixed blueprint, but rather as the parameters within which we are able to respond to events in a dynamic world. In our view, the current *Medium Term Budget Policy Statement* reflects an appropriate fiscal stance premised on these principles in the current environment.

Nevertheless, further work is required to clarify the meaning and content of the fiscal principles. This is one of the objectives of the long-term fiscal report, which we will publish in the coming year. The report is intended to encourage greater public debate of the fiscal principles and it is hoped that parliament will play a leading role in such a debate. Through public deliberation and close scrutiny of our fiscal policy decisions, we hope to arrive at a common view of the fiscal guidelines in the South African context.

## ■ **Joint recommendations of the Standing and Select Committees on Finance on the Revised Fiscal Framework**

### **Education on the importance of savings**

*National Treasury should launch a campaign to educate the nation about the importance of saving and the broad implication both on their lives and the economy in general.*

National Treasury launched an awareness campaign in 2011's national savings month to promote savings and retail savings bonds in rural areas. Together with the Financial Services Board, National Treasury has also undertaken an extensive stakeholder consultation process with over 40 organisations around a consumer financial education policy and strategy. The consensus from the engagement process was that a national strategy for enhancing savings should be developed under the guidance of National Treasury.

### **Job creation in small enterprises**

*More support, including relaxation and/or reviewing of constraining laws, should be given to small business enterprises to create jobs.*

National Treasury supports the recommendation and is reviewing the small business sector in cooperation with the Economic Development Department and the Department of Trade and Industry. In 2011, Cabinet approved the merger of Khula Enterprise Finance and the South African Micro-Finance Apex Fund with the Industrial Development Corporation's small business unit. The merger is scheduled for implementation on 1 April 2012 and will produce a new entity, the Small Business Finance Entity, which will be a wholly owned subsidiary of the Industrial Development Corporation.

### **Infrastructure development**

*National Treasury should expedite infrastructural development through partnerships with the private sector. These partnerships will also require the review of the public private partnerships in their current form.*

National Treasury recognises that infrastructure development can be expedited through partnerships with the private sector and that public private partnerships are one means of achieving this. However, a range of other interventions are also required – in particular skills development and capacity-building within government.

*National Treasury should intensify its monitoring of borrowed monies for infrastructure development, and ensure it is spent on infrastructure investment.*

National Treasury is institutionalising processes for closely monitoring spending on infrastructure investment. National Treasury reports on infrastructure spending by municipalities on a quarterly basis and is also monitoring infrastructure spending by state-owned enterprises over the same timeframe.

## Department of Public Works agreements

*The Department of Public Works should ensure competitive pricing when entering into lease or rental agreements on behalf of the state. Escalation clauses in new building contracts should be kept to a minimum, as should professional fees.*

National Treasury notes and supports this recommendation. The principles and practices of competitive pricing and cost-effectiveness underpin the operations of the Department of Public Works. Through engagement between the two departments on the future of the Department of Public Works, National Treasury will ensure that competitive pricing and cost-effective escalation clauses are acknowledged in the property management arrangements of the Department of Public Works.

## Rural development

*The proposed fiscal framework should take into account the need to shift the creation of economic activities to rural communities as part of the rural development strategy.*

This recommendation is noted. The Department of Rural Development and Land Reform is allocated R3 billion over the MTEF period to implement the Comprehensive Rural Development Strategy. These funds will be used for infrastructure development, job creation and to generate economic activity.

## Enhancing economic growth

*While growth is expected to pick up over the medium term, structural reforms are required to set the economy on a different trajectory that increases labour absorption, raises competitiveness and ensures that the benefits of growth are shared.*

Government will focus on infrastructure spending and reducing the costs of doing business to crowd-in private investment and foster job creation. The President's State of the Nation Address identified five infrastructure project clusters. These include infrastructure investment in rail, road and water to access the mineral potential of Limpopo; enhancing the Durban-Free State-Gauteng logistics and industrial corridor; supporting industrial and agricultural development and capacity in the Eastern Cape; improved water, roads, rail and electricity infrastructure in the North West Province; and enhanced iron-ore transport capacity between Sishen and Saldanha Bay.

Targeted interventions to lower the cost of doing business in South Africa will include lowering port charges and broadband costs. In order to improve labour absorption, the newly created Jobs Fund has committed more than R1 billion and the budget for the Community Works Programme is being expanded (see recommendation on the Community Works Programme below).

## Youth Employment Incentive

*Government should ensure that fiscal support for lower wage employees and new entrants in the labour market is strengthened, including the introduction of the youth wage subsidy as announced by the Minister.*

Following the release of the discussion paper proposing the implementation of a youth employment incentive, government has undertaken a process of consultation, engaging key stakeholders. This has not only involved consultation with social partners in Nedlac, a process that began in May 2011, but also within government at meetings of the Economic Sectors and Employment Cluster, and the Joint Social Protection, Community Development and Human Development Cluster. These discussions and engagements are on-going.

### **Community Works Programme**

*Community works programmes should support low income households and bring more people into the labour market. These should be strengthened.*

National Treasury is committed to supporting the Community Works Programme (CWP). Over the MTEF period, R3.5 billion has been added to the CWP's baseline of R2.4 billion. This will enable the programme to reach 250 000 participants by 2014/15, up from 90 000 in March 2011.

### **Wasteful and irregular expenditure**

*The Minister of Finance should provide the Committee with a detailed report on plans to eliminate wasteful and irregular expenditure from the public finance system.*

The Public Finance Management Act (1999) places the onus on accounting officers and accounting authorities to ensure that the financial resources of their respective institutions are utilised in an effective, efficient, economical and transparent manner. The Minister and National Treasury fully support departments and their accounting staff in their efforts to prevent, detect and report on wasteful and irregular expenditure.

# B

## Statistical tables

- 1 Main budget: Revenue, expenditure, budget balance and financing, 2005/06 to 2014/15
- 2 Main budget: Estimates of national revenue – summary of revenue, 1994/95 to 2014/15
- 3 Main budget: Estimates of national revenue – detailed classification of revenue, 2008/09 to 2012/13
- 4 Main budget: Expenditure defrayed from the National Revenue Fund by vote, 2008/09 to 2014/15
- 5 Consolidated national, provincial and social security funds expenditure: Economic classification, 2008/09 to 2014/15
- 6 Consolidated national, provincial and social security funds expenditure: Functional classification, 2008/09 to 2014/15
- 7 Consolidated government revenue, expenditure and financing, 2008/09 to 2014/15
- 8 Consolidated government revenue and expenditure, 2008/09 to 2014/15
- 9 Total debt of government, 1987/88 to 2014/15
- 10 Financial guarantees: Amounts drawn on government guarantees, 2008/09 to 2011/12

### ■ Explanatory notes on the statistical tables

#### General remarks

This annexure presents details of the main budget, consolidated national and provincial expenditure, consolidated government expenditure, the borrowing requirement and financing thereof, government debt and financial guarantees. While government revenues are concentrated at the national government level, expenditure shifted from the national towards the provincial sphere after 1994. Equitable share transfers to the nine provinces as a statutory commitment of government began in 1998/99, and the 1998 Budget marked the introduction of the local government equitable share. In the 2012 Budget the coverage on the consolidated government account is extended to include all newly listed public entities of national government, which implies that all activities of national government are included in the consolidated government account. The consolidation also includes several business enterprises of national government.

Since more than 70 per cent of total expenditure on the main budget of 2012/13 comprises transfer payments to other levels of general government, economic and functional classifications of national budget expenditure are not comprehensive. For purposes of analysis, it would be preferable to present economic and functional classifications of the expenditure of general government. This requires information on expenditure at all levels of general government and on its financing through revenue, balances brought forward and transfer payments (mainly from the national budget). This information for

purposes of budgeting is not readily available for local government, making it impossible to present consolidated general government finances at the time of the national budget. Historical data on general government finances are, however, published by the South African Reserve Bank in its *Quarterly Bulletin* and by Statistics South Africa.

### **Treatment of foreign grants to the Reconstruction and Development Programme (RDP) Fund**

Prior to 1999/00, foreign grants were paid to the National Revenue Fund and expenditure was included in departmental appropriations. From 1999/00 onwards, no foreign grants for RDP-related purposes have been included in the appropriations of national departments. All foreign technical assistance and other RDP-related grants are paid to the RDP Fund account, which is separated from the accounts of government. Departments incur expenditure on RDP-related projects by direct requisitions from the RDP Fund account. However, disbursements of foreign grants and technical assistance are included in the consolidated national and provincial expenditure estimates in Tables 5 and 6 and in the consolidated government expenditure in Table 7.

In 2002/03 and 2003/04, amounts of R117.5 million and R66.7 million respectively were included in revenue as grants received from international donors. These were contributions to defray expenditure on the Burundi peacekeeping mission, appropriated on the budget of the Department of Defence.

### **Prior-year adjustments due to function shifts**

Function shifts implemented in previous budgets affect the presentation of the government accounts. These include:

- The establishment of the South African Social Security Agency (SASSA), responsible for administering the delivery of social assistance grants, resulted in function shifts between national and provincial government and public entities. The shifting of this function to national government resulted in transfers to provincial revenue funds being reclassified as transfers to households and transfers to departmental agencies and accounts.
- The introduction of an accommodation charge payable by national departments for the use of government properties, levied by the property management trading entity and included in the accounts of the Department of Public Works. This resulted in the presentation of individual departments being amended to provide for these accommodation charges and a new trading entity being introduced for the Department of Public Works.
- Expenditure related to Regional Services Council levies, previously included as a departmental expenditure item, and in previous budgets presented as a transfer to local government forming part of the local government equitable share, was replaced by a direct charge financed by the general fuel levy and paid by the National Treasury to metropolitan municipalities. This adjustment was effected in the government accounts as from 2006/07.
- In previous budgets, payment of benefits to former employees for civil and military pensions and contributions to medical funds were classified as compensation of employees and transfers to households respectively. After further consultation of the international standard for classification, the *Government Finance Statistics Manual* (GFS 2001), it was determined that payment for medical benefits to former employees should also be classified as transfers to households and not as compensation of employees, and the data in the *Budget Review* has been adjusted accordingly.

### Adjustments due to transactions in government debt

As part of the restructuring of government's debt portfolio, bonds are repurchased or switched into new government bonds. In the process, government may make a capital profit, which is a book entry change in the discount on government bonds and is regarded as an extraordinary receipt. As such, capital profit does not represent an actual cash flow and is regarded as a "book profit", and recorded as a negative receipt and loan redemption for analysis purposes.

A premium may also be accrued, or be payable, when restructuring government's debt portfolio. Premiums paid are accounted for as extraordinary payments and premiums received as extraordinary receipts.

### Sources of information

The information in Tables 1 to 7 on national, provincial government and public entity finances is obtained from the following sources:

- Reports of the Auditor-General on the Appropriation and Miscellaneous Accounts in respect of General Affairs (1987/88 to 1993/94), the Accounts of the National Government (1994/95 to 1999/00), Audited Annual Financial Statements of National and Provincial Departments and Public Entities (2000/01 to 2010/11), as well as draft financial statements for some of the provinces and the revenue accounts of the former self-governing territories and TBVC states.
- Printed estimates of revenue and expenditure for the national and provincial budgets.
- The South African Reserve Bank.
- The Development Bank of Southern Africa (DBSA).
- Annual statements of Inland Revenue and Customs and Excise (previously of the Department of Finance) and of the South African Revenue Service (SARS).
- Monthly press releases of the National Treasury, published in terms of Section 32 of the Public Finance Management Act (1999).

### Main budget: Revenue, expenditure, budget balance and financing (Table 1)

Table 1 summarises the main budget balances since 2005/06 and medium-term estimates to 2014/15. To be in line with the economic reporting format, the revenue classification has been amended to show departmental sales of capital assets separately. These were previously included in non-tax current revenue.

Repayments of loans and advances, which were previously shown as negative expenditure, have been reclassified as revenue. Given that the same amount is added to both revenue and expenditure, the national budget deficit is unaffected.

Appropriations by vote are divided into current payments, transfers and subsidies, payments for capital assets and payments for financial assets. The provision for standing appropriations has been shifted from direct charges against the National Revenue Fund to the transfers and subsidies line item and the history adjusted accordingly. Both current and capital transfers are included in transfers and subsidies, in line with the requirements of the economic reporting format.

The size of the deficit figures presented in this table differ from those presented in budgets prior to 1995/96, as a number of items that were previously regarded as "below-the-line" expenditure have been included in total expenditure. In addition, revaluations of foreign loan obligations are now excluded from expenditure, in keeping with international practice.

Under loan redemptions and financing, *short-term loans* include the net result of transactions in Treasury bills and borrowing from the Corporation for Public Deposits. *Long-term loans* include all transactions in

government bonds and foreign loans (i.e. new loan issues, repayments on maturity, buy-backs, switches and reverse purchase transactions).

*Extraordinary issues* represent the settlement of extraordinary payments by means of government bond issues. This excludes extraordinary payments in cash.

Prior to the 1998 *Budget Review*, transfers from the Strategic Fuel Fund and the National Supplies Procurement Fund, as well as proceeds from the sale and restructuring of state assets, were treated as financing items. These, together with extraordinary payments unrelated to expenditure, are now shown below the budget balance and before financing. The reclassification does not affect the budget balance.

### **Main budget: Estimates of national revenue (Tables 2 and 3)**

Table 2 presents a summary of revenue; the details are set out in Table 3. Main budget revenue collections are recorded on an adjusted cash basis (cash book – revenue recorded as it is received in the ledgers of SARS). Tax revenue is classified according to standard international categories and departmental receipts according to the requirements of the economic reporting format.

Certain receipts into the National Revenue Fund are not regarded as revenue. These include proceeds from the restructuring of state assets and adjustments due to transactions in government bonds.

The historical data presented in Table 3 has been reclassified to be in line with the economic reporting format introduced in 2004/05. However, a large amount of the data cannot be reclassified, as departments captured these transactions within their ledgers as miscellaneous receipts. These amounts are therefore reported as unspecified receipts.

### **Main budget: Expenditure defrayed from the National Revenue Fund by votes (Table 4)**

Table 4 contains estimates of expenditure on national budget votes for the period 2008/09 to 2014/15. In 2011/12, amounts appropriated in the main budget, the adjusted estimates and preliminary estimates of spending on each vote are shown. Since the new government administration took office, a number of new departments were created while some of the existing departments were renamed or functions shifted between departments. The historical data has been adjusted for function shifts between the various departments and therefore the detail amounts of some departments might differ from financial statements produced by those departments. However, total expenditure is not influenced by these changes.

### **Consolidated national, provincial and social security funds expenditure (Tables 5 and 6)**

Tables 5 and 6 show the economic and functional classification of payments for consolidated national and provincial government and the social security funds. The social security funds include the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Funds. The national expenditure figures are for the 2012 Budget. In the provinces, however, expenditure estimates are preliminary, as their budgets are tabled after the national budget. Provincial estimates are based on preliminary budget statements provided by the provinces and are subject to change before being tabled in provincial legislatures.

The National Treasury introduced a new economic classification in the 2004 Budget that brought budget reporting in line with international best practice. Further changes were introduced on 1 April 2008 to improve the standard chart of accounts. This was the culmination of work on various initiatives to improve financial data, such as the infrastructure reporting process and improvement to item classification, and took into account lessons learnt from data observances over the previous four years.

#### *The functional classification*

The functional classification categories in this annexure are aligned to the Classification of Functions of Government as set out in the GFS, which differs from the categories used in budgets prior to 2009. The main difference between the classification used in this budget versus previous budgets, is that the classification is now done at a more detailed level. This implies that departmental programmes that were

allocated to one function, can now be disaggregated to more than one function, due to the availability of more detailed financial information. The historical data published in these tables has been reclassified to be in line with the more detailed classification categories. It should be noted that Budget discussions in Chapter 8 of the *Budget Review* are based on the allocation of financial resources of departmental programmes and entities to key spending areas. This improves engagement on budget allocations, as it groups programmes and entities that have a similar purpose together into a single budget decision-making process. To support this approach, data at programme and entity level is aggregated into spending categories, which provides for a higher level of aggregation than in the functional classification. This provides a specific perspective of the data for budget preparation.

For example, all science and technology activities were grouped together in a separate category, which, in terms of the stricter functional classification presented in Annexure B, is included in various functions. The classification framework for the presentation of fiscal data cannot exclusively direct the budget process. Fiscal statistics must always be an outcome of the budget allocations process and is therefore used as a guide to categorise expenditure for budgeting purposes.

Listed below are some of the most important differences between the key spending categories presented in Chapter 8 and the more detailed functional classification presented in the statistical tables in Annexure B:

- *Science and technology* – A new category is introduced that groups together various science-related activities. For example, the expenditure estimates of the Medical Research Council, included in the health function in Annexure B, are presented as part of this spending category.
- *Recreation and culture* – This category includes the expenditure estimates of the National Lotteries Distribution Trust, because a portion of its expenditure is allocated to recreational and cultural activities. However, in the statistical tables in Annexure B, a more detailed functional breakdown of the expenditure of the National Lotteries Distribution Trust is completed and allocated to various functions.
- *Economic services and environmental protection* – This excludes economic infrastructure, which is identified as a separate spending category, and includes environmental protection. Estimates relating to communication, transport, and fuel and energy have been included in the economic infrastructure spending category.
- *Health* – Payments made to nursing colleges are included in the health spending category, but classified as an education function in Annexure B. The Medical Research Council is also excluded from the health function because it falls under science and technology for budget preparation.
- *Defence* – Military Health Services is included in the defence spending category for purposes of budget preparation, but classified as a health function in Annexure B.
- *Local government, housing and community amenities* – Includes contributions to the South African Local Government Association and the Municipal Demarcation Board, classified as general public services in the statistical tables.

### **Consolidated government revenue, expenditure and financing (Table 7)**

Table 7 presents a new format of the government account that will be introduced from 2013. It distinguishes between government's operating activities and its plans to invest in capital and infrastructure.

The balance on the operating account shows the outcome of the government's operating activities, which is a measure of the cost of ongoing operations. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government must borrow to run its operations. The current balance demonstrates the sustainability of government operations.

Capital investment activities are presented in the capital account. Government's capital financing requirement is the outcome of this account, which is calculated as the difference between capital revenue and capital expenditure. This account will mainly be in deficit, owing to continuous investment in infrastructure and substantial capital outlays.

The new format separates out all transactions in financial assets and liabilities – mainly including loans extended to public corporations.

Extraordinary receipts and payments are currently not included in the main budget presentation. The introduction of the operating account and capital account makes extraordinary items obsolete; these are included in the main transaction categories. The classification principles and categories used in this new format will be the same as those used for classifying government transactions.

### **Consolidated government revenue and expenditure (Table 8)**

Table 8 shows the economic and functional classification of payments for the consolidated government budget. This consists of the consolidated national, provincial and social security figures presented in Tables 5 and 6, combined with entities forming part of the general government sector, as well as some government business enterprises.

The government budget consolidation includes all entities controlled and mainly financed by government revenue, where such revenue is defined as either taxes, levies and administrative or service fees prescribed by government, or direct budgetary support in the form of transfer payments. This consolidation also includes a number of government business enterprises, based on the principle that they either sell most of their goods and services produced to government institutions or departments at regulated prices, and are therefore not businesses in the true sense of the word, or they are directly involved in infrastructure financing and development.

Based on this principle these entities are broadly identified as one of the following:

- Enterprises that sell mainly to government departments or institutions, have no clear competitors and whose prices are therefore not clearly market related.
- Science councils that conduct research or fulfil a regulatory or advisory function, where regulatory or administration fees are determined by government.
- Government-regulated businesses that are primarily financed by a dedicated tax, administration fee or levy, the level of which is dictated by government, or that are directly involved in the maintenance or extension of critical infrastructure.

To present consolidated accounts, it is necessary that all units adopt the same accounting standards and policies. Thus, the format of the accounts, terminology used, classification, transaction coverage and accounting base (cash or accrual) must be the same. In this respect the consolidated government budget is prepared on the adjusted cash basis of accounting. This is not strictly comparable to the financial information published in the consolidated financial statements, which have two components – a consolidation of departments using the modified cash basis of accounting, and a separate consolidation of public entities that apply the accruals basis of accounting.

In the consolidated government budget the accrual data of public entities is converted into cash. This involves the adjustment of the data presented in the statement of financial performance with changes that are due to non-cash transactions. These adjustments are based on all relevant changes in balances on the statement of financial position, which once removed from the statement of financial performance results in the presentation of only the cash receipts and payments for the accounting period.

Once the data has been converted into a comparable set of numbers, a consolidated account can be produced. Consolidation involves the elimination of all transactions that occur between the units being consolidated. A transaction of one unit is matched with the same transaction as recorded for the second unit and both transactions are eliminated from the consolidation. For example, if a public entity sells a

service to a government department and data for the two units are being consolidated, neither the sale nor the purchase of the service is reported. In this way only transactions between government and non-government entities are recorded and total government revenue and expenditure is not inflated with internal transactions.

In the consolidation process all intra-entity transactions must be eliminated. However, in the accounting systems of government and many of its agencies not all intra-entity transactions are currently identifiable, complicating the consolidation process. Therefore, in preparing the consolidated government budget only identifiable intra-entity transactions have been eliminated. These broadly include:

- Transactions involving transfers from one government unit to another, including transfers made by national departments to public entities, and transfers from public entities to other public entities (e.g. Water Trading Entity transfers to water boards).
- Purchases of goods and services from other government units included in the consolidation, for example transactions between the Trans-Caledon Tunnel Authority, water boards and the Water Trading Entity.

This does not represent all intra-entity transactions that must be eliminated. As data collection and recording procedures for transactions are improved over time, additional intra-entity transactions will be identified and removed from the consolidated government budget.

In the 2012 Budget, a total of 175 national and provincial departments and 192 entities are included in the consolidated government budget. The National Treasury is committed to presenting a full consolidation of the whole of general government. That implies that the consolidated account presented in this budget must be extended to include the accounts of local government. A process has been initiated and initial data sets for local government have been published in the *Local Government Budgets and Expenditure Review*. However, considerable work remains to align this data to the data included in the consolidated account.

A discussion on the consolidation procedures, as well as a detailed list of all entities included in the consolidation, is available in Annexure W2 on the National Treasury website: [www.treasury.gov.za](http://www.treasury.gov.za).

### **Total debt of government (Table 9)**

Table 9 shows the major components of government debt. Total loan debt net consists of total domestic and foreign debt less the cash balances of the National Revenue Fund. Realised profits and losses on the Gold and Foreign Exchange Contingency Reserve Account are also disclosed. The projections for 2011/12 to 2014/15 are based on national budget data.

### **Financial guarantees: Amounts drawn on government guarantees (Table 10)**

The national government furnishes guarantees to various institutions that will only realise as liabilities to the government if these institutions are unable to meet their commitments. It is not possible to anticipate the portion of these guarantees that will realise as liabilities to the national government, and they are therefore disclosed as contingent liabilities in the national government's *consolidated financial information*. Amounts drawn in respect of guarantees and interest on these amounts, if guaranteed, are disclosed.

**Table 1**  
**Main Budget:**  
**Revenue, expenditure, budget balance and financing 1)**

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Actual outcome				Preliminary outcome	
<b>R million</b>						
<b>Main budget revenue</b>						
Current revenue	411 668.6	481 158.2	559 267.5	607 867.5	578 685.2	668 360.8
Tax revenue (gross) 2)	417 195.7	495 548.6	572 814.6	625 100.2	598 705.4	674 183.1
Less: SACU payments	-14 144.9	-25 194.9	-24 712.6	-28 920.6	-27 915.4	-14 991.3
Other adjustment 3)	-	-	-	-	-	-2 914.4
Non-tax revenue (departmental receipts) 4)	8 617.8	10 804.5	11 165.5	11 687.9	7 895.2	12 083.3
Financial transactions in assets and liabilities			1 296.9	797.1	957.1	1 341.3
Sales of capital assets	79.3	38.8	230.2	131.2	36.3	35.4
<b>Total revenue</b>	<b>411 747.9</b>	<b>481 197.0</b>	<b>560 794.6</b>	<b>608 795.7</b>	<b>579 678.6</b>	<b>669 737.5</b>
<b>Main budget expenditure</b>						
Direct charges against the National Revenue Fund	192 340.8	208 090.9	231 642.6	265 332.8	310 813.2	349 548.1
Debt-service costs 5)	50 912.0	52 192.2	52 877.1	54 393.7	57 129.2	66 226.8
Provincial equitable share	135 291.6	149 245.6	171 053.7	201 795.6	236 890.8	265 139.4
General fuel levy sharing with metros	-	-	-	-	6 800.1	7 542.4
Skills levy and Setas	4 883.3	5 328.4	6 284.3	7 234.1	7 815.6	8 379.3
Other 6)	1 253.9	1 324.7	1 427.6	1 909.3	2 177.5	2 260.2
Appropriated by vote	224 343.2	262 101.6	309 800.8	370 620.6	436 383.5	455 592.8
Current payments 7)	68 568.7	76 586.8	87 084.5	101 323.1	114 701.6	128 996.6
Transfers and subsidies 8)	148 790.8	178 111.1	214 591.9	249 672.6	279 126.8	294 759.5
Payments for capital assets 9)	6 983.7	6 067.8	7 018.5	8 652.1	9 452.9	10 631.5
Payments for financial assets 10)	-	1 335.8	1 105.9	10 972.6	33 102.3	21 205.2
Plus: Unallocated funds	-	-	-	-	-	-
Contingency reserve	-	-	-	-	-	-
<b>Total expenditure</b>	<b>416 684.0</b>	<b>470 192.5</b>	<b>541 443.4</b>	<b>635 953.3</b>	<b>747 196.8</b>	<b>805 141.0</b>
<b>Budget balance</b>	<b>-4 936.1</b>	<b>11 004.5</b>	<b>19 351.2</b>	<b>-27 157.6</b>	<b>-167 518.2</b>	<b>-135 403.4</b>
Budget balance as percentage of GDP	-0.3%	0.6%	0.9%	-1.2%	-6.9%	-4.9%
Extraordinary payments 11)	-4 553.9	-4 213.7	-775.6	-4 284.1	-671.2	-838.6
Extraordinary receipts 12)	6 905.2	3 438.1	1 849.8	8 203.4	6 434.6	3 009.7
<b>Net borrowing requirement (-)</b>	<b>-2 584.8</b>	<b>10 228.9</b>	<b>20 425.4</b>	<b>-23 238.3</b>	<b>-161 754.8</b>	<b>-133 232.3</b>
<b>Financing</b>						
<b>Change in loan liabilities</b>						
<b>Domestic short-term loans (net)</b>	<b>5 716.4</b>	<b>5 334.1</b>	<b>5 672.9</b>	<b>12 225.1</b>	<b>49 770.3</b>	<b>34 893.0</b>
<b>Domestic long-term loans (net)</b>	<b>23 086.0</b>	<b>891.7</b>	<b>-2 448.2</b>	<b>23 059.0</b>	<b>118 855.8</b>	<b>136 849.7</b>
Market loans	44 932.0	36 938.3	26 820.2	42 354.3	132 394.9	150 385.3
Extraordinary issues	4 539.0	-	-	-	-	-
Redemptions	-26 385.0	-36 046.6	-29 268.4	-19 295.3	-13 539.1	-13 535.6
<b>Foreign loans (net)</b>	<b>518.0</b>	<b>181.5</b>	<b>-4 745.4</b>	<b>-3 954.4</b>	<b>23 257.5</b>	<b>2 839.6</b>
Market loans	-	3 617.9	-1 568.0	-	30 872.4	5 151.1
Arms procurement loan agreements	2 896.8	3 690.0	2 426.5	3 057.3	800.0	470.4
World Bank loans	50.0	-	20.0	1.4	-	-
Redemptions (including revaluation of loans) 13)	-2 428.8	-7 126.4	-5 623.9	-7 013.1	-8 414.9	-2 781.9
<b>Change in cash and other balances (- increase)</b>	<b>-26 735.6</b>	<b>-16 636.2</b>	<b>-18 904.7</b>	<b>-8 091.4</b>	<b>-30 128.9</b>	<b>-41 350.1</b>
<b>Total financing (net)</b>	<b>2 584.8</b>	<b>-10 228.9</b>	<b>-20 425.4</b>	<b>23 238.3</b>	<b>161 754.8</b>	<b>133 232.3</b>
Gross domestic product (GDP)	1 613 812	1 832 763	2 075 695	2 303 553	2 440 163	2 754 275

1) This table summarises revenue, expenditure and the main budget balance since 2005/06. As available data are incomplete, the estimates are not fully consistent with other sources, such as the government finance statistics series of the South African Reserve Bank.

2) Mining leases and ownership has been reclassified as non-tax revenue (rent on land). Historical numbers have been adjusted for comparative purposes.

3) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.

4) Excludes sales of capital assets, discount and premium on the issuance of new government debt instruments, premium on debt portfolio restructuring and revaluation of foreign loan repayments.

5) Includes interest, cost of raising loans and management cost.

6) Include direct appropriations into the salaries of the President, Deputy President, judges, magistrates and members of Parliament.

**Table 1**  
**Main Budget:**  
**Revenue, expenditure, budget balance and financing 1)**

2011/12			2012/13	2013/14	2014/15	
Budget estimate	Revised estimate	Deviation	Medium-term estimates			
						R million
<b>Main budget revenue</b>						
728 901.1	733 765.9	4 864.7	798 452.0	894 227.8	997 154.4	
741 620.0	738 734.8	-2 885.2	826 401.1	913 610.0	1 019 620.0	2) Current revenue
-21 763.2	-21 763.2	0.0	-42 151.3	-37 245.3	-41 415.7	Tax revenue (gross)
-	-	-	-	-	-	Less: SACU payments
9 044.4	16 794.3	7 749.9	14 202.2	17 863.2	18 950.2	3) Other adjustment
894.4	743.4	-151.0	824.5	-	-	4) Non-tax revenue (departmental receipts)
62.2	41.8	-20.4	64.3	65.5	65.9	Financial transactions in assets and liabilities
						Sales of capital assets
<b>729 857.7</b>	<b>734 551.0</b>	<b>4 693.4</b>	<b>799 340.8</b>	<b>894 293.3</b>	<b>997 220.3</b>	<b>Total revenue</b>
<b>Main budget expenditure</b>						
385 312.0	388 565.4	3 253.4	419 925.9	452 506.9	482 537.3	5) Direct charges against the National Revenue Fund
76 578.7	76 644.9	66.2	89 388.1	100 806.0	109 039.3	Debt-service costs
288 492.8	291 735.5	3 242.7	309 057.4	328 920.7	349 351.0	Provincial equitable share
8 573.1	8 573.1	-	9 039.7	9 613.4	10 190.2	General fuel levy sharing with metros
9 148.7	9 148.7	-	9 606.1	10 134.5	10 742.6	Skills levy and Setas
2 518.6	2 463.1	-55.5	2 834.7	3 032.3	3 214.2	6) Other
499 480.9	502 633.3	3 152.3	543 629.5	589 438.7	633 041.3	Appropriated by vote
145 077.2	146 842.0	1 764.9	155 802.5	165 832.2	176 451.0	7) Current payments
342 282.2	343 826.8	1 544.5	371 010.0	404 740.9	436 711.7	8) Transfers and subsidies
11 371.4	11 214.0	-157.5	15 176.3	18 565.6	19 378.6	9) Payments for capital assets
750.1	750.5	0.4	1 640.7	300.0	500.0	10) Payments for financial assets
40.0	-	-40.0	30.0	30.0	-	Plus: Unallocated funds
4 090.4	-	-4 090.4	5 780.0	11 854.0	24 000.0	Contingency reserve
<b>888 923.3</b>	<b>891 198.7</b>	<b>2 275.3</b>	<b>969 365.5</b>	<b>1 053 829.6</b>	<b>1 139 578.6</b>	<b>Total expenditure</b>
<b>-159 065.6</b>	<b>-156 647.6</b>	<b>2 418.0</b>	<b>-170 024.8</b>	<b>-159 536.2</b>	<b>-142 358.3</b>	<b>Budget balance</b>
-5.5%	-5.2%	0.2%	-5.2%	-4.4%	-3.6%	Budget balance as percentage of GDP
-150.0	-530.0	-380.0	-24.0	-	-	11) Extraordinary payments
1 350.0	4 435.0	3 085.0	1 200.0	1 500.0	1 500.0	12) Extraordinary receipts
<b>-157 865.6</b>	<b>-152 742.6</b>	<b>5 123.0</b>	<b>-168 848.8</b>	<b>-158 036.2</b>	<b>-140 858.3</b>	<b>Net borrowing requirement (-)</b>
<b>Financing</b>						
<b>Change in loan liabilities</b>						
<b>22 000.0</b>	<b>20 828.0</b>	<b>-1 172.0</b>	<b>22 000.0</b>	<b>22 000.0</b>	<b>20 000.0</b>	<b>Domestic short-term loans (net)</b>
<b>135 366.7</b>	<b>139 925.0</b>	<b>4 558.3</b>	<b>119 998.0</b>	<b>130 353.0</b>	<b>114 259.0</b>	<b>Domestic long-term loans (net)</b>
150 400.0	155 400.0	5 000.0	151 367.0	151 054.0	142 277.0	Market loans
-	-	-	-	-	-	Extraordinary issues
-15 033.3	-15 475.0	-441.7	-31 369.0	-20 701.0	-28 018.0	Redemptions
<b>4 998.7</b>	<b>9 546.0</b>	<b>4 547.3</b>	<b>-7 492.0</b>	<b>-3 564.0</b>	<b>-305.0</b>	<b>Foreign loans (net)</b>
7 150.0	12 025.0	4 875.0	4 035.0	10 590.0	7 320.0	Market loans
1 009.0	985.0	-24.0	183.0	25.0	-	Arms procurement loan agreements
-	-	-	-	-	-	World Bank loans
-3 160.3	-3 464.0	-303.7	-11 710.0	-14 179.0	-7 625.0	13) Redemptions (including revaluation of loans)
<b>-4 499.6</b>	<b>-17 556.3</b>	<b>-13 056.7</b>	<b>34 342.8</b>	<b>9 247.3</b>	<b>6 904.3</b>	<b>Change in cash and other balances (- increase)</b>
<b>157 865.6</b>	<b>152 742.6</b>	<b>-5 123.0</b>	<b>168 848.8</b>	<b>158 036.2</b>	<b>140 858.3</b>	<b>Total financing (net)</b>
2 914 862	2 995 530	80 668	3 301 374	3 622 155	3 997 026	Gross domestic product (GDP)

7) Includes compensation of employees, payments for goods and services, interest on overdue accounts and rent on land. Payment for medical benefits to former employees has been moved to transfers.

8) Includes current and capital transfers and subsidies to business, households, foreign countries and other levels and funds of general government.

9) Includes acquisition and own account construction of new assets and the cost of upgrading, improving and extensions to existing capital assets.

10) Consists mainly of lending to public corporations or making equity investments in them for policy purposes. Previously included in transfers and subsidies.

11) Includes premiums incurred on loan issues, bond switch and buy-back transactions and revaluation adjustments when utilising foreign exchange deposits.

12) Includes proceeds from the sale of state assets and strategic supplies as well as premiums received on loan issues, bond switches and buy-back transactions and revaluation adjustments when utilising foreign exchange deposits.

13) Revaluation estimates are based on National Treasury's projection of exchange rates.

**Table 2**  
**Main Budget: Estimates of national revenue**  
**Summary of revenue 1)**

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
<b>R million</b>							
<b>Taxes on income and profits</b>	<b>61 004.7</b>	<b>68 883.8</b>	<b>82 876.1</b>	<b>95 003.6</b>	<b>108 021.5</b>	<b>116 148.9</b>	<b>126 145.2</b>
Persons and individuals	44 972.8	51 179.3	59 519.8	68 342.4	77 733.9	85 883.8	86 478.0
Gold mines	1 172.7	893.7	507.7	332.5	188.6	-	-
Other mines	457.2	714.8	1 341.6	1 349.4	1 946.1	-	-
Companies	11 961.3	14 059.0	16 985.0	19 696.4	20 388.0	20 971.6	29 491.8
Secondary tax on companies	1 303.6	1 262.2	1 337.9	1 446.4	1 930.8	3 149.9	4 031.3
Tax on retirement funds	-	-	2 565.5	3 229.7	5 098.8	5 330.4	5 219.8
Other 2)	1 137.1	774.8	618.6	606.8	735.3	813.1	924.3
<b>Taxes on payroll and workforce</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>1 257.4</b>
Skills development levy 3)	-	-	-	-	-	0.1	1 257.4
<b>Taxes on property</b>	<b>2 074.7</b>	<b>2 233.9</b>	<b>2 359.3</b>	<b>2 618.4</b>	<b>2 830.4</b>	<b>3 808.4</b>	<b>3 978.8</b>
Donations tax	104.4	61.0	46.7	17.7	9.1	15.2	32.1
Estate duty	125.3	181.3	181.8	302.6	256.4	304.2	442.7
Securities transfer tax 4)	431.5	462.9	397.3	442.3	721.1	1 090.4	1 102.1
Transfer duties	1 413.5	1 528.7	1 733.5	1 855.8	1 565.4	1 821.6	2 401.9
Demutualisation charge	-	-	-	-	278.5	577.0	-
<b>Domestic taxes on goods and services</b>	<b>44 070.3</b>	<b>48 881.7</b>	<b>53 572.9</b>	<b>60 619.0</b>	<b>66 213.2</b>	<b>72 184.7</b>	<b>78 877.5</b>
Value-added tax 5)	29 288.4	32 768.2	35 902.9	40 095.6	43 985.4	48 376.8	54 455.2
Specific excise duties	5 431.3	6 075.0	5 912.4	7 425.8	8 052.8	8 886.1	9 126.6
Ad valorem excise duties	372.9	400.2	718.7	581.6	518.9	584.3	693.9
General fuel levy	8 351.5	8 928.0	10 391.6	12 091.2	13 640.0	14 289.8	14 495.3
Air departure tax	-	-	-	-	-	-	85.8
Electricity levy	-	-	-	-	-	-	-
Other 6)	626.2	710.2	647.2	424.8	16.0	47.6	20.7
<b>Taxes on international trade and transactions</b>	<b>5 606.4</b>	<b>6 169.6</b>	<b>7 200.5</b>	<b>5 638.6</b>	<b>6 052.5</b>	<b>6 778.1</b>	<b>8 226.6</b>
Customs duties	4 247.0	5 325.9	6 518.0	6 055.7	5 985.7	6 517.8	7 853.6
Import surcharges	1 170.8	456.7	-5.9	-1.4	1.6	0.4	0.0
Other 7)	188.5	387.1	688.4	-415.7	65.2	259.9	372.9
<b>Stamp duties and fees</b>	<b>942.9</b>	<b>1 024.8</b>	<b>1 202.4</b>	<b>1 483.8</b>	<b>1 489.0</b>	<b>1 618.9</b>	<b>1 561.6</b>
<b>State miscellaneous revenue</b> 8)	<b>75.6</b>	<b>84.1</b>	<b>121.2</b>	<b>-36.0</b>	<b>179.3</b>	<b>727.0</b>	<b>72.0</b>
<b>TOTAL TAX REVENUE (gross)</b>	<b>113 774.5</b>	<b>127 278.0</b>	<b>147 332.3</b>	<b>165 327.4</b>	<b>184 785.9</b>	<b>201 265.9</b>	<b>220 119.1</b>
<b>Non-tax revenue</b> 9)	<b>1 802.2</b>	<b>2 614.9</b>	<b>3 522.7</b>	<b>3 299.4</b>	<b>4 796.2</b>	<b>4 093.8</b>	<b>3 868.8</b>
<b>Less: SACU payments</b> 10)	<b>-3 248.8</b>	<b>-3 890.1</b>	<b>-4 362.7</b>	<b>-5 237.2</b>	<b>-5 576.7</b>	<b>-7 197.3</b>	<b>-8 396.1</b>
<b>TOTAL MAIN BUDGET REVENUE</b>	<b>112 327.9</b>	<b>126 002.7</b>	<b>146 492.4</b>	<b>163 389.6</b>	<b>184 005.4</b>	<b>198 162.4</b>	<b>215 591.9</b>
<b>Current revenue</b>	<b>112 312.4</b>	<b>125 979.4</b>	<b>146 477.7</b>	<b>163 371.2</b>	<b>183 978.6</b>	<b>198 120.7</b>	<b>215 548.4</b>
Direct taxes	61 234.4	69 126.1	83 104.6	95 323.9	108 565.5	117 045.3	127 877.4
Indirect taxes	52 464.5	58 067.7	64 106.6	70 039.5	76 041.1	83 493.7	92 169.7
State miscellaneous revenue	75.6	84.1	121.2	-36.0	179.3	727.0	72.0
Non-tax revenue (excluding sales of capital assets) 12)	1 786.7	2 591.5	3 508.0	3 280.9	4 769.3	4 052.1	3 825.4
Less: SACU payments	-3 248.8	-3 890.1	-4 362.7	-5 237.2	-5 576.7	-7 197.3	-8 396.1
<b>Sales of capital assets</b>	<b>15.5</b>	<b>23.4</b>	<b>14.7</b>	<b>18.4</b>	<b>26.9</b>	<b>41.7</b>	<b>43.5</b>
<b>Extraordinary receipts</b> 13)	<b>1 201.0</b>	<b>1 391.4</b>	<b>1 629.4</b>	<b>2 947.4</b>	<b>2 757.6</b>	<b>7 238.3</b>	<b>2 983.5</b>

1) Data prior to 1994/95 (representing the former State Revenue Account) are adjusted to be comparable to the current National Revenue Fund (see introductory notes to this statistical annexure). Data prior to 1995/96 include collections by the former TBVC states and self-governing territories.

2) Includes interest on overdue income tax, non-resident shareholders' tax (prior to 1999/00), non-residents' tax on interest (prior to 1999/00), undistributed profits tax (prior to 1999/00) and small business tax amnesty (in 2006/07, 2007/08 and 2008/09).

3) Levy on payroll dedicated to skills development.

4) The Securities Transfer Tax (STT) replaced the Uncertificated Securities Tax (UST) as from 1 July 2008. The UST replaced the marketable securities tax as from 1 June 1999.

5) The value-added tax (VAT) replaced the general sales tax in September 1991.

6) Includes plastic bag levy (from 2004/05), Universal Service Fund (from 1998/99), Human Resources Fund and Universal Service Agency (in 1998/99 and 1999/00), levies on financial services (up to 2004/05) and CO<sub>2</sub> motor vehicle emissions tax (from 2010/11). Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for comparative purposes.

**Table 2**  
**Main Budget: Estimates of national revenue**  
**Summary of revenue 1)**

2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	
<b>Actual Collections</b>							<b>R million</b>
<b>147 310.4</b>	<b>164 565.9</b>	<b>171 962.8</b>	<b>195 219.1</b>	<b>230 803.6</b>	<b>279 990.5</b>	<b>332 058.3</b>	<b>Taxes on income and profits</b>
90 389.5	94 336.7	98 495.1	110 981.9	125 645.3	140 578.3	168 774.4	Persons and individuals
-	-	-	-	-	-	-	Gold mines
-	-	-	-	-	-	-	Other mines
42 354.5	55 745.1	60 880.8	70 781.9	86 160.8	118 998.6	140 119.8	Companies
7 162.7	6 325.6	6 132.9	7 487.1	12 277.6	15 291.4	20 585.4	Secondary tax on companies
6 190.6	6 989.7	4 897.7	4 406.1	4 783.1	3 190.5	285.4	Tax on retirement funds
1 213.1	1 169.0	1 556.3	1 562.2	1 936.7	1 931.7	2 293.3	2) Other
<b>2 717.3</b>	<b>3 352.1</b>	<b>3 896.4</b>	<b>4 443.3</b>	<b>4 872.0</b>	<b>5 597.4</b>	<b>6 330.9</b>	<b>Taxes on payroll and workforce</b>
2 717.3	3 352.1	3 896.4	4 443.3	4 872.0	5 597.4	6 330.9	3) Skills development levy
<b>4 628.3</b>	<b>5 084.6</b>	<b>6 707.5</b>	<b>9 012.6</b>	<b>11 137.5</b>	<b>10 332.3</b>	<b>11 883.9</b>	<b>Taxes on property</b>
20.6	17.7	17.1	25.2	29.5	47.0	27.6	Donations tax
481.9	432.7	417.1	506.9	624.7	747.4	691.0	Estate duty
1 212.8	1 205.2	1 101.1	1 365.9	1 973.4	2 763.9	3 757.1	4) Securities transfer tax
2 913.0	3 429.0	5 172.1	7 114.6	8 510.0	6 774.0	7 408.2	Transfer duties
-	-	-	-	-	-	-	Demutualisation charge
<b>86 885.1</b>	<b>97 311.5</b>	<b>110 108.6</b>	<b>131 980.6</b>	<b>151 223.7</b>	<b>174 671.4</b>	<b>194 690.3</b>	<b>Domestic taxes on goods and services</b>
61 056.6	70 149.9	80 681.8	98 157.9	114 351.6	134 462.6	150 442.8	5) Value-added tax
9 797.2	10 422.6	11 364.6	13 066.7	14 546.5	16 369.5	18 218.4	Specific excise duties
776.1	1 050.2	1 016.2	1 015.2	1 157.3	1 282.7	1 480.5	Ad valorem excise duties
14 923.2	15 333.8	16 652.4	19 190.4	20 506.7	21 844.6	23 740.5	General fuel levy
296.4	324.8	367.2	412.2	458.2	484.8	540.6	Air departure tax
-	-	-	-	-	-	-	Electricity levy
35.5	30.3	26.5	138.3	203.4	227.2	267.5	6) Other
<b>8 680.1</b>	<b>9 619.8</b>	<b>8 414.3</b>	<b>13 286.5</b>	<b>18 201.9</b>	<b>24 002.2</b>	<b>27 081.9</b>	<b>Taxes on international trade and transactions</b>
8 632.2	9 330.7	8 479.4	12 888.4	18 303.5	23 697.0	26 469.9	Customs duties
0.5	0.0	-	-	-	-	-	Import surcharges
47.5	289.1	-65.1	398.1	-101.6	305.2	612.0	7) Other
<b>1 767.2</b>	<b>1 572.4</b>	<b>1 360.1</b>	<b>1 167.7</b>	<b>792.8</b>	<b>615.7</b>	<b>557.1</b>	<b>Stamp duties and fees</b>
<b>306.7</b>	<b>433.0</b>	<b>-7.1</b>	<b>-130.9</b>	<b>164.2</b>	<b>339.2</b>	<b>212.2</b>	<b>8) State miscellaneous revenue</b>
<b>252 295.0</b>	<b>281 939.3</b>	<b>302 442.6</b>	<b>354 978.8</b>	<b>417 195.7</b>	<b>495 548.6</b>	<b>572 814.6</b>	<b>TOTAL TAX REVENUE (gross)</b>
<b>4 172.2</b>	<b>4 827.9</b>	<b>6 711.3</b>	<b>6 203.3</b>	<b>8 697.1</b>	<b>10 843.3</b>	<b>12 692.6</b>	<b>9) Non-tax revenue</b>
<b>-8 204.8</b>	<b>-8 259.4</b>	<b>-9 722.7</b>	<b>-13 327.8</b>	<b>-14 144.9</b>	<b>-25 194.9</b>	<b>-24 712.6</b>	<b>10) Less: SACU payments</b>
<b>248 262.4</b>	<b>278 507.7</b>	<b>299 431.2</b>	<b>347 854.4</b>	<b>411 747.9</b>	<b>481 197.0</b>	<b>560 794.6</b>	<b>TOTAL MAIN BUDGET REVENUE</b>
<b>248 258.2</b>	<b>278 449.9</b>	<b>299 414.7</b>	<b>347 824.2</b>	<b>411 668.6</b>	<b>481 158.2</b>	<b>560 564.4</b>	<b>Current revenue</b>
150 530.1	168 368.4	176 293.5	200 194.5	236 329.7	286 382.4	339 107.8	Direct taxes
101 458.2	113 137.9	126 156.1	154 915.3	180 701.8	208 827.1	233 494.6	Indirect taxes
306.7	433.0	-7.1	-130.9	164.2	339.2	212.2	State miscellaneous revenue
4 168.0	4 770.0	6 694.8	6 173.2	8 617.8	10 804.5	12 462.4	12) Non-tax revenue (excluding sales of capital assets)
-8 204.8	-8 259.4	-9 722.7	-13 327.8	-14 144.9	-25 194.9	-24 712.6	Less: SACU payments
<b>4.2</b>	<b>57.8</b>	<b>16.5</b>	<b>30.2</b>	<b>79.3</b>	<b>38.8</b>	<b>230.2</b>	<b>Sales of capital assets</b>
<b>4 159.1</b>	<b>8 167.9</b>	<b>1 598.2</b>	<b>2 492.0</b>	<b>6 905.2</b>	<b>3 438.1</b>	<b>1 849.8</b>	<b>13) Extraordinary receipts</b>

7) Includes miscellaneous customs and excise receipts, ordinary levy (up to 2004/05) and diamond export duties.

