2014 BUDGET

Presenter: Pravin Gordhan | **Minister of Finance** | **27 February** 2014

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

South Africa has made significant progress over the last 20 years

The constitutional order established in 1994 has proven to be a solid foundation on which to make progress:

- The average income of South Africans, which declined by 15 per cent in the last decade of apartheid rule, has increased by over 30 per cent since 1994.
- The economy has created 5.9 million jobs since 1996.
- Near-universal school enrolment and the steady increase in average years of education have improved the life prospects of millions of South Africans. University enrolment has doubled.
- Access to basic services has grown rapidly.
- There has been a significant increase in black participation in the economy, most visible in the transformation of the middle class.

Key points

- Government has adopted the NDP as the country's framework for economic and social transformation. The plan aims to accelerate growth to eliminate poverty and reduce inequality by 2030.
- The economy is growing at a moderate pace but continues to perform below its potential.
- The medium-term outlook is supported by investment in electricity and transport that will lift output constraints, an expected pick-up in private investment and low real interest rates.
- The expenditure ceiling set out in the 2013 Budget has been maintained for the period ahead, and the budget deficit will narrow from 4.0 per cent in the current year to 2.8 per cent in 2016/17.
- Non-interest expenditure will continue to grow in real terms, averaging 1.9 per cent a year over the medium term.
- Tax proposals for the 2014 Budget continue to prioritise economic growth, job creation and generating sufficient revenue to finance government spending in line with the NDP.
- Debt levels remain sustainable. South Africa's debt has a long maturity structure and its exposure to foreign currency liabilities remains low, reducing the impact of global volatility.
- Over the period ahead, government will continue to increase the breadth and the quality of services.
- The division of revenue is designed to help provinces and municipalities expand investment in economic infrastructure and services that directly support economic activity.

Global growth is expected to pick up in 2014

IMF Growth Projections

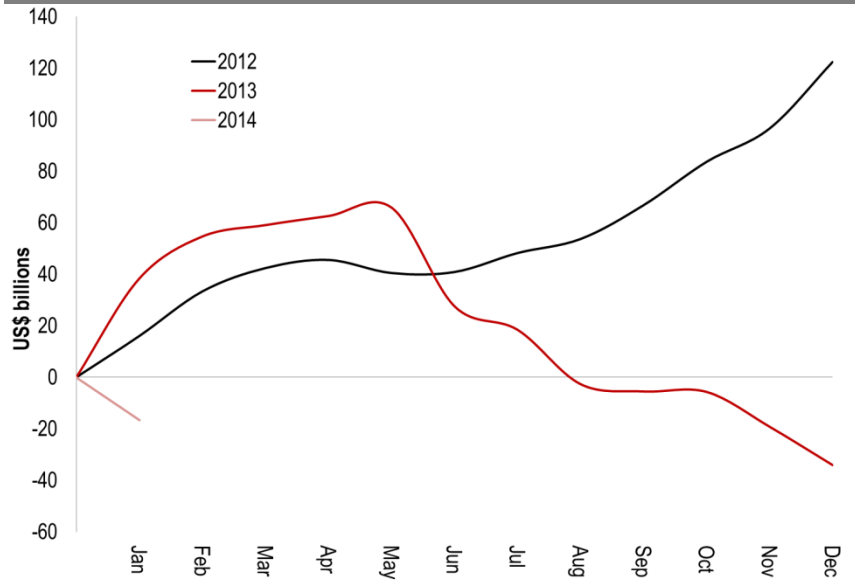
Region / country	2013	2014	2015	2014	2015
Percentage	GDP projections			Change from October 2013 WEO Update	
World	**3.0**	**3.7**	**3.9**	**0.1**	**0.0**
Advanced economies	**1.3**	**2.2**	**2.3**	**0.2**	**-0.2**
US	1.9	2.8	3.0	0.2	-0.4
Euro area	-0.4	1.0	1.4	0.1	0.1
UK	1.7	2.4	2.2	0.6	0.2
Japan	1.7	1.7	1.0	0.4	-0.2
Emerging markets and developing countries	**4.7**	**5.1**	**5.4**	**0.0**	**0.1**
Developing Asia	**6.5**	**6.7**	**6.8**	**0.2**	**0.2**
China	7.7	7.5	7.3	0.3	0.2
India	4.4	5.4	6.4	0.2	0.1
Sub-Saharan Africa	**5.1**	**6.1**	**5.8**	**0.1**	**0.1**
South Africa	1.8	2.7	3.2	-0.1	0.0

Source: IMF WEO Update, January 2014

- Global trade volumes have improved, while Global PMI's in January point towards further improvement in global industrial production.
- Developed economies are expected to be supported by accommodative monetary policy and less fiscal consolidation
- Growth in EM's is expected to increase due to improving external demand BUT remains vulnerable to fluctuations in capital flows
- Sub-Saharan Africa is expected to remain the second fastest-growing region.

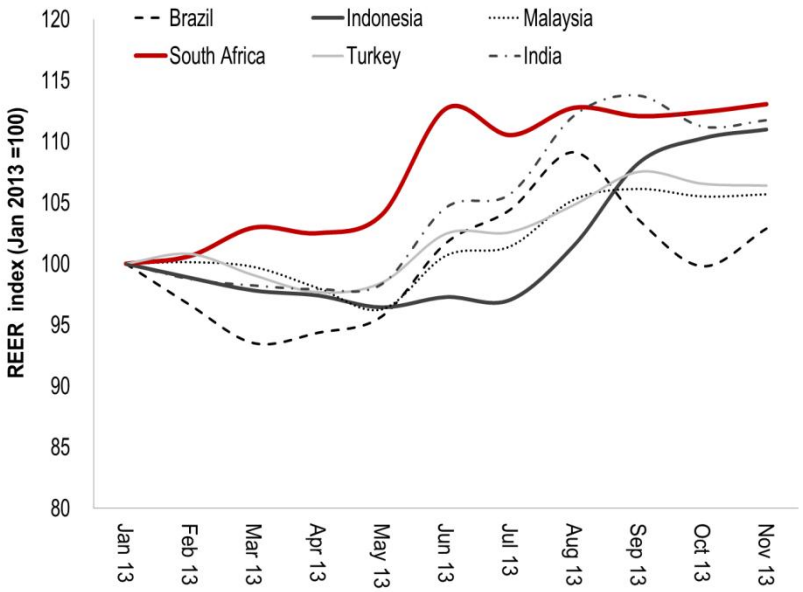
Reduction in the US monetary stimulus has translated into lower capital flows and weakening rand

