Budget Review

2009

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National Treasury

Republic of South Africa

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To obtain copies please contact:

Communications Directorate
National Treasury
Private Bag X115
Pretoria
0001
South Africa
Tel: +27 12 315 5518
Fax: +27 12 315 5126

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Foreword

To appreciate the evolution of South Africa's public finances, consider the difference that 11 years can make. Tabling a budget in midst of the 1998 Asian crisis was difficult. Producing the 2009 Budget during the present global financial and economic crisis has been tougher, but for a different set of reasons.

The 1998 crisis was of a smaller magnitude, but we had to *cut* budgets. In responding to the current crisis, government is able to *increase* spending on crucial social programmes, help state-owned enterprises to finance their capital investment plans, and grow investment in our future by boosting allocations to education and rural development. While we have had to make some reductions in lower-priority areas, this is an expansionary budget.

We are able to respond in a way that cushions the poor from the worst effects of the economic slowdown and supports long-term growth because, over the past 15 years, we have managed our public finances in a sound manner. Tough decisions taken more than a decade ago are now bearing fruit.

This budget has, however, been challenging. Revenue growth is slowing. Access to global capital markets is prohibitively expensive and the demands on the fiscus are greater than ever before. The world economy, on which we rely for capital and export markets, is likely to get worse before it gets better. The international outlook is clouded by uncertainty.

These are difficult circumstances indeed. We will, however, continue to ensure that the public finances are well managed to meet South Africa's current and future needs.

This is the earliest date that a budget has been tabled in any year since 1994. Given uncertainty in the economic data, government's propensity to take decisions as late as possible, and the fact that there is no room for error, all those involved in this budget process have endured frayed nerves, late nights and lots of coffee – even more than usual. National Treasury staff have performed admirably in ensuring that we have a high-quality budget produced on time. They do this for little reward other than the comfort of the knowledge that they are making a contribution to the development of their country.

I would like to thank my colleagues in national departments and in the provinces for their cooperation and diligence, and to apologise to them for the harsh words uttered in the heat of debate over this year's allocations.

The longevity of the Minister of Finance has not dimmed his ability to raise the bar for performance, wanting more information presented in a better way. Nor has it stopped him from peddling long manuscripts from obscure philosophers and economists when we have little time to sleep, let alone read. Thanks also to the new Deputy Minister, who has certainly had a baptism of fire. Without their guidance and leadership, we would not have got through these difficult months.

Lesetja Kganyago

Director-General: National Treasury

Towards a greener budget

Last year the National Treasury began assessing the direct environmental impact of the budget processes. This is in keeping with the belief that we all have a responsibility to help protect our environment and our planet for future generations.

The National Treasury has attempted to quantify how much carbon dioxide (CO_2) we produce, and how much paper we consume, in the production of the national budget. We only recorded this consumption between 1 January and 11 February 2009. A comprehensive exercise would have required a longer time horizon and the inclusion of more data.

The three indicators relate to the CO_2 emissions produced by travel, the amount of paper that National Treasury officials used in their offices during the period and the amount of paper needed to produce the various budget publications.

The tables below show that the National Treasury is decreasing the environmental impact of the main activities of the budget process.

TRANSPORT

Method	**Trips**	**Distance**	**CO2 emissions**	**CO2 reduction (*2008 comparison*)**
Flights 2008	67 (2-hour return flights)	227 800 km	29 614/kg	3 094/kg
Flights **2009**	60 (2-hour return flights)	204 000 km	26 520/kg	
Car trips 2008	270 car or shuttles hired	38 800 km	8 554/kg	150/kg
Car trips **2009**	270 car or shuttles hired	38 200 km	8 404/kg	
TOTAL				**3 244/kg**

PRINTING

Budget documents are printed on paper stock called Triple Green, manufactured in accordance with three environmental standards: 60% sugar cane fibre, chlorine-free and sustainable afforestation.

Method	**Paper in weight**	**Trees**	**Trees saved *(2008 comparison)***
Paper used internally 2008	255 reams or 636kg	18	1.5
Paper used internally **2009**	230 reams or 575kg	16.5	
Paper used to produce the budget documents 2008	36 000 kg	708	118
Paper used to produce the budget documents **2009**	30 000 kg	590	
TOTAL			**119.5**

The National Treasury has also employed energy-saving measures at its offices to reduce electricity consumption. We have managed to reduce the electricity used during budget period by **201 mW** (from 924 mW in 2008 to 720 mW in 2009).

Contents

A note on annexures

In addition to the items above, two annexures are published on the website of the National Treasury (www.treasury.gov.za) along with the full 2009 *Budget Review*. These are:

- Annexure W1: Explanatory memorandum to the division of revenue
- Annexure W2: Structure of the government accounts

Tables

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A time of crisis, a window of opportunity

- The scope of the present global crisis – the most serious financial and economic contraction since the 1930s – presents all countries with new challenges. Although the medium-term growth outlook is poor, South Africa has made the right choices over the past decade, creating the room for a bold response now. The 2009 Budget advances a series of policy measures to enable South Africa to respond to the changed economic environment and construct a more robust platform for growth once the world economy recovers.
- Government's sound fiscal and monetary policies have reduced but not eliminated the country's exposure to the international downturn. Following six years of strong performance, GDP growth is expected to slow sharply to 1.2 per cent in 2009. While some factors point towards an incipient recovery in global growth towards the end of the year, the outlook is highly uncertain.
- Over the period ahead government is committed to strengthening the economic foundation required for accelerated long-term growth by extending the public-sector infrastructure programme. The fiscal stance provides for sustained growth in public expenditure to cushion the economy and reinforce the social safety net for the poor, while ensuring that debt incurred to finance the country's priorities is kept at sustainable levels now and in future.

A turning point in the world economy

Introduction

The impact of the global financial crisis on the world economy has been more severe than anticipated, and the deteriorating international environment significantly affects South Africa's growth prospects. In economic terms, the period ahead will be the most challenging yet faced by South Africa's democracy.

The world is in the midst of a deep and synchronised economic slowdown

Economic growth is projected to slow to 1.2 per cent of GDP in 2009

Domestic GDP growth is projected to slow to 1.2 per cent in 2009 from an estimated 3.1 per cent in 2008. The period of slower growth ahead is likely to be characterised by rising unemployment, declining business profitability and the closure of some companies. While policy responses to the crisis will reduce the impact on poor and marginalised communities, economic conditions will be difficult for some time.

Government will sustain strong growth in public spending

Slowing economic growth has put pressure on government revenues and reduced the fiscal space for increased expenditure. However, as a result of government's record of sound fiscal management and prudent policy choices over the past decade, the state will be able to increase spending on social services and fixed investment over the medium term.

The new and difficult circumstances call for both bold action and careful policy adjustments to ensure that the economy continues to grow and to improve the living standards of all South Africans. Boldness is required because of the severity of the situation, yet care must be taken so that ill-conceived or poorly executed interventions do not burden future generations.

Five objectives guide government's response to the crisis

The 2009 Budget is framed by five objectives that guide government's policy response over the medium term:

- **Protect the poor**. Government will continue to expand programmes that alleviate poverty and strengthen the social safety net.
- **Build capacity for long-term growth**. Investment in infrastructure will be accelerated. This includes ensuring that public utilities can finance their capital investments and that the development finance institutions play a greater role in lending for infrastructure investment, sharing risk with the private sector.
- **Sustain employment growth**. Government will increase public investment spending, expand labour-intensive employment programmes, and work with business and organised labour to protect work opportunities and accelerate skills development.
- **Maintain a sustainable debt level**. While public debt is set to rise, this expansion must be kept in check so as not to reduce the space to finance development in the longer term.
- **Address sectoral barriers to growth and investment**. Microeconomic and regulatory reforms are needed to ensure that a more competitive, labour-absorbing economy emerges from the current global crisis.

State-owned entities will spend, on average, more than R120 billion a year on infrastructure programmes

Flowing from these objectives, the 2009 Budget provides for strong growth in allocations for labour-intensive employment programmes, municipal infrastructure, education, health, fighting crime and investing in rural development. Consolidated non-interest government expenditure is expected to grow by 5.1 per cent a year in real terms over the next three years. Over the medium term, state-owned enterprises will spend more than R120 billion a year on infrastructure, laying the foundations for faster economic growth in the future.

For the global economy, the downturn highlights the need to address structural trade imbalances, reshape international financial relations, and attack the underlying causes of poverty and inequality. South Africa's challenge, similarly, is to address the obstacles that stand in the way of faster growth and broader participation in economic development. These include labour market arrangements that inhibit job creation, dysfunctional government institutions, weaknesses in education and training, lags in industrial and trade interventions, and uncompetitive cost structures in input sectors such as telecommunications.

Downturn highlights the long-term need to address underlying causes of poverty and inequality

Managing through the downturn

A global crisis

In the 2008 Budget, government pointed to the high probability that global imbalances would begin to unwind in a rapid and disorderly fashion, setting off a severe economic slowdown. The storm is now upon us in the form of a broad-based and synchronised downturn that reaches from developed to emerging economies.

Nearly all developed countries are now in recession. Confidence has yet to be restored in the banking sector and the balance sheets of financial institutions remain under pressure. Credit conditions are deteriorating and demand is in decline. Employment is falling as companies adjust to a period of significantly reduced demand. Last year US employers cut nearly 2.6 million jobs – the fastest payroll reduction since 1945 – bringing the unemployment rate to 7.2 per cent in December 2008. Joblessness is increasing in the UK and in most of the European Union.

Nearly all developed countries are in recession and employment levels are falling rapidly

Growth prospects for emerging markets have deteriorated significantly. Commodity exporters are affected by a sharp decline in the prices of their key exports, weaker demand and a reversal of capital flows. Falling asset prices have led to a sharp reduction in household consumption and declining private-sector investment. In high-growth Asian export economies, sectors such as manufacturing, mining, construction and retail are contracting. China is experiencing factory closures and large-scale job losses. Growth on the African continent is set to decline as commodity prices fall, development assistance flows slow and access to capital dries up.

Commodity exporters such as South Africa face the double blow of weak demand and falling prices

Global policy responses

The policy response to these events has evolved through three overlapping phases, though loss of confidence in banking and credit markets has not yet been reversed:

- Round one: Rescuing the financial sector – Governments injected liquidity into the financial system and then acted to rescue major banks. In several cases, these bailouts were accompanied by partial nationalisation and state debt guarantees.
- Round two: Easing monetary policy – Central banks cut interest rates to historic lows. In December 2008, the UK bank rate was set to its lowest level in the Bank of England's 314-year history. US interest rates are between zero and 0.25 per cent.

- Round three: Stimulus packages – A massive fiscal expansion is now under way. Most large economies are experiencing a sharp deterioration in their fiscal positions as revenue slows, social security payments expand and the cost of financial rescue packages comes on budget. In addition, governments are reducing tax rates and increasing spending to stimulate demand.

Governments are proposing stimulus measures to boost demand

The International Monetary Fund has recommended that developed countries should implement economic stimulus measures. The US government is presently debating a US$819 billion stimulus plan covering both higher public spending and tax cuts. China has announced a stimulus package worth US$586 billion, focused primarily on infrastructure spending and social security transfers.

Emerging markets are finding it more difficult to respond in a similar way: raising finance given the present conditions of tight credit on global capital markets is difficult and costly.

A retreat into protectionism would make the crisis worse, particularly for emerging markets

The Group of 20 (G20) heads of state meeting in November 2008 adopted resolutions to oppose protectionist policies. A slowdown in world trade would make the economic decline more severe and protracted. This highlights the importance of a speedy resolution of the Doha round of trade negotiations, including a more equitable global trading regime for developing economies.

Crafting South Africa's economic policy response

South Africa's response to the global downturn takes account of several factors:

- Slowing export demand is leading to a contraction of production and employment in several sectors.
- The size of the drop in global demand cannot easily be offset by a small economy such as ours.
- A substantial infrastructure spending increase is already built into government's expenditure plans.
- It is costly to raise finance in the present circumstances as global capital markets strongly favour reserve currencies such as the US dollar and euro.

The fiscal space to respond to periods of slower growth is determined by the management of the public finances during periods of higher growth. Steps taken since 1996 to reduce public debt, and hence debt interest costs, have provided a degree of flexibility that is essential to manage the effects of the present downturn.

South Africa already has elements of a fiscal stimulus response built into its plans

With these considerations in mind, South Africa has chosen to sustain growth in public spending to build on the public-sector investment programme already under way, to expand labour-intensive employment programmes, to broaden social security benefits, to continue to invest in education, health and other public services, and to support well-targeted industrial development. These elements provide a countercyclical boost that will assist in sustaining growth and minimising job losses.

Highlights of the 2009 Budget

The economy and the fiscal stance

- GDP growth is projected at 1.2 per cent in 2009, rising to 4 per cent by 2011.
- Inflation (the rise in the consumer price index) is expected to fall to 5.8 per cent in 2009.
- Gross fixed capital formation growth is projected to average 6.1 per cent over the next three years.
- Government spending on infrastructure totals R787 billion over the next three years, R390 billion of which is capital spending by the state-owned enterprises.
- Consolidated government budget deficit reaches 3.8 per cent in 2009/10, moving to 1.9 per cent by 2011/12.
- Consolidated government spending (excluding interest) grows by 5.1 per cent a year in real terms.

Tax proposals

- Personal income tax relief for individuals amounts to R13.6 billion.
- Taxes on petrol and diesel increase by 40.5 and 41.5 cents per litre respectively.
- A packet of 20 cigarettes will cost 88 cents more.
- A 750 ml bottle of natural wine will cost 10.5 cents more.
- A 340 ml can of beer will cost 7 cents more.
- A 750 ml bottle of liquor (spirits) will cost R3.21 more.
- Incentives for investments in energy-efficient technologies.
- Motor vehicle excise reform to tax carbon emissions and a new tax on energy-intensive light bulbs.

Spending on public services

Additions to spending plans over the next three years

- R24.8 billion to provinces for increasing services, mainly health and education.
- R12 billion more for social grants and R1.2 billion for grant administration fees.
- R4.1 billion for the second phase of the expanded public works programme.
- R4 billion for the school nutrition programme to feed more children more often.
- R5.4 billion for the criminal justice sector overhaul, including fingerprint and DNA databases.
- R4.1 billion for provincial infrastructure, especially school buildings, roads and clinics.
- R4.3 billion for municipal infrastructure and R1 billion for regional bulk water infrastructure.
- R600 million for municipalities to extend free basic services.
- R1.6 billion as an equity injection into South African Airways.
- R3.7 billion more for increased housing provision.
- R1 billion for electricity demand-side management.
- R932 million for the treatment and prevention of HIV and Aids.
- R6.4 billion for public transport, roads and rail infrastructure.
- R1.6 billion for industrial development and support to small enterprises.
- R1.8 billion for rural development, mainly focused on supporting small-scale agriculture.

A lower tax burden, combined with strong growth in public spending, signals a strong fiscal stimulus to the economy over the period ahead. This is consistent with the countercyclical fiscal stance followed in recent years. However, government is also mindful of the difficulties of raising large amounts of debt in the present environment, and that an unsustainable level of borrowing would put South Africa's developmental objectives at risk. For these reasons the degree of fiscal expansion must be kept moderate, and the 2009 Budget also identifies areas where spending will be reduced, placing an obligation on government to become more efficient, effective and economical.

The 2010 FIFA World Cup, lower inflation and a more competitive rand will provide a boost to the economy

The economic reforms implemented over the past decade will help to sustain South Africa's ability to grow and to spend on the drivers of long-term growth. As the global economy begins to show signs of recovery, the impetus from strong private and public investment over the past decade, the economic boost associated with the 2010 FIFA World Cup, the more competitive currency, a healthy banking system, falling inflation and lower interest rates should allow for a gradual recovery in household spending and economic growth over the medium term.

Emerging from the crisis on a sounder footing

Fiscal measures and microeconomic reforms are needed to put the economy on a different footing

Falling commodity prices and the reversal of favourable global growth trends have underlined inherent weaknesses in the domestic economy. Despite four years of 5 per cent-plus GDP growth and strong increases in employment, income inequality remains high, the structure of South Africa's economy is heavily reliant on commodities and skills constraints impede broad-based development. South Africa's response during the period of slower growth ahead will influence both the speed and depth of the recovery. Success will be judged by the economy's ability to sustain higher growth through increased exports and a significant reduction in unemployment. The opportunity here is to combine fiscal measures and microeconomic reforms to put the economy on a sounder footing.

Higher infrastructure spending will lift the 'speed limit' of the economy

Sustaining investment in productive capacity. As highlighted by the electricity failures in the first quarter of 2008, South Africa's ageing physical infrastructure limits economic growth. Accelerated infrastructure investment has generated momentum that will support growth in the short term, enabling a broadening of opportunities in the longer term. Through development finance institutions such as the Development Bank of Southern Africa and the Industrial Development Corporation, government will aim to ensure that feasible projects in both state-owned enterprises and municipalities can access the finances required to sustain improvements in public infrastructure.

Public sector has a key role to play in expanding labour-intensive employment

Expanding employment in public works. The introduction of the second phase of the expanded public works programme draws on lessons learnt over the past five years. The extension of this programme prioritises longer-term jobs in the social and municipal services sectors, in adult literacy initiatives and in programmes delivered through non-governmental organisations. A new performance-based incentive is provided to municipalities to increase the labour-intensity of public works under their supervision. An additional R4.1 billion is allocated for public employment programmes.

High cost structure limits employment, innovation and productivity

Regulatory reform. High input prices raise the cost of doing business, lower employment and reduce economic growth. The competition authorities have made progress in dismantling price-setting cartels in various sectors. Yet major areas of the economy are characterised by dominant companies or parastatals, with insufficient competition to drive innovation and productivity. Government regulation and red tape often contribute to high barriers to entry. The necessary policy response is to lower such barriers, encourage new entrants into the market and foster greater competition. An enhanced regulatory impact assessment framework would assist, together with greater clarity about sectoral strategies and long-term industrial development goals.

Rural development to focus on raising agricultural output and rural incomes

Strengthening agriculture. The sharp rise in food prices during 2008 exposed weaknesses in domestic agriculture. The price increases had a detrimental impact on the poor and highlighted years of declining output in a labour-intensive sector. Food exports have fallen steadily over the past decade while the level of imports has increased, pushing up prices. Given its resources, South Africa could become a major food exporter. The new policy emphasis on rural development is aimed at raising rural incomes, ensuring sustainable growth in food production and drawing small farmers into the food supply chain.

Weak export performance is the Achilles heel of the South African economy

Raising export performance. Weak export performance remains the Achilles heel of the economy. Relative to other emerging markets, South Africa's export performance has lagged, while import growth has been strong. A higher level of exports can contribute to more rapid job creation and sustainable growth.

Table 1.1 Export and import performance, selected emerging markets

Per cent compound growth 2001– 2006	Export growth	Import growth
Brazil	18.8	10.4
China	29.5	26.6
India	23.3	29.0
South Africa	13.7	23.4

Steps are needed to improve competitiveness of key export sectors

Government and the private sector can take several steps to improve the competitiveness of key export sectors as global demand recovers. Some of these interventions are contained in the National Industrial Policy Framework. The announcement of a new phase of support for the motor industry is meant to provide a stable platform for continued export growth. The 2009 Budget includes R17 billion for industrial support, including tax incentives for particular sectors. Government recognises that competitive industries cannot be built behind ongoing protective tariffs or subsidies. Effective targeting of business incentives therefore needs to take careful account of the costs and benefits of selected support measures.

Improving public sector performance. While the reach of South Africa's public services has expanded significantly since the late

1990s, many components of the public sector do not deliver services of an acceptable quality. Public-sector inefficiency imposes costs on ordinary South Africans and reduces economic performance. Considering that general government consumption spending is almost a quarter of the economy, improving value for money and performance in the public sector would make an important contribution to higher growth, employment and welfare.

Progress in these areas will contribute to an earlier recovery that provides more widespread economic benefits for South Africa.

Fifteen years: progress and challenges

In budgeting, government assesses its progress, evaluates the effectiveness of its programmes and identifies weaknesses. Three recent documents provide a composite sketch of progress registered during the formative years of South African democracy: *Towards a Fifteen Year Review* and the *2008 Development Indicators,*[1] both published by The Presidency, and a fiscal incidence study[2] conducted by the National Treasury to gauge the effect of public spending.

Institutions of constitutional democracy are firmly entrenched

South Africa's successes have occurred in three broad dimensions. First, the construction of a new democratic order that replaced apartheid rule. The foundations of the new state were laid during the first five years with the adoption of the Constitution, the repeal of apartheid laws, the creation of the Constitutional Court and the establishment of three tiers of government. Independence of the central bank was established, the National Treasury was created, parliamentary oversight over public spending was institutionalised and an open, transparent budget process was introduced.

Government expenditure has provided tangible benefits to poor households

The second dimension of success has been the extension of basic services. Prior to 1994, just over half of all South Africans had electricity in their homes; today more than 80 per cent have access to this basic necessity of modern life. Significant progress has been made in providing houses, water and sanitation, and in extending access to schooling, health care and social grants.

Table 1.2 Access to basic household services

Percentage of households	1996	2001	2007
Using electricity			
for lighting	58	70	80
for cooking	47	51	67
for heating	45	49	59
Water			
Equivalent to or above RDP standard (200m to communal tap)	62	74	88
Tap in dwelling or on site	–	61	70
Sanitation			
Equivalent to or above RDP standard	52	59	73
Flush toilet	–	52	60

[1] Available at www.gov.za

[2] Soon to be available at www.treasury.gov.za

The number of clinic visits increased from 80 million in 2000 to 101 million in 2007. The number of social grant beneficiaries grew fourfold to 13 million. These tangible signs of a better life have been complemented by the introduction of school feeding schemes, free basic services and no-fee schooling.

The number of social grant beneficiaries has grown fourfold to 13 million

The third dimension of success has occurred on the economic front, brought about by a long and sustained economic expansion since 1999. Rising employment, increasing household income, lower taxes and the redistributive nature of the budget have enabled millions of people to move out of poverty. About 2 million more people are working today than in 2001 and the proportion of households with monthly income less than R367 per person (in 2007 prices) has fallen from 53 per cent in 1996 to 41 per cent in 2007. Disposable income has increased strongly during this period.

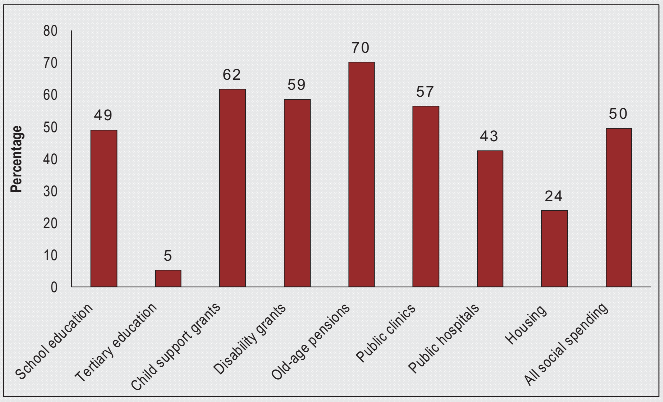
Economic expansion has broadened opportunities and reduced poverty

Public finances have become significantly more pro-poor

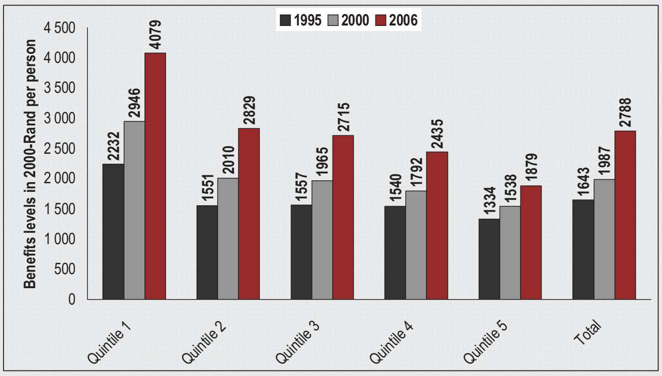
Since 1996, the public finances have undergone significant changes. Spending has grown strongly in social services – which include education, health and social development – and household services such as housing, water, sanitation, electrification and related infrastructure. In 2006, more than 50 per cent of public spending on education, health, social assistance and housing went to the poorest 40 per cent of the population.

Total spending per person on these services has increased from R1 643 in 1995 to R2 788 in 2006 (in constant 2000 prices). Spending per capita on the poorest 20 per cent of the population was R4 079 in 2006. Not only has government spending per person on these programmes increased by 70 per cent in real terms, but spending on the poorest 40 per cent has grown by 83 per cent in real terms.

Share of spending on key programmes going to the poorest 40 per cent of households, 2006



Social spending per person in constant 2000 rands



Source: Fiscal incidence study, National Treasury, 2009

Rising disease burden undermines gains in living standards

Towards a Fifteen Year Review also highlights several areas of weakness. A rising disease burden has placed severe strain on the public health system, to the point where many of the benefits associated with improved living conditions are undermined – for example, in high rates of infant and maternal mortality. In particular, rising HIV infection rates and increased Aids-related deaths have placed a massive social strain on many communities. Unemployment remains high, with over one-third of young people out of work. South Africa has one of the highest crime rates in the world and, despite some successes in reducing crime, citizens remain fearful.

While access to services has improved, the quality of services is often inadequate

While access to services, including primary health care, has improved, the quality of these services remains basic and is often inadequate. For example, there are 25 per cent more learners in schools today than in 1990, but performance in maths and literacy tests lags comparable countries. While more than 70 per cent of pregnant women visit a public clinic at least once during their pregnancy, infant and maternal mortality rates remain high.

In summary, government's track record over the past 15 years has been impressive given the significant challenges faced by the new democratic state. Nevertheless, much more can be done given the resources available. Improved public-sector performance is a key policy priority over the three-year medium-term expenditure framework (MTEF).

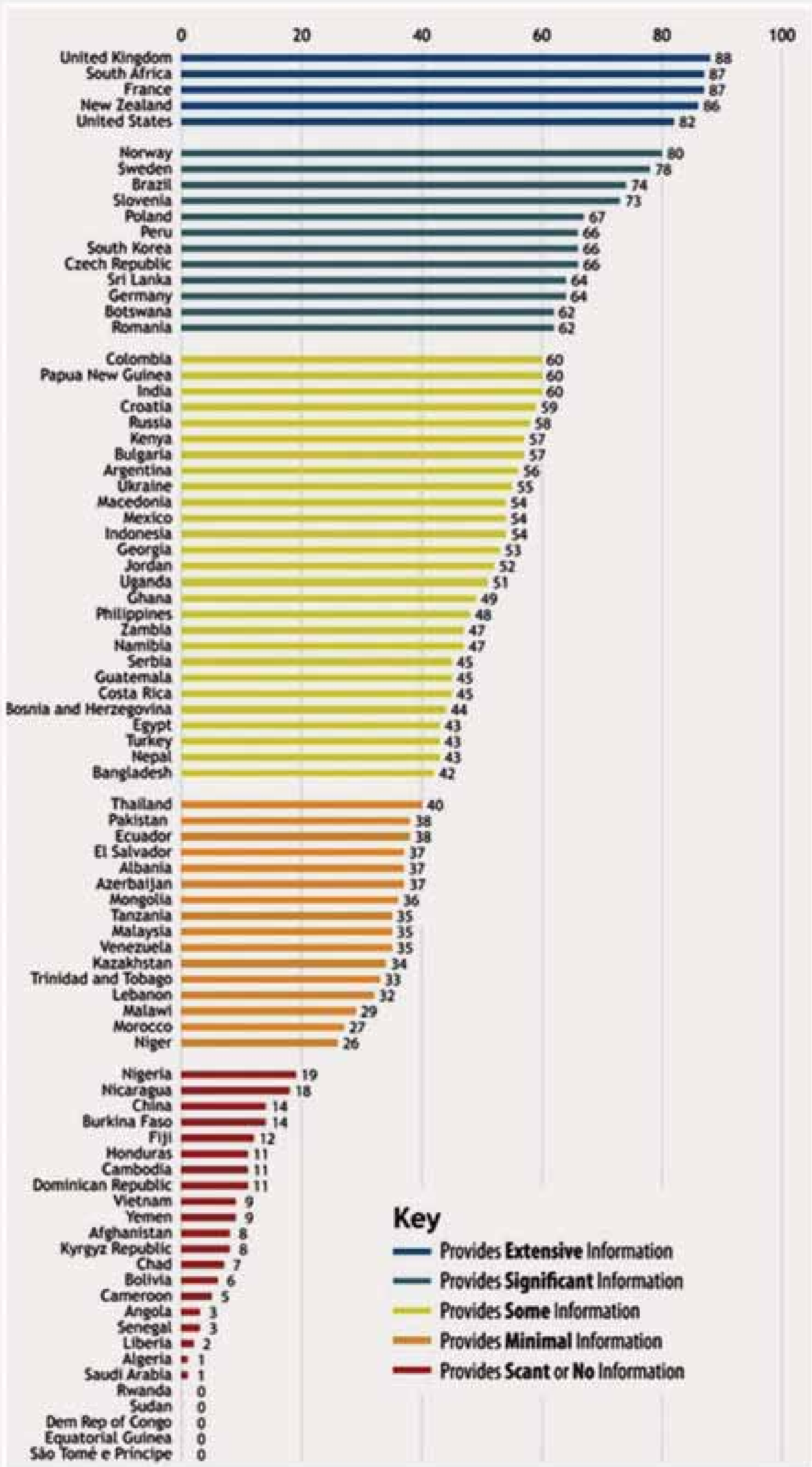
South Africa now ranks 2nd in the world in the transparency of its budget

Transparency, openness and oversight are also important elements of improving public-sector performance. Over the past 15 years South Africa has also made good progress in improving the transparency of the budget process and the usability of the budget documentation.

South Africa now ranks second in the world on the Open Budget Index, which measures the transparency and quality of budget information. Such information, for use by citizens and the legislature, can help to improve accountability, efficiency and performance by government departments and state-owned entities.

Open Budget Index

The Open Budget Initiative is a global research and advocacy programme to promote public access to budget information and the adoption of accountable budget systems.



The International Budget Project (IBP) launched the Initiative with the Open Budget Survey – a comprehensive analysis and survey that evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at the national level.

To easily measure the overall commitment of the countries surveyed to transparency and to allow for comparisons among countries, IBP created the Open Budget Index (OBI) from the Survey. The OBI assigns a score to each country based on the information it makes available to the public throughout the budget process.

The budget is a government's plan for how it is going to use the public's resources to meet the public's needs. Transparency means all of a country's people can access information on how much is allocated to different types of spending, what revenues are collected, and how international donor assistance and other public resources are used.

The IBP believes that open budgets are empowering; they allow people to be the judge of whether or not their government officials are good stewards of public funds.

While providing the public with comprehensive and timely information on the government's budget and financial activities and opportunities to participate in decision making can strengthen oversight and improve policy choices, keeping the process closed can have the opposite effect. Restricting access to information creates opportunities for governments to hide unpopular, wasteful, and corrupt spending, ultimately reducing the resources available to fight poverty.

Source: www.openbudgetindex.com

Overview of the 2009 Budget

Macroeconomic overview

Chapter 2 presents government's macroeconomic forecasts, discusses key policy challenges and analyses recent economic trends.

Macroeconomic forecasting is complex given frequent revision of global growth projections

The chapter discusses in some detail the evolution of the international economic crisis, how South Africa is affected, government's economic policy responses and the medium-term outlook. It notes the complexity associated with this year's macroeconomic forecast given the frequent revision of global growth projections as a result of the global slowdown.

This synchronised downturn affects South Africa through declining demand for commodities, falling prices and deterioration in the financing environment. Interest rates remain relatively high, asset prices are falling and consumer confidence has weakened. Household consumption expenditure is expected to decline by 0.2 per cent in 2009 following an increase of more than 6 per cent a year over the previous four years. Growth in private-sector fixed investment, a key driver of economic expansion over the past four years, is likely to slow during 2009.

After four years of economic growth of more than 5 per cent a year, domestic GDP growth slowed to 3.1 per cent in 2008. Growth of 1.2 per cent is expected in 2009.

Table 1.3 Macroeconomic overview

Real growth Percentage	2008 Estimate	2009	2010 Forecast	2011
Household consumption	2.5	-0.2	1.9	3.2
Capital formation	11.5	3.7	5.7	9.0
Exports	2.1	-1.4	3.3	4.9
Imports	3.2	-3.7	6.7	7.7
Gross domestic product	**3.1**	**1.2**	**3.0**	**4.0**
Headline CPI inflation	11.6	5.8	5.3	4.7
Balance of payments current account (percentage of GDP)	-8.1	-6.3	-6.9	-6.9

The current account deficit is expected to narrow significantly in 2009

As the global economy begins to recover towards the end of 2009 and household consumption benefits from lower inflation and interest rates, growth is expected to climb to 3 per cent in 2010 and 4 per cent in 2011. A continuing expansion of public-sector fixed investment and benefits flowing from the 2010 FIFA World Cup will also support the recovery. The current account deficit is expected to narrow to about 6 per cent this year due to smaller dividend payments to international investors and lower demand for imports, partly due to the weaker currency. Nevertheless, the external deficit is likely to remain sizeable owing to imports required for infrastructure investment.

Fiscal and tax policy

Chapter 3 presents a detailed breakdown of government's fiscal stance and the public finance accounts. Chapter 4 discusses revenue trends and tax policy changes.

Government's countercyclical fiscal stance provides a boost to the domestic economy at a time when global demand is weak. South Africa is in a position to expand public spending despite the decline in revenue projections because public debt is low and the budget was in surplus until last year.

Fiscal policy aims to sustain spending growth, especially in public investment

Public spending continues to rise in real terms, with strong growth in infrastructure spending, labour-intensive employment programmes, social transfers to households and social services. A larger contingency reserve of R38 billion allows for the fiscal flexibility required to adjust to unanticipated economic risks, to respond to natural disasters, to further support employment programmes and to bolster the resources of development finance institutions.

Public spending is complemented by a significant expansion in infrastructure investments by the large state-owned enterprises. Eskom, Transnet, the Airports Company of South Africa, the South African National Roads Agency Ltd and entities in the water sector plan to spend more than R397 billion over the next three years on vital economic infrastructure, while general government is expected to spend R391 billion on infrastructure over the same period. Financing these investments during the present economic period will be more challenging, prompting government to increase its level of support for the state-owned enterprises.

Total public investment in infrastructure totals R787 billion over MTEF

Table 1.4 outlines the revenue and expenditure of the consolidated government account, which covers national government and its entities, provinces, extra-budgetary institutions and the social security funds.

Given the higher cost of finance on global markets and the need for state-owned enterprises to also access capital markets, government will keep a check on the expansion of the deficit. The consolidated government budget deficit is projected to rise to 3.8 per cent in 2009/10 and is projected to come down once the economy recovers and revenue growth increases. For this reason, the budget also includes measures to ensure greater efficiency and to discontinue ineffective spending programmes.

Consolidated national government budget deficit of 3.8% of GDP in 2009/10

Table 1.4 Consolidated government budget

R billion	2008/09	2009/10	2010/11	2011/12
Gross tax receipts	655.8	692.6	757.1	832.5
plus: Non-tax receipts	70.8	75.7	83.2	91.0
less: SACU transfers	-28.9	-27.9	-26.2	-27.9
Total receipts	**697.7**	**740.4**	**814.1**	**895.6**
Current payments	431.1	472.4	516.9	558.1
of which: Interest	*58.0*	*60.0*	*66.5*	*73.8*
Transfers and subsidies	239.7	294.6	304.6	304.4
Payments for capital assets	50.3	61.3	66.2	70.6
Contingency reserve	–	6.0	12.0	20.0
Total payments	**721.1**	**834.3**	**899.7**	**953.1**
Budget balance	**-23.4**	**-94.0**	**-85.6**	**-57.4**
Percentage of GDP	*-1.0%*	*-3.8%*	*-3.2%*	*-1.9%*
Gross domestic product	*2 304.1*	*2 474.2*	*2 686.3*	*2 953.0*

Revenue collection under pressure

Tax revenue grew by more than 15 per cent a year between 2004 and 2007. In the last three months of 2008, revenue growth slowed sharply, reflecting tougher conditions in the economy. As a result, the revenue estimate for 2008/09 is being revised downwards by R14.4 billion. Revenue estimates for 2009/10 are also lower than estimated in October 2008. Consolidated national budget revenue is expected to decline as a share of GDP in 2008/09 and 2009/10.

Substantial personal income tax relief

The personal income tax schedules are revised. Relief for individuals amounting to R13.6 billion is provided to take account of wage inflation, including compensation for the higher-than-anticipated inflation rate in 2008. For several years, fuel taxes have fallen as share of the pump price. This year, the general fuel levy and the Road Accident Fund levy are increased more sharply, taking into account the general reduction in fuel prices. Specific excise duties are increased broadly in line with inflation.

Tax proposals support initiatives to protect the environment

The tax proposals also support government's increased policy focus on environmental initiatives that mitigate the impact of climate change and promote sustainable development, energy efficiency and investment in new technologies.

Asset and liability management

Chapter 5 discusses developments in the debt markets, government's debt portfolio, borrowing plans, contingent liabilities, credit risk and financial management of state-owned enterprises.

Financing strategy changes in light of higher borrowing requirement

Following several years of either small deficits or budget surpluses, government's borrowings increased in 2008/09 and are set to grow over the next three years as a result of slower revenue growth, sustained public spending increases and support to state-owned enterprises. Net loan debt of national government is projected to rise from 22.6 per cent of GDP in 2008/09 to 27.4 per cent in 2010/11. Despite this increase, debt service costs are projected to remain roughly constant as a share of GDP. Lower interest rates and active debt swap and refinancing programmes will help keep borrowing costs down. As the economy recovers and revenue growth picks up, the borrowing requirement is expected to fall.

As a result of the global financial crisis, access to foreign finance has become much scarcer and more expensive. For this reason, government's financing strategy is premised mainly on borrowing in South Africa's liquid and deep capital market, though a moderate level of external financing is planned.

Government will support state-owned entities to raise capital to fund investments

Government is also working actively with state-owned enterprises to ensure that their capital investment programmes are financed at competitive rates. Government guarantees to state-owned enterprises are set to increase. Eskom has received a guarantee for R176 billion of its existing and new debt. Other requests will be evaluated on a case-by-case basis. The National Treasury is also working with these entities to sequence loan issuances to avoid undue pressure on domestic capital markets.

In addition to greater support to the development finance institutions, government is also exploring partnerships with the private sector to facilitate low-cost housing development as well as risk-sharing on large capital projects.

New partnerships with the private sector being explored

Table 1.5 below shows the outlook for government's debt and projected debt-service costs.

Table 1.5 Projected state debt and debt costs of national government

R billion	2008/09	2009/10	2010/11	2011/12
Net loan debt (end of year)	**520.7**	**634.6**	**728.1**	**810.3**
Percentage of GDP	*22.6%*	*25.6%*	*27.1%*	*27.4%*
Net domestic debt	425.5	527.3	616.8	690.3
Foreign debt	95.2	107.3	111.3	120.0
State debt cost	**54.3**	**55.3**	**60.1**	**66.8**
Percentage of main budget revenue	*8.9%*	*8.6%*	*8.5%*	*8.6%*
Percentage of GDP	*2.4%*	*2.2%*	*2.2%*	*2.3%*

Social security

Over the past five years, government's social grants programme has grown steadily and now covers about 13 million beneficiaries. The social grants system is being expanded in three ways:

The social grants system is being expanded

- Increasing the eligible age for the child support grant to children up to their 15th birthday
- Revising the means test to cover a larger proportion of households
- Lowering the eligible age for men for the old age pension to 60.

The proposed extension of social grants is likely to bring an additional 2 million beneficiaries into the system. Spending on social assistance is projected to rise by 10.2 per cent a year, from R71 billion in 2008/09 to R95 billion in 2011/12.

South Africa's social insurance arrangement is made up of the Unemployment Insurance Fund (UIF), the Road Accident Fund (RAF) and the Compensation Funds. Due to rising unemployment, the UIF expects beneficiary numbers to grow by 7.3 per cent over the course of the MTEF period. The UIF is considering proposals to extend the length of benefits to take account of an expected increase in retrenchments. The Fund's financial position remains healthy, with strong cash surpluses projected well into the future.

Social security funds remain in surplus

The RAF remains in a precarious financial position, with a significant actuarial liability and about 297 000 cases still unprocessed. The RAF levy increases by 17.5 cents a litre to 64 cents. This will allow further progress to be made in reducing the claims backlog, but further reform is required to put it on a sustainable footing.

The Compensation Funds remain in sound financial health. On a consolidated basis, the social security funds will continue to run operating surpluses of about R10 billion a year over the MTEF period.

Compensation Funds are in good financial health

Social security reform task team is focusing on several key policy areas in 2009

Government's efforts to reform the retirement fund industry are focused on ensuring that low-income workers and those with periodic incomes have access to affordable retirement insurance, while improving the governance and cost-effectiveness of retirement funds. The interdepartmental task team on social security and retirement reform will continue its work in 2009, with a view to developing a road map for introducing a national savings fund and broadening income protection for workers. The task team will also consider and provide advice on the insurance aspects of health care reform.

Medium-term allocations and the division of revenue

Extra R161 billion provided to extend service provision and account for higher costs

The 2009 Budget sustains strong growth in public spending. About R161 billion is added to the spending plans of government over the next three years, both to counter the effects of higher costs as well as to expand or extend service provision in key areas. The main budget priorities include:

- Education
- Health
- Fighting crime
- Investing in rural development
- Extending basic household infrastructure.

In addition to these priorities, the budget places particular attention on a series of cross-cutting priorities. These include public employment programmes, improving the capacity of the public service and mitigating the impact of climate change.

After adjusting for once-off spending such as the loan to Eskom, non-interest expenditure grows by an average of 5.1 per cent in real terms over the next three years.

Departments were asked to make efficiency savings and reduce wastage

This year national departments were again asked to make efficiency savings, to discontinue ineffective programmes and to reduce wastage. About R19 billion has been removed from the spending plans tabled in the 2008 *Medium Term Budget Policy Statement*, reflecting a commitment by government to eliminate unnecessary expenditure.

Chapter 7 discusses additional allocations in the 2009 Budget in detail. Table 1.6 summarises the consolidated government budget for the next three years, which includes spending by provinces, the social security funds, public entities and national government agencies.