8) Includes revenue received by SARS which could not be allocated to a specific revenue type.

9) Includes sales of goods and services, fines, penalties and forfeits, interest, dividends and rent on land (including mineral and petroleum royalties), sales of capital assets as well as transactions in financial assets and liabilities.

10) Payments in terms of Southern African Custom Union (SACU) agreements.

11) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.

12) Excludes sales of capital assets.

13) Sales of strategic fuel stocks, proceeds from sales of state assets and certain other receipts are, by law, paid into the National Revenue Fund, but are not regarded as departmental receipts.

**Table 2**  
**Main Budget: Estimates of national revenue**  
**Summary of revenue 1)**

R million	2008/09	2009/10	2010/11	2011/12		2012/13	
	Actual collections			Revised estimates	% change on actual 2010/11	Budget estimates Before tax proposals	After tax proposals
<b>Taxes on income and profits</b>	<b>383 482.7</b>	<b>359 044.8</b>	<b>379 941.2</b>	<b>423 805.0</b>	<b>11.5%</b>	<b>486 379.3</b>	<b>475 729.3</b>
Persons and individuals	195 115.0	205 145.0	226 925.0	249 700.0	10.0%	295 769.7	285 969.7
Companies	165 378.3	134 883.4	132 901.7	152 000.0	14.4%	166 738.6	167 838.6
Secondary tax on companies	20 017.6	15 467.8	17 178.2	19 500.0	13.5%	21 000.0	19 050.0
Tax on retirement funds	143.3	42.7	2.8	-	-100.0%	-	-
Other 2)	2 828.6	3 505.9	2 933.6	2 605.0	-11.2%	2 871.0	2 871.0
<b>Taxes on payroll and workforce</b>	<b>7 327.5</b>	<b>7 804.8</b>	<b>8 652.3</b>	<b>10 100.0</b>	<b>16.7%</b>	<b>11 131.2</b>	<b>11 131.2</b>
Skills development levy 3)	7 327.5	7 804.8	8 652.3	10 100.0	16.7%	11 131.2	11 131.2
<b>Taxes on property</b>	<b>9 477.1</b>	<b>8 826.4</b>	<b>9 102.3</b>	<b>7 870.0</b>	<b>-13.5%</b>	<b>8 627.1</b>	<b>8 627.1</b>
Donations tax	125.0	60.1	64.6	50.0	-	55.1	55.1
Estate duty	756.7	759.3	782.3	1 110.0	41.9%	1 220.7	1 220.7
Securities transfer tax 4)	3 664.5	3 324.0	2 932.9	2 840.0	-3.2%	3 105.0	3 105.0
Transfer duties	4 930.9	4 683.0	5 322.5	3 870.0	-27.3%	4 246.3	4 246.3
<b>Domestic taxes on goods and services</b>	<b>201 416.0</b>	<b>203 666.8</b>	<b>249 490.4</b>	<b>264 649.8</b>	<b>6.1%</b>	<b>286 212.0</b>	<b>294 554.2</b>
Value-added tax 5)	154 343.1	147 941.3	183 571.4	190 815.0	3.9%	209 674.9	209 674.9
Specific excise duties	20 184.5	21 289.3	22 967.6	25 880.0	12.7%	26 932.5	28 772.4
Ad valorem excise duties	1 169.5	1 275.9	1 596.2	1 814.6	13.7%	1 999.9	1 999.9
General fuel levy	24 883.8	28 832.5	34 417.6	37 180.0	8.0%	38 258.2	42 775.5
Air departure tax	549.4	580.3	647.8	730.1	12.7%	750.3	750.3
Electricity levy	-	3 341.7	4 996.4	6 430.0	28.7%	6 616.5	8 601.5
Other 6)	285.7	405.7	1 293.3	1 800.0	39.2%	1 979.7	1 979.7
<b>Taxes on international trade and transactions</b>	<b>22 852.4</b>	<b>19 318.9</b>	<b>26 977.1</b>	<b>32 310.0</b>	<b>19.8%</b>	<b>36 359.7</b>	<b>36 359.3</b>
Customs duties	22 751.0	19 577.1	26 637.4	32 260.0	21.1%	36 160.0	36 160.0
Other 7)	101.4	-258.3	339.7	50.0	-85.3%	199.7	199.3
<b>Stamp duties and fees</b>	<b>571.8</b>	<b>49.5</b>	<b>3.1</b>	<b>-</b>	<b>-100.0%</b>	<b>-</b>	<b>-</b>
<b>State miscellaneous revenue</b> 8)	<b>-27.4</b>	<b>-5.7</b>	<b>16.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL TAX REVENUE (gross)</b>	<b>625 100.2</b>	<b>598 705.4</b>	<b>674 183.1</b>	<b>738 734.8</b>	<b>9.6%</b>	<b>828 709.3</b>	<b>826 401.1</b>
<b>Non-tax revenue</b> 9)	<b>12 616.2</b>	<b>8 888.5</b>	<b>13 460.1</b>	<b>17 579.5</b>	<b>30.6%</b>	<b>15 091.0</b>	<b>15 091.0</b>
Less: SACU payments 10)	-28 920.6	-27 915.4	-14 991.3	-21 763.2	45.2%	-42 151.3	-42 151.3
Other adjustment 11)	-	-	-2 914.4	-	-100.0%	-	-
<b>TOTAL MAIN BUDGET REVENUE</b>	<b>608 795.7</b>	<b>579 678.6</b>	<b>669 737.5</b>	<b>734 551.0</b>	<b>9.7%</b>	<b>801 649.0</b>	<b>799 340.8</b>
<b>Current revenue</b>	<b>608 664.5</b>	<b>579 642.3</b>	<b>669 702.1</b>	<b>734 509.2</b>	<b>9.7%</b>	<b>801 584.7</b>	<b>799 276.5</b>
Direct taxes	391 691.9	367 669.0	389 440.5	435 065.0	11.7%	498 786.3	488 136.3
Indirect taxes	233 435.6	231 042.1	284 726.0	303 669.8	6.7%	329 923.0	338 264.8
State miscellaneous revenue	-27.4	-5.7	16.7	-	-	-	-
Non-tax revenue (excluding sales of capital assets) 12)	12 485.0	8 852.3	13 424.6	17 537.7	30.6%	15 026.7	15 026.7
Less: SACU payments	-28 920.6	-27 915.4	-17 905.7	-21 763.2	21.5%	-42 151.3	-42 151.3
<b>Sales of capital assets</b>	<b>131.2</b>	<b>36.3</b>	<b>35.4</b>	<b>41.8</b>	<b>17.9%</b>	<b>64.3</b>	<b>64.3</b>
<b>Extraordinary receipts</b> 13)	<b>8 203.4</b>	<b>6 434.6</b>	<b>3 009.7</b>	<b>4 435.0</b>		<b>-</b>	<b>-</b>

- 1) Data prior to 1994/95 (representing the former State Revenue Account) are adjusted to be comparable to the current National Revenue Fund (see introductory notes to this statistical annexure). Data prior to 1995/96 include collections by the former TBVC states and self-governing territories.
- 2) Includes interest on overdue income tax, non-resident shareholders' tax (prior to 1999/00), non-residents' tax on interest (prior to 1999/00), undistributed profits tax (prior to 1999/00) and small business tax amnesty (in 2006/07, 2007/08 and 2008/09).
- 3) Levy on payroll dedicated to skills development.
- 4) The Securities Transfer Tax (STT) replaced the Uncertificated Securities Tax (UST) as from 1 July 2008. The UST replaced the marketable securities tax as from 1 June 1999.
- 5) The value-added tax (VAT) replaced the general sales tax in September 1991.
- 6) Includes plastic bag levy (from 2004/05), Universal Service Fund (from 1998/99), Human Resources Fund and Universal Service Agency (in 1998/99 and 1999/00), levies on financial services (up to 2004/05) and CO<sub>2</sub> motor vehicle emissions tax (from 2010/11). Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for comparative purposes.

**Table 2**  
**Main Budget: Estimates of national revenue**  
**Summary of revenue 1)**

2012/13		2013/14		2014/15		R million
% change on revised 2011/12	% of total budget revenue	Estimates	% change on after tax proposals 2012/13	Estimates	% change on 2013/14	
12.3%	59.5%	535 650.1	12.6%	606 455.6	13.2%	<b>Taxes on income and profits</b>
14.5%	35.8%	328 380.0	14.8%	377 650.0	15.0%	Persons and individuals
10.4%	21.0%	183 220.2	9.2%	202 220.2	10.4%	Companies
-2.3%	2.4%	20 900.0	9.7%	23 110.0	10.6%	Secondary tax on companies
-	-	-	-	-	-	Tax on retirement funds
10.2%	0.4%	3 150.0	9.7%	3 475.4	10.3%	2) Other
10.2%	1.4%	12 210.8	9.7%	13 479.2	10.4%	<b>Taxes on payroll and workforce</b>
10.2%	1.4%	12 210.8	9.7%	13 479.2	10.4%	3) Skills development levy
9.6%	1.1%	9 500.0	10.1%	10 500.0	10.5%	<b>Taxes on property</b>
10.2%	0.0%	60.0	8.9%	70.0	16.7%	Donations tax
10.0%	0.2%	1 340.0	9.8%	1 480.0	10.4%	Estate duty
9.3%	0.4%	3 410.0	9.8%	3 770.0	10.6%	4) Securities transfer tax
9.7%	0.5%	4 690.0	10.4%	5 180.0	10.4%	Transfer duties
11.3%	36.8%	318 980.0	8.3%	346 110.0	8.5%	<b>Domestic taxes on goods and services</b>
9.9%	26.2%	231 740.0	10.5%	255 990.0	10.5%	5) Value-added tax
11.2%	3.6%	29 480.0	2.5%	30 360.0	3.0%	Specific excise duties
10.2%	0.3%	2 190.0	9.5%	2 420.0	10.5%	Ad valorem excise duties
15.0%	5.4%	43 810.0	2.4%	45 090.0	2.9%	General fuel levy
2.8%	0.1%	780.0	4.0%	810.0	3.8%	Air departure tax
33.8%	1.1%	8 930.0	3.8%	9 310.0	4.3%	Electricity levy
10.0%	0.2%	2 050.0	3.5%	2 130.0	3.9%	6) Other
12.5%	4.5%	37 269.1	2.5%	43 075.3	15.6%	<b>Taxes on international trade and transactions</b>
12.1%	4.5%	37 060.0	2.5%	42 840.0	15.6%	Customs duties
298.5%	0.0%	209.1	4.9%	235.3	12.5%	7) Other
-	-	-	-	-	-	<b>Stamp duties and fees</b>
-	-	-	-	-	-	8) State miscellaneous revenue
11.9%	103.4%	913 610.0	10.6%	1 019 620.0	11.6%	<b>TOTAL TAX REVENUE (gross)</b>
-14.2%	1.9%	17 928.6	18.8%	19 016.0	6.1%	9) Non-tax revenue
93.7%	-5.3%	-37 245.3	-11.6%	-41 415.7	11.2%	10) Less: SACU payments
-	-	-	-	-	-	11) Other adjustment
8.8%	100.0%	894 293.3	11.9%	997 220.3	11.5%	<b>TOTAL MAIN BUDGET REVENUE</b>
8.8%	100.0%	894 227.8	11.9%	997 154.4	11.5%	<b>Current revenue</b>
12.2%	61.1%	549 260.9	12.5%	621 484.7	13.1%	Direct taxes
11.4%	42.3%	364 349.1	7.7%	398 135.3	9.3%	Indirect taxes
-	-	-	-	-	-	State miscellaneous revenue
-14.3%	1.9%	17 863.2	18.9%	18 950.2	6.1%	12) Non-tax revenue (excluding sales of capital assets)
93.7%	-5.3%	-37 245.3	-11.6%	-41 415.7	11.2%	Less: SACU payments
53.9%	0.0%	65.5	1.9%	65.9	0.6%	<b>Sales of capital assets</b>
-	-	-	-	-	-	13) Extraordinary receipts

7) Includes miscellaneous customs and excise receipts, ordinary levy (up to 2004/05) and diamond export duties.

8) Includes revenue received by SARS which could not be allocated to a specific revenue type.

9) Includes sales of goods and services, fines, penalties and forfeits, interest, dividends and rent on land (including mineral and petroleum royalties), sales of capital assets

10) Payments in terms of Southern African Custom Union (SACU) agreements.

11) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.

12) Excludes sales of capital assets.

13) Sales of strategic fuel stocks, proceeds from sales of state assets and certain other receipts are, by law, paid into the National Revenue Fund, but are not regarded as

**Table 3**  
**Main Budget: Estimates of national revenue**  
**Detailed classification of revenue**

	2008/09	2009/10	2010/11			
			Before tax proposals	After	Revised estimate	Actual collection
<b>R thousands</b>	<b>Actual collections</b>					
<b>Taxes on income and profits</b>	<b>383 482 732</b>	<b>359 044 847</b>	<b>384 465 800</b>	<b>377 715 800</b>	<b>380 080 000</b>	<b>379 941 233</b>
Income tax on persons and individuals	195 115 008	205 145 021	230 075 800	224 675 800	228 000 000	226 925 026
Tax on corporate income						
Companies	165 378 278	134 883 420	135 000 000	133 650 000	132 500 000	132 901 680
Secondary tax on companies	20 017 580	15 467 795	16 500 000	16 500 000	16 500 000	17 178 189
Tax on retirement funds	143 251	42 699	-	-	-	2 772
Other						
Interest on overdue income tax	2 776 988	3 433 025	2 780 000	2 780 000	3 050 000	2 904 485
Small business tax amnesty	51 627	72 888	110 000	110 000	30 000	29 080
<b>Taxes on payroll and workforce</b>	<b>7 327 463</b>	<b>7 804 829</b>	<b>8 424 228</b>	<b>8 424 228</b>	<b>8 420 000</b>	<b>8 652 340</b>
Skills development levy	7 327 463	7 804 829	8 424 228	8 424 228	8 420 000	8 652 340
<b>Taxes on property</b>	<b>9 477 079</b>	<b>8 826 422</b>	<b>9 960 000</b>	<b>9 960 000</b>	<b>9 365 000</b>	<b>9 102 302</b>
Estate, inheritance and gift taxes						
Donations tax	124 992	60 084	60 000	60 000	65 000	64 584
Estate duty	756 738	759 273	800 000	800 000	800 000	782 325
Taxes on financial and capital transactions						
Securities transfer tax	1) 3 664 484	3 324 017	4 100 000	4 100 000	3 000 000	2 932 906
Transfer duties	4 930 865	4 683 047	5 000 000	5 000 000	5 500 000	5 322 487
<b>Domestic taxes on goods and services</b>	<b>201 416 062</b>	<b>203 666 753</b>	<b>224 579 990</b>	<b>230 880 000</b>	<b>247 540 000</b>	<b>249 490 373</b>
Value-added tax	154 343 122	147 941 322	164 000 000	164 000 000	181 335 000	183 571 439
Specific excise duties						
Beer	5 514 810	5 738 164	6 046 860	6 665 290	6 554 622	7 006 915
Sorghum beer and sorghum flour	38 240	34 394	42 950	47 350	44 217	35 959
Wine and other fermented beverages	1 358 440	1 482 517	1 559 900	1 719 440	1 498 867	1 494 710
Spirits	2 511 160	2 790 309	2 941 710	3 242 570	2 908 354	2 831 005
Cigarettes and cigarette tobacco	8 659 210	9 187 982	9 533 330	10 508 330	9 685 087	9 367 944
Pipe tobacco and cigars	596 030	482 195	419 050	461 900	553 403	485 745
Petroleum products	2) 880 630	872 701	921 900	1 016 190	1 039 081	917 927
Revenue from neighbouring countries	3) 626 020	701 017	534 290	588 930	616 369	827 409
<i>Ad valorem</i> excise duties	1 169 529	1 275 942	1 200 000	1 200 000	1 900 000	1 596 229
General fuel levy	24 883 776	28 832 536	31 000 000	34 600 000	34 300 000	34 417 577
Taxes on use of goods or permission to use goods or to perform activities						
Air passenger tax	549 365	580 326	750 000	750 000	705 000	647 810
Plastic bags levy	78 563	110 510	150 000	150 000	290 000	258 222
Electricity levy	-	3 341 691	5 200 000	5 200 000	5 200 000	4 996 366
Incandescent light bulb levy	-	63 880	20 000	20 000	165 000	151 083
CO <sub>2</sub> tax - motor vehicle emissions	-	-	-	450 000	505 000	625 891
Turnover tax for micro businesses	-	6 493	10 000	10 000	5 000	2 802
Other						
Universal Service Fund	207 167	224 774	250 000	250 000	235 000	255 341
<b>Taxes on international trade and transactions</b>	<b>22 852 428</b>	<b>19 318 860</b>	<b>20 850 000</b>	<b>20 850 000</b>	<b>26 790 000</b>	<b>26 977 132</b>
Import duties						
Customs duties	22 751 022	19 577 115	20 500 000	20 500 000	26 400 000	26 637 438
Other						
Miscellaneous customs and excise receipts	101 239	-294 020	300 000	300 000	340 000	269 304
Diamond export levy	167	35 766	50 000	50 000	50 000	70 390
<b>Other taxes</b>	<b>571 838</b>	<b>49 457</b>	<b>20 000</b>	<b>20 000</b>	<b>5 000</b>	<b>3 069</b>
Stamp duties and fees	571 838	49 457	20 000	20 000	5 000	3 069
<b>State miscellaneous revenue</b>	<b>4) -27 439</b>	<b>-5 724</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16 698</b>
<b>TOTAL TAX REVENUE (gross)</b>	<b>625 100 163</b>	<b>598 705 444</b>	<b>648 300 018</b>	<b>647 850 028</b>	<b>672 200 000</b>	<b>674 183 147</b>
<b>Less: SACU payments</b>	<b>5) -28 920 624</b>	<b>-27 915 405</b>	<b>-14 991 309</b>	<b>-14 991 309</b>	<b>-17 891 309</b>	<b>-17 905 679</b>
Payments in terms of Customs Union agreements (sec. 51(2) of Act 91 of 1964)	-28 920 624	-27 915 405	-14 991 309	-14 991 309	-14 991 309	-14 991 309
Other adjustment	6) -	-	-	-	-2 900 000	-2 914 370
<b>TOTAL TAX REVENUE (net of SACU payments)</b>	<b>596 179 539</b>	<b>570 790 038</b>	<b>633 308 709</b>	<b>632 858 719</b>	<b>654 308 691</b>	<b>656 277 467</b>

1) The Securities Transfer Tax (STT) replaced the Uncertificated Securities Tax (UST) as from 1 July 2008.

2) Specific excise duties on petrol, distillate fuel, residual fuel and base oil.

3) Excise duties which are collected by the Botswana, Lesotho, Namibia and Swaziland (BLNS) countries.

**Table 3**  
**Main Budget: Estimates of national revenue**  
**Detailed classification of revenue**

2011/12				2012/13			R thousands
Budget estimates Before tax proposals	After	Revised estimate	% change on 2010/11 actual	Before tax proposals	After		
426 694 589	418 344 589	423 805 031	11.5%	486 379 255	475 729 255	<b>Taxes on income and profits</b>	
261 600 000	252 750 000	249 700 000	10.0%	295 769 650	285 969 650	Income tax on persons and individuals	
143 665 000	144 165 000	152 000 000	14.4%	166 738 600	167 838 600	Tax on corporate income	
18 100 000	18 100 000	19 500 000	13.5%	21 000 000	19 050 000	Companies	
-	-	-	-100.0%	-	-	Secondary tax on companies	
3 329 589	3 329 589	2 605 031	-10.3%	2 871 005	2 871 005	Tax on retirement funds	
-	-	-	-100.0%	-	-	Other	
9 150 000	9 150 000	10 100 000	16.7%	11 131 211	11 131 211	Interest on overdue income tax	
9 150 000	9 150 000	10 100 000	16.7%	11 131 211	11 131 211	Small business tax amnesty	
10 340 000	9 590 000	7 870 000	-13.5%	8 627 127	8 627 127	<b>Taxes on payroll and workforce</b>	
70 000	70 000	50 000	-22.6%	55 105	55 105	Skills development levy	
870 000	870 000	1 110 000	41.9%	1 220 731	1 220 731	<b>Taxes on property</b>	
3 300 000	3 300 000	2 840 000	-3.2%	3 104 972	3 104 972	Estate, inheritance and gift taxes	
6 100 000	5 350 000	3 870 000	-27.3%	4 246 319	4 246 319	Donations tax	
269 225 000	274 210 000	264 649 769	6.1%	286 212 003	294 554 204	Estate duty	
200 880 000	200 880 000	190 815 000	3.9%	209 674 851	209 674 851	Taxes on financial and capital transactions	
6 669 113	7 180 030	7 555 000	7.8%	7 934 824	8 476 896	Securities transfer tax	1)
44 989	48 436	36 621	1.8%	38 281	40 896	Transfer duties	
1 525 048	1 641 882	1 955 372	30.8%	1 803 041	1 926 217	<b>Domestic taxes on goods and services</b>	
2 959 155	3 185 854	3 319 988	17.3%	3 471 249	3 708 389	Value-added tax	
9 854 259	10 609 188	10 474 787	11.8%	10 984 624	11 735 044	Specific excise duties	
563 069	606 205	668 729	37.7%	745 992	796 955	Beer	
1 057 231	1 138 224	926 000	0.9%	1 026 259	1 096 369	Sorghum beer and sorghum flour	
627 136	675 180	943 503	14.0%	928 251	991 665	Wine and other fermented beverages	
2 080 000	2 230 000	1 814 644	13.7%	1 999 920	1 999 920	Spirits	
35 000 000	36 900 000	37 180 000	8.0%	38 258 220	42 775 510	Cigarettes and cigarette tobacco	
730 000	730 000	730 124	12.7%	750 298	750 298	Pipe tobacco and cigars	
300 000	300 000	25 000	-90.3%	149 725	149 725	Petroleum products	2)
5 380 000	6 530 000	6 430 000	28.7%	6 616 470	8 601 470	Revenue from neighbouring countries	3)
75 000	75 000	105 000	-30.5%	110 000	110 000	Ad valorem excise duties	
1 200 000	1 200 000	1 565 000	150.0%	1 610 000	1 610 000	General fuel levy	
15 000	15 000	5 000	78.4%	10 000	10 000	Taxes on use of goods or permission to use goods or to perform activities	
265 000	265 000	100 000	-60.8%	100 000	100 000	Air passenger tax	
30 325 440	30 325 440	32 310 000	19.8%	36 359 673	36 359 265	Plastic bags levy	
29 860 400	29 860 400	32 260 000	21.1%	36 160 000	36 160 000	Electricity levy	
409 540	409 540	5 000	-98.1%	150 000	149 592	Incandescent light bulb levy	
55 500	55 500	45 000	-36.1%	49 673	49 673	CO <sub>2</sub> tax - motor vehicle emissions	
-	-	-	-100.0%	-	-	Turnover tax for micro businesses	
-	-	-	-100.0%	-	-	Other	
-	-	-	-100.0%	-	-	Universal Service Fund	
-	-	-	-100.0%	-	-	<b>Taxes on international trade and transactions</b>	
-	-	-	-100.0%	-	-	Import duties	
-	-	-	-100.0%	-	-	Customs duties	
-	-	-	-100.0%	-	-	Other	
-	-	-	-100.0%	-	-	Miscellaneous customs and excise receipts	
-	-	-	-100.0%	-	-	Diamond export levy	
-	-	-	-100.0%	-	-	<b>Other taxes</b>	
-	-	-	-100.0%	-	-	Stamp duties and fees	
-	-	-	-100.0%	-	-	4) State miscellaneous revenue	
745 735 029	741 620 029	738 734 800	9.6%	828 709 270	826 401 062	<b>TOTAL TAX REVENUE (gross)</b>	
-21 763 239	-21 763 239	-21 763 239	21.5%	(42 151 276)	(42 151 276)	5) Less: SACU payments	
-21 763 239	-21 763 239	-21 763 239	45.2%	-42 151 276	-42 151 276	Payments in terms of Customs Union agreements (sec. 51(2) of Act 91 of 1964)	
-	-	-	-100.0%	-	-	Other adjustment	6)
723 971 790	719 856 790	716 971 561	9.2%	786 557 994	784 249 786	<b>TOTAL TAX REVENUE (net of SACU payments)</b>	

4) Revenue received by SARS in respect of taxation which could not be allocated to specific revenue types.

5) Payments in terms of Southern African Custom Union (SACU) agreements.

6) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.

**Table 3**  
**Main Budget: Estimates of national revenue**  
**Detailed classification of revenue**

	2008/09	2009/10	2010/11			
	Actual collections		Before tax proposals	After	Revised estimate	Actual collection
<b>R thousands</b>						
<b>TOTAL TAX REVENUE (net of SACU payments)</b>	<b>596 179 539</b>	<b>570 790 038</b>	<b>633 308 709</b>	<b>632 858 719</b>	<b>654 308 691</b>	<b>656 277 467</b>
<b>Sales of goods and services other than capital assets</b>	<b>3 392 687</b>	<b>2 313 946</b>	<b>1 924 561</b>	<b>1 924 561</b>	<b>1 645 451</b>	<b>2 334 458</b>
Sales of goods and services produced by departments						
Sales by market establishments 7)	40 923	34 744	72 965	72 965	143 662	40 372
Administrative fees	2 849 094	1 529 124	1 318 712	1 318 712	838 361	1 675 693
Other sales	431 361	726 067	503 160	503 160	634 608	596 341
Sales of scrap, waste, arms and other used current goods	71 309	24 011	29 724	29 724	28 820	22 052
<b>Transfers received</b>	<b>291 605</b>	<b>231 615</b>	<b>195 682</b>	<b>195 682</b>	<b>195 771</b>	<b>250 895</b>
<b>Fines, penalties and forfeits</b>	<b>478 895</b>	<b>1 698 145</b>	<b>506 473</b>	<b>506 473</b>	<b>1 334 122</b>	<b>1 457 182</b>
<b>Interest, dividends and rent on land</b>	<b>7 524 686</b>	<b>3 651 459</b>	<b>6 354 246</b>	<b>6 354 246</b>	<b>8 037 694</b>	<b>8 169 733</b>
Interest						
Cash and cash equivalents	90 080	127 053	113 704	113 704	16 713	123 244
Interest investments	41 884	–	16 036	16 036	75 000	–
Exchequer investments	4 829 474	2 005 699	2 012 000	2 012 000	2 500 000	2 400 884
Dividends						
Airports Company South Africa (ACSA)	–	–	115 000	115 000	115 000	–
SASRIA	–	–	–	–	–	153 299
Vodacom	–	227 752	–	–	–	735 018
Industrial Development Corporation (IDC)	100 000	120 000	90 000	90 000	–	50 000
Registration of Deeds Trading Account surplus	–	–	–	–	–	–
Reserve Bank (National Treasury)	119 005	–	–	–	–	–
Telkom	1 366 514	238 105	238 105	238 105	621 143	258 810
Department of Mineral Resources	–	–	–	–	4 220	–
Public Investment Corporation	–	78 911	–	–	–	–
Rent on land						
Mineral and petroleum royalties 8)	–	–	3 540 000	3 540 000	3 712 000	3 554 722
Mining leases and ownership 9)	708 413	633 125	–	–	900 000	860 238
Royalties, prospecting fees and surface rental 10)	255 680	210 579	–	–	90 623	–
Land rent	13 636	10 235	229 401	229 401	2 995	33 518
<b>Sales of capital assets</b>	<b>131 244</b>	<b>36 263</b>	<b>58 022</b>	<b>58 022</b>	<b>58 322</b>	<b>35 448</b>
<b>Financial transactions in assets and liabilities 11)</b>	<b>797 067</b>	<b>957 093</b>	<b>1 341 298</b>	<b>1 341 298</b>	<b>982 640</b>	<b>1 212 359</b>
<b>TOTAL NON-TAX REVENUE</b>	<b>12 616 184</b>	<b>8 888 521</b>	<b>10 380 282</b>	<b>10 380 282</b>	<b>12 254 000</b>	<b>13 460 075</b>
<b>TOTAL MAIN BUDGET REVENUE</b>	<b>608 795 723</b>	<b>579 678 559</b>	<b>643 688 991</b>	<b>643 239 001</b>	<b>666 562 691</b>	<b>669 737 542</b>
<b>Extraordinary receipts</b>	<b>8 203 424</b>	<b>6 434 648</b>			<b>3 148 000</b>	<b>3 009 738</b>
Adjustments due to transactions in government stock	4 921 428	1 843 915			2 636 000	1 777 405
Agricultural Debt Account surrender	703 849	–			–	–
Penalties and forfeits from SARB	1 154	–			–	–
Equalisation Fund account transfer	–	–			–	700 000
Saambou Bank	–	–			–	20 000
Proceeds from the sale of Telkom's share in Vodacom	–	3 933 903			–	–
Incorrect deposit to the exchequer	–	5 899			–	–
Surplus cash from ICASA	–	8 947			–	–
Profits on GFECRA	–	–			–	–
Special dividends						
Telkom	–	538 324			362 000	362 333
Special restructuring proceeds from SASRIA	2 141 531	103 660			150 000	150 000
Winding down of Diabo Share Trust	435 462	–			–	–

7) New item introduced on the Standard Chart of Accounts (SCOA) from 2008/09.

8) Mineral royalties imposed on the transfer of mineral resources in terms of the Mineral and Petroleum Resources Royalty Act, 2008, which came into operation on 1 May 2009.

9) Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for comparative purposes.

**Table 3**  
**Main Budget: Estimates of national revenue**  
**Detailed classification of revenue**

2011/12				2012/13		R thousands
Budget estimates Before tax proposals	After	Revised estimate	% change on 2010/11 actual	Before tax proposals	After	
723 971 790	719 856 790	716 971 561	9.2%	786 557 994	784 249 786	<b>TOTAL TAX REVENUE (net of SACU payments)</b>
<b>1 548 626</b>	<b>1 548 626</b>	<b>2 565 800</b>	<b>9.9%</b>	<b>2 408 056</b>	<b>2 408 056</b>	<b>Sales of goods and services other than capital assets</b>
69 505	69 505	40 823	1.1%	43 194	43 194	7) Sales of goods and services produced by departments
945 028	945 028	1 903 479	13.6%	1 727 650	1 727 650	Sales by market establishments
510 041	510 041	590 578	-1.0%	606 150	606 150	Administrative fees
24 052	24 052	30 920	40.2%	31 063	31 063	Other sales
						Sales of scrap, waste, arms and other used current goods
<b>172 353</b>	<b>172 353</b>	<b>3 668 546</b>	<b>1 362.2%</b>	<b>168 561</b>	<b>168 561</b>	<b>Transfers received</b>
<b>526 859</b>	<b>526 859</b>	<b>917 990</b>	<b>-37.0%</b>	<b>951 887</b>	<b>951 887</b>	<b>Fines, penalties and forfeits</b>
<b>6 796 512</b>	<b>6 796 512</b>	<b>9 641 962</b>	<b>18.0%</b>	<b>10 673 670</b>	<b>10 673 670</b>	<b>Interest, dividends and rent on land</b>
112 459	112 459	45 336	-63.2%	79 178	79 178	Interest
-	-	-	-	-	-	Cash and cash equivalents
900 000	900 000	2 500 000	4.1%	2 305 000	2 305 000	Interest investments
						Exchequer investments
124 000	124 000	-	-	-	-	Dividends
		126 656	-17.4%	135 981	135 981	Airports Company South Africa (ACSA)
		1 118 157	52.1%	1 174 065	1 174 065	SASRIA
95 400	95 400	-	-100.0%	101 124	101 124	Vodacom
						Industrial Development Corporation (IDC)
						Registration of Deeds Trading Account surplus
						Reserve Bank (National Treasury)
621 143	621 143	300 219	16.0%	315 230	315 230	Telkom
						Department of Mineral Resources
						Public Investment Corporation
4 890 000	4 890 000	5 500 000	54.7%	6 510 000	6 510 000	Rent on land
			-100.0%			8) Mineral and petroleum royalties
23 063	23 063	-	-	-	-	9) Mining leases and ownership
30 447	30 447	51 594	53.9%	53 092	53 092	10) Royalties, prospecting fees and surface rental
						Land rent
<b>62 177</b>	<b>62 177</b>	<b>41 788</b>	<b>17.9%</b>	<b>64 294</b>	<b>64 294</b>	<b>Sales of capital assets</b>
<b>894 350</b>	<b>894 350</b>	<b>743 375</b>	<b>-38.7%</b>	<b>824 496</b>	<b>824 496</b>	<b>11) Financial transactions in assets and liabilities</b>
<b>10 000 877</b>	<b>10 000 877</b>	<b>17 579 461</b>	<b>30.6%</b>	<b>15 090 964</b>	<b>15 090 964</b>	<b>TOTAL NON-TAX REVENUE</b>
<b>733 972 667</b>	<b>729 857 667</b>	<b>734 551 022</b>	<b>9.7%</b>	<b>801 648 958</b>	<b>799 340 750</b>	<b>TOTAL MAIN BUDGET REVENUE</b>
		<b>4 435 000</b>				<b>Extraordinary receipts</b>
		4 177 000				Adjustments due to transactions in government stock
		-				Agricultural Debt Account surrender
		-				Penalties and forfeits from SARB
		-				Equalisation Fund account transfer
		-				Saambou Bank
		-				Proceeds from the sale of Telkom's share in Vodacom
		-				Incorrect deposit to the exchequer
		-				Surplus cash from ICASA
		-				Profits on GFECRA
		-				Special dividends
		-				Telkom
		228 000				Special restructuring proceeds from SASRIA
		30 000				Winding down of Diabo Share Trust

10) Royalties, prospecting fees and surface rental collected by the Department of Minerals and Energy.

11) Includes recoveries of loans and advances.

**Table 4**  
**Main Budget: Expenditure defrayed from the**  
**National Revenue Fund by vote**

R million	2008/09			2009/10	
	Expenditure on budget vote Outcome	of which transfers to provinces 1)	transfers to local government 2)	Expenditure on budget vote Outcome	of which transfers to provinces 1)
<b>Central Government Administration</b>					
The Presidency	448.5	–	–	817.5	–
Parliament	1 071.5	–	–	1 009.0	–
Cooperative Governance and Traditional Affairs	33 386.0	29.7	32 746.0	33 661.6	–
<i>Of which: Local government equitable share</i>	–	–	25 559.7	–	–
Home Affairs	4 666.6	–	–	5 195.4	–
International Relations and Cooperation	5 472.3	–	–	5 417.4	–
Performance Monitoring and Evaluation	3.6	–	–	13.4	–
Public Works	4 197.0	889.3	–	5 533.6	1 466.0
Women, Children and People with Disabilities	61.9	–	–	77.5	–
<b>Financial and Administrative Services</b>					
Government Communication and Information System	287.8	–	–	334.0	–
National Treasury	23 762.8	–	361.5	53 240.6	4 200.0
Public Enterprises	3 265.1	–	–	3 983.3	–
Public Service and Administration	630.6	–	–	670.8	–
Statistics South Africa	1 323.1	–	–	1 555.8	–
<b>Social Services</b>					
Arts and Culture	2 114.5	344.6	–	2 224.9	440.6
Basic Education	6 384.0	5 215.6	–	7 854.3	6 460.1
Health	16 424.5	14 988.7	–	19 168.6	17 523.8
Higher Education and Training	18 767.8	3 005.8	–	20 684.4	3 155.3
Labour	1 507.2	–	–	1 698.7	–
Social Development	76 096.7	–	–	85 318.2	–
Sport and Recreation South Africa	4 871.4	293.7	4 295.0	2 866.4	402.3
<b>Justice, Crime Prevention and Security</b>					
Correctional Services	12 822.6	–	–	13 687.3	–
Defence and Military Veterans	27 801.3	–	–	31 324.2	–
Independent Police Investigative Directorate	99.3	–	–	106.2	–
Justice and Constitutional Development	8 244.4	–	–	9 653.5	–
Police	41 635.2	–	–	47 662.5	–
<b>Economic Services and Infrastructure</b>					
Agriculture, Forestry and Fisheries	3 564.9	898.0	–	3 961.8	973.7
Communications	2 328.6	–	–	2 301.9	–
Economic Development	220.4	–	–	314.6	–
Energy	2 961.7	–	589.1	3 690.9	–
Environmental Affairs	2 440.0	–	–	2 749.3	–
Human Settlements	13 269.5	8 727.6	3 572.4	16 407.4	10 819.3
Mineral Resources	768.3	–	–	853.8	–
Rural Development and Land Reform	6 669.8	–	–	5 863.8	–
Science and Technology	3 703.5	–	–	4 183.9	–
Tourism	1 202.2	–	–	1 145.6	–
Trade and Industry	4 836.7	–	–	5 923.3	–
Transport	28 161.7	7 663.3	2 928.7	28 664.0	10 832.1
Water Affairs	5 147.6	–	994.6	6 563.7	–
	<b>370 620.6</b>	<b>42 056.3</b>	<b>45 487.3</b>	<b>436 383.5</b>	<b>56 273.0</b>
Plus:					
Unallocated/Projected underspending	–	–	–	–	–
Contingency Reserve	–	–	–	–	–
<b>Subtotal: Appropriation by vote</b>	<b>370 620.6</b>	<b>42 056.3</b>	<b>45 487.3</b>	<b>436 383.5</b>	<b>56 273.0</b>
Plus:					
<b>Direct charges against the National Revenue Fund</b>					
President and Deputy President salary (The Presidency)	4.0	–	–	3.8	–
Members' remuneration (Parliament)	304.2	–	–	398.8	–
State debt costs (National Treasury)	54 393.7	–	–	57 129.2	–
Provincial equitable share (National Treasury)	201 795.6	201 795.6	–	236 890.8	236 890.8
General fuel levy sharing with metros (National Treasury)	–	–	–	6 800.1	–
Skills levy and Setas (Higher Education and Training)	7 234.1	–	–	7 815.6	–
Judges and magistrates salaries (Justice and Constitutional Development)	1 601.1	–	–	1 774.9	–
<b>Main budget expenditure</b>	<b>635 953.3</b>	<b>243 851.9</b>	<b>45 487.3</b>	<b>747 196.8</b>	<b>293 163.8</b>

1) Includes provincial equitable share and conditional grants allocated to provinces.

2) Includes local government equitable share and conditional grants allocated to local government as well as general fuel levy sharing with metros.

**Table 4**  
**Main Budget: Expenditure defrayed from the**  
**National Revenue Fund by vote**

2009/10	2010/11		2011/12			
<i>of which transfers to local government 2)</i>	Expenditure on budget vote	<i>of which transfers to provinces 1)</i>	<i>transfers to local government 2)</i>	Budget estimate 3)	Adjusted appropriation	R million
						<b>Central Government Administration</b>
-	958.7	-	-	948.3	1 005.8	The Presidency
-	1 198.9	-	-	1 265.3	1 272.9	Parliament
32 833.8	41 821.4	214.4	40 456.9	47 933.6	48 204.7	Cooperative Governance and Traditional Affairs
23 845.5	-	-	30 540.6	-	-	<i>Of which: Local government equitable share</i>
-	6 521.7	-	-	5 464.1	5 850.8	Home Affairs
-	4 417.2	-	-	4 796.8	5 153.4	International Relations and Cooperation
-	47.3	-	-	82.6	98.9	Performance Monitoring and Evaluation
100.5	6 615.5	2 104.3	279.6	7 819.3	7 829.7	Public Works
-	109.9	-	-	117.9	143.1	Women, Children and People with Disabilities
						<b>Financial and Administrative Services</b>
-	352.2	-	-	356.3	364.3	Government Communication and Information System
808.1	38 226.2	-	1 196.4	22 598.2	23 839.5	National Treasury
-	540.0	-	-	230.2	353.3	Public Enterprises
-	628.2	-	-	690.1	690.2	Public Service and Administration
-	1 694.9	-	-	3 240.9	3 730.1	Statistics South Africa
						<b>Social Services</b>
-	2 248.8	462.4	-	2 468.6	2 536.9	Arts and Culture
-	8 677.9	7 078.6	-	13 868.1	14 080.5	Basic Education
-	22 520.3	21 042.0	-	25 731.6	25 968.0	Health
-	23 752.4	3 804.0	-	28 228.6	28 299.5	Higher Education and Training
-	1 826.3	-	-	1 981.5	2 017.4	Labour
-	94 031.0	-	-	104 732.7	104 283.9	Social Development
2 168.7	1 252.0	426.4	512.6	802.7	820.9	Sport and Recreation South Africa
						<b>Justice, Crime Prevention and Security</b>
-	14 698.8	-	-	16 559.2	16 686.9	Correctional Services
-	30 442.4	-	-	34 605.0	34 349.1	Defence and Military Veterans
-	128.4	-	-	151.6	153.5	Independent Police Investigative Directorate
-	10 684.9	-	-	11 413.5	11 581.7	Justice and Constitutional Development
-	53 529.7	-	-	58 061.5	58 550.5	Police
						<b>Economic Services and Infrastructure</b>
-	3 850.7	1 125.7	-	4 719.7	4 964.4	Agriculture, Forestry and Fisheries
-	1 426.5	-	-	1 889.1	2 002.9	Communications
-	400.7	-	-	594.5	598.4	Economic Development
1 074.6	5 505.4	-	1 253.4	6 089.9	6 200.9	Energy
-	3 279.5	-	-	2 846.1	4 201.6	Environmental Affairs
4 418.2	18 916.5	13 032.1	4 968.0	22 578.5	22 825.5	Human Settlements
-	994.7	-	-	1 036.2	1 039.0	Mineral Resources
-	7 122.9	-	-	8 124.2	8 136.7	Rural Development and Land Reform
-	4 051.9	-	-	4 404.6	4 407.0	Science and Technology
-	1 143.5	-	-	1 242.9	1 265.0	Tourism
-	5 796.7	-	-	6 786.9	6 876.5	Trade and Industry
2 431.0	29 155.1	8 392.5	3 709.9	35 084.0	41 517.4	Transport
902.4	7 023.7	-	984.6	9 936.2	9 028.3	Water Affairs
<b>44 737.2</b>	<b>455 592.8</b>	<b>57 682.4</b>	<b>53 361.3</b>	<b>499 480.9</b>	<b>510 929.3</b>	
-	-	-	-	40.0	-6 000.0	Plus: Unallocated/Projected underspending
-	-	-	-	4 090.4	-	Contingency Reserve
<b>44 737.2</b>	<b>455 592.8</b>	<b>57 682.4</b>	<b>53 361.3</b>	<b>503 611.3</b>	<b>504 929.3</b>	<b>Subtotal: Appropriation by vote</b>
						Plus:
						<b>Direct charges against the National Revenue Fund</b>
-	4.0	-	-	4.8	3.8	President and Deputy President salary (The Presidency)
-	346.0	-	-	409.6	409.6	Members' remuneration (Parliament)
-	66 226.8	-	-	76 578.7	76 864.0	State debt costs (National Treasury)
-	265 139.4	265 139.4	-	288 492.8	291 735.5	4) Provincial equitable share (National Treasury)
6 800.1	7 542.4	-	7 542.4	8 573.1	8 573.1	General fuel levy sharing with metros (National Treasury)
-	8 379.3	-	-	9 148.7	9 148.7	Skills levy and Setas (Higher Education and Training)
-	1 910.2	-	-	2 104.2	2 104.2	Judges and magistrates salaries (Justice and Constitutional Develop)
<b>51 537.3</b>	<b>805 141.0</b>	<b>322 821.8</b>	<b>60 903.7</b>	<b>888 923.3</b>	<b>893 768.3</b>	<b>Main budget expenditure</b>

3) Budget estimate adjusted for function shifts.

4) Provincial equitable share, excluding conditional grants to provinces.

