

Key facets of the Medium-Term Budget Policy statement

 By [Paddy Hartdegen](#)

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Finance Minister Pravin Gordhan presented his Medium-Term Budget Policy statement to Parliament on Tuesday, 25 October 2011. The implications for the whole of South Africa are extensive and there are many different interpretations that can be placed on the policy and its implementation in the years ahead.

Total consolidate expenditure by government is forecast to rise from R885,8-billion to almost R1,25-trillion by the 2014/15 financial year.

Here are the highlights of Gordhan's presentation:

Government expenditure

Between 2002/03 and 2009/10 government spending, as a share of South Africa's gross domestic product, increased from 27,2% to 33,8%, a clear indication that in spite of the lower economic and revenue growth, public expenditure has continued to expand.

The Unemployment Insurance Fund has provided some income for the increased number of claimants as a result of the steep deterioration in employment that began in 2009 and has continued since then.

Workers and enterprises have been assisted through the training lay-off scheme and through the Industrial Development Corporation, while households have received support through social assistance schemes from government.

Electricity generation capacity is being expanded, public transport systems are being improved and there is much greater investment in water supplies countrywide, new rural development programmes are underway along with initiatives to improve education and skills development.

However, difficult decisions are required from government to ensure that the scarce resources are directed towards economic development and more efficient service delivery. To this end government's share of gross domestic product will need to moderate to avoid future debt burdens and to create an environment in which the private sector can grow, invest and create jobs.

The government's wage bill has increased from 31% of government revenue four years ago to the current level of 42%. For the 2012 Budget a 5% cost-of-living increase has been provided for public sector employees and will be implemented from April each year. Social grants will be increased by the same amount.

Social security and health care

About 27% of the consolidated budget is devoted to health care and social protection. Reform of South Africa's social security and retirement fund arrangements has been prepared and will be released for comment before the end of the financial year.

Social welfare grants support 15,2-million South Africans, up from 2,5-million in 1998. Government spends 10,9% of its total budget on social grants. Total expenditure on social protection will rise from R147,8-billion to R182,3-billion by 2014/15.

Its central focus is the inclusion of a retirement pension in the contributory social security system. Moreover, the National Health Insurance is being piloted in ten districts around the country and will test the feasibility of the proposals in the green paper. The projects will include:

- District-based clinical specialist support teams;
- School-based primary health care services;
- Family health teams, including municipal ward-based outreach services;
- Changing the public sector approach to human resources;
- Introducing general practitioner services.

Overall, health care expenditure will rise by 7,4% from R113-billion to R121-billion in 2013/13, then to R130,6-billion in 2013/14 and finally to R140,1-billion in 2014/15.

Infrastructure development

Targeted investments by government will support the increase in electricity generation capacity, improve the roads and railways networks, increase water and sanitation programmes and improve telecommunications.

Large-scale investments in transport will be implemented over the medium-term and include improving the country's rolling stock used by the railways and improving maintenance of the railway network itself. The deterioration of the railways network has placed greater strains on the roads networks.

The large backlogs in road maintenance at a provincial and municipal level will be addressed and cities will be expected to take greater responsibility for the management and operational costs of the public transport networks that use road or rail. The National Land Transportation Act (2009) provides for the devolution of public transport planning, management and funding to local government.

The provincial roads maintenance grant to provinces will mean that provinces must ensure that they implement better road asset management systems to improve the life expectancy of roads and to reduce vehicle operating costs.

In terms of electricity, the government will focus on the electrification of informal settlements and increasing the generation capacity of the renewable energy sector. Government aims to ensure that all households are provided with electricity connections by 2014.

With regard to the provision of water, government is seeking to implement an integrated approach to water provision that will include improved planning, construction and maintenance of water reticulation plants at a local level where there is a lack of capacity.

Government expenditure on infrastructure for the current year is estimated at R233-billion. This will rise to R802-billion by 2014/15. Over the next three years the investments will include:

- Energy, R292-billion;
- Transport and logistics, R226-billion;

- Hospital construction and health facilities, R39-billion
- Education infrastructure, R32-billion
- State-owned enterprises will borrow R74-billion to finance investment spending this year, rising to R80-billion next year.
- R208-million is allocated to meeting urgent needs associated with acid mine drainage in the Witwatersrand Basin. A partnership between the water authorities, the mines and the municipalities will contribute to addressing the region's water supply needs over the longer-term.
- R752-million goes to provinces in conditional grants to repair flood-damaged infrastructure

Human settlements and community amenities

Spending on human settlements has increased from R68-billion in 2008/09 to R121,5-billion in 2011/12. Government is committed to extending community development programmes, including human settlements developments and urban settlements developments through grants to province and municipalities.