Table 1.6 Consolidated expenditure

R billion	2008/09 Revised estimate	2009/10 Budget estimate	% Average growth 2008/09–2011/12
General public services	48.1	51.3	5.2%
Defence	30.8	34.7	7.3%
Public order and safety	67.8	75.5	10.9%
Economic affairs	126.2	179.6	8.4%
Environmental protection	5.1	5.6	8.2%
Housing and community amenities	65.3	73.2	12.1%
Health	80.8	86.9	9.2%
Recreation and culture	9.9	7.7	-18.3%
Education	127.3	140.4	10.0%
Social protection	105.4	118.1	9.9%
Contingency reserve	–	6.0	
Non-interest expenditure	**666.8**	**779.1**	**9.1%**
State debt cost	54.3	55.3	7.2%
Total expenditure	**721.1**	**834.3**	**9.7%**

Transfers to provinces and municipalities reflect focus on education, health, agriculture and housing

Chapter 8 describes the division of nationally collected revenue between the three spheres of government. Provinces receive an additional R47.8 billion over the next three years while municipalities receive R11.3 billion more. These transfers reflect government's priorities, especially the focus on education, health, agriculture and housing at a provincial level and water, sanitation and electricity infrastructure at a municipal level.

Table 1.7 shows the division of revenue. Transfers to provinces grow by 10.7 per cent a year while transfers to municipalities grow by 14.2 per cent a year. Chapter 8 also discusses aggregated provincial budget trends.

Table 1.7 Division of revenue

R billion	2008/09	2009/10	2010/11	2011/12
National allocations	288.3	343.1	352.8	361.3
Provincial allocations	247.7	284.5	309.7	335.9
Equitable share	*204.0*	*231.1*	*253.7*	*272.9*
Conditional grants	*43.7*	*53.5*	*56.0*	*63.0*
Local government allocations	43.6	49.7	57.7	65.0
Total allocations	**579.6**	**677.3**	**720.2**	**762.1**
Changes to baseline				
National allocations	17.3	45.1	32.1	24.3
Provincial allocations	6.7	13.3	12.8	21.7
Equitable share	*4.6*	*5.6*	*7.4*	*11.8*
Conditional grants	*2.0*	*7.7*	*5.5*	*9.8*
Local government allocations	1.8	2.0	2.8	6.4
Total	**25.8**	**60.5**	**47.8**	**52.4**

Conclusion

Sound public finances will help to sustain growth during the more challenging period ahead

The 2009 Budget is tabled during a deep global economic crisis with an uncertain trajectory. Political stability and a sound macroeconomic framework have enabled South Africa to benefit from global growth patterns over the past seven years. To make further progress, the country will have to ensure macroeconomic stability while tackling the constraints to faster and shared growth. Government's economic priorities include sustaining infrastructure spending, using countercyclical fiscal policy to cushion the economy against falling demand, and ensuring that measures taken today enhance competitiveness and broaden opportunities for all South Africans in the years ahead. Over the short term, government will work to sustain output and employment, and protect poor and marginalised communities, while focusing on long-term growth and sustainability.

Meeting the challenges ahead will require a capable and effective state, new ideas and new approaches to solving problems, new partnerships, and a willingness to adapt to changing circumstances, together with confidence in the choices we have made.

Other budget documentation

In addition to the *Budget Review*, the National Treasury produces a series of other documents relating to the Budget:

- The *Budget Speech* delivered by the Minister of Finance on Budget Day outlines the main policy features of the budget.
- The *Division of Revenue Bill* sets out the division of nationally raised revenue across the three spheres of government.
- The *Appropriation Bill* sets out the amounts to be appropriated by Parliament for each national vote, and the purpose of each programme.
- The *Estimates of National Expenditure* provides detailed information on allocations to national departments, key policy developments and measurable objectives for each programme. This year the *Estimates* covers significantly more public entities. After the tabling of provincial budgets, separate chapters of the *Estimates* will be published for each vote, providing more detailed information from provincial budgets and public entities.
- The *Estimates of National Revenue* sets out the main revenue estimates both before and after tax policy changes.
- The *People's Guide* is a popular summary of the budget produced in all 11 official languages, and in Braille.

Two annexures to the 2008 *Budget Review* are available on the National Treasury website: Annexure W1 (Explanatory memorandum to the division of revenue) and Annexure W2 (Structure of the government accounts).

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

2

Economic policy and outlook

- The global banking and credit crisis has precipitated a sharp and deep contraction in the world economy. The onset of recession in much of the developed world has affected developing countries through lower export demand, weaker commodity prices, higher cost of capital, reduced capital flows and falling asset prices. Stimulus measures in major economies should support a global recovery beginning in the second half of 2009, but the outlook is uncertain.
- Sound fiscal and monetary policies, a well-regulated financial system and prudential limits on foreign investment have helped to limit South Africa's exposure to the crisis. Economic growth is expected to weaken in response to the global slowdown, falling to 1.2 per cent in 2009 before recovering gradually to 4 per cent by 2011. Sluggish consumption, weak exports and slowing private-sector investment are expected in 2009.
- Government's countercyclical fiscal policy will support economic activity over the period ahead, accelerating the public-sector investment programme and increasing expenditure on social and economic priorities. Over the medium term, South Africa requires a series of microeconomic reforms to emerge from this crisis stronger and more globally competitive – to grow more rapidly, to create more jobs and to reduce inequality.

Introduction and overview

The world economy is in the midst of the most far-reaching decline since the 1930s. Many of the benefits associated with the buoyant global conditions of the recent past will not be revisited for years to come. Macroeconomic conditions have become more difficult as investment flows to emerging markets dry up and the cost of capital on global markets becomes prohibitive.

Macroeconomic conditions will be more difficult over the period ahead

A rise in the debt burden would severely limit future resources for growth and expanding the social wage

The central goals of economic policy remain accelerating growth and job creation, broadening economic participation and reducing poverty. Progress in these areas will be more difficult over the period ahead. Policy adjustments need to reinforce macroeconomic stability in the context of a deteriorating international environment and provide a temporary cushion to the domestic economy. To raise long-term economic growth above 6 per cent, government needs to prevent a large rise in the debt burden, which would severely limit future resources for growth and the expansion of the social wage. A supportive monetary stance is also required, and lower inflation in the months ahead should contribute to moderating interest rates.

Government will sustain public investment and protect low-income households

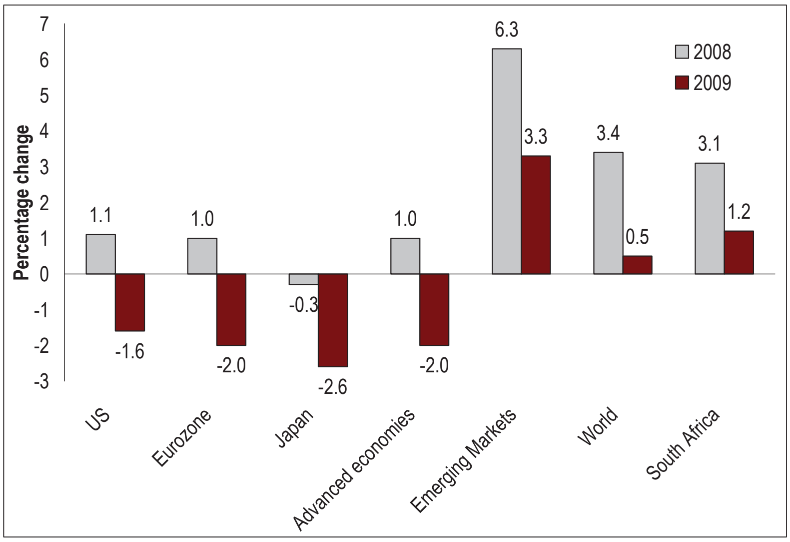
Government's fiscal stimulus seeks to prevent a reversal of improvements in living standards achieved over the past decade. Policy initiatives will support increasing investment in public infrastructure, the protection of low-income households, job creation through public works programmes, and partnerships between the public and private sectors to finance investment.

International and domestic outlook

Developed economies face recession; emerging economies will grow much more slowly

Economic conditions deteriorated rapidly for both developed and emerging economies in the final quarter of 2008. The International Monetary Fund (IMF) expects world growth of only 0.5 per cent in 2009, down from an estimated 3.4 per cent in 2008. Sharp contractions in developed economies and slower rates of growth in emerging markets are expected over the short term.

Figure 2.1 GDP growth, selected countries and regions, 2008-2009



National Treasury forecasts for South Africa; January 2009 IMF World Economic Outlook for others.

The length and depth of the global downturn will depend on the success of efforts to repair the balance sheets of banks in developed countries, to reopen credit channels, to keep markets open to traded goods and services, to implement appropriate fiscal stimulus plans and to restore confidence. Over the longer term, policy makers confront a need to unwind a systemic pattern of global economic imbalances, and to manage the rise in fiscal balances and public debt associated with large-scale bailouts and stimulus packages.

The global crisis and cyclical domestic factors have significantly reduced growth prospects

In combination with cyclical domestic factors, the international crisis has resulted in a significant deterioration in South Africa's growth outlook. GDP growth slowed to an estimated 3.1 per cent in 2008 after averaging 5 per cent in the previous four years. Household consumption has fallen in response to higher interest rates, reduced credit extension, pressure on disposable incomes from rising inflation, and negative wealth effects from declining equity and house prices. The rand fell to a more competitive level in response to capital outflows, but export volumes have been and will continue to be under pressure from reduced demand.

Growth is expected to slow to 1.2 per cent in 2009

GDP growth is projected to slow to 1.2 per cent in 2009. Economic activity is expected to start recovering in the second half of the year in response to declining debt levels, lower interest rates and a more expansionary fiscal policy. Strong growth in public-sector capital spending and investment associated with the 2010 FIFA World Cup will provide an important boost to the economy. Inflation is expected to fall back within the 3 to 6 per cent target band in the first half of the year.

Table 2.1 Macroeconomic projections, 2005 – 2011

Calendar year	2005	2006	2007	2008	2009	2010	2011
		Actual		Estimate		Forecast	
Percentage change unless otherwise indicated							
Final household consumption	6.9	8.3	6.6	2.5	-0.2	1.9	3.2
Final government consumption	4.8	5.1	4.8	4.5	4.0	4.0	4.0
Gross fixed capital formation	10.2	13.2	16.3	11.5	3.7	5.7	9.0
Gross domestic expenditure	5.7	9.1	6.0	3.4	0.2	4.0	5.0
Exports	8.0	6.0	7.5	2.1	-1.4	3.3	4.9
Imports	10.3	18.9	10.0	3.2	-3.7	6.7	7.7
Real GDP growth	**5.0**	**5.3**	**5.1**	**3.1**	**1.2**	**3.0**	**4.0**
GDP inflation	5.4	7.3	9.0	10.5	5.3	5.0	5.7
GDP at current prices (R billion)	**1 543.9**	**1 745.2**	**1 999.1**	**2 277.0**	**2 426.4**	**2 622.7**	**2 884.6**
Headline CPI inflation	3.3	4.6	7.2	11.6	5.8	5.3	4.7
Current account balance (% of GDP)	-4.0	-6.3	-7.3	-8.1	-6.3	-6.9	-6.9

Table 2.2 Macroeconomic projections, 2007/08 – 2011/12

Fiscal year	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Estimate		Forecast	
GDP at current prices (R billion)	**2 067.9**	**2 304.1**	**2 474.2**	**2 686.3**	**2 953.0**
Real GDP growth	4.6	2.6	1.4	3.4	4.1
GDP inflation	9.2	8.6	5.9	5.0	5.6
Headline CPI inflation	8.1	10.8	5.4	5.1	4.6

A global financial markets crisis …

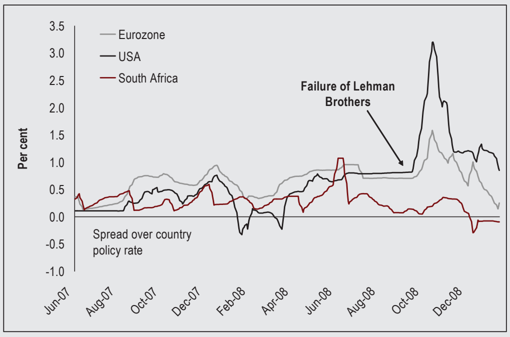
Until the US "subprime" crisis began to unfold in 2007, global asset prices had been supported for a number of years by large capital flows and low interest rates. Increased investor demand for higher-yielding but higher-risk assets encouraged banks to create an array of securitised debt products, backed by assets such as US home mortgages, which were sold to investors around the world.

When US interest rates started to rise and the housing market began to turn, loan defaults increased sharply. This undermined the value of securitised products and caused a seizure of credit markets as investors scrambled to reduce their very large exposure to bad assets. Banks with large holdings of such assets saw their balance sheets being severely eroded and their solvency under threat.

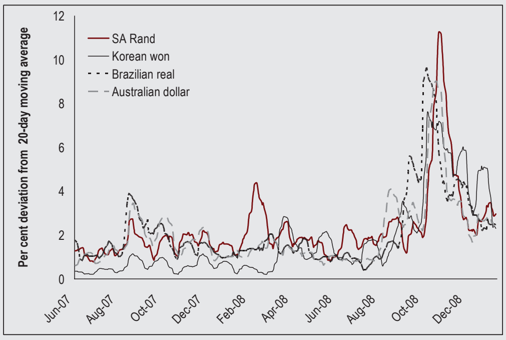
These stresses led to the near collapse of a number of US investment banks, and the demise of Lehman Brothers on 15 September 2008, which contributed to an evaporation of confidence in the global banking system. Since then central banks and governments have intervened on an unprecedented scale, committing more than US$4 trillion to rescue banks and injecting large amounts of liquidity into money markets. Despite signs of stabilisation, market volatility and risk premiums remain high, and developed-country bank balance sheets remain under pressure, severely constraining lending activities.

About US$17 trillion of global equity market capitalisation has been lost since September 2008. The capitalisation of the banking and insurance sector alone has declined by US$5 trillion since January 2007. Volatility remains high in equity and currency markets and commodity prices are down sharply.

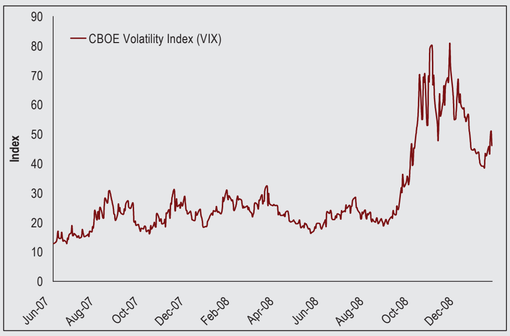
Money market spreads



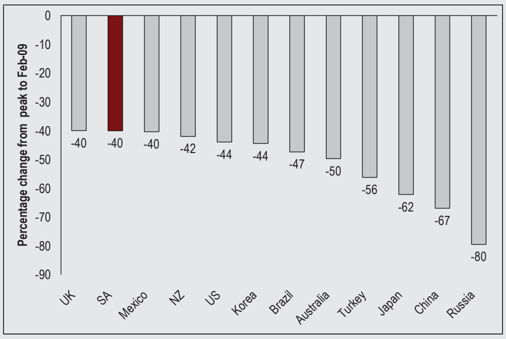
Exchange rate volatility



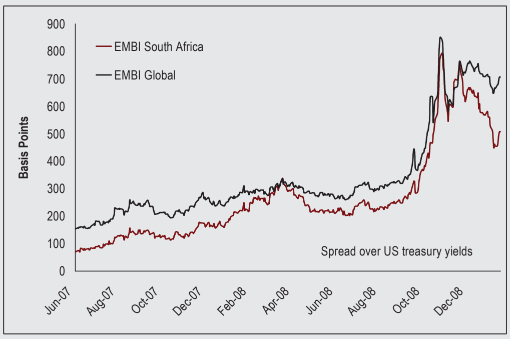
US equity market volatility



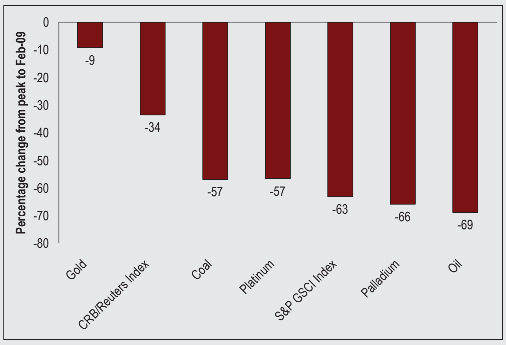
Local currency equity price indices



JPMorgan Emerging Market Bond Index Spread



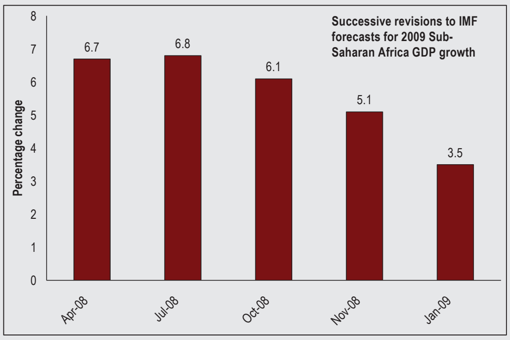
Change in commodity prices (US$)



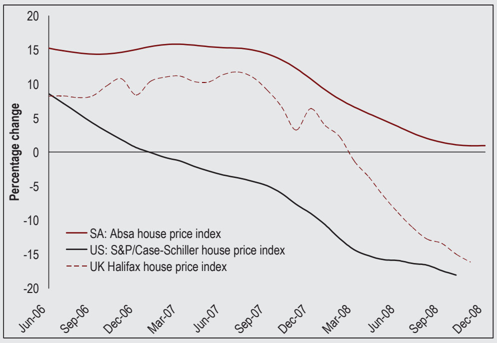
… and a deep downturn in the real economy

Countries at the centre of the crisis – the US, Japan, the UK and members of the European Union – have experienced sharp contractions in growth. Industrial production and exports in both developed and developing countries are in steep decline. Internationally, unemployment is growing rapidly in a range of sectors including financial services, motor vehicles and mining. The US shed 2.6 million jobs in 2008, lifting the unemployment rate to 7.2 per cent from 4.9 per cent at the start of the year. The falloff in export demand has led to large-scale retrenchments in China and other emerging markets.

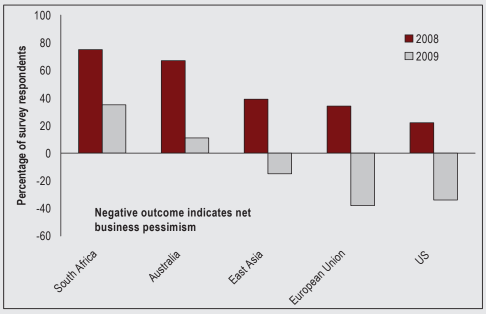
IMF projections: Africa GDP growth in 2009



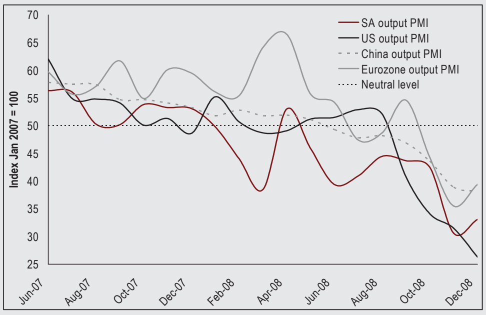
House prices



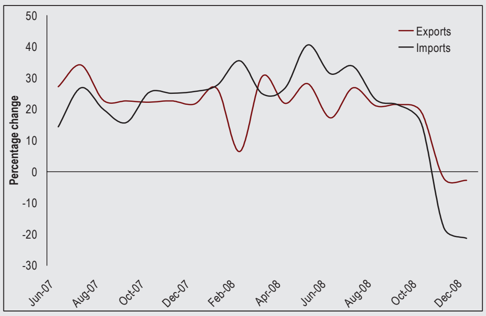
Business confidence



Global purchasing managers' indices

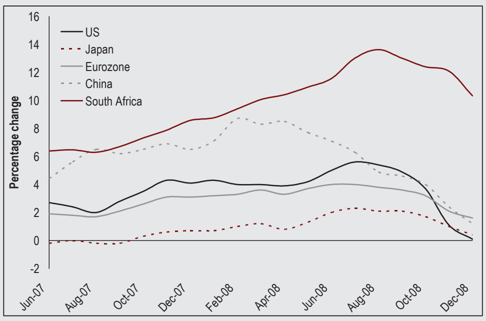


Chinese exports and imports

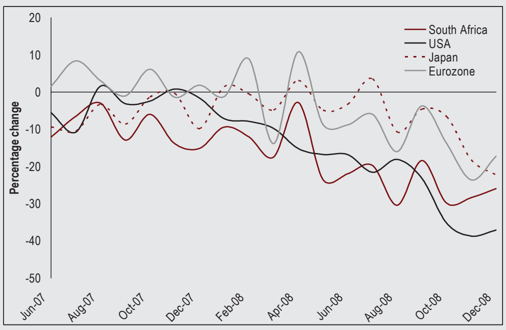


Baltic exchange dry shipping index

CPI inflation



Vehicle sales



The charts in this box are derived from a variety of sources including Bloomberg, the IMF, Grant Thornton and official country sources.

R787 billion infrastructure programme acts as part of broader countercyclical fiscal stimulus

Slowing economic growth has put pressure on government revenues and reduced the fiscal space for increased expenditure. However, government's record of sound fiscal management over the past decade will enable the state to sustain crucial expenditure on social services and investment in the period ahead. Government's R787 billion infrastructure programme serves several purposes in the current environment: it will strengthen the long-term growth potential of the economy and lower the cost of economic activity, it will compensate partially for lower levels of private investment, and it will act as part of the broader countercyclical fiscal stimulus.

Drying up of global liquidity and reduced risk appetite will challenge countries with high external funding needs

Risks to macroeconomic stability have been accentuated by the drying up of global liquidity and rising cost of capital. Country risk premiums have risen and capital flows to emerging markets have receded. Foreign investors sold R67.2 billion worth of bonds and equities in 2008. These changing investment patterns constitute a very serious challenge for countries with high external funding needs: investors are likely to demand higher returns to compensate for perceived risks and deteriorating economic performance.

South Africa's high current account deficit, measuring about 8.1 per cent of GDP in 2008, is expected to fall sharply in 2009 and average 6.7 per cent per year over the medium term. Relative to long-term averages, commodity prices are expected to remain high, supporting the terms of trade and the sustainability of the current account. As a large net oil importer, South Africa will benefit from the lower oil price. Gold's safe-haven status has supported a relatively high bullion price – at 115 per cent above its average level since 1994.

South Africa should continue to attract foreign capital. Strong public investment over the medium term will help to maintain comparatively good economic growth rates in a range of sectors. A healthy financial sector, low external debt levels, and deep and liquid domestic capital markets will help to sustain foreign investor interest in South Africa.

Fiscal measures and microeconomic reforms

Government will recapitalise development finance institutions to support investment and growth

The deterioration in the world economy is a setback to South Africa's economic progress, but government remains committed to reducing unemployment and poverty. In the short term, more expansionary fiscal policy will help to cushion the impact of slower growth on the poor and sustain investment in key network industries such as electricity and transport. Fiscal measures to support investment and poverty relief include:

- Recapitalisation of the development finance institutions. Domestic capital markets will be an important source of funding for public investment, supplemented by a recapitalisation of development finance institutions such as the Development Bank of Southern Africa to support investment and encourage risk-sharing with the private sector.
- Employment support. The second phase of the expanded public works programme focuses on creating longer-term public-sector jobs in areas such as home-based and community care, as well as

project-based employment in infrastructure and environmental protection.

- Support for the unemployed. The Unemployment Insurance Fund is well capitalised (R25.3 billion at end-March 2008) and able to meet a projected increase in claims. Reforms are under consideration to improve and extend unemployment benefits.
- Human capital and skills development. Developing human capital and strengthening the national skills base are core objectives of government spending. New funding will be allocated to further education and training.
- Income support. The number of South Africans receiving social grants expands to a projected 13.6 million in 2009, providing an important safety net for low-income households.

Macroeconomic stability and microeconomic reforms

A stable macroeconomic environment is a prerequisite for more rapid and shared growth

South Africa requires growth-enhancing economic reforms to improve productivity and export competitiveness, and to attract new investment. Such reforms, along with a commitment to improve the quality of public spending, are necessary to ensure a return to higher rates of economic growth once global conditions have improved.

It is essential to maintain macroeconomic policies that promote a stable economic environment and prevent inflation from undermining competitiveness. This is crucial to promote domestic and foreign investment, to finance the current account deficit, and to ensure sufficient fiscal resources to sustain spending on infrastructure and social needs.

New emphasis on higher standards for appropriate market conduct and banking-sector regulation

A well-regulated and adequately capitalised banking system, combined with prudential guidelines for foreign exposure, is also needed to manage financial and macroeconomic risks. Further emphasis will be placed on higher standards for appropriate market conduct alongside prudential regulation in the banking sector.

Productivity and export competitiveness can be improved by reducing the cost of doing business. Trade reform is needed to lower costs to consumers, reduce input costs, support diversification and promote competitiveness. Regulatory reform is needed to facilitate competition, protect consumer rights, support innovation and create greater flexibility in the business environment. In some areas, industrial support measures can promote development of new industries, and more work is needed to design effective policies that can boost employment and exports in competitive global markets. Investment and training in the manufacturing sector are supported by industrial subsidies announced in 2008.

Initiatives to promote more efficient use of energy and water resources

Over the long term environmental considerations will affect the sustainability of growth. Government will promote efficient use of energy and water resources by producers and households, alongside measures to mitigate the effects of climate change. Prices that reflect economic cost and well-structured environmental taxes should provide incentives for efficiency improvements and new investment.

Global developments

Global growth will be anaemic over the short term

Growth in the world economy is expected to slow to 0.5 per cent in 2009 from an estimated 3.4 per cent in 2008. Anaemic economic conditions will prevail through the first half of 2009.

The collapse in export demand and lower commodity prices have sharply reduced the growth outlook for developing countries, from 6.3 per cent in 2008 to 3.3 per cent in 2009. Reduced global liquidity and deleveraging by hedge funds and banks have led to a reversal of capital and investment flows to emerging markets, contributing to widespread exchange rate volatility and slowing economic activity.

Table 2.3 Annual percentage change in GDP and consumer price inflation, selected regions/countries, 2008 – 2010[1]

Region / Country	2008	2009	2010	2008	2009	2010
Percentage	GDP projections			CPI projections		
World	**3.4**	**0.5**	**3.0**	**5.1**	**1.4**	**2.3**
US	1.1	-1.6	1.6	3.8	-2.2	2.4
Euro area	1.0	-2.0	0.2	3.2	0.7	1.3
UK	0.7	-2.8	0.2	3.5	0.6	1.1
Japan	-0.3	-2.6	0.6	1.4	-0.3	-0.2
Emerging markets and developing countries	**6.3**	**3.3**	**5.0**	**8.8**	**4.6**	**3.5**
Emerging Asia	**7.8**	**5.5**	**6.9**	**6.8**	**2.6**	**2.2**
China	9.0	6.7	8.0	5.9	1.0	1.1
India	7.3	5.1	6.5	8.2	6.0	4.5
Africa	**5.2**	**3.4**	**4.9**	**10.8**	**7.1**	**5.9**
Sub-Saharan Africa	**5.4**	**3.5**	**5.0**	**11.3**	**7.5**	**6.4**
South Africa[2]	3.1	1.2	3.0	11.6	5.8	5.3

1. GDP projections: IMF, January 2009. CPI inflation projections: Global Insight, January 2009.
2. National Treasury forecasts.

International inflation is down sharply, largely on the oil price, and will continue to respond to weak demand

The inflation outlook has also changed markedly. Global inflation rose to 6 per cent in July 2008, fuelled by record-high commodity prices, tight labour markets and high capacity utilisation rates, but these factors have reversed with the onset of recession in advanced economies and a sharp decline in commodity prices – particularly oil. In the short term the declining inflation trend will be reinforced by weak economic conditions.

Trends in major economies and regions

- The United States has been in recession since the fourth quarter of 2007 and the economy is forecast to contract by 1.6 per cent in 2009. The Federal Reserve has cut interest rates to almost zero.
- Growth in the Eurozone slowed to 1 per cent in 2008 and is forecast to contract by 2 per cent in 2009. The UK economy is expected to shrink by 2.8 per cent in 2009.
- Export-oriented emerging economies are suffering from the decline in global demand. China's GDP growth fell to 6.8 per cent in the

final quarter of 2008 and is forecast to be 6.7 per cent in 2009, its lowest level since 1990.

- Sub-Saharan Africa is feeling the effects of the commodity price plunge and investor risk aversion. Projected growth for the region slows to 3.5 per cent in 2009 from 5.4 per cent in 2008.

Commodity price trends

- Commodity prices collapsed in the second half of 2008 after rising to record high levels early in the year. Between June 2008 and January 2009 the Bloomberg Global Commodity Index dropped by 41 per cent as demand fell and speculative positions were unwound.
- Oil prices plunged 69 per cent from a peak of US$145 a barrel in July 2008 to about US$45 per barrel at the start of February 2009. World oil consumption started to fall in the third quarter of 2008 in response to weaker global demand.
- The platinum price has fallen by about 57 per cent, from a record high of US$2 254/oz in March 2008 to US$976/oz at the beginning of February 2009, following the decline in world car sales. The gold price fell 9 per cent from US$1 003/oz in the first quarter of 2008 to about US$911/oz at the start of February 2009.

Balance of payments

The current account deficit is expected to average 6.7 per cent of GDP

The gap between savings and investment in South Africa widened further in 2008, pushing the current account deficit to an estimated 8.1 per cent of GDP from 7.3 per cent in 2007. Slower economic growth and higher savings will narrow the deficit in 2009, but imports associated with public and private infrastructure investment are expected to keep the average current account deficit at about 6.7 per cent of GDP over the medium term.

Capital inflows covered the current account deficit in the first nine months of 2008, with foreign direct investment (FDI) and other inflows rising relative to portfolio flows. Outflows from the equity markets in the fourth quarter highlight the ongoing risks presented by the global crisis to the balance of payments.

Table 2.4 Summary of South Africa's balance of payments, 2004 – 2008

Percentage of GDP	2004	2005	2006	2007	2008[1]
Total current account	**-3.2**	**-4.0**	**-6.3**	**-7.3**	**-8.1**
Trade balance	-0.1	-0.4	-2.3	-2.0	-2.1
Net services, income and transfer payments	-3.1	-3.6	-4.0	-5.3	-6.0
Net service payments	-0.3	-0.4	-0.9	-1.1	-1.6
Net income payments	-2.0	-2.0	-2.0	-3.2	-3.3
Net dividend payments	*-1.3*	*-1.6*	*-1.6*	*-2.9*	*-2.7*
Net transfer payments (mainly SACU)	-0.8	-1.2	-1.1	-1.0	-1.1
Current account excluding SACU transfers	-2.4	-2.8	-5.2	-6.3	-7.0
Financial account balance	**5.9**	**6.2**	**8.0**	**9.7**	**9.2**
Net portfolio investment	2.9	1.9	7.4	4.2	-0.7
Net foreign direct investment	-0.3	2.4	-2.6	1.0	3.2
Net other investment	0.6	0.6	1.3	3.0	4.5
Unrecorded transactions	2.6	1.3	1.9	1.5	2.2
Change in net reserves due to BoP transactions	**2.7**	**2.2**	**1.7**	**2.4**	**1.2**

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

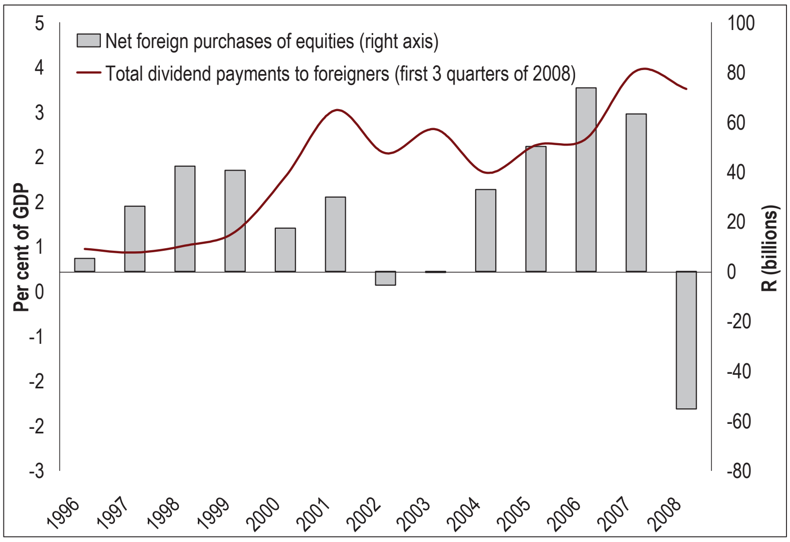
Source: Reserve Bank

Current account

The trade deficit has been a strong contributing factor to the current account deficit

A strong contributing factor to the current account deficit has been the deterioration in the trade balance, which moved from an almost balanced position in 2004 to a deficit of more than 2 per cent of GDP in less than two years. Transfer payments to other South African Customs Union members have steadied at about 1 per cent of GDP after rising sharply between 2003 and 2005. Growing service and income payments to international investors, in part due to higher dividend and interest payments arising from strong capital inflows, have also been a source of pressure on the current account. The trade and services and income payments deficits are expected to decline in 2009 and 2010 as growth slows and import prices moderate.

Figure 2.2 Portfolio investment and foreign dividend payments, 1996-2008



South Africa's terms of trade – the ratio of export to import prices – improved during the first part of 2008 as commodity prices rose to record high levels, but these gains were partially erased in the second half of the year. On average the terms of trade were 1.5 per cent higher in the nine months to September 2008 compared with the same period in 2007. Export and import values in 2008 were driven sharply higher by a weaker rand and high inflation, increasing by 35 and 30 per cent in 2008 compared with 2007, respectively.

Terms of trade improved in early 2008, but deteriorated as commodity prices fell

Export volumes were volatile due to disruptions to electricity supply in early 2008, and increased by only 3.5 per cent in the first nine months of the year compared with the same period in 2007. The outlook for exports has subsequently been clouded by the collapse in global demand. Table 2.5 shows that South Africa's export profile remains heavily tilted towards minerals and metals.

Growth in import volumes slowed to 4.4 per cent in the first nine months of 2008 after expanding at an average annual rate of 13.5 per cent between 2004 and 2007. The value of mineral product imports such as crude oil and refined petroleum products increased 57.2 per cent in 2008 due to high oil prices in the first half of the year, higher oil demand in the economy and the weaker exchange rate. Lower consumer demand and the softer real exchange rate should dampen import demand in 2009, but infrastructure investment will continue to draw in capital goods.

Import demand is likely to decline, offset by capital goods requirements

Table 2.5 South Africa's imports, exports and trade balances, 2008

	Share of total trade		Trade balance		
R billion	Exports	Imports	2000	2004	2008
Precious metals and stones	23.1%	1.3%	38.2	74.5	143.5
Base metals	17.3%	4.9%	23.8	44.2	78.7
Agricultural produce, food and beverages	7.2%	5.4%	7.7	7.9	8.4
Pulp and paper products	1.8%	1.5%	2.9	1.3	1.2
Transport and equipment	10.3%	9.7%	0.2	-15.8	-2.6
Miscellaneous manufacturing	0.8%	1.4%	0.2	0.2	-4.8
Textiles, clothing, footware and accessories	0.9%	3.1%	-3.6	-7.9	-16.5
Chemical products, plastics and rubber	8.7%	12.2%	-12.3	-16.5	-31.6
Mineral products	18.3%	23.7%	-0.5	-12.1	-51.6
Other[1]	2.0%	11.3%	2.2	-35.3	-68.6
Machinery and appliances	9.8%	25.5%	-38.8	-55.7	-120.7
Total	**100.0%**	**100.0%**	**20.0**	**-15.2**	**-64.5**

1. Includes optical and photographical equipment, wood, hides, leather and skin, works of art and unclassified.

Source: South African Revenue Service, unaudited figures for 2008.

Financial account

Over the past five years the financing of the current account deficit has been heavily dependent on portfolio inflows to the equity and bond markets. Though still adequate to finance the current account deficit, the composition of inflows changed significantly in 2008. Net portfolio outflows were recorded in the third quarter and outflows accelerated in October and November at the height of global deleveraging. International investors were net sellers of R54.4 billion in equities and R12.8 billion in bonds in 2008. Portfolio outflows were

Composition of the financial account is changing in line with capital flows offset by inward FDI, increased use of loan financing, repatriation of foreign assets by the banking sector and unrecorded transactions.

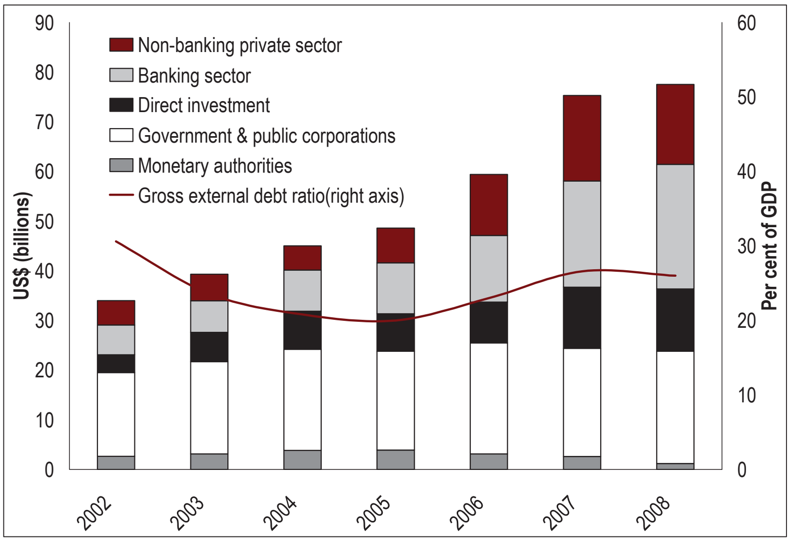
Inward FDI totalled R69.4 billion during the first nine months of 2008, with net FDI of R53.7 billion. The sectors that attracted foreign inflows were financial services, motor vehicles and beverages.

South Africa will remain a favoured destination as a corporate gateway to Africa

Although South Africa will remain a favoured destination for companies looking to expand their presence in Africa, the global economic slowdown will reduce cross-border corporate activity over the near term. The value of global cross-border mergers and acquisitions fell by 27 per cent in 2008 to US$1.2 trillion.

Although South Africa's overall level of foreign debt remains low, the private sector has made increased use of foreign loans to finance investment over the past three years. Gross foreign debt increased to about 26 per cent of GDP in September 2008 from 20 per cent in 2005. This includes rand-denominated debt instruments issued by the public and private sectors that are purchased by non-residents.

Figure 2.3 South Africa's gross external debt, 2002 - 2008



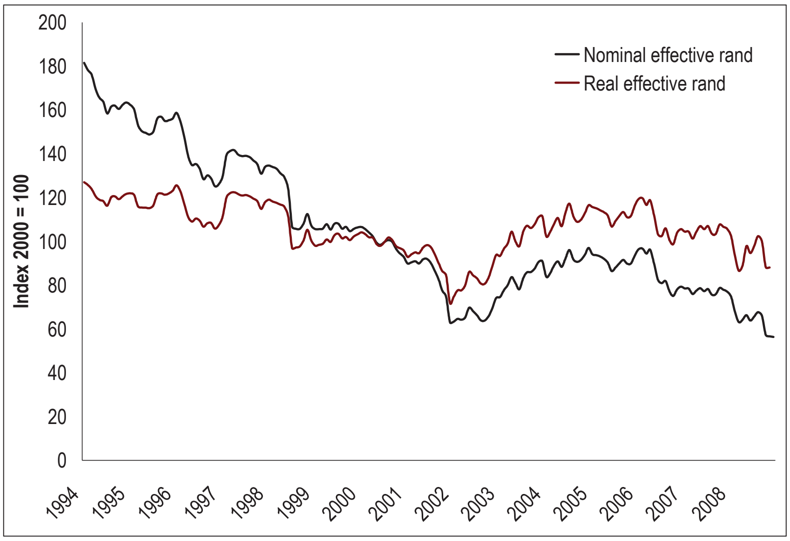
Calculations based on year-end debt stock, except 2008 which is up to September.

Exchange rate and international reserves

Exchange rate volatility increased in 2008

Exchange rates became highly volatile during 2008 as a consequence of risk aversion and dramatic movements in commodity prices.

Figure 2.4 Nominal and real effective rand indices, 1994-2008



The nominal effective rand exchange rate declined by 26.8 per cent in 2008, affected by investor flight to the dollar and reduced global liquidity. The floating exchange rate helped to cushion the impact of the commodity and capital flow shocks on the real economy, but the competitiveness gain from the weaker exchange rate was reduced by rising inflation. The real effective exchange rate declined by 17.4 per cent in the 12 months to November 2008.

Competitiveness gain from weaker rand was reduced by rising inflation in 2008

Gross gold and foreign exchange reserves increased modestly to US$34.1 billion at the end of 2008 from US$33 billion a year earlier. The value of reserves is subject to fluctuations in the gold price and exchange rates. South Africa's international liquidity position reached US$33.5 billion in December 2008, up from US$31.3 billion at the end of 2007.

South Africa's net reserves reached US$33.5 billion in 2008

Real output trends

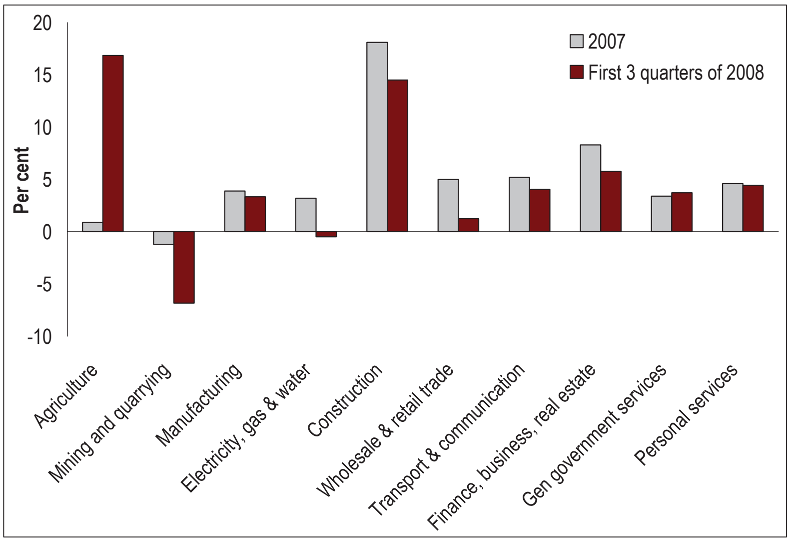
Over the past five years the pattern of GDP growth has been marked by strong performances in sectors with exposure to domestic demand, such as wholesale and retail trade, banking and financial services, real estate, transport and construction. Manufacturing growth slightly underperformed overall domestic growth over that period, while agriculture and mining displayed a greater degree of volatility.