**Table 4**  
**Main Budget: Expenditure defrayed from the**  
**National Revenue Fund by vote**

R million	2011/12			2012/13		
	Projected vote outturn	of which transfers to provinces 1)	transfers to local government 2)	Budget estimate	of which transfers to provinces 1)	transfers to local government 2)
<b>Central Government Administration</b>						
The Presidency	1 005.8	–	–	1 018.0	–	–
Parliament	1 249.7	–	–	1 333.3	–	–
Cooperative Governance and Traditional Affairs	46 177.3	–	44 539.3	54 715.6	180.0	52 315.1
<i>Of which: Local government equitable share</i>	–	–	32 875.5	–	–	37 873.4
Home Affairs	5 850.8	–	–	5 296.3	–	–
International Relations and Cooperation	5 153.4	–	–	5 116.6	–	–
Performance Monitoring and Evaluation	98.9	–	–	174.2	–	–
Public Works	7 281.7	2 160.9	419.6	7 993.8	2 428.8	599.2
Women, Children and People with Disabilities	143.1	–	–	172.2	–	–
<b>Financial and Administrative Services</b>						
Government Communication and Information System	360.5	–	–	429.1	–	–
National Treasury	21 817.3	1 089.7	1 173.6	21 551.1	–	1 056.3
Public Enterprises	353.3	–	–	1 249.1	–	–
Public Service and Administration	690.2	–	–	731.5	–	–
Statistics South Africa	3 674.3	–	–	1 721.6	–	–
<b>Social Services</b>						
Arts and Culture	2 411.2	569.9	–	2 685.7	564.6	–
Basic Education	13 639.6	10 736.9	–	16 343.6	11 246.6	–
Health	25 622.1	23 876.9	–	27 557.0	25 691.6	–
Higher Education and Training	28 289.6	4 375.3	–	31 500.4	4 757.3	–
Labour	1 998.1	–	–	2 119.7	–	–
Social Development	103 858.9	–	–	112 216.8	–	–
Sport and Recreation South Africa	816.0	452.0	–	848.4	469.6	–
<b>Justice, Crime Prevention and Security</b>						
Correctional Services	16 203.1	–	–	17 732.2	–	–
Defence and Military Veterans	34 349.1	–	–	37 493.0	–	–
Independent Police Investigative Directorate	153.5	–	–	197.0	–	–
Justice and Constitutional Development	11 564.5	–	–	13 079.6	–	–
Police	58 550.5	–	–	62 485.4	–	–
<b>Economic Services and Infrastructure</b>						
Agriculture, Forestry and Fisheries	4 964.4	1 651.7	–	5 798.8	2 066.5	–
Communications	2 002.9	–	–	1 712.3	–	–
Economic Development	567.6	–	–	672.7	–	–
Energy	6 098.8	–	1 376.6	6 805.9	–	1 351.4
Environmental Affairs	4 201.6	–	–	4 512.2	–	–
Human Settlements	22 645.5	15 121.5	6 267.0	25 263.2	15 726.0	7 392.2
Mineral Resources	1 039.0	–	–	1 169.1	–	–
Rural Development and Land Reform	8 136.7	–	–	8 877.6	–	–
Science and Technology	4 407.0	–	–	4 955.9	–	–
Tourism	1 265.0	–	–	1 367.3	–	–
Trade and Industry	6 876.5	–	–	9 092.1	–	–
Transport	41 450.0	10 855.9	4 838.8	38 829.0	12 299.1	5 025.4
Water Affairs	7 665.5	–	992.3	8 812.7	–	562.4
	<b>502 633.3</b>	<b>70 890.6</b>	<b>59 607.2</b>	<b>543 629.5</b>	<b>75 430.0</b>	<b>68 302.2</b>
Plus:						
Unallocated/Projected underspending	–	–	–	30.0	–	–
Contingency Reserve	–	–	–	5 780.0	–	–
<b>Subtotal: Appropriation by vote</b>	<b>502 633.3</b>	<b>70 890.6</b>	<b>59 607.2</b>	<b>549 439.5</b>	<b>75 430.0</b>	<b>68 302.2</b>
Plus:						
<b>Direct charges against the National Revenue Fund</b>						
President and Deputy President salary (The Presidency)	3.8	–	–	2.7	–	–
Members' remuneration (Parliament)	355.1	–	–	430.1	–	–
State debt costs (National Treasury)	76 644.9	–	–	89 388.1	–	–
Provincial equitable share (National Treasury)	291 735.5	291 735.5	–	309 057.4	309 057.4	–
General fuel levy sharing with metros (National Treasury)	8 573.1	–	8 573.1	9 039.7	–	9 039.7
Skills levy and Setas (Higher Education and Training)	9 148.7	–	–	9 606.1	–	–
Judges and magistrates salaries (Justice and Constitutional Development)	2 104.2	–	–	2 401.9	–	–
<b>Main budget expenditure</b>	<b>891 198.7</b>	<b>362 626.2</b>	<b>68 180.3</b>	<b>969 365.5</b>	<b>384 487.4</b>	<b>77 341.9</b>

1) Includes provincial equitable share and conditional grants allocated to provinces.

2) Includes local government equitable share and conditional grants allocated to local government as well as general fuel levy sharing with metros.

**Table 4**  
**Main Budget: Expenditure defrayed from the**  
**National Revenue Fund by vote**

2013/14			2014/15			R million
Budget estimate	of which		Budget estimate	of which		
	transfers to provinces 1)	transfers to local government 2)		transfers to provinces 1)	transfers to local government 2)	
1 068.5	–	–	1 131.9	–	–	<b>Central Government Administration</b>
1 409.4	–	–	1 495.1	–	–	The Presidency
58 804.1	190.0	55 818.0	63 821.9	201.4	60 031.4	Parliament
–	–	40 581.8	–	–	43 638.9	Cooperative Governance and Traditional Affairs
6 257.8	–	–	6 536.6	–	–	Of which: Local government equitable share
5 521.0	–	–	5 839.4	–	–	Home Affairs
193.4	–	–	204.5	–	–	International Relations and Cooperation
8 869.8	2 671.2	701.9	9 433.6	2 824.0	743.9	Performance Monitoring and Evaluation
195.5	–	–	214.9	–	–	Public Works
–	–	–	–	–	–	Women, Children and People with Disabilities
393.3	–	–	417.1	–	–	<b>Financial and Administrative Services</b>
24 315.9	–	1 122.8	25 212.7	–	1 146.3	Government Communication and Information System
210.7	–	–	223.2	–	–	National Treasury
780.8	–	–	828.0	–	–	Public Enterprises
1 733.0	–	–	1 975.6	–	–	Public Service and Administration
–	–	–	–	–	–	Statistics South Africa
2 912.1	597.8	–	3 130.7	631.6	–	<b>Social Services</b>
20 373.5	11 922.9	–	21 366.8	12 321.1	–	Arts and Culture
30 713.6	28 749.7	–	33 858.6	31 794.0	–	Basic Education
34 030.0	5 317.7	–	36 134.2	5 618.2	–	Health
2 261.2	–	–	2 399.0	–	–	Higher Education and Training
120 907.8	–	–	130 076.2	–	–	Labour
913.9	497.6	–	967.6	525.6	–	Social Development
–	–	–	–	–	–	Sport and Recreation South Africa
18 763.7	–	–	19 900.8	–	–	<b>Justice, Crime Prevention and Security</b>
39 944.7	–	–	42 332.1	–	–	Correctional Services
215.3	–	–	232.6	–	–	Defence and Military Veterans
13 814.0	–	–	14 621.0	–	–	Independent Police Investigative Directorate
66 921.3	–	–	70 848.0	–	–	Justice and Constitutional Development
–	–	–	–	–	–	Police
5 975.7	2 147.5	–	6 329.1	2 193.6	–	<b>Economic Services and Infrastructure</b>
1 942.3	–	–	1 924.0	–	–	Agriculture, Forestry and Fisheries
711.3	–	–	639.4	–	–	Communications
6 389.9	–	1 514.8	7 008.5	–	1 687.7	Economic Development
5 175.2	–	–	5 123.1	–	–	Energy
28 227.9	16 983.9	9 076.9	30 116.5	17 808.3	10 545.6	Environmental Affairs
1 299.1	–	–	1 361.2	–	–	Human Settlements
9 317.9	–	–	9 859.7	–	–	Mineral Resources
5 577.6	–	–	6 020.8	–	–	Rural Development and Land Reform
1 495.4	–	–	1 580.1	–	–	Science and Technology
10 352.3	–	–	11 118.1	–	–	Tourism
41 704.0	13 093.0	5 589.1	48 066.3	13 735.5	5 912.3	Trade and Industry
9 745.7	–	420.9	10 692.5	–	449.6	Transport
589 438.7	82 171.1	74 244.5	633 041.3	87 653.4	80 516.7	Water Affairs
30.0	–	–	–	–	–	Plus:
11 854.0	–	–	24 000.0	–	–	Unallocated/Projected underspending
–	–	–	–	–	–	Contingency Reserve
<b>601 322.7</b>	<b>82 171.1</b>	<b>74 244.5</b>	<b>657 041.3</b>	<b>87 653.4</b>	<b>80 516.7</b>	<b>Subtotal: Appropriation by vote</b>
2.8	–	–	3.0	–	–	Plus:
453.8	–	–	481.0	–	–	<b>Direct charges against the National Revenue Fund</b>
100 806.0	–	–	109 039.3	–	–	President and Deputy President salary (The Presidency)
328 920.7	328 920.7	–	349 351.0	349 351.0	–	Members' remuneration (Parliament)
9 613.4	–	9 613.4	10 190.2	–	10 190.2	State debt costs (National Treasury)
10 134.5	–	–	10 742.6	–	–	4) Provincial equitable share (National Treasury)
2 575.7	–	–	2 730.3	–	–	General fuel levy sharing with metros (National Treasury)
–	–	–	–	–	–	Skills levy and Setas (Higher Education and Training)
–	–	–	–	–	–	Judges and magistrates salaries (Justice and Constitutional Development)
<b>1 053 829.6</b>	<b>411 091.8</b>	<b>83 857.9</b>	<b>1 139 578.6</b>	<b>437 004.4</b>	<b>90 706.9</b>	<b>Main budget expenditure</b>

3) Budget estimate adjusted for function shifts.

4) Provincial equitable share excluding conditional grants to provinces.

**Table 5**  
**Consolidated national, provincial and social security**  
**funds expenditure: Economic classification 1)**

	2008/09		2009/10		2010/11		2011/12	
	Outcome	% of total	Outcome	% of total	Outcome	% of total	Revised estimate	
<b>R million</b>								
<b>Current payments</b>	<b>361 688.9</b>	<b>53.6%</b>	<b>412 239.2</b>	<b>52.7%</b>	<b>458 980.9</b>	<b>54.8%</b>	<b>520 675.0</b>	
Compensation of employees	211 218.5	31.3%	248 558.0	31.8%	281 619.2	33.6%	314 907.2	
Goods and services	95 846.6	14.2%	106 195.0	13.6%	110 649.6	13.2%	128 882.5	
Interest and rent on land	54 623.8	8.1%	57 486.2	7.3%	66 712.1	8.0%	76 885.3	
<b>Transfers and subsidies</b>	<b>271 831.0</b>	<b>40.3%</b>	<b>304 006.2</b>	<b>38.8%</b>	<b>323 542.8</b>	<b>38.6%</b>	<b>367 087.5</b>	
Provinces and municipalities	49 186.0	7.3%	55 867.2	7.1%	65 313.7	7.8%	72 103.9	
<i>of which: Local government share</i>	2)	45 487.3	6.7%	51 537.3	6.6%	60 903.7	7.3%	68 180.3
Departmental agencies and accounts	63 062.1	9.3%	68 075.0	8.7%	64 101.8	7.7%	77 917.7	
Higher Education Institutions	14 027.0	2.1%	15 547.2	2.0%	17 882.9	2.1%	19 564.3	
Foreign governments and international organisations	1 011.8	0.1%	1 366.7	0.2%	1 248.0	0.1%	1 494.6	
Public corporations and private enterprises	21 539.1	3.2%	24 261.5	3.1%	24 356.3	2.9%	26 469.2	
Public corporations	18 016.9	2.7%	20 439.0	2.6%	20 918.6	2.5%	21 535.9	
<i>Subsidies on products and production</i>	7 080.6	1.0%	7 770.6	1.0%	9 415.1	1.1%	9 745.7	
<i>Other transfers</i>	10 936.3	1.6%	12 668.4	1.6%	11 503.5	1.4%	11 790.1	
Private enterprises	3 522.2	0.5%	3 822.5	0.5%	3 437.6	0.4%	4 933.4	
<i>Subsidies on products and production</i>	2 209.3	0.3%	2 009.5	0.3%	1 383.9	0.2%	2 847.0	
<i>Other transfers</i>	1 312.8	0.2%	1 813.0	0.2%	2 053.7	0.2%	2 086.4	
Non-profit institutions	14 792.3	2.2%	16 497.7	2.1%	17 893.4	2.1%	20 801.6	
Households	108 212.7	16.0%	122 391.0	15.6%	132 746.7	15.8%	148 736.3	
Social benefits	92 401.8	13.7%	105 482.8	13.5%	113 082.9	13.5%	123 994.5	
Other transfers to households	15 810.9	2.3%	16 908.2	2.2%	19 663.9	2.3%	24 741.8	
<b>Payments for capital assets</b>	<b>30 009.0</b>	<b>4.4%</b>	<b>33 232.7</b>	<b>4.2%</b>	<b>33 498.4</b>	<b>4.0%</b>	<b>39 113.3</b>	
Buildings and other fixed structures	23 295.9	3.5%	26 145.7	3.3%	25 306.8	3.0%	31 370.1	
Buildings	15 337.7	2.3%	16 255.9	2.1%	15 675.1	1.9%	20 670.8	
Other fixed structures	7 958.2	1.2%	9 889.8	1.3%	9 631.8	1.1%	10 699.2	
Machinery and equipment	6 210.7	0.9%	6 265.5	0.8%	7 516.2	0.9%	7 336.9	
Transport equipment	1 939.0	0.3%	1 897.8	0.2%	2 545.4	0.3%	2 167.2	
Other machinery and equipment	4 271.7	0.6%	4 367.7	0.6%	4 970.8	0.6%	5 169.7	
Land and sub-soil assets	75.2	0.0%	246.5	0.0%	80.4	0.0%	73.8	
Software and other intangible assets	360.4	0.1%	480.3	0.1%	515.4	0.1%	278.2	
Other assets	3)	66.8	94.8	0.0%	79.6	0.0%	54.3	
<b>Payments for financial assets</b>	<b>11 054.7</b>	<b>1.6%</b>	<b>33 251.9</b>	<b>4.2%</b>	<b>21 525.0</b>	<b>2.6%</b>	<b>769.9</b>	
<b>Subtotal: Votes and Direct charges</b>	<b>674 583.7</b>	<b>100%</b>	<b>782 729.9</b>	<b>100%</b>	<b>837 547.2</b>	<b>100%</b>	<b>927 645.8</b>	
<b>Plus:</b>								
Contingency reserve	–	–	–	–	–	–	–	
Unallocated	–	–	–	–	–	–	–	
<b>Total consolidated expenditure</b>	<b>674 583.7</b>	<b>100%</b>	<b>782 729.9</b>	<b>100%</b>	<b>837 547.2</b>	<b>100%</b>	<b>927 645.8</b>	

1) These figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the South African Reserve Bank. The numbers in this table are not strictly comparable to those published in previous years due to the reclassification of expenditure items for previous years. Data for the history years has been adjusted accordingly.

Table 5  
Consolidated national, provincial and social security  
funds expenditure: Economic classification <sup>1)</sup>

	2012/13		2013/14		2014/15		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
56.1%	560 598.7	55.8%	602 081.9	55.1%	641 113.7	54.4%	<b>Current payments</b>
33.9%	336 959.4	33.5%	357 168.2	32.7%	378 148.7	32.1%	Compensation of employees
13.9%	133 956.4	13.3%	144 035.9	13.2%	153 842.5	13.0%	Goods and services
8.3%	89 683.0	8.9%	100 877.8	9.2%	109 122.5	9.3%	Interest and rent on land
<b>39.6%</b>	<b>393 717.8</b>	<b>39.2%</b>	<b>430 074.5</b>	<b>39.4%</b>	<b>463 982.3</b>	<b>39.3%</b>	<b>Transfers and subsidies</b>
7.8%	81 545.1	8.1%	88 428.7	8.1%	95 487.0	8.1%	Provinces and municipalities
7.3%	77 341.9	7.7%	83 857.9	7.7%	90 706.9	7.7%	<i>of which: Local government share</i>
8.4%	78 599.3	7.8%	84 728.7	7.8%	90 100.3	7.6%	Departmental agencies and accounts
2.1%	21 142.7	2.1%	22 494.9	2.1%	23 927.6	2.0%	Higher Education Institutions
0.2%	1 704.6	0.2%	1 842.9	0.2%	1 957.2	0.2%	Foreign governments and international organisations
2.9%	29 746.5	3.0%	35 699.2	3.3%	40 576.5	3.4%	Public corporations and private enterprises
2.3%	23 614.1	2.3%	27 608.6	2.5%	31 448.3	2.7%	Public corporations
1.1%	11 278.8	1.1%	10 888.7	1.0%	11 539.8	1.0%	Subsidies on products and production
1.3%	12 335.2	1.2%	16 719.8	1.5%	19 908.5	1.7%	Other transfers
0.5%	6 132.4	0.6%	8 090.6	0.7%	9 128.2	0.8%	Private enterprises
0.3%	4 592.3	0.5%	5 767.3	0.5%	6 674.9	0.6%	Subsidies on products and production
0.2%	1 540.1	0.2%	2 323.4	0.2%	2 453.3	0.2%	Other transfers
2.2%	22 835.3	2.3%	25 733.0	2.4%	27 668.4	2.3%	Non-profit institutions
16.0%	158 144.3	15.7%	171 147.1	15.7%	184 265.2	15.6%	Households
13.4%	135 205.3	13.5%	147 041.2	13.5%	159 042.5	13.5%	Social benefits
2.7%	22 939.1	2.3%	24 105.9	2.2%	25 222.7	2.1%	Other transfers to households
<b>4.2%</b>	<b>43 445.9</b>	<b>4.3%</b>	<b>47 497.7</b>	<b>4.3%</b>	<b>49 447.2</b>	<b>4.2%</b>	<b>Payments for capital assets</b>
3.4%	34 877.6	3.5%	39 418.4	3.6%	41 262.6	3.5%	Buildings and other fixed structures
2.2%	21 732.2	2.2%	26 091.0	2.4%	27 270.5	2.3%	Buildings
1.2%	13 145.4	1.3%	13 327.4	1.2%	13 992.1	1.2%	Other fixed structures
0.8%	7 977.4	0.8%	7 537.3	0.7%	7 656.2	0.6%	Machinery and equipment
0.2%	2 349.0	0.2%	2 277.6	0.2%	2 316.3	0.2%	Transport equipment
0.6%	5 628.4	0.6%	5 259.6	0.5%	5 339.9	0.5%	Other machinery and equipment
0.0%	240.8	0.0%	194.4	0.0%	168.3	0.0%	Land and sub-soil assets
0.0%	291.6	0.0%	285.5	0.0%	299.2	0.0%	Software and other intangible assets
0.0%	58.6	0.0%	62.1	0.0%	60.9	0.0%	Other assets
<b>0.1%</b>	<b>1 647.3</b>	<b>0.2%</b>	<b>536.2</b>	<b>0.0%</b>	<b>738.1</b>	<b>0.1%</b>	<b>Payments for financial assets</b>
<b>100%</b>	<b>999 409.8</b>	<b>99.4%</b>	<b>1 080 190.4</b>	<b>98.9%</b>	<b>1 155 281.2</b>	<b>98.0%</b>	<b>Subtotal: Votes and Direct charges</b>
-	5 780.0	0.6%	11 854.0	1.1%	24 000.0	2.0%	<b>Plus:</b>
-	30.0	0.0%	30.0	0.0%	-	-	Contingency reserve
							Unallocated
<b>100%</b>	<b>1 005 219.8</b>	<b>100%</b>	<b>1 092 074.4</b>	<b>100%</b>	<b>1 179 281.2</b>	<b>100%</b>	<b>Total consolidated expenditure</b>

2) Includes equitable share and conditional grants to local government.

3) Includes biological, heritage and specialised military assets

**Table 6**  
**Consolidated national, provincial and social security**  
**funds expenditure: Functional classification 1)**

	2008/09		2009/10		2010/11		2011/12
	Estimated outcome	% of total	Estimated outcome	% of total	Estimated outcome	% of total	Revised estimate
<b>R million</b>							
<b>General public services</b> 2)	<b>101 977.1</b>	<b>15.1%</b>	<b>112 954.2</b>	<b>14.4%</b>	<b>125 509.2</b>	<b>15.0%</b>	<b>143 603.7</b>
<i>of which: State debt cost</i>	54 393.7	8.1%	57 129.2	7.3%	66 226.8	7.9%	76 644.9
<b>Defense</b>	<b>28 459.1</b>	<b>4.2%</b>	<b>31 758.4</b>	<b>4.1%</b>	<b>30 584.6</b>	<b>3.7%</b>	<b>34 707.7</b>
<b>Public order and safety</b>	<b>66 426.4</b>	<b>9.8%</b>	<b>75 104.5</b>	<b>9.6%</b>	<b>83 622.4</b>	<b>10.0%</b>	<b>90 754.1</b>
Police services	44 605.6	6.6%	50 969.7	6.5%	57 505.6	6.9%	62 263.1
Law courts	8 860.1	1.3%	10 294.7	1.3%	11 294.8	1.3%	12 163.9
Prisons	12 960.7	1.9%	13 840.0	1.8%	14 822.0	1.8%	16 327.1
<b>Economic affairs</b>	<b>89 881.8</b>	<b>13.3%</b>	<b>117 417.9</b>	<b>15.0%</b>	<b>105 972.0</b>	<b>12.7%</b>	<b>101 471.9</b>
General economic, commercial and labour affairs	11 137.8	1.7%	13 625.3	1.7%	14 034.2	1.7%	15 906.2
Agriculture, forestry, fishing and hunting	13 486.4	2.0%	13 365.1	1.7%	14 009.9	1.7%	15 034.8
Fuel and energy	13 823.7	2.0%	35 281.9	4.5%	23 499.2	2.8%	3 648.3
Mining, manufacturing and construction	2 041.9	0.3%	2 496.1	0.3%	2 118.7	0.3%	1 797.2
Transport	44 045.0	6.5%	47 386.4	6.1%	47 789.1	5.7%	59 798.1
Communication	2 712.8	0.4%	2 522.9	0.3%	1 573.8	0.2%	2 017.7
Economic affairs not elsewhere classified	2 634.2	0.4%	2 740.1	0.4%	2 947.2	0.4%	3 269.6
<b>Environmental protection</b>	<b>3 893.1</b>	<b>0.6%</b>	<b>4 330.2</b>	<b>0.6%</b>	<b>5 138.7</b>	<b>0.6%</b>	<b>6 275.8</b>
<b>Housing and community amenities</b>	<b>57 696.2</b>	<b>8.6%</b>	<b>62 832.1</b>	<b>8.0%</b>	<b>74 248.9</b>	<b>8.9%</b>	<b>85 035.4</b>
Housing development	12 711.5	1.9%	14 964.7	1.9%	17 408.9	2.1%	20 796.8
Community development	39 501.7	5.9%	40 824.1	5.2%	49 932.2	6.0%	56 813.0
Water supply	5 483.0	0.8%	7 043.3	0.9%	6 907.8	0.8%	7 425.6
<b>Health</b>	<b>76 863.4</b>	<b>11.4%</b>	<b>90 777.2</b>	<b>11.6%</b>	<b>100 285.2</b>	<b>12.0%</b>	<b>113 918.2</b>
<b>Recreation and culture</b>	<b>6 237.2</b>	<b>0.9%</b>	<b>6 900.1</b>	<b>0.9%</b>	<b>6 638.3</b>	<b>0.8%</b>	<b>7 217.2</b>
<b>Education</b>	<b>136 340.4</b>	<b>20.2%</b>	<b>158 447.8</b>	<b>20.2%</b>	<b>174 201.0</b>	<b>20.8%</b>	<b>199 718.8</b>
<b>Social protection</b>	<b>106 809.1</b>	<b>15.8%</b>	<b>122 207.5</b>	<b>15.6%</b>	<b>131 346.9</b>	<b>15.7%</b>	<b>144 942.9</b>
<b>Subtotal: Votes and Direct charges</b>	<b>674 583.7</b>	<b>100%</b>	<b>782 729.9</b>	<b>100%</b>	<b>837 547.2</b>	<b>100%</b>	<b>927 645.8</b>
<b>Plus:</b>							
Contingency reserve	–	–	–	–	–	–	–
Unallocated	–	–	–	–	–	–	–
<b>Total consolidated expenditure</b>	<b>674 583.7</b>	<b>–</b>	<b>782 729.9</b>	<b>–</b>	<b>837 547.2</b>	<b>–</b>	<b>927 645.8</b>

1) These figures were estimated by the National Treasury and may differ from data published by Statistics South Africa. The numbers in this table is not strictly comparable to those published in previous years due to the allocation of some of the unallocable expenditure for previous years. Data for the history years has been adjusted accordingly.

Table 6  
Consolidated national, provincial and social security  
funds expenditure: Functional classification <sup>1)</sup>

	2012/13		2013/14		2014/15		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
15.5%	158 268.4	15.8%	176 591.5	16.3%	188 963.1	16.4%	2) <b>General public services</b>
8.3%	89 388.1	8.9%	100 806.0	9.3%	109 039.3	9.4%	<i>of which: State debt cost</i>
3.7%	37 915.3	3.8%	40 432.0	3.7%	42 888.7	3.7%	<b>Defense</b>
9.8%	98 158.4	9.8%	104 702.4	9.7%	110 835.6	9.6%	<b>Public order and safety</b>
6.7%	66 463.0	6.7%	71 155.4	6.6%	75 278.2	6.5%	Police services
1.3%	13 848.9	1.4%	14 675.8	1.4%	15 555.6	1.3%	Law courts
1.8%	17 846.4	1.8%	18 871.2	1.7%	20 001.9	1.7%	Prisons
10.9%	102 748.6	10.3%	110 333.2	10.2%	121 513.9	10.5%	<b>Economic affairs</b>
1.7%	18 539.1	1.9%	20 602.8	1.9%	22 235.0	1.9%	General economic, commercial and labour affairs
1.6%	16 464.5	1.6%	17 675.5	1.6%	18 722.6	1.6%	Agriculture, forestry, fishing and hunting
0.4%	3 956.4	0.4%	4 963.3	0.5%	5 611.0	0.5%	Fuel and energy
0.2%	2 864.4	0.3%	1 764.0	0.2%	1 423.5	0.1%	Mining, manufacturing and construction
6.4%	55 571.3	5.6%	59 321.8	5.5%	67 281.5	5.8%	Transport
0.2%	1 725.1	0.2%	1 955.8	0.2%	1 938.3	0.2%	Communication
0.4%	3 627.8	0.4%	4 050.0	0.4%	4 302.0	0.4%	Economic affairs not elsewhere classified
0.7%	6 728.7	0.7%	7 502.5	0.7%	7 582.9	0.7%	<b>Environmental protection</b>
9.2%	95 293.9	9.5%	101 305.0	9.4%	108 250.1	9.4%	<b>Housing and community amenities</b>
2.2%	21 387.7	2.1%	23 290.7	2.2%	25 109.9	2.2%	Housing development
6.1%	64 478.8	6.5%	67 750.2	6.3%	72 323.0	6.3%	Community development
0.8%	9 427.3	0.9%	10 264.1	1.0%	10 817.2	0.9%	Water supply
12.3%	121 920.0	12.2%	130 535.3	12.1%	139 385.7	12.1%	<b>Health</b>
0.8%	7 800.4	0.8%	8 425.7	0.8%	8 971.4	0.8%	<b>Recreation and culture</b>
21.5%	212 512.1	21.3%	228 781.1	21.2%	242 016.9	20.9%	<b>Education</b>
15.6%	158 063.9	15.8%	171 581.7	15.9%	184 872.9	16.0%	<b>Social protection</b>
100%	999 409.8	100%	1 080 190.4	100%	1 155 281.2	100%	<b>Subtotal: Votes and Direct charges</b>
–	5 780.0	–	11 854.0	–	24 000.0	–	<b>Plus:</b>
–	30.0	–	30.0	–	–	–	Contingency reserve
–	1 005 219.8	–	1 092 074.4	–	1 179 281.2	–	<b>Total consolidated expenditure</b>

2) Mainly general administration, cost of raising loans and unallocatable capital expenditure.

Table 7  
Consolidated government revenue, expenditure and financing

R million	2008/09	2009/10	2010/11	2011/12
	Outcome	Outcome	Outcome	Revised estimate
<b>Operating account</b>				
<b>Current receipts</b>	<b>687 472.7</b>	<b>663 718.0</b>	<b>757 638.9</b>	<b>832 399.8</b>
<i>Tax receipts (net of SACU transfers)</i>	624 984.2	604 127.2	692 725.3	756 447.8
<i>Non-tax receipts (including departmental receipts)</i>	56 521.2	53 229.4	54 572.6	61 432.4
<i>Transfers received</i>	5 967.3	6 361.4	10 341.1	14 519.6
<b>Current payments</b>	<b>633 423.7</b>	<b>714 348.3</b>	<b>778 077.8</b>	<b>878 415.9</b>
<i>Compensation of employees</i>	233 344.7	273 979.7	309 801.7	346 713.8
<i>Goods and services</i>	117 808.8	132 500.4	137 314.1	159 812.5
<i>Interest and rent on land</i>	58 627.2	62 555.5	72 165.4	82 452.8
<i>Transfers and subsidies</i>	223 643.1	245 312.6	258 796.7	289 436.8
<b>Current Balance</b>	<b>54 049.0</b>	<b>-50 630.2</b>	<b>-20 438.9</b>	<b>-46 016.1</b>
<i>% of GDP</i>	2.3%	-2.1%	-0.7%	-1.5%
<b>Capital account</b>				
<i>Capital receipts</i>	2 973.8	4 805.7	1 065.3	395.0
<i>Transfers and subsidies</i>	18 544.7	18 699.2	20 870.0	24 845.9
<i>Payments for capital assets</i>	49 707.1	57 259.9	54 098.6	68 661.9
<b>Capital financing requirement</b>	<b>-65 278.1</b>	<b>-71 153.3</b>	<b>-73 903.4</b>	<b>-93 112.8</b>
<i>% of GDP</i>	2.8%	2.9%	2.7%	3.1%
<b>Transactions in financial assets and liabilities</b>	9 871.7	32 040.0	20 145.5	-696.4
<b>Contingency reserve</b>	-	-	-	-
<b>Unallocated</b>				
<b>Budget balance</b>	<b>-21 100.8</b>	<b>-153 823.6</b>	<b>-114 487.8</b>	<b>-138 432.4</b>
<i>% of GDP</i>	0.9%	6.3%	4.2%	4.6%
<b>Primary balance</b>	33 292.9	-96 694.4	-48 260.9	-61 787.5
<i>% of GDP</i>	1.4%	-4.0%	-1.8%	-2.1%
<b>Financing</b>				
<b>Change in loan liabilities</b>				
<i>Domestic short- and long-term loans (net)</i>	-45 886.4	-177 102.6	-176 629.9	-169 534.4
<i>Foreign loans (net)</i>	3 706.5	-23 862.4	-4 693.9	-4 398.3
<b>Change in cash and other balances (- increase)</b>	<b>21 079.1</b>	<b>47 141.4</b>	<b>66 836.0</b>	<b>35 500.3</b>
<b>Borrowing requirement (net)</b>	<b>-21 100.8</b>	<b>-153 823.6</b>	<b>-114 487.8</b>	<b>-138 432.4</b>
<i>Gross domestic product (GDP)</i>	2 303 553.0	2 440 163.0	2 754 275.0	2 995 530.2

Table 7  
Consolidated government revenue, expenditure and financing

2012/13	2013/14	2014/15	
Budget estimate	Budget estimate	Budget estimate	
			R million
			<b>Operating account</b>
<b>904 745.1</b>	<b>1 006 060.1</b>	<b>1 118 332.4</b>	<b>Current receipts</b>
827 227.6	922 936.5	1 028 511.1	<i>Tax receipts (net of SACU transfers)</i>
65 592.8	70 280.8	75 913.1	<i>Non-tax receipts (including departmental receipts)</i>
11 924.7	12 842.9	13 908.2	<i>Transfers received</i>
<b>951 636.9</b>	<b>1 029 817.3</b>	<b>1 097 976.8</b>	<b>Current payments</b>
371 170.0	394 413.2	417 962.3	<i>Compensation of employees</i>
171 339.4	184 933.2	197 219.5	<i>Goods and services</i>
96 069.6	108 889.4	117 482.8	<i>Interest and rent on land</i>
313 058.0	341 581.4	365 312.2	<i>Transfers and subsidies</i>
<b>-46 891.8</b>	<b>-23 757.2</b>	<b>20 355.5</b>	<b>Current Balance</b>
-1.4%	-0.7%	0.5%	<i>% of GDP</i>
			<b>Capital account</b>
188.4	202.8	228.0	<i>Capital receipts</i>
28 028.8	31 222.3	34 300.9	<i>Transfers and subsidies</i>
71 198.0	75 665.6	82 683.1	<i>Payments for capital assets</i>
<b>-99 038.4</b>	<b>-106 685.1</b>	<b>-116 756.0</b>	<b>Capital financing requirement</b>
3.0%	2.9%	2.9%	<i>% of GDP</i>
574.7	-571.6	-384.9	<b>Transactions in financial assets and liabilities</b>
<b>5 780.0</b>	<b>11 854.0</b>	<b>24 000.0</b>	<b>Contingency reserve</b>
30.0	30.0	-	<b>Unallocated</b>
<b>-152 314.9</b>	<b>-141 754.6</b>	<b>-120 015.6</b>	<b>Budget balance</b>
4.6%	3.9%	3.0%	<i>% of GDP</i>
-62 926.9	-40 948.6	-10 976.2	<i>Primary balance</i>
-1.9%	-1.1%	-0.3%	<i>% of GDP</i>
			<b>Financing</b>
			<b>Change in loan liabilities</b>
-151 137.2	-157 487.6	-141 329.9	<i>Domestic short- and long-term loans (net)</i>
7 673.0	5 029.5	2 739.0	<i>Foreign loans (net)</i>
<b>-8 850.7</b>	<b>10 703.5</b>	<b>18 575.3</b>	<b>Change in cash and other balances (- increase)</b>
<b>-152 314.9</b>	<b>-141 754.6</b>	<b>-120 015.6</b>	<b>Borrowing requirement (net)</b>
3 301 373.8	3 622 155.1	3 997 026.5	<i>Gross domestic product (GDP)</i>

Table 8  
Consolidated government revenue and expenditure 1)

R million	2008/09		2009/10		2010/11		2011/12
	Outcome	% of total	Outcome	% of total	Outcome	% of total	Revised estimate
<b>Revenue</b>							
Current revenue	683 071.7	99.9%	663 506.4	100.0%	756 960.2	99.9%	830 043.1
<i>Tax revenue (net of SACU)</i>	624 984.2	91.4%	604 127.2	91.0%	692 725.3	91.4%	756 447.8
<i>Non-tax revenue</i>	58 087.5	8.5%	59 379.1	8.9%	64 234.9	8.5%	73 595.3
Sales of capital assets	396.8	0.1%	229.8	0.0%	553.0	0.1%	167.0
<b>Total revenue</b>	<b>683 468.5</b>	<b>100.0%</b>	<b>663 736.2</b>	<b>100.0%</b>	<b>757 513.1</b>	<b>100.0%</b>	<b>830 210.1</b>
<b>Expenditure</b>							
<b>Economic classification</b>							
<b>Current payments</b>	<b>409 780.7</b>	<b>57.8%</b>	<b>469 035.6</b>	<b>57.0%</b>	<b>519 281.2</b>	<b>59.4%</b>	<b>588 979.1</b>
Compensation of employees	233 344.7	32.9%	273 979.7	33.3%	309 801.7	35.4%	346 713.8
Goods and services	117 808.8	16.6%	132 500.4	16.1%	137 314.1	15.7%	159 812.5
Interest and rent on land	58 627.2	8.3%	62 555.5	7.6%	72 165.4	8.3%	82 452.8
<b>Transfers and subsidies</b>	<b>237 946.1</b>	<b>33.6%</b>	<b>263 775.8</b>	<b>32.0%</b>	<b>279 267.2</b>	<b>31.9%</b>	<b>314 136.7</b>
Provinces and municipalities	49 474.3	7.0%	56 732.6	6.9%	66 027.8	7.6%	73 399.6
Departmental agencies and accounts	31 865.6	4.5%	31 479.6	3.8%	22 738.9	2.6%	25 332.6
Higher Education Institutions	14 027.0	2.0%	15 547.2	1.9%	17 926.5	2.1%	19 602.9
Foreign governments and international organisations	1 487.6	0.2%	1 700.7	0.2%	1 675.3	0.2%	1 944.9
Public corporations and private enterprises	14 783.9	2.1%	14 975.4	1.8%	13 555.5	1.6%	16 142.4
Non-profit institutions	15 694.3	2.2%	18 330.7	2.2%	21 329.7	2.4%	23 499.3
Households	110 613.4	15.6%	125 009.6	15.2%	136 013.5	15.6%	154 215.0
<b>Payments for capital assets</b>	<b>49 707.1</b>	<b>7.0%</b>	<b>57 259.9</b>	<b>7.0%</b>	<b>54 098.6</b>	<b>6.2%</b>	<b>68 661.9</b>
Buildings and other fixed structures	39 531.5	5.6%	44 285.5	5.4%	41 154.9	4.7%	53 837.5
Machinery and equipment	8 693.2	1.2%	11 433.9	1.4%	11 340.6	1.3%	13 730.8
Land and sub-soil assets	374.8	0.1%	298.0	0.0%	187.2	0.0%	112.8
Software and other intangible assets	928.0	0.1%	1 011.1	0.1%	1 255.6	0.1%	902.8
Other assets	179.5	0.0%	231.3	0.0%	160.4	0.0%	77.9
<b>Payments for financial assets</b>	<b>11 054.7</b>	<b>1.6%</b>	<b>33 251.9</b>	<b>4.0%</b>	<b>21 525.0</b>	<b>2.5%</b>	<b>769.9</b>
<b>Subtotal: Economic classification</b>	<b>708 488.6</b>	<b>100%</b>	<b>823 323.2</b>	<b>100.0%</b>	<b>874 172.0</b>	<b>100.0%</b>	<b>972 547.5</b>
<b>Functional classification</b>							
<b>General public services</b>	<b>106 852.3</b>	<b>15.1%</b>	<b>116 450.1</b>	<b>14.1%</b>	<b>127 476.8</b>	<b>14.6%</b>	<b>149 348.9</b>
<i>of which: State debt cost</i>	54 393.7	7.7%	57 129.2	6.9%	66 226.8	7.6%	76 644.9
<b>Defense</b>	<b>26 775.9</b>	<b>3.8%</b>	<b>30 346.2</b>	<b>3.7%</b>	<b>28 985.9</b>	<b>3.3%</b>	<b>33 305.8</b>
<b>Public order and safety</b>	<b>66 823.4</b>	<b>9.4%</b>	<b>75 549.3</b>	<b>9.2%</b>	<b>84 065.3</b>	<b>9.6%</b>	<b>91 488.7</b>
Police services	44 686.4	6.3%	51 048.8	6.2%	57 581.6	6.6%	62 450.8
Law courts	9 176.2	1.3%	10 660.5	1.3%	11 661.7	1.3%	12 710.8
Prisons	12 960.7	1.8%	13 840.0	1.7%	14 822.0	1.7%	16 327.1
<b>Economic affairs</b>	<b>109 685.9</b>	<b>15.5%</b>	<b>144 827.6</b>	<b>17.6%</b>	<b>132 412.8</b>	<b>15.1%</b>	<b>125 360.2</b>
General economic, commercial, and labor affairs	13 839.0	2.0%	17 050.0	2.1%	19 422.9	2.2%	21 025.3
Agriculture, forestry, fishing and hunting	13 954.2	2.0%	13 336.5	1.6%	14 756.9	1.7%	15 185.7
Fuel and energy	14 694.0	2.1%	36 503.9	4.4%	24 882.1	2.8%	6 210.8
Mining, manufacturing, and construction	2 688.2	0.4%	3 419.8	0.4%	3 482.2	0.4%	2 923.5
Transport	54 838.6	7.7%	64 424.3	7.8%	59 593.3	6.8%	68 515.3
Communication	3 247.8	0.5%	3 375.3	0.4%	2 354.9	0.3%	2 534.9
Economic affairs not elsewhere classified	6 424.1	0.9%	6 717.8	0.8%	7 920.5	0.9%	8 964.8
<b>Environmental protection</b>	<b>4 919.4</b>	<b>0.7%</b>	<b>5 354.1</b>	<b>0.7%</b>	<b>6 298.9</b>	<b>0.7%</b>	<b>7 341.2</b>
<b>Housing and community amenities</b>	<b>69 016.5</b>	<b>9.7%</b>	<b>74 380.0</b>	<b>9.0%</b>	<b>85 469.0</b>	<b>9.8%</b>	<b>101 181.0</b>
Housing development	13 939.7	2.0%	16 145.5	2.0%	18 199.1	2.1%	22 211.7
Community development	39 969.2	5.6%	41 303.2	5.0%	50 402.2	5.8%	57 141.5
Water supply	15 107.5	2.1%	16 931.3	2.1%	16 867.7	1.9%	21 827.9
<b>Health</b>	<b>77 371.0</b>	<b>10.9%</b>	<b>91 181.3</b>	<b>11.1%</b>	<b>100 874.9</b>	<b>11.5%</b>	<b>114 375.2</b>
<b>Recreation and culture</b>	<b>6 471.2</b>	<b>0.9%</b>	<b>7 164.0</b>	<b>0.9%</b>	<b>6 910.1</b>	<b>0.8%</b>	<b>7 739.1</b>
<b>Education</b>	<b>133 393.8</b>	<b>18.8%</b>	<b>155 832.0</b>	<b>18.9%</b>	<b>170 825.2</b>	<b>19.5%</b>	<b>197 817.5</b>
<b>Social protection</b>	<b>107 179.2</b>	<b>15.1%</b>	<b>122 238.6</b>	<b>14.8%</b>	<b>130 853.0</b>	<b>15.0%</b>	<b>144 589.8</b>
<b>Subtotal: Functional classification</b>	<b>708 488.6</b>	<b>100%</b>	<b>823 323.2</b>	<b>100%</b>	<b>874 172.0</b>	<b>100%</b>	<b>972 547.5</b>
<b>Plus:</b>							
Contingency reserve	–		–		–		–
Unallocated	–		–		–		–
<b>Total consolidated expenditure</b>	<b>708 488.6</b>		<b>823 323.2</b>		<b>874 172.0</b>		<b>972 547.5</b>
<b>Consolidated budget balance</b>	<b>-25 020.1</b>		<b>-159 587.0</b>		<b>-116 658.9</b>		<b>-142 337.4</b>

1) Consisting of national and provincial government, social security funds and public entities. Refer to Annexure W2 for a detailed list of entities included.  
In some cases figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank.

Table 8  
Consolidated government revenue and expenditure 1)

2011/12	2012/13		2013/14		2014/15		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
100.0%	904 641.7	100.0%	1 005 667.9	100.0%	1 117 955.3	100.0%	<b>Revenue</b>
91.1%	827 227.6	91.4%	922 936.5	91.8%	1 028 511.1	92.0%	Current revenue
8.9%	77 414.1	8.6%	82 731.5	8.2%	89 444.3	8.0%	<i>Tax revenue (net of SACU)</i>
0.0%	188.4	0.0%	202.8	0.0%	228.0	0.0%	<i>Non-tax revenue</i>
							Sales of capital assets
<b>100.0%</b>	<b>904 830.1</b>	<b>100.0%</b>	<b>1 005 870.8</b>	<b>100.0%</b>	<b>1 118 183.4</b>	<b>100.0%</b>	<b>Total revenue</b>
							<b>Expenditure</b>
							<b>Economic classification</b>
							<b>Current payments</b>
60.6%	638 579.0	60.7%	688 235.8	60.5%	732 664.6	60.3%	Compensation of employees
35.7%	371 170.0	35.3%	394 413.2	34.7%	417 962.3	34.4%	Goods and services
16.4%	171 339.4	16.3%	184 933.2	16.3%	197 219.5	16.2%	Interest and rent on land
8.5%	96 069.6	9.1%	108 889.4	9.6%	117 482.8	9.7%	<b>Transfers and subsidies</b>
32.3%	341 086.8	32.4%	372 803.8	32.8%	399 613.1	32.9%	Provinces and municipalities
7.5%	82 338.5	7.8%	89 299.9	7.9%	96 407.9	7.9%	Departmental agencies and accounts
2.6%	27 100.2	2.6%	28 314.1	2.5%	30 403.7	2.5%	Higher Education Institutions
2.0%	21 180.9	2.0%	22 533.7	2.0%	23 970.7	2.0%	Foreign governments and international organisations
0.2%	2 149.6	0.2%	2 319.9	0.2%	2 459.1	0.2%	Public corporations and private enterprises
1.7%	19 476.0	1.9%	24 741.3	2.2%	25 517.2	2.1%	Non-profit institutions
2.4%	24 237.4	2.3%	27 626.1	2.4%	29 442.1	2.4%	Households
15.9%	164 604.4	15.6%	177 968.8	15.6%	191 412.4	15.7%	<b>Payments for capital assets</b>
7.1%	71 198.0	6.8%	75 665.6	6.7%	82 683.1	6.8%	Buildings and other fixed structures
5.5%	56 020.5	5.3%	61 188.9	5.4%	63 852.7	5.3%	Machinery and equipment
1.4%	13 971.7	1.3%	13 369.3	1.2%	17 974.6	1.5%	Land and sub-soil assets
0.0%	316.8	0.0%	276.8	0.0%	203.8	0.0%	Software and other intangible assets
0.1%	769.0	0.1%	762.1	0.1%	590.0	0.0%	Other assets
0.0%	120.0	0.0%	68.4	0.0%	62.1	0.0%	2) <b>Payments for financial assets</b>
0.1%	1 647.3	0.2%	536.2	0.0%	738.1	0.1%	<b>Subtotal: Economic classification</b>
<b>100.0%</b>	<b>1 052 511.1</b>	<b>100.0%</b>	<b>1 137 241.4</b>	<b>100.0%</b>	<b>1 215 698.9</b>	<b>100.0%</b>	<b>Functional classification</b>
15.4%	163 862.9	15.6%	182 565.9	16.1%	196 200.9	16.1%	3) <b>General public services</b>
7.9%	89 388.1	8.5%	100 806.0	8.9%	109 039.3	9.0%	<i>of which: State debt cost</i>
3.4%	36 517.3	3.5%	38 949.3	3.4%	41 308.8	3.4%	<b>Defense</b>
9.4%	98 920.8	9.4%	105 514.5	9.3%	111 640.9	9.2%	<b>Public order and safety</b>
6.4%	66 632.0	6.3%	71 360.6	6.3%	75 471.3	6.2%	Police services
1.3%	14 442.3	1.4%	15 282.7	1.3%	16 167.7	1.3%	Law courts
1.7%	17 846.4	1.7%	18 871.2	1.7%	20 001.9	1.6%	Prisons
12.9%	133 469.7	12.7%	144 519.4	12.7%	155 459.3	12.8%	<b>Economic affairs</b>
2.2%	23 268.3	2.2%	25 615.2	2.3%	27 350.1	2.2%	General economic, commercial, and labor affairs
1.6%	17 644.6	1.7%	19 019.8	1.7%	20 122.2	1.7%	Agriculture, forestry, fishing and hunting
0.6%	5 587.4	0.5%	7 242.0	0.6%	7 911.1	0.7%	Fuel and energy
0.3%	4 109.2	0.4%	3 062.0	0.3%	2 772.0	0.2%	Mining, manufacturing, and construction
7.0%	70 937.5	6.7%	77 217.7	6.8%	84 242.9	6.9%	Transport
0.3%	2 565.3	0.2%	2 653.6	0.2%	2 800.5	0.2%	Communication
0.9%	9 357.4	0.9%	9 709.0	0.9%	10 260.5	0.8%	Economic affairs not elsewhere classified
0.8%	7 998.7	0.8%	8 671.0	0.8%	8 788.2	0.7%	<b>Environmental protection</b>
10.4%	113 400.6	10.8%	120 170.9	10.6%	129 974.1	10.7%	<b>Housing and community amenities</b>
2.3%	23 064.2	2.2%	25 132.3	2.2%	26 879.0	2.2%	Housing development
5.9%	65 097.5	6.2%	68 427.0	6.0%	73 051.8	6.0%	Community development
2.2%	25 238.8	2.4%	26 611.6	2.3%	30 043.4	2.5%	Water supply
11.8%	122 383.1	11.6%	131 041.2	11.5%	139 846.0	11.5%	<b>Health</b>
0.8%	8 199.2	0.8%	8 730.5	0.8%	9 313.0	0.8%	<b>Recreation and culture</b>
20.3%	209 719.4	19.9%	225 480.7	19.8%	238 229.5	19.6%	<b>Education</b>
14.9%	158 039.3	15.0%	171 597.9	15.1%	184 938.2	15.2%	<b>Social protection</b>
<b>100%</b>	<b>1 052 511.1</b>	<b>100%</b>	<b>1 137 241.4</b>	<b>100%</b>	<b>1 215 698.9</b>	<b>100%</b>	<b>Subtotal: Functional classification</b>
	5 780.0		11 854.0		24 000.0		<b>Plus:</b>
	30.0		30.0		-		Contingency reserve
							Unallocated
	<b>1 058 321.1</b>		<b>1 149 125.4</b>		<b>1 239 698.9</b>		<b>Total consolidated expenditure</b>
	<b>-153 490.9</b>		<b>-143 254.6</b>		<b>-121 515.6</b>		<b>Consolidated budget balance</b>

2) Includes biological, heritage and specialised military assets.