Cumulative Portfolio flows into South Africa



Source: Emerging Portfolio Fund Research (EPFR) database

EM currencies against the US$

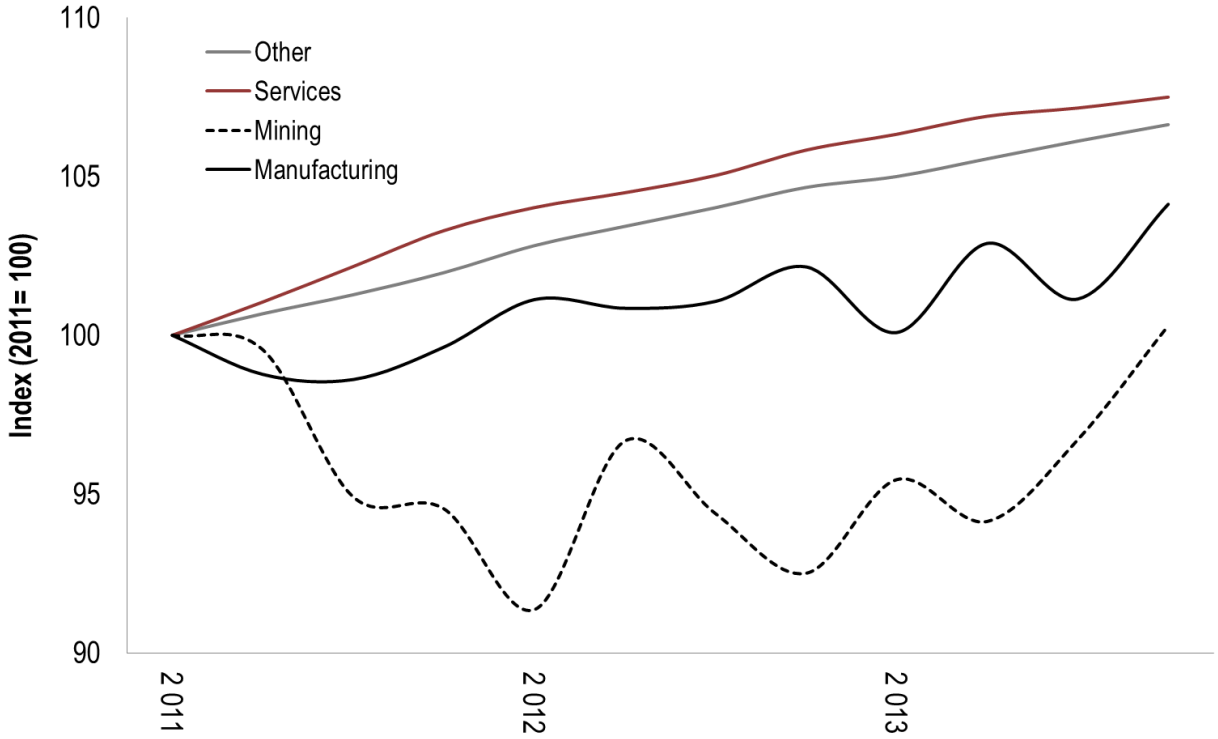


Source: Bloomberg

- Foreign capital flows are expected to remain volatile as global interest rates adjust to higher interest rates in advanced economies.
- The weaker exchange rate poses a significant risk to the inflation outlook.
- A sustained real depreciation could provide a significant boost to export competitiveness provided that inflation levels remain low and stable

Growth in the mining and manufacturing sectors remains volatile

Gross Value Added by Sector, 2011 – 2013



- Mining contracted on average by 0.1 per cent in each of the last three years, while manufacturing recorded average annual growth of only 2 per cent.
- The rest of the economy continued to grow in 2013 but at a slower pace than during 2012.
- A broader recovery in the economy and in business confidence depends largely on improving the operating environment in mining and manufacturing.

Source: Statistics South Africa

Government continues to invest heavily in public infrastructure

R billion	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcomes			Estimates			
Energy	52.2	67.1	75.1	80.6	72.3	65.5	50.6
Water and sanitation	14.6	19.2	22.6	32.4	36.5	36.9	38.5
Transport and logistics	68.6	70.1	69.5	78.6	99.6	120.0	127.5
Other economic services[1]	12.0	11.5	8.9	13.0	15.2	14.2	12.8
Health	6.7	7.7	9.7	9.8	10.5	11.3	11.6
Education	6.2	7.8	9.8	12.1	13.5	13.6	14.0
Other social services[2]	12.8	15.7	10.7	13.8	12.5	13.0	15.9
Justice and protection services	3.8	2.8	4.4	4.9	4.9	5.0	6.5
Central government and administrative	3.0	6.5	6.9	7.3	7.9	8.4	9.3
Total	**180.0**	**208.3**	**217.7**	**252.6**	**272.9**	**287.8**	**286.6**
National departments	7.2	6.6	9.6	11.4	14.1	14.3	16.7
Provincial departments	39.1	43.4	36.4	41.8	42.6	45.5	46.6
Local government	30.9	33.2	41.7	55.2	58.3	61.8	63.5
Public entities[4]	9.4	15.4	14.1	16.4	21.5	23.7	24.4
Public private partnerships	7.3	10.7	2.6	3.0	3.1	3.3	3.5
Public enterprises[4]	86.0	98.9	113.4	124.8	133.4	139.1	132.0
Total	**180.0**	**208.3**	**217.7**	**252.6**	**272.9**	**287.8**	**286.6**