South African producers were affected by a series of economic shocks in the first nine months of 2008, including electricity shortages, rising input costs, higher interest rates and slowing demand. This led to a marked slowdown in consumer-oriented sectors and weak mining and manufacturing output. Construction performed strongly, supported by ongoing infrastructure investment.

Construction performed strongly, supported by infrastructure investment

Challenges intensified in the fourth quarter as global confidence collapsed and external demand declined. Real GDP growth is expected to average 3.1 per cent in 2008 as a whole and slow to 1.2 per cent in 2009.

Figure 2.5 Growth in real value added by sector, 2007-2008



Agriculture

Agriculture, supported by high crop yields, was the best performer in 2008

Agriculture, fisheries and forestry was the best-performing domestic economic sector in the first nine months of 2008, with growth of 14.6 per cent compared with 2.3 per cent in the same period in 2007. Favourable weather supported higher-than-expected crop yields. During the first half of 2008, the prices of maize, sunflower seeds and wheat rose to record highs.

The maize crop for the 2007/08 season was 78 per cent higher than the previous year and the 2008 wheat crop is expected to be 9.2 per cent higher. However, the area planted for major summer crops is slightly lower than last year mainly due to a 7.3 per cent fall in maize plantings for the 2008/09 season.

Mining

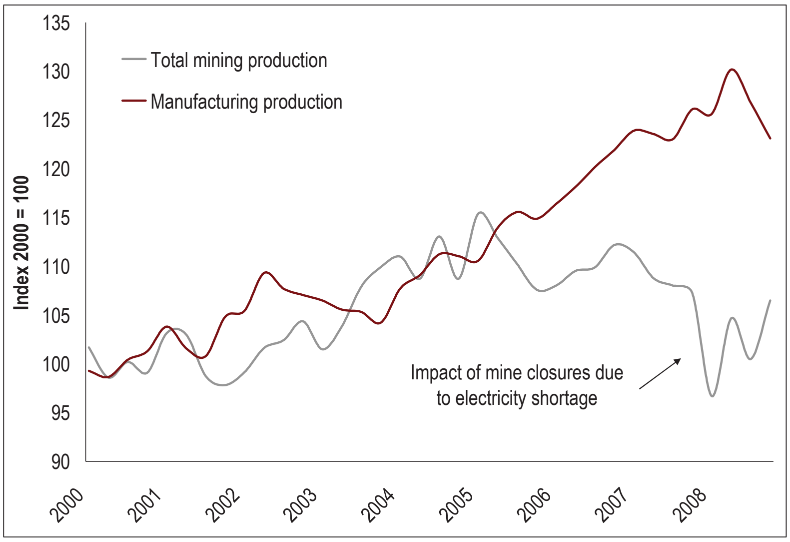
Electricity failures contributed to a poor mining performance in 2008

The mining sector had another poor year in 2008, with output contracting for the third year in succession. Output fell by 6.9 per cent in the first 11 months of 2008, with lower production of diamonds, copper, nickel, gold and platinum group metals. Last year gold production was about 21 per cent below that of 2006, lowering South Africa to third place in global production after China and the US.

The sector was set back by electricity supply failures and shutdowns related to mine safety, followed by retreating commodity prices and weakening international demand. The shortage of electricity had a severe effect, with mining operations shut down for two weeks in January 2008, after which supply was limited to about 95 per cent of required capacity.

Electricity supply constraints, along with the weaker global outlook, are likely to have a negative impact on new mining investment. Most mining houses have said that capital projects are under review or on hold.

Figure 2.6 Production indices for total mining and manufacturing, 2000-2008



The fourth quarter of 2008 is the average index level for October and November.

Manufacturing

Manufacturing output growth fell below 3 per cent in 2008

After growing at an average rate of about 4 per cent a year between 2003 and 2007, growth in manufacturing output fell below 3 per cent in 2008. Output slid sharply on the electricity crisis in the first quarter of 2008, followed by the rapid deterioration in global and household demand, which contributed to production falling 4.4 per cent in November from a year earlier.

All export sectors are at risk from reduced world demand

Export earnings for manufactured goods increased in 2008, reflecting price effects from the weaker exchange rate. Chemicals and motor vehicles recorded solid volume growth. All export sectors are at risk from declining global growth and output has already fallen sharply in sectors most sensitive to international demand. Production of basic iron and steel products plunged more than 40 per cent between November 2007 and November 2008, while parts and accessories for vehicles and fully assembled vehicles declined by 31.5 per cent and 22.6 per cent respectively.

Electricity and water

Larger coal stockpiles and better maintenance have improved stability of electricity system

Electricity production fell by 1.2 per cent in the first 11 months of 2008 compared with 2007. Consumption was down by 1.5 per cent due to power cuts and energy-efficiency initiatives. Though Eskom's reserve margin is still low, the electricity system is much more stable than a year ago due to lower demand, larger coal stockpiles and improved system maintenance.

Over the past year, higher coal and diesel prices have significantly raised the cost of electricity generation. The National Energy Regulator approved price increases of 27.5 per cent for 2008 and indicated that prices are likely to increase by between 20 and 25 per cent a year over the next three years. Over the medium term, it is expected that investment in new power projects and demand-side management measures will result in more reliable electricity supply. Price increases should in due course align the price of power to the cost of supply, encouraging more efficient electricity use.

Improved maintenance, new dams and adjusted tariffs will support better water supply management

South Africa faces similar challenges with regard to water supply as demand growth outstrips supply. Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future.

Construction

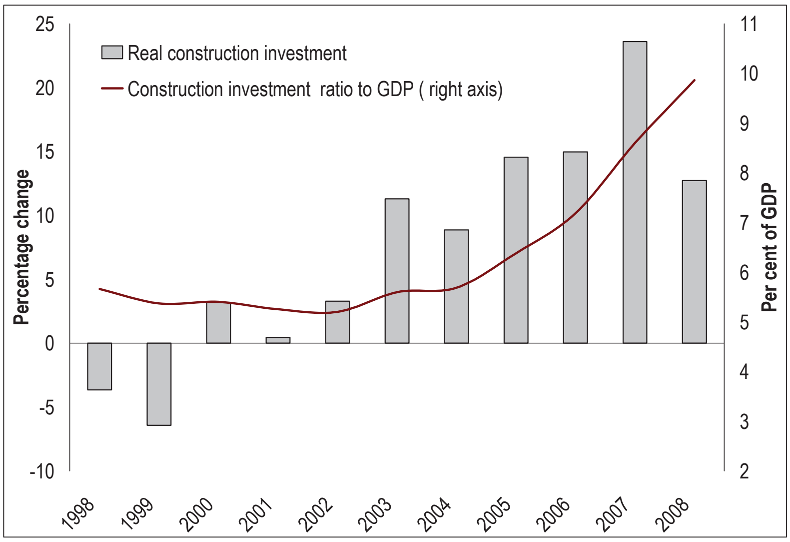
After agriculture, construction was the best-performing sector in the first nine months of 2008, with gross value added expanding by 14.5 per cent, following exceptional growth of 17.2 per cent over the same period in 2007. The resilience of construction, despite a sharp slowdown in residential activity, is supported by continuing growth in infrastructure investment, particularly in transport, water, electricity and stadiums for the 2010 FIFA World Cup.

Residential building activity has declined in response to the housing market correction. The volume of residential building plans passed by large municipalities fell by 24.3 per cent in the first 11 months of 2008, and residential activity is likely to remain subdued until the cost of borrowing falls and the housing market stabilises.

International slowdown in construction is likely to result in greater skills availability in South Africa

Though the private sector is likely to curtail investment spending in 2009, the public-sector investment programme remains on track and is expected to support civil construction activity over the medium term. The international slowdown in building and construction activity should increase the availability of skilled personnel for local projects, while slower demand should also increase competition among contractors and lower building cost inflation.

Figure 2.7 Investment in construction works and buildings, 1998-2008



Data for 2008 is for the first three quarters of the year.

Financial services

The finance, insurance, real estate and business services sector grew by 5.8 per cent in the first nine months of 2008 compared to 6.4 per cent in the same period in 2007.

Domestic banking sector remains relatively insulated from the global crisis

The domestic banking sector has been relatively insulated from the global financial crisis due to adequate levels of capitalisation and low exposure to risky offshore assets. However, the cooling housing market, increased cost of borrowing and pressure on household disposable income have dampened sector profitability. More stringent criteria are being applied to new loan approvals in the wake of the global credit crunch. Non-performing loans as a percentage of gross loans and advances rose from 2 per cent in January 2008 to 2.9 per cent in August, but remain at manageable levels.

Transport and communication

Value added by the transport and communication sector grew by 4.1 per cent in the first three quarters of 2008 compared with 5.7 per cent in the same period in 2007.

Investments in airports, rail and roads contribute to strong growth in transport sector

Investment in the transport sector increased strongly in the first nine months of 2008, driven in part by state-owned enterprises' infrastructure expansion programmes, such as the upgrading of airport terminals ahead of the 2010 FIFA World Cup and a major national roads maintenance programme. Investment in transport-related infrastructure projects will total R50.9 billion over the next three years. Transnet will invest R80.3 billion over the next five years to build a multi-product pipeline from Durban to Gauteng, expand the ports of Durban and Cape Town, and extend the coal and iron ore rail lines. Such investments are necessary to expand export capacity.

Undersea cable project will boost internet bandwidth in 21 African countries

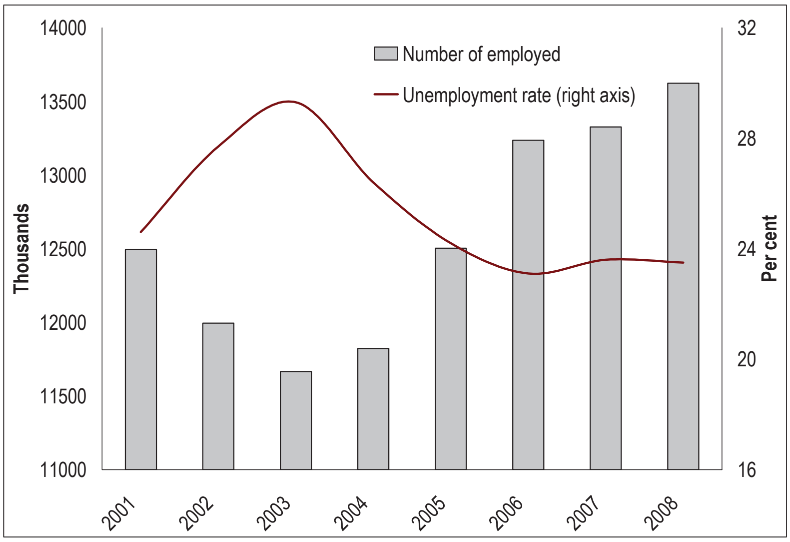
The communication sector has also benefited from significant capacity expansion. To improve coverage and bandwidth by 2010, Telkom expects to spend R11.3 billion in 2008/09. Neotel, the second fixed-line operator, plans to invest R11 billion on its network over the next decade. The Eastern Africa Submarine Cable System, which will increase the bandwidth available to 21 African countries, including South Africa, is expected to be completed in the second half of 2010. Telkom, Neotel and MTN are partly funding the cable.

Employment and remuneration

The economy created nearly 2 million jobs over the past five years

The South African economy created nearly 2 million jobs over the past five years, lowering the unemployment rate from about 30 per cent to 23.2 per cent. Employment continued to rise in the first nine months of 2008, though at a slower pace. Non-agricultural formal employment grew by an estimated 1.8 per cent (149 000 jobs) between September 2007 and September 2008 after growth of 2.7 per cent in the previous year.

Figure 2.8 Labour market trends, 2001 – 2008



Includes historical revisions of Statistics South Africa's March Labour Force Survey.

Employment gains were largely concentrated in service-oriented sectors such as community and personal services, and financial intermediation. Mining employment was buoyed by rising commodity prices in the year to September 2008.

Slowdown is leading to retrenchments in mining and retail trade

These increases in employment are at risk, however, as slower consumer spending and lower commodity prices have led to retrenchments in the retail trade sector and in mining. The sharp contraction in residential building activity has reduced employment in construction. Manufacturing employment has also declined.

Table 2.6 Employment in the formal non-agricultural sectors, September 2008

Thousands	Total employed	Annual change	Change from Sep 2007	Percentage of total
Mining and quarrying	528	23	4.6%	6.2%
Manufacturing	1 288	-30	-2.3%	15.2%
Utilities	59	4	7.3%	0.7%
Construction	470	-5	-1.1%	5.5%
Retail and wholesale trade	1 723	-18	-1.0%	20.3%
Finance, insurance, real estate	1 927	76	4.1%	22.7%
Transport & communication	365	7	2.0%	4.3%
Community & personal	2 132	92	4.5%	25.1%
Total	**8 492**	**149**	**1.8%**	**100.0%**

Source: Statistics South Africa

Nominal wage settlements were up strongly in 2008

Nominal wage settlements averaged 9.8 per cent in 2008, up from 7.3 per cent in 2007, in response to rising inflation and pressures on disposable income from high food and petrol prices. Growth in real wages and unit labour costs, however, has been moderate, and this will tend to support employment as economic growth weakens.

Domestic expenditure

Real growth in gross domestic expenditure slowed to an estimated 3.4 per cent in 2008 after growing at an average annual rate of 7.2 per cent between 2004 and 2007. This mainly reflects much slower growth in household consumption, which was partly offset by continued growth in investment expenditure and government consumption.

Gross domestic expenditure growth slowed to about 3.4 per cent in 2008

Table 2.7 Weighted contribution to domestic final demand, 2000 – 2008

Per cent	2000	2005	2006	2007	2008[1]
Household consumption expenditure	2.7	4.3	5.3	4.2	2.0
Government consumption expenditure	0.5	0.9	0.9	0.9	0.8
Gross fixed capital formation	0.7	1.8	2.3	2.9	2.4
Domestic final demand	**3.9**	**7.0**	**8.5**	**8.0**	**5.2**

1. Includes data for the first three quarters of the year.

Source: Reserve Bank

Household debt and consumption expenditure

After several years during which household debt rose strongly, growth in consumption spending has slowed sharply, to an estimated 2.5 per cent in 2008. The deceleration in household spending growth has been more prominent in consumer durable goods than services.

Households have been affected by rapidly rising inflation, higher interest rates and receding wealth effects from falling property and equity prices. Reduced spending has improved household savings and lowered debt. The ratio of household debt to disposable income fell from 78.5 per cent to 75.3 per cent in the third quarter of 2008 and is likely to have fallen further in the fourth quarter. Real consumption is expected to decline by 0.2 per cent in 2009 before resuming growth of 1.9 per cent in 2010 and 3.2 per cent in 2011. Households will benefit from lower petrol prices, falling inflation and reduced interest rates in the period ahead.

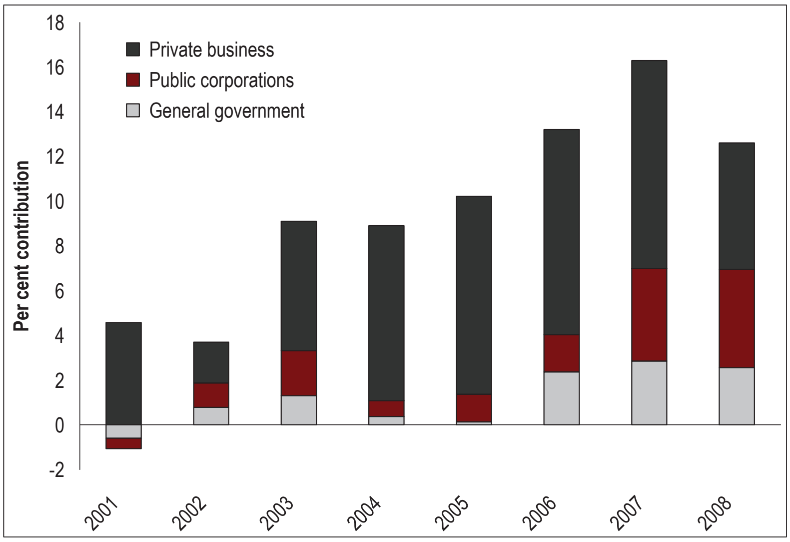
Households will benefit from cheaper petrol, lower inflation and reduced interest rates in 2009

Gross fixed capital formation

Sustained increases in public-sector investment over the past several years and higher commodity prices contributed to the strong rise in fixed investment to 24 per cent of GDP in the third quarter of 2008, its highest level since 1985. Fixed investment growth for 2008 is projected at 11.5 per cent for the year as a whole.

In the third quarter of 2008 fixed investment reached its highest level since 1985

Figure 2.9 Weighted contributions to total fixed investment growth, 2001-2008



Data for 2008 is for the first three quarters of the year.

Weight of public sector is becoming more pronounced in fixed investment

The impetus for growth is shifting from the private sector to general government and public corporations, which expanded real spending by 17.1 per cent and 33.7 per cent respectively in the first three quarters of 2008. The share of private spending in total investment fell from a peak of 74.8 per cent in the fourth quarter of 2005 to 66.6 per cent in the third quarter of 2008, while the share of public corporations rose from 11.2 per cent to 16.8 per cent during that time. General government accounts for 16.7 per cent of total investment.

The sharp rise in spending by public corporations is most striking in the electricity sector, where investment grew by 44.7 per cent in the first nine months of 2008. Transport and communications was the second-strongest performer, growing 20.3 per cent in the first three quarters of 2008 compared with 2007. Spending in these areas is having the greatest impact on investment in construction works, non-residential buildings and machinery and other equipment, which saw growth of 28.9 per cent, 15.4 per cent and 15.1 per cent respectively in the first nine months of 2008.

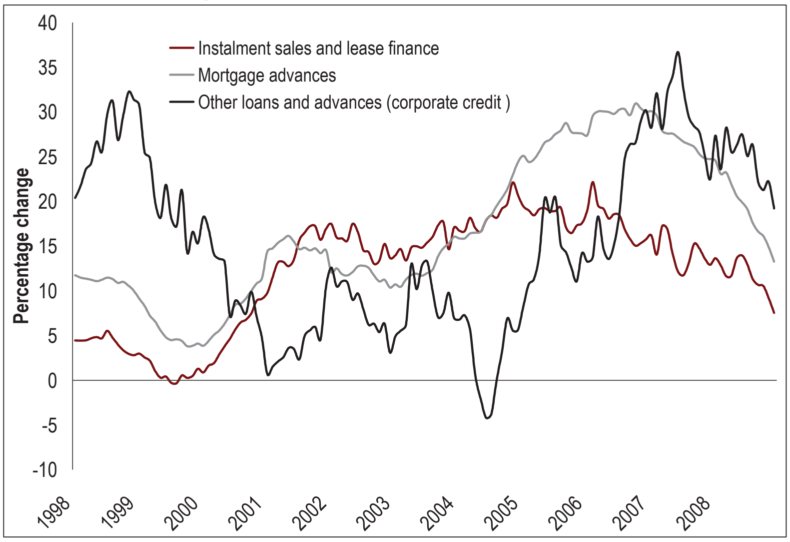
Money supply and credit extension

Slower credit extension has reduced growth in broad money supply

Slower credit growth dampened the pace of expansion in broad money supply (M3) to 14.5 per cent in December 2008, down from 23.6 per cent a year earlier.

Rapid growth in credit extension supported booming household consumption over the past five years. Credit growth moderated to 14 per cent in December 2008 from 23 per cent at the start of the year. Stagnant house prices and the National Credit Act have slowed growth in mortgage advances, which make up almost half of total credit extension, to 13.2 per cent in December 2008 from a peak of 30.9 per cent in October 2006. Credit extension to the corporate sector has also softened.

Figure 2.10 Growth in private-sector credit extension components, 1998-2008

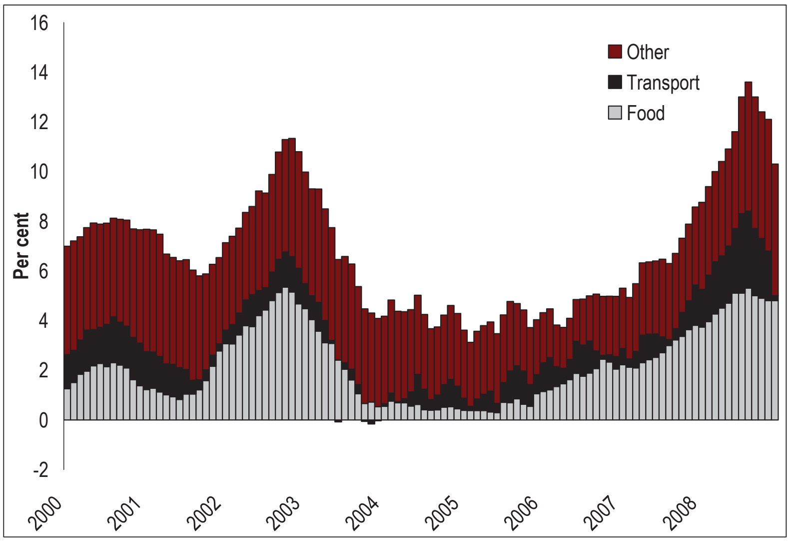


Inflation and interest rates

Lower inflation will make room for interest rate cuts, supporting credit extension

Over the past two years inflation has been fuelled by rapid increases in food and oil prices, domestic capacity constraints, a weaker rand exchange rate and adjustments to electricity tariffs. CPIX inflation averaged 11.3 per cent in 2008. Lower oil and food prices, and weak domestic demand, are expected to bring inflation back within the 3 to 6 per cent target band during the first half of 2009. This will help to make room for monetary easing in the coming months, supporting credit extension to businesses and households.

Figure 2.11 Contributions to CPIX inflation, 2000-2008



Reweighted and rebased CPI replaces CPIX as target measure of inflation

From January 2009, headline CPI for all urban areas will replace CPIX as the new target measure of inflation. The reweighting and rebasing of the index is expected to result in a technical drop in the rate of CPI inflation for January, which will be released on 25 February.

Long-term inflation outlook is improving and monetary policy is adjusting

Long-term inflation expectations have improved. CPI inflation expectations for 2009 (surveyed in December 2008) decreased by 0.1 percentage point to 8.6 per cent and expectations for 2010 declined by 0.2 percentage points to 7.5 per cent. In response to the improved inflation outlook, the Reserve Bank cut interest rates in December 2008 and February 2009 by a cumulative total of 1.5 percentage points.

Conclusion

Policy supports a gradual recovery, but much depends on global environment

The effects of the global downturn will be felt for some time to come. Though economic activity is expected to contract most severely in developed countries, the ripple effects of weak demand, low confidence and reduced liquidity are being felt in every corner of the globe. Policy measures to restore market liquidity and to support domestic demand will help to lay the foundations for a gradual recovery. However, the outlook remains highly uncertain and the risks favour a more prolonged slump if developed-country efforts to stabilise the balance sheets of loss-making banks and financial institutions fail.

South Africa's financial system has weathered the storm well so far, but the global contraction will constrain economic growth over the medium term.

South Africa must emerge from the crisis more productive and competitive

More expansionary fiscal and monetary policies will support a gradual recovery in domestic demand and help to sustain investments in public infrastructure that are essential for long-term growth. But with sights still set on the attainment of a higher sustainable rate of growth needed to reduce high levels of unemployment and poverty, South Africa must emerge from this crisis more productive and more globally competitive. This will require rapid progress on a range of microeconomic reforms to improve education and skills, lower the cost of doing business, ensure more efficient use of scarce resources, and improve the quality of government spending.

3

Fiscal policy

- The rapid deterioration of the world economy, lower commodity prices and tighter credit will have considerable consequences for South Africa's public finances. Having pursued a sound macroeconomic and fiscal stance over the past decade, government has the fiscal space to maintain spending in support of sustainable economic growth and social development.
- While slowing economic activity will result in lower tax revenue, a low debt-to-GDP ratio combined with reduced debt service costs means that the 2009 Budget is able to add R161 billion to main budget non-interest expenditure without undermining sustainability or building up an excessive debt burden for future generations. This stance allows for an expansion of the public-sector infrastructure programme to enhance future economic capacity, while broadening the breadth and quality of public services and social transfers.
- Higher spending and a decline in tax revenue in 2009/10 are expected to result in a budget deficit of 3.8 per cent of GDP. As the economy recovers, government savings can be expected to improve, with the deficit falling over the medium term.

Overview

Fiscal space allows for a sustainable response to the economic slowdown

With the economy slowing, government is maintaining the countercyclical policy stance that has been in place for a number of years. Sustained growth in expenditure and lower revenue collections result in a widening of the deficit next year. Low public debt and liquid South African capital markets will allow government to fund its borrowings largely from the domestic market.

The growth in government spending in the present context serves two broad purposes. Firstly, it ensures that the implementation of long-term service delivery priorities is not negatively affected by lower growth in revenue collection. Instead of being forced to cut back on allocations when faced with lower revenue, government is able to devote greater resources to priority expenditure. This is a direct result of fiscal space created during the upward phase of the economic cycle.

What is countercyclical fiscal policy?

Countercyclical fiscal policy enables government to respond flexibly to the effects of the economic cycle. In adopting this stance, government manages its borrowing in a way that requires the fiscus to save temporary revenue gains when the economy is strong, and to borrow to compensate for temporary revenue losses when the economy is weak.

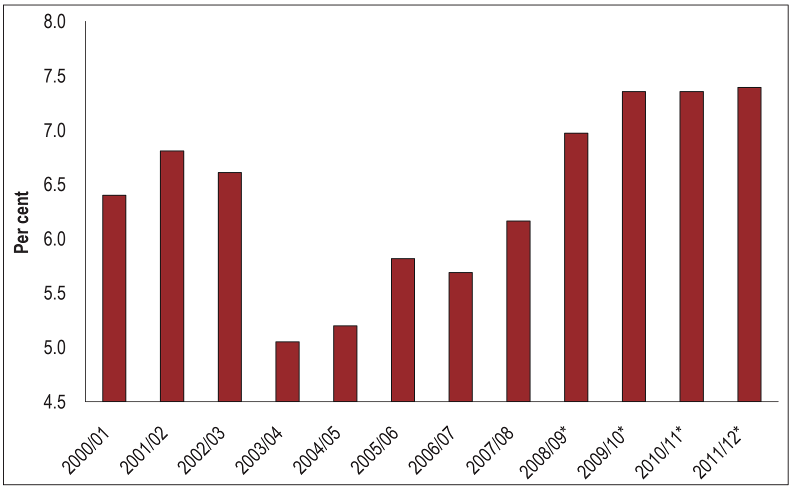
As a result, the fiscus experiences a cyclical decline in debt stock during the positive phase of the business cycle (sometimes referred to as creating fiscal space) and a cyclical increase in debt stock during the negative phase of the business cycle.

In terms of public finances, this means that expenditure and tax policy decisions made when revenue is cyclically high will still be affordable when cyclical revenues reverse. In principle, choices to increase spending on vital social and economic priorities such as infrastructure, social grants or wages when the economy is strong need not be reversed or financed by higher tax rates when the economy is underperforming.

Public-sector infrastructure programme supports aggregate demand and long-term growth potential

Secondly, by expanding government's contribution to the economy, the fiscus is able to support economic activity at a time when global and domestic demand is faltering. This complements the role of monetary policy in supporting macroeconomic stability, reducing the impact of the downturn on households and mitigating its depth and duration. The public-sector infrastructure programme also supports aggregate demand and boosts vital job-generating sectors of the economy, while raising long-term growth potential. While other governments are seeking ways of generating new capital plans or bringing forward planned projects, South Africa's investments have gathered strong momentum since 2004, providing an established and timely expansion of capital spending.

Figure 3.1 Capital spending as a percentage of consolidated government expenditure, 2000/01 – 20011/12



**2008/09 - 2011/12 are based on forecasts.*

Government's ability to increase expenditure needs to be measured against the difficulties of raising large amounts of debt in the current environment. Government remains watchful to ensure that fiscal space remains available and that rising debt does not narrow opportunities for future economic development.

Over the medium term the economic cycle is forecast to become more supportive of growth. The resulting boost to tax revenue, combined with the moderation of growth in expenditure, is expected to result in the budget balance improving.

The fiscal stance responds to immediate and longer-term challenges

In summary, the 2009 Budget is able to accommodate short-term challenges while positioning the fiscus to take advantage of better conditions when the economic cycle turns.

Key features of the 2009 Budget include the following:

- Consolidated government spending grows to 33.7 per cent of GDP in 2009/10, before declining to 32.3 per cent by 2011/12, with additional allocations to the main budget of R161 billion (including the loan to Eskom).
- Total receipts decline to 29.9 per cent of GDP in 2009/10 from a high of 31.0 per cent in 2007/08.
- The consolidated government budget deficit rises to 3.8 per cent of GDP in 2009/10 before moderating to 1.9 per cent by 2011/12.
- Interest costs stabilise at about 2.5 per cent of GDP over the next three years.
- The public sector borrowing requirement rises to 7.5 per cent of GDP in 2009/10 before moderating to 5.3 per cent by 2011/12.

The fiscal outlook

Real spending growth has enabled government to expand the social wage and increase investment

Between 2005/06 and 2008/09, real growth in spending by consolidated government has averaged about 8.2 per cent. This has enabled government to make a substantial contribution to the welfare of all South Africans by expanding the social wage, increasing transfers to households and accelerating infrastructure investment.

This strong growth in expenditure has been made possible in part by prudent fiscal management. Reduced deficits have led to debt service costs falling from 21.2 per cent of total national government spending in 1998/99 to just 7.5 per cent in 2009/10. The creation of fiscal space through lower debt costs has been supported by economic growth and rising tax revenue since 2004.

Budget shifts into a deficit, but as economy recovers savings will improve

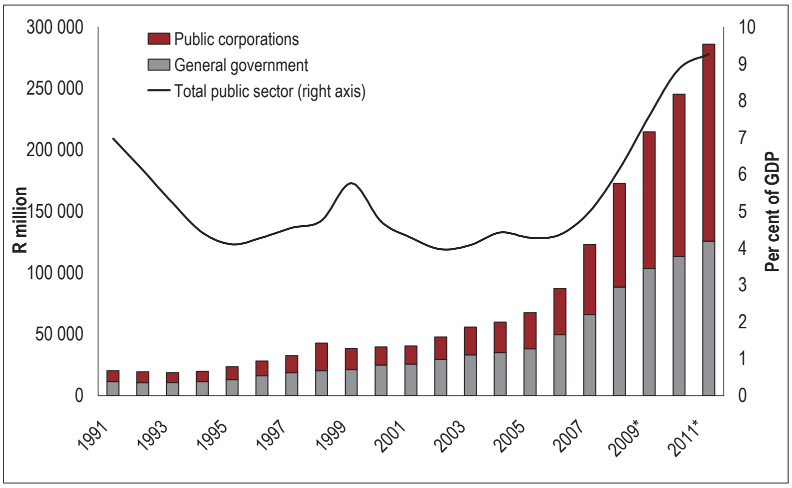
Over the past year the fiscal stance has become significantly more expansionary, with lower revenue and higher expenditure resulting in an increase in the deficit. This change in the fiscal stance coincides with the changed economic outlook and enables government to continue financing its priorities over the cyclical decline in revenue while supporting aggregate demand. As the economy recovers, revenue growth combined with relatively slower growth in public spending will see government borrowing retreat and savings improve.

Trends in expenditure and revenue

Sustaining infrastructure spending a key objective

Due to the importance of infrastructure in public service provision and boosting growth potential, government has placed a stronger emphasis on capital spending since 2001. While take-up in these rising allocations was initially slow, from 2004/05 expenditure began to accelerate. After accelerating to 19.4 per cent in 2007, real growth in government capital formation is expected to remain strong, with an average of about 9.5 per cent over the next three years.

Figure 3.2 Gross fixed capital formation by the public sector, 1991 – 2011



Historical data based on Systems of National Accounts (SNA) data as published by the Reserve Bank

**2008 - 2011 are based on forecasts.*

An expanded role for development finance institutions

The non-financial public enterprises shoulder a significant share of the public sector's broader capital investment programme. These investments, predominantly in energy, transport and water-related infrastructure, are key components of economic and social development and can be expected to raise the long-term growth potential of the economy. In addition, over the period ahead, government will support the role of its development finance institutions in infrastructure finance and provide selective support to state-owned enterprises by guaranteeing some of their debt.

Public-sector infrastructure expenditure will total R787 billion over the medium term

Table 3.1 shows that over the medium term, public-sector infrastructure expenditure plans total R787 billion. Major funding by government includes further allocations to the school building programme, public transport, housing, water and sanitation. In addition, non-financial public enterprises continue to invest in power generation, transmission, distribution, transport hubs, freight rail and pipelines.

Table 3.1 Public sector infrastructure expenditure and estimates, 2005/06 – 2011/12

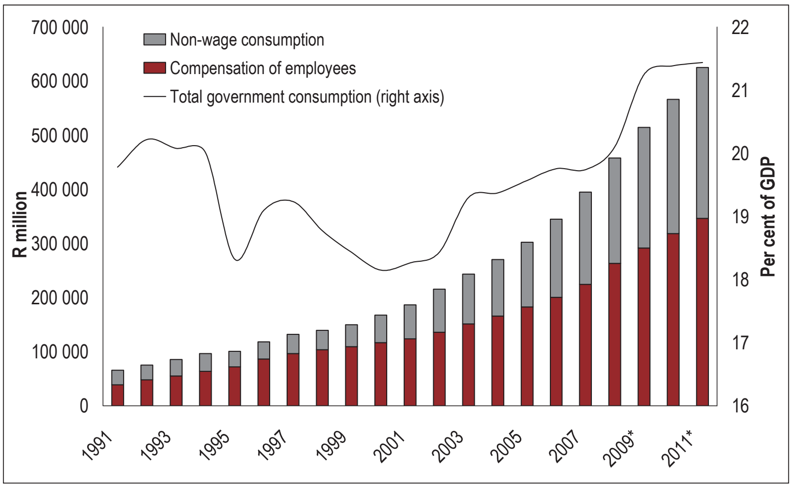
R million	2005/06	2006/07	2007/08	2008/09 Revised estimate	2009/10	2010/11	2011/12
					Medium-term estimates		
National departments [1,2]	4 909	4 631	5 712	7 157	8 024	8 641	12 867
Provincial departments [2]	22 535	27 112	29 395	34 664	39 899	46 517	52 439
Municipalities	16 865	21 084	30 736	46 093	49 496	53 738	59 074
Public private partnerships [3, 4]	1 106	1 343	3 857	7 633	13 897	11 692	11 727
Extra-budgetary public entities	3 144	3 699	3 726	4 895	6 971	7 509	8 112
General government	**48 559**	**57 869**	**73 426**	**100 442**	**118 288**	**128 098**	**144 219**
Non-financial public enterprises [5]	22 145	25 736	56 765	90 192	119 585	131 335	145 842
Total	**70 703**	**83 605**	**130 191**	**190 634**	**237 873**	**259 433**	**290 061**
Percentage of GDP	*4.5%*	*4.6%*	*6.3%*	*8.3%*	*9.6%*	*9.7%*	*9.8%*
GDP	*1 585 986*	*1 810 664*	*2 067 884*	*2 304 111*	*2 474 214*	*2 686 254*	*2 952 989*

1. *Transfers between spheres have been netted out.*
2. *Includes maintenance of infrastructure assets.*
3. *Capital expenditure on PPPs overseen by the Treasury PPP Unit, SA National Roads Agency, Department of Public Works and at municipal level.*
4. *PPPs reflect private sector contributions and SANRAL toll roads.*
5. *2009/10 - 2011/12 are based on National Treasury estimations.*

A balance is required between wages and other spending categories

Compensation of employees accounts for the greatest share of consumption expenditure. Goods and service spending has been rising strongly due to increased spending on school books, medicines and IT infrastructure. Government aims to maintain an appropriate balance between personnel spending, capital spending and social transfers. In 2007/08 and 2008/09, the wage bill grew more rapidly than anticipated. If government is to maintain its commitment to increasing public employment, some moderation of general salary increases will be appropriate.

Figure 3.3 General government consumption expenditure, 1991 – 2011



Historical data based on SNA data as published by the Reserve Bank.

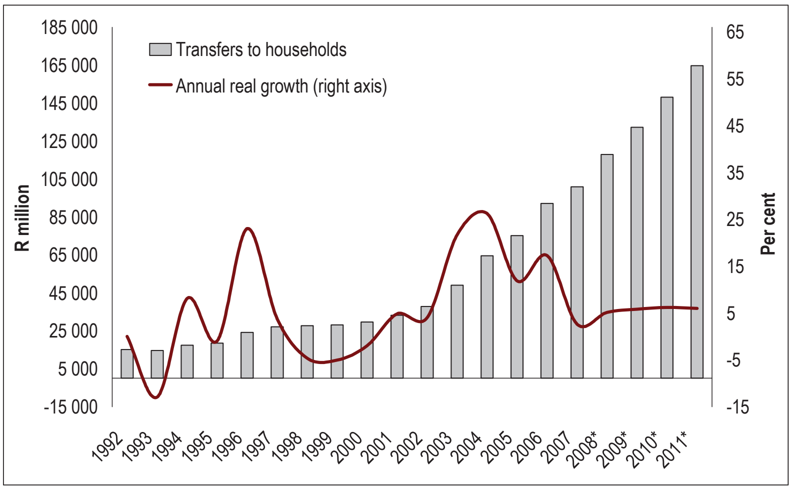
Non-wage consumption expenditure excludes transfers to households.

**2008 - 2011 are based on forecasts.*

Transfers to households grow in line with social grants

Policy changes will result in an increase in the number of social grant recipients. As a result, transfers to households are expected to grow at about 6 per cent in real terms over the medium term.

Figure 3.4 Government transfers to households, 1992 – 2011



Historical data based on SNA data as published by the Reserve Bank.

**2008 - 2011 are based on forecasts.*

Revenue buoyancy falls in line with deceleration of the economy

On the revenue side, the downward revision in economic growth is expected to have a negative effect on tax collection. Lower consumption expenditure has already resulted in VAT coming in below expectations for 2008/09, while lower commodity prices and weaker economic growth will reduce income tax receipts from both companies and individuals. As the economy begins to recover, revenue growth should stabilise.

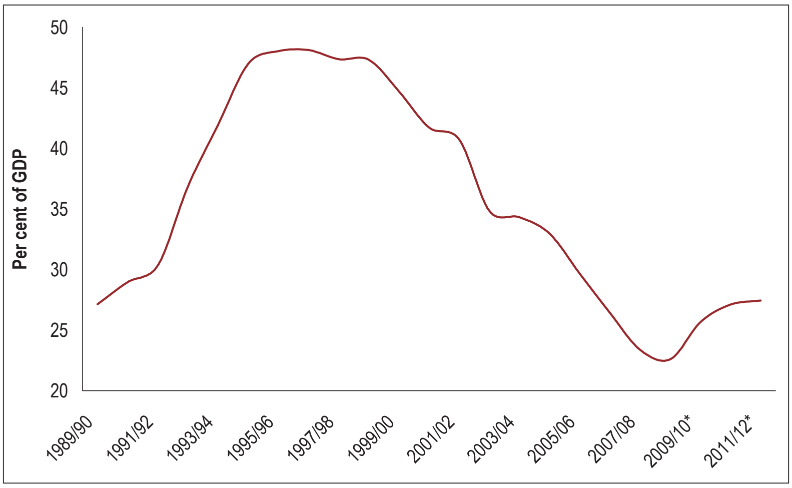
Financing

The combined effect of higher expenditure and declining revenue is that government will run a deficit that will need to be financed by borrowing.

Net loan debt rises in the short term

Over the past 13 years, net loan debt of national government has declined significantly, from 48.1 per cent of GDP in 1996/97 to an expected 22.6 per cent by the end of 2008/09. To protect the value of public expenditure and limit the extent of the economic downturn, borrowing will raise public debt to 27.4 per cent of GDP by 2011/12. This is necessary because a procyclical tightening of the fiscus through higher taxes or lower expenditure would remove demand from a slowing economy and significantly undermine public service delivery. As the economy recovers, the debt stock will decline as a percentage of GDP.

Figure 3.5 Total net loan debt as a percentage of GDP, 1989/90 – 2011/12

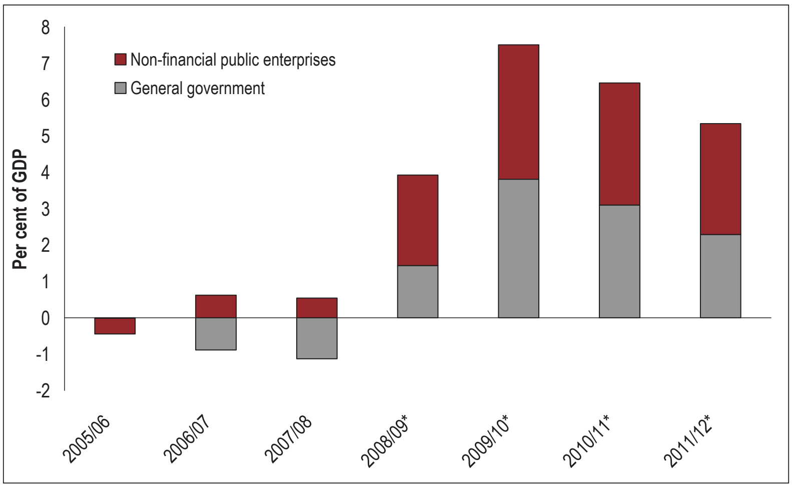


**2008/09 – 2011/12 are based on forecasts.*

The long-term infrastructure programme of the public sector requires significant capital to be raised through debt. In combination with the general government budget deficit this results in a significant widening of the public sector borrowing requirement to 7.5 per cent of GDP in 2009/10. While borrowing for capital expenditure (especially among the non-financial public enterprises) will continue beyond 2011/12, the recovery in the national government balance will lead to an overall reduction of the public sector borrowing requirement from 2010/11.