3) Mainly general administration, cost of raising loans and unallocatable capital expenditure.

**Table 9**  
**Total debt of government 1)**

R million	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
<b>Domestic debt</b>							
Marketable	47 385	61 124	72 923	85 546	104 646	138 681	181 460
<i>Government bonds</i>	47 173	60 860	71 026	82 824	100 662	132 853	174 892
<i>Treasury bills</i>	212	264	1 897	2 722	3 984	5 828	6 568
<i>Bridging bonds</i>	–	–	–	–	–	–	–
Non-marketable 3)	7 675	5 386	6 883	7 989	6 520	4 703	3 310
Gross loan debt	55 060	66 510	79 806	93 535	111 166	143 384	184 770
Cash balances 4)	-1 588	-3 785	-11 181	-8 524	-9 762	-4 750	-4 591
Net loan debt	53 472	62 725	68 625	85 011	101 404	138 634	180 179
<b>Foreign debt</b>							
Gross loan debt 5)	2 442	2 227	2 090	1 770	2 940	2 348	5 201
Cash balances 4)	–	–	–	–	–	–	–
Net loan debt	2 442	2 227	2 090	1 770	2 940	2 348	5 201
<b>Gross loan debt</b>	<b>57 502</b>	<b>68 737</b>	<b>81 896</b>	<b>95 305</b>	<b>114 106</b>	<b>145 732</b>	<b>189 971</b>
<b>Net loan debt</b>	<b>55 914</b>	<b>64 952</b>	<b>70 715</b>	<b>86 781</b>	<b>104 344</b>	<b>140 982</b>	<b>185 380</b>
Gold and Foreign Exchange Contingency Reserve Account 6)	-2 554	-11 158	-14 140	-10 351	-12 508	-8 934	-2 190
<b>Composition of gross debt (excluding deduction of cash balances)</b>							
Marketable domestic debt	82.4%	88.9%	89.0%	89.8%	91.7%	95.2%	95.5%
<i>Government bonds</i>	82.0%	88.5%	86.7%	86.9%	88.2%	91.2%	92.1%
<i>Treasury bills</i>	0.4%	0.4%	2.3%	2.9%	3.5%	4.0%	3.5%
<i>Bridging bonds</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-marketable domestic debt 3)	13.3%	7.8%	8.4%	8.4%	5.7%	3.2%	1.7%
Domestic debt	95.8%	96.8%	97.4%	98.1%	97.4%	98.4%	97.3%
Foreign debt 5)	4.2%	3.2%	2.6%	1.9%	2.6%	1.6%	2.7%
<b>Total as percentage of GDP:</b>							
Gross domestic debt	30.3%	30.3%	30.6%	31.2%	32.3%	37.5%	41.8%
Net domestic debt	29.4%	28.6%	26.3%	28.4%	29.5%	36.2%	40.8%
Gross foreign debt	1.3%	1.0%	0.8%	0.6%	0.9%	0.6%	1.2%
Net foreign debt	1.3%	1.0%	0.8%	0.6%	0.9%	0.6%	1.2%
Gross loan debt	31.6%	31.3%	31.4%	31.8%	33.2%	38.1%	43.0%
Net loan debt	30.7%	29.6%	27.1%	29.0%	30.3%	36.8%	41.9%

1) Debt of the central government, excluding extra-budgetary institutions and social security funds.

2) As projected at the end of January 2012.

3) Includes non-marketable Treasury bills, retail bonds, former Namibian loans and loan levies.

4) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).  
Bank balances in foreign currencies are revaluated using forward estimates of exchange rates.

Table 9  
Total debt of government 1)

1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	R million
							<b>Domestic debt</b>
225 662	263 844	290 424	318 773	344 938	354 706	365 231	Marketable
210 191	248 877	276 124	301 488	325 938	332 706	339 731	<i>Government bonds</i>
7 018	10 700	14 300	17 285	19 000	22 000	25 500	<i>Treasury bills</i>
8 453	4 267	–	–	–	–	–	<i>Bridging bonds</i>
5 705	4 700	6 421	2 778	2 013	998	2 382	3) Non-marketable
231 367	268 544	296 845	321 551	346 951	355 704	367 613	Gross loan debt
-6 665	-8 630	-2 757	-4 798	-5 166	-7 285	-2 650	4) Cash balances
224 702	259 914	294 088	316 753	341 785	348 419	364 963	Net loan debt
							<b>Foreign debt</b>
8 784	10 944	11 394	14 560	16 276	25 799	31 938	5) Gross loan debt
–	–	–	–	–	–	–	4) Cash balances
8 784	10 944	11 394	14 560	16 276	25 799	31 938	Net loan debt
<b>240 151</b>	<b>279 488</b>	<b>308 239</b>	<b>336 111</b>	<b>363 227</b>	<b>381 503</b>	<b>399 551</b>	<b>Gross loan debt</b>
<b>233 486</b>	<b>270 858</b>	<b>305 482</b>	<b>331 313</b>	<b>358 061</b>	<b>374 218</b>	<b>396 901</b>	<b>Net loan debt</b>
							Gold and Foreign Exchange Contingency Reserve Account
-4 147	–	-2 169	-73	-14 431	-9 200	-18 170	6)
							<b>Composition of gross debt (excluding deduction of cash balances)</b>
94.0%	94.4%	94.2%	94.8%	95.0%	93.0%	91.4%	Marketable domestic debt
87.5%	89.0%	89.6%	89.7%	89.7%	87.2%	85.0%	<i>Government bonds</i>
2.9%	3.8%	4.6%	5.1%	5.2%	5.8%	6.4%	<i>Treasury bills</i>
3.5%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	<i>Bridging bonds</i>
2.4%	1.7%	2.1%	0.8%	0.6%	0.3%	0.6%	3) Non-marketable domestic debt
96.3%	96.1%	96.3%	95.7%	95.5%	93.2%	92.0%	Domestic debt
3.7%	3.9%	3.7%	4.3%	4.5%	6.8%	8.0%	5) Foreign debt
							<b>Total as percentage of GDP:</b>
46.5%	47.6%	46.7%	45.9%	45.8%	42.5%	38.6%	Gross domestic debt
45.2%	46.1%	46.3%	45.3%	45.1%	41.6%	38.3%	Net domestic debt
1.8%	1.9%	1.8%	2.1%	2.1%	3.1%	3.4%	Gross foreign debt
1.8%	1.9%	1.8%	2.1%	2.1%	3.1%	3.4%	Net foreign debt
48.3%	49.5%	48.5%	48.0%	48.0%	45.6%	42.0%	Gross loan debt
47.0%	48.0%	48.1%	47.3%	47.3%	44.7%	41.7%	Net loan debt

5) Valued at appropriate foreign exchange rates up to 31 March 2011 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2012, projected to depreciate in line with inflation differentials.

6) The balance on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2012 represents an estimated balance on the account. No provision for any profits or losses on this account has been made for subsequent years. A negative balance indicates a loss and a positive balance a profit.

**Table 9**  
**Total debt of government 1)**

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>Domestic debt</b>							
Marketable	349 415	350 870	388 300	428 593	457 780	467 864	478 265
<i>Government bonds</i>	331 505	328 820	359 700	394 143	417 380	422 064	426 415
<i>Treasury bills</i>	17 910	22 050	28 600	34 450	40 400	45 800	51 850
<i>Bridging bonds</i>	–	–	–	–	–	–	–
Non-marketable 3)	2 030	1 910	1 999	3 498	3 699	3 238	2 555
Gross loan debt	351 445	352 780	390 299	432 091	461 479	471 102	480 821
Cash balances 4)	-6 549	-9 730	-12 669	-30 870	-58 187	-75 315	-93 809
Net loan debt	344 896	343 050	377 630	401 221	403 292	395 787	387 012
<b>Foreign debt</b>							
Gross loan debt 5)	82 009	74 286	64 670	69 405	66 846	82 581	96 218
Cash balances 4)	–	–	–	–	–	–	–
Net loan debt	82 009	74 286	64 670	69 405	66 846	82 581	96 218
<b>Gross loan debt</b>	<b>433 454</b>	<b>427 066</b>	<b>454 969</b>	<b>501 496</b>	<b>528 325</b>	<b>553 683</b>	<b>577 039</b>
<b>Net loan debt</b>	<b>426 905</b>	<b>417 336</b>	<b>442 300</b>	<b>470 626</b>	<b>470 138</b>	<b>478 368</b>	<b>483 230</b>
Gold and Foreign Exchange Contingency Reserve Account 6)	-28 024	-36 577	-18 036	-5 292	1 751	28 514	72 189
<b>Composition of gross debt (excluding deduction of cash balances)</b>							
Marketable domestic debt	80.6%	82.2%	85.3%	85.5%	86.6%	84.5%	82.9%
<i>Government bonds</i>	76.5%	77.0%	79.1%	78.6%	79.0%	76.2%	73.9%
<i>Treasury bills</i>	4.1%	5.2%	6.3%	6.9%	7.6%	8.3%	9.0%
<i>Bridging bonds</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-marketable domestic debt 3)	0.5%	0.4%	0.4%	0.7%	0.7%	0.6%	0.4%
Domestic debt	81.1%	82.6%	85.8%	86.2%	87.3%	85.1%	83.3%
Foreign debt 5)	18.9%	17.4%	14.2%	13.8%	12.7%	14.9%	16.7%
<b>Total as percentage of GDP:</b>							
Gross domestic debt	33.5%	29.3%	29.9%	29.8%	28.6%	25.7%	23.2%
Net domestic debt	32.9%	28.5%	29.0%	27.7%	25.0%	21.6%	18.6%
Gross foreign debt	7.8%	6.2%	5.0%	4.8%	4.1%	4.5%	4.6%
Net foreign debt	7.8%	6.2%	5.0%	4.8%	4.1%	4.5%	4.6%
Gross loan debt	41.3%	35.5%	34.9%	34.6%	32.7%	30.2%	27.8%
Net loan debt	40.7%	34.7%	33.9%	32.5%	29.1%	26.1%	23.3%

1) Debt of the central government, excluding extra-budgetary institutions and social security funds.

2) As projected at the end of January 2012.

3) Includes non-marketable Treasury bills, retail bonds, former Namibian loans and loan levies.

4) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).  
Bank balances in foreign currencies are revaluated using forward estimates of exchange rates.

Table 9  
Total debt of government 1)

2008/09	2009/10	2010/11	2011/12 <sup>2)</sup>	2012/13	2013/14	2014/15	R million
							<b>Domestic debt</b>
527 751	700 532	869 634	1 047 270	1 220 951	1 402 860	1 564 046	Marketable
462 751	585 992	733 484	890 292	1 041 973	1 201 882	1 343 068	Government bonds
65 000	114 540	136 150	156 978	178 978	200 978	220 978	Treasury bills
–	–	–	–	–	–	–	Bridging bonds
1 956	4 943	23 087	25 639	26 426	27 696	31 586	3) Non-marketable
529 707	705 475	892 721	1 072 909	1 247 377	1 430 556	1 595 632	Gross loan debt
-101 349	-106 550	-111 413	-129 425	-109 060	-103 413	-102 157	4) Cash balances
428 358	598 925	781 308	943 484	1 138 317	1 327 143	1 493 475	Net loan debt
							<b>Foreign debt</b>
97 268	99 454	97 851	129 476	107 535	97 634	99 346	5) Gross loan debt
–	-25 339	-60 389	-75 489	-56 418	-54 130	-55 013	4) Cash balances
97 268	74 115	37 462	53 987	51 117	43 504	44 333	Net loan debt
<b>626 975</b>	<b>804 929</b>	<b>990 572</b>	<b>1 202 385</b>	<b>1 354 912</b>	<b>1 528 190</b>	<b>1 694 978</b>	<b>Gross loan debt</b>
<b>525 626</b>	<b>673 040</b>	<b>818 770</b>	<b>997 471</b>	<b>1 189 434</b>	<b>1 370 647</b>	<b>1 537 808</b>	<b>Net loan debt</b>
							Gold and Foreign Exchange Contingency Reserve Account
101 585	35 618	28 283	81 044	81 044	81 044	81 044	6)
							<b>Composition of gross debt (excluding deduction of cash balances)</b>
84.2%	87.0%	87.8%	87.1%	90.1%	91.8%	92.3%	Marketable domestic debt
73.8%	72.8%	74.0%	74.0%	76.9%	78.6%	79.2%	Government bonds
10.4%	14.2%	13.7%	13.1%	13.2%	13.2%	13.0%	Treasury bills
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Bridging bonds
0.3%	0.6%	2.3%	2.1%	2.0%	1.8%	1.9%	3) Non-marketable domestic debt
84.5%	87.6%	90.1%	89.2%	92.1%	93.6%	94.1%	Domestic debt
15.5%	12.4%	9.9%	10.8%	7.9%	6.4%	5.9%	5) Foreign debt
							<b>Total as percentage of GDP:</b>
23.0%	28.9%	32.4%	35.8%	37.8%	39.5%	39.9%	Gross domestic debt
18.6%	24.5%	28.4%	31.5%	34.5%	36.6%	37.4%	Net domestic debt
4.2%	4.1%	3.6%	4.3%	3.3%	2.7%	2.5%	Gross foreign debt
4.2%	3.0%	1.4%	1.8%	1.5%	1.2%	1.1%	Net foreign debt
27.2%	33.0%	36.0%	40.1%	41.0%	42.2%	42.4%	Gross loan debt
22.8%	27.6%	29.7%	33.3%	36.0%	37.8%	38.5%	Net loan debt

5) Valued at appropriate foreign exchange rates up to 31 March 2011 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2012, projected to depreciate in line with inflation differentials.

6) The balance on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2012 represents an estimated balance on the account. No provision for any profits or losses on this account has been made for subsequent years. A negative balance indicates a loss and a positive balance a profit.

**Table 10**  
**Financial guarantees:**  
**Amounts drawn on government guarantees**

R million	2008/09			2009/10		
	Domestic	Foreign	Total	Domestic	Foreign	Total
<b>General Government Sector</b>	<b>595</b>	<b>–</b>	<b>595</b>	<b>418</b>	<b>–</b>	<b>418</b>
Central Government	595	–	595	418	–	418
<i>Former regional authorities</i>	206	–	206	190	–	190
<i>Guarantee scheme for housing loans to employees</i>	255	–	255	154	–	154
<i>Guarantee scheme for motor vehicles - senior officials</i>	8	–	8	3	–	3
<i>Universities and Technikons</i>	126	–	126	71	–	71
<b>Public Entities</b>	<b>42 976</b>	<b>19 315</b>	<b>62 291</b>	<b>111 403</b>	<b>17 159</b>	<b>128 562</b>
Non-financial	41 334	5 521	46 855	93 703	5 037	98 740
<i>Central Energy Fund</i>	–	130	130	–	19	19
<i>Denel</i>	880	–	880	1 850	–	1 850
<i>Eskom</i>	–	–	–	46 678	–	46 678
<i>Irrigation Boards</i>	43	–	43	46	–	46
<i>Kalahari East Water Board</i>	16	–	16	16	–	16
<i>Komati Basin Water Authority</i>	1 453	–	1 453	1 406	–	1 406
<i>Lesotho Highlands Development Authority</i>	7	517	524	5	396	401
<i>Nuclear Energy Corporation of South Africa</i>	20	–	20	20	–	20
<i>Passenger Rail Agency of South Africa</i>	–	–	–	1 217	–	1 217
<i>South African Airways</i>	4 460	–	4 460	1 300	51	1 351
<i>South African Broadcasting Corporation</i>	–	–	–	1 000	–	1 000
<i>South African National Roads Agency Limited</i>	6 708	–	6 708	12 287	–	12 287
<i>Telkom South Africa</i>	–	138	138	–	108	108
<i>Trans-Caledon Tunnel Authority</i>	19 363	225	19 588	20 523	198	20 721
<i>Transnet</i>	8 384	4 511	12 895	7 355	4 265	11 620
Financial	1 642	13 794	15 436	17 700	12 122	29 822
<i>Development Bank of Southern Africa</i>	–	12 348	12 348	15 200	11 170	26 370
<i>Industrial Development Corporation of South Africa</i>	–	1 446	1 446	–	952	952
<i>Land Bank</i>	1 500	–	1 500	2 500	–	2 500
<i>South African Reserve Bank</i>	142	–	142	–	–	–
<b>Private Sector</b>	<b>94</b>	<b>–</b>	<b>94</b>	<b>94</b>	<b>–</b>	<b>94</b>
Agricultural Co-operatives	94	–	94	94	–	94
<b>Foreign Sector</b>	<b>58</b>	<b>–</b>	<b>58</b>	<b>25</b>	<b>–</b>	<b>25</b>
Foreign Central Banks and Governments	58	–	58	25	–	25
<b>Total</b>	<b>43 723</b>	<b>19 315</b>	<b>63 038</b>	<b>111 940</b>	<b>17 159</b>	<b>129 099</b>

1) As projected at the end of December 2011.

**Table 10**  
**Financial guarantees:**  
**Amounts drawn on government guarantees**

2010/11			2011/12 <sup>1)</sup>			R million
Domestic	Foreign	Total	Domestic	Foreign	Total	
294	–	294	294	–	294	<b>General Government Sector</b>
294	–	294	294	–	294	Central Government
154	–	154	154	–	154	<i>Former regional authorities</i>
104	–	104	104	–	104	<i>Guarantee scheme for housing loans to employees</i>
3	–	3	3	–	3	<i>Guarantee scheme for motor vehicles - senior officials</i>
33	–	33	33	–	33	<i>Universities and Technikons</i>
<b>127 321</b>	<b>21 891</b>	<b>149 212</b>	<b>145 571</b>	<b>24 108</b>	<b>169 679</b>	<b>Public Entities</b>
110 371	10 638	121 009	129 371	12 855	142 226	Non-financial
–	–	–	–	–	–	<i>Central Energy Fund</i>
1 850	–	1 850	1 850	–	1 850	<i>Denel</i>
60 662	6 395	67 057	77 512	8 612	86 124	<i>Eskom</i>
44	–	44	44	–	44	<i>Irrigation Boards</i>
16	–	16	16	–	16	<i>Kalahari East Water Board</i>
1 340	–	1 340	1 340	–	1 340	<i>Komati Basin Water Authority</i>
2	225	227	2	225	227	<i>Lesotho Highlands Development Authority</i>
20	–	20	20	–	20	<i>Nuclear Energy Corporation of South Africa</i>
468	–	468	468	–	468	<i>Passenger Rail Agency of South Africa</i>
1 916	–	1 916	1 916	–	1 916	<i>South African Airways</i>
1 000	–	1 000	1 000	–	1 000	<i>South African Broadcasting Corporation</i>
18 605	–	18 605	23 755	–	23 755	<i>South African National Roads Agency Limited</i>
–	90	90	–	90	90	<i>Telkom South Africa</i>
18 317	172	18 489	18 317	172	18 489	<i>Trans-Caledon Tunnel Authority</i>
6 131	3 756	9 887	3 131	3 756	6 887	<i>Transnet</i>
16 950	11 253	28 203	16 200	11 253	27 453	Financial
15 200	10 513	25 713	15 200	10 513	25 713	<i>Development Bank of Southern Africa</i>
–	740	740	–	740	740	<i>Industrial Development Corporation of South Africa</i>
1 750	–	1 750	1 000	–	1 000	<i>Land Bank</i>
–	–	–	–	–	–	<i>South African Reserve Bank</i>
<b>94</b>	<b>–</b>	<b>94</b>	<b>94</b>	<b>–</b>	<b>94</b>	<b>Private Sector</b>
94	–	94	94	–	94	Agricultural Co-operatives
–	–	–	–	–	–	<b>Foreign Sector</b>
–	–	–	–	–	–	Foreign Central Banks and Governments
<b>127 709</b>	<b>21 891</b>	<b>149 600</b>	<b>145 959</b>	<b>24 108</b>	<b>170 067</b>	<b>Total</b>





# Miscellaneous tax amendments

## ■ Tax expenditure statement: February 2012

### Introduction

Summarised tax expenditure estimates were published for the first time in the 2011 *Budget Review* (pages 179 to 181). In brief, tax expenditures are provisions in tax legislation that reduce the amount of tax revenue that could otherwise have been collected. Tax expenditures can be defined as deviations from the benchmark of a standard tax legislative framework.

Table C.2 reflects the 2012 tax expenditure statement. Historical tax expenditure estimates reported in the 2011 statement might have changed due to the availability of more reliable data, revised estimating assumptions and other corrections. Some of the major changes between the 2011 and 2012 tax expenditure statements are discussed below.

### Personal income tax

The annual *Tax Statistics* provides data on tax revenues, deductions and the percentage of taxpayers assessed. In the 2011 tax expenditure statement, the percentage of individual taxpayers assessed for the income tax years 2008 and 2009 were 83 per cent and 79 per cent respectively. Tax expenditure for contributions to retirement funds (pension funds and retirement annuity funds) and medical schemes was estimated by adjusting the amounts upwards (gross up) to allow for less than 100 per cent assessments at the time the data was extracted. This gross approach resulted in an overestimation of the tax expenditure for retirement fund contributions and has been corrected in the 2012 estimated tax expenditure statement.

Between 2006/07 and 2011/12, medical scheme contributions were subject to monetary caps. For the 2012 tax expenditure report, tax expenditure for medical scheme contributions was estimated based on the number of principal medical scheme members and beneficiaries multiplied by the various monetary caps.

### VAT relief on fuel sales

As petrol, diesel and illuminating paraffin are zero-rated for VAT purposes, the resulting deviation is regarded as a tax expenditure. This is calculated by estimating the value for sales and assumptions about the estimated volumes used by final consumers. It was assumed that 20 per cent of petrol sales was used

for business purposes (by VAT vendors) and would have qualified to claim VAT inputs. For diesel, it was assumed that 90 per cent of sales was used for business purposes and would have qualified to claim for VAT inputs.

There is a drop in estimated tax expenditure between 2009 and 2010 due to the decline in average fuel prices in 2010. Average national diesel and petrol prices are shown in the table below.

**Table C.1 National average price and national quantity fuel sold (million litres), 2006 – 2010**

Fuel Type	2006		2007		2008		2009		2010	
	price (rand/l)	quantity	price (rand/l)	quantity	price (rand/l)	quantity	price (rand/l)	quantity	price (rand/l)	quantity
Diesel	5.01	8 234	5.81	8 977	6.72	9 976	9.00	10 074	6.74	9 236
Petrol	5.40	11 159	6.09	11 400	7.11	11 531	8.57	11 061	7.62	11 333
Paraffin	3.93	763	4.46	714	5.20	694	7.14	506	4.78	776

### Estimates of tax expenditure

The following table summarises tax expenditure in terms of the Income Tax Act No. 58 of 1962, the VAT Act No. 89 of 1991 and the Customs and Excise Act No. 91 of 1964.

**Table C.2 Tax expenditure estimates, 2006/07 – 2009/10**

R million	2006/07	2007/08	2008/09	2009/10
<b>Personal income tax</b>				
Pension and retirement annuity <sup>1</sup>	11 968	12 521	15 629	17 209
-pension contributions employees	4 379	4 579	5 799	6 470
-pension contributions employers	4 925	5 150	6 522	7 277
-retirement annuity	2 664	2 793	3 308	3 462
Medical	8 290	9 460	10 992	12 370
-medical contributions & deductions employees	4 145	4 597	5 701	6 497
-medical contributions - employers <sup>2</sup>	4 145	4 863	5 291	5 874
Interest exemptions	1 715	2 283	3 033	3 529
Secondary rebate (65 years and older)	1 111	1 254	1 444	1 484
Donations	56	80	109	111
Capital gains tax (annual exclusion)	100	123	74	60
<b>Total: Personal income tax</b>	<b>23 239</b>	<b>25 721</b>	<b>31 281</b>	<b>34 764</b>
<b>Corporate income tax</b>				
Small business corporation tax savings	627	747	675	732
Research and development (R&D)	449	358	537	432
Learnership allowances	224	424	397	421
Strategic Industrial Policy	281	228	61	25
Film incentive	194	297	20	1
Urban development zones (UDZ)	82	120	169	203
<b>Total: Corporate income tax</b>	<b>1 857</b>	<b>2 174</b>	<b>1 860</b>	<b>1 813</b>
<b>Value-added tax</b>				
<b>Zero-rated supplies</b>				
19 basic food items <sup>3</sup>	11 376	13 107	13 907	14 606
Petrol <sup>4</sup>	7 777	9 185	10 619	9 678
Diesel <sup>4</sup>	730	938	1 269	872
Paraffin <sup>4</sup>	446	505	507	520
Municipal property rates	2 711	3 081	3 122	3 673
Reduced inclusion rate for "commercial" accommodation	85	95	113	120
<b>Subtotal: zero-rated supplies</b>	<b>23 125</b>	<b>26 912</b>	<b>29 537</b>	<b>29 469</b>
<b>Exempt supplies (public transport &amp; education)</b>	<b>682</b>	<b>785</b>	<b>832</b>	<b>922</b>
<b>Customs duties and excise</b>				
Motor vehicles (MIDP, including IRCCs) <sup>5</sup>	13 179	16 169	12 089	12 673
Textile and clothing (Duty credits - DCCs) <sup>5</sup>	1 563	1 829	2 024	2 231
Furniture and fixtures	145	166	128	153
Other customs <sup>6</sup>	636	1 141	1 231	787
Diesel refund (mining, agriculture and fishing)	811	1 205	1 181	1 286
<b>Total customs and excise</b>	<b>16 335</b>	<b>20 509</b>	<b>16 653</b>	<b>17 129</b>
<b>Total tax expenditure</b>	<b>65 238</b>	<b>76 101</b>	<b>80 163</b>	<b>84 097</b>
<b>Tax expenditure as % of total gross tax revenue</b>	<b>13.2%</b>	<b>13.3%</b>	<b>12.8%</b>	<b>14.0%</b>
<b>Total gross tax revenue</b>	<b>495 549</b>	<b>572 815</b>	<b>625 100</b>	<b>598 705</b>
<b>Tax expenditure as % of GDP</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.5%</b>	<b>3.4%</b>

1. Some of this tax expenditure is recouped when amounts are withdrawn as either a lump sum or an annuity

2. Employer contributions are assumed to be equivalent to employee deductions

3. VAT relief in respect of basic food items based on an independent study

4. Based on fuel volumes and average retail selling prices

5. MIDP = motor industry development program, IRCC = import rebate credit certificate, DCC = duty credit certificates

6. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted

## Direct tax proposals

### Personal income tax rate and bracket structure

The primary rebate has been increased to R11 440 per year for all individuals. The secondary rebate, which applies to individuals aged 65 years and over, is increased to R6 390 per year. The third rebate, which applies to individuals aged 75 years and over, is increased to R2 130 per year. The threshold below which individuals are not liable for personal income tax is increased to R63 556 of taxable income per year for those below the age of 65, R99 056 per year for those aged 65 to 74, and R110 889 for age 75 and over. The rates for the 2011/12 tax year and the proposed rates for 2012/13 are set out in Table C.3.

**Table C.3 Personal income tax rate and bracket adjustments, 2011/12 – 2012/13**

2011/12		2012/13	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R150 000	18% of each R1	R0 - R160 000	18% of each R1
R150 001 - R235 000	R27 000 + 25% of the amount above R150 000	R160 001 - R250 000	R28 800 + 25% of the amount above R160 000
R235 001 - R325 000	R48 250 + 30% of the amount above R235 000	R250 001 - R346 000	R51 300 + 30% of the amount above R250 000
R325 001 - R455 000	R75 250 + 35% of the amount above R325 000	R346 001 - R484 000	R80 100 + 35% of the amount above R346 000
R455 001 - R580 000	R120 750 + 38% of the amount above R455 000	R484 001 - R617 000	R128 400 + 38% of the amount above R484 000
R580 001	R168 250 + 40% of the amount above R580 000	R617 001	R178 940 + 40% of the amount above R617 000
<b>Rebates</b>		<b>Rebates</b>	
Primary	R10 755	Primary	R11 440
Secondary	R6 012	Secondary	R6 390
Tertiary	R2 000	Tertiary	R2 130
<b>Tax threshold</b>		<b>Tax threshold</b>	
Below age 65	R59 750	Below age 65	R63 556
Age 65 and over	R93 150	Age 65 and over	R99 056
Age 75 and over	R104 261	Age 75 and over	R110 889

### Capital gains tax

Capital gains tax inclusion rates for “individuals and special trusts” have been increased by 8.3 percentage points to 33.3 per cent, and the rates for “other persons” have been increased by 16.6 percentage points to 66.6 per cent. The changes are set out in Table C.4 below.

**Table C.4 Proposed capital gains tax inclusion rates, 2011/12 – 2012/13**

	Current rates 2011/12	Proposed rates 2012/13
For individuals and special trusts	25%	33.3%
For other persons	50%	66.6%

The revised rates for capital gains exclusions are set out in Table C.5.

**Table C.5 Proposed capital gains exclusions, 2011/12 – 2012/13**

Description	Current thresholds 2011/12	Proposed thresholds 2012/13
Annual exclusion for individuals and special trusts	R20 000	R30 000
Exclusion on death	R200 000	R300 000
Exclusion in respect of disposal of primary residence (based on amount of capital gain or loss on disposal)	R1.5 million	R2 million
Maximum market value of all assets allowed within definition of small business on disposal when person over 55	R5 million	R10 million
Exclusion amount on disposal of small business when person over 55	R900 000	R1.5 million

The revised rates for medical scheme contributions are set out in Table C.6.

**Table C.6 Medical scheme contributions, 2011/12 – 2012/13**

Description	Illustrative thresholds 2011/12	Proposed thresholds 2012/13
Medical scheme fees tax credit, in respect of benefits to the taxpayer	R216	R230
Medical scheme fees tax credit, in respect of benefits to the taxpayer and one dependant	R432	R460
Medical scheme fees tax credit, in respect of benefits to each additional dependant	R144	R154

The revised rates for employee-related fringe benefits are set out in Table C.7.

**Table C.7 Employee-related fringe benefits, 2011/12 – 2012/13**

Description	Current thresholds 2011/12	Proposed thresholds 2012/13
Employee accommodation	R59 750	R63 556

Other miscellaneous proposals are summarised in Table C.8 below.

**Table C.8 Other miscellaneous proposals, 2011/12 – 2012/13**

Description	Current thresholds 2011/12	Proposed thresholds 2012/13
<b>Public-benefit organisations</b>		
Housing provided by a PBO <sup>1</sup> : maximum monthly income of beneficiary household	R7 500	R15 000
<b>Deferral</b>		
Maximum amount of deferral	R80 000	R100 000

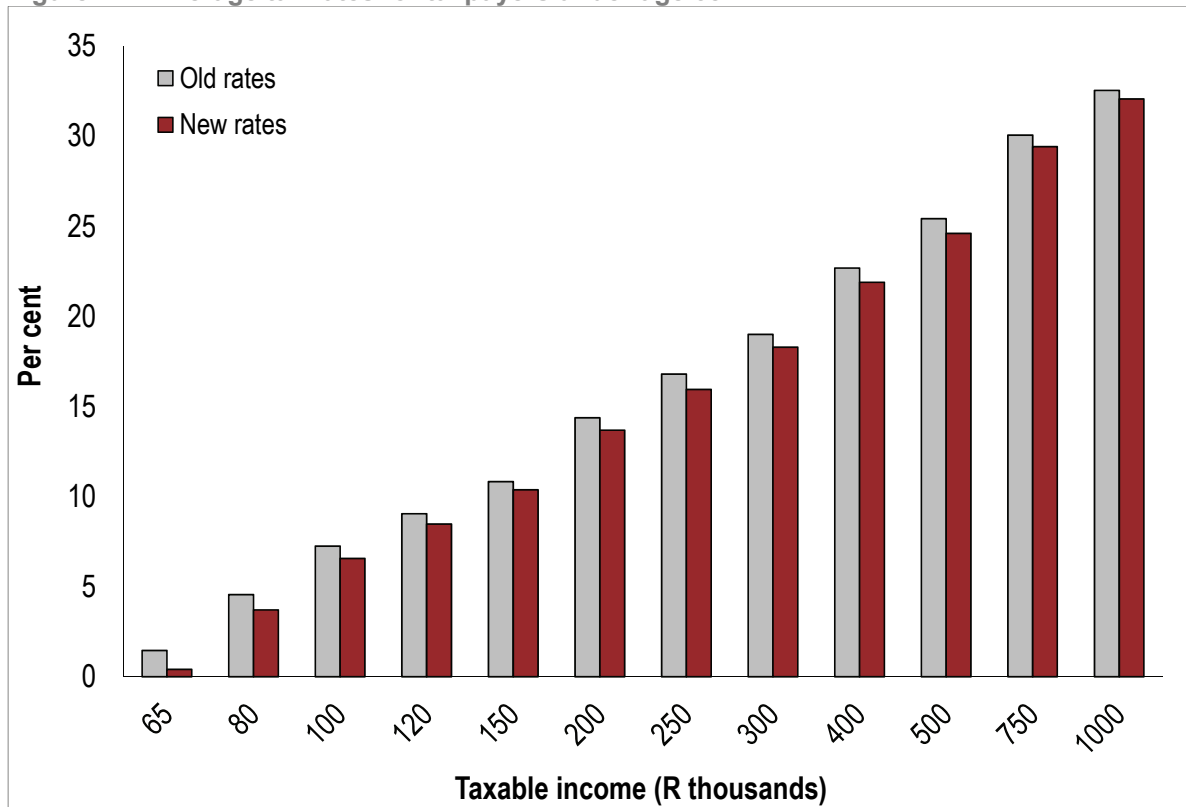
1. Refers to public-benefit organisation

There are certain circumstances where the provisions of section 23 (H) of the Income Tax Act will not apply. These include instances where the aggregate of all amounts to be limited by section 23 (H) do not exceed R80 000. It is proposed that the amount or aggregate amount be increased to R100 000.

The proposed tax schedule in Table C.3 compensates individuals for the effect of inflation on income tax liabilities and results in reduced tax liability for all taxpayers. These tax reductions are set out in tables C.9, C.10 and C.11. The average tax rates (tax as a percentage of taxable income) for individuals are illustrated in figures C.1, C.2 and C.3.

**Table C.9 Income tax payable, 2012/13 (taxpayers below age 65)**

Taxable income (R)	2011 rates (R)	Proposed rates (R)	Tax deduction (R)	% reduction
65 000	945	260	- 685	-72.5%
80 000	3 645	2 960	- 685	-18.8%
100 000	7 245	6 560	- 685	-9.5%
120 000	10 845	10 160	- 685	-6.3%
150 000	16 245	15 560	- 685	-4.2%
200 000	28 745	27 360	-1 385	-4.8%
250 000	41 995	39 860	-2 135	-5.1%
300 000	56 995	54 860	-2 135	-3.7%
400 000	90 745	87 560	-3 185	-3.5%
500 000	127 095	123 040	-4 055	-3.2%
750 000	225 495	220 700	-4 795	-2.1%
1 000 000	325 495	320 700	-4 795	-1.5%

**Figure C.1 Average tax rates for taxpayers under age 65****Table C.10 Income tax payable, 2012/13 (taxpayers age 65 and over)**

Taxable income (R)	2011 rates (R)	Proposed rates (R)	Tax deduction (R)	% reduction
120 000	4 833	3 770	-1 063	-22.0%
150 000	10 233	9 170	-1 063	-10.4%
200 000	22 733	20 970	-1 763	-7.8%
250 000	35 983	33 470	-2 513	-7.0%
300 000	50 983	48 470	-2 513	-4.9%
400 000	84 733	81 170	-3 563	-4.2%
500 000	121 083	116 650	-4 433	-3.7%
750 000	219 483	214 310	-5 173	-2.4%
1 000 000	319 483	314 310	-5 173	-1.6%

Figure C.2 Average tax rates for taxpayers age 65 and over

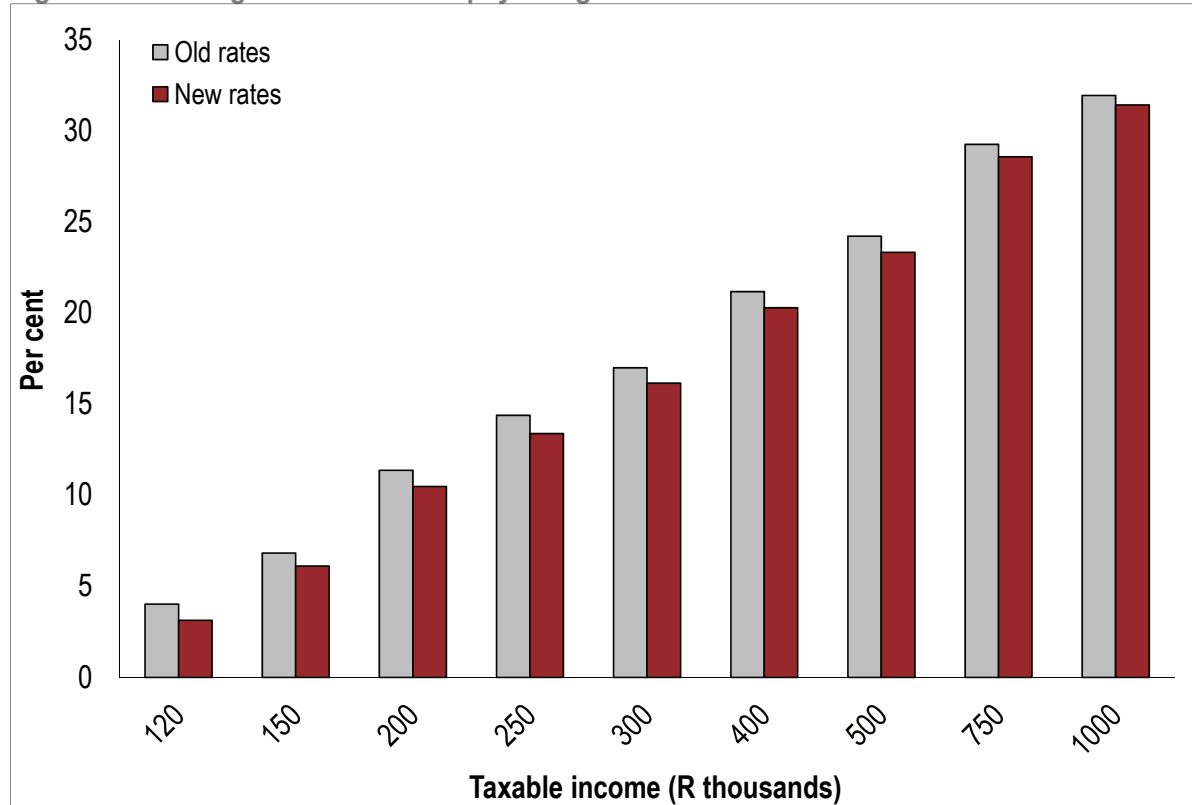
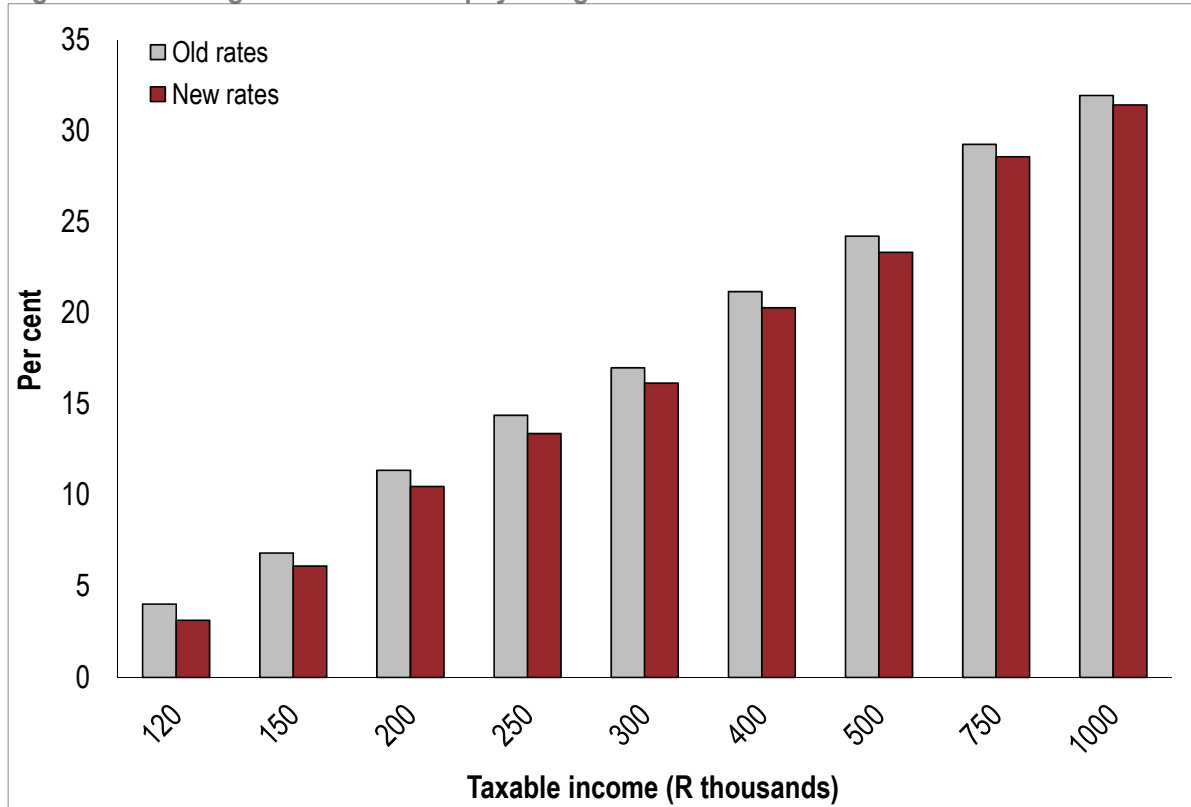


Table C.11 Income tax payable, 2012/13 (taxpayers age 75 and over)

Taxable income (R)	2011 rates (R)	Proposed rates (R)	Tax deduction (R)	% reduction
120 000	2 833	1 640	-1 193	-42.1%
150 000	8 233	7 040	-1 193	-14.5%
200 000	20 733	18 840	-1 893	-9.1%
250 000	33 983	31 340	-2 643	-7.8%
300 000	48 983	46 340	-2 643	-5.4%
400 000	82 733	79 040	-3 693	-4.5%
500 000	119 083	114 520	-4 563	-3.8%
750 000	217 483	212 180	-5 303	-2.4%
1 000 000	317 483	312 180	-5 303	-1.7%

Figure C.3 Average tax rates for taxpayers age 75 and over



### ■ Indirect tax proposals

It is proposed that the customs and excise duties in the Customs and Excise Act No. 91 of 1964 (schedule 1, part 2 of section A) be amended with effect from 22 February 2012 to the extent shown in Table C.12.

Table C.12 Specific excise duties, 2011/12 – 2012/13

Tariff item	Tariff heading	Description	2011/12		2012/13	
			Present rate of duty Excise	Customs	Proposed rate of duty Excise	Customs
104.00		Prepared foodstuffs; beverages, spirits and vinegar; tobacco				
104.01	19.01	Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40 per cent by mass of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5 per cent by mass of cocoa calculated on a totally defatted basis not elsewhere specified or included:  Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34.7c/kg	34.7c/kg	34.7c/kg	34.7c/kg
104.10	22.03	<b>Beer made from malt:</b> Traditional African beer as defined in Additional Note 1 to Chapter 22 Other	7.82c/li R53.97/li aa	7.82c/li R53.97/li aa	7.82c/li R59.36/li aa	7.82c/li R59.36/li aa
104.15	22.04	<b>Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):</b>				
104.16	22.05	<b>Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:</b> Sparkling Unfortified wine of heading 22.04, with an alcoholic strength by volume exceeding 6.5 per cent vol. but not exceeding 16.5 per cent vol. Unfortified wine of heading 22.05, with an alcoholic strength by volume exceeding 6.5 per cent vol. but not exceeding 15 per cent vol. Fortified wine of headings 22.04 and 22.05 with an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 22 per cent vol. Other	R6.97/li R2.32/li R2.32/li R4.33/li R93.03/li aa	R6.97/li R2.32/li R2.32/li R4.33/li R93.03/li aa	R7.53/li R2.50/li R2.50/li R4.59/li R111.64/li aa	R7.53/li R2.50/li R2.50/li R4.59/li R111.64/li aa
104.17	22.06	<b>Other fermented beverages (for example, cider, perry and mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:</b>				

**Table C.12 Specific excise duties, 2011/12 – 2012/13 (continued)**

Tariff item	Tariff heading	Description	2011/12		2012/13	
			Present rate of duty Excise	Customs	Proposed rate of duty Excise	Customs
		Sparkling beverages	R6.97/li	R6.97/li	R7.53/li	R7.53/li
		Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li	7.82c/li	7.82c/li
		Other fermented beverages, unfortified, with an alcoholic strength by volume not exceeding 9 per cent vol.	R2.71/li	R2.71/li	R2.97/li	R2.97/li
		Other fermented beverages, unfortified, with an alcoholic strength by volume exceeding 9 per cent vol. but not exceeding 15 per cent vol.	R2.71/li	R2.71/li	R2.97/li	R2.97/li
		Other fermented beverages, fortified, with an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R38.00/li aa	R38.00/li aa	R45.60/li aa	R45.60/li aa
		Other, mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, with an alcoholic strength by volume not exceeding 9 per cent vol.	R2.71/li	R2.71/li	R2.97/li	R2.97/li
		Other, mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, with an alcoholic strength by volume exceeding 9 per cent vol. but not exceeding 15 per cent vol.	R2.71/li	R2.71/li	R2.97/li	R2.97/li
		Other	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
104.21	22.07	<b>Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent volume or higher; ethyl alcohol and other spirits, denatured, of any strength:</b>	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
104.23	22.08	<b>Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent volume; spirits, liqueurs and other spirituous beverages:</b>				
		<b>Spirits obtained by distilling grape wine or grape marc</b>	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
		<b>Whiskies</b>	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
		<b>Rum and other spirits obtained by distilling fermented sugarcane products</b>	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
		<b>Gin and Geneva</b>	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
		<b>Vodka</b>	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa
		<b>Liqueurs and cordials:</b>				
		With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R38.00/li aa	R38.00/li aa	R45.60/li aa	R45.60/li aa
		Other	R93.03/li aa	R93.03/li aa	R111.64/li aa	R111.64/li aa



**Table C.13 Proposed emissions thresholds for sectors**

<b>Sector</b>	<b>Basic tax free threshold (%) below which no carbon tax will be payable during the first phase (2013 to 2019)</b>	<b>Maximum Additional allowance trade exposure</b>	<b>Additional allowance for “process” emissions</b>	<b>Total</b>	<b>Maximum offset percentage</b>
Electricity	60%	-	-	60%	10%
Petroleum (coal to liquid)	60%	10%	-	70%	10%
Petroleum – oil refinery	60%	10%	-	70%	10%
Iron and steel	60%	10%	10%	80%	5%
Aluminium	60%	10%	10%	80%	5%
Cement	60%	10%	10%	80%	5%
Glass & ceramics	60%	10%	10%	80%	5%
Chemicals	60%	10%	10%	80%	5%
Pulp & paper	60%	10%	-	70%	10%
Sugar	60%	10%	-	70%	10%
Agriculture, forestry and land use	60%	-	40%	100%	-
Waste	60%	-	40%	100%	-
Fugitive emissions: coal	60%	10%	10%	80%	5%
Other	60%	10%	-	70%	10%

In addition to the proposed percentage thresholds in Table C.13, firms will be encouraged to reduce the carbon intensity of their products during the first phase of the scheme. This could be accommodated by adjusting the basic percentage tax-free threshold by increasing or decreasing it by a factor ( $Z$ ). The box below explains the formula to be used to determine this adjustment. The overall tax-free allowance for an entity will be capped at 90 per cent of actual verified emissions.