1. Includes agriculture and environmental infrastructure, telecommunications and other categories
2. Includes infrastructure like labour centres, national libraries and community facilities
3. Includes offices, heritage institutions, libraries and financial services
4. Public entities are financed by capital transfers from the fiscus and public enterprises are financed from combination of own revenue, borrowings and private funding

Source: National Treasury

Economic growth is projected to improve from 2.7per cent in 2014 to 3.5 per cent in 2016

Calendar year	2010	2011	2012	2013	2014	2015	2016
		Actual		Estimate		Forecast	
Percentage change							
Final household consumption	4.4	4.9	3.5	2.7	2.8	3.2	3.4
Final government consumption	4.4	4.3	4.0	2.5	2.2	2.3	2.4
Gross fixed capital formation	-2.1	4.2	4.4	3.2	4.2	5.3	6.0
Gross domestic expenditure	3.9	4.6	4.0	2.8	2.8	3.4	3.7
Exports	9.0	6.8	0.4	4.8	5.6	6.3	7.0
Imports	11.0	10.0	6.0	7.3	5.3	6.1	7.0
Real GDP growth	**3.1**	**3.6**	**2.5**	**1.8**	**2.7**	**3.2**	**3.5**
GDP inflation	7.7	5.9	4.5	6.1	6.4	6.2	5.9
GDP at current prices (R billion)	**2 674**	**2 933**	**3 139**	**3 391**	**3 706**	**4 063**	**4 456**
CPI inflation	4.3	5.0	5.6	5.7	6.2	5.9	5.5
Current account balance (% of GDP)	-2.0	-2.3	-5.2	-6.1	-5.9	-5.8	-5.5

Source: Reserve Bank and National Treasury

There are significant risks to the outlook

Global

- Reduction in US monetary stimulus
- High debt levels in China
- A number of emerging markets face high current account and fiscal deficits
- The fragility of the EU economy
- The rising level of government debt in Japan

Domestic

- further delays to the introduction of new infrastructure
- protracted labour disputes
- more pronounced inflationary pressures associated with the depreciation of the rand.

Economic outlook: Implications for the fiscus

- Over the past five years:
  - Low international interest rates kept borrowing costs down
  - Moderate domestic inflation limited budget cost pressures
  - Rising commodity prices supported government revenues
- Over the period ahead, South Africa confronts a new set of circumstances:
  - Rising global interest rates have pushed up the cost of servicing government debt.
  - Weaker commodity prices has contributed to lower tax buoyancy.
  - Rand depreciation has led to rising cost pressures.

Reinforcing fiscal policy

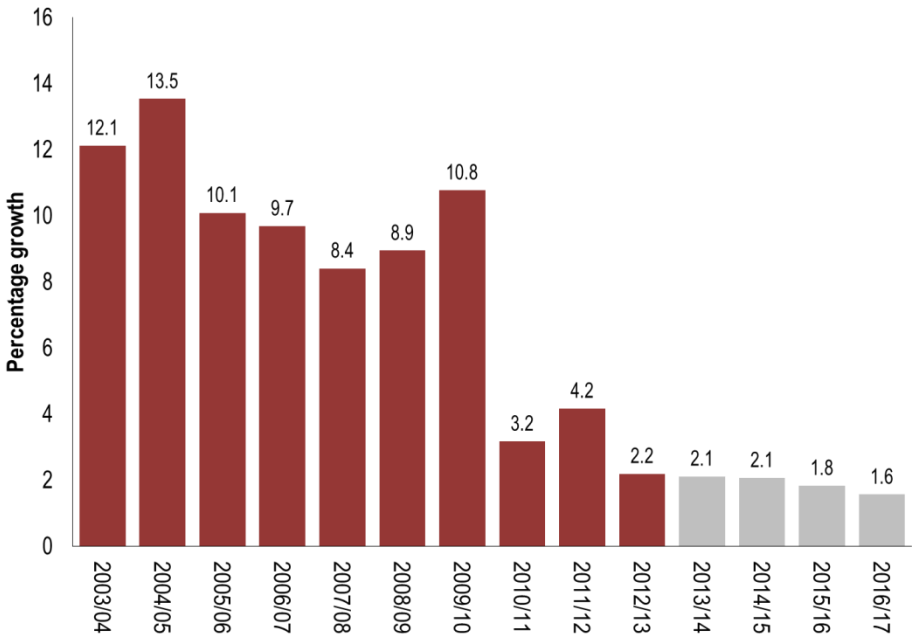
- Fiscal policy continues to be guided by the principles of countercyclicality, debt sustainability and intergenerational fairness

- Over the medium term, government will balance continued support for economic recovery with fiscal consolidation

- Composition of spending improves over the MTEF:
  - Capital is the fastest growing item of non-interest expenditure
  - Social wage (spending on health, education and social development) continues to grow in real terms
  - Expenditure on travel, catering, consultants and other administrative payments declines in real terms

Maintaining the expenditure ceiling

Real main budget non-interest expenditure growth, 2003/04 – 2016/17



Source: National Treasury

- The expenditure ceiling introduced in 2012 targets a nominal limit on main budget non-interest expenditure
- The ceiling commits government to spending limits of R1.03 trillion in 2014/15, R1.11 trillion in 2015/16 and R1.18 trillion in 2016/17
- Expenditure growth has been substantially reduced

Consolidated fiscal framework

Table 3.1 Consolidated fiscal framework, 2010/11 – 2016/17

R billion/percentage of GDP	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Outcome			Estimate	Medium-term estimates		
Revenue	**762.9**	**842.3**	**909.3**	**1 010.5**	**1 099.2**	**1 201.3**	**1 324.7**
	27.7%	*28.2%*	*28.4%*	*29.2%*	*29.0%*	*28.9%*	*29.1%*
Non-interest expenditure	804.6	871.3	951.7	1 041.6	1 131.1	1 218.1	1 306.5
	29.6%	*29.4%*	*29.9%*	*30.2%*	*30.0%*	*29.5%*	*28.8%*
Interest payments	75.3	81.7	93.5	107.7	121.2	133.5	145.1
	2.7%	*2.7%*	*2.9%*	*3.1%*	*3.2%*	*3.2%*	*3.2%*
Expenditure	**879.9**	**953.1**	**1 045.2**	**1 149.3**	**1 252.3**	**1 351.6**	**1 451.6**
	32.0%	*32.0%*	*32.7%*	*33.2%*	*33.0%*	*32.6%*	*31.9%*
Budget balance	**-117.1**	**-110.8**	**-135.9**	**-138.8**	**-153.1**	**-150.3**	**-126.9**
	-4.3%	*-3.7%*	*-4.3%*	*-4.0%*	*-4.0%*	*-3.6%*	*-2.8%*