To finance the infrastructure programme, significant capital needs to be raised

Figure 3.6 Public sector borrowing requirement as a percentage of GDP, 2005/06 – 2011/12



**2008/09 – 2011/12 are based on forecasts.*

Sustainability

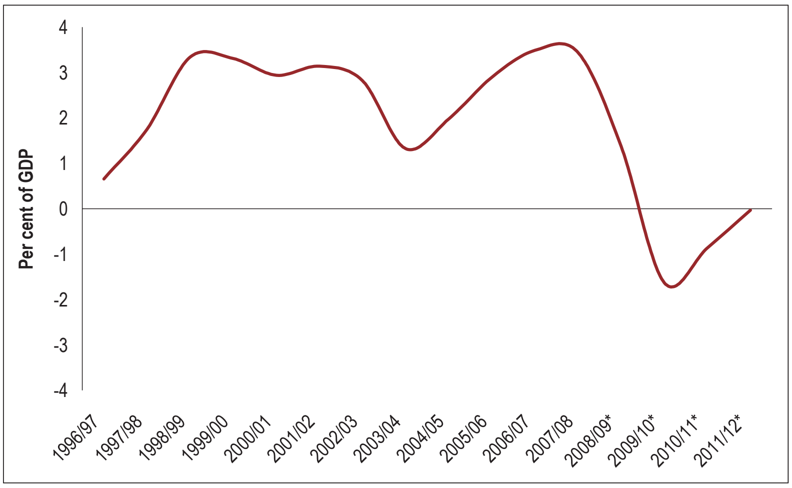
The basic indicator of sustainability in the public finances is the primary balance, calculated as national government revenue minus non-interest expenditure. This shows how much revenue remains to pay debt service costs: if insufficient resources are available to service debt, the fiscus has to borrow to pay for interest charges. While this

Fiscal stance emphasises the need for sustainability of the public finances might be possible in the medium term, it is not sustainable over the long term as borrowing to pay interest leads to a cycle of rising debt, crowding out non-interest expenditure.

Primary balance declines to a deficit position of 1.6 per cent

Lower revenue and countercyclical spending are expected to result in a primary balance of about -1.6 per cent of GDP in 2009/10. Given the extent and pace of the economic adjustment, this is not unexpected. The fiscus accommodates a primary deficit through higher borrowing, with the expectation that the primary balance will move back towards sustainable levels as economic growth begins to accelerate in 2010.

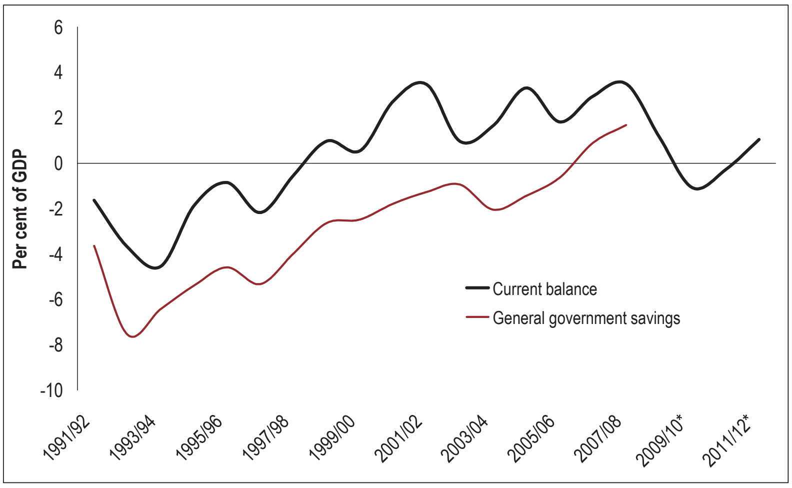
Figure 3.7 Primary balance of national government, 1996/97 – 2011/12



**2008/09 - 2011/12 are based on forecasts.*

The current balance is the difference between consolidated government revenue and expenditure, measuring the degree to which taxpayers finance the cost of public services and the extent to which the fiscal position will leave assets or liabilities for future generations.

Figure 3.8 The current balance and general government savings, 1991/92 – 2011/12



Current balance calculated at the consolidated government level of accounts.
**2008/09 - 2011/12 are based on forecasts.*

A deficit means that borrowing must rise or assets must be run down to pay for services. The current budget balance of government (and therefore savings) will decline in the short term as a result of lower cyclical revenue and growth in current expenditure. Government remains committed to running a balanced or positive savings position over the long term. As the economy begins to recover and the share of capital spending rises, the current balance will improve.

Government is committed to running a positive savings position over the long term

The budget framework

In the 2009 *Budget Review*, the budget framework is presented at the consolidated government level, taking account of the consolidated revenue and expenditure of national government, the social security and RDP funds, the provinces and various public entities. This provides for a more complete view of the revenue and expenditure decisions of government and their effects on the economy.

Table 3.2 Consolidated government budget, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09 Revised estimate	2009/10	2010/11	2011/12
Gross tax receipts	437 234	518 009	597 491	655 762	692 568	757 131	832 473
Percentage of GDP	*27.6%*	*28.6%*	*28.9%*	*28.5%*	*28.0%*	*28.2%*	*28.2%*
plus: Non-tax receipts[1]	56 937	60 333	69 298	70 846	75 713	83 230	91 037
less: SACU transfers	-14 145	-25 195	-24 713	-28 921	-27 915	-26 237	-27 867
Total receipts	**480 026**	**553 147**	**642 077**	**697 687**	**740 365**	**814 125**	**895 643**
Percentage of GDP	*30.3%*	*30.5%*	*31.0%*	*30.3%*	*29.9%*	*30.3%*	*30.3%*
Current payments	301 107	329 154	367 439	431 090	472 376	516 941	558 054
Compensation of employees	155 215	172 230	197 131	234 790	258 124	280 332	299 588
Percentage of GDP	*9.8%*	*9.5%*	*9.5%*	*10.2%*	*10.4%*	*10.4%*	*10.1%*
Goods and services	89 999	100 171	112 249	136 996	152 812	168 631	183 082
Interest	54 731	55 512	56 569	58 002	59 995	66 486	73 779
Percentage of GDP	*3.5%*	*3.1%*	*2.7%*	*2.5%*	*2.4%*	*2.5%*	*2.5%*
Other current payments	1 163	1 242	1 489	1 302	1 446	1 491	1 605
Transfers and subsidies	146 091	170 280	201 897	239 702	294 611	304 642	304 398
Percentage of GDP	*9.2%*	*9.4%*	*9.8%*	*10.4%*	*11.9%*	*11.3%*	*10.3%*
Payments for capital assets	27 616	30 121	37 385	50 260	61 349	66 161	70 617
Percentage of GDP	*1.7%*	*1.7%*	*1.8%*	*2.2%*	*2.5%*	*2.5%*	*2.4%*
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Total payments	**474 814**	**529 556**	**606 721**	**721 052**	**834 336**	**899 744**	**953 069**
Percentage of GDP	*29.9%*	*29.2%*	*29.3%*	*31.3%*	*33.7%*	*33.5%*	*32.3%*
Budget balance	**5 211**	**23 591**	**35 356**	**-23 365**	**-93 970**	**-85 619**	**-57 426**
Percentage of GDP	*0.3%*	*1.3%*	*1.7%*	*-1.0%*	*-3.8%*	*-3.2%*	*-1.9%*

1. Includes sales of capital assets and transfers received.

Consolidated government revenue has increased significantly as a percentage of GDP over the past four years as a consequence of strong economic growth and more efficient revenue collection. Over the medium term, in line with more moderate economic growth and slowing private consumption, tax revenue is expected to moderate as a percentage of GDP.

Consolidated government revenue is expected to moderate as a percentage of GDP

The decline in gross tax revenue estimates between the 2007 and 2009 Budgets is indicative of slowing domestic economic activity. From 2010/11, however, the recovery in domestic economic growth is expected to boost collections. As a result, consolidated government revenue is expected to stabilise at about 30.2 per cent of GDP over the medium term.

Debt service costs stabilise at about 2.5 per cent of GDP over the MTEF period

Since peaking in 1998/99, debt service costs have declined as a share of GDP and expenditure, freeing additional resources for spending in support of government's social and economic programmes. Debt service costs are expected to remain low in comparison to long-term levels, stabilising at about 2.5 per cent of GDP over the MTEF period.

Consolidated government expenditure averages 33.2 per cent of GDP across the next three years. This allows for additional spending of R161 billion at the main budget level. Including inflation adjustments and R50 billion of the Eskom loan, new allocations to the main budget are R60.5 billion in 2009/10, R47.8 billion in 2010/11 and R52.4 billion in 2011/12.

Consolidated government budget improves to a deficit of 1.9 per cent in 2011/12

The 2009 consolidated government budget moves to a deficit of 3.8 per cent in 2009/10, and improves to a deficit 1.9 per cent in 2011/12.

Consequences of weaker imports for the Southern African Customs Union

Botswana, Lesotho, Namibia and Swaziland (BLNS) and South Africa are members of the Southern African Customs Union (SACU). The customs and excise revenue of each member state is collected into a common revenue pool, distribution of which is governed by a 2002 revenue-sharing formula.

For 2006/07, the contribution by BLNS totalled R790 million, just under 2 per cent of the total revenue of R41.3 billon paid into the pool. The remaining 98 per cent of revenue was paid by South Africa, including duties collected for goods re-exported via South Africa to other members. This is because some of the revenue paid into the pool by South Africa is collected on behalf of BLNS. Customs revenue comprises 57 per cent and excise revenue 43 per cent of the revenue pool.

The revenue-sharing formula results in more than 50 per cent of revenue in the pool being transferred to BLNS. These revenues are also a significant part of the budgets of these countries, representing over 50 per cent of the budget revenue of Lesotho and Swaziland and over 20 per cent in the case of Botswana and Namibia.

Between 2000/01 and 2006/07, revenue transfers paid from the common revenue pool to BLNS grew by 22 per cent a year, from R8.4 billion in 2000/01 to R25.2 billion in 2006/07. This was the result of exceptionally strong import growth and growing demand for high-tariff imports, such as motor vehicles.

Customs duty revenues are extremely volatile, performing above expectation when the economy is growing strongly but poorly when the economy slows. As a result of this volatility, SACU members face a financing risk when imports to the region slow. With the changed economic environment, South Africa's import growth is forecast to slow considerably. Customs duties for 2008/09 are expected to be R7 billion less than expected. Where member states rely on this revenue to finance a significant part of their expenditure, falling import growth will present a substantial challenge to coming budgets.

A total of R27.9 billion in 2009/10, R26.2 billion in 2010/11 and R27.9 billion in 2011/12 is expected to be transferred to BLNS. These estimates are subject to revision if customs revenue collections perform more poorly or more strongly than anticipated.

Revisions to 2007/08 and 2008/09 main budget estimates

The main budget consists of the receipts and expenditure of the National Revenue Fund. Revisions to the main budget estimates are shown in Tables 3.3 and 3.4 below.

A main budget surplus of R18.3 billion in 2007/09

Total expenditure in 2007/08 was R7.6 billion greater than the original 2007 Budget estimate and R618 million lower than the revised budget estimate. Higher-than-expected revenue collection totalling R15.2 billion and underspending contributed to a main budget surplus for 2007/08 of R18.3 billion.

Table 3.3 Revised estimates of main budget revenue and expenditure, 2007/08 and 2008/09

	2007/08			2008/09			% change
R million	**Budget estimate**	**Outcome**	**Deviation**	**Budget estimate**	**Revised estimate**	**Deviation**	**2007/08 – 2008/09**
Revenue							
Direct taxes	319 130	339 108	19 978	378 194	391 686	13 492	15.5%
Indirect taxes	237 432	233 707	-3 725	264 075	236 007	-28 068	1.0%
Other revenue	11 093	11 672	579	12 005	12 352	347	5.8%
Less: SACU payments	-23 053	-24 713	-1 660	-28 921	-28 921	–	17.0%
Total revenue	**544 602**	**559 774**	**15 172**	**625 353**	**611 124**	**-14 229**	**9.2%**
Expenditure							
State debt cost	52 916	52 877	-39	51 236	54 281	3 045	2.7%
Current payments[1]	91 413	88 756	-2 657	101 478	103 692	2 214	16.8%
Transfers and subsidies	379 897	391 895	11 998	444 917	466 883	21 966	19.1%
Payments for capital assets[1]	6 647	7 970	1 323	7 465	9 051	1 586	13.6%
Contingency reserve	3 000	–	-3 000	6 000	–	-6 000	0.0%
Total expenditure	**533 873**	**541 499**	**7 626**	**611 096**	**633 907**	**22 811**	**17.1%**
Increase in non-interest allocated expenditure			10 664			25 766	
Main budget balance[2]	**10 728**	**18 275**	**7 547**	**14 257**	**-22 783**	**-37 040**	
percentage of GDP	*0.6%*	*0.9%*	*0.3%*	*0.6%*	*-1.0%*	*-1.6%*	
Gross domestic product	*1 938 934*	*2 067 884*		*2 286 906*	*2 304 111*		

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

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

The estimated budget balance for 2008/09 declines to a deficit of R22.8 billion from a projected surplus of R14.3 billion at the time of the 2008 Budget. A downward revision to gross tax revenue estimates of R14.6 billion and additional expenditure of R22.8 billion have contributed to the deterioration in the main budget balance.

Significant change to budget balance since February 2008

The 2009 Budget adjusts the forward estimates tabled in the 2008 Budget for 2009/10 and 2010/11 to take account of changes in the economic environment and policy priorities, and adds projections for 2011/12. Table 3.4 illustrates the substantial reduction in revenue projections, and upward adjustment to spending plans associated with the change in economic outlook since February 2008.

Table 3.4 Main budget medium-term estimates, 2009/10 – 2011/12

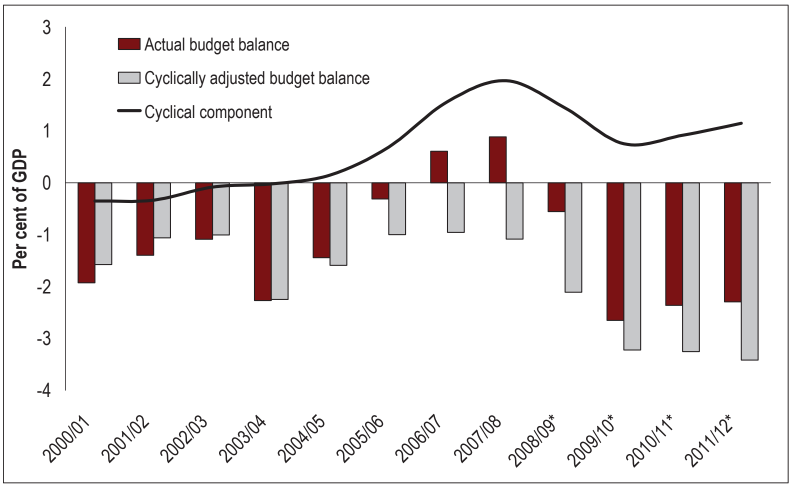
R million	2009/10 2008 Forward estimate	 2009 Budget	 Change to baseline	2010/11 2008 Forward estimate	 2009 Budget	 Change to baseline	2011/12 2009 Budget
Revenue							
Direct taxes	418 822	397 570	-21 252	464 064	433 564	-30 499	479 483
Indirect taxes	292 659	261 734	-30 925	313 884	287 371	-26 513	314 184
Other revenue	13 550	11 602	-1 948	15 000	14 375	-625	15 426
Less: SACU payments	-32 143	-27 915	4 228	-33 992	-26 237	7 755	-27 867
Total revenue	**692 888**	**642 990**	**-49 898**	**758 956**	**709 074**	**-49 882**	**781 226**
Percentage of GDP	*27.6%*	*26.0%*		*27.5%*	*26.4%*		*26.5%*
Expenditure							
State debt cost	51 125	55 268	4 143	51 156	60 140	8 984	66 826
Current payments[1]	112 414	114 990	2 576	122 408	125 490	3 083	135 762
Transfers and subsidies	496 915	553 774	56 860	541 332	585 511	44 179	613 070
Payments for capital assets[1]	9 152	8 530	-622	9 774	9 213	-561	13 313
Contingency reserve	12 000	6 000	-6 000	20 000	12 000	-8 000	20 000
Total expenditure	**681 606**	**738 563**	**56 957**	**744 670**	**792 354**	**47 684**	**848 971**
Percentage of GDP	*27.2%*	*29.9%*		*27.0%*	*29.5%*		*28.7%*
Main budget balance[2]	**11 282**	**-95 573**	**-106 854**	**14 286**	**-83 280**	**-97 566**	**-67 745**
percentage of GDP	*0.5%*	*-3.9%*	*-4.3%*	*0.5%*	*-3.1%*	*-3.6%*	*-2.3%*
Gross domestic product	*2 506 870*	*2 474 214*		*2 758 552*	*2 686 254*		*2 952 989*

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

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

An indicator of the fiscal stance after adjusting for the effects of the economic cycle is provided by the structural main budget balance. The Eskom loan has been removed from the calculations as it is a once-off expenditure and cannot be considered structural. The structural budget balance averages -3.2 per cent of GDP over the next three years.

Figure 3.9 Main budget and structural budget balances, 2000/01 – 2011/12



Budget balances exclude the R60 billion Eskom loan

**2008/09 – 2011/12 are based on forecasts.*

Structural budget balance widens

The widening in the deficit is the result of two broad factors. Firstly, while key commodity prices have fallen, the prices of South Africa's export commodities have come down by less than the price of import commodities (mainly oil). As a result, the economy still benefits from positive cyclical revenue that must be removed from the structural budget. Secondly, growth in expenditure and the weaker economic outlook result in a structurally higher expenditure-to-GDP ratio.

Consolidated general government

The consolidated accounts of general government represent the full extent of the revenue and expenditure for all levels of government. These estimates are made by aggregating the revenue and expenditure of the main budget, the social security funds, foreign technical cooperation accounts, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities. Flows between institutions are netted out. The consolidated general government account for 2007/08 is set out in Table 3.5.

Consolidated accounts of general government show the full extent of the revenue and expenditure

Table 3.5 Consolidated accounts of general government,[1] 2007/08

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Current receipts	559 544	25 176	9 241	28 702	92 136	**714 799**
Tax receipts (net of SACU)	*548 102*	*20 868*	*3 808*	*124*	*21 016*	***593 918***
Non-tax receipts	*11 442*	*4 308*	*5 433*	*28 578*	*71 120*	***120 880***
Sales of capital assets	230	–	124	340	76	**770**
Total own account receipts	**559 774**	**25 176**	**9 365**	**29 042**	**92 212**	**715 569**
Percentage of total	*78.2%*	*3.5%*	*1.3%*	*4.1%*	*12.9%*	***100.0%***
Transfers received[4]	2 105	9	208 669	49 015	39 702	**2 105**
Total receipts	**561 879**	**25 184**	**218 034**	**78 057**	**131 914**	**717 674**
Current payments	142 662	1 546	164 001	58 686	110 100	**476 994**
Compensation of employees	*56 270*	*906*	*119 837*	*24 497*	*31 877*	***233 386***
Goods and services	*33 334*	*640*	*43 844*	*33 168*	*76 115*	***187 100***
Interest	*52 877*	–	*77*	*243*	*1 793*	***54 990***
Other current payments	*181*	–	*244*	*778*	*316*	***1 519***
Transfers and subsidies[5]	391 895	14 810	35 770	9 307	1 353	**155 740**
Payments for capital assets	8 999	120	17 024	3 076	34 465	**63 684**
Total payments	**543 556**	**16 475**	**216 795**	**71 069**	**145 918**	**696 418**
Percentage of total	*78.1%*	*2.4%*	*31.1%*	*10.2%*	*21.0%*	***100.0%***
Budget balance[6]	**18 323**	**8 709**	**1 239**	**6 988**	**-14 004**	**21 255**
Percentage of GDP	*0.9%*	*0.4%*	*0.1%*	*0.3%*	*-0.7%*	*1.0%*
Extraordinary payments	-776	–	–	–	–	**-776**
Extraordinary receipts	2 871	–	–	–	–	**2 871**
Borrowing requirement (-)	**20 418**	**8 709**	**1 239**	**6 988**	**-14 004**	**23 351**

1. *Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the Reserve Bank.*
2. *Including universities and technikons.*
3. *Including the net financing requirement of local government enterprises.*
4. *RDP Fund grants are included in the main budget. Grants received by other spheres are transfers from the main budget or from provinces to local authorities.*
5. *Including transfers and subsidies to other spheres of government.*
6. *A positive number reflects a surplus and a negative number a deficit.*

In 2007/08, general government raised R717.7 billion, or 34.7 per cent of GDP, in revenue. Of this, 78.3 per cent was collected by national government. General government expenditure in 2007/08 totalled R696.4 billion, or 33.7 per cent of GDP. Of this expenditure, over half took place at provincial and local government level. The consolidated general government deficit is the sum of the deficits of all the levels of government and extra-budgetary institutions and accounts. In 2007/08, the consolidated general government budget balance showed a surplus of 1.0 per cent of GDP.

Public sector borrowing requirement

The public sector borrowing requirement represents the funds needed to cover any deficit in the financing of public-sector activities, including non-financial public enterprises.

Public sector borrowing increases to support infrastructure investment

Public sector borrowing is expected to increase significantly, moving from a cash surplus of 0.6 per cent of GDP in 2007/08 to borrowing of 7.5 per cent of GDP by 2009/10. This is the result of two broad factors. Firstly, the infrastructure programme of the public sector requires significant resources to be raised through borrowing. Secondly, the countercyclical widening of the main budget balance in response to deterioration in the economic outlook requires national government to raise significantly more finance. As the economic recovery feeds through into higher tax revenue in 2010/11, the main budget balance will improve, leading to a decline in general government borrowing in later years.

Eskom and Transnet account for the largest share of borrowing

The borrowing of the non-financial public enterprises stabilises at about R90 billion a year over the period, with Eskom and Transnet accounting for the largest share of this amount. Recognising the scale of this investment programme and the need to raise the required finance at the lowest possible cost, fiscal support to Eskom through a loan and guarantees has been agreed.

Table 3.6 Public sector borrowing requirement, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised		Medium-term estimates	
R million				estimate			
Main budget	**4 936**	**-11 005**	**-18 275**	**22 783**	**95 573**	**83 280**	**67 745**
Extraordinary payments	4 554	4 214	776	5 246	900	–	–
Extraordinary receipts	-6 905	-3 438	-2 871	-8 123	-6 100	-1 000	-1 000
RDP Fund	-224	-4	-48	-200	-200	-200	-200
Borrowing requirement	**2 361**	**-10 233**	**-20 418**	**19 706**	**90 173**	**82 080**	**66 545**
Social security funds	-7 558	-6 414	-8 709	-9 158	-9 488	-11 238	-11 946
Provinces	17	-313	-1 239	9 873	-917	-2 408	-2 749
Extra-budgetary institutions	-4 955	-6 439	-6 988	-3 719	-3 014	-3 034	-3 186
Local authorities	9 928	7 420	14 004	16 394	17 558	18 005	18 995
General government borrowing	**-207**	**-15 979**	**-23 351**	**33 097**	**94 312**	**83 405**	**67 660**
Percentage of GDP	*0.0%*	*-0.9%*	*-1.1%*	*1.4%*	*3.8%*	*3.1%*	*2.3%*
Non-financial public enterprises [1]	-6 858	11 277	11 182	57 362	91 434	90 069	90 103
Public sector borrowing requirement	**-7 065**	**-4 702**	**-12 169**	**90 459**	**185 746**	**173 474**	**157 763**
Percentage of GDP	*-0.4%*	*-0.3%*	*-0.6%*	*3.9%*	*7.5%*	*6.5%*	*5.3%*
Gross domestic product	*1 585 986*	*1 810 664*	*2 067 884*	*2 304 111*	*2 474 214*	*2 686 254*	*2 952 989*

1. Estimates are based on National Treasury projections.

4

Revenue trends and tax proposals

- This year's tax proposals are intended to meet the requirements of the fiscus while supporting consumer and business confidence in the context of a weakening economy.
- Significant adjustments have been made to personal income tax brackets, the primary rebate and some thresholds to adjust for the effects of higher inflation during 2008, and to provide real tax relief. Environmental initiatives that promote sustainable development, energy efficiency and investment in new technologies receive support. Industrial policy tax incentives announced last year will be implemented in 2009 and should encourage private-sector investment.
- The South African economy has entered a period of slower growth, and this is reflected in lower revenue growth, especially for VAT. Tax revenue for 2008/09 is projected to total R627.7 billion, R14.4 billion less than the budgeted R642.1 billion. Estimated gross tax revenue for 2009/10 is R659.3 billion, or 5 per cent higher than the revised estimate for 2008/09.

Overview

The economic slowdown is having a negative impact on tax revenues

The tax proposals and revenue projections take cognisance of a significantly weaker economic environment. The global financial crisis, recession in most of the developed world, a dramatic decline in commodity prices and cooling domestic consumption expenditure have all contributed to a decline in aggregate demand and business confidence. The economic slowdown is having a negative impact on tax revenues, with the revised estimated tax revenue for 2008/09 projected to be R14.4 billion lower than the budgeted R642.1 billion announced in February 2008. Falling domestic consumption resulted in lower-than-expected VAT collections.

2009 tax proposals provide relief to households

The 2009 tax proposals provide real tax relief to households. A combination of incentives and taxes is proposed to address environmental concerns, with a particular focus on energy efficiency, furthering another key objective of government. The South African Revenue Service (SARS) continues to improve its operational efficiency, and additional steps are proposed to support its modernisation agenda.

Main tax proposals

The main tax proposals include:

- Personal income tax relief for individuals amounting to R13.6 billion
- Delaying implementation of new mineral and petroleum royalties until 1 March 2010
- A final set of amendments to support dividends tax reform
- Incentives for investments in energy-efficient technologies
- Implementation of the electricity levy announced in Budget 2008
- Making certified emission reduction credits tax exempt or subject to capital gains tax, instead of normal income tax
- Taxation of energy-intensive light bulbs
- Reforms to the motor vehicle ad valorem excise duties
- Increases in the Road Accident Fund (RAF) and general fuel levies
- Tax-sharing arrangements with municipalities
- Increases in excise duties on alcoholic beverages and tobacco products
- An increase in the international air passenger departure tax
- Reviewing the tax treatment of travel (motor vehicle) allowances to improve the equity and transparency of the tax system
- Amendments to the treatment of contributions to medical schemes.

Consolidated national revenue estimates

Revised consolidated revenue estimated at R637.8 billion for 2008/09

Table 4.1 sets out consolidated national revenue from 2007/08 to 2011/12, consisting of main budget revenue and the receipts of social security funds. Consolidated national revenue in 2007/08 amounted to R585 billion, which is 3.4 per cent higher than the 2007 Budget estimate. The revised figure for 2008/09 is estimated at R637.8 billion, which is 1.9 per cent lower than the 2008 Budget estimate.

Table 4.1 Consolidated national revenue, 2007/08 – 2011/12

R million	2007/08 Outcome	2008/09 Budget estimate	Revised estimate	2009/10	2010/11	2011/12
				Medium-term estimates		
Main budget revenue						
Tax revenue[1]	572 815	642 089	627 693	659 304	720 935	793 667
Non-tax revenue[2]	11 672	12 185	12 352	11 602	14 375	15 426
Less: SACU payments	-24 713	-28 921	-28 921	-27 915	-26 237	-27 867
Total main budget revenue	**559 774**	**625 353**	**611 124**	**642 990**	**709 074**	**781 226**
Percentage of GDP	*27.1%*	*27.3%*	*26.5%*	*26.0%*	*26.4%*	*26.5%*
Social security funds revenue						
Tax revenue	20 868	21 631	22 336	27 011	29 531	31 810
Non-tax revenue[3]	4 308	3 053	4 302	4 432	5 097	5 860
Total social security revenue	**25 176**	**24 683**	**26 639**	**31 443**	**34 628**	**37 670**
Consolidated national revenue[4]	**584 950**	**650 036**	**637 762**	**674 433**	**743 702**	**818 896**

1. *Mining leases and ownership has been reclassified as non-tax revenue (rent on land). Historical numbers have been adjusted for comparative purposes.*
2. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, financial transactions in assets and liabilities, sales of capital assets, mining leases and ownership (see note no. 1) and mineral royalties.*
3. *Includes own revenue, sale of capital assets and grants received.*
4. *Transfers between funds have been netted out.*

National budget revenue – revised estimates

Table 4.2 highlights budget estimates and revenue outcomes of the major tax instruments for 2007/08 and projected revenue outcomes for 2008/09. Tables 2 and 3 in Annexure B set out these trends in greater detail.

Outcome for 2007/08 and revised estimate for 2008/09

Main budget revenue for 2007/08 was R15.2 billion higher than projected

Audited results show that main budget revenue for 2007/08 of R559.8 billion was R15.2 billion or 2.8 per cent higher than the budgeted estimate.

Based on the revised macroeconomic projections outlined in Chapter 2 and revenue trends for the first nine months of the fiscal year, the main budget revenue estimate for 2008/09 is revised to R611.1 billion, 2.3 per cent lower than the R625.4 billion announced in the 2008 Budget. The lower revised tax revenue estimate is a reflection of the slowdown in the economy.

Revenue from VAT, customs duties, transfer duties and the general fuel levy are revised downwards by R12.1 billion, R7.3 billion, R3.6 billon and R2 billion respectively. Over the medium term, lower revenue collection will also have an adverse effect on revenue for neighbouring countries in the Southern African Customs Union.

The number of registered individual taxpayers has grown to 5.4 million

Revenue from personal income taxes is expected to increase to R199 billion, R8 billion higher than the original estimate, largely as a result of higher inflation and higher nominal salary increases. During 2008, the number of registered individual taxpayers increased to 5.4 million, from 5.2 million in 2007.

The revised estimate for corporate income tax revenue is R162 billion, which is R5.5 billion higher than the original budgeted amount. The more robust revenue performance reflects the improved business climate during the latter part of 2007 and the first half of 2008, which takes some time to filter through into revenue.

Table 4.2 Main budget estimates and revenue outcome, 2007/08 and 2008/09

R million	2007/08 Budget	2007/08 Outcome	2007/08 Deviation	2008/09 Budget	2008/09 Revised estimate	2008/09 Deviation	2007/08–2008/09 % change[1]
Taxes on income and profits	**312 150**	**332 058**	**19 908**	**369 754**	**383 635**	**13 881**	**15.5%**
Persons and individuals	155 335	168 774	13 439	191 046	199 000	7 954	17.9%
Companies	138 515	140 120	1 605	156 471	162 000	5 529	15.6%
Secondary tax on companies	16 000	20 585	4 585	20 000	20 000	–	-2.8%
Interest on overdue income tax	2 300	2 281	-19	2 237	2 365	128	3.7%
Other taxes on income and profits[2]	–	298	298	–	270	270	-9.5%
Taxes on payroll and workforce	**6 500**	**6 331**	**-169**	**7 530**	**7 256**	**-274**	**14.6%**
Skills development levy	6 500	6 331	-169	7 530	7 256	-274	14.6%
Taxes on property	**10 995**	**11 884**	**889**	**14 212**	**9 710**	**-4 502**	**-18.3%**
Securities transfer tax	3 465	3 757	292	4 682	3 875	-807	3.1%
Transfer duties	7 050	7 408	358	8 620	5 040	-3 580	-32.0%
Other taxes on property[3]	480	719	239	910	795	-115	10.6%
Domestic taxes on goods and services	**199 045**	**194 690**	**-4 355**	**218 420**	**202 064**	**-16 356**	**3.8%**
Value-added tax	155 068	150 443	-4 625	167 028	154 919	-12 109	3.0%
Specific excise duties	17 792	18 218	426	20 401	20 420	19	12.1%
Ad valorem excise duties	1 415	1 480	65	1 682	1 370	-312	-7.5%
Levies on fuel	23 938	23 741	-197	26 434	24 480	-1 954	3.1%
Other domestic taxes on goods and services[4]	832	808	-24	2 875	875	-2 000	8.3%
Taxes on international trade and transactions	**27 485**	**27 082**	**-403**	**31 473**	**24 410**	**-7 063**	**-9.9%**
Customs duties	27 084	26 470	-614	31 073	23 780	-7 293	-10.2%
Miscellaneous customs and excise receipts	401	612	211	400	630	230	2.9%
Stamp duties and fees	**222**	**557**	**335**	**700**	**618**	**-82**	**10.9%**
State miscellaneous revenue[5]	**–**	**212**	**212**	**–**	**–**	**–**	**–**
Total tax revenue	**556 397**	**572 815**	**16 418**	**642 089**	**627 693**	**-14 396**	**9.6%**
Non-tax revenue[6]	11 258	11 672	414	12 185	12 352	167	5.8%
of which:							
Mining leases and ownership[7]	*165*	*56*	*-109*	*180*	*495*	*315*	–
Less: SACU payments	-23 053	-24 713	-1 660	-28 921	-28 921	–	17.0%
Main budget revenue	**544 602**	**559 774**	**15 172**	**625 353**	**611 124**	**-14 229**	**9.2%**

1. *Percentage change 2007/08 outcome versus 2008/09 revised estimate.*
2. *Includes tax on retirement funds and small business tax amnesty.*
3. *Includes estate duty and donations tax.*
4. *Includes air departure tax, plastic bags levy and the Universal Service Fund.*
5. *Tax revenue received by SARS that could not be allocated to a specific tax instrument.*
6. *Includes interest, dividends, sales of goods and services, other miscellaneous departmental receipts, financial transactions in assets and liabilities, sales of capital assets and mining leases and ownership.*
7. *Mining leases and ownership has been reclassified from tax revenue to non-tax revenue (rent on land).*

Revenue estimates and 2009/10 tax proposals

Table 4.3 sets out the estimates of revenue before consideration of tax proposals for 2009/10, based on the existing tax structure. Main budget revenue in 2009/10 is estimated to be R647.6 billion before the consideration of any tax changes. Personal income tax revenue is projected to increase by 11.1 per cent to R221 billion and VAT revenues by 9 per cent to R168.8 billion. Revenue from corporate income tax is projected to raise R161 billion, marginally down from the revised figure for 2008/09.

Main budget revenue in 2009/10 is estimated to be R647.6 billion before tax changes are considered

The current global economic environment presents an element of downside risk to the revenue outlook, particularly in relation to corporate income tax as the effects of slower growth filter through.

Global slowdown introduces downside risk element into revenue projections

Table 4.3 Estimates of revenue before tax proposals, 2009/10

R million	2008/09 Revised estimate	2009/10 Before tax proposals	2008/09–2009/10 % change[1]
Taxes on income and profits	**383 635**	**403 590**	**5.2%**
Persons and individuals	199 000	221 000	11.1%
Companies	162 000	161 000	-0.6%
Secondary tax on companies	20 000	19 000	-5.0%
Interest on overdue income tax	2 365	2 560	8.2%
Other taxes on income and profits	270	30	-88.9%
Taxes on payroll and workforce	**7 256**	**7 750**	**6.8%**
Skills development levy	7 256	7 750	6.8%
Taxes on property	**9 710**	**10 420**	**7.3%**
Securities transfer tax	3 875	4 300	11.0%
Transfer duties	5 040	5 340	6.0%
Other taxes on property	795	780	-1.9%
Domestic taxes on goods and services	**202 064**	**216 832**	**7.3%**
Value-added tax	154 919	168 807	9.0%
Specific excise duties	20 420	20 500	0.4%
Ad valorem excise duties	1 370	1 350	-1.5%
Levies on fuel	24 480	25 200	2.9%
Other domestic taxes on goods and services	875	975	11.4%
Taxes on international trade and transactions	**24 410**	**25 287**	**3.6%**
Customs duties	23 780	24 635	3.6%
Miscellaneous customs and excise receipts	630	652	3.5%
Stamp duties and fees	**618**	**–**	**–**
Total tax revenue	**627 693**	**663 879**	**5.8%**
Non-tax revenue	12 352	11 602	-6.1%
of which:			
Mining leases and ownership[2]	*495*	*325*	*-34.3%*
Less: SACU payments	-28 921	-27 915	-3.5%
Main budget revenue	**611 124**	**647 565**	**6.0%**

1. *Percentage change 2008/09 revised estimate versus 2009/10 estimate before tax proposals.*
2. *Mining leases and ownership has been reclassified from tax revenue to non-tax revenue (rent on land).*

Actual revenue collections and medium-term estimates

Table 4.4 sets out the actual revenue collections for 2005/06 to 2007/08, the revised estimate for 2008/09 and the medium-term estimates for 2009/10 to 2011/12. More detailed information is provided in Tables 2 and 3 of Annexure B.

Table 4.4 Main budget revenue, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
R million		**Outcome**		**Revised**		**Medium-term estimates**	
Taxes on income and profits	230 804	279 991	332 058	383 635	389 040	424 280	469 384
Taxes on payroll and workforce	4 872	5 597	6 331	7 256	7 750	8 424	9 149
Taxes on property	11 138	10 332	11 884	9 710	10 420	11 530	13 100
Domestic taxes on goods and services	151 224	174 671	194 690	202 064	226 757	250 039	273 590
Taxes on international trade and transactions	18 202	24 002	27 082	24 410	25 337	26 662	28 444
Stamp duties and fees	793	616	557	618	–	–	–
State miscellaneous revenue[1]	164	339	212	–	–	–	–
Tax revenue	**417 196**	**495 549**	**572 815**	**627 693**	**659 304**	**720 935**	**793 667**
Non-tax revenue[2]	8 697	10 843	11 672	12 352	11 602	14 375	15 426
of which:							
Mineral royalties	*–*	*–*	*–*	*–*	*–*	*2 890*	*3 820*
Mining leases and ownership[3]	*138*	*-34*	*56*	*495*	*325*	*340*	*355*
Less: SACU payments	-14 145	-25 195	-24 713	-28 921	-27 915	-26 237	-27 867
Main budget revenue	**411 748**	**481 197**	**559 774**	**611 124**	**642 990**	**709 074**	**781 226**
Percentage of GDP	*26.0%*	*26.6%*	*27.1%*	*26.5%*	*26.0%*	*26.4%*	*26.5%*
GDP (R billion)	*1 586.0*	*1 810.7*	*2 067.9*	*2 304.1*	*2 474.2*	*2 686.3*	*2 953.0*
Tax/GDP multiplier	*1.59*	*1.33*	*1.10*	*0.84*	*0.68*	*1.09*	*1.02*

1. Revenue received by SARS in respect of taxation which could not be allocated to a specific tax instrument.
2. Includes interest, dividends, rent on land (which includes mineral royalties and mining leases and ownership), sales of goods and services, other miscellaneous departmental receipts, transactions in assets and liabilities and sales of capital assets. The 2006/07 outcome has been restated in the 2007/08 financial statements.
3. Mining leases and ownership has been reclassified from tax revenue to non-tax revenue (rent on land).

Overview of tax proposals

Table 4.5 shows the anticipated revenue impact of the 2009/10 tax proposals, the net effect of which is to reduce total estimated tax revenue by R4.6 billion. The table includes the electricity tax (announced in 2008) and the diamond export levy (enacted during 2008), both of which will only be implemented during 2009/10.

Annexure C contains additional tax proposals of a more technical nature. The tax proposals will be published in draft legislation and will be refined following a consultation process.

Table 4.5 Summary effects of tax proposals, 2009/10

R million	Effect of tax proposals	
Tax revenue		663 879
Non-tax revenue[1]		11 602
Less: SACU payments		-27 915
Main budget revenue (before tax proposals)		**647 565**
Budget 2009/10 proposals:		**-4 575**
Personal income tax	**-13 550**	
Adjust personal income tax rate structure	-13 000	
Adjustment in monetary thresholds (medical scheme contributions and savings)	-550	
Business taxes	**-1 000**	
Industrial policy	-1 000	
Indirect taxes	**9 975**	
Increase in general fuel levy	4 890	
Electricity tax	2 780	
Incandescent light bulb levy	20	
Air passenger departure tax	120	
Plastic bag levy	15	
Diamond export levy	50	
Increase in excise duties on tobacco products and alcoholic beverages	2 100	
Main budget revenue (after tax proposals)		**642 990**

1. Includes mining leases and ownership.

Relief for individuals

Personal income tax relief

Economic growth supported substantial tax relief over past decade

Over the past decade substantial tax relief has been provided to individuals. Real personal income tax relief was made possible by buoyant corporate income tax revenues as a result of an improved culture of compliance and higher corporate profits.

The 2009 Budget proposes personal income tax relief to individual taxpayers amounting to R13.6 billion. This will compensate taxpayers for wage inflation ("bracket creep").

Taxpayers with an annual taxable income below R150 000 will receive 45 per cent of the proposed relief; those with an annual taxable income between R150 001 and R250 000, 22 per cent; those with an annual taxable income between R250 001 and R500 000, 21 per cent; and those with an annual taxable income above R500 000, 12 per cent.

About 18 per cent of taxpayers account for 67 per cent of personal income tax revenue

Alongside corporate income tax and VAT, personal income tax is one of the three main tax instruments and provides the basis for the progressive structure of South Africa's tax system. It is estimated that the 12.5 per cent of registered individual taxpayers with an annual taxable income between R250 001 and R500 000 will account for 29 per cent of personal income tax revenues, and the 5.5 per cent of registered individual taxpayers with an annual taxable income above R500 000 will account for 38 per cent of personal income tax revenues during 2009/10.

Table 4.6 Personal income tax rate and bracket adjustments, 2008/09 and 2009/10

2008/09		2009/10	
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**
R0 – R122 000	18% of each R1	R0 – R132 000	18% of each R1
R122 001 – R195 000	R21 960 + 25% of the amount above R122 000	R132 001 – R210 000	R23 760 + 25% of the amount above R132 000
R195 001 – R270 000	R40 210 + 30% of the amount above R195 000	R210 001 – R290 000	R43 260 + 30% of the amount above R210 000
R270 001 – R380 000	R62 710 + 35% of the amount above R270 000	R290 001 – R410 000	R67 260 + 35% of the amount above R290 000
R380 001 – R490 000	R101 210 + 38% of the amount above R380 000	R410 001 – R525 000	R109 260 + 38% of the amount above R410 000
R490 001 and above	R143 010 + 40% of the amount above R490 000	R525 001 and above	R152 960 + 40% of the amount above R525 000
Rebates		**Rebates**	
Primary	R8 280	Primary	R9 756
Secondary	R5 040	Secondary	R5 400
Tax threshold		**Tax threshold**	
Below age 65	R46 000	Below age 65	R54 200
Age 65 and over	R74 000	Age 65 and over	R84 200

Consideration given to phasing out SITE

Given that the tax-free income threshold for taxpayers younger than 65 years is approaching R60 000, which is the current Standard Income Tax on Employees (SITE) ceiling, consideration is being given to discontinuing the SITE system by 2010/11. Two measures introduced by SARS in 2008 – pre-populated returns and the waiver of the annual filing requirement for taxpayers with single employers meeting certain requirements – would take the place of SITE.

Medical scheme contributions

Caps on tax-deductible contributions to medical schemes are increased

From 1 March 2009, the monthly monetary caps for tax-deductible contributions to medical schemes will increase from R570 to R625 for each of the first two beneficiaries, and from R345 to R380 for each additional beneficiary.