**Box 1: The basic percentage tax-free threshold**

Percentage thresholds will be used to quantify the carbon tax liability of an entity or firm based on the absolute emissions for that year. A formula is proposed to adjust the basic percentage tax-free threshold to take into account efforts already made by firms to reduce their emissions and to encourage firms to invest in low-carbon alternatives. The basic percentage threshold below which the tax will not be payable may be adjusted using a carbon emissions intensity factor for output compared to an agreed sector benchmark. A formula is proposed to calculate a factor Z, which will then be used to adjust (increase or decrease) the basic percentage tax-free threshold as described below:

$$Z = Y / X$$

X is the average measured and verified carbon intensity of the output of a firm.

Y is the agreed benchmark carbon intensity for the sector.

The adjustment to the tax-free threshold is then determined by multiplying the original percentage threshold by Z.

**Example:**

Assume that the agreed benchmark carbon emission intensity is 0.9tCO<sub>2</sub>e/ton output. Further assume that the absolute level of greenhouse gas emissions for three different firms (A, B & C) is 100 000 tons CO<sub>2</sub>e for each firm. The basic percentage tax-free threshold is 60 per cent and the carbon emissions intensity for Firm A is 0.9tCO<sub>2</sub>e/ton of output, for Firm B is 0.85CO<sub>2</sub>e/t of output and for Firm C is 1.1tCO<sub>2</sub>e/ton of output. The factor by which the basic percentage tax-free threshold (Z) should be adjusted for each of the three firms is:

$$Z = Y / X$$

Firm A:  $Z = 0.91 / 0.91 = 1.00$

Firm B:  $Z = 0.91 / 0.85 = 1.0706$

Firm C:  $Z = 0.91 / 1.1 = 0.8273$

The adjusted basic percentage tax-free thresholds for the three firms are as follows:

Firm A =  $0.6 \times Z = 0.6 \times 1.0 = 0.60000 = 60.000$  per cent

Firm B =  $0.6 \times Z = 0.6 \times 1.0706 = 0.64236 = 64.236$  per cent

Firm C =  $0.6 \times Z = 0.6 \times 0.8273 = 0.49638 = 49.638$  per cent

The basic percentage tax-free emissions are:

Firm A = 60.00 per cent of 100 000 tons = 60 000 tons

Firm B = 64.236 per cent of 100 000 tons = 64 236 tons

Firm C = 49.638 per cent of 100 000 tons = 49 638 tons

Given that the carbon emission intensity for Firm A is the same as the benchmark figure, its basic percentage tax-free threshold remains unchanged. Firm B is doing better than the carbon emissions intensity benchmark, therefore it qualifies for a higher basic percentage tax-free threshold. Firm C is doing worse than the carbon emission intensity benchmark. It is penalised for this poor performance. Its basic percentage tax-free threshold is reduced from 60 per cent to 49.638 per cent.

## ■ Miscellaneous tax amendments

Miscellaneous tax amendments proposed for the upcoming tax legislative cycle are set out below.

### Employment, individuals and savings

#### *Employee share schemes*

Many companies use employee share schemes to motivate employees and to meet black economic empowerment objectives. Most of these schemes are based on the use of employee share trusts. These trusts obtain funding from an employer-company, with a trust holding the shares for the benefit of the employees. While this legitimate practice is to be supported, these schemes are often mixed with executive share schemes that tend to undermine tax. This has resulted in audit controversy and legislative uncertainty. To address these concerns, it is proposed that the various types of employee share schemes

be reviewed to eliminate loopholes and possible double taxation. The review will also consider the interrelationship between employer deductions and employee share scheme income. The incentive regime for low-income earner share schemes also needs to be reviewed and possibly merged into a single employee share scheme regime. These issues will be resolved over a two-year period.

#### *False job terminations*

Employees cannot withdraw funds from employer-provided retirement schemes before retirement unless an employee terminates employment with that employer. In some instances, employees terminate their employment solely to gain access to employer-provided retirement funds. In the most egregious circumstances, employees quit employment only to be rehired by the same employer shortly thereafter. Access to withdrawal under these artificial circumstances will no longer be permitted.

#### *Determination of the value of fringe benefits*

In certain cases, the Income Tax Act prescribes the use of a formula to calculate the value of a fringe benefit to be taxed in the hands of the employee. However, in these cases, it is sometimes possible for the employer to determine or obtain the actual cost of providing the fringe benefit to the employee (for example, actual business and private kilometres travelled by an employee using a company vehicle, and employers that provide rented vehicles to their employees as “company vehicles”). To create a better match between the employees’ tax withheld and the tax calculation on assessment, it is proposed that, where possible and practical, the employer be allowed to use actual cost to determine the value of the fringe benefit for the employee.

#### *Employer-owned insurance intended to cover a contingent liability*

In 2011, the taxation of employer-provided insurance was rationalised. One of the aims of this rationalisation was to ensure that deferred compensation policies are not disguised as key person insurance. One unresolved issue relates to the purpose for which genuine key person insurance is intended. Insurance to cover against operating losses due to the loss of an employee clearly should be deductible for an employer if desired. On the other hand, deducting premiums for insurance to purchase ownership interests of an employee-shareholder or to repay the allocation of debt guaranteed by an employee-shareholder is questionable. The continued allowance of deductible premiums in these latter circumstances will be explored, along with other tax issues relating to this form of insurance. These issues will be resolved in 2012 or 2013 (depending on the press of other matters).

#### *Taxation of payouts from South African or foreign retirement funds*

There are currently a number of anomalies in the tax treatment of lump sum and annuity payouts from South African or foreign retirement funds, depending on whether a South African resident or a non-resident receives the payout. An important factor is whether the services that relate to the payout were rendered in South Africa or elsewhere. The issue will receive due consideration during the course of 2012 and 2013.

#### *Taxation of divorce order-related retirement benefits*

The “clean-break” principle was introduced to private-sector funds in 2007 so that divorcing spouses could fully separate their pension interests without any ongoing connection. This principle will also form part of the Government Employees Pension Fund (GEPF). The National Treasury proposes that the taxation of retirement interests paid out as a result of divorce orders for the GEPF should roughly mirror private-sector funds:

- In the case of retirement fund payouts stemming from divorce orders issued on or after 13 September 2007, each individual spouse will be responsible for the tax on the portion that they receive.

- The transitional rules applicable to private-sector funds are extended to GEPF payouts, so that retirement fund payouts stemming from divorce orders issued prior to 13 September 2007 will not lead to any tax consequences for either spouse.
- Formula C, which preserves a public-sector fund member's right to a tax-free retirement benefit prior to 1 March 1998, will be extended to the non-member's portion of the pre-1 March 1998 interest.
- The proposed date of implementation is 1 March 2012.

Although the introduction of the "clean-break" principle in private-sector funds has been largely successful, there are still some anomalies that result in continued engagement. It is proposed that these anomalies be addressed so that the overall tax treatment of all divorce-order retirement benefits paid out as a result of a divorce order will fully apply the clean-break principle from 1 March 2012.

### *Learnership allowances*

Employers are eligible for an additional allowance for each registered learnership (in addition to the general deduction for employee expenses). Employers, however, do not qualify for this allowance if the learner did not complete a prior registered learnership. This prohibition will be re-examined. A further problem arises when registration is delayed owing to reasons outside the employer's control, but the allowance begins only upon official registration. The commencement date will be adjusted so that these delays do not undermine the benefit of the additional allowance.

## **Business**

### *Collateral amendments stemming from the implementation of the new dividend withholding tax*

As discussed in Chapter 4 of the *Budget Review*, the dividend withholding tax will become effective from 1 April 2012 at a rate of 15 per cent. This new tax necessitates the following collateral adjustments:

- *Removal of the 33 per cent rate for foreign companies:* Foreign companies with domestic income are subject to a 33 per cent rate of tax, while domestic companies are subject to a 28 per cent rate plus a 10 per cent secondary tax. The additional 5 per cent charge is a proxy for the lack of any secondary tax on foreign companies. This charge will be dropped in light of the repeal of the secondary tax on domestic companies.
- *Removal of the 33 per cent rate for personal service providers:* Personal service providers are similarly subject to a 33 per cent rate, which will also be reduced to 28 per cent.
- *Removal of the higher gold formula rate:* Gold companies have the choice of two gold formula rates – the standard formula or the higher formula. Companies choosing the higher formula are exempt from the secondary tax on companies. With the repeal of the secondary tax on companies, the higher formula will be removed as superfluous.
- *Removal of the proposed passive holding company regime:* Government initially proposed a passive holding company regime to come into effect with the implementation of the dividend withholding tax to correct potential arbitrage between different tax rates. With the dividend withholding tax coming into effect at a 15 per cent rate, these arbitration concerns are greatly reduced. The initially proposed passive holding company regime will be dropped.
- *Shortened period for transitional credits:* The dividends tax contains transitional credit relief stemming from the pre-existing secondary tax on companies. These credits are set to last for up to five years into the new regime. However, given the delayed implementation of the dividends tax (and the fact that the new regime has a higher rate), the transitional credit period will be reduced to three years.

### *Debt cancellations and restructurings*

Given the weaker economic climate over the past several years, some taxpayers are at risk of becoming insolvent and are seeking to reduce or restructure their debt. In 2011, the National Treasury announced its intention to eliminate the unintended tax impact of debt reductions in the case of debt workouts (the treatment of debt cancellations or reductions as capital gain or ordinary revenue). The goal would be to create a simplified regime to determine the tax impact on the debtor when debt is unilaterally reduced or cancelled without full consideration, and to eliminate adverse tax consequences when the debt relief merely restores the debtor to solvency. Specific rules will also be required to address situations where creditors agree to convert their debt interests into an equity stake as partial compensation.

### *Company law reform and company restructurings*

The comprehensive rewrite of the Companies Act (2008) has given rise to a set of anomalies in relation to tax, especially in the case of reorganisations and other share restructurings. As many of the tax rules relating to company reorganisations have been in place for 10 years, a review is appropriate. Government will hold a series of workshops to review the nature of company mergers, acquisitions and other restructurings to better understand their practical use. These workshops will lay the foundation for tax changes (and possibly changes to company law) over a two-year period. An immediate focus area will be share-for-share recapitalisations of a single company.

### *Mark-to-market taxation of financial instruments*

The taxation of financial instruments on a mark-to-market basis has long been under consideration. This form of taxation aligns the tax treatment to financial accounting, which greatly simplifies audit and compliance. It is proposed that this project begin in earnest, using certain changes as pilot projects. First, the current system of mark-to-market taxation for foreign currency instruments should be moved closer to modern accounting standards. Second, the mark-to-market treatment of other financial instruments for tax purposes should be expanded and revised. Changes include expanding the elective regime to cover a wider set of financial assets and liabilities. However, the revised system will be subject to explicit SARS approval so that the regime can be fully controlled during the pilot phase. Ongoing changes can be expected in this area over the next few years based on practical experience.

### *Review of tax system for insurers*

The global insurance industry is undergoing reforms associated with solvency assessment and management projects. These rules will change the way insurers determine their reserves. There are several related tax issues:

- In the case of short-term insurers, certain reserves form the basis for tax deductions while providing a safety cushion for the insurers. To date, the regulatory and tax impact of these reserves has not been fully coordinated, leading to anomalies that have both positive and negative effects for short-term insurers. Captive insurers have also raised longstanding issues for the fiscus.
- The principles of the four fund trustee system of taxation relating to long-term insurers has long been in need of review. Long-term insurers hold and administer assets on behalf of various categories of policyholders, in addition to managing assets for the benefit of shareholders. In recognition of these relationships, long-term insurance products are subject to the four funds system, with the insurer being taxed on return on assets as trustee for the policyholder. However, once the system moves beyond basic theory, it is often unclear whether issues should be determined from a policyholder perspective or a corporate shareholder perspective, and how the two perspectives can be combined. The system also lacks any correlation with the system of accounting, making factual verification and reconciliation difficult, if not impossible.

These concerns necessitate a comprehensive review of the tax system for insurers. To simplify the task, it is proposed that the tax system for calculating short-term insurance reserves be addressed in 2012, with

long-term insurers being addressed in 2013. A short paper on long-term insurers will be circulated for comment by mid-2012.

### ***Government grants***

Unless a specific exemption exists, government grants are subject to tax when paid to a taxable entity. A comprehensive review is being undertaken to determine which grants should be exempt to avoid undue taxation (or unintended additional administration). This review will result in an explicit legislative list of exempt grants, updated annually, to improve transparency and ease of administration. The current regulatory regime will also remain in place in the interim. It should be noted, however, that tax expenditure related to tax-exempt grant funding will not be deductible, depreciable or allowed as any other tax offset against the grantee's taxable income, because government, not the grantee, bears these costs.

### ***Sales of trading stock to connected persons***

The tax system has rules to prevent character mismatches through related (connected) person sales. Under these rules, taxpayers purchasing assets from connected persons receive a tax cost that is the lower of the purchaser's or the connected person's tax cost. While this anti-avoidance rule can be supported from a capital gains tax perspective, it does not need to apply to trading stock because connected persons' sale of trading stock is unlikely to give rise to manipulation. Trading stock will accordingly be removed from the anti-avoidance connected-person sale rules.

### ***Contingent liabilities associated with the sale of business operations***

In 2011, concerns were raised about the tax effect of the sale of a business subject to potential contingent liabilities. These liabilities were giving rise to concerns of potential double taxation or double non-taxation. After much debate, the proposed legislation was withdrawn in favour of an interpretative approach. Interpretative guidance, with legislative refinements, is expected later in the year.

### ***Share issue mismatches***

The issuing of shares by a company does not give rise to ordinary or capital gain because any amounts received represent a cash contribution. However, it has come to government's attention that certain taxpayers are seeking to use this rule to shift value to new shareholders without paying the full tax due. Most of these schemes rely on the receipt of consideration in excess of the value of the shares issued. It is proposed that the exemption for the issue of shares be limited to their value, with the excess being subject to tax.

### ***Share block conversions to sectional title***

Company liquidations are generally subject to tax to preserve the company dual-level tax system (a tax on company income plus distribution of that income). The conversion of share block companies into sectional title schemes can create a tax problem. In form, this conversion is a company liquidation, but in substance it is merely a change to direct interest from an indirect interest in the underlying property. In these situations, the property owner has swapped interests in favour of a more modern approach. It is proposed that these liquidations receive tax-free rollover treatment.

### ***Supporting structure for energy projects***

Energy projects such as wind, solar and hydroelectric facilities are eligible for accelerated depreciation on a 50:30:20 basis. At issue are the foundations and supporting structures associated with these arrangements. Accelerated depreciation will be extended to these ancillary structures.

### ***Extension of the urban development zone incentive***

The incentive for buildings (new and renovated) in urban development zones is set to expire in 2014. Government is considering extending this incentive, subject to the receipt of current legislative

required municipal progress reports and a review of their effectiveness. In addition, the cut-off date poses a problem because it is based on when buildings are brought into use rather than the date of initial construction. It is proposed that the cut-off date be re-examined along with any other anomalies associated with the incentive.

### *Captive finance vehicles*

Some taxpayers use artificial financing vehicles to eliminate income. In some of these schemes, the parent company transfers trade receivables at discounted rates, followed by the return of the discount via tax-free preference share dividends. Other schemes provide for the same manipulation through the artificial over-payment of insurance, services or other deductible payments. These schemes give rise to income tax concerns, and they may also be problematic for VAT. It is proposed that these schemes be reviewed for potential elimination.

### *Industrial policy incentives – section 12 (I)*

Section 12 (I) of the Income Tax Act provides a tax incentive for qualifying companies in respect of investment and training. The experience gained thus far in administering the programme has revealed two areas in which legislative adjustments will result in a more streamlined process. First, the requirement for tax clearance certificates of all connected parties is an administrative burden. A relaxation of this requirement is under consideration. Second, it is proposed that companies should submit monitoring reports until the allowance is exhausted or until all requirements of the programme are met.

## **International**

### *South African investment into Africa*

Over several years, South Africa has introduced several initiatives to reduce potential double-tax costs when investing into Africa. Management services have been an issue, especially the question of whether foreign withholding taxes on these services are eligible for foreign tax credits. Besides clarifying further anomalies in this area, active South African management over controlled foreign subsidiaries may trigger dual-residence tax status, even though all day-to-day operational activities are being conducted abroad. This situation arises because there are practical difficulties associated with local conditions. It is proposed that this dual-residence tax status be removed if the tax of the foreign country is roughly on par with otherwise applicable South African tax. Alternatively, the issue can be resolved as a matter of interpretation.

Many South African loans to foreign African subsidiaries essentially operate as additional share capital contributions – their purpose is to provide for a more flexible use of capital, not to avoid South African tax. However, the formal use of a loan often gives rise to transfer pricing concerns because these loans do not generate annual interest. It is proposed that these loans be treated as shares in line with the decision to treat certain forms of debt as shares.

### *Local managers of foreign funds*

Foreign investment funds often rely on active managers in South Africa for direction regarding African fund assets. However, this form of guidance often raises tax risks, especially the risk that this form of management will be viewed as South African effective management in tax terms, giving rise to a worldwide tax on all fund assets. This risk has deprived local fund managers of foreign investment fund business and has even forced certain local fund managers to relocate abroad. It is proposed that a legislative carve-out be created for foreign investment funds so that these funds are not inadvertently subject to worldwide taxation.

*Ongoing refinements to headquarter company relief*

Over the past two years, special rules have been enacted that provide tax and exchange control relief for South African headquarter companies. While most issues have been resolved, some outstanding problems are being uncovered as foreign investors seek to use the regime. These anomalies mainly focus on transfer-pricing concerns and headquarter companies that rely on foreign currency for their operations. These anomalies will be addressed to encourage regional headquarter company investment.

**Value-added tax***Clarification of the date of liability for VAT registration*

A person that becomes liable to register for VAT (on account of reaching the compulsory threshold of R1 million) must apply to SARS for registration as a vendor within 21 days. That person cannot charge VAT on supplies until they have been registered as a vendor by SARS. There are no transitional rules in the VAT Act that address this issue. It is proposed that the liability date for VAT be clarified to streamline the transition from a non-vendor to a vendor.

*Bargaining councils*

Bargaining councils regulate collective agreements and conduct dispute resolution for their members. These councils levy an administration fee that is payable by employees. However, the activities of a bargaining council do not fall within the ambit of an employee organisation, and are arguably subject to VAT. These activities are similar to that of an employee organisation and should similarly be exempt from VAT.

*Instalment credit agreements*

Movable goods supplied through an instalment credit agreement take the form of a sale or a lease. Depending on the form, finance charges and/or insurance (the lessee accepts the full risk of destruction of the asset) is payable. Shariah law prohibits the charging of interest or the placing of risk or insurance responsibilities on the client, owing to the element of chance. It is proposed that the provisions governing instalment credit agreements in the VAT Act be amended to accommodate products that are compliant with Shariah law.

*Debit and credit notes*

The VAT Act contains specific scenarios that justify the issuing of a credit or debit note. For instance, if a vendor issues a tax invoice for an incorrect amount (for example, R100), the vendor cannot justify the issue of a credit note (the invoice amount was R50 and not R100) within the specified conditions in the VAT Act. It is also unlawful to issue more than one tax invoice for the same supply. It is proposed that the specified conditions in the VAT Act under which a vendor can issue credit or debit notes to correct incorrect tax invoices be extended.

*VAT double charge for goods removed from an industrial development zone*

Movable goods imported into a customs controlled area (CCA) of an industrial development zone are exempted from customs duty and VAT. A deemed VAT charge is triggered if the goods are temporarily removed from the CCA and not returned within 30 days. For customs purposes, the removal of the goods leads to a voucher of correction, processed by customs, and VAT on importation is payable. The result is that double VAT is charged. It is proposed that this double charge be eliminated.

*Political parties*

The receipts and accruals of any political party registered in terms of the Electoral Act (1998) are exempt from income tax. The VAT Act does not contain a specific provision for political parties, which results in uncertainty. As a result, it is unclear whether the receipts and accruals of a political party can be construed as “consideration” for taxable supplies or a “donation”. The latter view seems more consistent

with the nature and mandate of political parties as there is no reciprocal performance between the political party and the donor(s) concerned. It is proposed that the receipts and accruals of political parties be exempted from VAT.

#### *Imported goods sold prior to entry for home consumption*

A foreign company that sells goods that enter South African territorial waters may be required to register for VAT if this activity is continuous or regular. The recipient (buyer and vendor) is liable for import VAT on the clearance of the goods for home consumption. As a result, the recipient is liable for two VAT charges on the same amount. It is proposed that the VAT provisions relating to goods sold by foreign companies prior to entry for home consumption be reviewed.

### **Customs**

#### *Implementation of one-stop border post agreement with Mozambique*

The agreement between South Africa and Mozambique on combined border control posts on the Mozambique-South Africa border and its implementing annexures have been submitted to Parliament for ratification. Although the Customs Act contains provisions for implementing such an agreement, ratification by Parliament will necessitate amendments to a wide range of legislation regulating the movement of people, goods and means of conveyance into and out of South Africa. These amendments will be proposed after ratification of the agreement and consultation between the affected organs of state.

### **Technical corrections**

In addition to the amendments described above, the 2012 Tax Amendment Bill (like all annual amendment bills) will contain various technical corrections. These technical corrections mainly cover inconsequential items – typing errors, grammar, punctuation, numbering, misplaced cross references, updating or removing obsolete provisions, the removal of superfluous text, and the incorporation of regulation and commonly accepted secondary interpretations into formal law. Technical corrections also include changes to effective dates and the proper coordination of transitional tax changes.

A final set of technical corrections relates to modifications that account for practical implementation of the tax law. Although tax amendments go through an intensive comment and review process, new issues arise (including obvious omissions and ambiguities) once the law is applied. These issues typically arise when returns are prepared for the first time after legislation is implemented. Technical corrections of this nature are almost exclusively limited to recent legislative changes.

# D

## Details of specific excise duties

### Taxation proposals tabled on 22 February 2012

Tariff item	Tariff subheading	Article Description	Rate of Duty	
			Excise	Customs
<b>104.00</b>		<b>PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO</b>		
<b>104.01</b>	<b>19.01</b>	<b>Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40 per cent by mass of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5 per cent by mass of cocoa calculated on a totally defatted basis not elsewhere specified or included:</b>		
104.01.10	1901.90.20	Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34.7c/kg	34.7c/kg
<b>104.10</b>	<b>22.03</b>	<b>Beer made from malt:</b>		
104.10.10	2203.00.05	Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li
104.10.20	2203.00.90	Other	R59.36/li aa	R59.36/li aa
<b>104.15</b>	<b>22.04</b>	<b>Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):</b>		
104.15.01	2204.10	Sparkling wine	R7.53/li	R7.53/li
<b>104.15</b>	<b>2204.21</b>	<b>In containers holding 2 li or less:</b>		
<b>104.15</b>	<b>2204.21.4</b>	<b>Unfortified wine:</b>		
104.15.03	2204.21.41	With an alcoholic strength by volume exceeding 6.5 per cent vol. but not exceeding 16.5 per cent vol.	R2.50/li	R2.50/li
104.15.04	2204.21.42	Other	R111.64/li aa	R111.64/li aa
<b>104.15</b>	<b>2204.21.5</b>	<b>Fortified wine:</b>		
104.15.05	2204.21.51	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 22 per cent vol.	R4.59/li	R4.59/li
104.15.06	2204.21.52	Other	R111.64/li aa	R111.64/li aa
<b>104.15</b>	<b>2204.29</b>	<b>Other:</b>		
<b>104.15</b>	<b>2204.29.4</b>	<b>Unfortified wine:</b>		
104.15.07	2204.29.41	With an alcoholic strength by volume exceeding 6.5 per cent vol. but not exceeding 16.5 per cent vol.	R2.50/li	R2.50/li
104.15.08	2204.29.42	Other	R111.64/li aa	R111.64/li aa

Tariff item	Tariff subheading	Article Description	Rate of Duty	
			Excise	Customs
<b>104.15</b>	<b>2204.29.5</b>	<b>Fortified wine:</b>		
104.15.09	2204.29.51	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 22 per cent vol.	R4.59/li	R4.59/li
104.15.10	2204.29.52	Other	R111.64/li aa	R111.64/li aa
<b>104.16</b>	<b>22.05</b>	<b>Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:</b>		
<b>104.16</b>	<b>2205.10</b>	<b>In containers holding 2 li or less:</b>		
104.16.01	2205.10.10	Sparkling	R7.53/li	R7.53/li
<b>104.16</b>	<b>2205.10.2</b>	<b>Unfortified:</b>		
104.16.03	2205.10.21	With an alcoholic strength by volume exceeding 6.5 per cent vol. but not exceeding 15 per cent vol.	R2.50/li	R2.50/li
104.16.04	2205.10.22	Other	R111.64/li aa	R111.64/li aa
<b>104.16</b>	<b>2205.10.3</b>	<b>Fortified:</b>		
104.16.05	2205.10.31	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 22 per cent vol.	R4.59/li	R4.59/li
104.16.06	2205.10.32	Other	R111.64/li aa	R111.64/li aa
<b>104.16</b>	<b>2205.90</b>	<b>Other:</b>		
<b>104.16</b>	<b>2205.90.2</b>	<b>Unfortified:</b>		
104.16.09	2205.90.21	With an alcoholic strength by volume exceeding 6.5 per cent vol. but not exceeding 15 per cent vol.	R2.50/li	R2.50/li
104.16.10	2205.90.22	Other	R111.64/li aa	R111.64/li aa
<b>104.16</b>	<b>2205.90.3</b>	<b>Fortified:</b>		
104.16.11	2205.90.31	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 22 per cent vol.	R4.59/li	R4.59/li
104.16.12	2205.90.32	Other	R111.64/li aa	R111.64/li aa
<b>104.17</b>	<b>22.06</b>	<b>Other fermented beverages (for example, cider, perry and mead); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:</b>		
104.17.03	2206.00.05	Sparkling beverages	R7.53/li	R7.53/li
104.17.05	2206.00.15	Traditional African beer as defined in Additional Note 1 to Chapter 22	7.82c/li	7.82c/li
104.17.15	2206.00.81	Other fermented beverages, unfortified, with an alcoholic strength by volume not exceeding 9 per cent vol.	R2.97/li	R2.97/li
104.17.16	2206.00.82	Other fermented beverages, unfortified, with an alcoholic strength by volume exceeding 9 per cent vol. but not exceeding 15 per cent vol.	R2.97/li	R2.97/li
104.17.17	2206.00.83	Other fermented beverages, fortified, with an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R45.60/li aa
104.17.22	2206.00.85	Other, mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, with an alcoholic strength by volume not exceeding 9 per cent vol.	R2.97/li	R2.97/li
104.17.25	2206.00.87	Other, mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, with an alcoholic strength by volume exceeding 9 per cent vol. but not exceeding 15 per cent vol.	R2.97/li	R2.97/li
104.17.90	2206.00.90	Other	R111.64/li aa	R111.64/li aa
<b>104.21</b>	<b>22.07</b>	<b>Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher; ethyl alcohol and other spirits, denatured, of any strength:</b>		
104.21.01	2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher	R111.64/li aa	R111.64/li aa
104.21.03	2207.20	Ethyl alcohol and other spirits, denatured of any strength	R111.64/li aa	R111.64/li aa

Tariff item	Tariff subheading	Article Description	Rate of Duty	
<b>104.23</b>	<b>22.08</b>	<b>Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent vol.; spirits, liqueurs and other spirituous beverages:</b>		
<b>104.23</b>	<b>2208.20</b>	<b>Spirits obtained by distilling grape wine or grape marc:</b>		
104.23.01	2208.20.10	In containers holding 2 li or less	R111.64/li aa	R111.64/li aa
104.23.03	2208.20.90	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.30</b>	<b>Whiskies:</b>		
104.23.05	2208.30.10	In containers holding 2 li or less	R111.64/li aa	R111.64/li aa
104.23.07	2208.30.90	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.40</b>	<b>Rum and other spirits obtained by distilling fermented sugarcane products:</b>		
104.23.09	2208.40.10	In containers holding 2 li or less	R111.64/li aa	R111.64/li aa
104.23.11	2208.40.90	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.50</b>	<b>Gin and Geneva:</b>		
104.23.13	2208.50.10	In containers holding 2 li or less	R111.64/li aa	R111.64/li aa
104.23.15	2208.50.90	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.60</b>	<b>Vodka:</b>		
104.23.17	2208.60.10	In containers holding 2 li or less	R111.64/li aa	R111.64/li aa
104.23.19	2208.60.90	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.70</b>	<b>Liqueurs and cordials:</b>		
<b>104.23</b>	<b>2208.70.2</b>	<b>In containers holding 2 li or less:</b>		
104.23.21	2208.70.21	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R45.60/li aa
104.23.22	2208.70.22	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.70.9</b>	<b>Other:</b>		
104.23.23	2208.70.91	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R45.60/li aa
104.23.24	2208.70.92	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.90</b>	<b>Other:</b>		
<b>104.23</b>	<b>2208.90.2</b>	<b>In containers holding 2 li or less:</b>		
104.23.25	2208.90.21	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R45.60/li aa
104.23.26	2208.90.22	Other	R111.64/li aa	R111.64/li aa
<b>104.23</b>	<b>2208.90.9</b>	<b>Other:</b>		
104.23.27	2208.90.91	With an alcoholic strength by volume exceeding 15 per cent vol. but not exceeding 23 per cent vol.	R45.60/li aa	R45.60/li aa
104.23.28	2208.90.92	Other	R111.64/li aa	R111.64/li aa
<b>104.30</b>	<b>24.02</b>	<b>Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:</b>		
<b>104.30</b>	<b>2402.10</b>	<b>Cigars, cheroots and cigarillos containing tobacco:</b>		
104.30.01	2402.10.10	Imported from Switzerland		R2 306.48/kg net
104.30.03	2402.10.90	Other	R2 306.48/kg net	R2 306.48/kg net
<b>104.30</b>	<b>2402.20</b>	<b>Cigarettes containing tobacco:</b>		
104.30.05	2402.20.10	Imported from Switzerland		R5.16/10 cigarettes
104.30.07	2402.20.90	Other	R5.16/10 cigarettes	R5.16/10 cigarettes
<b>104.30</b>	<b>2402.90.1</b>	<b>Cigars, cheroots and cigarillos of tobacco substitutes:</b>		
104.30.09	2402.90.12	Imported from Switzerland		R2 306.48/kg net
104.30.11	2402.90.14	Other	R2 306.48/kg net	R2 306.48/kg net

Tariff item	Tariff subheading	Article Description	Rate of Duty	
<b>104.30</b>	<b>2402.90.2</b>	<b>Cigarettes of tobacco substitutes:</b>		
104.30.13	2402.90.22	Imported from Switzerland		R5.16/10 cigarettes
104.30.15	2402.90.24	Other	R5.16/10 cigarettes	R5.16/10 cigarettes
<b>104.35</b>	<b>24.03</b>	<b>Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences:</b>		
<b>104.35</b>	<b>2403.1</b>	<b>Smoking tobacco, whether or not containing tobacco substitutes in any proportion:</b>		
104.35.01	2403.11	Water pipe tobacco specified in Subheading Note 1 to Chapter 24	R128.69/kg net	R128.69/kg net
<b>104.35</b>	<b>2403.19</b>	<b>Other:</b>		
104.35.02	2403.19.10	Pipe tobacco, in immediate packings of a content of less than 5 kg	R128.69/kg net	R128.69/kg net
104.35.03	2403.19.20	Other pipe tobacco	R128.69/kg net	R128.69/kg net
104.35.05	2403.19.30	Cigarette tobacco	R221.04/kg	R221.04/kg
<b>104.35</b>	<b>2403.99</b>	<b>Other:</b>		
104.35.07	2403.99.30	Other cigarette tobacco substitutes	R221.04/kg	R221.04/kg
104.35.09	2403.99.40	Other pipe tobacco substitutes	R128.69/kg net	R128.69/kg net

E

## **Budget summary**

## Summary of the national budget

	2011/12		2012/13	2013/14	2014/15
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
<b>R million</b>					
<b>REVENUE</b>					
Estimate of revenue before tax proposals			801 649		
<b><u>Budget 2012/13 proposals:</u></b>					
Taxes on individuals and companies			-10 650		
<b>Personal income tax</b>			-4 300		
Adjust personal income tax rate structure			-9 500		
Adjustment in monetary thresholds			-1 100		
Capital gains - individuals			800		
Dividend withholding tax			5 500		
<b>Business taxes</b>			-6 350		
Capital gains - companies			1 200		
Small business relief			-100		
Abolishment of STC			-7 450		
<b>Indirect Taxes</b>			8 342		
Increase in general fuel levy			4 517		
Increase in excise duties on tobacco products and alcoholic beverages			1 840		
Increase in electricity levy			1 985		
<b>Estimate of revenue after tax proposals</b>	<b>729 858</b>	<b>734 551</b>	<b>799 341</b>	<b>894 293</b>	<b>997 220</b>
Percentage change from previous year			8.8%	11.9%	11.5%
<b>EXPENDITURE</b>					
<b>Direct charges against the National Revenue Fund</b>	<b>385 312</b>	<b>388 565</b>	<b>419 926</b>	<b>452 507</b>	<b>482 537</b>
Cost of servicing state debt	76 579	76 645	89 388	100 806	109 039
Provincial equitable share	288 493	291 736	309 057	328 921	349 351
General fuel levy sharing with metros	8 573	8 573	9 040	9 613	10 190
Skills development levy and Setas	9 149	9 149	9 606	10 134	10 743
Other <sup>1)</sup>	2 519	2 463	2 835	3 032	3 214
<b>Appropriated by vote</b>	<b>499 481</b>	<b>502 633</b>	<b>543 630</b>	<b>589 439</b>	<b>633 041</b>
Current payments	145 077	146 842	155 803	165 832	176 451
Transfers and subsidies	342 282	343 827	371 010	404 741	436 712
Payments for capital assets	11 371	11 214	15 176	18 566	19 379
Payments for financial assets	750	751	1 641	300	500
<b>Plus:</b>					
Unallocated funds	40	-	30	30	-
Contingency reserve	4 090	-	5 780	11 854	24 000
<b>Estimate of national expenditure</b>	<b>888 923</b>	<b>891 199</b>	<b>969 365</b>	<b>1 053 830</b>	<b>1 139 579</b>
Percentage change from previous year			8.8%	8.7%	8.1%
<b>2011 Budget estimate of expenditure</b>		<b>888 923</b>	<b>968 132</b>	<b>1 053 029</b>	
Increase / decrease (-)		2 275	1 233	801	
Gross domestic product	2 914 862	2 995 530	3 301 374	3 622 155	3 997 026

1) Consists mainly of salaries of Members of Parliament, judges and magistrates.

<b>Summary of the consolidated budget</b>					
	2011/12		2012/13	2013/14	2014/15
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
<b>R million</b>					
<b>National budget revenue <sup>1)</sup></b>	<b>729 858</b>	<b>734 551</b>	<b>799 341</b>	<b>894 293</b>	<b>997 220</b>
Revenue of provinces, social security funds and public entities	94 609	95 659	105 489	113 098	122 393
Repayment of Gautrain loan <sup>2)</sup>	–	–	–	-1 521	-1 430
<b>Consolidated budget revenue <sup>3)</sup></b>	<b>824 467</b>	<b>830 210</b>	<b>904 830</b>	<b>1 005 871</b>	<b>1 118 183</b>
<b>National budget expenditure <sup>1)</sup></b>	<b>888 923</b>	<b>891 199</b>	<b>969 365</b>	<b>1 053 830</b>	<b>1 139 579</b>
Expenditure of provinces, social security funds and public entities	90 342	81 349	88 956	95 296	100 120
<b>Consolidated budget expenditure <sup>3)</sup></b>	<b>979 265</b>	<b>972 547</b>	<b>1 058 321</b>	<b>1 149 125</b>	<b>1 239 699</b>
<b>Consolidated budget balance</b>	<b>-154 798</b>	<b>-142 337</b>	<b>-153 491</b>	<b>-143 255</b>	<b>-121 516</b>
<i>Percentage of GDP</i>	<i>-5.3%</i>	<i>-4.8%</i>	<i>-4.6%</i>	<i>-4.0%</i>	<i>-3.0%</i>
Extraordinary payments		-530	-24	–	–
Extraordinary receipts		4 435	1 200	1 500	1 500
<b>Consolidated borrowing requirement (net)</b>		<b>-138 432</b>	<b>-152 315</b>	<b>-141 755</b>	<b>-120 016</b>
<b>FINANCING</b>					
<b>Domestic loans (net)</b>		<b>169 534</b>	<b>151 137</b>	<b>157 488</b>	<b>141 330</b>
<b>Foreign loans (net)</b>		<b>4 398</b>	<b>-7 673</b>	<b>-5 030</b>	<b>-2 739</b>
Market loans		12 025	4 033	10 585	7 315
Arms procurement loan agreements		985	183	25	–
World Bank loans		–	9	-2	1
Redemptions (including revaluation of loans)		-8 612	-11 898	-15 637	-10 055
<b>Change in cash and other balances</b>		<b>-35 500</b>	<b>8 851</b>	<b>-10 704</b>	<b>-18 575</b>
<b>Total financing (net)</b>		<b>138 432</b>	<b>152 315</b>	<b>141 755</b>	<b>120 016</b>

1) Transfers to provinces, social security funds and public entities presented as part of the national budget

2) Repayment of Gautrain loan, repaid by the Gauteng province to the National Revenue Fund, netted out in consolidation

3) Flows between national, provincial, social security funds and public entities are netted out



# F

## Glossary

<b>Accounting officer</b>	The civil servant in a department who is accountable to Parliament for financial management, usually the director-general or head of the department.
<b>Accrual</b>	An accounting convention by which payments and receipts are recorded as they occur, even if no cash flow takes place.
<b>Ad valorem duties</b>	Duties levied on commodities as a certain percentage of their value.
<b>Adjustments estimate</b>	Presentation to Parliament of the amendments to be made to the appropriations voted in the main budget for the year.
<b>Administered prices</b>	Prices set outside ordinary market processes, through administrative decisions by government, a public entity or a regulator.
<b>Allocated expenditure</b>	The part of the national budget that can be divided between the national, provincial and local spheres of government, after interest and the contingency reserve have been taken into account.
<b>Amortisation</b>	The repayment of a loan by instalments over the duration of the loan.
<b>Appropriation</b>	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from a provincial revenue fund.
<b>Asset price bubble</b>	A condition occurring when prices for a category of assets rise above the level justified by economic fundamentals.
<b>Asset swap</b>	An arrangement in which financial institutions exchange a portfolio of South African shares and securities for a portfolio of foreign shares and securities.
<b>Balance of payments</b>	A summary statement of all the international transactions of the residents of a country with the rest of the world over a particular period of time.
<b>Baseline</b>	The initial allocations used during the budget process, derived from the previous year's forward estimates.
<b>Basis point</b>	One hundredth of one per cent.
<b>Bond</b>	A certificate of debt issued by a government or corporation guaranteeing payment of the original investment plus interest by a specified future date.

<b>Bond premium</b>	Amount by which the purchase price of a bond is greater than its par value.
<b>Bond spread</b>	The difference in yield between two bonds.
<b>Budget balance</b>	The difference between budgeted expenditure and budgeted revenue. If expenditure exceeds revenue the budget is in deficit or, if the reverse is true, it is in surplus.
<b>Capital adequacy</b>	A measure of a financial institution's capital, expressed as a percentage of its credit exposure.
<b>Capital asset</b>	Property of any kind, including assets that are movable or immovable, tangible or intangible, fixed or circulating, but excluding trading stock held for the purpose of realising a financial or economic return.
<b>Capital expenditure</b>	Expenditure on assets such as buildings, land, infrastructure and equipment.
<b>Capital formation</b>	A measure of the net increase in the country's total stock of capital goods, after allowing for depreciation.
<b>Capital gains tax</b>	Tax levied on the income realised from the disposal of a capital asset by a taxpayer. A capital gain is the excess of the selling price over the purchase price of the capital asset.
<b>Capital goods</b>	Durable goods used over a period of time for the production of other goods. See also intermediate goods.
<b>Capital flow</b>	A flow of investments in and out of the country.
<b>Capital-output ratio</b>	The amount of units of capital employed to produce a certain level of output.
<b>Carbon tax</b>	An environmental tax on emissions of carbon dioxide (CO <sub>2</sub> ).
<b>Category A, B and C municipalities</b>	Municipal categories established by the Constitution: Category A, or metropolitan municipalities; Category B, or local municipalities; and Category C, or district municipalities.
<b>Collective bargaining</b>	Negotiations between employees and employers on procedures and rules to cover conditions of work and rates of pay.
<b>Conditional grants</b>	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
<b>Consolidated government expenditure</b>	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers and subsidies to municipalities, businesses and other entities.
<b>Consolidated general government</b>	National, provincial and local government, as well as extra-budgetary government institutions and social security funds.
<b>Consumer price index (CPI)</b>	The measure of inflation based on prices in a basket of goods and services.

<b>Consumption expenditure</b>	Expenditure on goods and services, including salaries, which are used up within a short period of time, usually a year.
<b>Contingency reserve</b>	An amount set aside, but not allocated in advance, to accommodate changes to the economic environment and to meet unforeseeable spending pressures.
<b>Contingent liabilities</b>	A government obligation that will only result in expenditure upon the occurrence of a specific event – such as a government guarantee.
<b>Controlled foreign entity</b>	A foreign business in which South Africans hold a greater than 50 per cent interest, usually of the share capital of a company.
<b>Corporatisation</b>	The transformation of state-owned enterprises into commercial entities, subject to commercial legal requirements and governance structures, while retaining state ownership.
<b>Cost-push inflation</b>	Inflation that is caused by an increase in production costs, such as wages or oil prices.
<b>Countercyclical fiscal policy</b>	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
<b>Coupon (bond)</b>	The periodic interest payment made to bondholders during the life of the bond. The interest is usually paid twice a year.
<b>Credit rating</b>	An indicator of the risk of default by a borrower or the riskiness of a financial instrument.
<b>Crowding-in</b>	Increase of private investment through the income-raising effect of government spending financed by deficits.
<b>Crowding-out</b>	A fall in private investment or consumption as a result of increased government expenditure financed through borrowing, thereby competing for loanable funds and raising the interest rate, which curtails private investment and consumption spending.
<b>Current account (of the balance of payments)</b>	The difference between total imports and total exports, also taking into account service payments and receipts, interest, dividends and transfers. The current account can be in deficit or surplus. See also trade balance.
<b>Current expenditure</b>	Government expenditure on goods and services, such as salaries, rent, maintenance and interest payments. See also consumption expenditure.
<b>Customs duties</b>	Tax levied on imported goods.
<b>Debenture</b>	An unsecured loan backed by general credit rather than by specified assets.
<b>Debt-service costs</b>	The cost of interest on government debt and other costs directly associated with borrowing.
<b>Debt switching</b>	The exchange of bonds to manage refinancing risk or improve tradability.

<b>Deleveraging</b>	The reduction of debt previously used to increase the potential return of an investment.
<b>Depreciation (capital)</b>	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
<b>Depreciation (exchange rate)</b>	A reduction in the external value of a currency.
<b>Derivative financial instrument</b>	A financial asset that derives its value from an underlying asset, which may be a physical asset such as gold, or a financial asset such as a government bond.
<b>Designated countries</b>	Foreign countries from which income may be exempt from South African tax under certain circumstances. See also double tax agreement.
<b>Development finance institutions</b>	State agencies that aim to meet the credit needs of riskier but socially and economically desirable projects that are beyond the acceptance limits of commercial banks.
<b>Direct taxes</b>	Taxes charged on taxable income or capital of individuals and legal entities.
<b>Disposable income</b>	Total income by households less all taxes and employee contributions.
<b>Dissaving</b>	An excess of current expenditure, including the depreciation of fixed capital, over current income.
<b>Division of revenue</b>	The allocation of funds between spheres of government, as required by the Constitution. See also equitable share.
<b>Domestic demand</b>	The total level of spending in an economy, including imports but excluding exports.
<b>Double tax agreement</b>	An agreement between two countries to prevent income that is taxed in one country from being taxed in the other as well. See also designated countries.
<b>Economic growth</b>	An increase in the total amount of output, income and spending in the economy.
<b>Economically active population</b>	The part of the population that is of working age and is either employed or seeking work.
<b>Economic cost</b>	The cost of an alternative that must be forgone to pursue a certain action. In other words, the benefits that could have been received by taking an alternative action.
<b>Economic rents</b>	The difference between the return made by a factor of production (capital or labour) and the return necessary to keep the factor in its current occupation. For example: a firm making excess profits is earning economic rent.

<b>Effective tax rate</b>	Actual tax liability (or a reasonable estimate thereof) expressed as a percentage of a pre-tax income base rather than as a percentage of taxable income, i.e. tax rates that take into account not only the statutory or nominal tax rate, but also other aspects of the tax system (e.g. allowable deductions), which determine the tax liability.
<b>Emerging economies</b>	A name given by international investors to middle-income economies.
<b>Employment coefficient</b>	The ratio of employment growth to economic growth.
<b>Equalisation Fund levy</b>	A dedicated fuel levy used to subsidise the local synthetic fuel industry. It is also used to smooth the impact of fluctuations in the international oil price (and exchange rate) on the domestic fuel price.
<b>Equitable share</b>	The allocation of revenue to the national, provincial and local spheres of government as required by the Constitution. See also division of revenue.
<b>Equity finance</b>	Raising money by selling shares of stock to investors, who receive an ownership interest in return.
<b>Exchange control</b>	Rules that regulate the flow of currency out of South Africa, or restrict the amount of foreign assets held by South African individuals and companies.
<b>Excise duties</b>	Taxes on the manufacture or sale of certain domestic or imported products. Excise duties are usually charged on products such as alcoholic beverages, tobacco and petroleum.
<b>Extra-budgetary institutions</b>	Public entities not directly funded from the fiscus.
<b>Extraordinary payments</b>	Payments, excluding departmental appropriated payments, that are not expected to recur frequently.
<b>Extraordinary receipts</b>	Receipts, other than departmental receipts, that are not expected to recur frequently.
<b>Financial account</b>	A statement of all financial transactions between the nation and the rest of the world, including portfolio and fixed investment flows and movements in foreign reserves.
<b>Financial and Fiscal Commission (FFC)</b>	An independent body established by the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
<b>Financial Services Board</b>	An independent institution established by statute that regulates insurers, intermediaries, retirement funds, friendly societies, unit trust schemes, management companies and financial markets.
<b>Financial Stability Board</b>	An international body made up of representatives of financial authorities and institutions, and central banks. It proposes regulatory, supervisory and other policies in the interest of financial stability.
<b>Financial year</b>	The 12 months according to which companies and organisations budget and account. See also fiscal year.