Source: National Treasury

- Revenue stabilises at around 29 per cent of GDP over the medium term
- Non-interest expenditure declines from 30.2 per cent of GDP in 2013/14 to 28.8 per cent of GDP in 2016/17
- As economic growth improves and spending limits stay in place, the budget deficit is projected to narrow to 2.8 per cent of GDP by 2016/17

Tax revenue revisions-MTEF

Revisions to main budget revenue estimates

R billion/percentage of GDP	2013/14		2014/15		2015/16	
	2013 Budget	2014 Budget	2013 Budget	2014 Budget	2013 Budget	2014 Budget
Revenue						
Gross tax revenue	898.0	899.0	991.8	993.7	1 099.0	1 095.1
Non-tax revenue	18.3	18.8	19.1	18.0	20.2	18.7
SACU	-43.4	-43.4	-43.0	-51.7	-48.5	-57.3
National Revenue Fund receipts	5.0	11.8	2.9	2.9	3.1	1.6
Main budget revenue	**878.0**	**886.2**	**970.8**	**962.8**	**1 073.8**	**1 058.1**
Percentage of GDP	*24.9%*	*25.6%*	*25.0%*	*25.4%*	*25.1%*	*25.5%*

Source: National Treasury

- The revenue estimate for 2013/14 presented in the 2013 Budget has been revised upwards by R1 billion to R899 billion
- Gross tax is R85.2 billion or 10.5 per cent higher than actual tax revenue in 2012/13
- Revenue has been revised marginally downwards in 2015/16, reflecting a weaker economic outlook

Consolidated operating and capital accounts

Consolidated operating and capital accounts, 2010/11 – 2016/17

R billion	2012/13	2013/14 Estimate	2014/15 Medium-term estimates	2015/16	2016/17
Current balance	**-11.8**	**-0.9**	**5.3**	**24.7**	**70.4**
Percentage of GDP	*-0.4%*	*-0.0%*	*0.1%*	*0.6%*	*1.5%*
Capital financing requirement	**-119.2**	**-134.0**	**-151.7**	**-165.6**	**-179.0**
Percentage of GDP	*-3.7%*	*-3.9%*	*-4.0%*	*-4.0%*	*-3.9%*
Financial transactions	4.9	3.9	3.6	3.3	0.3
Contingency reserve	–	–	3.0	6.0	18.0
Budget balance	**-135.9**	**-138.8**	**-153.1**	**-150.3**	**-126.9**
Percentage of GDP	*-4.3%*	*-4.0%*	*-4.0%*	*-3.6%*	*-2.8%*

Source: National Treasury

- Current balance (operational balance) reaches surplus of 1.5 per cent of GDP in 2016/17, helping to finance capital spend
- Capital financing requirement remains at around 4 per cent of GDP over the medium term
- Budget deficit narrows from 4 per cent in 2013/14 to 2.8 per cent in 2016/17

Ensuring spending efficiency

- Cost-containment measures implemented in December 2013 to limit expenditure on conferences, travel, entertainment
- National Treasury and the Department of Performance Monitoring and Evaluation have launched a series of expenditure reviews; initial findings to be released in 2014/15
- The National Treasury is working with provincial treasuries to identify inefficiencies and improve provincial spending
- The Chief Procurement Officer is building a national system for the purchase of high-value goods and services commonly used across government
- Forthcoming regulations will strengthen the National Treasury's oversight of public entities

Public-sector borrowing requirements

Public-sector borrowing requirement

R billion/percentage of GDP	2012/13	2013/14 Revised estimate	2014/15	2015/16	2016/17
			Medium-term estimates		
Consolidated government	**135.9**	**138.8**	**153.1**	**150.3**	**126.9**
	4.3%	*4.0%*	*4.0%*	*3.6%*	*2.8%*
Local authorities	**9.3**	**9.7**	**9.7**	**10.2**	**10.8**
	0.3%	*0.3%*	*0.3%*	*0.2%*	*0.2%*
State-owned companies	**65.2**	**78.7**	**68.8**	**82.7**	**57.7**
	2.0%	*2.3%*	*1.8%*	*2.0%*	*1.3%*
Borrowing requirement	**210.4**	**227.2**	**231.6**	**243.2**	**195.4**
	6.6%	*6.6%*	*6.1%*	*5.9%*	*4.3%*

Source: National Treasury

- The borrowing requirement is projected to narrow to 4.3 per cent of GDP in 2016/17 as a result of:
  - A declining main budget deficit over the MTEF period
  - SSFs remaining in surplus
  - Borrowing by state-owned companies declining as a share of GDP
  - Local government borrowing remaining low and stable