Replacement of the medical scheme contribution deduction with a non-refundable tax credit is currently under consideration. To be broadly neutral in its overall impact, the tax credit would be set at about 30 per cent of the prevailing deduction. Where medical expenses in addition to contributions to schemes qualify as deductions, the credit would also be set at 30 per cent of allowable expenses. A consultation paper will be released during 2009 to allow for comment from interested parties, and to ensure that the change is consistent with broader health policy considerations. Implementation is proposed in two years' time so that SARS, employers and payroll providers will have sufficient time to make the necessary administrative adjustments.

In preparation for this proposal medical scheme contributions will cease to qualify as tax-free fringe benefits. All contributions paid by an employer will be regarded as taxable and the employee will be permitted to claim a tax deduction (or a credit) for contributions up to the cap. The net tax effect of this step should be neutral for both employee and employer.

The monthly caps have given rise to some compliance and administrative difficulties for both employers and SARS. These will be investigated to determine whether a legislative intervention is required.

Travel (motor vehicle) allowances

Claiming "deemed business kilometres" as a travelling expense is one of the few remaining salary structuring methods used to reduce tax liability. More than 500 000 taxpayers annually claim this deduction. Excessive deductions that do not match actual business expenses distort household purchasing decisions and travelling choices.

Deemed kilometre allowance system to be scrapped by 2011

It is proposed that the deemed business kilometre procedure be scrapped from 2010/11. Taxpayers who are required to use their personal vehicles for business purposes will still be able to keep a logbook to claim business travelling expenses. This reform will improve the overall equity and efficiency of the income tax system. The default practice of claiming private kilometres travelled as business travel cannot be justified from an equity perspective.

Tax deductibility of post-retirement medical contributions

Some companies provide a subsidy towards medical scheme contributions for employees after retirement. In general, contributions towards medical schemes on behalf of pensioners on a pay-as-you-go basis are deductible by the employer.

Accounting practice now requires companies to reflect future obligations with respect to medical contributions for already retired employees as liabilities on their balance sheets. For this reason some companies prefer to settle these obligations as once-off payments directly to their retired employees. Other companies opt to make once-off contributions towards insurance-type products that will take over liability for some or all of the future medical expenses/contributions to a medical scheme on behalf of retirees.

Tax deductibility of contributions by employers to post-retirement medical schemes to be clarified

To provide clarity on the deductibility of these once-off payments, it is proposed that such contributions be deductible immediately, not spread over a period of time. The precondition is that the company making such contributions must not derive any direct benefits from such payments, nor will a return of the funds to the employer or a redirection of the use of the funds be permitted.

Provisional tax for taxpayers 65 years and older

Individuals 65 years and older are exempt from provisional tax if they are not company directors and only receive employment income, interest, rental or dividends amounting to taxable income of up to R80 000. It is proposed that the threshold be increased to R120 000.

Savings

Tax-free interest, dividend income and capital gains

Higher thresholds to encourage savings

In line with government's goal of encouraging greater national savings, it is proposed to increase the tax-free interest-income ceiling from R19 000 to R21 000 for persons below the age 65 and from R27 500 to R30 000 for persons aged 65 and above. It is also proposed to increase the tax-free income ceilings for foreign dividends and interest from R3 200 to R3 500, and the annual exclusion ceiling for capital gains and losses for individuals from R16 000 to R17 500.

Modification of capital gains exclusion for primary residence

The capital gains tax regime contains several exclusions designed to reduce the tax burden for lower- and middle-income earners. One such exclusion is for an individual's primary residence: a capital gain or loss of up to R1.5 million upon the disposal of such a residence is excluded from taxable capital gains.

Capital gains tax exclusion for primary residences is simplified to benefit lower-income individuals

To reduce the compliance burden and complexity associated with this measure, it is proposed that the exclusion be extended so that an alternative is available based on the gross sale proceeds of the residence. By basing the calculation on gross proceeds, the taxpayer would have a better understanding of how the exclusion applies on disposal, without resorting to complex capital gain calculations.

The capital gains tax exclusion will fully apply to the primary residence up to a gross value of R2 million. As a result, people selling their primary residence with a gross value below R2 million will not be liable for capital gains tax. For primary residences valued above this threshold the normal rules (including the current R1.5 million capital gain/loss exclusion) will apply.

Completion of the dividend tax reform process

Tax at shareholder level likely to be implemented in late 2010

The basic legislative framework for the introduction of the dividend tax, which replaces the secondary tax on companies, was enacted in 2008. The dividend tax will come into effect once the treaty ratification processes are completed. All the applicable treaties have already been renegotiated, and it is likely that this tax at shareholder level will be implemented during the second half of 2010.

Under the dividend tax regime, local individual taxpayers are taxed at 10 per cent; domestic retirement funds, public benefit organisations and domestic companies are exempt; and foreign persons are eligible for tax-treaty benefits (i.e. a potential reduction to a 5 per cent rate). The tax also provides for transitional credits, so that tax paid under the secondary tax on companies can be used to offset the dividend tax. The new tax also contains a mechanism under which the paying company (or paying intermediary) withholds the tax.

Legislative amendments will deal with anti-avoidance concerns related to dividends tax

Further legislative amendments during 2009 will provide for the completion of the dividend tax reform. The remaining items mostly relate to anti-avoidance concerns (such as preventing companies from converting taxable sales to tax-free dividends) and to foreign dividends.

Treatment of collective investment scheme distributions

Distribution by collective investment schemes should follow a flow-through principle

Under current law, a collective investment scheme (CIS) in shares is treated as a company whose distributions are treated as a special form of dividend. The CIS dividend is generally exempt, like other dividends, unless that dividend is distributed out of ordinary revenue (e.g. distributed out of interest and income from trading). In all cases, the CIS distribution retains its character as a dividend.

It is proposed that distributions by these schemes should generally follow a flow-through principle. If a CIS distributes dividends received, this should be viewed as dividend distribution; if it distributes interest received it should be viewed as an interest distribution. This approach will eliminate certain unintended anomalies. Currently, a CIS distribution results in less-favourable tax treatment for some investors.

Mineral and petroleum royalties

Support for a constructive dialogue to mitigate the impact of retrenchments

The Mineral and Petroleum Resources Royalty Act (2008) was scheduled to be implemented from 1 May 2009. It is proposed to postpone implementation until 1 March 2010, resulting in gross savings of about R1.8 billion in 2009/10 for mining companies. It is hoped that this relief will contribute to constructive dialogue between government, the mining houses and labour, resulting in practical initiatives to mitigate the impact of expected retrenchments in the sector.

Environmental fiscal reform

South Africa is playing an important role in the Kyoto Protocol talks

Climate change requires both global and domestic policy responses. Internationally, government is playing an important role in the post-2012 Kyoto Protocol negotiation process.

At the domestic level, environmental challenges likely to be aggravated by economic growth if natural resources are not adequately managed include excessive greenhouse gas emissions, large-scale release of local pollutants that result in poor air quality, inappropriate land use that leads to land degradation and biodiversity loss, deteriorating water quality and increasing levels of solid waste generation. While everyone feels the effects of environmental degradation, the impact of such deterioration on poor communities, particularly those sited near industrial areas, is often severe.

In recent years, the role of market-based instruments has gained prominence in addressing environmental concerns. Such instruments, which include taxes, charges and tradable permits, use the price mechanism to deter environmentally detrimental activity and encourage improved environmental management practices.

Measures to mitigate and adapt to climate change

Appropriate domestic policy intervention will be required to ensure that mitigation and adaptation measures to address climate change are implemented.

Incentives for cleaner production – energy efficiency

Tax incentives will support investments in more energy-efficient equipment

A number of environmental statutes and regulations require the private sector to eliminate inefficiencies in the use of energy, water and raw materials. To complement these measures, market-based instruments are playing a greater role. Incentives for energy-efficient investments have been explored. Current legislation provides for a three year 50:30:20 per cent accelerated depreciation allowance for investments in renewable energy and biofuels production.

It is proposed that investments by companies in energy-efficient equipment should qualify for an additional allowance of up to 15 per cent on condition that there is documentary proof of the resulting energy efficiencies (after a two- or three-year period), certified by the Energy Efficiency Agency.

Plastic bag levy

1 cent increase in plastic shopping bag levy

The levy on plastic shopping bags was introduced at 3 cents per bag in 2004/05. Together with the agreement between government and the retail sector to charge for such bags, this levy has helped to reduce waste. It is proposed to increase the levy to 4 cents per bag from 1 April 2009.

Taxation of incandescent (filament) light bulbs

A brighter future for energy-efficient light bulbs

The introduction of an environmental levy on incandescent light bulbs to promote energy efficiency and reduce electricity demand is proposed. Energy-saving light bulbs last longer, require five times less electricity and result in lower greenhouse gas emissions. It is recommended that an environmental levy of about R3 per bulb (between 1 cent and 3 cents per watt) be levied on incandescent light bulbs at the manufacturing level and on imports from 1 October 2009.

Emission reduction credits from clean development projects

Certified emission reductions to receive favourable tax treatment

South Africa's greenhouse gas emissions rank in the top 20 in the world, contribute 1.8 per cent to global emissions and are responsible for 42 per cent of Africa's emissions.

The clean development mechanism established in terms of the Kyoto Protocol allows for certified emission reductions (CERs) to be issued to recognise progress in reducing the release of greenhouse gases into the atmosphere. There is, however, uncertainty with regard to the income tax treatment of CERs, which may be one reason for the slow take-up of clean development mechanism projects in South Africa. It is proposed that income derived from the disposal of primary CERs be tax–exempt or subject to capital gains tax instead of normal income tax. Secondary CERs are to be classified as trading stock and taxed accordingly.

Motor vehicle ad valorem excise duties

Policy measures to address the environmental and social costs associated with the transport sector, such as reforms to vehicle and fuel taxation, seek to promote fuel efficiency, limit the rapid growth of the number of vehicles on the roads and encourage the use of public transport.

Improved fuel efficiency is important in curbing the growth in greenhouse gas emissions. It is recommended that the existing ad valorem excise duties on motor vehicles be adjusted to incorporate CO_2 emissions as an environmental criterion from 1 March 2010. Details of the proposed formula are provided in Annexure C.

Excise duties on motor vehicles adjusted to take into account CO_2 emissions

International air passenger departure tax

The international air passenger departure tax, which stands at R120 per passenger on flights to international destinations and R60 on flights to Southern African Customs Union member states, was last raised in 2005/06. It is proposed to increase these amounts to R150 and R80 respectively from 1 October 2009.

International air passenger tax is increased

Value-added tax

VAT voluntary registration threshold

The VAT refund mechanism is an integral part of the VAT system but remains a major risk area. One important measure implemented in 1999 was to deny businesses with an annual taxable supply turnover below R20 000 the ability to register as VAT vendors. It is proposed to increase this threshold to R50 000 from 1 March 2010. It is unlikely that a viable business requiring VAT registration will have turnover below this level.

False statements on VAT forms

It is proposed that false statements on any VAT form submitted to SARS, not just returns, be considered an offence. This will serve as a deterrent to those who seek to register for VAT without being eligible to do so.

False statements on any VAT form to be considered an offence

Verifying applicants for VAT registration

As an additional measure to combat VAT fraud, the introduction of enabling provisions to permit the use of biometric measures to verify the identity of applicants for VAT registration is proposed.

Customs and excise duties

Tobacco products

Excise duties on tobacco products will be increased in accordance with the policy decision to target a total excise burden (excise duties plus VAT) of 52 per cent for all categories of tobacco products. The proposed increases for the various tobacco products vary between 5.5 and 13 per cent as indicated in Table 4.7.

Excise duties on tobacco products and alcoholic beverages are increased

Alcoholic beverages

Excise duties on alcoholic beverages will be increased in accordance with the policy decision to target a total tax burden (excise duties plus VAT) of 23, 33 and 43 per cent on wine products, malt beer and spirits respectively. No increase in the excise duty on traditional beer is proposed. The proposed increases for the various alcoholic beverages vary between 7.6 and 14.7 per cent.

Table 4.7 Changes in specific excise duties, 2009/10

Product	Current excise duty rate	Proposed excise duty rate	Percentage change Nominal	Real
Malt beer	R42.38/ℓ of absolute alcohol (72c/average 340ml can)	R46.41/ℓ of absolute alcohol (79c/average 340ml can)	9.5%	4.1%
Traditional beer	7.82c/ℓ	7.82c/ℓ	0.0%	-5.4%
Traditional beer powder	34.70c/kg	34.70c/kg	0.0%	-5.4%
Unfortified wine	R1.84/ℓ	R1.98/ℓ	7.6%	2.2%
Fortified wine	R3.40/ℓ	R3.72/ℓ	9.4%	4.0%
Sparkling wine	R5.63/ℓ	R6.16/ℓ	9.4%	4.0%
Ciders and alcoholic fruit beverages	R2.12/ℓ (72c/average 340ml can)	R2.33/ℓ (79c/average 340ml can)	9.9%	4.5%
Spirits	R67.72/ℓ of absolute alcohol (R21.84/750ml bottle)	R77.67/ℓ of absolute alcohol (R25.05/750ml bottle)	14.7%	9.3%
Cigarettes	R6.82/20 cigarettes	R7.70/20 cigarettes	12.9%	7.5%
Cigarette tobacco	R8.67/50g	R9.15/50g	5.5%	0.0%
Pipe tobacco	R2.30/25g	R2.50/25g	8.6%	3.2%
Cigars	R39.72/23g	R44.88/23g	13.0%	7.6%

Fuel levies

General fuel levy

Increase in general fuel levy in line with reducing environmental impact

Given the importance of maintaining a strong price signal to limit fuel consumption, road congestion and environmental impact, it is proposed to increase the general fuel levy. In addition, noting the increasing use of diesel in passenger vehicles, government intends to equalise the general fuel levy on diesel and petrol over time. It is proposed to increase the general fuel levy on petrol and diesel by 23 and 24 cents per litre respectively from 1 April 2009. The diesel fuel levy refund relief for the primary sector remains unchanged in percentage terms and its monetary value will be adjusted accordingly.

Road Accident Fund levy

It is proposed to increase the RAF levy by 17.5 cents/litre, from 46.5 c/l to 64.0 c/l from 1 April 2009. It is hoped that these adjustments and recent reforms to the legislation governing the RAF will strengthen the Fund's financial position and effectiveness.

Table 4.8 Total combined fuel levy on leaded petrol and diesel, 2007/08 – 2009/10

	2007/08		2008/09		2009/10	
c / litre	93 Octane petrol	Diesel	93 Octane petrol	Diesel	93 Octane petrol	Diesel
General fuel levy	121.00	105.00	127.00	111.00	150.00	135.00
Road Accident Fund levy	41.50	41.50	46.50	46.50	64.00	64.00
Customs and excise levy	4.00	4.00	4.00	4.00	4.00	4.00
Illuminating paraffin marker	–	0.01	–	0.01	–	0.01
Total	**166.50**	**150.51**	**177.50**	**161.51**	**218.00**	**203.01**
Pump price: Gauteng (as in February)[1]	561.00	542.10	750.00	732.30	643.00	649.35
Taxes as % of pump price	*29.7%*	*27.8%*	*23.7%*	*22.1%*	*33.9%*	*31.3%*

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

Tax-sharing arrangements with metropolitan municipalities

As part of continuing efforts to find a viable basket of tax instruments to replace the Regional Services Council (RSC) and Joint Services Board (JSB) levies that were abolished several years ago, it is proposed that from 2009/10, 23 per cent of the revenues from the general fuel levy be earmarked for metropolitan (Category A) municipalities. Distribution of this revenue among various metropolitan municipalities, to be phased in over four years, will eventually be based on fuel sales in each metro. Consideration will be given to ensuring that municipalities use such funds to boost budgets for roads and transportation infrastructure.

A portion of general fuel levy revenues will be earmarked for large metros

Other measures under review

Income tax act rewrite – phase one

Government's commitment to retirement reform and the creation of a broader social security safety net will comprise a number of reforms, some of which have been already implemented. To continue making progress while key policy issues are still under discussion, it is proposed that the employment income tax base be simplified.

Steps are being taken to simplify the employment income tax base

At issue initially is the development of a uniform definition of employment income to be applied across all tax instruments. This would be important for social security and private pensions, and provide alignment with Unemployment Insurance Fund (UIF) contributions and the skills development levy. It would help to reduce compliance costs for employers and support efforts by SARS to modernise taxation of salaried taxpayers.

To enhance the process of simplification, proposed revisions to the employment income tax base will represent the first step towards rewriting the Income Tax Act (1962). It is intended that a discussion document and draft legislation will be released for comment by the end of 2010.

A step towards rewriting the Income Tax Act

Provident funds, social security and retirement reforms

The current debate on social security and retirement reforms has raised the need to examine whether provident funds should be phased into pension funds. This question is also relevant given the different tax treatment of contributions to pension and provident funds. One option would be to phase out provident funds as a prelude to broader social security reforms. This option will be explored with the relevant stakeholders during 2009.

Tax administration modernisation agenda

A set of incremental changes is proposed to underpin the SARS modernisation agenda. These measures will allow for continued progress in the reform of personal income tax collection and lay the groundwork for a future social security tax. The changes are:

SARS strengthens modernisation efforts

- The introduction of enabling provisions to require employer reconciliations of employees' tax more frequently than once a year, together with the extension of the reconciliations to skills development levies and UIF contributions.

- Reinstatement of employers' obligation to obtain and maintain certain employee data (originally known as the IRP2 and done away with in 1995), and to report this data as required.
- Permitting SARS to provide employees' tax reference numbers and certain other non-financial data to their employers.
- Requiring other third-party data providers to include taxpayer reference numbers – which will be available in many cases due to requirements of the Financial Intelligence Centre Act (2001) – with the information they provide.
- Alignment of estimated assessment, interest and additional tax provisions across personal income tax, the skills development levy and UIF contributions.

Key customs modernisation measures were introduced in 2008 and supporting amendments are anticipated in 2009. Measures under consideration in accounting for SARS's administered revenue include:

- Moving to a single taxpayer account across different tax types
- Use of a single interest rate on underpayments and overpayments
- Charging compound interest instead of simple interest
- A revised payment allocation rule that generally sets payments off against the oldest outstanding debt.

Single taxpayer registration process to be explored

SARS is assessing the potential for a single taxpayer registration process across multiple taxes, as well as the automatic registration of employees. This would improve customer service and operational efficiency, using technology and third-party information to authenticate data, and reduce the need for supporting documents.

5

Asset and liability management

- As a consequence of the global economic downturn and consistent with countercyclical fiscal policy, South Africa will once again become a net issuer of debt in 2009. A sound debt management record, in combination with deep and liquid domestic capital markets, will enable government to sustain expenditure growth while maintaining a sustainable level of borrowing.
- The funding strategy for the next three years takes account of both government's borrowing requirement and the R787 billion public-sector infrastructure programme. In an environment of tightening credit, government will coordinate and sequence debt issuance in the broader public sector to minimise pressure on interest rates. Over the next three years government's net borrowing requirement amounts to R90 billion, R82 billion and R67 billion, with debt service costs averaging 2.2 per cent of GDP.
- To ensure that state-owned entities can contribute to South Africa's development mandate during the downturn, government will provide guarantees and recapitalise selected development finance institutions. The state is providing a loan and guarantees to Eskom.

Overview

Conditions in financial markets have become significantly tougher

The consequences of the world financial crisis for South Africa include a slowdown in the real economy, heightened risk aversion, a reversal of capital flows and higher sovereign risk premiums. Prior to 2008, global capital markets thrived on the basis of abundant liquidity. During the second half of last year, conditions in financial markets became significantly tougher.

Given the freezing up of global credit markets during 2008 and the much higher costs of international borrowing, South Africa's deep and liquid domestic bond market is crucially important to finance growth. Steps taken over the past 15 years to strengthen the capital market –

the introduction of primary dealers, the diversification of debt instruments, the creation of benchmark bonds and active management of the state debt portfolio – enable government to finance a major portion of the borrowing requirement in the domestic market.

In line with the changed economic environment and the countercyclical fiscal stance, government's net borrowing requirement grows from a negative position to a projected borrowing of R239 billion over the next three years.

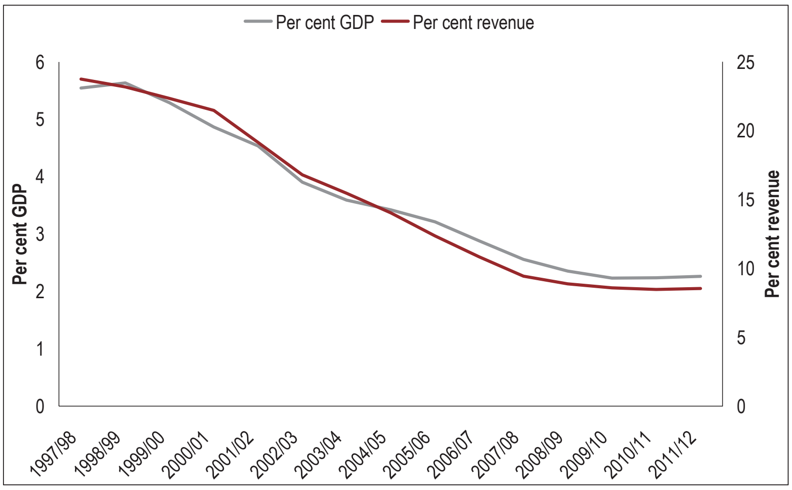
Much of government's borrowing requirement will be financed in existing domestic bonds

Government's borrowing requirement will be financed in large part through existing domestic bonds, supported by Treasury bills, along with enhanced coordination and sequencing of domestic and foreign issuance programmes. Borrowing in the international capital markets, and from multilateral or bilateral institutions, will be considered. A bond-switch programme and a reduction in operational cash balances will lower the gross borrowing requirement over the medium term.

The debt outlook remains sustainable

The debt outlook is sustainable. While the gross stock of government debt is expected to increase from R628.7 billion in 2008/09 to R918.5 billion in 2011/12, the level of debt service costs as a percentage of revenue will be maintained as maturing debt is refinanced and new debt is issued in a more favourable interest rate environment. As a percentage of GDP, the cost of servicing debt averages 2.2 per cent over the medium term. Figure 5.1 shows the projected trend in the cost of state debt over the next three years.

Figure 5.1 State debt cost, 1997/98 – 2011/12



Government will provide guarantees to state-owned entities on a case-by-case basis

As part of its support for state-owned entities, government is providing Eskom with a R60 billion loan and guaranteeing R176 billion of the utility's debt. Guarantees for other state-owned entities will be considered based on merit and strategic factors. As the economic outlook and stability of these enterprises improves, government will reduce its contingent liability exposure by issuing fewer guarantees and refinancing debt without such guarantees.

South Africa's investment grade rating is supported by strong investment growth, low external debt and a robust macroeconomic policy framework. During 2008, as the effects of the financial crisis spread to emerging markets, Moody's Investors Service affirmed South Africa's rating outlook as positive, but three other rating agencies revised their ratings outlook from stable to negative.

A record of sound debt management

Sound debt management has contributed to South Africa's relative financial health amid global turmoil. Over the past 15 years, debt management strategies reduced borrowing costs and risk while building credibility in the markets. Key elements of the debt management strategies included:

- The introduction of primary dealers in 1998
- Diversifying funding instruments, from fixed-income bonds and short-dated Treasury bills to inflation-linked bonds, variable rate bonds, retail bonds and longer-dated Treasury bills
- Extending demand for government debt to longer-term (30-year) debt
- Supporting domestic market liquidity by maintaining issuance at levels to refinance maturing domestic and foreign debt, despite budget surpluses
- Eliminating the net open forward position and using surplus cash to build forex reserves.

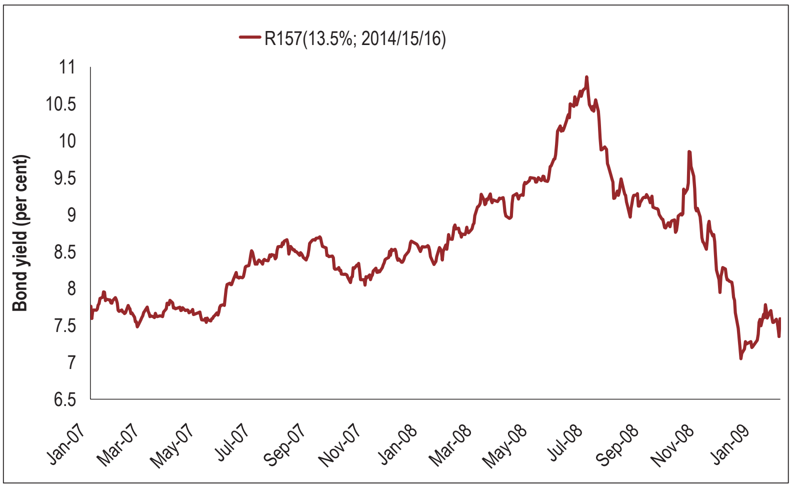
Developments in South Africa's debt markets

Domestic bond market

The domestic bond market entered 2009 with yields falling, reflecting expectations of lower inflation and lower interest rates. During the first half of 2008 yields on government bonds increased in line with tighter monetary policy, as the Reserve Bank increased the repo rate by 100 basis points to 12 per cent. The yield on the R157 bond increased by 240 basis points to 10.7 per cent.

2009 began with bond yields on the decline

Figure 5.2 Government bond yields, 2007 – 2009



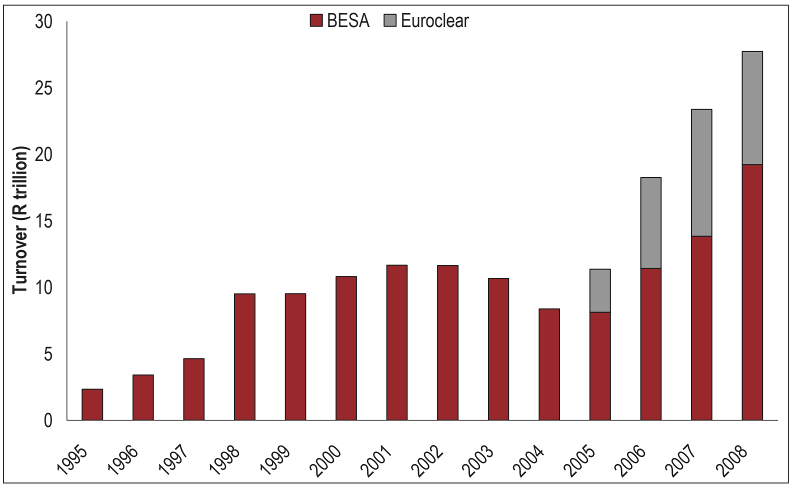
The upward trend in yields reversed in mid-2008 on expectations that inflation was approaching a peak. The Reserve Bank reduced the repo rate to 10.5 per cent in February 2009. Expectations of further interest rate cuts in 2009 give additional momentum to the downward trend in yields. By end-December 2008, the R157 bond yield traded at 7.2 per cent. The yield on the R189 (6.25%; 2013) inflation-linked bond rose from 1.7 per cent in June 2008 to 3.1 per cent in December 2008.

Expectation of further interest rate cuts supported downward trend in yields

Average daily turnover on the Bond Exchange of South Africa rose to R80 billion in 2008

Turnover on the Bond Exchange of South Africa (BESA) more than doubled from R8 trillion in 2005 to R19.2 trillion in 2008, reflective of the depth and liquidity of the domestic bond market. Total nominal trades in RSA bonds recorded abroad amounted to R8.5 trillion in 2008, bringing total trades in domestic bonds to R27.7 trillion. During 2008 average daily turnover rose from about R60 billion to R80 billion.

Figure 5.3 Turnover on Bond Exchange of South Africa, 1995 – 2008



Non-residents sold a net R12.8 billion of bonds during 2008

With the reversal of investment flows to emerging markets, non-residents, who were net buyers of about R20 billion in South African bonds during 2007, sold a net R12.8 billion worth of bonds during 2008.

Global economic developments, a weaker domestic growth outlook, higher inflation and high interest rates contributed to a more cautious approach to bond issuance by private firms in 2008. Net issuance of corporate bonds fell from R64 billion in 2007 to R28 billion in 2008. Net issues of asset-backed securities in 2007 reversed, becoming net redemptions in 2008, while the net issuance of commercial paper by non-bank corporations escalated due to a preference for shorter-term exposure to risk. Net issuance of bonds by public corporations increased in 2008 to support their growing infrastructure budgets.

Cape Town issued its first bond in 2008 and Johannesburg added two bonds to its portfolio

Turnover in municipal bonds reached R18.3 billion in 2008. Two municipalities raised funds in the primary bond market. Cape Town's inaugural bond issue raised R1 billion and Johannesburg added two new bonds worth R3.2 billion to its existing portfolio. Municipal bond issuance remains moderate compared with the metropolitan revenue base.

Table 5.1 shows a continued increase in the liquidity levels (turnover ratios) in domestic government bonds.

Table 5.1 Turnover in domestic bonds, 2006 – 2008

Bond	2006	2007	2008
		Turnover ratio[1]	
Fixed-income			
R153 (13%; 2009/10/11)	49.1	63.1	153.9[2]
R157 (13.5%; 2014/15/16)	41.9	59.0	73.2
R186 (10.5%; 2025/26/27)	15.0	16.6	23.3
R196 (10%; 2009)	–	6.1	7.3
R201 (8.75%; 2014)	7.7	13.9	22.8
R203 (8.25%; 2017)	12.9	14.6	22.6
R204 (8%; 2018)	18.5	22.2	21.8
R206 (7.5%; 2014)	22.2	14.1	22.1
R207 (7.25%; 2020)	17.3	16.9	14.7
R208 (6.75%; 2021)	18.3	27.5	21.6
R209 (6.25%; 2036)	25.0	26.6	40.5
Inflation-linked			
R189 (6.25%; 2013)	1.3	1.8	1.8
R197 (5.5%; 2023)	1.0	1.9	1.4
R202 (3.45%; 2033)	2.6	1.9	1.3
R210 (2.6%; 2028)	–	3.3	3.6

1. *The total turnover divided by the nominal outstanding issue of a bond at year-end.*
2. *High turnover ratio partly due to bond switch programme reducing the nominal value outstanding of the R153 bond.*

Issuance in global capital markets

Spread between RSA global bonds and US Treasury notes narrowed after peaking in October 2008

Financial market turmoil has increased risk premiums and reduced capital flows to emerging markets, leading to a sharp reduction in the yield of US Treasury securities. During late 2008, at the height of the crisis, South Africa's bond spreads widened to record levels, as shown in Figure 5.4. The spread between the 2022 RSA global bond and US Treasury notes widened to 829 basis points in October 2008, returning below 500 basis points in January 2009.

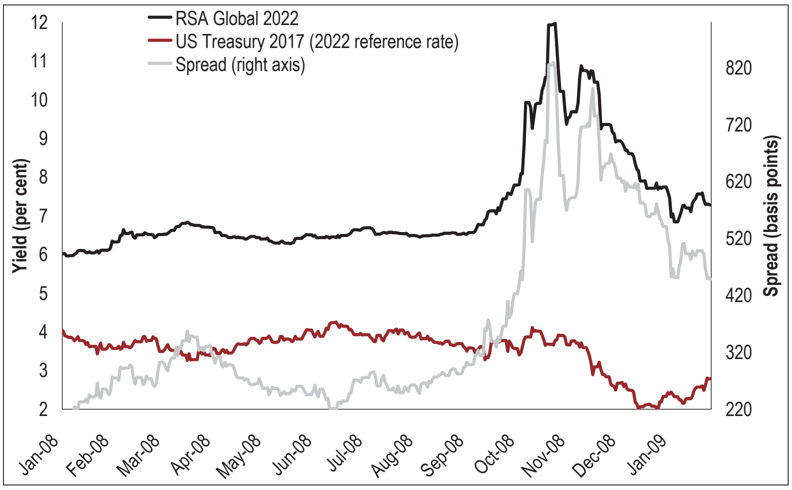
Towards the end of 2008 financial instrument risks were repriced and access to global capital markets began opening up for higher-rated government debt and high-grade US and European corporations. Capital market activity is picking up, but issuance spread levels remain high compared with recent years. In this context, many developing countries will require financial assistance from multilateral and bilateral institutions to finance higher borrowing requirements.

International funding opportunities will be considered

The 2008 Budget projected no new foreign capital market loans given a low borrowing requirement. Foreign financing was limited to further drawdowns on the arms procurement loans. However, government maintained a presence in global markets, and over the medium term, international funding opportunities will again be considered.

Eurorand bond issuance slowed during 2008 as the rand exchange rate became more volatile, aggravating currency risks in these rand-denominated foreign bonds. Net issuance nearly halved to about R7.8 billion from R14.1 billion in 2007. In contrast, net issuance in Uridashi bonds (rand-denominated bonds issued in Japan) remained robust for most of 2008, but activity in this market has ground to a halt since the collapse of Lehman Brothers.

Figure 5.4 Performance of US$1 billion 2022 RSA global bond, January 2008 – January 2009



Borrowing requirement

Net borrowing requirement to increase to R90.4 billion in 2009/10

Government borrows to meet its net borrowing requirement – the sum of the main budget balance, extraordinary receipts and extraordinary payments – and to refinance maturing debt. Table 5.2 sets out the net borrowing requirement outcome for 2007/08, a revised estimate for 2008/09 and estimates for the medium-term expenditure framework (MTEF) period. In 2008/09 the net borrowing requirement is expected to amount to R19.9 billion, increasing to R90.4 billion in 2009/10 before declining to R66.7 billion in 2011/12.

Table 5.2 Net borrowing requirement, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
Budget balance[1]	**18 275**	**14 257**	**-22 783**	**-95 573**	**-83 280**	**-67 745**
Extraordinary receipts	**2 871**	**850**	**8 123**	**6 100**	**1 000**	**1 000**
Premiums on loan transactions[2]	245	600	5 282	2 100	1 000	1 000
Special dividends	1 035	–	–	–	–	–
Agricultural debt account surrender	250	250	250	150	–	–
Telkom / Vodacom transaction	–	–	–	3 500	–	–
Profits on GFECRA[3]	319	–	–	–	–	–
Liquidation of SASRIA investment	–	–	2 150	350	–	–
Penalties and forfeits	1 021	–	–	–	–	–
Wound up of Diabo Share Trust	–	–	436	–	–	–
Other	1	–	5	–	–	–
Extraordinary payments	**-776**	**–**	**-5 246**	**-900**	**–**	**–**
Premiums on loan transactions[2]	-677	–	-4 868	-900	–	–
Defrayal of GFECRA losses[3]	-81	–	-328	–	–	–
Losses on conversion of foreign loans	-18	–	-50	–	–	–
Borrowing requirement (-)	**20 370**	**15 107**	**-19 906**	**-90 373**	**-82 280**	**-66 745**

1. *A positive number reflects a surplus and a negative number a deficit.*
2. *Premiums received or incurred on loan issues, bond switch and buy-back transactions.*
3. *Realised profits/losses on the Gold and Foreign Exchange Contingency Reserve Account.*

Extraordinary receipts and payments

Extraordinary receipts in 2008/09 from premiums on bond switches and investment disposals

Extraordinary receipts are expected to increase to R8.1 billion in 2008/09, composed of R5.3 billion of premiums on bond switches, proceeds of R2.2 billion from government's investment in the South African Special Risks Insurance Association and R436 million from the Diabo Share Trust liquidation. In 2009/10 provision is made for a transfer of R150 million from the agricultural debt account at the Corporation for Public Deposits, premiums on bond transactions of R2.1 billion and proceeds of R3.5 billion from Telkom's sale of a 15 per cent share in Vodacom to Vodafone (government still owns 39.4 per cent of Telkom).

Provision of R900 million is made for premiums on bond transactions in 2009/10. No extraordinary payments are expected over the remainder of the MTEF. In 2008/09 losses on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) of R328 million were settled. Premiums paid on bond switches amounted to R4.9 billion.

Financing the borrowing requirement

Table 5.3 summarises the funding of government's net borrowing requirement over the medium term.

Table 5.3 Financing of net borrowing requirement,[1] 2007/08 – 2011/12

R million	2007/08 Outcome	2008/09 Budget	2008/09 Revised	2009/10 Medium-term estimates	2010/11	2011/12
Domestic short-term loans (net)	**5 673**	**5 750**	**13 200**	**15 400**	**12 400**	**6 000**
Treasury bills	5 923	6 000	13 450	15 550	12 400	6 000
Corporation for Public Deposits	-250	-250	-250	-150	–	–
Domestic long-term loans (net)	**-2 448**	**5 309**	**20 675**	**61 522**	**61 589**	**51 947**
Market loans	26 820	30 000	39 946	70 500	70 500	68 600
Redemptions	-29 268	-24 691	-19 271	-8 978	-8 911	-16 653
Foreign loans (net)	**-4 746**	**-3 496**	**-3 955**	**3 837**	**8 291**	**7 798**
Market loans	–	–	–	9 800	9 600	9 900
Arms procurement loan agreements[2]	2 427	2 614	3 039	3 872	2 350	1 980
World Bank loans	20	–	2	–	–	–
Redemptions (including revaluation of loans)	-5 624	-6 110	-6 996	-9 835	-3 659	-4 082
Buy-backs	-1 568	–	–	–	–	–
Change in cash and other balances[3]	**-18 849**	**-22 671**	**-10 014**	**9 614**	–	**1 000**
Opening balance	74 960	95 104	98 009	111 623	105 609	109 209
Cash balance	*75 315*	*95 104*	*93 809*	*108 023*	*102 009*	*105 609*
Surrenders/late requests	*4 703*	–	*4 200*	*3 600*	*3 600*	*3 600*
Cash flow adjustment[4]	*-5 058*	–	–	–	–	–
Closing balance	93 809	117 775	108 023	102 009	105 609	108 209
Sterilisation deposits[5]	*63 109*	*65 806*	*66 409*	*69 009*	*71 609*	*74 209*
Operational cash	*30 700*	*51 969*	*41 614*	*33 000*	*34 000*	*34 000*
Total	**-20 370**	**-15 107**	**19 906**	**90 373**	**82 280**	**66 745**

1. *Full details are reflected in Table 1 of Annexure B.*
2. *Includes R5.3 billion in new export credit agency financing for purchase of 8 Airbus A400Ms over the MTEF.*
3. *A negative change indicates an increase in cash balances.*
4. *Represents a reconciliation of actual revenue and actual expenditure against National Revenue Fund flows.*
5. *Deposits made with the Reserve Bank to regulate internal monetary conditions as provided for in Section 71(e) of the PFMA.*

Most of the R153 bond will be switched this year

Government's net borrowing requirement is financed through domestic short- and long-term loans, foreign loans and changes in cash balances. To manage refinancing risk, government entered into domestic bond switches, reducing domestic loan redemptions in 2008/09 and over the medium-term by R57.8 billion, as shown in Table 5.4. It is anticipated that most of the R153 bond maturing in tranches over the next three years will be switched before August 2009, reducing redemptions by a further R22.6 billion over the MTEF period.

Table 5.4 Domestic bond switch programme, 2008/09

As of 4 February 2009 R million	Source bonds		Destination bonds[1]
R196 (10%; 2009)	5 395	R205 (variable; 2012)	2 997
		R207 (7.25%; 2020)	1 897
		R209 (6.25%; 2036)	501
R153 (13%; 2009/10/11)	52 390	R157 (13.5%; 2014/15/16)	1 900
		R186 (10.5%; 2025/26/27)	24 738
		R207 (7.25%; 2020)	14 657
		R208 (6.75%; 2021)	11 140
Total	**57 785**	**Total**	**57 830**

1. *Excludes discount on destination bonds.*

The net borrowing requirement excludes loan redemptions, which also need to be financed. Scheduled loan redemptions for 2007/08 and 2008/09 and medium-term estimates are set out in Table 5.5. Total loan redemptions amounted to R26.3 billion in 2008/09, R4.5 billion lower than provided for, mainly due to the net of domestic bond switches reducing redemptions and a higher rand value of foreign loans redeeming at weaker-than-predicted exchange rates. For 2009/10, loan redemptions of R18.8 billion are anticipated, rising to R20.7 billion in 2011/12.

Table 5.5 Loan redemptions, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans	**29 268**	**24 691**	**19 271**	**8 978**	**8 911**	**16 653**
Foreign loans[1]	**7 192**	**6 110**	**6 996**	**9 835**	**3 659**	**4 082**
Principal	7 311	4 264	4 304	7 544	2 349	2 791
Revaluation	-119	1 846	2 692	2 291	1 310	1 291
Total	**36 460**	**30 801**	**26 267**	**18 813**	**12 570**	**20 735**
Excludes: Source bonds in domestic switch auctions	*4 121*	*–*	*5 395*	*25 000*	*25 000*	*25 000*

1. *Includes the net amount of buy-backs for 2007/08.*

Domestic short-term loans

New 1-year maturity Treasury bill to be considered

Short-term borrowing consists of marketable Treasury bill issuance and borrowing from the Corporation for Public Deposits. To date, Treasury bills with maturities of 3, 6, and 9 months have been issued. To further develop the yield curve, a 1-year maturity Treasury bill will be considered.

In 2008/09 short-term loans increased by R13.2 billion, at an average yield of 11.1 per cent, compared with a projected 9.6 per cent.

Treasury bills increased by a net R13.5 billion, while borrowing from the Corporation for Public Deposits decreased by R250 million. Treasury bill net issuance will increase by R15.6 billion in 2009/10, decreasing to R6 billion in 2011/12. Borrowing from the Corporation for Public Deposits will decrease by R150 million in 2009/10.

Domestic long-term loans

Domestic long-term loan issuance in 2008/09 amounts to R39.9 billion

Government's portfolio of domestic long-term loans consists of fixed-income bonds, inflation-linked bonds, floating rate notes and retail bonds. Domestic long-term loan issuance in 2008/09 amounts to R39.9 billion, R9.9 billion higher than projected in the 2008 Budget.

Table 5.6 provides a breakdown of the R30.4 billion in government bonds issued in 2008/09 up to 31 January 2009. Fixed-income bonds remain the major source of financing, constituting 78.5 per cent of total issuance. Inflation-linked bonds account for the remaining 21.5 per cent.