About 1,2-million people live in informal settlements and the priority is to upgrade such settlements in 45 large cities and towns providing poor households with improved living conditions where they can access economic opportunities. Over R60-billion will be spent in cities and town to transform informal settlements.

Total expenditure will rise from the current level of R121,5-billion to R146,2-billion by 2014/15.

Agricultural and rural development

Government is working to expand food production and support rural development and both the Department of Rural Development and Land Reform and the Department of Agriculture, Forestry and Fisheries are aligning their programmes to allow for better collaboration between government and the private sector to provide funding and technical support for farmers.

The goal is to improve the commercial viability of newly settled farmers, increase food supplies, improve technology transfer and help farmers adapt to changing farming conditions.

The department has settled just 35 land claims - out of an annual target of 60 - and has recapitalised 242 farms so far this year, of which 68 were new projects. It aimed to recruit 5 000 workers to the rural youth service before the end of the year even though it had only managed to recruit 580 so far.

The department will spend R2,5-billion on land restitution and R3,2-billion on land reform.

Almost R185,5-million has been channelled to farmers to help them recover from damage caused by flooding and by livestock diseases.

Climate change and the environment

Spending on improving environmental management has increased from R38,5-billion in 2008/09 to R52,4-billion in 2011/12 at an average rate of 11%. Government has also made R6-billion available to Eskom for demand-side management initiatives that include energy-efficient lighting, subsidised solar water heaters and improved energy-efficiency in buildings.

However, the skills base to improve environmental sustainability is insufficient particularly at a municipal level to allow the necessary authorisations for the use of technologies by businesses that reduce greenhouse gas emissions.

The government will work to strengthen environmental and climate change policies and secure global and private funding for green interventions.

Government services and administration

Some state institutions require significant work to improve their efficiency while some others are performing well. The Department of Home Affairs is an example of a government institution that has managed to turn itself around allowing for a identity document to now be issued in 46 days compared with 127 days in 2008. Passports can be issued in just 21 days.

Government faces substantial challenges in the management of government buildings and accommodation, including widespread under-spending by departments. The problems arise because of a shortage of technical and project management skills and an incomplete asset register.

Allocations to national departments increase by R1,9-billion in 2012/13 and by R5,8-billion in 2014/15 and by R15,1-billion in 2014/15.

The provincial share goes up by R20,8-billion and local government allocations are increased by R5-billion. Of the R48-billion available for baseline revisions, 42% goes to provinces and 10,5% to local government. This will see total allocation of revenue rise from R811,2-billion in 2011/12 to R1-trillion in 2014/15.

R266-million will be paid in once-off gratuities to outgoing councillors following this year's municipal elections.

Defence, public order and safety

The policy focus for policing and justice is to reduce serious crime, improve investigative capacity and increase access to justice services in under-serviced areas.

Expenditure for defence and criminal justice, including self-financing entities, provincial departments and the military health support programme increased from R93-billion in 2008/09 to R123,6-billion in 2011/12. Expenditure will increase to R150,4-billion by 2014/15.

Moreover, investigative capacity will be increased along with improved controls of the country's borders. The Independent Police Investigative Directorate Act (2011) will be implemented allowing for the transformation of the Independent Complaints Directorate into an agency tasked with investigating police misconduct and offences, but with a broader focus on serious and priority crimes as well.

Moreover, R81,4-million is allocated to defence to fight piracy in the Mozambique Channel in co-operation with the Mozambican Defence Force.

Education

Total expenditure on education will rise from the current estimate of R190,8-billion to R231,7-billion by 2014/15.

Challenges for education in South Africa include inappropriately trained teachers, insufficient time being spent on specific tasks and a lack of basic resources in schools.

The government recognises the need to improve the quality of education - as reflected by the low levels of literacy and numeracy in the annual national assessments - and the spending increases will broaden access to education.

There are 9 000 teachers enrolled in the Funza Lushaka bursary programme, with many focusing on science and mathematics tuition. The government plans to improve the Further Education and Training programmes at colleges through support for tuition, machinery and equipment.

More funds will also be made available to strengthen and expand post-graduate programmes at South African universities.

ABOUT PADDY HARTDEGEN

Paddy Hartdegen has been working as a journalist and writer for the past 40 years since his first article was published in the *Sunday Tribune* when he was just 16-years-old. He has written 13 books, edited a plethora of business-to-business publications and written for most of the major newspapers in South Africa.

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