Financing of the net borrowing requirement

Financing of national government net borrowing requirement[1], 2012/13 – 2016/17

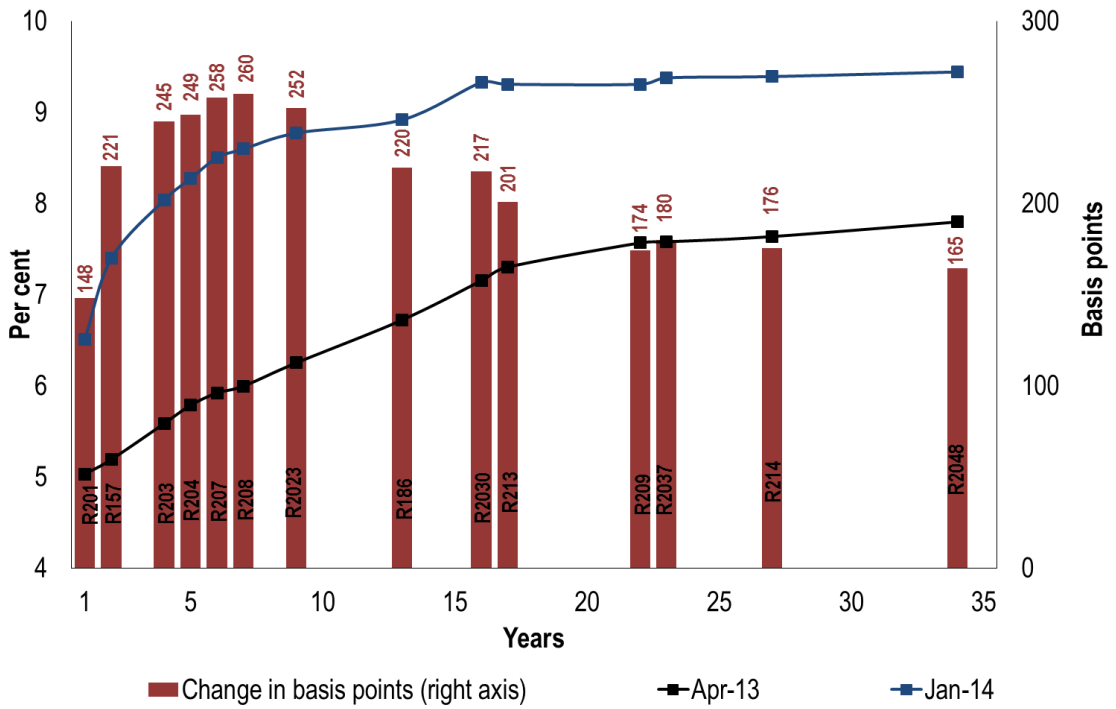
R million	2012/13 Outcome	2013/14 Budget	2013/14 Revised	2014/15 Medium-term estimates	2015/16 Medium-term estimates	2016/17 Medium-term estimates
Main budget balance[2]	**-165 734**	**-178 047**	**-162 942**	**-179 781**	**-174 473**	**-151 026**
Financing						
Domestic short-term loans (net)	**22 555**	**23 000**	**23 000**	**23 000**	**24 000**	**26 000**
Treasury bills	16 826	24 103	23 159	23 000	24 000	26 000
Corporation for Public Deposits	5 729	-1 103	-159	–	–	–
Domestic long-term loans (net)	**125 768**	**143 610**	**148 993**	**132 098**	**135 356**	**121 009**
Market loans (gross)	161 554	165 648	170 648	167 103	165 075	180 637
Loans issued for switches[3]	-3 848	-1 310	-1 135	–	–	–
Redemptions	-31 938	-20 728	-20 520	-35 005	-29 719	-59 628
Foreign loans (net)	**-11 622**	**-4 335**	**380**	**1 288**	**12 205**	**3 006**
Market loans (gross)	–	12 390	19 619	16 290	15 780	14 955
Arms procurement loan agreements (gross)	61	–	–	–	–	–
Redemptions (including revaluation of loans)	-11 683	-16 725	-19 239	-15 002	-3 575	-11 949
Change in cash and other balances[4]	**29 033**	**15 772**	**-9 431**	**23 395**	**2 912**	**1 011**
Cash balances	27 224	11 272	-18 809	18 895	-1 588	-3 489
Other balances[5]	1 809	4 500	9 378	4 500	4 500	4 500
Total	**165 734**	**178 047**	**162 942**	**179 781**	**174 473**	**151 026**

1. A longer time series is presented in Table 1 of Annexure B
2. A negative number reflects a deficit
3. Net of loans issued and redeemed in switch transactions
4. A negative change indicates an increase in cash balances
5. Net movement in national departments' bank balances due to differences between funds requested and actual cash flows
Source: National Treasury

- Funding to be raised largely from domestic bond market
- Net borrowing requirement to moderate to R151 billion in 2016/17
- US$4.5 billion to be borrowed in the international capital market over the medium-term
- Loan redemptions projected to total **R155 billion** over the medium-term

Bond yields increased rising government's debt service costs

Fixed-rate bond yield curve movement

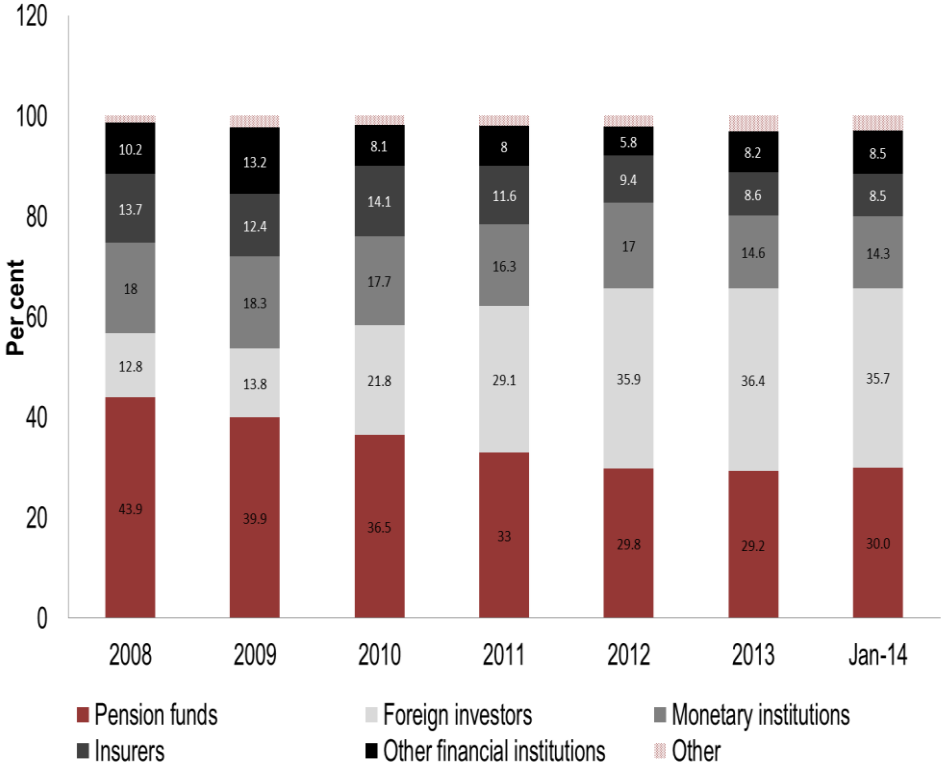


Source: National Treasury

- **Borrowings costs increased notably since May 2013**
  - Yield curve has moved by more than 200 basis points on average.
  - Monetary policy tightening has also contributed to higher yields.
  - Yields have also followed rand exchange rate depreciation.