<b>Fiscal consolidation</b>	Policy aimed at reducing government deficits and debt accumulation.
<b>Fiscal incidence</b>	The combined overall economic impact that fiscal policy has on the economy.
<b>Fiscal policy</b>	Policy on taxation, public spending and borrowing by the government.
<b>Fiscal year</b>	The 12 months on which government budgets are based, beginning 1 April and ending 31 March of the subsequent calendar year.
<b>Fiscal space</b>	The ability of government's budget to provide additional resources for a desired programme without jeopardising fiscal or debt sustainability.
<b>Fixed-income bond</b>	A bond that pays a specific interest rate.
<b>Fixed investment/capital formation</b>	Spending on buildings, machinery and equipment contributing to production capacity in the economy. See also gross fixed capital formation.
<b>Floating rate notes</b>	A bond on which the interest rate is reset periodically in line with a money market reference rate.
<b>Foreign currency swaps</b>	The exchange of principal and/or interest payments in one currency for those in another.
<b>Foreign direct investment (FDI)</b>	The acquisition of a controlling interest by governments, institutions or individuals of a business in another country.
<b>Forward book</b>	The total amount of contracts for the future exchange of foreign currency entered into by the Reserve Bank at any given point in time.
<b>Forward cover</b>	Transactions involving an agreed exchange rate at which foreign currency will be purchased or sold at a future date.
<b>Forward markets</b>	Markets in which currencies, commodities or securities are bought and sold at agreed prices for delivery at specified future dates.
<b>Fuel levy</b>	An excise tax on liquid fuels.
<b>Function shift</b>	The movement of a function from one departmental vote or sphere of government to another.
<b>Funded pension arrangements</b>	A pension scheme in which expected future benefits are funded in advance and as entitlement accrues.
<b>GDP inflation</b>	A measure of the total increase in prices in the whole economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported and intermediate goods such as machines, but excludes imported goods.
<b>Gold and foreign exchange reserves</b>	Reserves held by the South African Reserve Bank to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks.

<b>Government debt</b>	The total amount of money owed by the government as a consequence of its borrowing in the past.
<b>Green paper</b>	A policy document intended for public discussion.
<b>Gross borrowing requirement</b>	The sum of the main budget balance, extraordinary receipts and payments, and maturing debt. The amount is funded through domestic short- and long-term loans, foreign loans and changes in cash balances.
<b>Gross domestic product (GDP)</b>	A measure of the total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, nor of goods and services that are produced outside the market economy, such as work within the household.
<b>Gross fixed capital formation</b>	The addition to a country's fixed capital stock during a specific period, before provision for depreciation.
<b>Hedging</b>	An action taken by a buyer or seller to protect income against changes in prices, interest rates or exchange rates.
<b>Horizontal equity</b>	A principle in taxation that holds that similarly situated taxpayers should face a similar tax treatment or tax burden, i.e. taxpayers with the same amount of income or capital should be accorded equal treatment.
<b>Impaired advances</b>	Loans or advances that may not be collected in full.
<b>Import parity pricing</b>	When a firm sells goods locally at the price customers would pay if they were to import the same goods from another country.
<b>Inclusion rate</b>	The portion of the net capital gain derived from the disposal of an asset that will be taxed at the applicable rate.
<b>Industrial development zone</b>	Designated sites linked to an international air or sea port, supported by incentives to encourage investment in export-orientated manufacturing and job creation.
<b>Inflation</b>	An increase in the general level of prices.
<b>Inflation targeting</b>	A monetary policy framework intended to achieve price stability over a certain period of time.
<b>Intermediate goods</b>	Goods produced to be used as inputs in the production of final goods.
<b>Inventories</b>	Stocks of goods held by firms. An increase in inventories reflects an excess of output relative to spending over a period.
<b>Labour intensity</b>	The relative amount of labour used to produce a unit of output.
<b>Liquidity</b>	The ease with which assets can be bought and sold.
<b>Liquidity requirements</b>	The amount of liquid or freely convertible assets that banks are required to hold relative to their liabilities, for prudential and regulatory purposes.

<b>M3</b>	The broadest definition of money supply in South Africa, including notes and coins, demand and fixed deposits, and credit.
<b>Macroeconomics</b>	The branch of economics that deals with the whole economy – including issues such as growth, inflation, unemployment and the balance of payments.
<b>Marginal lending rate</b>	A penalty rate of interest charged by the Reserve Bank for lending to financial institutions in the money market in excess of the daily liquidity provided to the money market at the repurchase rate. See also repurchase agreements.
<b>Marginal income tax rate</b>	The rate of tax on an incremental unit of income.
<b>Marketable securities</b>	Tradable financial securities listed with a securities exchange.
<b>Means test</b>	A method for determining whether someone qualifies for state assistance.
<b>Medium Term Expenditure Committee (MTEC)</b>	The technical committee responsible for evaluating the MTEF budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments.
<b>Medium-term expenditure framework (MTEF)</b>	The three-year spending plans of national and provincial governments, published at the time of the Budget.
<b>Microeconomics</b>	The branch of economics that deals with the behaviour of individual firms, consumers and sectors.
<b>Ministers' Committee on the Budget</b>	The political committee that considers key policy and budgetary issues that pertain to the budget process before they are tabled in Cabinet.
<b>Monetary policy</b>	Policy concerning total money supply, exchange rates and the general level of interest rates.
<b>Money supply</b>	The total stock of money in an economy.
<b>National budget</b>	The projected revenue and expenditures that flow through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.
<b>National Revenue Fund</b>	The consolidated account of the national government into which all taxes, fees and charges collected by SARS and departmental revenue must be paid.
<b>Negotiable certificate of deposit</b>	Short-term deposit instruments issued by banks, at a variable interest rate, for a fixed period.
<b>Net borrowing requirement</b>	The sum of the main budget balance, extraordinary receipts and extraordinary payments. Deficits increase the borrowing requirement; surpluses reduce the requirement, leading to a negative requirement.
<b>Net exports</b>	Exports less imports.
<b>Net trade</b>	The difference between the value of exports and the value of imports.

<b>Net open foreign currency position</b>	Gold and foreign exchange reserves minus oversold forward book. The figure is expressed in dollars.
<b>Nominal exchange rates</b>	The current rate of exchange between the rand and foreign currencies. The “effective” exchange rate is a trade-weighted average of the rates of exchange with other currencies.
<b>Nominal wage</b>	The return, or wage, to employees at the current price level.
<b>Non-financial public enterprises</b>	Government-owned or controlled organisations that deliver goods and non-financial services, trading as business enterprises, such as Eskom or Transnet.
<b>Non-interest expenditure</b>	Total expenditure by government less debt-service costs.
<b>Non-tax revenue</b>	Income received by government as a result of administrative charges, licences, fees, sales of goods and services, etc.
<b>Occupation-specific salary dispensation</b>	Revised salary structures unique to identified occupations in the public service, including doctors, nurses and teachers.
<b>Opportunity cost</b>	The value of that which must be given up to achieve or acquire something. It is represented by the next highest valued alternative use of a resource.
<b>Organisation for Economic Cooperation and Development (OECD)</b>	An organisation of 30 mainly industrialised member countries. South Africa is not a member.
<b>Outputs</b>	Goods and services delivered by government.
<b>Payroll tax</b>	Tax an employer withholds and/or pays on behalf of employees based on employee wages or salaries.
<b>Portfolio investment</b>	Investment in financial assets such as stocks and bonds.
<b>Policy reserve</b>	Additional money in the fiscus to fund new and crucial priorities.
<b>Potential growth</b>	The fastest growth an economy can sustain without increasing inflation.
<b>Price discovery</b>	The process of determining the price level of a commodity or asset based on supply and demand factors.
<b>Primary deficit/surplus</b>	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure there is a surplus.
<b>Primary sector</b>	The agricultural and mining sectors of the economy.
<b>Private-sector credit extension</b>	Credit provided to the private sector. This includes all loans, credit cards and leases.
<b>Privatisation</b>	The full or partial sale of state-owned enterprises to private individuals or companies.

<b>Producer price inflation (PPI)</b>	Price increases measured by the producer price index – a measure of the prices paid based mainly on producers’ published price lists.
<b>Productivity</b>	A measure of the amount of output generated from every unit of input. Typically used to measure changes in labour efficiency.
<b>Public entities</b>	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and are regulated by law.
<b>Public-benefit organisations (PBOs)</b>	Organisations that are mainly funded by donations from the public and other institutions, which engage in social activities meeting the needs of the general public.
<b>Public goods</b>	Goods and services that would not be fully provided in a pure free-market system (e.g. defence), and are largely provided by government.
<b>Public Investment Corporation (PIC)</b>	A government-owned investment management company that invests funds on behalf of public-sector entities. Its largest client is the Government Employees Pension Fund.
<b>Public-private partnerships (PPPs)</b>	A contractual arrangement whereby a private party performs part of a government function and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria.
<b>Public sector</b>	National government, provincial government, local government, extra-budgetary governmental institutions, social security funds and non-financial public enterprises.
<b>Public-sector borrowing requirement</b>	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
<b>Purchasing managers’ index (PMI)</b>	A composite index measuring the change in manufacturing activity compared with the previous month. An index value of 50 indicates no change in the activity, a value above 50 indicates increased activity and a value below 50 indicates decreased activity.
<b>Quantitative easing</b>	A measure used to stimulate economic growth when interest rates are near zero. A central bank creates money and purchases long-term government bonds or financial assets. As a result, money supply increases and yields on the targeted financial assets fall, helping to stimulate credit extension.
<b>Rating agency</b>	Companies that evaluate the ability of countries or other borrowers to honour their debt obligations. Credit ratings are used by international investors as indications of sovereign risk. See also credit rating.
<b>Real effective exchange rate</b>	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa’s trading partners’ currencies, adjusted for price trends in South Africa and the countries included.
<b>Real exchange rate</b>	The level of the exchange rate taking account of inflation differences.

<b>Real expenditure</b>	Expenditure measured in constant prices, i.e. after taking account of inflation.
<b>Real interest rate</b>	The level of interest after taking account of inflation.
<b>Real wage</b>	The return, or wage, to employees, measured at a constant price level.
<b>Recession</b>	A period in which national output and income decline. A recession is usually defined as two consecutive quarters of negative growth.
<b>Regional integration</b>	An economic policy intended to boost economic activity in a geographical area extending beyond one country.
<b>Remuneration</b>	The costs of personnel including salaries, housing allowances, car allowances and other benefits received by personnel.
<b>Repurchase (repo) rate</b>	The rate at which the Reserve Bank lends to commercial banks.
<b>Repurchase agreements</b>	Short-term contracts between the Reserve Bank and private banks in the money market to sell specified amounts of money at an interest rate determined by daily auction.
<b>Reserves (foreign exchange)</b>	Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions.
<b>Residence-based income tax system</b>	A tax system in which the worldwide income accruing to a resident of a country is subject to the taxes of that country.
<b>Revaluation gain/loss</b>	The difference between the value of a foreign currency deposit from original (historic) rate to execution of a trade based on the spot rate.
<b>Risk premium</b>	A return that compensates for uncertainty.
<b>Saving</b>	The difference between income and spending.
<b>Seasonally adjusted and annualised</b>	Removal of seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data.
<b>Secondary rebate</b>	A rebate from income tax, in addition to the primary rebate, that is available to taxpayers aged 65 years and older.
<b>Secondary sector</b>	The part of the economy concerned with the manufacture of goods.
<b>Secondary tax on companies (STC)</b>	Tax on dividends declared by a company, calculated at the rate of 10 per cent of the net amount of dividends declared.
<b>Section 21 company</b>	Non-profit entities registered in terms of Section 21 of the Companies Act.
<b>Secured debt instruments</b>	Debt backed or secured by collateral to reduce the risk of lending.
<b>Service and transfer payments</b>	Services involve transactions of non-tangible commodities, while transfers are unrequited transactions that do not generate a counter-economic value (e.g. gifts and grants).

<b>Sector education and training authorities</b>	Institutions funded through employer training levies, responsible for learnership programmes and implementing strategic sector skills plans.
<b>Skills development levy</b>	A payroll tax designed to finance training initiatives, in terms of the skills development strategy.
<b>Social wage</b>	Social benefits available to all individuals, funded wholly or partly by the state.
<b>Source-based income tax system</b>	A system in which income is taxed in the country where the income originates.
<b>Southern African Customs Union (SACU) agreement</b>	An agreement that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue, between South Africa, Botswana, Namibia, Lesotho and Swaziland.
<b>Southern African Development Community (SADC)</b>	A regional governmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa.
<b>Sovereign debt</b>	Debt issued by a government.
<b>Sovereign debt rating</b>	An assessment of the likelihood that a government will default on its debt obligations.
<b>Specific excise duty</b>	A tax on each unit of output or sale of a good, unrelated to the value of a good.
<b>Standing appropriations</b>	Government's expenditure obligations that do not require a vote or statutory provision, including contractual guarantee commitments and international agreements.
<b>Statutory appropriations</b>	Amounts appropriated to be spent in terms of statutes and not requiring appropriation by vote.
<b>Sterilisation</b>	Action taken by the Reserve Bank to neutralise excess cash created in the money market when purchasing foreign currency.
<b>Structural budget balance</b>	A representation of what government revenue and expenditure would be if output were at its potential level, with cyclical variations stripped out.
<b>Switch auction</b>	Auctions to exchange bonds to manage refinancing risk or improve tradability.
<b>Syndicated loan</b>	A large loan in which a group of banks work together to provide funds, which they solicit from their clients for the borrower.
<b>Tax amnesty</b>	A period allowed by tax authorities during which taxpayers who are outside the tax net, but should be registered for tax purposes, can register for tax without incurring penalties.

<b>Tax avoidance</b>	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.
<b>Tax base</b>	The aggregate value of income, sales or transactions on which particular taxes are levied.
<b>Tax evasion</b>	When individuals or businesses illegally reduce their tax liability.
<b>Tax gap</b>	A measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources.
<b>Tax incentives</b>	Specific provisions in the tax code that provide favourable tax treatment to individuals and businesses to encourage specific behaviour or activities.
<b>Tax incidence</b>	The final distribution of the burden of tax. Statutory incidence defines where the law requires a tax to be levied. Economic incidence refers to those who experience a decrease in real income as a result of the imposition of a tax.
<b>Tax loopholes</b>	Unintended weaknesses in the legal provisions of the tax system used by taxpayers to avoid paying tax liability.
<b>Tax-to-GDP ratio</b>	For public finance comparison purposes, a country's tax burden, or tax-to-GDP ratio, is computed by taking the total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year.
<b>Term-to-maturity</b>	The time between issuance and expiry.
<b>Terms of trade</b>	An index measuring the ratio of a country's export prices relative to its import prices.
<b>Tertiary sector</b>	The part of the economy concerned with the provision of services.
<b>Total factor productivity</b>	An index used to measure the efficiency of all inputs that contribute to the production process.
<b>Trade balance</b>	The monetary record of a country's net imports and exports of physical merchandise. See also current account.
<b>Trade regime</b>	The system of tariffs, quotas and quantitative restrictions applied to protect domestic industries, together with subsidies and incentives used to promote international trade.
<b>Trade-weighted rand</b>	The value of the rand pegged to or expressed relative to a market basket of selected foreign currencies.
<b>Trademark</b>	A legal right pointing distinctly to the origin or ownership of merchandise to which it is applied and legally reserved for the exclusive use of the owner as maker or seller.
<b>Treasury committee</b>	The Cabinet committee that evaluates all requests for additional funds for unavoidable and unforeseen expenditure during a financial year.

<b>Trend GDP growth</b>	The theoretical level of GDP growth determined by the full utilisation of all factors of production (land, labour and capital). Growth above the trend rate results in macroeconomic imbalances such as rising inflation or a weakening of the current account. Increases in trend GDP growth are achieved through capital formation, growth in employment and/or technological development.
<b>Unallocated reserves</b>	Potential expenditure provision not allocated to a particular use. It mainly consists of the contingency reserve and amounts of money left unallocated by provinces.
<b>Unemployment (broad definition)</b>	All those of working age that are unemployed, including those actively seeking employment and discouraged workers.
<b>Unemployment (official definition)</b>	Those of working age, who are unemployed and actively seeking work (excludes discouraged work seekers).
<b>Unit labour cost</b>	The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour).
<b>Unsecured debt instruments</b>	Debt not backed or secured by collateral to reduce the risk of lending.
<b>User charge</b>	Payments made in exchange for direct benefits accrued, e.g. road toll fees.
<b>Vertical division</b>	The division of revenue between spheres of government.
<b>Vertical equity</b>	A doctrine in taxation that holds that differently situated taxpayers should be treated differently in terms of income tax provisions – i.e. taxpayers with more income and/or capital should pay more tax.
<b>Virement</b>	The transfer of resources from one programme to another within the same department during a financial year.
<b>Vote</b>	An appropriation voted by Parliament.
<b>Withholding tax</b>	Tax on income deducted at source. Withholding taxes are widely used in respect of dividends, interest and royalties.
<b>Yield</b>	A financial return or interest paid to buyers of government bonds. The yield/rate of return on bonds takes into account the total of annual interest payments, the purchase price, the redemption value and the amount of time remaining until maturity.
<b>Yield curve</b>	A graph showing the relationship between the yield on bonds of the same credit quality but different maturity at a given point in time.



## Website annexure to the 2012 Budget Review

# Explanatory memorandum to the division of revenue

## ■ Background

Section 214(1) of the Constitution requires that every year a Division of Revenue Act determine the equitable division of nationally raised revenue between national government, the nine provinces and 278 municipalities. This budget process takes into account the powers and functions assigned to each sphere of government. The division of revenue process fosters transparency and is at the heart of constitutional cooperative governance.

The Intergovernmental Fiscal Relations Act (1997) prescribes the process for determining the equitable sharing and allocation of revenue raised nationally. Sections 9 and 10(4) of the act set out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including considering recommendations made regarding the equitable division of nationally raised revenue.

This explanatory memorandum to the 2012 Division of Revenue Bill fulfils the requirement set out in section 10(5) of the Intergovernmental Fiscal Relations Act that the Bill be accompanied by an explanatory memorandum detailing how it takes account of the matters listed in sections 214(2)(a) to (j) of the Constitution, government's response to the FFC's recommendations, and any assumptions and formulas used in arriving at the respective divisions among provinces and municipalities. This explanatory memorandum has six sections:

- Part 1 lists the factors that inform the division of resources between national, provincial and local government.
- Part 2 describes the 2012 division of revenue.
- Part 3 sets out how the FFC's recommendations on the 2012 division of revenue have been taken into account.
- Part 4 explains the formula and criteria for the division of the provincial equitable share and conditional grants between provinces.

- Part 5 sets out the formula and criteria for the division of the local government equitable share and conditional grants between municipalities.
- Part 6 summarises issues that will form part of subsequent reviews of provincial and local government fiscal frameworks.

The Division of Revenue Bill and its underlying allocations are the culmination of extensive consultation between national, provincial and local government. The Budget Council deliberated on the matters discussed in this memorandum at several meetings during the year. The approach to local government allocations was discussed with organised local government at technical meetings with the South African Local Government Association (SALGA), culminating in a meeting of the Budget Forum (Budget Council plus SALGA) on 6 October 2011. An extended Cabinet meeting involving ministers, provincial premiers and the chairperson of SALGA was held on 12 October 2011. The division of revenue – and the government priorities that underpin it – was agreed for the next three years.

## **Part 1: Constitutional considerations**

Section 214 of the Constitution requires that the annual Division of Revenue Act be enacted only after account is taken of factors in sub-sections (2)(a) to (j) of the Constitution. These include national interest, debt provision, needs of national government and emergencies, the resource allocation for basic services and developmental needs, fiscal capacity and efficiency of the provincial and local spheres, reduction of economic disparities, and promotion of stability and predictability. The constitutional principles taken into account in deciding on the division of revenue are briefly noted below.

### **National interest and the division of resources**

The national interest is encapsulated by those governance goals that benefit the nation as a whole. The spending priorities for the medium-term expenditure framework (MTEF) are informed by the 12 priority outcomes adopted at the Cabinet Lekgotla held from 20 to 22 January 2010, which reflect the mandate of government and are derived from the medium-term strategic framework (MTSF). The Minister of Finance also announced in the 2011 *Medium Term Budget Policy Statement* that over the 2012 MTEF, government aims to increase spending on infrastructure and job creation. A detailed analysis of how funds have been allocated based on these priorities can be found in Chapter 4 of the 2011 *Medium Term Budget Policy Statement* and Chapter 8 of the 2012 *Budget Review*.

### **Provision for debt costs**

The resources shared between national, provincial and local government include proceeds from national government borrowing used to fund spending by all spheres. National government provides for the resulting debt costs to protect the integrity and credit reputation of the country. A more detailed discussion can be found in Chapter 5 of the 2012 *Budget Review*.

### **National government's needs and interests**

The Constitution assigns exclusive and concurrent powers and functions to each sphere of government. National government is exclusively responsible for functions that serve the national interest and are best centralised. National and provincial government have concurrent responsibility for a range of functions. Provincial and local government receive equitable shares and conditional grants to enable them to provide basic services and perform their functions. Changes have been made to a number of national transfers to provincial and local government to improve their efficiency, effectiveness and alignment with national strategic objectives.

## **Provincial and local government basic services**

Provinces and municipalities are assigned key service-delivery functions such as school education, health, social development, housing, roads, and provision of electricity, water and municipal infrastructure. They have significant autonomy to allocate resources to meet basic needs and respond to provincial and local priorities, while giving effect to national priorities. The division of revenue provides equitable shares to provinces and local government. This year's division of revenue allocates additional resources to provinces to provide for the carry-through effects of the 2011 public-sector wage agreements, repair infrastructure damaged by the floods in January and February 2011, extend coverage of HIV and Aids treatment, fund major health infrastructure projects, pilot interventions in district health care services and central hospitals that will inform the roll out of national health insurance, increase access to grade R and no-fee schools, standardise subsidies for early childhood development centres and accelerate the upgrading of informal settlements. Transfers to local government have grown significantly in recent years, providing municipalities with greater resources to deliver basic services. This is in addition to the substantial own-revenue raising powers available to local government. The 2012 division of revenue protects the value of transfers to local government, providing a buffer against the effect the slow economic recovery has had on the growth in municipal own revenues. Additional resources have been made available to help poor municipalities with the institutional costs of running efficient municipal operations and with further increases to the cost of basic services for poor households, particularly electricity and to accelerate the upgrading of informal settlements.

## **Fiscal capacity and efficiency**

National government has primary government revenue-raising powers. Provinces have limited revenue-raising capacity and the resources required to deliver provincial functions do not lend themselves to self-funding or cost recovery. Municipalities finance most of their expenditure through property rates, user charges and fees. It is recognised, however, that rural municipalities raise significantly less revenue than larger urban and metropolitan municipalities. Due to their limited revenue-raising potential and their responsibility to implement government priorities, provinces receive the largest share of nationally raised revenue. Local government's portion has significantly increased over the last few years and will continue to grow over the medium term. Following a review of the provincial equitable share formula in 2010, the recommendations were implemented in 2011 and minor refinements will be implemented in 2012. A review of the local government equitable share is under way. These reviews are part of wider, ongoing reviews of provincial and local government functions and the funding thereof, and should lead to significant changes in current funding arrangements that improve efficiency and effectiveness, especially in the built environment.

## **Developmental needs**

Developmental needs are accounted for at two levels: first, in the determination of the division of revenue, which explains the continued commitment to grow provincial and local government shares of nationally raised revenue, and second, in the determination of the division within each sphere, through the formulas used for dividing national transfers among municipalities and provinces. Developmental needs are encapsulated in the equitable share formulas for provincial and local government and in specific conditional grants. In particular, various infrastructure grants and growing capital budgets aim to boost the economic and social development of provinces and municipalities.

## **Economic disparities**

Both the equitable share and infrastructure grant formulas are redistributive towards poorer provinces and municipalities. Government is committed to investing in economic infrastructure (roads) and social infrastructure (schools, hospitals and clinics) to stimulate economic development and job creation, and address economic and social disparities.

### **Obligations in terms of national legislation**

While the Constitution confers autonomy on provincial governments and municipalities to determine priorities and allocate budgets, national government is responsible for policy development, national mandates and the monitoring of implementation for concurrent functions. The 2012 MTEF and division of revenue provide additional funding for the 2011 wage agreements, which were higher than expected. Additions to conditional grants address the demand for HIV and Aids prevention and treatment programmes. The provincial equitable share has been increased to help provinces provide no-fee schooling, universal access to grade R and to standardise subsidies for early childhood care services. These allocations are in addition to obligations funded through existing provincial and local government baseline allocations.

### **Predictability and stability**

Provincial and local government equitable share allocations are based on estimates of nationally raised revenues. In the event that nationally raised revenue falls short of the estimates within a given year, the equitable share will not be adjusted downwards. Allocations are assured (voted, legislated and guaranteed) for the first year and are transferred according to a payment schedule. To contribute to longer-term predictability and stability, forward estimates for a further two years are published alongside the annual proposal for appropriations. Changes in the estimates as a result of changes to data underpinning the equitable share formulas and revisions to the formula are phased in to ensure minimal disruption.

### **Need for flexibility in responding to emergencies**

Government has a contingency reserve that provides a cushion for emergencies and unforeseeable events. In addition, two conditional grants for disasters allow for the swift allocation and transfer of funds to affected provinces and municipalities. Sections 16 and 25 of the Public Finance Management Act (1999) make specific provision for allocation of funds to deal with emergency situations, while section 30(2) deals with adjustment allocations for unforeseeable and unavoidable expenditure. Section 29 of the Municipal Finance Management Act (2003) allows a municipal mayor to authorise unforeseeable and unavoidable expenditure in an emergency.

## **■ Part 2: The 2012 division of revenue**

Following the economic downturn of 2008/09, government protected budget baselines by raising debt. These baselines continue to be protected by increasing government's net loan debt, discussed in Chapter 3 of the 2011 *Medium Term Budget Policy Statement*.

To ensure the debt burden is kept within sustainable levels, government has called for all departments and provinces to rigorously review their budget baselines and identify areas of inefficient and non-priority expenditure when preparing for the 2012 MTEF. In addition, the composition of expenditure will shift away from consumption towards investment expenditure.

Excluding debt service costs and the contingency reserve, allocated expenditure to be shared between the three spheres amounts to R874.2 billion, R941.2 billion and R1 trillion over each of the MTEF years. These allocations take into account government's spending priorities, the revenue-raising capacity and functional responsibilities of each sphere, and inputs from various intergovernmental forums and the recommendations of the FFC. The provincial and local equitable share formulas are designed to ensure desirable, stable and predictable revenue shares, and to address economic and fiscal disparities.

## Government's policy priorities for the 2012 MTEF

Government has adopted a policy of changing the composition of spending to focus on promoting economic support and development, investing in infrastructure, creating jobs and enhancing local government capacity.

The 2012 MTEF encourages government to continue to find savings and reprioritise existing baselines towards the priorities discussed above. The overarching goal is to expand the economy, create more jobs and spread the benefits of growth more widely.

In preparing the 2012 Budget, existing baselines were thoroughly interrogated to ensure wasteful expenditure is eliminated. Budgets for non-essential items were reprioritised and projects were rescheduled to ensure key priorities were funded.

Additional resources are allocated to provinces to cover the following:

- The 2011 wage agreements
- Expansion of no-fee schools and universalisation of grade R
- Equalisation of subsidies paid to early childhood development centres
- Expansion of informal settlement upgrading in certain municipalities
- The repair of infrastructure damaged by floods in January and February 2011
- National health insurance pilots
- Major health infrastructure projects
- Provision of HIV and Aids treatment to meet increased demand due to lower CD4 count threshold.

Government introduced the *urban settlements development grant* in the 2011 division of revenue to enable large urban municipalities to respond to pressures created by continued urbanisation and growing urban poverty. Additional resources are made available for this purpose over the 2012 MTEF. Municipalities will also receive additional funds through the local government equitable share to strengthen their administration and governance – an important foundation for improving the effectiveness of municipalities.

Table W1.1 shows how the additional allocations are distributed to priority areas across national, provincial and local government.

**Table W1.1 2012 Budget priorities – additional MTEF allocations, 2012/13 – 2014/15**

R million	2012/13	2013/14	2014/15	Total
<b>Job creation</b>				
Community work programme	590	1 089	1 780	<b>3 459</b>
Working for water	150	200	400	<b>750</b>
Working on fire	80	100	200	<b>380</b>
Mzansi Golden Economy	50	100	150	<b>300</b>
National rural youth service corps	200	–	–	<b>200</b>
Other job related items	145	429	524	<b>1 098</b>
<b>Education and related functions</b>				
Equalisation of no fee schools and expansion of access to Grade R	–	1 116	1 899	<b>3 015</b>
Annual national assessments	–	75	160	<b>235</b>
University infrastructure	150	300	400	<b>850</b>
<b>Health and social protection</b>				
National health insurance pilot project	150	350	500	<b>1 000</b>
HIV and Aids and ARVs	–	–	968	<b>968</b>
Revitalisation of hospital infrastructure	–	132	294	<b>426</b>
Early childhood development	–	650	700	<b>1 350</b>
<b>Economic infrastructure</b>				
Passenger Rail Agency of South Africa (rolling stock)	–	–	4 000	<b>4 000</b>
Sentech: Digital terrestrial television (DTT) infrastructure	–	141	–	<b>141</b>
SABC: Digital library and Playout centre	–	76	62	<b>138</b>
Integrated national electrification programme (municipal) grant	–	100	200	<b>300</b>
Electricity demand-side management grant: Eskom (solar water geysers)	1 000	1 700	2 000	<b>4 700</b>
Electricity demand-side management grant: (municipalities)	200	200	200	<b>600</b>
Repair of flood damaged infrastructure	1 302	1 125	665	<b>3 092</b>
Signalling and depot infrastructure	279	350	400	<b>1 029</b>
<b>Human settlements and community amenities</b>				
Regional bulk infrastructure grant	382	606	896	<b>1 884</b>
Informal settlement upgrading: Local conditional grant	–	950	1 931	<b>2 881</b>
Informal settlement upgrading: Provincial conditional grant	139	526	363	<b>1 028</b>
Social housing	220	200	200	<b>620</b>
<b>Economic support and environmental affairs</b>				
Upgrading of tourism facilities: SANPARKS	–	150	200	<b>350</b>
Special economic zones	500	750	1 000	<b>2 250</b>
Manufacturing competitiveness enhancement programme	1 250	2 000	2 500	<b>5 750</b>
Green fund	300	500	–	<b>800</b>
<b>General public services</b>				
Who Am I project	–	349	425	<b>774</b>
Border post infrastructure upgrading	110	130	160	<b>400</b>
<b>Defence, public order and safety</b>				
Court infrastructure	100	100	100	<b>300</b>
Strategic defense procurement programme	150	200	250	<b>600</b>
<b>Compensation of employees adjustment</b>	5 688	6 249	6 757	<b>18 694</b>
<b>Other priorities</b>	5 862	5 212	7 534	<b>18 608</b>
<b>Total</b>	<b>18 997</b>	<b>26 155</b>	<b>37 818</b>	<b>82 970</b>

## The fiscal framework

Table W1.2 presents medium-term macroeconomic forecasts for the 2012 Budget. It sets out the growth assumptions and fiscal policy targets on which the fiscal framework is based.

**Table W1.2 Medium-term macroeconomic assumptions, 2011/12 – 2014/15**

R billion	2011/12		2012/13		2013/14		2014/15
	2011 Budget	2012 Budget	2011 Budget	2012 Budget	2011 Budget	2012 Budget	2012 Budget
Gross domestic product	2 914.9	2 995.5	3 201.3	3 301.4	3 536.0	3 622.2	3 997.0
<i>Real GDP growth</i>	3.6%	2.7%	4.2%	3.0%	4.4%	3.8%	4.3%
<i>GDP inflation</i>	5.5%	5.9%	5.4%	7.0%	5.8%	5.7%	5.8%
<b>National budget framework</b>							
Revenue	729.9	734.6	806.4	799.3	904.3	894.3	997.2
<i>Percentage of GDP</i>	25.0%	24.5%	25.2%	24.2%	25.6%	24.7%	24.9%
Expenditure	888.9	891.2	968.1	969.4	1 053.0	1 053.8	1 139.6
<i>Percentage of GDP</i>	30.5%	29.8%	30.2%	29.4%	29.8%	29.1%	28.5%
Main budget balance <sup>1</sup>	-159.1	-156.6	-161.7	-170.0	-148.7	-159.5	-142.4
<i>Percentage of GDP</i>	-5.5%	-5.2%	-5.1%	-5.2%	-4.2%	-4.4%	-3.6%

1. A positive number reflects a surplus and a negative number a deficit

Table W1.3 sets out the division of revenue for the 2012 MTEF after taking into account new policy priorities.

**Table W1.3 Division of nationally raised revenue, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
Debt-service cost	54 394	57 129	66 227	76 645	89 388	100 806	109 039
Non-interest expenditure	581 560	690 068	738 914	814 554	879 977	953 024	1 030 539
<i>Percentage increase</i>	19.0%	18.7%	7.1%	10.2%	8.0%	8.3%	8.1%
<b>Total expenditure</b>	<b>635 953</b>	<b>747 197</b>	<b>805 141</b>	<b>891 199</b>	<b>969 365</b>	<b>1 053 830</b>	<b>1 139 579</b>
<i>Percentage increase</i>	17.5%	17.5%	7.8%	10.7%	8.8%	8.7%	8.1%
Contingency reserve	–	–	–	–	5 780	11 854	24 000
<b>Division of available funds</b>							
<b>National departments</b>	<b>289 236</b>	<b>345 366</b>	<b>355 189</b>	<b>383 747</b>	<b>412 368</b>	<b>446 220</b>	<b>478 828</b>
<b>Provinces</b>	<b>246 836</b>	<b>293 164</b>	<b>322 822</b>	<b>362 626</b>	<b>384 487</b>	<b>411 092</b>	<b>437 004</b>
Equitable share	201 796	236 891	265 139	291 736	309 057	328 921	349 351
Conditional grants	45 040	56 273	57 682	70 891	75 430	82 171	87 653
<b>Local government</b>	<b>45 487</b>	<b>51 537</b>	<b>60 904</b>	<b>68 180</b>	<b>77 342</b>	<b>83 858</b>	<b>90 707</b>
Equitable share <sup>1</sup>	25 560	23 845	30 541	32 876	37 873	40 582	43 639
General fuel levy sharing	–	6 800	7 542	8 573	9 040	9 613	10 190
Conditional grants	19 928	20 892	22 821	26 732	30 429	33 663	36 878
<b>Total</b>	<b>581 560</b>	<b>690 068</b>	<b>738 914</b>	<b>814 554</b>	<b>874 197</b>	<b>941 170</b>	<b>1 006 539</b>
<i>Percentage shares</i>							
National departments	49.7%	50.0%	48.1%	47.1%	47.2%	47.4%	47.6%
Provinces	42.4%	42.5%	43.7%	44.5%	44.0%	43.7%	43.4%
Local government	7.8%	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of Regional Services Council (RSC) and Joint Services Board (JSB) levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant is only allocated to district municipalities.

Table W1.4 shows how additional resources are divided. The new priorities and additional allocations are accommodated through shifting savings towards priorities.

**Table W1.4 Changes over baseline<sup>1</sup>, 2012/13 – 2014/15**

R million	2012/13	2013/14	2014/15
National departments	4 229	7 742	19 244
Provinces	4 038	6 840	8 546
Local government	312	1 541	3 451
<b>Allocated expenditure</b>	<b>8 579</b>	<b>16 123</b>	<b>31 241</b>

1. Excludes shifting of savings towards priorities over the MTEF

Table W1.5 sets out schedule 1 of the Division of Revenue Bill, which reflects the legal division of revenue between national, local and provincial government. In this division, the national share includes all conditional grants to provinces and local government in line with section 214(1) of the Constitution, and their allocations reflect equitable shares only.

**Table W1.5 Schedule 1 of the Division of Revenue Bill, 2012/13 – 2014/15**

R million	2012/13	2013/14	2014/15
	Column A Allocation	Column B Forward estimates	
National <sup>1,2</sup>	622 435	684 327	746 589
Provincial	309 057	328 921	349 351
Local	37 873	40 582	43 639
<b>Total</b>	<b>969 365</b>	<b>1 053 830</b>	<b>1 139 579</b>

1. National share includes conditional grants to provinces and local government, general fuel levy sharing with metropolitan municipalities, debt service cost and the contingency reserve

2. Direct charges for the provincial equitable share are netted out

The 2012 *Budget Review* sets out in detail how constitutional issues and government's priorities are taken into account in the 2012 division of revenue. It focuses on the economic and fiscal policy considerations, revenue issues, debt and financing considerations, and expenditure plans. Aspects of national, provincial and local government financing are discussed in detail in Chapter 8 of the 2012 *Budget Review*.

### ■ Part 3: Response to the recommendations of the FFC

Section 9 of the Intergovernmental Fiscal Relations Act, which gives effect to section 214 of the Constitution, prescribes that the FFC must submit recommendations on the division of revenue for the coming budget at least 10 months before the start of each financial year. The FFC tabled its *Submission for the Division of Revenue 2012/13* to Parliament in May 2011.

Section 10 of the Intergovernmental Fiscal Relations Act requires the Minister of Finance to table a Division of Revenue Bill with the annual budget in the National Assembly. The bill must be accompanied by an explanatory memorandum explaining how the bill has taken into account the recommendations made by the FFC. This part of the memorandum outlines how government has considered the FFC's recommendations.

The 2012/13 FFC recommendations are divided into six chapters, which cover three areas: macroeconomic and fiscal outlook, vibrant urban economies and improving development outcomes of the intergovernmental fiscal relations system.

## Chapter 1: South Africa's transition to a consolidated budget and fiscal guidelines

### *Fiscal guidelines in the short to medium-term*

The FFC recommends that, "Over the medium term, government should continue with a gradual programme of fiscal consolidation that entails reducing moderately but consistently the budget deficit. Such efforts to preserve fiscal sustainability must be sustained in the future, even with the addition of longer-term programmes such as the New Growth Path and proposals for National Health Insurance.

"Recent government proposals on fiscal guidelines in South Africa should be supported. The Commission is of the view that proper implementation of fiscal rules (guidelines) can contribute to and complement existing fiscal policies in South Africa. However, even though international experience with fiscal guidelines has shown that such measures can further strengthen the current countercyclical policy and contribute towards fiscal sustainability, there is no 'one size fits all' formula when it comes to the institutional arrangements, design and the implementation of such guidelines. The Commission recommends that government should thus focus on these aspects of fiscal guidelines in the short to medium term. The Commission will continue to investigate the implementation implications of introducing fiscal rules in South Africa."

### *Government response*

Government welcomes the recommendation as it broadly supports current policy. Fiscal policy will continue to be developed based on the guidelines published in the 2011 *Budget Review*. As part of developing these guidelines, National Treasury will prepare a long-term fiscal report. The report, to be published during 2012, will aim to encourage public discussion and greater parliamentary oversight of revenue and expenditure trends over the long term, and consider how to improve the institutional basis of the fiscal guidelines.

## Chapter 2: Inclusive growth, development and fiscal policy

### *Reprioritise funding towards attaining the Millennium Development Goals*

The FFC recommends that, "National, provincial and local government should further reprioritise expenditures in respect of the Equitable Share and Conditional Grants for 2012/13 to move towards attaining the Millennium Development Goals. In this respect:

- Government should prioritise MDG2 (universal education) and MDG6 (HIV indicators) in the interim as their attainment will have positive impacts on the other MDGs (positive spillovers); and
- The time frame for attaining all outstanding MDGs simultaneously should be extended beyond 2015 to make the task feasible."

### *Government response*

Government acknowledges that for South Africa to achieve a more inclusive and equitable economic future, rapid progress is needed. The priorities are education, health care, fighting crime, rural development and creating jobs. These priorities are reflected in the 12 outcomes and associated outputs adopted by government. The 2012 Budget process is underpinned by these 12 outcomes, their associated output targets and service-delivery agreements. Health, including HIV and Aids, is a key government priority. The emerging policy framework of the New Growth Path and the urgent need to create more jobs are central to government's medium-term strategic outlook. Government is pursuing significant capital investments in public infrastructure and exploring mechanisms to accelerate roll out of social and economic infrastructure.

### *Strengthen equity of intergovernmental transfers system*

FFC recommends that, “Government should continue strengthening the equity focus of the current system of intergovernmental transfers, in particular in the health and education sectors. The existing transfer system is not the most effective instrument to support government’s growth objectives, and this aspect should continue to be strengthened so that it plays a supportive role in this respect.”

#### *Government response*

Transfers to provinces are agreed to during the annual national budget process. The size of the transfers indicates the value placed on the functions performed by provinces relative to the responsibilities of the two other spheres of government. The provincial equitable share formula is an objective instrument to ensure that the available provincial envelope is equitably divided among the nine provinces. The transfer system is intentionally redistributive so that fiscal imbalances are addressed. While it is important, the intergovernmental transfer system on its own cannot ensure government achieves its growth objectives. It needs to be accompanied by a capable public service that can deliver on its mandates.

### *Invest in public infrastructure*

FFC recommends that, “Government should actively and specifically continue pursuing the implementation of significant capital investment in public infrastructure that has a positive impact on total factor productivity and employment in the context of the New Growth Path.”

#### *Government response*

Public-sector infrastructure investment remains central to government’s economic development plans. Infrastructure projects in education, health, energy, roads, rail, telecommunications and water are priorities over the next three years. This will contribute significantly to job creation over time. Government has also instituted complementary reforms to improve the quality of regulation and encourage increased private-sector participation to improve efficiency and lower costs.

## **Chapter 3: Analysis of local government revenue and expenditure**

### *Benchmarking exercises*

The FFC recommends that, “National and provincial treasuries’ efforts to improve the credibility of municipal budgets through annual benchmarking exercises should continue to be supported, the results of these evaluations be reported to Parliament and provincial legislatures, and placed in the public domain. This may incentivise effective financial management among municipalities.”

#### *Government response*

The benchmark processes enable robust and in-depth technical discussions on municipal budgets among national, provincial and municipal officials. The benchmarking documents are shared with institutions that form part of the benchmarking exercise, including the FFC, SALGA and the Department of Cooperative Governance and Traditional Affairs. Broader circulation of these documents is not advisable, as benchmarking is intended to provide technical support to municipalities, but does not replace the formal budget processes of municipalities. The formal budget process, which includes public consultation and adopted municipal budgets approved by individual municipal councils, is made available to the public.

### *Enforce section 74(2) of the Municipal Systems Act*

The FFC recommends that, “National government should specifically enforce the provisions set out in section 74(2) of the Municipal Systems Act, such that the basis of municipal tariffs accurately reflects the cost of providing the specific service, as well as conforms to the National Treasury

expenditure guidelines for repairing and maintaining municipal infrastructure. This will improve planning and funding of repairs and maintenance.”

#### *Government response*

Government supports the proposal. Mechanisms are in place to guide municipalities in setting tariffs, in particular, the Municipal Finance Management Act Budget Circulars 51, 54 and 55 highlight the need for cost-reflective tariffs. However, it may take time to develop appropriate systems that can provide reliable data to determine accurate cost-reflective tariff structures for various municipal services. The information foundation required for cost-reflective tariffs is being laid. For example, National Treasury is exploring appropriate cost accounting and tariff-setting methodologies, and financial management reforms are being undertaken, including updating asset registers and developing a standard chart of accounts for municipalities.

#### *Identify the primary cause of municipalities’ poor performance*

The FFC recommends that, “National and provincial government should require and assist municipalities to identify the primary cause of poor performance in their billing and revenue collection functions and use the information to design appropriate remedial strategies. Subsequently, municipalities should establish municipal service districts to facilitate improved performance.”

#### *Government response*

Government agrees that municipalities should be assisted. National Treasury is conducting training in municipalities on revenue management and sending teams to help municipalities identify gaps and weaknesses in their revenue management value chain.

However, there are a range of issues along the revenue management value chain that need to be addressed. Shortcomings in the transaction processing environment result in poor billing performance and lack of integrity in billing data. This is largely caused by poorly designed organisational structures that blur the lines of accountability. Municipalities can only overcome these problems by developing skilled and competent workforces that operate in appropriately designed organisational structures. This requires a long-term view and response.

#### *Guidelines on municipal consumer debt*

The FFC recommends that, “As an interim measure, government should establish and publish guidelines for municipalities on the management of municipal consumer debt in terms of, but not exclusive to, interest charges, debt impairment and the writing off of bad debts.”

#### *Government response*

A legislative framework and related policies already exist, including guidelines and circulars to assist municipalities with the budgeting process, including the writing off of bad debts. There are also complementary efforts to enhance the capacity of municipalities.

#### *Update indigent policies*

The FFC recommends that, “Section 64 of the Municipal Finance Management Act (No. 56 of 2003) should be amended to require the regular collation and updating of information on the indigent residents of a municipal area, as an integral component of municipal revenue management practices.”

#### *Government response*

The updating of indigent registers is a policy matter governed by the Municipal Systems Act, which adequately provides for the integration of municipalities’ indigent policies into municipal credit control and debt management policies. Guidelines have been issued to help municipalities

implement their indigent policies as defined within the national indigent framework. Government supports the proposal for regular updating of indigent registers.

#### *Peer learning and support programmes*

The FFC recommends that, “National and provincial government should develop and support peer learning and support programmes that assist poorly performing municipalities to leverage the experience and best practices of well-performing municipalities, particularly in relation to spending performance, efficiency in using resources, proper debt management and the achievement of desired developmental outcomes.”

#### *Government response*

Government agrees with the recommendation for peer learning. The Municipal Finance Management Act requires a range of policies and information to be published on municipal websites, which enables peer learning. In addition, there are a range of forums, such as Chief Financial Officers Forums, the Cities Budget Forum, the Municipal Finance Management Act Implementation Forum and various district and provincial level forums, which all promote peer learning.

#### *Review of local government data*

The FFC recommends that, “The available data at local government level should be reviewed so as to ensure appropriate surveys or alternatives are available to account accurately for changes in demographics and other factors at municipal level. This recommendation is a reiteration of previous recommendations on data requirements for the local government fiscal framework made by the Commission.”

#### *Government response*

The Local Government Data Collection Forum was established in response to the need to rationalise data collection from local government. The forum will be a national coordinator – setting standards, collecting and capturing data, assuring quality and disseminating data.

### **Chapter 4: Sustainable development of South Africa’s built environment**

#### *Develop spatially compact urban form*

The FFC recommends that, “Government should actively and specifically pursue the development of a more spatially compact urban form for South African cities, by developing and adopting appropriate policies and financing instruments. Specific fiscal instruments that can support these objectives include wider use of development charges in financing infrastructure associated with the land development process, public transport subsidies that specifically target high density low-income areas, and fiscal incentives for urban land development projects located within the existing urban form.”

#### *Government response*

Government agrees with the objective of promoting a more spatially compact urban form. Government has initiated a new cities support programme involving several departments to assist cities manage the built environment in a way that promotes economic growth, job creation, access to basic services and environmental sustainability. It draws on global best practice by linking direct capacity support to fiscal and organisational incentives for improved performance, particularly through restructuring the system of fiscal transfers to reward achievement, encourage self-financing and support environmental sustainability.

*Review of housing financing*

The FFC recommends that, “Government should conduct a broad-based review of the efficacy of current housing finance arrangements in meeting housing needs within the context of creating sustainable and more compact human settlements. The Commission acknowledges recent developments in the funding framework, including the introduction of the *urban settlements development grant*. It believes that this creates an important opportunity for the realignment of other funding instruments in the built environment, particularly the *integrated housing and human settlements grant*. The Commission intends to review the design of the *urban settlements development grant* once further details about this programme are made known.”