Table 5.6 Domestic long-term market loan issuance, 2008/09

As of 31 January 2009 R million	Cash value	Average yield %	Nominal outstanding
Fixed-income	**23 867**	**9.01**	
R186 (10.5%; 2025/26/27)	9	8.41	63 772
R201 (8.75%; 2014)	1 505	8.72	38 471
R203 (8.25%; 2017)	3 672	9.47	26 259
R204 (8%; 2018)	3 935	9.33	29 469
R206 (7.5%; 2014)	3 788	8.83	16 934
R207 (7.25%; 2020)	4 075	9.00	37 911
R208 (6.75%; 2021)	2 762	8.30	21 963
R209 (6.25%; 2036)	3 741	8.89	15 764
Retail	380	10.26	1 306
Inflation-linked	**6 554**	**2.59**	
R189 (6.25%;2013)	2 261	2.33	36 363
R197 (5.5%; 2023)	2 251	2.91	28 147
R202 (3.45%; 2033)	1 385	2.57	13 004
R210 (2.6%; 2028)	605	2.40	4 091
Retail	52	3.00	65
Total	**30 421**		

R1.4 billion worth of retail bonds purchased since this product was launched

Domestic long-term bond issuance is expected to average R70 billion a year over the next three years (see Table 5.3). In 2009/10 issuance will be in existing bonds. Sales of 2-, 3- and 5- year fixed-income and 3-, 5- and 10- year inflation-linked retail bonds will continue. Since the launch of government's retail bond in 2004, To date, a total of R1.4 billion worth of these bonds have been purchased.

To facilitate settlements in the capital market, government provides the primary dealers in benchmark government bonds with an overnight repurchase facility at a zero per cent return. As of 31 January 2009, repurchase transactions of R11.3 billion were entered into, mainly in the R153 and R157 bonds.

In February 2009, Statistics South Africa (Stats SA) is publishing a rebased and reweighted consumer price index (CPI) that better represents average household consumption spending. The National Treasury will adjust inflation-linked bonds in accordance with the new CPI.

Funding the public sector borrowing requirement

In funding the increase in the public sector borrowing requirement from R90.5 billion in 2008/09 to R185.7 billion in 2009/10, government takes into account the present level of volatility and higher borrowing costs in global markets. The financing strategy also recognises the need to ease funding pressures in the domestic market.

Owing to the strength of South Africa's capital market, most of the borrowing requirement can be financed domestically, using a combination of money market instruments, promissory notes, syndicated loans and bond issuances. Government's average weekly bond issuance will increase to R1.4 billion in 2009/10, marginally higher than the R1.3 billion weekly average in January 2009.

To reduce pressure on the domestic market and ensure an appropriately balanced portfolio, the public sector will also borrow on international capital markets during 2009/10. In addition, indications are that loans of up to US$6.5 billion are available from the World Bank and the African Development Bank.

Government has already started to improve the coordination and sequencing of the public sector's domestic and international issuance programmes, contributing to stability and certainty. Government guarantees will increase the market appetite for the debt of state-owned entities.

Foreign loans

Government intends to borrow about US$1 billion a year in global capital markets

Government intends to borrow about US$1 billion a year in global capital markets to refinance part of foreign maturing loans and interest payments. Government has also entered into a new €1 billion export credit agency financing structure for the purchase of eight Airbus A400M aircraft for the Department of Defence.

In 2008/09, export credit agency drawdowns on arms procurement loan agreements will reach R29.5 billion, or 91 per cent of the total. Drawdowns over the next three years total R2.9 billion, with the final instalment scheduled for 2011/12. In 2008/09 government drew R2 million on a World Bank loan to provide financial and technical support to municipalities.

Cash balances

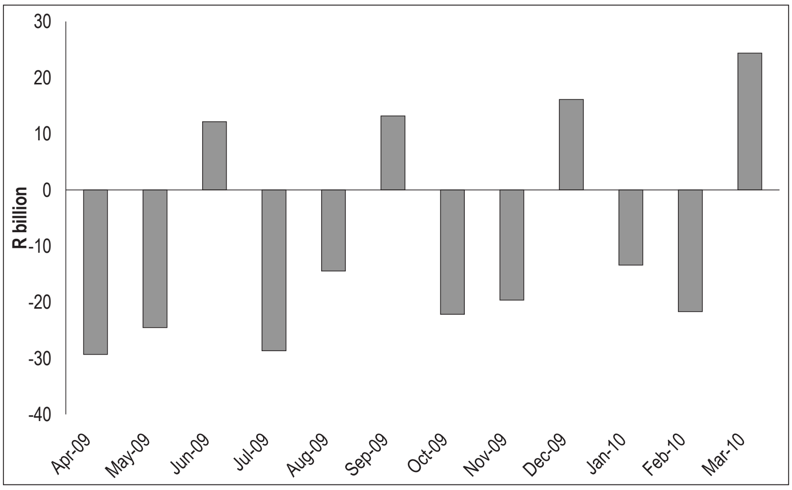
The National Treasury is responsible for maintaining adequate liquidity in the National Revenue Fund and investing surplus cash. Expected monthly cash flow requirements for 2009/10 are shown in Figure 5.5. Cash requirements are higher during the first half of the year.

Sterilisation deposits increase to R66.4 billion in 2008/09

Government's total cash includes deposits held by the Reserve Bank and commercial banks. The Reserve Bank uses the deposits that it holds to "sterilise" the excess cash created in the money market when purchasing foreign exchange reserves. Capitalised interest will increase sterilisation deposits with the Reserve Bank from R63.1 billion in 2007/08 to R66.4 billion in 2008/09.

Operational cash available to finance the borrowing requirement is invested mainly with commercial banks. A year-end operational cash balance of R41.6 billion is expected for 2008/09. In 2009/10 operational year-end cash balances will decrease to R33 billion, a level to be maintained over the two subsequent years in line with government's expected cash requirements.

Figure 5.5 Projected monthly gross surplus/deficit before borrowing, 2009/10[1]



1. *Excludes monthly opening cash balances*

The losses and profits on the foreign exchange activities of the Reserve Bank are accounted for on the GFECRA. The balance on this account is split into transactions with a cash-flow and a non-cash flow impact. Valuation gains increased to a net R97 billion as of 31 December 2008, R72 billion higher than a year earlier.

Valuation gains increased to a net R97 billion at the end of 2008

Government's debt portfolio

Total debt

Net loan debt consists of total domestic and foreign debt less the cash balances of the National Revenue Fund. Debt is affected by the net borrowing requirement, currency fluctuations and changes in cash balances. Total government debt is shown in Table 5.7.

Table 5.7 Total government debt, 2005/06 – 2011/12

End of period	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
R billion		**Outcome**		**Estimate**		**Medium-term estimates**	
Domestic debt	461.5	471.1	480.8	533.5	629.3	722.4	798.5
Foreign debt[1]	66.8	82.6	96.2	95.2	107.3	111.3	120.0
Gross loan debt	**528.3**	**553.7**	**577.0**	**628.7**	**736.6**	**833.7**	**918.5**
Less: National Revenue Fund bank balances	-58.2	-75.3	-93.8	-108.0	-102.0	-105.6	-108.2
Net loan debt[2]	**470.1**	**478.4**	**483.2**	**520.7**	**634.6**	**728.1**	**810.3**
As percentage of GDP :							
Net loan debt	*29.6*	*26.4*	*23.4*	*22.6*	*25.6*	*27.1*	*27.4*
Foreign debt	*4.2*	*4.6*	*4.7*	*4.1*	*4.3*	*4.1*	*4.1*
As percentage of gross loan debt:							
Foreign debt	*12.6*	*14.9*	*16.7*	*15.1*	*14.6*	*13.4*	*13.1*

1. *Estimates are based on National Treasury's projections of exchange rates.*
2. *Net loan debt is calculated with due account of the bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).*

The value of South Africa's inflation-linked bonds is being adjusted to take account of changes in CPI. Up until now, the adjusted capital value has not been included in total debt. Historic numbers were adjusted in Table 8 of Annexure B since the first issuance in 1999/00. By 2011/12 revaluation of inflation-linked bonds will add R55.7 billion to the outstanding debt.

Foreign debt as a percentage of GDP falls to 4 per cent in 2011/12

In 2008/09, net loan debt is expected to increase by R37.5 billion to R520.7 billion or 22.6 per cent of GDP, reaching a projected R810.3 billion or 27.4 per cent of GDP in 2011/12. Government's foreign debt as a percentage of GDP is estimated to decline to about 4 per cent of GDP over the same period. Foreign debt as a percentage of gross loan debt will average 13.7 per cent over the medium term.

Maturity and composition of government debt

Average maturity of domestic bonds has increased to 11.2 years

Table 5.8 sets out the average maturity and duration of domestic marketable bonds. The average maturity increased from 8.6 years in 2007/08 to 11.2 years in 2008/09. The weighted average term (duration) of interest and redemption cash flows increased from 5.5 years in 2007/08 to 7.4 years for 2008/09. This can be ascribed to switches from short- to longer-dated bonds, higher issuance of longer-dated bonds and lower interest rates.

Table 5.8 Maturity distribution of domestic marketable bonds, 2006/07 – 2008/09

Years to maturity	2006/07	2007/08	2008/09	
			Estimates	
Percentage of total	Portfolio[1]		Funding[2]	Portfolio[1]
0 – 3	21.7	21.4	–	2.1
3 – 7	24.7	32.6	22.7	29.5
7 – 10	23.6	14.8	23.5	16.2
10 – 19	20.8	22.5	29.8	44.8
Longer than 19	9.2	8.7	24.0	7.4
Years				
Average duration[3]	5.4	5.5	8.3	7.4
Average maturity	8.4	8.6	12.9	11.2

1. *The total bond portfolio as of the end of the period.*
2. *Bond issuances for the fiscal year.*
3. *The weighted average term (duration) of interest and redemption cash flows.*

Table 5.9 shows the composition of domestic debt by various funding instruments, which are broadly categorised as bonds and Treasury bills. The foreign debt portfolio is concentrated in Euro- and US dollar-denominated instruments, which account for 84.6 per cent of the total foreign debt.

Table 5.9 Composition of domestic debt by instrument, 2005/06 – 2008/09

End of period	2005/06	2006/07	2007/08	2008/09
R billion		Outcome		Estimate
Bonds	**419.1**	**423.6**	**427.7**	**467.4**
Fixed-income	349.2	351.5	350.8	374.6
Floating rate	11.4	4.8	4.8	7.8
Zero coupon	2.2	2.1	2.2	2.1
Inflation-linked	54.5	63.7	68.6	81.5
Retail	1.8	1.5	1.3	1.4
Treasury bills	**41.9**	**47.1**	**52.9**	**66.0**
Shorter than 91-days[1]	1.4	1.3	1.0	0.7
91-days	28.0	29.7	31.7	37.7
182-days	7.8	9.0	10.4	14.3
273-days	4.7	7.1	9.8	13.3
Other[2]	**0.5**	**0.4**	**0.2**	**0.1**
Total	**461.5**	**471.1**	**480.8**	**533.5**

1. Mainly 1-day bills issued to the Corporation for Public Deposits.
2. Loan levies, former regional authorities and Namibian debt.

Sovereign credit rating outlook

During the fourth quarter of 2008 the freezing up of international credit markets increased pressure on rating agencies to communicate the impact of the changing environment in a more critical way.

One reflection of these developments has been the decision by three ratings agencies (Fitch Ratings, Rating and Investment Information Inc and Standard & Poor's) to revise the outlook for South Africa from stable to negative. While the outlook has been revised downwards, South Africa has not been downgraded. A fourth major agency, Moody's Investors Service, affirmed the rating outlook as positive. The revisions were attributed to the country's large current account deficit, fears of economic deterioration and political uncertainty ahead of the 2009 elections. However, government's prudent macroeconomic policies are supportive of South Africa's long-term rating outlook.

Provisions and contingent liabilities

Debt, provisions and contingent liabilities are well within the risk management guideline

The National Treasury has redefined its broad risk management guideline – that net loan debt and contingent liabilities should not exceed 50 per cent of GDP – to include provisions. As of 31 March 2008, net loan debt, provisions and contingent liabilities amounted to 34.4 per cent of GDP, which is also well within the Southern African Development Community's macroeconomic convergence target of 60 per cent of GDP.

Provisions and contingent liabilities are summarised in Table 5.10. Provisions are liabilities for which the payment date or amount is uncertain. The provisions for the multilateral institutions are the unpaid portion of government's subscription to these institutions, which are payable on request. Contingent liabilities may or may not be incurred, depending on future events. In 2007/08 provisions increased by R6.2 billion to R50.5 billion, mainly as a result of increased subscription commitments to the International Monetary Fund and the World Bank. Contingent liabilities decreased by R8.4 billion to R177.1 billion, owing largely to improvements to the actuarial position of the Government Employees Pension Fund.

Table 5.10 Composition of provisions and contingent liabilities, 2005/06 – 2007/08

End of period R billion	2005/06	2006/07	2007/08
Provisions	**41.5**	**44.3**	**50.5**
Special Drawing Rights	0.8	0.8	0.8
International Monetary Fund	17.2	16.7	20.1
International Bank for Reconstruction and Development	9.5	11.1	12.4
Multilateral Investment Guarantee Agency	–	0.1	0.1
African Development Bank	6.5	7.7	8.6
Leave credits	7.5	7.9	8.5
Contingent liabilities	**160.0**	**185.5**	**177.1**
Guarantees	67.9	67.8	64.5
Post-retirement medical assistance[1]	37.0	56.0	56.0
Road Accident Fund[1]	21.4	23.9	30.3
Government pension funds[1]	12.8	12.8	–
Claims against government departments	9.1	11.8	10.9
Export Credit Insurance Corporation	7.2	10.9	12.7
Unemployment Insurance Fund[1]	2.3	2.0	2.3
SASRIA reinsurance cover	1.0	–	–
Other[2]	1.3	0.3	0.4
Total	**201.5**	**229.8**	**227.6**

1. *The Road Accident Fund, post-retirement medical assistance to government employees, government pension funds and Unemployment Insurance Fund are subject to actuarial valuation periods varying from one year to four years.*
2. *Represents a liability to Reserve Bank in respect of old coinage in circulation and other unconfirmed balances by departments.*

Government's guarantee exposure is expected to increase by R27.1 billion in 2008/09, mainly as a result of guarantees for existing Eskom debt of R26 billion. Guarantee fees of R51.2 million were received from state-owned entities. Details of guarantee commitments from 2004/05 to 2007/08 are set out in Table 9 of Annexure B.

State debt cost

The volume of debt, new borrowing requirements, interest rates, inflation rates and the value of the currency influence the total cost of state debt. Table 5.11 summarises trends and projections to 2011/12.

Table 5.11 State debt cost, 2007/08 – 2011/12

R million	2007/08 Outcome	2008/09 Budget	 Revised	2009/10 Medium-term estimates	2010/11	2011/12
Domestic	48 248	46 637	48 741	49 301	53 968	59 921
Foreign	4 629	4 599	5 540	5 967	6 172	6 905
Total	**52 877**	**51 236**	**54 281**	**55 268**	**60 140**	**66 826**
State debt cost as percentage of :						
GDP	*2.6*	*2.2*	*2.4*	*2.2*	*2.2*	*2.3*
GDP-accrual[1]	*2.7*	*2.4*	*2.6*	*2.4*	*2.4*	*2.4*
Revenue	*9.4*	*8.2*	*8.9*	*8.6*	*8.5*	*8.6*

1. *State debt cost adjusted for the amortisation of discount on domestic bond issues and expressed as a percentage of GDP.*

In 2008/09, state debt cost is estimated to be R3 billion higher than the budgeted amount due to higher borrowing requirements, a weaker-than-expected currency and higher interest rates. State debt costs are projected to increase to R66.8 billion by 2011/12. However, state debt cost as a percentage of GDP is projected to decline from 2.6 per cent in 2007/08 to 2.4 per cent in 2008/09, averaging 2.2 per cent over the medium term. Measured as a percentage of revenue and expenditure, debt service costs will continue to decline.

Asset management

Capital structure and dividend policies of state-owned entities to be reviewed in 2009/10

Over the past several years the National Treasury has reviewed the business model of state-owned entities. These reviews, along with capital structure and dividend policies approved by Cabinet in 2005, will inform the financing programmes of the entities in the period ahead. The National Treasury will, in consultation with the relevant executive authorities, review the individual capital structure and dividend policies of state-owned entities from 2009/10.

Policy stance on guarantees for state-owned entities

Under normal circumstances state-owned entities should operate on the strength of their own balance sheets. Exposure to the financial discipline of debt to achieve operational efficiency has reduced the amount drawn on government guarantees from R84.7 billion in 2001/02 to R64.5 billion in 2007/08.

If, however, a clear need for shareholder support is identified, a guarantee to provide security for borrowing can be considered, provided that a sound business plan is in place to ensure long-term financial sustainability. In the present economic environment government intends to sustain its capital investment programme financed mainly on the balance sheets of the state-owned entities. In addition, it is important that these investments take place at as low a cost as possible.

Requests for guarantees from various state-owned entities are under consideration. In extending guarantees, government remains mindful of its guideline for total debt, provisions and contingent liabilities.

Over the next five years, major state-owned entities plan to spend R669.4 billion on infrastructure. Of this amount, Eskom projects total about R356 billion, and Transnet projects total R81 billion. Government will continue to support the broader public sector to sustain investment in infrastructure projects.

Assistance to Eskom

Government is providing Eskom with a deeply subordinated loan on flexible terms

During 2008, government finalised the key features of its R60 billion support package for Eskom. Funding is to be provided in the form of a 30-year, deeply subordinated loan. Eskom will ultimately be required to repay the principal loan with interest. However, the interest payments are structured flexibly based on the yield of the R209 (6.25%; 2036) bond, plus a margin. Eskom will only be required to service interest on the loan if its credit profile supports an investment grade rating. Financial modelling shows that Eskom will become cash positive after 10 years, and to entice refinancing of the loan the interest rate is stepped up by 25 basis points after year 10.

Additional funding for Eskom from World Bank is being considered

The funding will be provided to Eskom in the following manner: R10 billion in 2008/09, R30 billion in 2009/10 and R20 billion in 2010/11. The Eskom Subordinated Loan Special Appropriation Act provides for this multi-year appropriation and the first tranche of R5 billion was transferred to Eskom on 31 December 2008. Government will also underwrite Eskom debt of R176 billion, which consists of R26 billion of existing debt and R150 billion in new debt over the next five years. The National Treasury and Eskom are engaged in discussions with multilateral agencies, including the World Bank, to obtain additional funding for the power utility's infrastructure programme.

Assistance to SAA

South African Airways (SAA) initiated a turnaround strategy in 2007/08 to improve profit margins by March 2009. SAA posted a net loss of R1.1 billion for the 2008 financial year largely due to restructuring costs of R1.3 billion and fuel price volatility. Government has allocated R1.6 billion to SAA during 2009/10 to meet restructuring costs and ensure financial sustainability.

Development finance institutions

Review recommends restructuring some DFIs to improve their efficiency and contribution to development

Government completed its review of the development finance institutions (DFIs) in 2008. The review recommends restructuring some DFIs to improve their effectiveness, as well as enhanced government coordination of their mandates and deliverables. Access to loan finance from DFIs, particularly for industrial, bulk infrastructure, housing and agriculture investments, can facilitate the funding of development projects within current market constraints.

The Industrial Development Corporation (IDC) has a strong balance sheet that can be leveraged to fund potential investments of R60 billion over the next five years. As of 31 March 2008, the IDC had share capital of R1.4 billion and reserves of R74.4 billion.

The DBSA can contribute to municipal infrastructure and support smaller state-owned entities

The current balance sheet of the Development Bank of Southern Africa (DBSA) suggests that the bank can provide up to R38 billion in loans to meet infrastructure funding needs. Options to boost this capacity through a range of measures, including increasing the DBSA's callable capital, are being investigated. The DBSA plays a crucial role in providing loan finance for municipal infrastructure.

The Land Bank requires additional support to become sustainable

The new management of the Land Bank has submitted a turnaround strategy to the National Treasury. Progress to date includes the recovery of R474 million of non-performing loans, improved liquidity and the implementation of control systems. Programmes that support emerging farmers and land reform initiatives need to be reinforced by appropriate access to loan finance. To meet these objectives it may be necessary for government to inject additional capital into the Land Bank to ensure that it operates on a financially sustainable basis.

Conclusion

For the medium-term period ahead, South Africa will be a net issuer of debt. The resilience and depth of South Africa's bond markets enable government to fund the bulk of the borrowing requirement domestically. In addition to providing a loan to Eskom, government will consider other support for state-owned-entities and DFIs to provide liquidity and to ensure successful implementation of capital investment programmes.

6

Social security

- The global downturn highlights the importance of social security arrangements that safeguard incomes while promoting employment opportunities in a fiscally sustainable manner.
- Broadening of the social grants system in recent years has contributed to poverty reduction and the income security of children, with the number of beneficiaries expected to reach over 13 million in April 2009. The expanded public works programme aims to increase employment in labour-based initiatives to the equivalent of more than 400 000 jobs a year over the medium term. Consideration is being given to possible improvements in unemployment relief financed through the Unemployment Insurance Fund on the strength of its healthy financial position. Reform of occupational injury and disease compensation arrangements is in progress, and options for the development of a national health insurance system are being studied.
- Research on several aspects of the reform of social security and retirement funding arrangements has proceeded over the past year, aimed at identifying the next steps towards broader coverage of the savings and social protection systems, while improving the regulation and cost-effectiveness of the retirement funding industry.

Poverty reduction and social protection

Economic downturn highlights the need for sustainable social protection systems

The economic downturn highlights the importance of comprehensive social security, even as it underscores the necessity of a flexible and fiscally sustainable system. The social assistance safety net financed through the national budget has steadily expanded in recent years, providing income support targeted at the elderly, the disabled and children in need. Consolidated expenditure on social protection has increased from R72.3 billion in 2005/06 (4.6 per cent of GDP) to a projected R118.1 billion in 2009/10 (4.8 per cent of GDP).

Table 6.1 Selected key social indicators, 2004 – 2008

	2004	2006	2008
Social grants beneficiary numbers (thousand)	9 407	11 983	13 386
% of households			
in the bottom quintile receiving any grant income	40.2	69.4	75 (est.)
reporting children often or always going hungry	5.2	2.4	2.0
% of children aged 7 to 18 in school	94.3	94.1	94.7 (2007)
Public health professionals per 100 000 uninsured South Africans	20 (2003)	24	26
Infant mortality under age 1 per 100 000 births	48.8	46.5	45.2 (2007)

Source: Statistics SA, GHS and LFS 2004, 2006, 2007, Socpen system, Health Systems Trust 2008

Progress in improving key social indicators since 2004 is summarised in Table 6.1.

In January 2009 the child support grant was extended to children up to the age of 15, and further extension of the age limit up to 18 is under consideration. A phased equalisation of the qualifying age for old age grants at 60 years for both men and women by 2010/11 is under way.

Research on a contributory social security system continues

Research on a contributory social security arrangement will continue in 2009. Particular consideration is being given to options for improving and extending unemployment relief, while encouraging labour market participation. The design of a national savings scheme that would improve coverage of the retirement funding system and provide income protection in the event of death or disability of low-income workers is under review.

Updated anti-poverty strategy targets job creation, human capital and income security

Government released a draft anti-poverty strategy in October 2008 as a consultation paper. The strategy builds on the measures put in place since 1994 but marks a shift in trajectory in light of current challenges. Its primary target areas are job creation, investment in human capital, basic income security, household services and housing, comprehensive health care, access to assets (including community infrastructure and land), social cohesion and good governance. As part of the broader anti-poverty strategy, the expanded public works programme is being extended over the period ahead and will be supported through a new funding mechanism.

Boosting employment and income support through public works

Over the past four years the expanded public works programme has grown steadily. It provided more than 1 million temporary jobs in 2008. A five-year expansion of the programme is now planned, with improved administrative arrangements and new targets to lengthen the duration of jobs created and improve its environmental, social and developmental impact. Extension of the programme aims to increase the number of full-year equivalent job opportunities to over 400 000 over the next five years. From 2009 the expanded programme will concentrate on three areas:

- Longer-term public-sector employment, such as in home-based care and community health services, directly funded by departments and supported by targeted training and skills development.
- Project-based employment in construction, rehabilitation and environmental programmes, supported through performance-based incentive allocations to cover basic wages in activities with scope for increased labour-intensity, implemented by national and provincial departments and municipalities.
- A new component of programmes funded or co-funded by government, but managed by non-state actors such as non-profit organisations, religious and community-based organisations.

Social assistance

Social grants and household welfare

Social assistance cash grants provide income support to people whose livelihoods are most at risk. The available grants are the old age pension; disability, child support, foster care, care dependency and war veterans' grants; grant-in-aid and social relief of distress. These are administered by the South African Social Security Agency (SASSA), and represent a nationally funded income redistribution programme amounting to more than 3 per cent of GDP.

Cash grants provide income support to those whose livelihoods are most at risk

Following the 2008 Budget announcements, the following legislative amendments were introduced:

- The qualifying age for the old age grant will be equalised (so that men, like women, can access the grant from age 60), to be phased in over a three-year period. In July 2008 men aged 63 and 64 became entitled to the grant, and about 70 000 men in this category have accessed it as a result. About half of these were previously receiving the disability grant, so the net increase in beneficiary numbers was well within budget projections. The equalisation process will be completed in 2010.
- The child support grant was extended to children up to the age of 15 with effect from January 2009. By mid-January, about 8 000 applications were processed. It is expected that about 500 000 children will benefit from this extension.
- Parents and caregivers will be able to apply for the child support grant prior to registering the birth of their children or the children they are looking after.

The household income threshold for the child support grant has been raised to R27 600 per year, and the previous separate urban and rural thresholds have been removed. The means test income thresholds for old age and disability grants have also been revised upward.

Income threshold for child support grant has been raised to R27 600 a year

South African Social Security Agency

Over the medium term SASSA will seek to improve social grants service delivery and administrative capacity, while preparing for the implementation of social security reforms.

The financial, structural and operational challenges associated with the current cash payment system for social grants suggest that the overall payment system requires review, focused on providing a more cost-effective and modern disbursement service. Partnerships with other key government organisations (such as the Post Office), banks and private payment-service providers are being assessed.

A modern, cost-effective system is needed to disburse social grants

Expenditure on social assistance and administration is summarised in Table 6.2. Spending is expected to grow from R75.8 billion in 2008/09 to R101.3 billion in 2011/12, or about 3.4 per cent of GDP and 11.6 per cent of national budget expenditure.

Medium-term spending on social grants remains at about 3.4 per cent of GDP

The 2009 Budget sets aside R5.1 billion for SASSA's administrative costs in 2009/10, rising to R6 billion in 2011/12. Independent payment service provider contracts, which cover about 76 per cent of payment transactions, account for just over half of projected administrative spending. Allocations are made for further investment in system improvements and increased capacity.

Table 6.2 Social grants expenditure as a percentage of GDP, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09 Preliminary outcome	2009/10	2010/11	2011/12
					Medium-term estimates		
Social grants transfers	50 708	57 032	62 467	71 161	80 380	88 126	95 237
SASSA administration	3 324	3 819	4 551	4 610	5 135	5 589	6 047
Total	**54 032**	**60 851**	**67 018**	**75 771**	**85 515**	**93 715**	**101 284**
Percentage of GDP	*3.4%*	*3.4%*	*3.2%*	*3.3%*	*3.5%*	*3.5%*	*3.4%*

Source: Estimates of National Expenditure

Social assistance beneficiary and expenditure trends

Largest number of grants reaches those caring for children under age 14

The growth in social grant beneficiary numbers since 2004 is shown in Table 6.3, together with a projection for the year ahead. The number of beneficiaries is expected to reach over 13 million by April 2009. The largest number of grants goes to recipients of the child support grant, followed by the elderly and those with disabilities. The average annual growth in the number of beneficiaries is 9.2 per cent over the five-year period to April 2009.

Table 6.3 Social grants beneficiary numbers by type of grant and by province, 2005 to 2009

Type of grant	April 2005	April 2006	April 2007	April 2008	April 2009[1]	% growth (average annual)
Old age	2 093 440	2 144 117	2 195 018	2 218 993	2 324 615	2.7%
War veterans	3 343	2 832	2 340	1 963	1 649	-16.2%
Disability	1 307 551	1 319 536	1 422 808	1 413 263	1 404 884	1.8%
Foster care	252 106	312 614	400 503	443 191	487 510	17.9%
Care dependency	88 889	94 263	98 631	101 836	105 909	4.5%
Child support	5 661 500	7 044 901	7 863 841	8 195 524	9 061 711	12.5%
Total	**9 406 829**	**10 918 263**	**11 983 141**	**12 374 770**	**13 386 278**	**9.2%**
Province						
Eastern Cape	1 743 007	2 094 642	2 244 303	2 291 898	2 507 094	9.5%
Free State	596 083	678 522	723 698	755 665	808 438	7.9%
Gauteng	1 165 679	1 318 981	1 406 445	1 451 967	1 571 129	7.7%
KwaZulu-Natal	2 149 969	2 498 888	2 931 722	3 033 463	3 275 005	11.1%
Limpopo	1 412 882	1 640 032	1 751 512	1 798 859	1 956 601	8.5%
Mpumalanga	704 070	836 451	901 386	925 171	1 006 932	9.4%
Northern Cape	188 578	213 512	232 102	307 095	259 279	8.3%
North West	777 722	888 065	1 001 629	980 018	1 118 912	9.5%
Western Cape	668 839	749 170	790 344	830 634	882 888	7.2%
Total	**9 406 829**	**10 918 263**	**11 983 141**	**12 374 770**	**13 386 278**	**9.2%**

1. Projected numbers.

Source: Intergovernmental Fiscal Review / Socpen system

The number of care dependency grant beneficiaries grew from 88 889 in April 2005 to a projected 105 909 in April 2009. This grant is payable to children between the ages of 1 and 18 who suffer from severe mental or physical disability and are in permanent home care.

Table 6.4 Social grants expenditure numbers by type of grant and province, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	% growth (average annual)
Old age	19 470	21 222	22 801	25 992	28 500	29 902	31 067	8.1%
War veterans	28	25	22	20	17	15	13	-12.0%
Disability	14 099	14 261	15 280	16 600	17 218	18 209	19 158	5.2%
Grant-in-aid	57	67	87	123	130	137	145	16.8%
Foster care	1 996	2 851	3 414	3 943	4 701	5 557	6 473	21.7%
Care dependency	916	1 006	1 132	1 322	1 521	1 592	1 655	10.4%
Child support	14 143	17 559	19 625	22 537	28 158	32 568	36 568	17.2%
Social relief of distress	–	41	106	624	135	146	158	
Total	**50 709**	**57 032**	**62 467**	**71 161**	**80 380**	**88 126**	**95 237**	**11.1%**
Province								
Eastern Cape	9 733	10 599	11 636	12 673				
Free State	3 352	3 706	4 122	4 603				
Gauteng	6 130	6 747	7 318	8 322				
KwaZulu-Natal	11 898	13 890	15 105	17 704				
Limpopo	6 815	7 636	8 439	9 731				
Mpumalanga	3 476	3 928	4 322	4 989				
Northern Cape	1 177	1 285	1 622	1 960				
North West	4 186	4 912	5 187	5 747				
Western Cape	3 942	4 329	4 716	5 432				
Total	**50 709**	**57 032**	**62 467**	**71 161**				

Source: Socpen system

The foster care grant is for children whom the courts deem in need of care and compensates non-parents for the costs of caring for a child. The number of children in foster care grew from 252 106 in 2004/05 to a projected 487 510 in April 2009.

The number of children in foster care has grown to about 487 000

Table 6.4 sets out expenditure by category of grant and by province. Social assistance grant expenditure is projected to increase at an average annual rate of 11.1 per cent between 2005/06 and 2011/12. In 2009/10, spending on the old age grant is expected to be R28.5 billion, and child support will amount to R28.2 billion.

On 1 April 2009 the old age, disability and care dependency grant amounts will increase by R50 per month. The maximum value of the grants per month will be: old age R1 010, war veterans R1 030, disability R1 010, grant-in-aid R240, foster care R680, care dependency R1 010 and child support R240.

Compelling evidence that the phasing-in of the child support grant has contributed significantly to reducing child poverty has emerged in recent research – notably in evidence of improved nutritional outcomes for young children. Evidence on the impact of grants on older children is still awaited, and research has been undertaken on options for linking grants to key aspects of child care, such as schooling and health monitoring. Drawing on the relevant evidence, and subject to affordability, the extension of the child support grant to the age of 18 is under consideration.

Evidence suggests grant makes a significant contribution to reducing child poverty

Social security funds

Contributory social security funds provide conditional income support or compensation for defined-risk events. The present social security schemes include the Unemployment Insurance Fund (UIF), the Compensation Funds and the Road Accident Fund (RAF). They are financed through mandatory levies and taxes.

Social security funds to run overall surplus of R9.2 billion in 2008/09

These funds are expected to run a combined cash surplus of about R9.2 billion in 2008/09, compared with a surplus outcome of about R8.7 billion in the previous financial year. This reflects continued substantial cash surpluses at the UIF and Compensation Funds, while expenditure on claims payments has outstripped revenue at the RAF.

Table 6.5 Social security funds, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Unemployment Insurance Fund							
Revenue	7 841	9 467	11 324	12 023	13 237	14 557	15 974
Expenditure	3 635	3 578	3 592	4 460	5 231	5 880	6 666
Compensation Funds							
Revenue	3 657	3 724	5 757	5 384	5 739	6 125	6 542
Expenditure	2 858	2 912	3 567	3 413	3 575	3 743	4 115
Road Accident Fund							
Revenue	8 763	7 213	8 104	11 739	12 479	13 957	15 166
Expenditure	6 210	7 501	9 316	12 115	13 161	13 778	14 955
Total: Social security funds							
Tax revenue	15 727	17 804	20 868	22 336	27 011	29 531	31 810
Non-tax revenue	1 824	2 593	4 308	4 302	4 432	5 097	5 860
Grants received	2 710	7	9	2 507	11	12	12
Unemployment contributions	6 861	7 985	9 083	9 729	10 410	11 138	11 918
Total revenue	**20 260**	**20 404**	**25 184**	**29 146**	**31 455**	**34 640**	**37 682**
Total expenditure	**12 702**	**13 990**	**16 475**	**19 988**	**21 967**	**23 402**	**25 736**
Budget balance[1]	**7 558**	**6 414**	**8 709**	**9 158**	**9 488**	**11 238**	**11 946**

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

Unemployment insurance

UIF had capital and reserves of R25.3 billion in March 2008

The UIF provides short-term unemployment insurance to qualifying workers. It pays benefits to contributors or their dependants in cases of unemployment, illness, maternity, adoption of a child or death. The March 2008 actuarial valuation indicated that the UIF is in a position to meet its cash-flow requirements over the next 10 years for a wide range of possible scenarios. The actuarial reserve requirement was estimated at R12.3 billion, whereas the UIF had capital and reserves amounting to R25.3 billion as of 31 March 2008, mainly invested with the Public Investment Corporation.

The Fund has resources to cover an increasing number of unemployment claims

For the first nine months of 2008/09, the number of new claimants for UIF benefits averaged about 51 350 a month. Average monthly benefit payments amounted to about R320 million to approximately 168 000 beneficiaries, compared with 140 000 beneficiary payments a month over the same period in 2007/08. UIF data indicate that more people are becoming unemployed for longer periods, and that there is an increase in higher-income claimants. The increase in claims at this stage appears to be moderate, and projected benefit expenditure growth of about 12 per cent a year over the period ahead will be fully covered by the Fund's income growth.

UIF plans to help train, develop and place unemployed workers

Through links with the Department of Labour's network of employment centres and database of work opportunities, the UIF is developing mechanisms for supporting the placement of unemployed workers in training or jobs. Legislative improvements to the UIF benefit structure under consideration include options for extending payments beyond the current 35 weeks of benefit, and possible revisions to the income replacement rate schedule.

Table 6.6 Unemployment Insurance Fund benefits and recipient numbers, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Benefits (R million)							
Unemployment benefits	2 065	1 991	2 031	2 341	2 678	3 064	3 505
Illness benefits	187	180	187	211	241	277	316
Maternity/adoption benefits	353	418	460	492	563	644	736
Dependant benefits	283	248	243	292	334	382	437
Beneficiaries (thousand)							
Unemployment	451	421	397	442	475	510	548
Illness	26	30	25	28	30	32	34
Maternity/adoption benefits	81	96	89	99	106	114	123
Dependant	31	25	16	18	19	21	22
Total benefits payment	**2 888**	**2 838**	**2 921**	**3 336**	**3 817**	**4 366**	**4 995**
Total beneficiaries	589	572	527	587	630	677	727

Compensation Funds

Compensation Funds' costs are recovered through levies on employers

The Compensation Funds provide medical care and income benefits to workers who are injured on the job or who develop occupational diseases, survivor benefits to families of victims of employment-related fatalities and funding for rehabilitation of disabled workers. Costs are recovered through levies on employers.

The main Compensation Fund is administered by the Department of Labour and serves employees outside the controlled mining and construction sectors. For lung diseases contracted as a result of working conditions, the Mines and Works Compensation Fund is administered by the Department of Health.

Two private mutual companies are licensed by the Compensation Commissioner to manage injury compensation arrangements for the building and construction, and mining industries, respectively. Claims, benefits and rebates paid by Federated Employers Mutual (which handles building and construction compensation) for the six months ending June 2007 and June 2008 were R138.5 million and

R189.5 million respectively, representing growth of 36.8 per cent, in line with strong growth in the construction industry over this period.

The main Compensation Fund continues to make progress in reducing a claims backlog

Restructuring of the main Compensation Fund is in progress, following initiation of a turnaround strategy in July 2007. Upgrading of the financial system to enhance service delivery commenced in January 2008. In 2007/08 the Fund continued to review all claims dating from 2000 to 2004 in its quest to eliminate backlogs. Of the 1 216 171 claims, 1 018 417 claims were accepted and 900 948 claims paid, with 180 392 closed without benefits paid because workers were off duty for three or fewer days. A total of 777 320 medical accounts were paid to medical providers to the value of R1.3 billion and 335 435 claims were paid to workers to the value of R652 million.

To enhance the quality of and access to its services, the Fund plans to decentralise its functions to provincial offices of the Department of Labour. The Fund remains financially sound, with an accumulated surplus of R6.1 billion as of 31 March 2008 and a reserve against liabilities of R11.8 billion.

Road Accident Fund

The Road Accident Fund provides compensation for the loss of earnings, loss of support and compensation for general damages, medical and funeral costs to victims of road accidents caused by the negligent or wrongful driving of another vehicle.

The RAF has reduced its claims backlog, but its financial position has deteriorated

The Fund has reduced its claims backlog from 341 146 at the end of 2006/07 to 297 072 by March 2008. However, strong growth in road accident claims continue to be experienced and there have been delays in giving effect to regulatory reforms aimed at limiting benefits and streamlining administration. The overall financial position of the RAF continues to reflect a substantial accumulated deficit. Claim volumes and costs increased by 40 per cent and 86.7 per cent respectively between 2005/06 and 2007/08.

To ensure liquidity and provide for the payment of outstanding claims, R2.5 billion was allocated to the RAF during the 2008 adjustments budget. The RAF fuel levy will be increased by 17.5 cents from 1 April 2009, which will enable further progress to be made in reducing the claims backlog. Further legislative and administrative changes are needed to establish a no-fault road accident benefit scheme as recommended by the Road Accident Fund Commission. A draft policy framework for these reforms has been prepared by the Department of Transport.

Social security and retirement reform

Interministerial committee oversees government's work on social security and retirement industry reform

An interministerial committee oversees government's work on social security and retirement industry reform, supported by an interdepartmental task team. Contributions to the review of options for improved social protection and development of the savings industry have also been made by organised business and labour, industry stakeholders, regulatory authorities and researchers. The 2002 *Report of the Committee of Inquiry into Comprehensive Social Security* serves as the point of departure for this reform programme. Options for the development of a national health insurance system, as part of the longer-term social security reform agenda, are also under scrutiny.

Saving and income security for low-income earners

Low-income earners in South Africa typically lack adequate retirement savings

Low-income earners are vulnerable to unemployment or other lifetime shocks, and typically ill-prepared for old age. Even the formally employed often withdraw their savings before reaching retirement age, perhaps to meet pressing needs or social obligations, perhaps informed by the security of the state-funded old age grant, which falls away if retirement income exceeds a modest means test threshold.

Raising the means test thresholds is therefore an important part of the social security reform agenda, together with improvements in unemployment and death and disability benefits. These are steps towards broader social protection, which is in turn an enabling framework for greater preservation of retirement savings by low-income earners.

A central aim of the reform process is to ensure that low-income workers can secure retirement savings

A key consideration is the design of a standard, basic retirement saving and income-protection scheme. It needs to be affordable, simple, cost-effective and available to low-income employees and those with irregular earnings. It needs to allow for income assurance in the event of unemployment, death or disability, which are significant risks in South Africa's circumstances. It needs to combine assured minimum benefits with a reasonable return on accumulated savings.

In some countries, the basic social security arrangement is a common, pooled fund to which all employed persons contribute. In others, accredited private funds are permitted alongside a statutory default arrangement for those without private or occupational cover. The central aim, whether realised through a single national fund or a variety of approved funds, is to ensure that all contributors have access to retirement savings and social insurance vehicles that provide income protection effectively and economically.

Determining appropriate contribution limits

Initial modelling suggests that a 12-15 per cent contribution rate is appropriate

The question of how much of their earnings workers can and should set aside for their old age is an important area of research. Initial modelling has suggested that a contribution rate of 12-15 per cent of earnings can achieve an income replacement rate of 40 per cent, based on about 30 years of contributions, but more work needs to be done in this area.

In the context of South Africa's unemployment challenge, compulsory participation by very low-income workers needs to be accompanied by contribution relief or subsidy arrangements to ensure that the social security system is affordable. One alternative under consideration is to base mandatory contributions on earnings above a set floor, possibly linked to the minimum wage.

The contribution ceiling for the UIF is about R150 000 a year at present. Based on this threshold, a statutory savings arrangement would finance a standard retirement income of about R60 000 a year for higher-income contributors with about 30 years of employment, depending partly on retirement age. Greater discretion about savings vehicles and contribution levels is appropriate at higher income levels, though international experience suggests that there may be a case for mandatory savings above the social security threshold as well.

Encouraging savings through the tax system

To preserve retirement savings, consideration will be given to phasing out provident funds

There is widespread agreement that a long-term aim of South Africa's retirement industry reform should be a unified statutory and regulatory framework, applicable to all retirement funding arrangements. There are two principal challenges:

- The retirement funding system comprises pension and retirement annuity funds, which allow up to one-third of accumulated benefits to be withdrawn as a lump sum upon retirement, and provident funds, which allow for the full withdrawal of accumulated benefits upon retirement.
- There are also important differences between the private retirement funding industry and the present public service pension fund arrangements, which are not subject to the Pensions Fund Act.