Non-residents holdings increased significantly since the 2008 crisis and holding steady

Holdings of domestic government bonds (%) , 2007 – Jan 2014

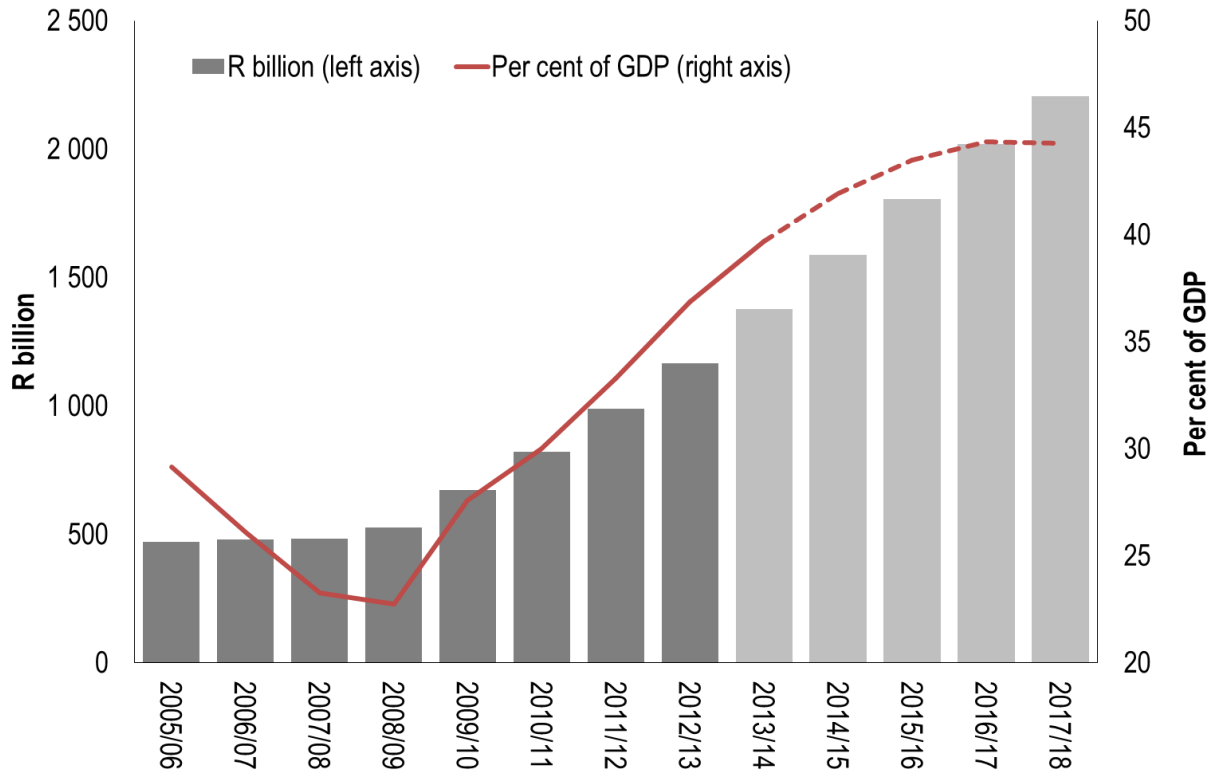


Source: Share Transaction Totally Electronic LTD(Strate)

- Non-resident holdings stood at 35.7 per cent (R392bn) (US$39.2bn) at end of Jan 2014
- The highest reached is 38.7 per cent in April 2013
- Early indications in 2014 suggest that holdings in 2014 might decline, though still early days
- Depth of domestic market has seen local funds pick up the slack by foreign investors in 2013, a trend likely to continue in 2014

Debt outlook remains sustainable

Net loan debt 2005/06-2017/18



Source: National Treasury

- Net loan debt stabilises at 44.3 per cent of GDP in 2016/17
- Debt-service costs stabilise in 2015/16, and begin to decline as a share of GDP

Tax Proposals: Individuals

- **Personal income tax relief of R9.3 billion**

- Adjustments to the retirement savings lump-sum tax tables
- Monthly medical scheme contribution tax credits to be increased
- Clarity on valuation of company cars for fringe-benefit tax purposes
- Measures to encourage philanthropic foundations to support worthy causes carried out by other public-benefit organisations
- Tax-free savings accounts to encourage higher levels of households savings (in interest bearing accounts, collective investment schemes, exchange-traded funds and retail savings bonds)

Tax Proposals: Businesses

- The employment tax incentive (introduced at the beginning of 2014) will help unemployed youth to gain skills and experience in the workplace.