*Government response*

Government is considering the efficacy of all housing financing instruments within the wider context of improving delivery of infrastructure and services to enhance built environments. This will lead to further reforms of the *human settlements development grant* and the *urban settlements development grant*.

*Fiscal and economic costs analysis*

The FFC recommends that, “Government should review the Commission’s analytical work on the fiscal and economic costs of the current urban form of South African cities and guide the Commission as to the further development of these analytical methods.”

*Government response*

Government welcomes the opportunity to help the FFC develop their analytical methods.

**Chapter 5: Environmental sustainability and climate change in the local government sector***Climate change mitigation and adaption strategies*

The FFC recommends that, “Government should ensure that municipalities develop their own climate change mitigation and adaptation strategies and plans for climate change as part of the Integrated Development Planning process. Government should provide support in this respect to municipalities over the next three years, distinguishing between different types of municipalities by both location and capacity in terms of the mandatory requirements placed on them.”

*Government response*

Government agrees that municipalities should develop their own climate change mitigation and adaptation strategies and plans so that adequate contingency plans for risks associated with climate change are developed.

Government is undertaking a number of initiatives that will assist municipalities in planning for the impacts of climate change. For example, the Department of Cooperative Governance and Traditional Affairs, in partnership with the Department of Environmental Affairs and SALGA, is developing an integrated planning toolkit for climate change. The toolkit will guide municipalities through the process of integrating climate responses into all phases of planning, from problem analysis to operations and review.

*Performance-based conditional grant*

The FFC recommends that, “Government should consider providing municipalities with a performance-based conditional grant, which rewards or incentivises actions that are environmentally efficient and responsive to the adaptation and mitigation challenges of climate change. The design of the proposed grant should pay attention to municipality specific factors, such as the area,

topography, coastal/or otherwise, and vulnerability to climate change. Specific focus areas for this grant should include:

- Efficient water management practices, including the minimisation of water losses, effective asset management or rehabilitation programmes, and demand management;
- Efficient energy management practices, including the minimisation of electricity losses (unaccounted for electricity), the elimination of illegal connections and energy savings by both households and industry; and
- The implementation of green procurement principles.”

#### *Government response*

The poor uptake of existing incentive grants shows that such grants are not the most efficient way to influence the behaviour of municipalities. There may be merit in a specific conditional grant to address major infrastructure requirements related to climate change, for example, coastal breakwaters or storm water management systems. However, more research is needed to determine the structure of such a grant.

## **Chapter 6: Budget analysis and exploration of issues to increase performance in basic education and health**

### *Basic education and health*

The FFC recommends that, “Government should finalise the implementation of occupation specific dispensation and formalise the performance evaluation system. In dealing with the expansion and implementation for occupational specific dispensation, government should:

- Be mindful of the rising public sector wage bill relative to other priorities;
- Rethink funding of personnel costs, which are centrally determined but funded by provinces through the equitable share. A full costing of the occupational specific dispensation implementation must be undertaken, and national government must take the responsibility for funding, preferably through a specific purpose conditional grant; and
- Formalise performance evaluation with the aim of boosting performance by emphasising high competence for education and health personnel.”

#### *Government response*

Government is mindful of the rising public-sector wage bill and works with the labour unions on the matters raised above. It does not support the recommendation that national government take full responsibility for funding personnel costs, especially through a conditional grant, as this will create perverse incentives that will undermine government’s efforts to address the issues raised by the FFC.

### *Spending in education*

The FFC recommends that, “Increases in education spending should be directed towards investments that will have the biggest impact on quality, including learner and teacher support materials. In this regard, government should improve quality and prioritise epistemological access to education by:

- Developing capacity to evaluate the academic performance of learners throughout their academic careers.
- Ensuring that the required amount of time is spent on teaching by relieving teachers of administrative duties through the hiring of administrative assistants;
- Supporting the training and development of teachers and making explicit the amount spent for this purpose through the Division of Revenue; and
- Improving the accountability of schools for learner performance.”

### *Government response*

The introduction of literacy and numeracy annual national assessments for grades 3 and 6 is an important step towards enabling government to evaluate the performance of learners throughout their schooling. Government intends to extend these assessments to grade 9, which will ensure that learner performance will be measured in each educational phase. Assessing learner performance will only lead to improved performance if the system is able to use the results effectively.

Government does not support the proposal to explicitly specify upfront the amounts to be spent for training and development of teachers. Training and development in provinces is funded from their equitable share and provinces decide the allocations for this purpose in line with their specific requirements.

### *Coordinating, financing and providing scholar transport*

The FFC recommends that, “Coordination financing and provisioning of scholar transport should be improved. The Commission is aware that agreement has been reached between the Departments of Basic Education and Transport that the scholar transport function be transferred from the Department of Basic Education to the Department of Transport. In so doing, the FFC recommends that:

- All resources associated with delivering a service associated with scholar transport must be transferred to the Department of Transport, including current assets and budget and all future resources; and
- A thorough assessment of the financial and fiscal implications of this shift must be conducted before the shift happens.”

### *Government response*

The Department of Basic Education and the Department of Transport are working on ways to improve the provision of scholar transport in provinces. However, no agreement has been reached on the full transfer of the service to the Department of Transport. At this stage, provincial executives can locate the service with either provincial department based on their requirements.

### *Inclusive education of intellectually disabled children*

The FFC recommends that, “Government must, through input and output norms and standards, take reasonable measures to give effect to the inclusive education of intellectually disabled children. These norms should indicate human, physical, administrative and regulatory resources provided by the government dedicated to achieving targets for inclusive education.”

### *Government response*

The Department of Basic Education is developing norms and standards for inclusive education, which should include all learners with special education needs.

### *Health fiscal frameworks*

The FFC recommends that, “Government should extend its ongoing efforts to reform the health fiscal frameworks by taking into account the burden of disease giving rise to budget pressures, to cover:

- Review of the funding for HIV/Aids, opportunistic and other infectious diseases through a regular review of usage costs for chronic disease services in HIV/Aids, TB, maternal and child health to inform resource allocations in the public sector health care system;

- Institutionalisation of a budget process that forces provincial health budgets to be based on estimations of the needs of health care service users and holds provincial governments accountable for underfunding of hospitals and clinics; and
- Re-examination of the distribution of resources between the different levels of care without weakening the role played by tertiary hospitals, but also strengthening the role played by primary health care in the health system of the country.

Certain functions, such as procurement, human resources and financial management, should be devolved to hospital management to boost efficiencies and better performance.”

#### *Government response*

Government released the green paper on national health insurance after the FFC tabled its recommendations for the 2012/13 division of revenue. As a result, the FFC did not take into account the contents of the green paper when these recommendations were prepared. Health policy pronouncements and reforms to the health sector will be conducted as part of the review of the green paper and other policy documents and legislation that may emerge during these discussions.

## **Part 4: Provincial allocations**

Sections 214 and 227 of the Constitution require that an equitable share of nationally raised revenue be allocated to provincial government to enable it to provide basic services and perform its allocated functions.

Of the R19.4 billion added to the provincial baseline over the next three years, the provincial equitable share baselines are revised upwards by R14.9 billion and conditional grants are increased by R4.4 billion. National transfers to provinces increase from R362.6 billion in 2011/12 to R384.5 billion in 2012/13. Over the three-year period, provincial transfers will grow at an average annual rate of 6.4 per cent to R437 billion in 2014/15.

Table W1.6 sets out the total transfers to provinces for 2012/13, which amount to R384.5 billion, with R309.1 billion allocated to the provincial equitable share and R75.4 billion to conditional grants, which includes an unallocated R180 million for the *provincial disaster grant*, but excludes an indirect transfer of R2.3 billion for the *school infrastructure backlogs grant*.

**Table W1.6 Total transfers to provinces, 2012/13**

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	46 940	9 683	<b>56 624</b>
Free State	18 531	5 520	<b>24 051</b>
Gauteng	54 545	15 623	<b>70 168</b>
KwaZulu-Natal	67 803	14 427	<b>82 230</b>
Limpopo	38 721	7 546	<b>46 267</b>
Mpumalanga	24 874	5 621	<b>30 495</b>
Northern Cape	8 255	3 082	<b>11 337</b>
North West	20 615	4 939	<b>25 554</b>
Western Cape	28 772	8 809	<b>37 581</b>
Unallocated	–	180	<b>180</b>
<b>Total</b>	<b>309 057</b>	<b>75 430</b>	<b>384 487</b>

#### **Provincial equitable share**

At 97.1 per cent of total provincial revenue and 80.4 per cent of national transfers to provinces in 2012/13, the equitable share constitutes the main source of revenue for meeting provincial expenditure responsibilities. The proposed revisions of R3.3 billion, R5.3 billion and R6.3 billion

bring the equitable share allocations to R309.1 billion in 2012/13, R328.9 billion in 2013/14, and R349.4 billion in 2014/15. These revisions result in the provincial equitable share increasing by 5.9 per cent between 2011/12 and 2012/13, and 6.2 per cent over the MTEF in nominal terms.

### **Policy priorities underpinning equitable share revisions**

The revisions to baseline equitable share allocations provide for personnel and policy adjustments. The personnel adjustments provide mainly for the impact of the 2011 wage agreements on personnel budgets in health and education. Policy-related adjustments to the provincial equitable share provide for child and youth care services, equalisation of subsidies provided to early childhood development centres, victim empowerment, expansion of no-fee schools and the universalisation of grade R.

### **The equitable share formula**

The formula is reviewed and updated with new data annually. In 2010, government concluded a review of the provincial equitable share formula, the results of which were detailed in the 2011 Annexure W1. As a result of that review, a new health component was introduced and the weights of the health and education components were revised to align with the expenditure shares of the sectors in provincial budgets. The weight of the basic component was also revised to balance out these changes.

During 2011, revisions to the education component were considered but not implemented. The Department of Basic Education is implementing the learner unit record tracking system, which should produce more reliable enrolment data. The need to revise the education component will be considered after the formula has been updated with the 2011 Census data.

For the 2012 MTEF, the equitable share formula has been updated with data from the 2011 Mid-year Estimates, the 2010 General Household Survey, 2011 Education School Realities, output data from the health sector and a risk-adjusted capitation index based on data from the Risk Equalisation Fund, the 2009 gross domestic product by region (GDP-R) and the 2005 Income and Expenditure Survey. The impact of these updates on the provincial equitable share is phased-in over three years (2012/13 to 2014/15).

Because the formula is largely population driven, the allocations it generates capture shifts in population across provinces, which leads to changes in the relative demand for public services across the provinces.

#### *Phasing-in of the formula*

To mitigate the impact of data updates on provincial equitable shares, the new shares are phased in over the MTEF. The weighted share per province for 2011/12 is used to calculate the weighted provincial equitable share for the 2012 MTEF. The data is updated each year and a new target share is calculated, which is shown in Table W1.8. To ensure funding is certain and there are no shocks to individual provincial budgets, the impact of the data updates is phased in over three years. Table W1.7 shows the revised weighted provincial equitable shares for the period 2012/13 to 2014/15.

**Table W1.7 Implementation of the equitable share weights, 2012/13 – 2014/15**

	2011/12	2012/13	2013/14	2014/15
	Weighted shares	2012 MTEF weighted shares 3-year phasing		
Eastern Cape	15.3%	15.2%	15.1%	14.9%
Free State	6.1%	6.0%	5.9%	5.8%
Gauteng	17.5%	17.6%	17.8%	18.0%
KwaZulu-Natal	21.8%	21.9%	22.1%	22.2%
Limpopo	12.7%	12.6%	12.5%	12.4%
Mpumalanga	8.1%	8.1%	8.0%	7.9%
Northern Cape	2.7%	2.7%	2.7%	2.6%
North West	6.7%	6.7%	6.7%	6.6%
Western Cape	9.2%	9.3%	9.3%	9.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### *Summary of the structure of the formula*

The formula, shown in Table W1.8 below, consists of six components that capture the relative demand for services between provinces and take into account specific provincial circumstances. The formula's components are neither indicative budgets nor guidelines as to how much should be spent on functions in each province or by provinces collectively. Rather, the education and health components are weighted broadly in line with historical expenditure patterns to provide an indication of relative need. Provincial executive councils have discretion regarding the determination of departmental allocations for each function, taking into account the priorities that underpin the division of revenue.

**Table W1.8 Distributing the equitable shares by province, 2012 MTEF**

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
	<b>48%</b>	<b>27%</b>	<b>16%</b>	<b>3%</b>	<b>1%</b>	<b>5%</b>	<b>100%</b>
Eastern Cape	16.3%	14.2%	13.5%	16.7%	7.6%	11.1%	14.9%
Free State	5.6%	5.5%	5.5%	5.7%	5.5%	11.1%	5.8%
Gauteng	15.7%	20.5%	22.4%	15.7%	33.9%	11.1%	18.0%
KwaZulu-Natal	23.2%	23.0%	21.4%	23.0%	16.1%	11.1%	22.2%
Limpopo	13.9%	10.7%	11.0%	14.4%	7.0%	11.1%	12.4%
Mpumalanga	8.4%	6.8%	7.2%	8.6%	7.1%	11.1%	7.9%
Northern Cape	2.2%	2.2%	2.2%	2.4%	2.3%	11.1%	2.6%
North West	6.3%	6.5%	6.4%	7.5%	6.5%	11.1%	6.6%
Western Cape	8.4%	10.6%	10.5%	6.0%	14.0%	11.1%	9.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### **Full impact of data updates on the provincial equitable share**

Table W1.9 shows the full impact of the data updates on the provincial equitable share per province. This table compares the target shares for the 2011 and 2012 MTEF.

**Table W1.9 Full impact on data updates on the equitable share**

	2011 MTEF weighted average	2012 MTEF weighted average	Difference in weighted average
Eastern Cape	15.1%	14.9%	-0.17%
Free State	6.0%	5.8%	-0.14%
Gauteng	17.8%	18.0%	0.17%
KwaZulu-Natal	21.9%	22.2%	0.26%
Limpopo	12.3%	12.4%	0.03%
Mpumalanga	8.0%	7.9%	-0.04%
Northern Cape	2.7%	2.6%	-0.04%
North West	6.8%	6.6%	-0.13%
Western Cape	9.4%	9.4%	0.06%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

For the 2011 Budget, the weight of the education component changed from 51 per cent to 48 per cent, the weight of the health component changed from 26 per cent to 27 per cent and the weight of the basic component changed from 14 per cent to 16 per cent. The weights for the education and health components were aligned with their expenditure shares, excluding expenditure on conditional grants over the past three years. An analysis of expenditure over the past three years shows that the weights of the education and health components do not require further revision. The formula components are set out as follows:

- An *education share* (48 per cent) based on the size of the school-age population (ages 5-17) and the number of learners (grade R to 12) enrolled in public ordinary schools.
- A *health share* (27 per cent) based on a combination of a risk-adjusted capitation index for the population, which takes into account the health risks associated with the demographic profile of the population and the relative share of case loads in hospitals. The risk-adjusted capitation index is given a 75 per cent weighting and the case load (output component) is given a 25 per cent weighting.
- A *basic share* (16 per cent) derived from each province's share of the national population.
- An *institutional component* (5 per cent) divided equally between the provinces.
- A *poverty component* (3 per cent) reinforcing the redistributive bias of the formula.
- An *economic output component* (1 per cent) based on GDP-R data.

#### *Education component*

The education component is intended to enable provinces to fund school education, which amounts to about 90 per cent of provincial education spending. The formula uses school-age population (5-17), based on Census 2001, and actual enrolment data drawn from the 2011 Education School Realities to reflect relative demand for education, with each element assigned a weight of 50 per cent. Table W1.10 shows the impact of data updates on the education component shares.

**Table W1.10 Impact of changes in school enrolment on the education component shares**

Learner numbers	Age cohort 5 - 17	School enrolment		Changes in enrolment	Weighted average		Difference in weighted average
		2010	2011		2011 MTEF	2012 MTEF	
Eastern Cape	2 151 992	2 052 386	1 963 578	-88 808	16.7%	16.3%	-0.38%
Free State	760 486	654 704	658 010	3 306	5.6%	5.6%	0.01%
Gauteng	1 931 719	1 974 066	2 017 931	43 865	15.5%	15.7%	0.16%
KwaZulu-Natal	3 013 243	2 806 988	2 847 378	40 390	23.1%	23.2%	0.14%
Limpopo	1 798 862	1 706 401	1 695 524	-10 877	13.9%	13.9%	-0.06%
Mpumalanga	1 074 972	1 036 432	1 046 551	10 119	8.4%	8.4%	0.03%
Northern Cape	280 975	269 392	274 745	5 353	2.2%	2.2%	0.02%
North West	826 218	759 114	765 120	6 006	6.3%	6.3%	0.02%
Western Cape	1 094 565	1 000 616	1 015 038	14 422	8.3%	8.4%	0.05%
<b>Total</b>	<b>12 933 032</b>	<b>12 260 099</b>	<b>12 283 875</b>	<b>23 776</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

*Health component*

A new health component for the provincial equitable share formula was adopted in 2010 and implemented in the 2011 division of revenue. The 2011 Annexure W1 explained how the new health component is calculated and the rationale for introducing it. The new health component will be refined as more data on the public health sector becomes available and data quality improves.

The health component is presented in three parts below. Table W1.11 shows the shares of the risk-adjusted component, which accounts for 75 per cent of the health component.

**Table W1.11 Risk-adjusted sub-component shares (Health component)**

Thousand	Mid-year population estimates	Insured population	Risk-adjusted index	Weighted population	Risk-adjusted weighted shares		Difference in weighted shares
	2011	2010	2011		2011 MTEF	2012 MTEF	
Eastern Cape	6 830	11.8%	96.9%	5 838	13.9%	14.0%	0.06%
Free State	2 760	17.4%	103.3%	2 354	6.1%	5.6%	-0.44%
Gauteng	11 328	26.6%	105.4%	8 772	20.1%	21.0%	0.91%
KwaZulu-Natal	10 819	14.1%	98.9%	9 192	21.9%	22.0%	0.14%
Limpopo	5 555	8.7%	91.6%	4 650	10.7%	11.1%	0.49%
Mpumalanga	3 657	14.0%	95.7%	3 012	7.4%	7.2%	-0.15%
Northern Cape	1 097	14.5%	100.7%	944	2.4%	2.3%	-0.19%
North West	3 253	14.2%	102.2%	2 854	7.4%	6.8%	-0.51%
Western Cape	5 288	25.0%	104.0%	4 129	10.2%	9.9%	-0.31%
<b>Total</b>	<b>50 587</b>			<b>41 743</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

The risk-adjusted sub-component estimates a weighted population in each province using the risk-adjusted capitation index, which is calculated using data from the Council for Medical Aid Scheme's Risk Equalisation Fund. The percentage of the population with medical aid insurance, as per the 2010 General Household Survey, is deducted from the 2011 mid-year population estimates to estimate the uninsured population per province. The risk-adjusted index, which is an index of the health risk profile of each province, is applied to this uninsured population to estimate the weighted population. Each province's share of this weighted population is used to estimate their share of the risk-adjusted sub-component. Table W1.11 shows the change in this sub-component between 2011 and 2012. In total, the risk-adjusted component is weighted at 75 per cent of the health component.

Table W1.12 shows the output sub-component using data from the District Health Information Services (DHIS).

**Table W1.12 Output sub-component shares (Health component)**

	Primary health care visits				Hospital workload patient-day equivalents			
	2009/10	2010/11	Average	Share	2009/10	2010/11	Average	Share
Eastern Cape	18 604	17 556	18 080	15.0%	4 571	4 525	4 548	14.6%
Free State	6 538	6 598	6 568	5.4%	1 591	1 617	1 604	5.2%
Gauteng	19 623	20 216	19 920	16.5%	6 106	5 968	6 037	19.4%
KwaZulu-Natal	26 332	26 151	26 242	21.7%	8 906	7 982	8 444	27.1%
Limpopo	15 132	13 972	14 552	12.1%	2 765	2 681	2 723	8.7%
Mpumalanga	7 961	8 029	7 995	6.6%	1 714	1 724	1 719	5.5%
Northern Cape	3 451	3 472	3 461	2.9%	523	507	515	1.7%
North West	8 335	8 025	8 180	6.8%	1 518	1 550	1 534	4.9%
Western Cape	15 791	15 643	15 717	13.0%	4 076	3 941	4 008	12.9%
<b>Total</b>	<b>121 768</b>	<b>119 663</b>	<b>120 715</b>	<b>100.0%</b>	<b>31 770</b>	<b>30 494</b>	<b>31 132</b>	<b>100.0%</b>

In the 2011 division of revenue, normative costings derived from government's Basic Accounting System and the DHIS were used to weight primary health care visits and patient-day equivalents. The weighted visits were combined to estimate the output component. For the 2012 division of revenue, the output sub-component still uses patient load data from the DHIS. The average number of clinic visits at primary health care clinics in 2009/10 and 2010/11 is calculated. Each province's average is used to estimate their share of this part of the output component, making up 5 per cent of the health component. For hospitals, each province's share of the total patient-day equivalents from public hospitals in 2009/10 and 2010/11 are used to estimate their share of this part of the output sub-component, making up 20 per cent of the health component. In total, the output component is 25 per cent of the health component. This new approach still applies a ratio to weight primary health care visits to patient-day equivalents, but it is simpler and more transparent than the method used in 2011.

Table W1.13 shows the updated health component shares for 2012.

**Table W1.13 Health component weighted shares**

	Risk-adjusted	Primary health care	Hospital component	2011 MTEF weighted shares	2012 MTEF weighted shares	Difference in weighted shares
<b>Weight</b>	<b>75%</b>	<b>5%</b>	<b>20%</b>			
Eastern Cape	14.0%	15.0%	14.6%	14.1%	14.2%	0.01%
Free State	5.6%	5.4%	5.2%	5.9%	5.5%	-0.41%
Gauteng	21.0%	16.5%	19.4%	20.2%	20.5%	0.30%
KwaZulu-Natal	22.0%	21.7%	27.1%	22.4%	23.0%	0.66%
Limpopo	11.1%	12.1%	8.7%	10.6%	10.7%	0.15%
Mpumalanga	7.2%	6.6%	5.5%	7.0%	6.8%	-0.18%
Northern Cape	2.3%	2.9%	1.7%	2.3%	2.2%	-0.16%
North West	6.8%	6.8%	4.9%	7.0%	6.5%	-0.52%
Western Cape	9.9%	13.0%	12.9%	10.5%	10.6%	0.15%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

### *Poverty component*

The poverty component introduces a redistributive element within the formula and is assigned a weight of 3 per cent. The poor population includes people who fall in the first two quintiles of household incomes in the 2005 Income and Expenditure Survey (IES). The estimated size of the poor population in each province is calculated by multiplying the proportion in that province from the IES by the population figure from the 2011 mid-year population estimates. Table W1.14 shows the poverty quintiles of the IES, the mid-year population estimates and the weighted share of the poverty component per province.

**Table W1.14 Comparison of current and new poverty component weighted shares**

	IES Survey 2005 (Q1+Q2)	Current (2011 MTEF)			New (2012 MTEF)			Difference in weighted shares
		Basic component value	Poor population (000)	Weighted shares	Basic component value	Poor population (000)	Weighted shares	
Eastern Cape	49.8%	6 744	3 361	16.7%	6 830	3 404	16.7%	0.01%
Free State	41.7%	2 825	1 178	5.9%	2 760	1 151	5.7%	-0.20%
Gauteng	28.1%	11 192	3 147	15.7%	11 328	3 186	15.7%	-0.00%
KwaZulu-Natal	43.2%	10 646	4 596	22.9%	10 819	4 671	23.0%	0.09%
Limpopo	52.9%	5 440	2 875	14.3%	5 555	2 936	14.4%	0.13%
Mpumalanga	47.7%	3 618	1 725	8.6%	3 657	1 744	8.6%	-0.01%
Northern Cape	44.9%	1 104	496	2.5%	1 097	493	2.4%	-0.05%
North West	46.9%	3 201	1 502	7.5%	3 253	1 527	7.5%	0.03%
Western Cape	23.1%	5 224	1 206	6.0%	5 288	1 221	6.0%	0.00%
<b>Total</b>		<b>49 991</b>	<b>20 087</b>	<b>100.0%</b>	<b>50 587</b>	<b>20 332</b>	<b>100.0%</b>	<b>-</b>

*Economic activity component*

The economic activity component is a proxy for provincial tax capacity and expenditure assignments. Given that these assignments are a relatively small proportion of provincial budgets, the component is assigned a weight of 1 per cent. For the 2012 MTEF, 2009 GDP-R data is used. Table W1.15 shows the impact of the revised weighted shares of the economic activity component. The right-hand column shows changes as a result of relative growth of provincial contributions to GDP.

**Table W1.15 Current and new economic activity component weighted shares**

	Current (2011 MTEF)		New (2012 MTEF)		Difference in weighted shares
	GDP-R, 2008 (R million)	Weighted shares	GDP-R, 2009 (R million)	Weighted shares	
Eastern Cape	170 502	7.5%	182 147	7.6%	0.14%
Free State	119 317	5.2%	130 973	5.5%	0.24%
Gauteng	755 391	33.1%	811 907	33.9%	0.81%
KwaZulu-Natal	373 662	16.4%	384 937	16.1%	-0.30%
Limpopo	164 150	7.2%	168 506	7.0%	-0.15%
Mpumalanga	172 587	7.6%	169 973	7.1%	-0.46%
Northern Cape	52 681	2.3%	54 917	2.3%	-0.01%
North West	148 219	6.5%	156 374	6.5%	0.04%
Western Cape	327 314	14.3%	336 234	14.0%	-0.30%
<b>Total</b>	<b>2 283 822</b>	<b>100.0%</b>	<b>2 395 967</b>	<b>100.0%</b>	<b>-</b>

*Institutional component*

The institutional component recognises that some costs associated with running a provincial government and providing services are not directly related to the size of a province's population or the other factors included in other components. It is therefore distributed equally between provinces. It constitutes 5 per cent of the total equitable share, of which each province receives 11.1 per cent. This component benefits provinces with smaller populations, especially the Northern Cape and the North West, as the allocation per person is much higher in this component.

*Basic component*

The basic component is derived from the proportion of each province's share of the national population. This component constitutes 16 per cent of the total equitable share. For the 2012 MTEF,

population data is drawn from the 2011 mid-year population estimates. Table W1.16 shows the impact of the revised weighted shares of the basic component.

**Table W1.16 Impact of the changes in population on the basic component shares**

Population (thousand)	Mid-year population estimates		Population change	% population change	Basic component shares		Difference in shares
	2010	2011			2011 MTEF	2012 MTEF	
Eastern Cape	6 744	6 830	86	1.3%	13.5%	13.5%	0.01%
Free State	2 825	2 760	-65	-2.3%	5.7%	5.5%	-0.19%
Gauteng	11 192	11 328	136	1.2%	22.4%	22.4%	0.01%
KwaZulu-Natal	10 646	10 819	174	1.6%	21.3%	21.4%	0.09%
Limpopo	5 440	5 555	115	2.1%	10.9%	11.0%	0.10%
Mpumalanga	3 618	3 657	40	1.1%	7.2%	7.2%	-0.01%
Northern Cape	1 104	1 097	-7	-0.7%	2.2%	2.2%	-0.04%
North West	3 201	3 253	53	1.6%	6.4%	6.4%	0.03%
Western Cape	5 224	5 288	64	1.2%	10.4%	10.5%	0.00%
<b>Total</b>	<b>49 991</b>	<b>50 587</b>	<b>595</b>	<b>1.2%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>-</b>

### Conditional grants to provinces

There are four types of provincial conditional grants. Schedule 4 sets out general grants that supplement various programmes partly funded by provinces, such as infrastructure and central hospitals. Transfer and spending accountability arrangements differ, as more than one national or provincial department may be responsible for different outputs. Schedule 5 grants fund-specific responsibilities for both the transferring and receiving of provincial accounting officers. A schedule 7 grant provides allocations-in-kind through which a national department implements projects directly in provinces. A schedule 8 grant, introduced in 2011/12, provides for the swift allocation and transfer of funds to a province to help it deal with a disaster.

#### *Changes to conditional grants*

Given the constrained and uncertain economic outlook, government decided to find savings from existing baselines to fund key government priorities. As a result, the baselines of most conditional grants have been revised downward. Table W1.17 shows the savings made on provincial conditional grants to make resources available for government priorities.

**Table W1.17 Savings effected on provincial conditional grants**

R million	2012/13	2013/14	2014/15	Total for MTEF
<b>Agriculture, Forestry and Fisheries</b>	<b>-15.7</b>	<b>-18.4</b>	<b>-35.9</b>	<b>-70.1</b>
Comprehensive agricultural support programme	-11.5	-13.8	-26.9	-52.2
Ilima/Letsema projects	-4.2	-4.6	-9.1	-17.9
<b>Arts and Culture</b>	<b>-6.2</b>	<b>-4.4</b>	<b>-6.7</b>	<b>-17.3</b>
Community library services	-6.2	-4.4	-6.7	-17.3
<b>Basic Education</b>	<b>-203.4</b>	<b>-189.7</b>	<b>-349.8</b>	<b>-743.0</b>
Dinaledi schools	-0.3	-0.3	-0.6	-1.3
Education infrastructure	-180.2	-168.0	-309.3	-657.5
HIV and Aids (life skills education)	-0.6	-0.7	-1.4	-2.7
National school nutrition programme	-21.6	-20.1	-37.2	-78.8
Technical secondary schools recapitalisation	-0.6	-0.7	-1.4	-2.7
<b>Health</b>	<b>-504.9</b>	<b>-375.6</b>	<b>-389.7</b>	<b>-1 270.1</b>
Comprehensive HIV and Aids	-61.8	-72.8	-131.7	-266.3
Health infrastructure	-100.0	-50.0	–	-150.0
Hospital revitalisation	-282.3	-183.9	-123.6	-589.9
National tertiary services	-60.8	-68.9	-134.3	-264.0
<b>Higher Education and Training</b>	<b>–</b>	<b>–</b>	<b>-18.3</b>	<b>-18.3</b>
Further education and training colleges	–	–	-18.3	-18.3
<b>Human Settlements</b>	<b>-168.2</b>	<b>-172.5</b>	<b>-336.5</b>	<b>-677.3</b>
Human settlements development	-168.2	-172.5	-336.5	-677.3
<b>Public Works</b>	<b>-19.4</b>	<b>-38.9</b>	<b>-48.6</b>	<b>-106.8</b>
Devolution of property rate funds	-19.4	-38.9	-48.6	-106.8
<b>Sport and Recreation South Africa</b>	<b>-4.9</b>	<b>-3.1</b>	<b>-5.1</b>	<b>-13.1</b>
Mass participation and sport development	-4.9	-3.1	-5.1	-13.1
<b>Transport</b>	<b>-119.3</b>	<b>-134.8</b>	<b>-263.0</b>	<b>-517.1</b>
Provincial roads maintenance	-75.7	-86.6	-168.9	-331.2
Public transport operations	-43.6	-48.2	-94.1	-185.9
<b>Total savings created</b>	<b>-1 042.1</b>	<b>-937.3</b>	<b>-1 453.6</b>	<b>-3 433.0</b>

Table W1.18 shows the revisions to provincial conditional grants, which provide for technical, policy and inflation adjustments. After accounting for the savings shown in Table W1.17 and shifts from provincial conditional grants, net revisions to conditional grant baseline allocations (R706 million in 2012/13, R1.5 billion in 2013/14 and R2.2 billion in 2014/15, or R4.4 billion over the MTEF) bring the new conditional grant baselines to R75.4 billion in 2012/13, R82.2 billion in 2013/14 and R87.7 billion in 2014/15.

**Table W1.18 Revisions to provincial conditional grant baseline allocations,  
2012/13 – 2014/15<sup>1</sup>**

R million	2012/13	2013/14	2014/15	2012 MTEF
<b>Technical revisions</b>	<b>-57</b>	<b>-68</b>	<b>-73</b>	<b>-198</b>
<b>Health</b>	–	–	–	–
Health infrastructure	-100	-150	-200	-450
<i>Revised to:</i>				
Nursing colleges and schools	100	150	200	450
<b>Public Works</b>	<b>-57</b>	<b>-68</b>	<b>-73</b>	<b>-198</b>
Expanded public works programme integrated grant for provinces	-32	-40	-42	-115
Social sector expanded public works programme incentive grant for province	-24	-28	-30	-83
<b>Additions to baseline</b>	<b>1 805</b>	<b>2 530</b>	<b>3 742</b>	<b>8 076</b>
<b>Agriculture, Forestry and Fisheries</b>	<b>398</b>	<b>299</b>	<b>298</b>	<b>995</b>
Comprehensive agricultural support programme	398	299	298	995
<b>Basic Education</b>	<b>119</b>	<b>159</b>	–	<b>278</b>
Education infrastructure	119	159	–	278
<b>Health</b>	<b>450</b>	<b>950</b>	<b>2 318</b>	<b>3 718</b>
Comprehensive HIV and Aids	–	–	1 100	1 100
Hospital revitalisation	50	300	368	718
National health insurance	150	350	500	1 000
National tertiary services	250	300	350	900
<b>Higher Education and Training</b>	<b>52</b>	<b>55</b>	<b>58</b>	<b>166</b>
Further education and training colleges	52	55	58	166
<b>Human Settlements</b>	<b>295</b>	<b>699</b>	<b>700</b>	<b>1 694</b>
Human settlements development	295	699	700	1 694
<b>Transport</b>	<b>490</b>	<b>368</b>	<b>367</b>	<b>1 225</b>
Provincial roads maintenance	490	368	367	1 225
<b>Net technical additions to baseline</b>	<b>1 748</b>	<b>2 461</b>	<b>3 669</b>	<b>7 878</b>
Less savings effected on conditional grants	-1 042	-937	-1 454	-3 433
<b>Net additions to baselines</b>	<b>706</b>	<b>1 524</b>	<b>2 215</b>	<b>4 445</b>

1. Some national shifts and savings are not recorded in provincial conditional grant baselines

Table W1.19 provides a summary of conditional grants by sector for the 2012 MTEF. More detailed information, including the framework and allocation criteria for each grant, is provided in Annexure W2 of the 2012 Division of Revenue Bill. The frameworks provide the conditions for each grant, the outputs expected, the allocation criteria used for dividing each grant between provinces, a summary of the audit outcome for 2010/11 and any other material issues to be addressed.

**Table W1.19 Conditional grants to provinces, 2011/12 – 2014/15**

R million	2011/12 Revised estimate	2012/13	2013/14	2014/15	Total for MTEF
<b>Agriculture, Forestry and Fisheries</b>	<b>1 652</b>	<b>2 066</b>	<b>2 147</b>	<b>2 194</b>	<b>6 407</b>
Comprehensive agricultural support programme <sup>1</sup>	1 189	1 535	1 600	1 665	4 800
Ilima/Letsema projects	405	416	438	461	1 315
Land care programme: Poverty relief and infrastructure development	58	116	109	68	292
<b>Arts and Culture</b>	<b>570</b>	<b>565</b>	<b>598</b>	<b>632</b>	<b>1 794</b>
Community library services	570	565	598	632	1 794
<b>Basic Education</b>	<b>10 737</b>	<b>11 247</b>	<b>11 923</b>	<b>12 321</b>	<b>35 491</b>
Dinaledi schools	70	100	105	111	316
Education infrastructure <sup>1</sup>	5 678	5 822	6 198	6 270	18 290
HIV and Aids (life skills education)	199	209	220	233	661
National school nutrition programme	4 579	4 906	5 179	5 474	15 559
Technical secondary schools recapitalisation	211	209	221	233	664
<b>Cooperative Governance and Traditional Affairs</b>	<b>–</b>	<b>180</b>	<b>190</b>	<b>201</b>	<b>571</b>
Provincial disaster	–	180	190	201	571
<b>Health</b>	<b>23 877</b>	<b>25 692</b>	<b>28 750</b>	<b>31 794</b>	<b>86 235</b>
Comprehensive HIV and Aids	7 398	8 763	10 534	12 211	31 508
Forensic pathology services	590	–	–	–	–
Health infrastructure	1 690	1 621	1 721	1 836	5 179
Health professions training and development	1 977	2 076	2 190	2 322	6 588
Hospital revitalisation	4 172	4 104	4 184	4 556	12 844
National health insurance	–	150	350	500	1 000
National tertiary services	8 049	8 878	9 620	10 168	28 667
Nursing colleges and schools	–	100	150	200	450
<b>Higher Education and Training</b>	<b>4 375</b>	<b>4 757</b>	<b>5 318</b>	<b>5 618</b>	<b>15 693</b>
Further education and training colleges	4 375	4 757	5 318	5 618	15 693
<b>Human Settlements</b>	<b>15 122</b>	<b>15 726</b>	<b>16 984</b>	<b>17 808</b>	<b>50 518</b>
Human settlements development <sup>1</sup>	15 122	15 726	16 984	17 808	50 518
<b>National Treasury</b>	<b>1 090</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Infrastructure grant to provinces	1 090	–	–	–	–
<b>Public Works</b>	<b>2 161</b>	<b>2 429</b>	<b>2 671</b>	<b>2 824</b>	<b>7 924</b>
Devolution of property rate funds	1 803	1 919	2 052	2 168	6 138
Expanded public works programme integrated grant for provinces	157	293	362	383	1 038
Social sector expanded public works programme incentive grant for provinces	200	217	258	273	748
<b>Sport and Recreation South Africa</b>	<b>452</b>	<b>470</b>	<b>498</b>	<b>526</b>	<b>1 493</b>
Mass participation and sport development	452	470	498	526	1 493
<b>Transport</b>	<b>10 856</b>	<b>12 299</b>	<b>13 093</b>	<b>13 736</b>	<b>39 128</b>
Gautrain rapid rail link	5	–	–	–	–
Provincial roads maintenance <sup>1</sup>	6 697	7 982	8 540	8 953	25 475
Public transport operations	4 153	4 317	4 553	4 783	13 652
<b>Total conditional grants</b>	<b>70 891</b>	<b>75 430</b>	<b>82 171</b>	<b>87 653</b>	<b>245 255</b>
<b>Indirect transfers</b>	<b>700</b>	<b>2 315</b>	<b>5 189</b>	<b>5 500</b>	<b>13 004</b>
School infrastructure backlogs	700	2 315	5 189	5 500	13 004

1. Includes funding for disasters

### *Agriculture grants*

The *comprehensive agricultural support programme* aims to provide support for newly established and emerging farmers. Included in this grant is the extension recovery programme, which focuses on improving extension services through training programmes and providing equipment for extension officers. The grant also aims to expand farm infrastructure and provide support for dipping, fencing and rehabilitation of viable irrigation schemes. From 2012/13, provinces will be required to use this grant to support government's Zero Hunger programme and ensure supported farmers sell their produce to government institutions, such as schools and hospitals. Provinces will be required to implement a standard operating procedure for farmer support to improve responsiveness to the needs of emerging farmers. Provincial departments will interact with commodity groups and other private-sector role-players, as well as the non-profit sector, when finalising terms of support for farmers. The Department of Agriculture, Forestry and Fisheries will work with the Department of Rural Development and Land Reform to ensure this new approach improves alignment between the products offered by the two departments. A total of R995 million is added to this conditional grant to repair flood damage to agricultural infrastructure in January and February 2011.

The *land care programme grant: poverty relief and infrastructure development* aims to improve productivity and sustainable use of natural resources. Provinces are encouraged to use this grant to create jobs through the expanded public works programme. Over the medium term, R292 million is allocated to this grant.

The *Ilima/Letsema projects grant* is intended to boost food production. The grant aims to assist previously disadvantaged farming communities to increase agricultural production. After the Department of Agriculture, Forestry and Fisheries has tested the new approach, it will make this grant subject to the standard operating procedure for farmer support. This grant is allocated R1.3 billion over the MTEF.

### *Arts and culture grant*

The *community library services grant* is administered by the Department of Arts and Culture. The grant aims to help South Africans' access knowledge and information, so that their socioeconomic situation can be improved. The grant is allocated to the relevant provincial department and either administered by that department or through a service-level agreement with municipalities. This grant is allocated R1.8 billion over the MTEF.

### *Basic education grants*

The *school infrastructure backlogs grant* was introduced in 2011 as a short-term, high-impact grant to address backlogs in inappropriate structures and access to basic services during the 2011 MTEF. Over the 2012 MTEF, the grant is allocated R13 billion.

The *education infrastructure grant* is earmarked for infrastructure expenditure needs in provinces. This grant is used by provinces for maintenance, refurbishment and the construction of new education infrastructure and schools. Best-practice planning principles required by the Construction Industry Development Board will be implemented through this grant. The grant is allocated R18.3 billion over the MTEF, which includes R278 million in the first two years for repair of school infrastructure damaged by floods in 2011. The Department of Basic Education will coordinate the implementation of the above two infrastructure grants to ensure provinces manage their entire education asset stock efficiently and effectively. The success of these grants lies in procurement practices that facilitate the packaging of many small projects into single large projects to accelerate delivery.

The *national school nutrition programme* seeks to improve the nutrition of poor school children, enhance active learning capacity and improve attendance in schools. This grant is allocated R15.6 billion over the MTEF.

The *technical secondary schools recapitalisation grant* provides for equipment and facilities in technical high schools. Provision is made for this grant to extend to 2014/15 in response to the growing need to recapitalise technical schools identified in provincial needs assessments. This grant is allocated R664 million over the MTEF.

The *Dinaledi schools grant* started in 2011/12 and supports Dinaledi schools to improve teaching in mathematics and physical science. Dinaledi schools are schools in disadvantaged communities that perform well in mathematics and science. The grant is allocated R316 million over the MTEF.

The *HIV and Aids (life skills education) grant* provides for life skills training, sexuality and HIV and Aids education in primary and secondary schools and is fully integrated into the school system, with learner and teacher support material provided for grades 1 to 9. This grant is allocated R661 million over the MTEF.

#### *Cooperative governance grants*

The *provincial disaster grant* was introduced in the 2011 MTEF and is allocated to the National Disaster Management Centre in the Department of Cooperative Governance as an unallocated grant to provincial government. Special provisions were introduced in the 2011 Division of Revenue Act for this grant that enable the National Disaster Management Centre to disburse disaster response funds immediately after a disaster is declared, without the need for the transfers to first be gazetted. Over the MTEF, R571 million is available for disbursement through this grant.

#### *Health grants*

The *national tertiary services grant* provides strategic funding to enable provinces to plan, modernise and transform tertiary hospital service delivery in line with national policy objectives. The grant operates in 22 hospitals across the nine provinces, concentrated in urban Gauteng and the Western Cape. As a result, these provinces receive the largest shares of the grant as they provide the largest proportion of these high-level, sophisticated services for the benefit of the health sector countrywide. Over the MTEF, R900 million is added to the *national tertiary services grant* in recognition that provinces with large tertiary services bear a larger proportion of the wage agreements for health-sector employees. This grant is allocated R28.7 billion over the MTEF.

The *health infrastructure grant* funds general maintenance and infrastructure needs at smaller hospitals and clinics. National Treasury and the Department of Health have joint capacity-building programmes funded through this grant to support provinces' implementation of best-practice planning and project implementation processes. The baseline of this grant has been reduced to make resources available for the *nursing colleges and schools grant*. The *health infrastructure grant* is allocated R5.2 billion over the MTEF.

The *hospital revitalisation grant* supports large projects that modernise infrastructure and equipment in hospitals. It remains separate to the *health infrastructure grant* to enable the Department of Health to manage projects funded through this grant closely. An amount of R718 million has been added over the 2012 MTEF for major infrastructure projects involving public-private partnerships. This grant is allocated R12.8 billion over the MTEF.

The *health professions training and development grant* funds the training of health professionals, and the development and recruitment of medical specialists. It enables the shifting of teaching activities from central to regional and district hospitals. This grant is allocated R6.6 billion over the medium term.

The *comprehensive HIV and Aids grant* enables the health sector to develop a response to HIV and Aids. In addition to prevention programmes, the grant supports specific interventions, including voluntary counselling and testing, prevention of mother-to-child transmission, post-exposure prophylaxis, antiretroviral treatment and home-based care. In addition to substantial increases to this grant and the provincial equitable share over the 2010 and 2011 MTEF for HIV and Aids

programmes, a further R1.1 billion is added to this grant over the 2012 MTEF to fund the higher-than-expected demand for antiretroviral treatment due to the lowering of the CD4 count threshold. This brings the baseline over the MTEF to R31.5 billion.

The *nursing colleges and schools grant* is a new grant that will fund the refurbishment and upgrading of nursing colleges and schools. The Department of Health will play a more active role in the planning, packaging and procurement of projects funded through this grant than it does in other infrastructure grants. This grant is allocated R450 million over the 2012 MTEF.

The *national health insurance grant* will fund national health insurance pilots. These pilot projects aim to strengthen primary health care for the implementation of national health insurance, and improve revenue collection and management in selected central hospitals. The pilots will test the feasibility of policy proposals and delivery models, such as district-based clinical specialist support teams, school-based primary health care services, municipal ward-based primary health care agents, general practitioner services and primary care clinic and allied health professional services. Ten district health authorities have been selected as pilot sites to test interventions that aim to strengthen health systems and improve performance, develop models to set up district health authorities as contracting agents, enhance primary health care service packages and improve referral systems and innovative models for districts to work with private providers. Seven central hospitals have been selected as intervention sites. Over the 2012 MTEF, R1 billion has been allocated to this grant.

#### *Higher education and training grants*

The *further education and training colleges grant* was introduced in 2010/11 to protect spending on these colleges by provinces while the legislative processes required to shift this function to national government are completed. Although progress has been made, this process is not yet complete. Over the MTEF, R166 million is added to this grant to cover the cost of wage agreements, bringing the total value of this grant to R15.7 billion.

#### *Human settlements grants*

The *human settlements development grant* facilitates the establishment of habitable, stable and sustainable human settlements in which all citizens have access to social and economic amenities. Over the 2011 MTEF, a portion of this grant was added to the new *urban settlements development grant*, which goes to the eight metros for internal infrastructure. As more municipalities with large urban centres are able to take on these responsibilities, they will join the *urban settlements development grant* and their portion of the *human settlements development grant* will be transferred. This should accelerate the eradication and formalisation of informal settlements. In cases where municipalities are accredited in terms of the Housing Act (1997), the municipalities will receive their *human settlements development grant* funds directly from national government. A total of R1.1 billion has been added to the *human settlements development grant* over the MTEF to address the eradication of informal settlements and R594 million has been added to repair infrastructure damaged by floods.

#### *Public works grants*

The *devolution of property rate funds grant* enables provinces to take over the responsibility of paying property rates and municipal charges on properties that were administered by national government on their behalf. When all provinces have full records of their properties and liabilities for municipal rates, consideration will be given to phasing the grant into the provincial equitable share. This grant is allocated R6.1 billion over the 2012 MTEF.

The *expanded public works programme integrated grant for provinces* has been revised – the incentive will now be based on meeting job targets in the preceding financial year rather than in-year performance. Transfers will depend on provincial departments reporting on jobs created on the

expanded public works programme system and implementing labour-intensive projects. This grant is allocated R1 billion over the MTEF.

The *social sector expanded public works programme incentive grant* is also an incentive grant based on meeting job creation targets in the preceding financial year. This grant rewards provinces for creating jobs in the provision of home-based care and early childhood development. This grant is allocated R748 million over the MTEF.