Tax considerations are especially important in levelling the playing field between these separate retirement funding jurisdictions. The tax advantage of the public service pension benefit is being phased out, and consideration is now being given to the unification of the pension and provident fund regimes. Special attention has to be given to the rules governing withdrawals and compulsory annuitisation at retirement, with a view to achieving a reasonable balance between access to funds in the event of pressing needs and preservation of savings to secure an adequate income in old age.

Equity considerations need to be considered in the tax treatment of retirement savings

Although the tax-deductibility of contributions to retirement savings is important to encourage long-term savings, equity considerations suggest that favourable tax treatment should not be unlimited. An earnings cap, above which no tax subsidy will be provided for contributions towards retirement savings vehicles, or an annual monetary cap per taxpayer, have therefore been proposed. In line with practice in some countries, conversion of the allowable deduction into a non-refundable tax credit is also under consideration.

Chapter 4 discusses work under way to develop a uniform definition of employment income that can be applied equally across all tax instruments. This will support future alignment of the social security, private pension and UIF tax bases. Subsequent work will develop appropriate income and earnings definitions for self-employed individuals contributing towards social security. Standardisation of the underlying contributory arrangements is a key foundation of a practical, cost-efficient social security reform programme.

7

Medium-term priorities and public service delivery

- The 2009 Budget supports long-term growth and employment creation and puts forward measures to protect poor households during the period of slower economic growth ahead. Over the medium term government spending will focus on public employment programmes, improving the quality of education and health care, combating crime, investing in infrastructure and speeding up rural development. Additional allocations of R161 billion are proposed over the next three years, increasing public expenditure by 5.1 per cent a year in real terms.
- At the same time, the more constrained economic environment obliges government to take further steps to improve efficiency and obtain value for money in public spending. The 2009 Budget reflects savings measures amounting to R19 billion across all national departments and provinces. This step builds on the success of efficiency savings realised in last year's budget, and includes cost-saving measures focused on goods and services, foreign travel and non-essential expenditure, and curtailing non-performing government programmes.

Key spending trends and budget priorities

Strong growth in public spending is sustained to support long-term growth and social development

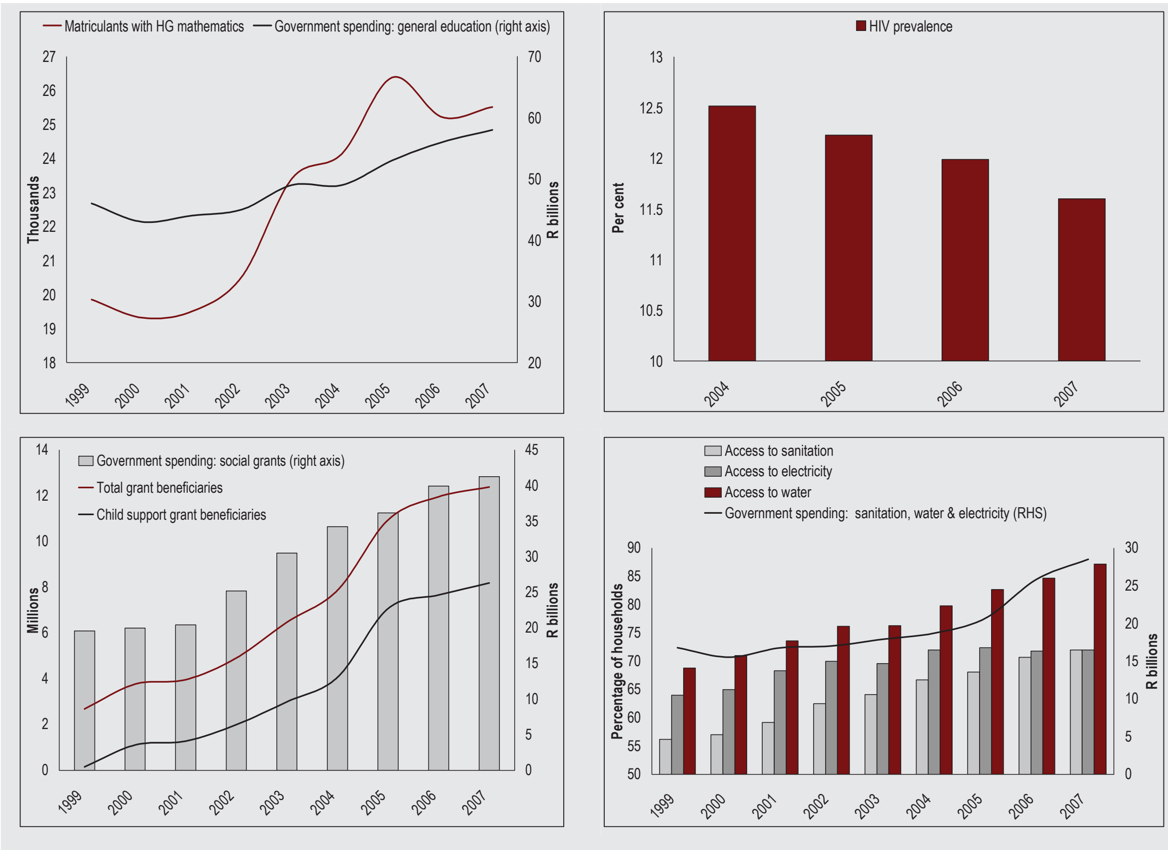
During the economic slowdown, government intends to sustain a robust expansion of public spending, consistent with its counter-cyclical approach to fiscal policy. In particular, the 2009 Budget targets spending in areas that contribute to long-term growth and development, such as physical infrastructure and human capital. The budget also protects low-income households through continued expansion of the social wage and a significant step-up in public works programmes.

Over the past seven years, strong growth in public spending has enabled government to make further progress in improving the quality of life of all South Africans, with particular emphasis on improving the livelihoods of the poor. Since 2004, spending on built environment infrastructure, which includes housing, public transport, roads, water, sanitation and electricity, has grown by more than 16.5 per cent a year. Spending on education, health and social development has also grown strongly, enabling the continued expansion of access to these services. The criminal justice system has benefited from increased numbers of personnel, improved salaries, better technology and enhanced surveillance capabilities.

Figure 1 shows the progress made across a range of social indicators, while underlining the challenges over the period ahead:

- The number of matriculants passing mathematics on the higher grade has increased from 19 000 in 2001 to 26 000 in 2007.
- The proportion of people infected with HIV and Aids fell between 2004 and 2007, while the number of people receiving anti-retroviral therapy grew from 15 311 in 2004 to 560 000 in 2008.
- The number of people receiving social grants, including the child support grant, has increased more than fivefold, from 2.4 million to 13.3 million since 1999.
- The proportion of households with access to electricity, water and sanitation grew significantly between 1999 and 2007.

Figure 7.1: Key spending and service delivery trends, 1999-2007



Source: Global Insight and the Development Indicators (2008)

Budget targets spending on front-line services in education, health and criminal justice

These are substantial achievements, yet South Africa still faces considerable developmental challenges. High unemployment, the uneven quality of health care and education, and high rates of serious crime remain key public concerns. Given the present economic slowdown, addressing these challenges will be more difficult in the period ahead. The 2009 Budget therefore targets spending on front-line services, especially as they relate to government's key priorities:

- Enhancing the quality of education and skills development.
- Improving the provision of health care, with particular emphasis on reducing infant, child and maternal mortality rates, and broadening prevention and treatment programmes tackling HIV and Aids and tuberculosis (TB).
- Investing in the criminal justice sector to reduce crime levels and enhance public safety.
- Expanding investment in the built environment to improve public transport and meet universal access targets in electricity, water, sanitation and housing.
- Decreasing rural poverty by taking steps to raise rural incomes and improve livelihoods by enhancing access to land and providing support for emerging farmers.

New steps to reduce carbon emissions and mitigate effects of climate change

In addition to these priorities, several cross-cutting themes are reflected in the 2009 Budget. These include support for employment-creation programmes, initiatives to increase the capacity of the state to meet its responsibilities and, over the longer term, steps to reduce carbon emissions and mitigate the effects of climate change.

Spending on public employment projects grows in line with the extension of the expanded public works programme. Over the medium term, improved planning and coordination between national, provincial and local government will receive priority attention, alongside institutional transformation and systems modernisation to improve service delivery – especially in Home Affairs, criminal justice, education, basic household services and health.

Stepped up funding for land and agrarian reform

Increasing the social wage is a central component of South Africa's developmental agenda. Further investments in the built environment to promote the availability of electricity, water, sanitation, housing and public transport infrastructure are made over the period ahead. To speed up housing delivery, government will improve coordination and integration between provinces (which administer the housing grant) and municipalities (which provide bulk infrastructure). Government will also step up funding for land and agrarian reform, with a focus on providing support for emerging farmers.

Government departments are required to identify savings and curb non-essential expenditure

Further emphasis is placed on improving public-service efficiency by redirecting spending to front-line services. Government departments are required during the budget process to identify non-essential or wasteful expenditure, such as excessive travel or promotional activities, and to curtail ineffective programmes, to contribute either to savings or for reprioritisation. The inflation assumptions on which salary increases have been budgeted for have been revised given the improved inflation outlook since the tabling of the 2008 *Medium Term*

Budget Policy Statement. Total savings of about R19 billion have identified over the medium-term expenditure framework (MTEF) period.

The budget framework also includes an unallocated contingency reserve to provide for future expenditure on unanticipated events such as disasters. In addition, the contingency reserve allows government to augment progress achieved by provinces and municipalities in increasing labour-intensive public employment programmes, extending successful agricultural support programmes and expanding enrolment in further education and training (FET) colleges.

Development finance institutions will help to sustain the pace of investment spending

State-owned enterprises are key partners in the delivery of economic services and infrastructure. The capital investment programmes of these entities will contribute to rising output in the short term and enhanced economic capacity in the longer term. Infrastructure investment by Transnet and Eskom will increase at a rapid rate over the MTEF period. Lending by the Development Bank of Southern Africa and other development finance institutions will help to sustain the pace of investment spending.

Consolidated expenditure and revised estimates

A functional classification of government expenditure is set out in Table 7.1. It takes into account consolidated national and provincial spending, spending by various public entities and government business enterprises, and transfers to local government.

Consolidated government expenditure is projected to increase from R721.1 billion in 2008/09 to R953.1 billion in 2011/12, largely financed through the national budget.

Table 7.1 Consolidated government expenditure by function, 2008/09 – 2011/12

R million	2008/09 Revised estimate	2009/10	2010/11	2011/12	Average annual growth 2005/06–2008/09	2008/09–2011/12
		Medium-term estimates				
General public services	**48 131**	**51 257**	**54 379**	**56 087**	**17.5%**	**5.2%**
Defence	**30 778**	**34 708**	**35 527**	**38 030**	**6.3%**	**7.3%**
Public order and safety	**67 810**	**75 529**	**82 876**	**92 542**	**12.5%**	**10.9%**
Police services	44 349	49 540	54 705	59 327	12.6%	10.2%
Law courts	10 343	11 808	12 748	13 704	17.1%	9.8%
Prisons	13 119	14 181	15 423	19 511	9.1%	14.1%
Economic affairs	**126 157**	**179 559**	**177 722**	**160 592**	**25.4%**	**8.4%**
General economic, commercial and labour affairs	24 716	29 186	29 305	30 196	19.6%	6.9%
Agriculture, forestry, fishing and hunting	15 926	15 992	17 583	19 788	18.4%	7.5%
Fuel and energy	17 220	46 334	39 415	21 521	47.5%	7.7%
Mining, manufacturing and construction	2 984	2 891	2 823	2 965	13.0%	-0.2%
Transport	51 906	69 544	72 508	68 963	33.2%	9.9%
Communication	13 405	15 611	16 088	17 159	12.6%	8.6%
Environmental protection	**5 146**	**5 589**	**6 191**	**6 512**	**11.3%**	**8.2%**
Housing and community amenities	**65 297**	**73 184**	**82 358**	**92 041**	**16.0%**	**12.1%**
Housing development	15 915	19 576	20 837	23 337	27.2%	13.6%
Community development	29 922	29 721	35 572	38 745	33.5%	9.0%
Water supply	19 460	23 888	25 948	29 960	-3.3%	15.5%
Health	**80 809**	**86 945**	**97 632**	**105 351**	**17.3%**	**9.2%**
Recreation and culture	**9 857**	**7 742**	**5 751**	**5 372**	**45.5%**	**-18.3%**
Education	**127 344**	**140 427**	**156 111**	**169 683**	**14.0%**	**10.0%**
Social protection	**105 441**	**118 128**	**129 058**	**140 033**	**13.4%**	**9.9%**
Allocated expenditure	**666 771**	**773 068**	**827 604**	**866 243**	**16.3%**	**9.1%**
State debt cost	54 281	55 268	60 140	66 826	2.2%	7.2%
Contingency reserve	–	6 000	12 000	20 000		
Consolidated expenditure [1]	**721 052**	**834 336**	**899 744**	**953 069**	**14.9%**	**9.7%**

1. Consisting of national, provincial, social security funds and selected public entities. Refer to Annexure W2 for a detailed list of entities included.

Proposed revisions to expenditure plans

The MTEF operates as a three-year budget framework, revised annually. This chapter discusses additional allocations to departments by category of spending. Over the next three years, spending plans have been increased by R161 billion relative to the 2008 Budget. Revisions to the 2009/10 spending estimates are summarised in Table 7.2. Key expenditure increases include:

Over the next three years R161 billion is added to the spending framework

- R24.8 billion to provinces to expand no-fee schools, reduce infant and child mortality and improve welfare services, among others
- R2.9 billion for local government to provide free basic services
- R6.4 billion for public transport, roads and rail infrastructure
- R4.1 billion to extend the expanded public works programme
- R7.9 billion for housing and municipal infrastructure

Table 7.2 2009 Budget priorities – additional MTEF allocations, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12	Total
Provincial equitable share	5 585	7 364	11 849	**24 798**
Includes school education, health care and welfare services				
Local government equitable share	491	614	1 829	**2 934**
Education, health and welfare				
Higher education, National Student Financial Aid Scheme and recapitalisation of technical high schools	548	764	1 597	**2 909**
School nutrition programme	583	1 322	2 097	**4 002**
Hospitals and tertiary services	204	360	397	**961**
Comprehensive HIV and Aids	200	325	407	**932**
Social grants and SASSA	2 510	4 231	6 433	**13 174**
Housing and built environment				
Housing grants	711	804	2 146	**3 662**
Municipal infrastructure and related services	755	851	2 690	**4 295**
Infrastructure grant to provinces	453	1 234	2 456	**4 143**
Cultural institutions (Freedom Park)	200	134	–	**334**
Economic infrastructure and investment				
Public transport, roads and rail infrastructure	1 377	1 796	3 221	**6 394**
Communications infrastructure including ICT for 2010 FIFA World Cup	570	601	415	**1 586**
2010 FIFA World Cup stadiums	281	217	–	**497**
Eskom loan	30 000	20 000	–	**50 000**
Gautrain loan	4 200	–	–	**4 200**
Public Enterprises (South African Airways)	1 560	–	–	**1 560**
Industrial development and productive capacity of the economy				
Industrial development and regulatory capacity	364	647	623	**1 634**
Land and agrarian reform	197	305	1 277	**1 779**
Justice, crime prevention and policing				
Policing personnel, facilities and 2009 elections	300	900	2 600	**3 800**
Justice and occupation-specific dispensation for legally qualified personnel	150	225	300	**675**
Correctional Services personnel	300	300	300	**900**
International relations and defence				
Defence account and Waterkloof Air Base renovations	541	150	250	**941**
Foreign Affairs capacity and African Renaissance Fund	225	65	230	**520**
Public administration capacity				
Home Affairs and entities	235	316	677	**1 227**
Border control	100	300	500	**900**
Expanded public works programmes - Public Works	81	360	309	**749**
Other adjustments	7 743	3 613	9 758	**21 114**
Total policy adjustments	**60 463**	**47 797**	**52 361**	**160 621**

- R9.1 billion for school infrastructure, hospitals and related provincial infrastructure
- R1 billion to manage electricity consumption
- R13.2 billion for the increased uptake of social grants
- R4 billion to expand the national school nutrition programme
- R1.6 billion for industrial development and consumer protection
- R1.8 billion for rural development and agrarian reform
- R5.4 billion to establish an integrated criminal justice sector, including funding for specialised personnel and systems
- R1.1 billion for passport printing machines and improving Home Affairs services.

The *Estimates of National Expenditure* publication provides greater detail on national government spending across all departments.

Cross-cutting policy priorities

Employment

Government is extending the expanded public works programme, which has created thousands of short-term jobs in construction and environmental, social and community services, for a second five-year period. Over the medium term an additional R4.1 billion is proposed to support the next phase of this programme, which will focus on increasing subsidised employment in areas such as home-based care and community health services. In addition, project-based employment in construction and environmental programmes will be scaled up and will include performance-based funding incentives for provinces and municipalities to meet more labour-intensive delivery targets in their public employment programmes.

Expanded public works programme aims to grow the base and increase the duration of employment

Government is allocating an additional R550 million to the successful Working for Water and Working on Fire programmes over the period ahead. These programmes support improved environmental management and preservation of productive land. They operate in all provinces, drawing their workforce from poor communities. Together these programmes created 3.4 million person days of work in 2007/08 and aim is to create just over 4.1 million person days of work by 2011/12.

Working for Water and Working on Fire created 3.4 million person days of work in 2007/08

The Umsobomvu Youth Fund receives R996 million over the medium term to maintain youth development and employment programmes. This allocation takes into account the pending merger of the Fund and the National Youth Commission into the National Youth Development Agency.

Enhancing the capacity of the state

A number of government departments are benefiting from a closer look at the business processes involved in delivering services. Improvements to processes in Home Affairs have reduced the turnaround times for identity documents. Similarly, more streamlined administration procedures have enhanced revenue collection and made compliance easier. Business process change and technology are also being used to improve court case management.

Signs of progress at Home Affairs as ID document turnaround times decrease

Several regulatory authorities, including the Competition Commission, receive additional resources to enhance their work. The Departments of Education, Health, Transport, and Trade and Industry all receive money for standards-setting authorities and for inspectors or evaluators to monitor performance and safety. Strengthening accountability in the public sector is critical to improving delivery outcomes. Enhanced reporting on service delivery performance both in the budget process and by the Presidency lays the basis for tighter scrutiny and oversight of public spending by the legislatures.

Support for economic regulatory authorities

Mitigating global climate change

Government is reinforcing programmes to enhance energy efficiency

South Africa is a major contributor to greenhouse gas emissions. To transform the country's environmental profile, government has launched several initiatives, including programmes to improve energy efficiency, reduce carbon emissions (particularly in the transport sector) and support more environmentally advanced technologies in power generation. The 2008 Adjustments Budget provided R180 million to Eskom for the rollout of the electricity demand-side management programme, which focuses on replacing incandescent light bulbs with compact fluorescent light bulbs and the exploration of new energy sources. Over the MTEF, R675 million is allocated to municipalities for electricity demand-side management through a conditional grant.

Working for Energy, a new labour-intensive programme, uses biomass to generate electricity

The 2009 Budget also provides R45 million to Working for Energy, a new programme that uses biomass to generate electricity. The programme is expected to create 230 000 person days of work by 2011/12. A further R30 million is made available to support research on mitigation and adaptation strategies that will lead towards the development of the national climate change response policy.

Social services

Education and skills development

Government's contribution to public education remains its single largest investment, reflecting the fact that education is key to reducing poverty and accelerating long-term economic growth. At a consolidated government level, education spending has grown by 14 per cent a year for the past three years and is projected to grow by 10 per cent a year over the next three years.

60 per cent of schools will soon be no-fee schools

The largest component of education spending occurs at a provincial level. Key priorities for provincial governments in education include extending the no-fee schools policy to 60 per cent of schools, increasing allocations for school buildings – including provision for eliminating unsafe and dangerous facilities – and ensuring adequate water and sanitation. These priorities are detailed in Chapter 8. Continued support is also provided for teacher bursaries and training resources, as well as learner support materials.

Baseline funding for FET colleges includes R955 million to provide bursaries for 162 360 students to access newly designed programmes at these institutions. During 2007 about 50 FET colleges received new equipment and infrastructure. A further R285 million is allocated for the recapitalisation of technical high schools over the next three years. This allocation supports improved teacher training and development, as well as upgrades to facilities and equipment.

Higher education subsidies are increased to expand enrolment

An additional R700 million is allocated for higher education subsidies to cater for increases in university costs and enrolments. The total number of students enrolled in higher education will increase from 783 900 in 2008 to 836 810 by 2011. This allocation is also aimed at improving facilities. The National Student Financial Aid Scheme receives an additional R330 million to improve access for poor learners to higher education. The target is to provide assistance to 150 000 students a year by 2011, up from 120 000 in 2008.

An allocation of R31 million is made available to establish a National Education Evaluation Unit to evaluate and enhance school and teacher performance, and to optimise the new salary dispensation for teachers, which includes an element of performance pay.

The national school nutrition programme

The national school nutrition programme is a key component of government's anti-poverty strategy. The programme has contributed to improved learner attendance and ability to study. In 2007, the programme fed about 6 million learners on at least 156 days at 18 000 primary schools.

Over the next three years the programme receives an additional R4 billion, bringing overall funding for school nutrition to R10.6 billion. The additional allocation is aimed at improving the quality of meals served and extending coverage to 3 929 secondary schools by the end of 2011/12.

Transforming the quality of health care

Funding targets a lower disease burden, reducing overall demand on public health care

While health spending has increased strongly over the past five years, a rising disease burden has kept major parts of the health system under stress. Staffing levels have been increased and levels of professional remuneration improved, but better management of this complex system is required to improve its functioning relative to available resources. The 2009 Budget channels funds to priority areas to lower the disease burden, reduce overall demand on the system, improve the capacity of public health care and modernise delivery infrastructure.

Budget supports HIV and Aids screening of pregnant women, and steps up prevention and therapy

The budget allocates R1.8 billion over the medium term to reduce infant and child mortality by introducing three new child vaccines. An additional R932 million is added to the *comprehensive HIV and Aids grant* to screen all pregnant women, step up mother-to-child transmission and improve drug regimens by implementing dual and triple therapy. Antiretroviral treatment programmes have expanded rapidly, taking on an additional 200 000 patients over the past 12 months. Funding by government and donors will allow the number of people on treatment to grow from 630 775 in 2008/09 to 1.4 million by 2011/12. The additional allocations bring total funding for the HIV and Aids conditional grant to R12.4 billion over the MTEF period.

An additional R468 million is provided over the medium term to enhance TB treatment and reduce treatment default rates. Government aims to increase the cure rate from the projected 60 per cent in 2008/09 to 70 per cent in 2011/12. A national TB prevalence survey will also be conducted, providing an important foundation for managing this widespread disease.

Of the 31 hospitals under construction, 18 will be completed by 2011/12

The 2009 Budget makes provision for further improvements in the remuneration of health professionals. An additional R3 billion is allocated for the implementation of occupation-specific dispensations for doctors, dentists, pharmacists and emergency medical services professionals. A further R728 million is allocated to the hospital revitalisation programme. A total of 31 hospitals are under construction, 18 of which will be completed over the next three years.

New bodies to monitor norms for hospitals and to regulate medicines

A National Office for Standards Compliance (R22.5 million) will be established to set and audit national norms and standards for hospitals and primary care centres. The new South African Health Products Regulatory Authority (R44.5 million) will be established, replacing the Medicines Control Council over the medium term.

Social assistance and welfare services

More than 13 million people will be receiving social grants in 2009

South Africa's system of social grants continues to play a significant role in the reduction of income poverty. Grant recipients grew from 2.4 million beneficiaries in 1996 to a projected 13.4 million in 2009. These grants are discussed in detail in Chapter 6. To cater for its expansion, an additional R12 billion is allocated to the social grants programme over the MTEF period, and R1.2 billion is allocated for increases in transaction costs associated with beneficiary payments.

Table 7.3 Social services: expenditure by vote, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Appropriation by vote							
Arts and Culture	1 121	1 330	1 586	2 126	2 623	2 435	2 449
Education	12 437	14 250	16 241	19 743	21 287	25 138	28 129
Grants to provinces	*1 248*	*1 713*	*2 008*	*2 909*	*2 572*	*3 931*	*4 978*
Health	9 937	11 338	12 763	15 551	17 058	19 614	20 863
Grants to provinces	*8 907*	*10 207*	*11 553*	*14 091*	*15 578*	*18 013*	*19 172*
Labour	1 296	1 454	1 949	1 644	2 126	2 272	2 410
Social Development	55 068	61 676	67 191	76 393	86 408	94 672	102 306
Sport and Recreation SA	437	887	5 048	4 885	2 860	1 250	771
Grants to local government	*–*	*600*	*4 605*	*4 295*	*2 169*	*513*	*–*
Grants to provinces	*24*	*119*	*194*	*279*	*402*	*426*	*452*
Total	**80 296**	**90 934**	**104 778**	**120 342**	**132 363**	**145 381**	**156 928**
Direct charges against the National Revenue Fund							
Labour: Skills development	4 883	5 328	6 284	7 530	7 750	8 424	9 149
Total	**85 179**	**96 262**	**111 062**	**127 872**	**140 113**	**153 805**	**166 076**

Justice and protection services

Justice, crime prevention and security

Funds support an expanded criminal DNA database and technology improvements

Poor integration between the constituent parts of the system, inadequate forensic and investigative capacity, and insufficient use of technology are key problems facing the criminal justice sector. An amount of R3 billion is allocated for restructuring criminal justice services over the medium term. These funds provide for expanding the criminal DNA database, accelerating the rollout of national fingerprint and case management systems, and upgrading IT networks. An additional R750 million is provided to the Department of Safety and Security to increase the number of police officials from 183 180 in 2008/09 to 204 860 in 2011/12, with a particular focus on bolstering detective and forensic capacity. The department also receives funds for the policing of the 2009 elections and the 2010 FIFA World Cup.

The Department of Justice and Constitutional Development will receive an additional R525 million over the period for the implementation of an occupation-specific dispensation for legally qualified professionals. This additional funding will also enable the department to hire 250 more court clerks and 50 more family advocates. For the implementation of the Child Justice Bill and legislation dealing with sexual offences, R150 million has been allocated over the MTEF period.

250 more court clerks and 50 more family advocates to be hired over the period

The Department of Correctional Services has baseline funding to procure four new correctional centres at Paarl, East London, Klerksdorp and Polokwane through public-private partnerships. These facilities will provide capacity for 12 000 inmates, reducing prison overcrowding. A further R900 million is allocated to the Department of Correctional Services to enable the department to change its shift system to reduce the amount of overtime worked.

Procurement of four new correctional facilities will decrease prison overcrowding

Defence

The Department of Defence will receive an additional R600 million over the medium term for the upgrading of the Waterkloof Air Force Base. A further R80 million is allocated to expand the Reserve Force, which now stands at 17 750 members, by an additional 2 900 trained members to supplement landward defence capability.

Table 7.4 Justice and protection services: expenditure by vote, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Appropriation by vote							
Correctional Services	9 631	9 251	11 122	12 339	13 239	14 269	18 099
Defence	23 511	23 818	25 180	27 749	32 024	32 389	34 419
Independent Complaints Directorate	55	65	81	98	115	127	140
Justice and Constitutional Development	5 154	6 005	7 374	8 516	9 658	10 343	11 056
Safety and Security	29 361	32 521	36 386	41 492	46 410	50 966	55 030
Total	**67 711**	**71 660**	**80 143**	**90 194**	**101 446**	**108 094**	**118 743**
Direct charges against the National Revenue Fund							
Justice and Constitutional Development: judges and magistrates salaries	1 040	1 099	1 185	1 434	1 670	1 830	1 954
Total	**68 751**	**72 760**	**81 328**	**91 628**	**103 115**	**109 924**	**120 697**

Economic services

Investment in economic infrastructure

Investment in economic infrastructure is a key platform for accelerated economic growth and long-term job creation. Public transport remains a key focus. To overhaul and upgrade 1 900 coaches and improve the signalling system over the medium term, an additional R600 million is made available to the South African Rail Commuter Corporation. This brings total infrastructure transfers to the corporation to R15.2 billion over the period. A further R13 million is

Transfers for railway signalling upgrades and infrastructure improvements total R15.2 billion added for rail safety inspectors to strengthen the capacity of the Railway Safety Regulator.

More than 28 000 unsafe taxis to be scrapped over the next three years

The taxi recapitalisation project receives supplementary funding of R350 million, raising spending on the programme to R1.6 billion and providing for the scrapping of 28 566 old taxis over the next three years.

To accommodate general cost increases and growing passenger volumes, a further R1.8 billion is made available for bus subsidies. The bus subsidy programme is being restructured to flow as a conditional grant to provinces to enable better management of the subsidy arrangement. Government will spend more than R11.5 billion on the bus subsidy programme in the period ahead.

165 km of Gauteng's primary road network is being upgraded

The Gauteng Freeway Improvement Scheme will upgrade 165 km of the primary road network over the long term, with costs to be recovered from road users through an electronic tolling system. To ensure continued road maintenance and improved safety on non-toll roads, the South African National Roads Agency will receive an additional R900 million.

The transition to digital television broadcasting will be supported over the medium term with an allocation of R780 million to the Universal Access Services Agency, subsidising set-top boxes, and to assist Sentech in fulfilling its universal access obligations.

Housing and the built environment

Government to spend R45 billion on housing grants over the next three years

Government continues to prioritise spending on housing, with the primary goal of eradicating informal settlements. Over the MTEF period, the *integrated housing and human settlement grant* to provinces receives an additional R1.5 billion to speed up housing delivery. These additional allocations will bring total government expenditure on housing grants to just over R44.8 billion in the period ahead. Of this appropriation, R500 million is for the resettlement of 25 000 households living on dolomitic land in the Khutsong area. An amount of R120 million is provided for the establishment of the Housing Development Agency, the purpose of which is to acquire, develop and release state, communal and privately owned land for residential use.

The *municipal infrastructure grant* is the main conduit of funds to municipalities for capital spending to extend basic services, and to build roads and sports facilities. This grant receives a further R1.9 billion and grows by 17 per cent a year over the period. Changes to the structure of the grant are discussed in Chapter 8.

R1 billion to install or rehabilitate 71 water and sanitation schemes

The Department of Water Affairs and Forestry receives additional funding of R1 billion for installation and rehabilitation of 71 bulk water and sanitation schemes. An additional R85 million is provided for training in water management and engineering skills and to reduce unlawful water use through enhanced monitoring. Financial assistance is also provided for the Forest Broad-based Black Economic Empowerment Charter, which will promote the participation of small black-owned businesses in forestry.

Rural development and agrarian reform

Raising rural incomes, increasing food production and enhancing the viability of small farmers are key objectives of government's rural development agenda.

Funding for agricultural infrastructure to help small farmers increase production

Sharp food price increases over the past year have exposed South Africa's vulnerability in this area, partly because domestic agricultural infrastructure has been neglected. The land and agrarian reform programme receives an additional R650 million over the medium term to support infrastructure for vegetable and fruit production on 450 000 ha of prime agricultural land in KwaZulu-Natal and dry-land crop production (i.e. without irrigation) on 400 000 ha of land in the Eastern Cape. These funds will also be used for soil preparation, rehabilitation of irrigation systems, fencing and storage facilities. Spending on rural roads is a priority in provincial budgets.

Government aims to settle 4 707 remaining land restitution claims

Since 1994, government has transferred about 5 million ha of agricultural land to land reform beneficiaries. In addition to R12.7 billion already in the baseline, an additional R300 million is allocated to increase land redistribution by an additional 100 000 ha over the spending period, and R400 million is allocated towards settling the remaining 4 707 restitution claims by the end of 2011/12, raising land restitution funding to R5 billion over the next three years.

Industrial development

Industrial support for sectors that encourage exports and job creation

The 2009 Budget provides support to industrial programmes and sectors that encourage exports and employment creation, while strengthening regulatory institutions that promote competition and consumer protection.

Electricity

Since its inception in 2002, the integrated national electrification programme has provided 4.8 million households with access to electricity. By March 2009, government will have spent a total of R8 billion on electrification. However, the rate of new connections is slowing down because bulk infrastructure needs to be provided in the backlog areas not previously served. If universal access to electricity is to be achieved by 2014, improved planning, resource optimisation and complementary approaches to distribution and maintenance are vital.

In 2008, government committed to supporting more efficient use of energy by installing electricity-saving devices, using renewable sources of electricity generation and exploring co-generation projects. Government will spend R1.5 billion on these programmes over the spending period.

Electricity programme allocations

R million	2008/09	2009/10	2010/11	2011/12	Total
Demand-side management	**180**	**250**	**330**	**400**	**1 160**
Eskom	180	75	110	120	485
Municipalities	–	175	220	280	675
Renewable energy	**–**	**10**	**30**	**60**	**100**
Renewable energy finance and subsidy office	–	5	15	35	55
Working for energy	–	5	15	25	45
Energy efficiency	**20**	**40**	**90**	**140**	**290**
National Clean production centre	–	5	15	20	40
Energy-efficiency government buildings	20	35	75	120	250
Total	**200**	**300**	**450**	**600**	**1 550**

A new subsidy scheme for the motor car industry

Government intends to leverage the potential of the automotive industry to boost employment and promote export growth. The new automotive production and development programme, which will include a transfer subsidy scheme administered by the Department of Trade and Industry, will replace the motor industry development programme. An amount of R870 million is budgeted over the medium term for implementation of the new production subsidy.

Programmes that promote job creation in small businesses receive support. Building on its success in helping small firms to access trade opportunities, the Small Enterprise Development Agency is allocated an additional R200 million for new programmes and a service delivery network.

Consumer protection receives a boost

South Africa needs strong consumer protection agencies. To bolster capacity for law administration and enforcement of regulatory functions, an additional R150 million is provided for the National Consumer Tribunal, the South African Bureau of Standards, the Competition Commission and the newly created National Regulator for Compulsory Specifications. A further R258 million is allocated for the South African Bureau of Standards to acquire testing equipment.

Table 7.5 Economic services and infrastructure: expenditure by vote, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
R million		Outcome		Revised estimate		Medium-term estimates	
Appropriation by vote							
Agriculture	1 909	2 224	3 333	2 820	2 793	3 089	3 602
Grants to provinces	*410*	*401*	*762*	*868*	*877*	*1 117*	*1 437*
Communications	1 034	1 320	1 912	2 332	2 267	2 264	2 123
Environmental Affairs and Tourism	1 776	2 060	2 789	3 207	3 481	3 884	4 147
Housing	5 249	7 166	8 586	10 635	13 589	16 138	18 410
Grants to provinces	*4 868*	*6 678*	*8 150*	*9 921*	*12 592*	*15 027*	*17 222*
Land Affairs	2 875	3 720	5 893	6 659	6 099	6 490	7 661
Grants to provinces	*8*	*8*	–	–	–	–	–
Minerals and Energy	2 192	2 608	2 947	3 685	4 647	5 106	5 439
Grants to local government	*297*	*391*	*462*	*494*	*1 108*	*1 240*	*1 377*
Provincial and Local Government	15 976	24 576	30 030	34 870	35 607	42 542	47 753
Local government equitable share	*9 643*	*18 058*	*20 676*	*25 560*	*23 847*	*29 268*	*31 890*
Grants to local government	*5 947*	*6 138*	*8 954*	*8 837*	*11 285*	*12 741*	*15 293*
Grants to provinces	*41*	–	–	*30*	–	–	–
Public Enterprises	2 671	2 590	4 604	3 268	3 797	312	184
Science and Technology	2 041	2 613	3 127	3 722	4 234	4 708	5 098
Trade and Industry	3 056	3 805	5 295	5 077	6 344	5 753	6 004
Transport	10 410	13 360	16 332	24 142	23 735	25 480	27 921
Grants to provinces	–	*3 241*	*3 029*	*4 040*	*6 409*	*4 215*	*4 153*
Grants to local government	*242*	*518*	*1 174*	*3 179*	*2 428*	*4 300*	*5 160*
Water Affairs and Forestry	3 804	4 306	5 385	6 467	7 894	8 293	9 463
Grants to local government	*165*	*386*	*733*	*995*	*979*	*570*	*380*
Total	**52 993**	**70 347**	**90 233**	**106 882**	**114 487**	**124 060**	**137 806**

Governance and administration

Enhancing the administrative capacity of the state

Funds support more rapid processing times at Home Affairs

The Department of Home Affairs has changed the way its services are delivered to the public. An integrated IT system and improved business processes have speeded up the processing of documents and applications. It now takes about 60 days to issue a first-time identity document, down from 127 days in 2007. Over the MTEF, an additional allocation of R936 million is provided to bring the standard processing time down to 30 days. A further contribution to modernisation of services is made through an allocation of R210 million to the Government Printing Works for a new passport printing machine.

R929 million is provided for the 2009 national elections

An additional R108 million is provided to the Independent Electoral Commission for upgrading 30 000 barcode scanners, buying 105 000 transparent ballot boxes and for voter education. In total, R929 million is budgeted for the 2009 national elections.

To improve security at borders and ports, the South African Revenue Service (SARS), the lead border control department, receives an additional R900 million to integrate the functions of various departments involved by developing transversal IT capability and interdepartmental business processes. Border control will be centrally managed using these systems. SARS also receives funds to overhaul customs management systems to meet international standards.

Statistics South Africa receives funds to appoint 120 000 field workers for the October 2011 population census.

Humanitarian aid to the people of Zimbabwe

South Africa remains committed to strengthening regional peacekeeping, improving political and economic relations with key partners and providing support for humanitarian initiatives. Over the MTEF period, a further R225 million is allocated through the African Renaissance Fund to provide humanitarian assistance to the people of Zimbabwe.

Table 7.6 Central government administration: expenditure by vote, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate	Medium-term estimates		
R million							
Appropriation by vote							
The Presidency	190	236	264	312	325	333	350
Parliament	598	755	902	914	974	1 033	1 095
Foreign Affairs	2 688	2 945	4 070	5 353	5 337	5 472	5 501
Home Affairs	3 172	2 547	3 242	4 671	5 051	5 581	5 007
Public Works	2 354	3 026	3 402	4 252	5 298	6 599	8 185
Government Communication and Information System	254	293	381	440	482	533	505
National Treasury	13 101	16 171	18 966	31 075	61 676	48 595	31 588
South African Revenue Service	*4 254*	*4 875*	*5 511*	*6 303*	*7 036*	*7 949*	*8 600*
Secret Services	*2 330*	*2 223*	*2 584*	*2 844*	*2 997*	*3 252*	*3 473*
Grants to local government	*388*	*410*	*716*	*260*	*882*	*995*	*1 225*
Grants to provinces	*2 984*	*4 983*	*6 276*	*7 384*	*13 449*	*11 315*	*13 091*
Eskom loan	–	–	–	*10 000*	*30 000*	*20 000*	–
Public Service and Administration	197	429	370	417	356	403	417
Public Service Commission	91	96	108	114	121	133	145
Public Administration Leadership and Management Academy	55	58	131	106	119	127	134
Statistics South Africa	644	1 097	1 057	1 323	1 609	2 006	2 758
Total	**23 344**	**27 653**	**32 894**	**48 976**	**81 348**	**70 815**	**55 685**
Direct charges against the National Revenue Fund							
The Presidency	2	2	2	4	4	5	5
Parliament	212	223	241	254	377	393	410
State debt cost	50 912	52 192	52 877	54 281	55 268	60 140	66 826
General fuel levy	–	–	–	–	6 800	7 542	8 531
Provincial equitable share	135 292	150 753	172 862	204 010	231 051	253 670	272 934
Total	**209 761**	**230 824**	**258 875**	**307 525**	**374 848**	**392 565**	**404 391**

8

Division of revenue and intergovernmental transfers

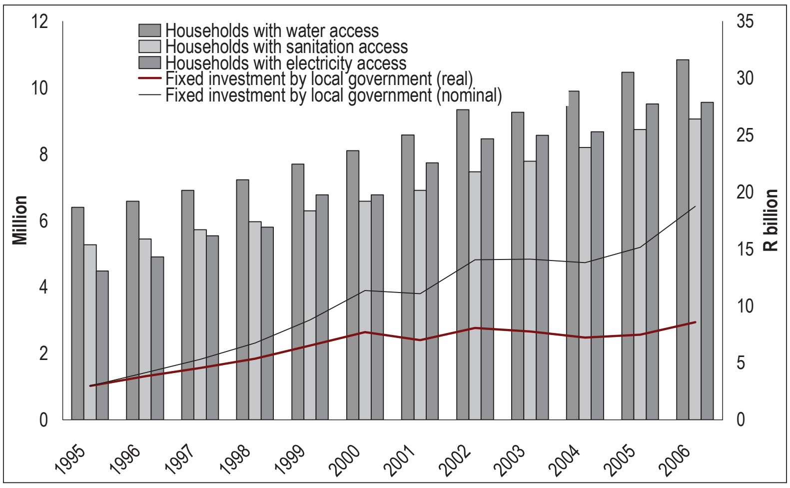
- The 2009 Budget supports economic growth and reinforces social development through sustained growth in infrastructure spending, extending public employment opportunities, and broadening access to social and household services. The division of revenue reflects policy priorities, with strong growth across national, provincial and local government.
- About R47.8 billion is added to the baseline of provinces over the three-year spending period to support improvements in the quality of education and health, including targeted programmes to reduce child mortality. Additional funds are allocated to strengthen rural development and agricultural production.
- The built environment continues to receive strong support in local government allocations to ensure that poor households have access to water, sanitation and electricity. Adjustments are made to enhance the impact of the *municipal infrastructure grant*. Additional funding is provided to ensure readiness for the 2010 FIFA World Cup.

Introduction

Government has made substantial progress in improving the living conditions of the population

Over the past 15 years substantial progress has been made in reducing poverty and improving the living conditions of South Africans through investments in housing, electricity, water and social services. As illustrated in Figure 8.1, the number of households with access to water increased by an annual rate of 4.5 per cent, households with sanitation by 4.6 per cent and households with electricity by 6.7 per cent. Fixed investment by local government grew by an annual average of 9.9 per cent in real terms.

Figure 8.1 Household access to municipal services and local government fixed investment, 1995 - 2006



Sources: Medium-term Policy Review of the Presidency and Reserve Bank data

Increased funding for services that support social wellbeing and economic development

Over the medium-term expenditure framework (MTEF) period, despite a more challenging fiscal environment, government will increase its contribution to services that support social wellbeing and economic development. Provincial baseline allocations are revised upwards by R47.8 billion to bolster education, health, welfare services, housing, roads and rural development. The additional R11.3 billion allocated to municipalities will support expanded community access to potable water, sanitation, electricity and public transport. About R2.2 billion is set aside to step up employment programmes in provinces and municipalities.