- Entrepreneurship and small business development:
  - Tax relief to foundations that promote entrepreneurial development through grants
  - Making grants received by small and medium-sized enterprises income tax exempt, regardless of the source of funds
  - Enhancing the flexibility of the Venture Capital Company regime

- The Davis Tax Review Committee recommends:
  - Retaining the turnover tax regime for micro businesses with simplifications and adjustments to thresholds and tax rates
  - Replacing the graduated income tax rate regime for small business corporations (SBCs) with an annual refundable tax compliance credit

Tax Proposals: Indirect taxes

- Increases in excise duties on alcoholic beverages and tobacco products
- Inflationary adjustments to fuel taxes
- Measures to address acid mine drainage
- A comprehensive policy package to address climate change – revised carbon tax design:
  - Limiting the effect on electricity prices by reducing the electricity levy and providing Eskom with a credit for the renewable energy premium
  - Addressing international competitive concerns – through the energy efficiency tax incentive, refinements to R&D tax incentive and carbon offsets
  - Addressing impact on households – some revenues to be used to subsidise solar water geysers and improve public transport
  - Alignment with the DEROs (desired emission reduction outcomes) to be developed by Department of Environmental Affairs
- Amending VAT rules (input tax) to combat gold smuggling

Government continues to provide tax incentives to support investment, savings and growth

Summary of tax expenditure estimates, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12
Personal income tax	29 567	34 173	40 963	44 095
Corporate income tax	2 795	3 353	3 557	2 490
Value-added tax	31 090	30 384	35 467	42 148
Customs and excise duties	20 545	16 766	17 126	19 919
Total tax expenditure	**83 996**	**84 676**	**97 113**	**108 651**
Tax expenditure as percentage of total gross tax revenue	*13.4%*	*14.1%*	*14.4%*	*14.6%*
Total gross tax revenue	**625 100**	**598 705**	**674 183**	**742 650**
Tax expenditure as percentage of GDP	*4.0%*	*3.7%*	*4.0%*	*4.0%*

The tax system includes various incentives – and should treated as tax expenditure or foregone tax revenue. In broad terms these can be classified as follows;

- Personal income tax (incentives on retirement savings and medical expenses);
- Corporate income tax (investment incentives, urban development incentives, R&D and leaderships);
- Value-added tax (zero-rating of basic food stuffs, petrol and diesel); and
- Customs and excise duties (incentives to the motor industry, textiles, agriculture and mining).

In 2011/12 total revenue foregone through such incentives amounted to **R108.7 billion;** 4.6 per cent of total gross tax revenue or 4 per cent of GDP.

Medium-term expenditure framework

- The social wage will remain the largest category of spending over the period ahead:
  - The number of **social grant recipients** will grow to 16.5 million
  - The **antiretroviral programme** will expand by 500 000 people per year
  - Access to **Grade R education** will continue to grow
- The fastest expenditure growth will be on:
  - Employment and social security:
    - The **Community Work Programme** will expand to every municipality by 2017 and the **Unemployment Insurance Fund** will extend its benefit payments from 238 days to 365.
  - Local government, housing and community amenities:
    - Substantial improvements to the **commuter rail network** and **bulk water infrastructure**

Significant changes in the 2014 Division of Revenue Bill

- A large part of the Bill remains the same annual revisions mainly to take into account specific policy adjustments. Main amendments to 2013 Act:

  - New clauses to improve alignment of infrastructure spending in metros
    - Metros to submit council approved Built Environment Performance Plans (BEPPs) - city's infrastructure programme to support a more integrated and efficient city
    - National departments making transfers to metros must take BEPP into account when monitoring and evaluating their performance

  - Improved planning for provincial infrastructure
    - 2013 Act required provinces to plan infrastructure spending 2 years in advance to receive health and education infrastructure transfers. 2014 Bill adds requirements for 2nd year of planning towards 2015/16 allocations
    - Health Facility Revitalisation Grant no longer has separate components that require a gazette to shift funds. Will enable provinces to improve spending on infrastructure

  - Increased transparency and accountability on grant administration
    - Receiving officers must now include in their expenditure reports the reason why a grant transfer has been withheld or stopped
    - More flexibility to shift funds between direct and indirect grants

Summary of changes to baselines

- Government is committed to maintaining the level of spending set out in previous budgets
- Reductions were made across allocations to all 3 spheres to provide funds for government priorities
  - Most reductions were small and/or on underperforming programmes so will have minimal impact on delivery
- The following priorities receive additional funds:

National	Provincial	Local Government
▪ Compensation of employees, South African Air Force, rolling stock, Community Work Programme, court infrastructure, set-top boxes, Office accommodation for StatsSA	▪ Equitable Share: ICS, shelters for victims of gender-based violence ▪ Conditional Grants: HIV and Aids treatment & prevention, accelerated upgrading of informal settlements, rising costs of transport, disaster recovery ▪ Both: New HPV vaccine and ICS in FET colleges and OSD for education therapists	▪ Equitable share: no change ▪ Conditional Grants: Support to integrated city development, regional bulk infrastructure, capacity for housing in metros, disaster recovery

Total transfers to provinces for 2014/15

Total transfers to provinces, 2014/15

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	52 154	9 846	**62 000**
Free State	20 883	6 158	**27 041**
Gauteng	68 673	16 935	**85 608**
Kwa Zulu-Natal	78 138	15 941	**94 080**
Limpopo	43 274	7 580	**50 854**
Mpumalanga	29 355	6 352	**35 707**
Northern Cape	9 652	3 406	**13 057**
North West	24 707	5 621	**30 328**
Western Cape	35 631	9 917	**45 549**
Unallocated	–	197	**197**
Total	**362 468**	**81 955**	**444 423**

Source: National Treasury

Additions to equitable share in 2014 MTEF

- R11.6b for wage increases due to higher inflation
- R150m for shelters for victims of gender-based violence
- R200m in 2016/17 for rollout of the HPV vaccine

Changes to conditional grants

- New **Substance Abuse Treatment Grant** for creating public substance abuse treatment centres in 4 provinces (R124m over 3 years)
- **OSD for Education Sector Therapists Grant -** New grant for 2 years (R280m). From 2016/17 part of equitable share
- **Further Education and Training Colleges Grant -** R160m added for wage increases due to inflation
- **Health Facility Revitalisation Grant –** merged
- **National Health Grant: HPV vaccine component –**Vaccine prevents cervical cancer. Indirect grant for 2 years (R200m p.a.), then part of equitable share
- **Comprehensive HIV and Aids Grant –** R1b in 2016/17 for estimated annual additional patient take up
- **Public Transport Operations Grant -** R150m to assist provinces with impact of rising fuel and labour costs
- **Human Settlements Development Grant -** R180m in 2014/15 for informal settlement upgrading in mining towns, bringing total earmarked allocation to R2.4b
- **Disaster recovery funds** - R670m in 2014/15; R374m in 2015/16