#### *Sports and Recreation South Africa grants*

The *mass participation and sport development grant* aims to increase and sustain mass participation in sport and recreational activities in provinces. This grant is allocated R1.5 billion over the MTEF.

#### *Transport grants*

The *public transport operations grant* subsidises commuter bus services. The payment of bus subsidies to operators was previously funded through an agency arrangement between national and provincial government. This grant enables government to take greater responsibility in ensuring contractual obligations are met. This grant will amount to R13.7 billion over the MTEF.

The *provincial roads maintenance grant* enables provinces to expand their maintenance activities and to cover the cost of rehabilitation work created by coal haulage activities in Mpumalanga and Gauteng. The grant requires provinces to follow best-planning practices according to road asset management systems and to keep these systems updated regularly. A total of R1.2 billion has been added to this grant for the repair of infrastructure damaged by floods in January and February 2011. This grant is allocated R25.5 billion over the MTEF.

## **Part 5: Local government fiscal framework and allocations**

The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere of government. The local government fiscal framework refers to all resources available to municipalities to meet their expenditure responsibilities. National transfers account for only a relatively small proportion of the local government fiscal framework, with the majority of local government revenues being raised by municipalities themselves through their substantial revenue-raising powers, including property rates and service charges. However, the proportion of revenue coming from transfers and own revenues varies dramatically across municipalities, with poor rural municipalities receiving most of their revenue from transfers, while urban municipalities raise the majority of their own revenues. Although transfers from national government have helped fund significant improvements in overcoming the service disparities of the past, large backlogs remain.

The transfers outlined here are distributed among municipalities to best respond to their different needs. In recent years, adjustments have been made to increase allocations to poor rural municipalities and to restructure funding to upgrade informal settlements in growing metropolitan municipalities. This differentiation in the way municipalities are funded will continue in the period ahead.

This section outlines the transfers made to local government and how these funds are distributed between municipalities. Funds raised by national government are transferred to municipalities through conditional and unconditional grants. National transfers to municipalities are published to enable them to plan fully for their 2012 budgets, and to promote better accountability and transparency by ensuring that all national allocations are included in municipal budgets.

## Changes to local government allocations

Given the constrained and uncertain economic outlook, government will use savings from existing baselines to fund key government priorities. As a result, the baselines of most conditional grants have been revised downward. Table W1.20 shows the savings made on local government conditional grants to make resources available. No savings were made on the local government equitable share.

**Table W1.20 Savings effected on direct and indirect transfers to local government, 2012/13 – 2014/15**

	2012/13	2013/14	2014/15	2012 MTEF Total revisions
<b>R million</b>				
<b>Direct conditional grants</b>	<b>-64.6</b>	<b>-72.8</b>	<b>-142.0</b>	<b>-279.4</b>
<b>Infrastructure transfers</b>	<b>-63.4</b>	<b>-71.5</b>	<b>-139.5</b>	<b>-274.4</b>
Municipal infrastructure grant	-32.5	-35.9	-70.1	-138.5
Urban settlements development grant	-17.3	-19.9	-38.8	-76.0
Public transport infrastructure and systems grant	-11.7	-13.6	-26.6	-51.9
Neighbourhood development partnership grant	-1.9	-2.0	-3.8	-7.6
Rural transport services and infrastructure grant	-0.1	-0.1	-0.2	-0.4
<b>Recurrent transfers</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-2.5</b>	<b>-4.9</b>
Financial management grant	-1.1	-1.3	-2.5	-4.9
<b>Indirect conditional grants</b>	<b>-2.7</b>	<b>-3.0</b>	<b>-5.8</b>	<b>-11.5</b>
Integrated national electrification programme	-2.7	-3.0	-5.8	-11.5
<b>Total</b>	<b>-67.2</b>	<b>-75.8</b>	<b>-147.8</b>	<b>-290.8</b>

Table W1.21 outlines all of the technical revisions and additions to local government allocations for the 2012 MTEF.

**Table W1.21 Revisions to direct and indirect transfers to local government, 2012/13 – 2014/15**

	2012/13	2013/14	2014/15	2012 MTEF Total revisions
<b>R million</b>				
<b>Technical adjustments</b>	<b>141</b>	<b>46</b>	<b>-130</b>	<b>57</b>
<b>Direct transfers</b>	<b>-123</b>	<b>-278</b>	<b>-58</b>	<b>-458</b>
Municipal infrastructure grant	–	–	274	274
Neighbourhood development partnership grant	-220	-200	-253	-673
Expanded public works programme incentive grant	-66	-78	-82	-226
Financial management grant	-75	-100	-106	-281
Infrastructure skills development grant	75	100	106	281
Water services operating subsidy grant	163	–	3	167
<b>Indirect transfers</b>	<b>264</b>	<b>323</b>	<b>-72</b>	<b>516</b>
Regional bulk infrastructure grant	132	139	149	420
Rural households infrastructure grant	–	-128	-548	-677
Water services operating subsidy grant	133	313	328	773
<b>Additions to baselines</b>	<b>882</b>	<b>2 498</b>	<b>4 547</b>	<b>7 926</b>
<b>Direct transfers</b>	<b>500</b>	<b>1 891</b>	<b>3 651</b>	<b>6 042</b>
Equitable share	300	621	1 281	2 202
Urban settlements development grant	–	970	1 970	2 940
Integrated national electrification programme	–	100	200	300
Electricity demand side management grant	200	200	200	600
<b>Indirect transfers</b>	<b>382</b>	<b>606</b>	<b>896</b>	<b>1 884</b>
Regional bulk infrastructure grant	382	606	896	1 884

When the cumulative effect of the savings to fund national priorities, technical revisions and additions to baselines are taken together, the value of transfers to local government increases by R7.7 billion over the MTEF. Of this, R5.3 billion is added to direct transfers and R2.4 billion will be administered by national departments as indirect transfers.

**Table W1.22 Net changes to direct and indirect transfers to local government, 2012/13– 2014/15**

	2012/13	2013/14	2014/15	2012 MTEF Total revisions
<b>R million</b>				
<b>Total of revisions to baselines</b>	<b>1 023</b>	<b>2 544</b>	<b>4 417</b>	<b>7 984</b>
Direct transfers	377	1 614	3 593	5 584
Indirect transfers	646	930	824	2 400
<b>Less</b>				
Total savings to fund government priorities	<b>-66</b>	<b>-74</b>	<b>-144</b>	<b>-284</b>
Direct transfers	-65	-73	-142	-279
Indirect transfers	-1	-1	-3	-5
<b>Net additions to baselines</b>	<b>957</b>	<b>2 470</b>	<b>4 273</b>	<b>7 700</b>
Direct transfers	312	1 541	3 451	5 305
Indirect transfers	645	928	821	2 395

### Transfers to local government

Over the 2012 MTEF, R251.9 billion will be transferred directly to local government and a further R16.6 billion has been allocated to indirect grants. Direct transfers to local government in 2012/13 account for 8.8 per cent of national government's non-interest expenditure. When indirect transfers are added to this, total spending on local government rises to 9.4 per cent of national non-interest expenditure. The value of direct transfers to local government grows at an average annual rate of 10 per cent over the MTEF, slightly above projected inflation, but significantly lower than the rapid growth in transfers between 2001/02 and 2011/12 – when the value of direct transfers to local government grew from R6.5 billion to R68.2 billion, with an average annual growth rate of 27.2 per cent.

**Table W1.23 Transfers to local government, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12 Revised estimate	2012/13	2013/14	2014/15
<b>R million</b>	<b>Outcome</b>				<b>Medium-term estimates</b>		
<b>Direct transfers</b>	<b>45 487</b>	<b>51 537</b>	<b>60 904</b>	<b>68 180</b>	<b>77 342</b>	<b>83 858</b>	<b>90 707</b>
<b>Equitable share and related</b>	<b>25 560</b>	<b>23 847</b>	<b>30 541</b>	<b>32 876</b>	<b>37 873</b>	<b>40 582</b>	<b>43 639</b>
Equitable share formula <sup>1</sup>	16 300	20 283	26 761	28 991	33 483	35 879	38 538
RSC levy replacement <sup>2</sup>	9 045	3 306	3 492	3 544	3 733	3 930	4 146
Support for councillor remuneration and ward committees	215	258	288	340	658	772	955
<b>General fuel levy sharing with metros</b>	<b>–</b>	<b>6 800</b>	<b>7 542</b>	<b>8 573</b>	<b>9 040</b>	<b>9 613</b>	<b>10 190</b>
<b>Conditional grants</b>	<b>19 928</b>	<b>20 891</b>	<b>22 821</b>	<b>26 732</b>	<b>30 429</b>	<b>33 663</b>	<b>36 878</b>
Infrastructure	18 562	18 759	20 870	24 846	28 029	31 222	34 301
Capacity building and other	1 366	2 132	1 951	1 886	2 400	2 440	2 577
<b>Indirect transfers</b>	<b>2 418</b>	<b>3 088</b>	<b>2 996</b>	<b>4 029</b>	<b>5 088</b>	<b>5 661</b>	<b>5 836</b>
Infrastructure	2 038	2 763	2 682	3 781	4 956	5 348	5 509
Capacity building and other	380	326	314	247	133	313	328
<b>Total</b>	<b>47 906</b>	<b>54 626</b>	<b>63 899</b>	<b>72 209</b>	<b>82 430</b>	<b>89 519</b>	<b>96 543</b>

1. Outcome figures for the equitable share reflect amounts transferred after funds have been withheld to offset underspending by municipalities on conditional grants

2. The RSC levy replacement grant for 2008/09 includes allocations for metros, from 2009/10 metros received the general fuel levy sharing instead. In 2011/12 two new metros were added to the general fuel levy sharing

## The local government equitable share

In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue. The local government equitable share is an unconditional transfer that enables municipalities to provide free basic services to poor households and covers basic municipal administration costs. The equitable share supplements municipal own revenues.

Over the 2012 MTEF, the local government equitable share, including the *RSC/JSB levies replacement grant* and *special support for councillor remuneration and ward committees*, is worth R122.1 billion – R37.9 billion in 2012/13, R40.6 billion in 2013/14 and R43.6 billion in 2014/15.

### *Equitable share formula*

The share of national revenue allocated to local government through the equitable share is determined as part of the national budget process and endorsed by Cabinet (the vertical division). Local government's equitable share is divided among the country's 278 municipalities using a formula (the horizontal division).

Over the last three years, several adjustments have been made to the equitable share formula to increase the allocations to poor rural municipalities. Details of these changes are described in previous explanatory memoranda (Annexure W1) to the Division of Revenue. A review of the equitable share formula is under way and is discussed in part six of this annexure.

The formula uses demographic and other data to determine each municipality's share of the local government equitable share. The equitable share is an unconditional transfer that is intended to provide municipalities with sufficient funds to be able to provide free basic services to their poor households. It consists of five components:

- The *basic services component* is worth 99.1 per cent of the value of the equitable share and provides for the cost of free basic services for poor households as well as municipal health services.
- The *development component* is dormant.
- The *institutional support component* is worth 7.9 per cent of the value of the equitable share and provides a subsidy for basic municipal administrative costs.
- The *revenue-raising capacity correction* accounts for the fact that some municipalities have a much greater ability to raise own revenues than other municipalities. It subtracts 7 per cent of the value of the equitable share, primarily from the wealthiest municipalities, to make those funds available for poorer municipalities.
- The *correction and stabilisation factor* makes sure all of the guarantees in the formula can be met and accounts for a negligible proportion of the final equitable share allocations.

Each of these components is described in detail in the subsections that follow, while the structure of the formula is summarised in the box below.

#### **Structure of the local government equitable share formula**

$$\text{Grant} = BS + D + I - R \pm C$$

where

**BS** is the basic services component

**D** is the development component

**I** is the institutional support component

**R** is the revenue-raising capacity correction

**C** is a correction and stabilisation factor

### *The basic services component*

This component helps municipalities provide basic services to poor households and municipal health services. For each of the subsidised basic services, there are two levels of support: a full subsidy for poor households that are connected to municipal services and a partial subsidy for poor households that are not yet connected to the municipal networks. The allocation for un-serviced households is 45 per cent of the value of the subsidy to serviced households.

The basic services component aims to:

- Support poor households earning less than R800 per month in 2001 prices
- Distinguish between poor households receiving connector services and those that do not and need to be targeted through alternative service-delivery mechanisms
- Recognise water reticulation, sanitation, refuse removal and electricity reticulation as core municipal services
- Provide municipal health services to all households (through funding allocated to district and metropolitan municipalities).

#### **The basic services component**

$$\begin{aligned}
 BS = & [\text{water subsidy 1} * \text{poor with water} + \text{water subsidy 2} * \text{poor without water}] + \\
 & [\text{sanitation subsidy 1} * \text{poor with sanitation} + \text{sanitation subsidy 2} * \text{poor without sanitation}] + \\
 & [\text{refuse subsidy 1} * \text{poor with refuse} + \text{refuse subsidy 2} * \text{poor without refuse}] + \\
 & [\text{electricity subsidy 1} * \text{poor with electricity} + \text{electricity subsidy 2} * \text{poor without electricity}] + \\
 & [\text{municipal health services} * \text{total number of households}]
 \end{aligned}$$

Table W1.24 shows the total amount of funding provided for each of the four basic services through the local government equitable share (amounts reflect the final allocations per basic service after rescaling).

**Table W1.24 Amounts per basic service allocated through the local government equitable share**

<b>R millions</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Electricity	10 538	11 294	12 144
Water	7 201	7 717	8 297
Sanitation	6 204	6 648	7 149
Refuse	6 116	6 556	7 051
Municipal health	896	958	1 001
<b>Total basic services</b>	<b>30 954</b>	<b>33 173</b>	<b>35 641</b>

### *The development component*

This component is currently inactive. The 2012 review of the local government fiscal framework will consider how best the equitable share formula can respond to the development needs of the different types and categories of municipalities.

### *The institutional support component*

To provide basic services to households, municipalities need to be able to run a basic administration. Municipalities should be able to fund most of their administration costs through own revenues, but because poor households will not be able to contribute to these costs, the equitable share includes an institutional support component to help meet some of these costs. This component was changed in the 2011 formula to take account of the level of poverty in a municipality and its relative ability to

fund administrative and governance costs from own revenue. Previously, this component was largely determined by the population size of a municipality. The adjusted formula still reflects the relative sizes of different municipalities, but this is now adjusted by their poverty rate.

**The institutional support component**

$$I = \text{base allocation} + [\text{allocation per councillor} * \text{number of seats}] * [\text{poverty factor}]$$

where the values used in the formula are:

$$I = R550\ 000 + [R54\ 000 * \text{councillors}] * [\% \text{ of households in poverty} + 17\%]$$

The formula for this component has two sub-components. The base allocation is an amount that will go to every municipality. The formula recognises that larger municipalities have larger administration costs, and municipalities with proportionally large poor populations will struggle to cover these costs. In response, the second term incorporates two elements: an allocation per councillor that reflects the relative size of a municipality and a poverty factor based on the proportion of poor households in a municipality. The proportion of poor households is adjusted to arrive at a relative scale for all municipalities – the municipality with the highest proportion of poor households receives a poverty factor of 100 per cent. The poorest municipality has 83 per cent of its households below the poverty line (R800 a month in 2001 prices), so 17 per cent is added to the proportion of poor households in each municipality to calculate the poverty factor. The poverty factor is used to adjust the allocated amount for each municipality based on the size of its council.

This component (together with the special support for councillor remuneration to poor municipalities provided outside of the equitable share formula) provides sufficient resources for municipalities to pay their councillors' salaries and a significant portion of their administrative costs without having to use the funds allocated through the basic services component.

The number of seats recognised for the formula is determined by the Minister of Cooperative Governance and Traditional Affairs for elections and composition.

*The revenue-raising capacity correction*

Local government is granted substantial own-revenue raising powers in the Constitution (particularly through property rates and surcharges on services) and it is expected that municipalities will fund much of their own administrative costs and cross-subsidise some of the provision of services to indigent residents. Given the different levels of poverty across South Africa, the ability to raise own revenues differs across municipalities. The formula does not expect all municipalities to be able to achieve the same levels of cross-subsidisation from their own revenues.

To account for the varying fiscal capacities of municipalities, this component takes into account income from property rates and the fuel levy sharing with metropolitan municipalities. In the absence of proper information on property valuation rolls across the spectrum of municipalities and as an interim measure, past actual property rates collected between 2004/05 and 2006/07 have been used as a baseline for determining the ability of each municipality to raise revenue from property rates. The formula does not take account of any changes in the levels of revenue collection after 2006/07 to avoid penalising municipalities that have improved their revenue collection efforts. The projected capacity of a municipality to raise revenue from property rates is assumed to be the average of past revenue collection grown to reflect the impact of inflation. Further work on how revenue-raising capacity should be accounted for in the formula will take place as part of the longer-term review of the local government equitable share formula described in part 6 below. In the case of the general fuel levy sharing with metropolitan municipalities, the revenue-raising capacity correction is calculated using the allocations gazetted for the 2011 MTEF (with a uniform increase across all municipalities assumed for 2014/15).

To achieve greater horizontal equity in the allocation system and to acknowledge the revenue-raising constraints faced by smaller municipalities, a differentiated “tax” rate on property rates income is applied. The applicable tax rate for a municipality is based on the level of per capita own operating revenue (again, calculated based on 2004/05 to 2006/07 figures). Own operating revenue is the difference between past actual total operating revenue and income from grants and subsidies. The tax rates range from 1 per cent for municipalities with the lowest operating revenue per capita to 7 per cent for municipalities with the highest operating revenue per capita. The “tax” applied to each municipality’s predicted revenue from property rates is calculated using the following formula (with a cut-off at a maximum of 7 per cent for municipalities with operating revenue per capita above R2 500):

$$\text{“Tax rate”} = 1 + 6/2\ 500 * [\text{operating revenue per capita}]$$

The application of the revenue-raising capacity correction in the local government equitable share formula means that municipalities are expected to cross-subsidise between 1 per cent and 7 per cent of the cost of providing basic services to poor households.

District municipalities do not collect property rates, so the revenue-raising capacity component of the formula is applied as a flat “tax” of 6 per cent of the value of the *RSC/JSB levies replacement grant* allocated to each district. This grant is an unconditional allocation that replaces the major source of own revenue for district municipalities prior to 2006.

#### *Correction and stabilisation factor*

With the publication of three-year budget allocations, a guarantee mechanism is applied to the indicative outer-year baseline amounts with the aim that, as far as possible given the overall budget constraints and the need to amend the formula, the formula ensures that municipalities do not receive substantially less than the indicative allocations published in the previous MTEF. In the 2012 MTEF, allocations for 2012/13 were calculated to guarantee that municipalities received at least 90 per cent of the amount indicated for 2012/13 in the schedules to the 2011 Division of Revenue Act (in keeping with the guarantees provided in 2011). In the schedules of the 2012 Division of Revenue Act, the applicable guarantees are 100 per cent for the 2012/13 allocations, 90 per cent for the 2013/14 allocations and no guarantee on the indicative 2014/15 allocations published.

To deal with these constraints, municipalities are divided into two groups: municipalities that require a “top-up” to meet the stabilising constraints and those that do not. The total size of the top-up is calculated and deducted from those that do not require a top-up amount in proportion to the “surplus.”

#### *Changes in 2012*

A total of R2.2 billion has been added to the local government equitable share over the 2012 MTEF. Of this, R960 million is for the anticipated above-inflation increase in the cost of basic services in 2013/14 and 2014/15 (2012/13 cost increases have already been provided for through previous additions to the local government equitable share). These additional basic services funds have been allocated through the local government equitable share formula.

An extra R1.2 billion is for municipalities to pay stipends to ward committee members and to increase support from the national fiscus for councillor salaries in grade 1-3 municipalities (the lowest three of the six municipal grades). Ward committees are an important part of local democracy, and the funding provided for stipends will enable greater community participation in local government. Increased support for the remuneration of councillors, to be phased in over the MTEF, will enable these municipalities to use more of their own funds for basic services. These allocations are not calculated as part of the local government equitable share formula. Details of how these funds are calculated and the level of support provided are outlined below.

### *Other considerations in applying the formula*

The formula outlined above has to be rescaled to make allowance for powers and functions, and to ensure the overall budget balances.

#### **Powers and functions**

Local government is divided into category A, B and C municipalities.<sup>1</sup> The division of powers and functions differs between the categories. To deal with these differences, the model ensures that basic service allocations go to the municipality that is authorised to perform that function. To enhance transparency in the budget process, the local government equitable share and *municipal infrastructure grant* (MIG) allocations to district municipalities are published per unauthorised local municipality in the district municipality. This allows local municipalities without authorisation for these functions to see what funds have been allocated to district municipalities to enable them to provide these services in their area.

#### **Balancing allocations**

The horizontal division of allocations between municipalities depends on the size of the overall allocation to local government, which is determined through a separate consultative process to determine the equitable share of nationally raised revenue for each of the three spheres of government (the vertical division). As the horizontal division's allocations may not add up precisely to the amount allocated to the local government equitable share, such allocations need to be adjusted to fit within available resources.

#### **Rescaling the BS, D and I components**

The simplest way of making the system balance is to rescale the BS, D and I components to the available budget, so the formula becomes:

$$\mathbf{Grant = adjustment\ factor * (BS + D + I) - R \pm C}$$

This adjustment factor is calculated to ensure that the system balances

### *Measurement issues*

The integrity of the data is as important as the set of equations in determining whether the allocations meet the constitutional requirement of equity. Although extensive work has been undertaken to try to update the data used in the formula, Census 2001 remains the only official source of data that is reliable at municipal level. All population, income and service access data used in the formula comes from this census. Data for the number of councillors per municipality is provided by the Independent Electoral Commission and the Municipal Demarcation Board. Data on property rates collected between 2004/05 and 2006/07 is sourced from the reports that municipalities submit to National Treasury in terms of section 71 of the Municipal Finance Management Act. The measurements of poverty and service levels significantly affect allocations.

#### **Poverty**

Household income is used to estimate poverty at municipal level because it allows for cross-tabulation of poverty against servicing levels. Over 90 per cent of funds allocated through the formula are based on the service-delivery needs of poor households. The formula uses a household poverty line of R800 per month (in 2001 prices).

<sup>1</sup> Category A: metropolitan municipalities, category B: local municipalities, category C: district municipalities.

## Service levels

The basic services subsidy for poor households is a key determinant of allocations in the current formula. In the absence of accurate data on the costs of providing services in all municipalities, these allocations are based on assumptions about the relative costs of services. As outlined in the basic services section above, it is assumed that providing alternate services to households that did not have services when Census 2001 was conducted is 45 per cent of the cost of providing full services. After the adjustment factor and other components are applied, the actual subsidies per basic service made available through the equitable share are set out in Table W1.26.

**Table W1.25 Number of poor households**

Service	Serviced households	Unserviced households
Electricity	3 079 340	2 456 443
Water	3 322 295	2 213 488
Sanitation	3 260 814	3 274 969
Refuse	2 176 923	3 358 860

Source: 2001 Census

**Table W1.26 Actual average monthly basic services subsidies per poor household**

Monthly Rand	Serviced households			Households not connected to services		
	2012/13	2013/14	2014/15	2012/13	2013/14	2014/15
Electricity	208.32	223.23	240.04	93.74	100.45	108.02
Water	138.88	148.82	160.03	62.50	66.97	72.01
Sanitation	138.88	148.82	160.03	62.50	66.97	72.01
Refuse	138.88	148.82	160.03	62.50	66.97	72.01
<b>Total</b>	<b>624.95</b>	<b>669.68</b>	<b>720.12</b>	<b>281.23</b>	<b>301.35</b>	<b>324.05</b>

## Other unconditional allocations

### *RSC/JSB levies replacement grant*

Before 2006, district municipalities raised levies on local businesses through an RSC or JSB levy. This source of revenue was replaced in 2006/07 with the *RSC/JSB levies replacement grant*, which was allocated to all district and metropolitan municipalities based on the amounts they had previously collected through the levies. The value of the grant increases every year. In the 2012 MTEF, the grant increases by 9 per cent a year for municipalities authorised for water and sanitation and 3 per cent for unauthorised municipalities. The different rates recognise the different service-delivery responsibilities of these district municipalities.

### *Special support for councillor remuneration and ward committees*

Councillors' salaries are subsidised in poor municipalities. This support is calculated separately to the local government equitable share and is in addition to the governance costs funding provided in the institutional support component. The level of support for each municipality is determined by its grading in terms of the classification system used in the Government Gazette, which determines the upper limits of salaries, allowances and benefits of different members of municipal councils. The gazette, published annually by the Minister of Cooperative Governance and Traditional Affairs, classifies municipal councils into six grades based on their total income and population size. Special support is provided to the lowest three grades of municipal councils (the smallest and poorest municipalities). Increased support for councillor remuneration is being phased in over the 2012 MTEF. The proportion of councillors' salaries subsidised through this allocation for different grades of municipalities is shown in Table W1.27. All subsidy levels are based on the gazetted upper maximum levels for part-time councillors.

**Table W1.27 Subsidy levels provided for councillor remuneration**

Municipal grade	2012/13	2013/14	2014/15
1	80.0%	90.0%	90.0%
2	55.0%	70.0%	80.0%
3	50.0%	55.0%	70.0%

In addition, each municipality in grades 1 to 3 receives an allocation to provide stipends of R500 per month to 10 members of each ward committee in their municipality. Each municipality's allocation for this special support is published in the appendices to the Division of Revenue Bill.

### Conditional grants to local government

National government allocates funds to local government through a variety of conditional grants. Conditional grants fall into two main groups: infrastructure and capacity-building. The total value of conditional grants directly transferred to local government increases from R30.4 billion in 2012/13, to R33.7 billion in 2013/14 and R36.9 billion in 2014/15.

Conditional grants to local government are being reconfigured to address the differences between rural and urban municipalities. In 2011, a new *urban settlements development grant* was created by merging the *MIG cities grant* with a portion of the *human settlements development grant*. This new grant funds infrastructure development in metropolitan municipalities related to upgrading informal settlements. Several other grants also provide for specific rural and urban challenges:

- The *rural households infrastructure grant* is an indirect transfer to build on-site water and sanitation facilities in rural municipalities.
- The *public transport infrastructure and systems grant* funds integrated transport networks in cities.
- The *rural roads asset management grant* is for rural district municipalities to establish the systems needed to monitor and maintain rural roads.

### Infrastructure conditional grants to local government

National transfers for infrastructure, including indirect or in-kind allocations to entities executing specific projects in municipalities, amount to R33 billion, R36.6 billion and R39.8 billion for each of the 2012 MTEF years.

**Table W1.28 Infrastructure transfers to local government, 2008/09 – 2014/15**

R million	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Outcome			Revised estimate	Medium-term estimates		
<b>Direct transfers</b>	<b>18 562</b>	<b>18 759</b>	<b>20 870</b>	<b>24 846</b>	<b>28 029</b>	<b>31 222</b>	<b>34 301</b>
Municipal infrastructure grant	6 986	8 788	9 704	11 444	13 882	14 643	15 764
Urban settlements development grant	3 572	4 418	4 968	6 267	7 392	9 077	10 546
Integrated national electrification programme	589	900	1 033	1 097	1 151	1 315	1 488
Public transport infrastructure and systems grant	2 920	2 418	3 699	4 803	4 988	5 550	5 871
Neighbourhood development partnership grant	181	508	832	750	578	598	591
2010 FIFA World Cup stadiums development grant	4 295	1 661	302	–	–	–	–
Rural roads asset management grant	9	13	10	35	37	39	41
Municipal drought relief grant	9	54	320	450	–	–	–
<b>Indirect transfers</b>	<b>2 038</b>	<b>2 763</b>	<b>2 682</b>	<b>3 781</b>	<b>4 956</b>	<b>5 348</b>	<b>5 509</b>
Integrated national electrification programme	1 241	1 616	1 720	1 738	1 879	1 983	2 099
Neighbourhood development partnership grant	80	70	50	100	80	55	58
Regional bulk infrastructure grant	441	577	851	1 686	2 517	2 922	3 351
Backlogs in water and sanitation at clinics and schools	186	350	–	–	–	–	–
Backlogs in the electrification of clinics and schools	90	149	–	–	–	–	–
Rural households infrastructure grant	–	–	62	258	480	389	–
<b>Total</b>	<b>20 600</b>	<b>21 522</b>	<b>23 552</b>	<b>28 627</b>	<b>32 984</b>	<b>36 571</b>	<b>39 810</b>

### *Municipal infrastructure grant*

The largest infrastructure transfers are through the *municipal infrastructure grant*, which supports government's aim to expand service delivery and alleviate poverty. The MIG funds the provision of infrastructure for basic services, roads and social infrastructure for poor households in all non-metropolitan municipalities. The total allocations for this grant grow to R13.9 billion, R14.6 billion and R15.8 billion over the 2012 MTEF.

The MIG is allocated through a formula with a vertical and horizontal division. The vertical division allocates resources between sectors and the horizontal division takes account of poverty, backlogs, and municipal powers and functions. The five main components of the formula are described in the box below. A minimum allocation of R5 million ensures that a reasonable minimum allocation is made to poor municipalities.

$$\text{MIG}_{(F)} = \text{C} + \text{B} + \text{P} + \text{E} + \text{N} + \text{M}$$

**C** Constant to ensure increased minimum allocation for poor municipalities (this allocation is made to all municipalities)

**B** Basic residential infrastructure (new and rehabilitation of existing ones)  
Proportional allocations for water supply and sanitation, electricity, roads and other (street lighting and solid waste removal)

**P** Public municipal service infrastructure (ring-fenced for municipal sport infrastructure)

**E** Allocation for social institutions and micro-enterprises infrastructure

**N** Allocation to all nodal municipalities

**M** Negative or positive allocation related to past performance of each municipality relative to grant conditions

Each component is allocated using data from the 2001 Census. Allocations for basic services sub-components are based on the proportion of the national backlog for that basic service in each municipality. Other components are based on the proportion of the country's poor households located in each municipality. Table W1.28 sets out the proportion of the grant accounted for by each component of the MIG formula.

**Table W1.29 Municipal infrastructure grant allocations per sector**

Municipal infrastructure grant (formula)	Component weights	Proportion of MIG per sector
<b>B Component</b>	<b>75.0%</b>	
Water and sanitation	72.0%	54.0%
Roads	23.0%	17.3%
Other	5.0%	3.8%
<b>P Component</b>	<b>15.0%</b>	
Sports	100.0%	15.0%
<b>E Component</b>	<b>5.0%</b>	<b>5.0%</b>
<b>N Component</b>	<b>5.0%</b>	<b>5.0%</b>

In the 2011 division of revenue, the P-component (15 per cent of the MIG) was ring-fenced for municipal sport and recreation infrastructure. This ring-fencing continues in 2012. Sport and Recreation South Africa is working with other departments and SALGA on proposals to further improve sports infrastructure in municipalities.

In 2014/15, the *rural households infrastructure grant* will be incorporated into the MIG through a separate component, outside of the current grant formula. This will ensure that only those rural municipalities selected for participation in the current *rural households infrastructure grant* programme will receive additional MIG funds from 2014/15.

#### *Urban settlements development grant*

The *urban settlements development grant* was introduced for the eight metropolitan municipalities in 2011/12 as an integrated source of infrastructure funding to upgrade urban informal settlements. The grant combines basic services funding (previously allocated through the MIG) with part of the basic services portion of the *human settlements development grant* (previously allocated to provinces). This shift reflects the importance of upgrading informal settlements and coordinating housing and basic services projects, and perhaps most significantly, government's policy to devolve more

housing authority to cities. The total *urban settlements development grant* is allocated R7.4 billion in 2012/13, R9.1 billion in 2013/14 and R10.5 billion in 2014/15.

#### *The public transport infrastructure and systems grant*

The *public transport infrastructure and systems grant* is administered by the Department of Transport. The grant aims to help cities create new and improve existing public transport and non-motorised transport infrastructure. This includes the provision of bus rapid transit systems. The grant has an allocation of R5 billion in 2012/13, R5.5 billion in 2013/14 and R5.9 billion in 2014/15.

#### *The rural roads asset management grant*

The *rural roads asset management grant* is administered by the Department of Transport to improve rural transport infrastructure. In 2012/13, the grant will fund the collection of accurate data on the condition of rural roads in line with the Road Infrastructure Strategic Framework for South Africa. This data will guide investments to improve these roads. Rural district municipalities are funded to collect data on the condition and usage of all the municipal roads in their area so that the spending of infrastructure funds (from the MIG and elsewhere) can be properly planned to maximise their impact. The grant has an allocation of R37.3 million in 2012/13, R39.2 million in 2013/14 and R41.4 million in 2014/15.

#### *The rural households infrastructure grant*

The *rural households infrastructure grant* is an indirect grant through which the Department of Human Settlements provides on-site solutions for water and sanitation in rural areas where it is not feasible to provide households with piped services due to dispersed settlement patterns. This grant was introduced through pilots in 2010/11. From 2014/15, the grant will be incorporated into the MIG and transferred directly to municipalities.

#### *The neighbourhood development partnership grant*

The *neighbourhood development partnership grant* seeks to develop community infrastructure and create a platform for private investment to improve the quality of life in townships. The grant is administered by National Treasury and is allocated R658.1 million in 2012/13, R653 million in 2013/14 and R649.5 million in 2014/15 for both the technical assistance (indirect) and capital (direct) grant.

#### *The integrated national electrification programme*

To sustain the progress in connecting poor households to electricity, government will spend about R10 billion over the next three years on the national electrification programme. Of this, municipalities will spend R4 billion and Eskom will spend R6 billion on behalf of municipalities. This programme was instrumental in the connection of 80 per cent of all households to the national electricity grid as reported in the 2007 Community Survey.

#### *The regional bulk infrastructure grant*

This grant supplements the financing of the social component of regional bulk water and sanitation. It targets projects that cut across the boundaries of several municipalities. The grant supplements regional bulk collection and wastewater treatment works. It may also be used to appoint service providers to carry out feasibility studies, related planning or management studies for infrastructure projects. The grant has been augmented with R1.9 billion earmarked to fund projects in Sekhukhune, Sedibeng and OR Tambo municipalities. The grant has an allocation of R2.5 billion in 2012/13, R2.9 billion in 2013/14 and R3.4 billion in 2014/15.

### Capacity-building grants and other current transfers

Capacity-building grants boost municipalities' building management, planning, technical, budgeting and financial management skills. The *expanded public works programme integrated grant for municipalities* promotes increased labour intensity in municipalities and the *water services operating subsidy grant* provides support for particular national water schemes that are being transferred to municipalities.

**Table W1.30 Capacity building and other current transfers to local government, 2008/09 – 2014/15**

	2008/09	2009/10	2010/11	2011/12 Revised estimate	2012/13	2013/14	2014/15
<b>R million</b>							
<b>Direct transfers</b>	<b>1 366</b>	<b>2 132</b>	<b>1 951</b>	<b>1 886</b>	<b>2 400</b>	<b>2 440</b>	<b>2 577</b>
Municipal systems improvement grant	200	200	212	220	230	243	257
Financial management grant	180	300	365	424	403	425	449
2010 FIFA World Cup host city operating grant	–	508	210	–	–	–	–
Water services operating subsidy grant	986	849	664	542	562	421	450
Expanded public works programme integrated grant for municipalities	–	100	280	420	599	702	744
Infrastructure skills development grant	–	–	–	–	75	100	106
Electricity demand side management grant	–	175	220	280	200	200	200
Municipal disaster grant	–	–	–	–	330	350	371
<b>Indirect transfers</b>	<b>380</b>	<b>326</b>	<b>314</b>	<b>247</b>	<b>133</b>	<b>313</b>	<b>328</b>
Financial management grant: DBSA	50	–	–	–	–	–	–
Electricity demand side management grant	–	75	109	119	–	–	–
Water services operating subsidy grant	330	251	205	128	133	313	328
<b>Total</b>	<b>1 746</b>	<b>2 458</b>	<b>2 264</b>	<b>2 133</b>	<b>2 533</b>	<b>2 753</b>	<b>2 905</b>

#### *Financial management grant*

The *financial management grant*, under the National Treasury vote, funds the modernisation of financial management, including building in-house municipal capacity to implement multi-year budgeting, linking integrated development plans to budgets, producing quality and timely in-year and annual reports, and generally supporting municipalities in the implementation of the Municipal Finance Management Act. Total allocations for the *financial management grant* amount to R1.3 billion over the 2012 MTEF.

#### *Infrastructure skills development grant*

This new grant, piloted by the National Treasury, places interns with technical skills in municipalities. Interns will spend two years in a well-capacitated municipality or entity gaining skills and experience, and will then be transferred to a rural municipality with poor capacity to complete their internship. This programme will increase the pool of qualified engineers and scientists working in municipalities and will give rural municipalities the opportunity to hire these skilled personnel when they have completed their internships. The first cohort of interns in this programme began working in January 2012. The allocations for this grant over the MTEF are R75.5 million in 2012/13, R100 million in 2013/14 and R106 million in 2014/15.

### *Municipal systems improvement grant*

The *municipal systems improvement grant* provides funding to non-metropolitan municipalities to help them implement their individual local government turnaround strategies. The grant is administered by the Department of Cooperative Governance and is allocated R230.1 million in 2012/13, R242.7 million in 2013/14 and R257.3 million in 2014/15.

### *Expanded public works programme integrated grant for municipalities*

Due to its slow uptake, the focus of this grant has shifted. Funds will be transferred up-front for projects, which will avoid previous problems with underspending. The grant will be allocated through a formula based on past performance – thereby preserving an incentive effect – with a bonus to give bigger allocations to poor, rural municipalities. The grant will also have simplified planning and reporting requirements. The grant is allocated R599.2 million in 2012/13, R701.9 million in 2013/14 and R743.9 million in 2014/15.

### *The electricity demand-side management grant*

The *electricity demand-side management grant* was introduced for three years following load shedding in 2008. Due to the continued importance of promoting energy efficiency (for the environment and energy security), the grant has been extended for another three years. It will fund selected municipalities to implement demand-side management projects, with a focus on public lighting and the energy efficiency of municipal buildings. The grant has an allocation of R200 million in 2012/13, R200 million in 2013/14 and R200 million in 2014/15.

### *The water services operating subsidy*

The *water services operating subsidy* is a grant with schedule 6 (direct) and schedule 7 (in-kind) components to fund water schemes. The grant covers staff-related costs, direct operating and maintenance costs, and infrastructure refurbishment. Allocation per municipality is based on the operational budget for each scheme and the funding requirements identified in the transfer agreement. The Department of Water Affairs administered these schemes before 1994, which are now being transferred to municipalities. At the end of 2009/10, 59 agreements had been signed, 4 903 staff transferred and 1 643 schemes (including rudimentary schemes) with a total asset value of about R6.4 billion transferred to municipalities. In the 2012 MTEF, R2.2 billion is allocated for the *water services operating subsidy* (direct and indirect transfers). This grant enables the transfer of staff operating water schemes from national government to municipalities. It is a transitional grant that is expected to be phased out over time.

### *Municipal disaster grant*

The conditional *municipal disaster grant* was introduced in the 2011 MTEF. This grant is allocated to the National Disaster Management Centre in the Department of Cooperative Governance as an unallocated grant to local government. The centre is able to disburse disaster response funds immediately – without the need for the transfers to be gazetted first. Over the 2012 MTEF, R1.1 billion is available for disbursement through this grant.

## **Part 6: Future work on provincial and municipal fiscal frameworks**

### **Release of the 2011 Census results**

Census data is used to calculate many allocations to provinces and municipalities. As a result, data updates are likely to have a significant impact on allocations, especially the local government equitable share, which still largely relies on Census 2001 data. Although the date for the release of the Census 2011 data has not been confirmed, in 2012, National Treasury will assess the potential impact and make the necessary adjustments to smooth the new data's incorporation. When the data

is officially released, National Treasury will engage with relevant stakeholders on potential revisions to the formulas.

### **National health insurance**

The national health insurance green paper was released during 2011 and the period for public comments has closed. Government will release a white paper, after which new legislation and amendments will be introduced. The exact changes to the intergovernmental system are not yet known, but intergovernmental transfer mechanisms and applicable legislation will need to be revised to allow for a fund or funds that purchase health services from accredited providers. The accreditation of providers is a sector issue, however, the structure of the fund will have significant consequences for the structure of the intergovernmental system. These will be considered as the national health insurance debate evolves.

### **Review of the local government fiscal framework**

The current system of local government is just over a decade old – an appropriate time to evaluate the fiscal framework's effectiveness in supporting the performance of local government. Government has already created a stable, predictable and transparent system of intergovernmental transfers. Building on this foundation in the second decade of democratic local government, revisions will be explored to ensure the fiscal framework is more effective at promoting efficient and equitable service delivery.

Over the last decade, municipalities have made significant strides both in building their institutions and delivering services. However, municipalities have also failed to achieve their full potential. There are many reasons for this that are not related to the fiscal framework, but finances do play an important role. Government is reviewing how the fiscal system has affected the performance of local government in the past and what reforms are needed to create the right incentives for better-performing local government.

#### *Infrastructure transfers*

National Treasury and the Department of Cooperative Governance will consult with stakeholders during 2012 to identify the cause of slow spending and uneven delivery on local government infrastructure grants. Reforms will be developed and consulted on to improve the functioning of conditional infrastructure grants.

To appropriately reform the system, a much greater focus is needed on understanding the challenges faced by different types of municipalities and how the fiscal system can help address these challenges. The differentiated approach evolving in the system of conditional grants (separate grants for rural and urban municipalities) is likely to be extended further.

#### *Local government equitable share*

National Treasury, the Department of Cooperative Governance and SALGA, with support from the FFC, have formed a workgroup to review the local government equitable share. This workgroup will develop and consult on proposals for a new local government equitable share during 2012.

Government is aware of the criticism of the local government equitable share formula and shares many of these concerns, particularly the problem of outdated data due to the time-lag between censuses. The formula review will consider these matters and proposals for a new formula will include elements that can more easily reflect changes in municipalities between censuses.

The revised local government equitable share formula must allocate resources among municipalities in a manner that better enables local government to deliver basic services to poor residents. Improving service delivery cannot, however, be achieved through changes to the equitable share

formula alone. Municipalities need to prioritise basic services in their budgets and operations and support should be provided to municipalities with capacity challenges.

### **Municipal taxation**

The national framework for municipal taxation powers is determined by section 229 of the Constitution, which empowers municipalities to impose a property tax and surcharges on fees for municipal services, subject to national regulation. However, in exercising their revenue-raising powers, it is important that municipalities do not materially or unreasonably prejudice national economic policies and economic activities across municipal boundaries.

The Municipal Property Rates Act (2004) and the Municipal Fiscal Powers and Functions Act (2007) regulate municipal fiscal powers and functions as provided for in section 229 of the Constitution.

### **Municipal Property Rates Act**

The Municipal Property Rates Act regulates the power of municipalities to impose rates on properties. Since the act came into operation in 2005, several implementation challenges have become apparent. The Department of Cooperative Governance has proposed amendments to the act to improve its implementation and to minimise legal ambiguities. The Municipal Property Rates Amendment Bill was published for public comment on 9 June 2011. The Department of Cooperative Governance is in the process of finalising the act's amendments.

### **Municipal Fiscal Powers and Functions Act**

The Municipal Fiscal Powers and Functions Act, which came into effect on 7 September 2007, deals with the regulation of all municipal taxes other than property rates. The act aims to promote predictability, certainty and transparency of municipal fiscal powers and functions, and to ensure that these powers and functions are exercised in line with the provisions of section 229 of the Constitution. The act deals with three broad issues: applications for new taxes by municipalities (section 5), national norms and standards for municipal surcharges (section 8) and verification of municipal taxes that existed prior to the act (section 12).

#### *Application for a new municipal tax*

Section 5 of the Municipal Fiscal Powers and Functions Act provides for a municipality, a group of municipalities or organised local government to apply for a new municipal tax. A municipality cannot impose any new municipal tax if that tax has not been authorised by the Minister of Finance in terms of section 5. Any application for a new tax must include reasons for the proposed tax and the manner in which the revenue from the tax will be used.

To date, two applications that comply with the requirements of section 5 of the Municipal Fiscal Powers and Functions Act have been received by National Treasury. The first application is for the introduction of a rural development levy in areas where municipalities struggle to implement the valuation rolls necessary to impose municipal rates. The other application proposes the introduction of a local business tax for businesses operating within the jurisdiction of metropolitan municipalities.

#### *Regulation of surcharges*

Section 8 of the Municipal Fiscal Powers and Functions Act, which deals with the norms and standards for imposing surcharges on municipal services, becomes effective from the date that the Minister of Finance gazettes these regulations. This section has not been activated. Surcharges currently form part of a tariff (when section 8 regulations are introduced, these will be split). Due to the interrelationship between tariffs and surcharges, the regulations applying to both are aligned.

It is important that the National Treasury's regulatory processes regarding surcharges be aligned to the regulatory processes of sector departments regarding municipal tariffs. Although most sectors have some form of regulation in place, municipal regulatory oversight roles have been limited and largely unsuccessful. Most sector departments (the Department of Energy and the Department of Water and Environmental Affairs) have instituted processes to improve their regulatory oversight responsibilities, either directly or through a regulator (for example, the National Energy Regulator of South Africa).

#### *Authorisation of municipal taxes that existed prior to the act*

According to section 12 of the Municipal Fiscal Powers and Functions Act, a municipality had to apply to the Minister of Finance by 7 September 2009 for the authorisation of taxes that existed before the act was enacted.

Municipalities provided National Treasury with the potential taxes that were levied prior the commencement of the act. Each application was assessed. Preliminary determinations on how each application should be dealt with were approved by the minister, and published in a government notice for public comment and submitted to Parliament.

Written comments on the preliminary determinations by the Minister of Finance, as published in the Government Gazette, were received from various stakeholders. Based on this consultation process, the minister gazetted the final rulings in early 2012. These rulings will be subject to review by the Minister of Finance after five years in terms of section 10(2) of the act.

#### *Amendment of the Municipal Fiscal Powers and Functions Act*

Since its implementation, certain gaps in the act were identified, which will require additions. National Treasury will review the act during 2012/13 to ensure its smooth implementation.

#### *Sharing of the general fuel levy*

The RSC and JSB levies were replaced in 2006/07 with the *RSC/JSB levies replacement grant*, which was allocated to both district and metropolitan municipalities. In 2009/10, the sharing of the general fuel levy was introduced as a permanent replacement to the former RSC and JSB levies for metropolitan municipalities. District municipalities still receive the *RSC/JSB levies replacement grant*.

The transition from the *RSC/JSB levies replacement grant* system to the sharing of the general fuel levy has been phased in over three years to ensure a smooth transition. The final year of this phase-in process was 2011/12, and from 2012/13 the general fuel levy sharing fully replaces the *RSC/JSB levies replacement grant* in metropolitan municipalities.

The 2012/13 allocation takes the redemarcation that came into effect with the 2011 local government elections into consideration, which resulted in the number of metropolitan municipalities increasing from six to eight and some metropolitan's boundaries expanding. The fuel sales data, which is used to determine the metropolitan municipalities' allocations, has been updated accordingly to ensure that changes to the municipal boundaries are reflected in the fuel sales data used to calculate allocations.

The sharing of the general fuel levy is a source of municipal own revenue for metropolitan municipalities as it involves sharing a revenue source rather than the allocation of funds from national government's revenue. The sharing of the general fuel levy therefore does not form part of the Division of Revenue Bill. The fuel levy allocations are approved annually by the Minister of Finance and published in the Government Gazette, as prescribed in terms of the Taxation Laws Amendment Act (2009).