Total transfers to municipalities for 2014/15

Local government transfers, 2014/15-2015/16

R million	2014/15	2015/16	2016/17
	Medium-term estimates		
Direct transfers	**90 815**	**100 047**	**105 187**
Equitable share and related	**44 490**	**50 208**	**52 869**
Equitable share formula[1]	39 410	44 895	47 282
RSC levy replacement	4 146	4 337	4 567
Support for councillor remuneration and ward committees	935	976	1 020
General fuel levy sharing with metros	**10 190**	**10 659**	**11 224**
Conditional grants	**36 135**	**39 181**	**41 094**
Infrastructure	32 582	35 324	36 722
Capacity building and other	3 553	3 857	4 372
Indirect transfers	**7 726**	**9 467**	**10 221**
Infrastructure	7 584	9 316	10 062
Capacity building and other	142	151	159
Total	**98 541**	**109 514**	**115 408**

Source: National Treasury

Changes to conditional grants

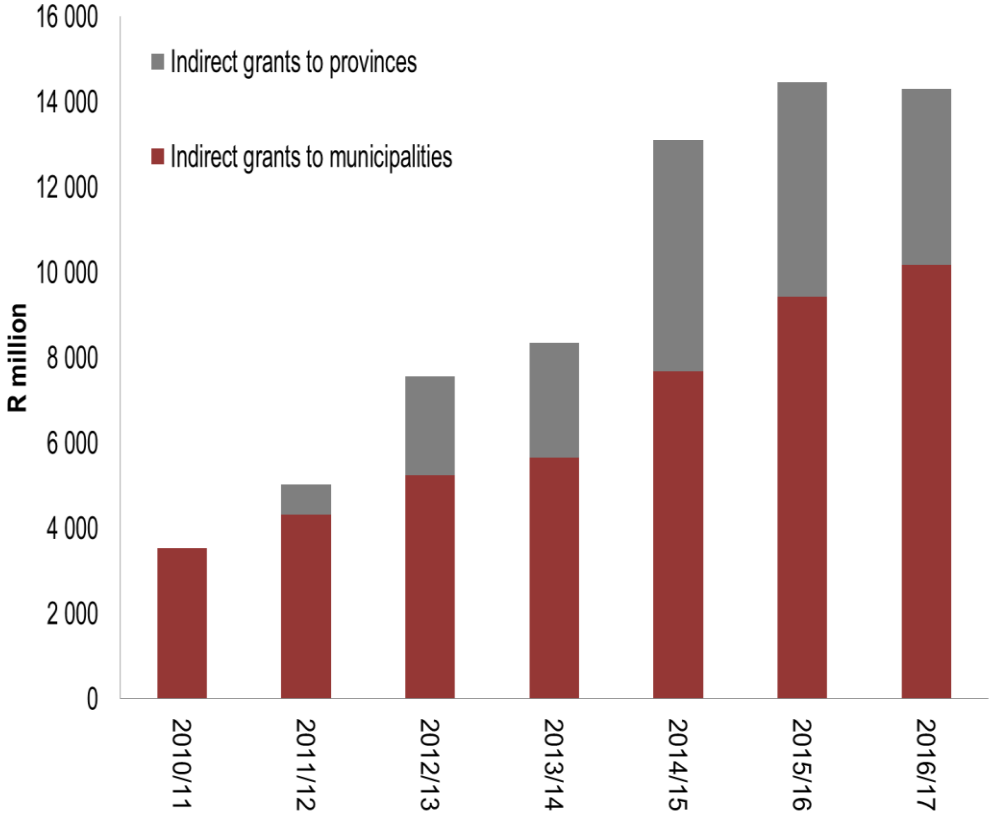
- **Prioritising eradication of bucket sanitation -** Conditions in Urban Settlements Development and Municipal Infrastructure Grants require municipalities to prioritise bucket eradication. Provisions in Bill allow for conversion to indirect grant
- **Water infrastructure -** R934m to Regional Bulk Infrastructure Grant to accelerate bulk water and sanitation for unlocking development potential
- **Disaster funding -** R59m for disaster recovery (R118.3m in 2013 DoRAA)
- **Promoting more integrated and efficient cities**
  - R356m to **Integrated City Development Grant** for investments that prioritise more integrated and efficient cities
  - **Supporting the devolution of the housing function –** R300m p.a. to enable metros to built necessary capacity towards housing accreditation (NDP goal)

Additions to equitable share in 2014 MTEF

- Large additions to local government equitable share made in previous MTEFs
  - Annual growth rate of 22.9% (2000/01 - 2013/14)
  - Over MTEF, grows by 10.4%

Indirect grants are becoming a stronger feature of the Division of Revenue

Value of indirect grants



Source: National Treasury

- Indirect grants allow national govt to spend on behalf of other spheres (no funds are transferred) - allows services to be provided while capacity is built
- The following shifts to indirect provincial grants are included in 2014 DoR:
  - Most reforms made in health sector
- The following shifts to indirect municipal grants are included in 2014 DoR:
  - Funding for **Bucket Eradication Programme**
  - **Integrated National Electrification Programme -** R460m in 2014/15 is shifted from direct to indirect INEP grant implemented by Eskom
  - **Municipal Water Infrastructure Grant -** R3.3b over MTEF shifted into a new indirect component
  - **Rural Households Infrastructure Grant -** R132.8m over MTEF shifted to indirect component of the grant

Conclusion

- Over two decades, South Africa has built a solid foundation on which to address its many challenges.
- The country's fiscal and economic policy frameworks were tested during the last five years by the global economic crisis. Fiscal imbalances remain and growth is still below potential, but the economy has weathered the storm.
- Over the past five years, government has laid the basis for a new and more inclusive growth path.
- The NDP increasingly guides the allocation of public resources within a sustainable framework and provides focus for urgent improvements in the quality of government services.
- With bold decisions, the economy can grow more rapidly.
- The platform for faster growth envisioned in the NDP will enable the economy to sustain and expand progress over the next 20 years of freedom.