This chapter outlines the division of nationally raised revenue between national, provincial and local government, focusing on the spending plans of provinces and municipalities. Broader budget priorities are presented in Chapter 7. Further details of provincial and local government allocations are contained in the Explanatory Memorandum to the Division of Revenue and conditional grant frameworks accompanying the 2009 Division of Revenue Bill, available at www.treasury.gov.za.

Overview of the division of revenue

MTEF makes additional allocations of R161 billion

Excluding a contingency reserve of R38 billion, the MTEF provides for total additional non-interest expenditure of R161 billion. Of this, national government receives R101.5 billion (including R50 billion for Eskom), provinces R47.8 billion and municipalities R11.3 billion. Total non-interest spending grows by 10.5 per cent annually over the period, from R579.6 billion in 2008/09 to R782.1 billion in 2011/12.

Table 8.1 shows the division of revenue for the 2009 Budget, taking account of the revenue-raising capacity and spending responsibilities of each sphere of government. The proposal is informed by the recommendations of the Financial and Fiscal Commission (FFC) tabled in Parliament in June 2008. These recommendations and government's response are discussed in the Explanatory Memorandum to the Division of Revenue.

Table 8.1 Division of nationally raised revenue, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
State debt cost	50 912	52 192	52 877	54 281	55 268	60 140	66 826
Non-interest expenditure	365 772	418 000	488 622	579 626	683 295	732 214	782 145
Percentage increase	*14.4%*	*14.3%*	*16.9%*	*18.6%*	*17.9%*	*7.2%*	*6.8%*
Total expenditure	**416 684**	**470 192**	**541 499**	**633 907**	**738 563**	**792 354**	**848 971**
Percentage increase	*13.1%*	*12.8%*	*15.2%*	*17.1%*	*16.5%*	*7.3%*	*7.1%*
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Division of available funds							
National departments	**192 425**	**210 168**	**242 632**	**288 277**	**343 077**	**352 788**	**361 255**
Provinces	**156 665**	**181 331**	**208 669**	**247 729**	**284 519**	**309 704**	**335 925**
Equitable share	135 292	150 753	172 862	204 010	231 051	253 670	272 934
Conditional grants	21 374	30 578	35 808	43 719	53 468	56 034	62 991
Local government	**16 682**	**26 501**	**37 321**	**43 620**	**49 698**	**57 722**	**64 964**
Equitable share[1]	9 643	18 058	20 676	25 560	23 847	29 268	31 890
Conditional grants	7 038	8 443	16 645	18 060	19 052	20 912	24 543
General fuel levy sharing with metropolitan municipalities	–	–	–	–	6 800	7 542	8 531
Total	**365 772**	**418 000**	**488 622**	**579 626**	**677 295**	**720 214**	**762 145**
Percentage shares							
National departments	52.6%	50.3%	49.7%	49.7%	50.7%	49.0%	47.4%
Provinces	42.8%	43.4%	42.7%	42.7%	42.0%	43.0%	44.1%
Local government	4.6%	6.3%	7.6%	7.5%	7.3%	8.0%	8.5%

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 will only be allocated to district municipalities.

Revisions to the provincial budget framework

Provinces are at the forefront of education, health care, social welfare and housing delivery

In addition to supporting rural development and food security, provinces are at the forefront of the delivery of quality education, health care, social welfare and housing. The additional R47.8 billion for provinces over the medium term is intended to sustain the social progress made in recent years, meet government's broader developmental objectives and mitigate the effects of the current economic downturn on the poor.

Of the additional allocations to provinces, R24.8 billion is added to the provincial equitable share and R23 billion to conditional grants. These additions result in transfers to provinces growing by 10.7 per cent annually, from R247.7 billion in 2008/09 to R335.9 billion in 2011/12. At R284.5 billion in 2009/10, national transfers to provinces are 14.9 per cent higher than in 2008/09. Table 8.2 shows the breakdown of national transfers to provinces.

Table 8.2 Total transfers to provinces, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	30 858	36 082	36 665	41 341	45 446	48 719
Free State	13 196	15 326	15 708	17 788	19 697	21 121
Gauteng	39 841	45 451	46 455	56 448	54 137	58 878
KwaZulu-Natal	43 223	50 057	51 802	58 818	64 326	69 612
Limpopo	25 253	29 235	30 029	33 981	37 643	40 731
Mpumalanga	16 169	18 841	19 547	22 107	24 205	26 214
Northern Cape	5 933	6 638	6 866	7 971	8 857	9 581
North West	14 568	16 431	16 866	19 282	21 598	23 706
Western Cape	19 629	22 845	23 791	26 785	29 452	32 212
Unallocated	–	–	–	–	4 343	5 153
Total	**208 669**	**240 906**	**247 729**	**284 519**	**309 704**	**335 925**

Priorities underpinning provincial equitable share revisions

Adjustments protect the real value of personnel spending and critical programmes serving the poor

Revisions of R5.6 billion, R7.4 billion and R11.8 billion result in the provincial equitable share growing by an average 10.2 per cent a year from a revised R204 billion in 2008/09 to R272.9 billion in 2011/12. The revisions protect the real value of spending and support interventions aimed at improving access to and quality of schooling, health care and welfare services.

60 per cent of schools will soon be 'no-fee' schools

The 2009 Budget extends the no-fee schools policy from the poorest 40 per cent of schools to the poorest 60 per cent; reduces the teacher:learner ratio in the poorest 20 per cent of schools; and ensures that public schools cater for learners with disabilities.

In health, the focus is on reducing maternal and child mortality, and combating HIV and Aids and tuberculosis.

New steps to reduce child mortality

There are 18 million children in South Africa. Major causes of child mortality include HIV and Aids, pneumonia, diarrhoea, malnutrition and low birthweight. The Millennium Development Goals, of which South Africa is a signatory, aim to reduce the under-five mortality rate by two-thirds between 1990 and 2015. Interventions that will be accelerated in the period ahead to reach this target include:

- An improved approach to preventing transmission of HIV from mothers to children, using a more effective prevention regimen, alongside strengthened programme coverage and delivery.
- The introduction of vaccines to prevent pneumococcal pneumonia and rotavirus (which causes diarrhoea), as well as the pentavalent vaccine, which combines previous vaccines into one.
- Improving nutritional levels, in part by expanding coverage of the child support grant.
- Raising immunisation coverage above 90 per cent and eliminating measles.
- Maintaining household malaria spraying programmes.
- A new programme, implemented by nurses and community health workers, to provide neonatal support to mothers in their homes during the first 28 days after they have given birth.

Government has successfully increased the number of professionals in public health. As of September 2008, 3 760 doctors, 16 478 nurses, 12 753 other health professionals and 16 610 support personnel had been recruited into the public health service since 2003. To help retain skilled personnel, the occupation-specific dispensation in the health sector will be extended to doctors, pharmacists and other health professionals in 2009/10.

Additional resources to expand early childhood development

Social welfare budgets have grown at an average rate of 19.6 per cent a year over the past four years. This trend continues over the spending period to ensure that services supporting the aged, needy children, people with disabilities and victims of crime are sustained. Additional resources are made available in the outer year to expand social welfare services to meet growing community needs, with a focus on strengthening early childhood development programmes.

Funding for roads and agriculture receives a boost

The equitable share is also revised upwards to support activities that enhance economic development, such as investment in road maintenance and agriculture.

The provincial equitable shares set out in Table 8.3 are determined by means of a redistributive formula based on demographic data. The structure of the formula and the data that underpin it are discussed in detail in the Explanatory Memorandum to the Division of Revenue.

Table 8.3 Provincial equitable shares, 2007/08 – 2011/12

	2007/08	2008/09		2009/10	2010/11	2011/12
R million	Outcome	Budget	Revised	Medium-term estimates		
Eastern Cape	27 344	31 383	32 132	35 940	38 983	41 431
Free State	10 835	12 413	12 713	14 236	15 466	16 465
Gauteng	28 465	33 064	33 812	38 897	43 336	47 305
KwaZulu-Natal	37 425	43 246	44 224	49 990	54 742	58 748
Limpopo	22 523	25 935	26 545	29 861	32 568	34 807
Mpumalanga	14 264	16 436	16 806	19 005	20 819	22 351
Northern Cape	4 638	5 341	5 465	6 193	6 801	7 320
North West	12 087	13 821	14 144	16 121	17 814	19 290
Western Cape	15 282	17 739	18 170	20 807	23 140	25 217
Total	**172 862**	**199 377**	**204 010**	**231 051**	**253 670**	**272 934**

Conditional grants to provinces

Several new conditional grants were introduced 2008/09

Conditional grant allocations grow from R43.7 billion in 2008/09 to R63 billion in 2011/12. Table 8.4 shows the revisions to provincial conditional grant allocations.

Several new conditional grants were introduced in 2008/09:

- The *Ilima/Letsema projects grant* helps poor farmers to increase production and adopt modern farming methods. This grant is allocated R650 million over the MTEF.
- The *overload control grant* is allocated R21 million over the period for initiatives to reduce overloading by trucks on the road network.
- The *Sani Pass grant* receives R34 million for road infrastructure projects that promote integration and development between South Africa and Lesotho.

Table 8.4 Revision to provincial conditional grants allocations, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12	2009 MTEF Total revisions
Agriculture	**197**	**305**	**577**	**1 079**
Agricultural disaster management	60	–	–	**60**
Comprehensive agricultural support programme	87	105	177	**369**
Ilima/letsema projects	50	200	400	**650**
Education	**583**	**1 402**	**2 297**	**4 282**
National school nutrition programme	583	1 322	2 097	**4 002**
Technical secondary schools recapitalisation	–	80	200	**280**
Health	**454**	**685**	**804**	**1 943**
Comprehensive HIV and Aids	200	325	407	**932**
Health disaster response (cholera)	50	–	–	**50**
Hospital revitalisation	124	265	339	**728**
National tertiary services	81	95	58	**233**
Housing	**861**	**804**	**2 146**	**3 812**
Housing disaster relief	150	–	–	**150**
Integrated housing and human settlement development	711	804	2 146	**3 662**
National Treasury	**4 653**	**1 234**	**2 456**	**8 343**
Infrastructure grant to provinces	453	1 234	2 456	**4 143**
Gautrain loan	4 200	–	–	**4 200**
Public Works	**151**	**400**	**800**	**1 351**
Expanded public works programme incentive	151	400	800	**1 351**
Transport	**809**	**647**	**720**	**2 176**
Gautrain rapid rail link	325	23	–	**349**
Public transport operations	483	624	720	**1 828**
Total	**7 708**	**5 478**	**9 801**	**22 987**

The 2009 Budget introduces five new grants:

- The *expanded public works programme incentive grant* encourages provinces to increase spending on labour-intensive programmes. The provincial grant is allocated R1.4 billion over the MTEF period to boost job creation in development projects and community services.
- The *public transport operations grant* receives R11.5 billion over the period for subsidisation of commuter bus services.
- The *technical secondary schools recapitalisation grant* is allocated R280 million for equipment and facilities at these schools.
- The *health disaster response (cholera) grant* receives R50 million and the *housing disaster relief grant* receives R150 million to respond to natural disasters.

Existing grants are revised upwards to protect the real value of spending and extend their reach. Table 8.5 sets out the conditional grants to provinces over the medium term.

Infrastructure grant includes R500 million to secure adequate classroom space for Grade R learners

The *infrastructure grant to provinces* is increased by R4.1 billion over the period, including R500 million to ensure that classroom space is available for Grade R learners entering the system. A further R1 billion is made available for schools to upgrade infrastructure, secure facilities, install libraries and laboratories, and increase maintenance. About R620 million is provided to rehabilitate the coal haulage route in Mpumalanga and develop the road network around the Medupi power station in Limpopo.

An additional R4 billion is allocated to the *national school nutrition programme grant* over the MTEF to ensure that the poorest learners can be fed on all school days and to expand the programme to secondary schools.

School nutrition programme is expanded to feed learners on all school days

Table 8.5 Conditional grants to provinces, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12
Agriculture	**868**	**877**	**1 117**	**1 437**
Agricultural disaster management	137	60	–	–
Comprehensive agricultural support programme	614	715	862	979
Ilima/letsema projects	66	50	200	400
Land care programme grant: poverty relief and infrastructure development	51	51	55	58
Arts and Culture	**324**	**441**	**494**	**524**
Community library services	324	441	494	524
Education	**2 909**	**2 572**	**3 931**	**4 978**
Education disaster management	22	–	–	–
Further education and training college sector recapitalisation	795	–	–	–
HIV and Aids (life skills education)	165	177	188	199
National school nutrition programme	1 927	2 395	3 663	4 579
Technical secondary schools recapitalisation	–	–	80	200
Health	**14 091**	**15 578**	**18 013**	**19 172**
Comprehensive HIV and Aids	2 885	3 476	4 312	4 633
Forensic pathology services	595	492	557	590
Health disaster response (cholera)	–	50	–	–
Health professions training and development	1 679	1 760	1 865	1 977
Hospital revitalisation	2 798	3 186	3 881	4 172
National tertiary services	6 134	6 614	7 398	7 799
Housing	**9 921**	**12 592**	**15 027**	**17 222**
Housing disaster relief	–	150	–	–
Integrated housing and human settlement development	9 921	12 442	15 027	17 222
National Treasury	**7 384**	**13 449**	**11 315**	**13 091**
Infrastructure grant to provinces	7 384	9 249	11 315	13 091
Gautrain loan	–	4 200	–	–
Provincial and Local Government	**30**	**–**	**–**	**–**
Internally displaced people management	30	–	–	–
Public Works	**889**	**1 148**	**1 496**	**1 962**
Devolution of property rate funds	889	997	1 096	1 162
Expanded public works programme incentive	–	151	400	800
Sport and Recreation South Africa	**279**	**402**	**426**	**452**
Mass sport and recreation participation programme	279	402	426	452
Transport	**7 024**	**6 409**	**4 215**	**4 153**
Gautrain rapid rail link	3 266	2 833	341	–
Overload control	9	10	11	–
Public transport operations	2 984	3 532	3 863	4 153
Sani Pass roads	30	34	–	–
Transport disaster management	735	–	–	–
Total	**43 719**	**53 468**	**56 034**	**62 991**

HIV and Aids programmes receive additional support

Medium-term adjustments to the health grants include an addition of R728 million to the *hospital revitalisation programme grant*. The *comprehensive HIV and Aids grant* is revised upwards by R932 million to bolster government's HIV and Aids programme.

The *integrated housing and human settlements grant* is allocated an additional R3.7 billion over the period to speed up housing delivery and to raise the value of the housing subsidy to keep pace with inflation. Government plans to spend R44.7 billion on low-income housing over the next three years.

Agricultural support services are being expanded

The *comprehensive agricultural support programme grant* receives an additional R369 million over the MTEF to expand the provision of agricultural support services. An *agriculture disaster management grant* is introduced to help provinces to rehabilitate affected areas.

Consolidated provincial budget estimates

Preliminary provincial budget estimates, summarised in Table 8.6, reflect the policy priorities outlined here and in Chapter 7, and are in line with the 2008 *Medium Term Budget Policy Statement*.

Table 8.6 Consolidated provincial expenditure by function,[1] 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Average annual growth	
R million		Outcome		Revised estimate		Medium-term estimates		2008/09–2009/10	2008/09–2011/12
Education	73 874	81 183	90 329	110 115	121 023	134 202	145 925	9.9%	9.8%
Health	45 707	52 171	60 524	73 867	79 310	89 741	96 947	7.4%	9.5%
Social protection	4 239	5 109	6 168	8 676	9 371	10 578	11 563	8.0%	10.0%
Housing and community development	8 699	10 532	12 825	16 557	18 752	21 303	23 493	13.3%	12.4%
Transport	13 927	20 001	22 663	26 756	32 597	27 823	29 693	21.8%	3.5%
Agriculture	4 456	4 697	5 152	6 402	6 866	7 602	8 281	7.3%	9.0%
Other functions	13 160	15 329	19 133	24 386	25 345	26 353	28 111	3.9%	4.9%
Total expenditure	**164 062**	**189 021**	**216 795**	**266 759**	**293 264**	**317 602**	**344 014**	**9.9%**	**8.8%**
Total revenue	**164 044**	**189 334**	**218 034**	**256 886**	**294 181**	**320 011**	**346 763**	**14.5%**	**10.5%**
Budget balance[2]	**-17**	**313**	**1 239**	**-9 873**	**917**	**2 408**	**2 749**		
Economic classification									
Current payments	127 860	142 462	164 001	201 380	217 603	240 519	259 177	8.1%	8.8%
Of which:									
Remuneration	*95 169*	*104 267*	*119 837*	*145 157*	*157 303*	*171 499*	*183 691*	*8.4%*	*8.2%*
Transfers and subsidies	23 438	30 979	35 770	43 971	51 650	49 183	53 380	17.5%	6.7%
Payments for capital assets	12 763	15 580	17 024	21 408	24 011	27 900	31 456	12.2%	13.7%
Percentage shares of total expenditure									
Social services	75.5%	73.3%	72.4%	72.2%	71.5%	73.8%	74.0%		
Other functions[3]	24.5%	26.7%	27.6%	27.8%	28.5%	26.2%	26.0%		

1. *Medium-term estimates are based on draft budgets of provinces as at 31 January 2009 and may differ from the final budgets tabled in February.*
2. *A positive number reflects a surplus and a negative number a deficit.*
3. *Includes housing and community development, transport and agriculture.*

Deficits to be covered by provinces' cash reserves

In 2008/09, provinces are projected to run a combined deficit of R9.9 billion. In addition, rising spending on health, in part due to the manner in which the occupation-specific dispensation for nurses was implemented, has resulted in provinces running deficits. These deficits will be covered by provincial governments' cash reserves.

By 2011/12, provincial spending will be more than double the 2005/06 level

Taking into account the revised provincial equitable shares, conditional grants and provincial own revenue, spending by provinces is budgeted to grow by an average of 8.8 per cent a year, reaching R344 billion in 2011/12. By 2011/12 provincial spending will be more than double the 2005/06 figure.

The following trends emerge from draft provincial budgets:

- Spending by provincial education departments is budgeted to grow 9.8 per cent per year over the period to ensure that the system responds to the educational needs of all learners.
- In line with health priorities, provincial health spending is set to grow 9.5 per cent per year, to R96.9 billion by 2011/12.
- Social development spending, which helps to build sustainable communities and social cohesion, is set to grow from R8.7 billion in 2008/09 to R11.6 billion by 2011/12.
- Provinces plan to spend just over R83 billion on capital assets on roads, health, education and agriculture over the next three years.

Within two weeks after the tabling of the 2009 Budget, provinces will table their own budgets, after which provincial departments will put forward their strategic and annual performance plans, detailing how these budgets will help to achieve government's strategic goals.

Local government budget framework revisions

Ensuring readiness for the 2010 FIFA World Cup

An additional R11.3 billion is allocated to local government over the medium term to expand service delivery, improve the quality of services and ensure readiness for the 2010 FIFA World Cup.

As discussed later in this chapter, the 2009 MTEF builds on previous initiatives to provide vital fiscal support for poorly resourced municipalities, which receive proportionately larger amounts of the local government equitable share. The considerable increase in the *municipal infrastructure grant* over the medium term also provides for steady growth in the minimum allocation to these municipalities.

National transfers, which grow by 14.2 per cent annually from R43.6 billion in 2008/09 to R65 billion by 2011/12, remain an important tool for supporting local operations and governance. Table 8.7 shows the revisions of transfers to local government. Table 8.8 shows national transfers to local government.

Table 8.7 Transfers to local government: revisions to baseline, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12	2009 MTEF
	Medium-term estimates			Total revisions
Equitable share	**491**	**614**	**1 368**	**2 473**
General fuel levy sharing with metros	**–**	**–**	**461**	**461**
Infrastructure transfers	**1 320**	**1 668**	**3 475**	**6 463**
2010 FIFA World Cup stadiums development grant	261	202	–	463
Integrated national electrification programme	36	69	89	194
Public transport and infrastructure grant	93	325	417	835
Municipal infrastructure grant	755	851	2 690	4 295
Electricity demand-side management	175	220	280	675
Current transfers	**221**	**568**	**1 108**	**1 898**
2010 FIFA World Cup host city operating grant	20	14	–	34
Expanded public works programme incentive for municipalities grant	202	554	1 108	1 864
Total	**2 032**	**2 850**	**6 412**	**11 294**

The equitable share

Equitable share grows 17.8 per cent a year to R31.9 billion in 2011/12

The primary funding mechanism to support municipal service delivery is the local government equitable share. Increased support for the equitable share is intended to supplement municipal own-revenue spending to achieve universal access to basic public services. Strong growth in this allocation is sustained over the next three years. The additional R2.5 billion allocation results in the equitable share growing 17.8 per cent a year, from an adjusted R19.5 billion in 2008/09 (excluding RSC levies replacement grant for metros) to R31.9 billion in 2011/12.

Infrastructure transfers to local government

Local government is making steady progress in connecting poor households with basic services

Local government has made considerable progress in connecting poor urban and rural settlements to basic infrastructure and services. Through the *municipal infrastructure grant*, 835 093 household connections have been made for water and 399 662 for sanitation since 2004. Through the integrated national electrification programme, 974 348 households have been connected to the national electricity grid since 2004.

Over and above the R2.5 billion added to the local government equitable share, the 2009 Budget earmarks R8 billion for infrastructure-related spending by municipalities. During the next three years, national government will transfer R67.5 billion to municipalities to support provision of the infrastructure needed to deliver basic services and to enhance electricity demand-side management. Of this amount, R2 billion is set aside for the completion of stadiums for the 2009 Confederations Cup and the 2010 FIFA World Cup. Table 8.8 outlines these allocations.

Support for labour-intensive infrastructure projects as part of expanded public works programme

The *municipal infrastructure grant*, which augments local governments' own resources, is allocated a further R4.3 billion. The main outputs of this programme are enhanced access to water, sanitation, electricity and roads. Wherever possible, these projects are undertaken in a labour-intensive manner.

Table 8.8 National transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07 Outcome	2007/08	2008/09 Revised estimate	2009/10	2010/11 Medium-term estimates	2011/12
Equitable share	9 643	18 058	20 676	25 560	23 847	29 268	31 890
of which							
RSC/JSB replacement grant - district municipalities [1]	–	*7 000*	*8 045*	*9 045*	*3 307*	*3 493*	*3 672*
Water and sanitation operating subsidy: direct transfer	165	386	642	986	979	570	380
Direct transfers[2]	**16 682**	**26 501**	**37 321**	**43 620**	**49 698**	**57 722**	**64 964**
Equitable share and related	9 808	18 444	21 317	26 545	24 825	29 838	32 270
General fuel levy sharing with metropolitan municipalities	–	–	–	–	6 800	7 542	8 531
Infrastructure transfers	6 286	7 447	15 128	16 677	16 864	19 001	22 446
Capacity-building and other current transfers	588	610	875	397	1 209	1 341	1 717
Indirect transfers[3]	**1 753**	**1 436**	**2 027**	**2 267**	**2 879**	**2 843**	**3 598**
Infrastructure transfers	783	943	1 484	1 948	2 744	2 843	3 598
Capacity-building and other current transfers	970	493	543	319	135	–	–
Total	**18 435**	**27 937**	**39 347**	**45 886**	**52 578**	**60 566**	**68 562**
Year-on-year growth							
Equitable share and related		*88.0%*	*15.6%*	*24.5%*	*-6.5%*	*20.2%*	*8.2%*
Infrastructure transfers (direct and indirect)		*18.7%*	*98.0%*	*12.1%*	*5.3%*	*11.4%*	*19.2%*
Capacity-building and other current transfers (direct and indirect)		*-29.2%*	*28.6%*	*-49.5%*	*87.7%*	*-0.3%*	*28.1%*

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of RSC/JSB levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant for district municipalities will remain in place pending the outcome of the local government policy review.

2. Transfer made directly to municipalities.

3. In-kind transfers to municipalities.

Improving South Africa's approach to municipal infrastructure funding

Large-scale migration from rural to urban areas is an international phenomenon. About half the world's population now lives in cities. Similar trends are present in South Africa, where over a third of the population currently resides in the nine largest urban areas. This urban concentration is likely to increase in the years ahead.

According to the 2007 *State of City Finances Report*, South Africa's nine largest cities (six metros, Mangaung, Msunduzi and Buffalo City) contributed 64.5 per cent to national gross value added in 2004. These cities face the dual challenge of keeping pace with demand for infrastructure expansion and maintenance to support economic activity, while serving the needs of growing populations. Appropriate responses by these cities can positively reinforce social development and economic growth for the entire country. Progress in this direction, however, requires a long-term view on planning and budgeting.

From 2009/10, the *municipal infrastructure grant* is amended to take into account the differences between large urban and smaller rural municipalities. For cities, the emphasis is on integrated planning, effective leveraging of municipal resources to eradicate backlogs, improved performance in the development of integrated human settlements and effective asset management in line with the reporting requirements of the Municipal Finance Management Act (MFMA). For rural municipalities the focus is on addressing infrastructure needs for basic services and rural development.

In the 2008/09 adjustments budget, R180 million was allocated to Eskom for the provision of compact fluorescent lamps to poor households. National government is also encouraging municipalities to promote more efficient use of energy through the creation of an *electricity demand-side management grant,* with funding of R980 million over the medium term. Of this amount, R675 million flows directly to municipalities and R305 million is provided to Eskom to conduct projects on their behalf.

The *regional bulk infrastructure grant* is increased by R895 million, bringing total funding to R2.9 billion over the next three years. The additional resources are to enable municipalities to connect more poor communities to bulk water and sanitation infrastructure.

R2.4 billion supports expansion of community infrastructure

The *neighbourhood development partnership grant*, which seeks to develop community infrastructure and create the platform for private-sector investment that improves the quality of life in targeted areas, receives R2.4 billion over the next three years.

Table 8.9 Infrastructure transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Direct transfers	**6 286**	**7 447**	**15 128**	**16 677**	**16 864**	**19 001**	**22 446**
Municipal infrastructure grant	5 436	5 938	8 754	8 620	11 085	12 529	15 069
Public transport infrastructure and systems	242	518	1 174	3 170	2 418	4 290	5 149
National electrification programme	297	391	462	494	933	1 020	1 097
Neighbourhood development partnership grant	–	–	41	80	582	630	840
2010 FIFA World Cup stadiums development	–	600	4 605	4 295	1 661	302	–
Disaster relief	311	–	–	–	–	–	–
Rural transport grant	–	–	–	9	10	10	11
Electricity demand-side management	–	–	–	–	175	220	280
Municipal drought relief grant	–	–	91	9	–	–	–
Indirect transfers[1]	**783**	**943**	**1 484**	**1 948**	**2 744**	**2 843**	**3 598**
Regional bulk infrastructure	–	–	300	450	612	839	1 475
Backlogs in the electrification of clinics and schools	–	–	45	90	150	–	–
Backlogs in water and sanitation at clinics and schools	–	–	105	210	350	–	–
National electrification programme	783	893	973	1 151	1 478	1 769	1 902
Neighbourhood development partnership grant	–	50	61	47	80	125	100
Electricity demand-side management	–	–	–	–	75	110	120
Total	**7 070**	**8 390**	**16 612**	**18 625**	**19 608**	**21 845**	**26 043**

1. In-kind transfers to municipalities.

The *national electrification programme* is budgeted to spend R8.1 billion to install, rehabilitate and refurbish electricity infrastructure at a local level to support sustained supply and eradicate the electrification backlog. Of this amount, R3 billion will be spent by municipalities directly and R5.1 billion by Eskom on their behalf. A further R150 million is made available to complete the electrification of clinics and schools in 2009/10.

Following widespread power cuts in early 2008, government took decisive steps to normalise electricity supply. These included implementing a power-conservation programme with a strong focus on energy efficiency. The programme covers solar water heating, residential load management, energy-efficient motors, the power alert media tool and the rollout of compact fluorescent lamps.

Government is enhancing its power-conservation programme

2010 FIFA World Cup-related funding

The 2010 FIFA World Cup project covers a range of activities, from stadium construction and precinct development to transport, tourism and marketing, health and disaster management, safety and security, and telecommunications. Stadium construction is progressing rapidly, with some projects ahead of schedule. To provide for increased construction costs and improved project management, a further R463 million is allocated to the *2010 FIFA World Cup stadiums construction grant*. By the end of the process, national government will have contributed R11.5 billion to stadium construction.

2010 FIFA World Cup stadium construction is progressing rapidly

Allocations of R508 million in 2009/10 and R210 million in 2010/11 to the *2010 World Cup host city operating grant* will support host city preparations for the Confederations Cup in 2009 and the main event in 2010.

The *public transport infrastructure and systems grant* receives an allocation of R11.9 billion over the next three years to establish, construct and improve new and existing public transport infrastructure and systems in large municipalities, including in the 2010 host cities. The cities of Cape Town and Johannesburg are moving ahead with plans for bus rapid transit systems intended to facilitate greater use of public transport and alleviate road congestion.

Expanded public works programme

Government will continue to increase employment opportunities by extending the expanded public works programme for five years. The scaled-up programme includes two new elements: an incentive/performance-based allocation to support the growth of existing programmes at provincial and municipal level, and the expansion into activities managed by the private sector and civil society. National transfers to local government under the newly created *expanded public works programme incentive for municipalities grant* amount to R1.9 billion over the next three years.

Municipalities showing progress in labour-intensive employment will be eligible for incentives

The incentive will only be provided after municipalities have demonstrated progress by performing above the minimum threshold. Allocations will be based on the targeted number of full-time equivalent jobs for each municipality after the end of each quarter.

Transfers to build capacity in local government

Large-scale support for enhanced municipal financial planning

Improving the ability of municipalities to plan, budget and provide service delivery is a core government priority. The rapid and sustained increase in transfers to boost capacity in local government is intended to ensure that all municipalities have sufficient resources to perform their functions. This has been complemented by improvements to the efficiency and equity of the transfer system to ensure that resources are channelled to the areas of greatest need, and provided in a way that allows municipalities to be held accountable for how the funds are spent.

Government is also stepping up programmes to monitor municipal performance. National and provincial programmes to support improved skills levels and capacity are being aligned under government's flagship Siyenza Manje programme.

Funding supports modernisation of municipal budgeting and improved MFMA compliance

In total, government plans to spend R1.7 billion over the next three years through the *financial management grant* and the *municipal systems improvement grant* to modernise local government budgeting and financial management systems, and to improve compliance with the MFMA. Table 8.10 shows other recurrent transfers to municipalities, including capacity-building grants.

Table 8.10 Capacity building and other current transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Capacity building transfers	**654**	**663**	**928**	**430**	**500**	**577**	**609**
Direct transfers[1]	**588**	**610**	**875**	**380**	**500**	**577**	**609**
Restructuring grant	255	265	530	–	–	–	–
Financial management grant	133	145	145	180	300	365	385
Municipal systems improvement grant	200	200	200	200	200	212	225
Indirect transfers[2]	**66**	**53**	**53**	**50**	**–**	**–**	**–**
Financial management grant	66	53	53	50	–	–	–
Other current transfers	**904**	**440**	**490**	**286**	**845**	**764**	**1 108**
Direct transfers[1]	**–**	**–**	**–**	**17**	**709**	**764**	**1 108**
Internally displaced people management grant	–	–	–	17	–	–	–
2010 FIFA World Cup host city operating grant	–	–	–	–	508	210	–
Expanded public works programme incentive grant for municipalities	–	–	–	–	202	554	1 108
Indirect transfers[2]	**904**	**440**	**490**	**269**	**135**	**–**	**–**
Water and sanitation operating grant	904	440	490	269	135	–	–
Total	**1 558**	**1 103**	**1 418**	**716**	**1 344**	**1 341**	**1 717**

1. Transfers made directly to municipalities.

2. In-kind transfers to municipalities.

ANNEXURES

In addition, the following annexures are available at www.treasury.gov.za:

- Annexure W1: Explanatory memorandum to the division of revenue
- Annexure W2: Structure of the government accounts

A

Glossary

Accounting officer	The civil servant in a department who is accountable to Parliament for financial management, usually the director-general or head of the department.
Accrual	An accounting convention by which payments and receipts are recorded as they occur, even if no cash flow takes place.
Ad valorem duties	Duties levied on commodities as a certain percentage of their value.
Adjustments estimate	Presentation to Parliament of the amendments to be made to the appropriations voted in the main budget for the year.
Administered prices	Prices set outside ordinary market processes, through administrative decisions by government, a public entity or a regulator.
African Renaissance and International Cooperation Fund	A fund established by government to enhance cooperation and promote democracy, good governance and socioeconomic development, and to provide international humanitarian assistance.
Allocated expenditure	The part of the national budget that can be divided between the national, provincial and local spheres of government, after debt interest and the contingency reserve have been taken into account.
Amortisation	The repayment of a loan by instalments over the duration of the loan.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from a provincial revenue fund.

Asset swap	An arrangement whereby financial institutions are permitted to exchange a portfolio of South African shares and securities for a portfolio of foreign shares and securities. This enables South African investors to diversify offshore, while minimising the impact on domestic financial markets and the rand.
Balance of payments	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.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Bond	A certificate of debt issued by a government or corporation guaranteeing payment of the original investment plus interest by a specified future date.
Bond premium	Amount by which the purchase price of a bond is greater than its par value.
Budget balance	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.
Capital asset	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.
Capital expenditure	Expenditure on assets that last for a year or more, such as buildings, land, infrastructure and equipment.
Capital formation	A measure of the net increase in the country's total stock of capital goods, after allowing for depreciation.
Capital gains tax	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.
Capital goods	Durable goods used over a period of time for the production of other goods. See also intermediate goods.
Capital flow	A flow of investments in and out of the country.
Capital-output ratio	The amount of units of capital employed to produce a certain level of output.
Category A, B and C municipalities	The Constitution establishes three categories of municipality: Category A, or metropolitan municipalities; Category B, or local municipalities; and Category C, or district municipalities.

Collective bargaining	Negotiations between employees and employers on procedures and rules to cover conditions of work and rates of pay.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Consolidated expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers and subsidies to municipalities, businesses and other entities.
Consolidated general government	National, provincial and local government, as well as extra-budgetary government institutions and social security funds.
Consumer price index (CPI)	The measure of inflation based on prices in a basket of goods and services.
Consumption expenditure	Expenditure on goods and services, including salaries, which are used up within a short period of time, usually a year. See also current expenditure.
Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes to the economic environment and to meet unforeseeable spending pressures.
Contingent liabilities	A government obligation that will only result in expenditure upon the occurrence of a specific event – such as a government guarantee.
Controlled foreign entity	A foreign business in which South Africans hold a greater than 50 per cent interest, usually of the share capital of a company.
Corporatisation	The transformation of state-owned enterprises into commercial entities, subject to commercial legal requirements and governance structures, while retaining state ownership.
Cost-push inflation	Inflation that is caused by an increase in production costs, such as wages or oil prices.
Countercyclical fiscal policy	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.
Coupon (bond)	The periodic interest payment made to bondholders during the life of the bond. The interest is usually paid twice a year.
CPIX inflation	A measurement of the price increases of a basket of consumer goods and services. This measure differs from the consumer price index in that it excludes mortgage costs. See also inflation.
Credit rating	An indicator of the risk of default by a borrower or the riskiness of a financial instrument.

Crowding-in	Increase of private investment through the income-raising effect of government spending financed by deficits.
Crowding-out	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.
Current account (of the balance of payments)	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.
Current expenditure	Government expenditure on goods and services, such as salaries, rent, maintenance and interest payments. See also consumption expenditure.
Debt service costs	The cost of interest on government debt.
Debt switching	The restructuring of the term structure and maturity profile of government debt.
Deleveraging	The reduction of debt previously used to increase the potential return of an investment.
Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Derivative financial instrument	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.
Designated countries	Foreign countries from which income may be exempt from South African tax under certain circumstances. See also double tax agreement.
Direct taxes	Taxes charged on taxable income or capital of individuals and legal entities.
Disposable income	Total income by households less all taxes and employee contributions.
Dissaving	An excess of current expenditure, including the depreciation of fixed capital, over current income.
Division of revenue	The allocation of funds between spheres of government, as required by the Constitution. See also equitable share.

Domestic demand	The total level of spending in an economy, including imports but excluding exports.
Double tax agreement	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.
Economic growth	An increase in the total amount of output, income and spending in the economy.
Economically active population	The part of the population that is of working age and is either employed or seeking work.
Economic rents	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. True economic rents can be taxed without distorting production decisions.
Effective tax rate	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.
Emerging markets	A name given by international investors to middle–income economies.
Equalisation Fund levy	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.
Equitable share	The allocation of revenue to the national, provincial and local spheres of government as required by the Constitution. See also division of revenue.
Exchange control	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.
Excise duties	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.
Extra-budgetary institutions	Public entities not directly funded from the fiscus.
FIFA	The Fédération Internationale de Football Association – the international governing body of soccer.

Financial account	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.
Financial and Fiscal Commission (FFC)	An independent body established by the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
Financial year	The 12 months according to which companies and organisations budget and account. See also fiscal year.
Fiscal incidence	The combined overall economic impact that fiscal policy has on the economy. See also fiscal policy.
Fiscal policy	Policy on taxation, public spending and borrowing by the government.
Fiscal year	The 12 months on which government budgets are based, beginning 1 April and ending 31 March of the subsequent calendar year.
Fiscal space	The ability of government's budget to provide additional resources for a desired programme without jeopardising fiscal or debt sustainability.
Fixed investment	Spending on buildings, machinery and equipment contributing to production capacity in the economy. See also gross fixed capital formation.
Foreign direct investment (FDI)	The acquisition of controlling interest by governments, institutions or individuals of a business in another country.
Forward book	The total amount of contracts for the future exchange of foreign currency entered into by the Reserve Bank at any given point in time.
Forward cover	Transactions involving an agreed exchange rate at which foreign currency will be purchased or sold at a future date.
Forward markets	Markets in which currencies, commodities or securities are bought and sold at agreed prices for delivery at specified future dates.
Fuel levy	An excise tax on liquid fuels.
Function shift	The movement of a function from one departmental vote or sphere of government to another.
Funded pension arrangements	A pension scheme in which expected future benefits are funded in advance and as entitlement accrues.

GDP inflation	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.
Gold and foreign exchange reserve account	Reserves held by the South African Reserve Bank to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks.
Government debt	The total amount of money owed by the government as a consequence of its borrowing in the past.
Gross borrowing requirement	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.
Gross domestic product (GDP)	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.
Gross fixed capital formation	The addition to a country's fixed capital stock during a specific period, before provision for depreciation.
Hedging	An action taken by a buyer or seller to protect income against changes in prices, interest rates or exchange rates.
Horizontal equity	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.
Import parity pricing	When a firm sells goods locally at the price that customers would pay if they were to import the same goods from another country.
Inflation	An increase in the general level of prices.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time. The Reserve Bank and government agree on a target range to be achieved over a stipulated period.
Intermediate goods	Goods produced to be used as inputs in the production of final goods.
Inventories	Stocks of goods held by firms. An increase in inventories reflects an excess of output relative to spending over a period.
Labour intensity	The relative amount of labour that is used to produce a fixed quantity of output.
Liquidity	The ease with which assets can be bought and sold.

Liquidity requirements	The amount of liquid or freely convertible assets that banks are required to hold relative to their liabilities, for prudential and regulatory purposes.
M3	The broadest definition of money supply in South Africa, including notes and coins, demand and fixed deposits, and credit.
Macroeconomics	The branch of economics that deals with the whole economy – including issues such as growth, inflation, unemployment and the balance of payments.
Marginal lending rate	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.
Marginal income tax rate	The rate of tax on an incremental unit of income.
Marketable securities	Tradeable financial securities listed with a securities exchange.
Medium Term Expenditure Committee (MTEC)	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.
Medium-term expenditure framework (MTEF)	The three-year spending plans of national and provincial governments, published at the time of the Budget.
Microeconomics	The branch of economics that deals with the behaviour of individual firms, consumers and sectors.
Ministers' Committee on the Budget	The political committee that considers key policy and budgetary issues that pertain to the budget process before they are tabled in Cabinet.
MinMEC	A MinMEC is a political forum where national and provincial departments in the same sector discuss policy issues. It consists of the national Minister and the nine provincial MECs, supported by key departmental officials.
Monetary policy	Policy concerning total money supply, exchange rates and the general level of interest rates.
Money supply	The total stock of money in an economy.
National budget	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.
National Revenue Fund	The consolidated account of the national government into which all taxes, fees and charges collected by SARS and departmental revenue must be paid.

Negotiable certificate of deposit (NCD)	Short-term deposit instruments issued by banks, at a variable interest rate, for a fixed period.
Net borrowing requirement	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.
Net exports	Exports less imports.
Net open foreign currency position (NOFP)	Gold and foreign exchange reserves minus oversold forward book. The figure is expressed in dollars.
Nominal exchange rates	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.
Nominal wage	The return, or wage, to employees at the current price level.
Non-financial public enterprises	Government-owned or controlled organisations that deliver goods and non-financial services, trading as business enterprises. Includes Eskom, ACSA, SABC, Transnet, etc.
Non-interest expenditure	Total expenditure by government less debt service costs.
Non-tax revenue	Income received by the government as a result of administrative charges, licences, fees, sales of goods and services, etc.
Opportunity cost	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.
Organisation for Economic Cooperation and Development (OECD)	An organisation of 30 mainly industrialised member countries. South Africa is not a member.
Outputs	Goods and services delivered by government.
Personal saving rate	Saving as a percentage of disposable income.
Portfolio investment	Investment in financial assets such as stocks and bonds.
Price discovery	The process of determining the price level of a commodity or asset based on supply and demand factors.
Primary deficit/surplus	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure there is a surplus.

Primary sector	The agricultural and mining sectors of the economy.
Private sector credit extension	Credit provided to the private sector. This includes all loans, credit cards and leases.
Privatisation	The full or partial sale of state-owned enterprises to private individuals or companies.
Producer price inflation (PPI)	Price increases measured by the producer price index – a measure of the prices paid based mainly on producers' published price lists.
Productivity	A measure of the amount of output generated from every unit of input. Typically used to measure changes in labour efficiency.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and are regulated by law.
Public benefit organisations (PBOs)	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.
Public goods	Goods and services that would not be fully provided in a pure free-market system (e.g. defence), and are largely provided by government.
Public Investment Corporation (PIC)	A government-owned investment management company that invests funds on behalf of public–sector entities. Its largest client is the Government Employees Pension Fund.
Public private partnerships (PPPs)	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.
Public sector	National government, provincial government, local government, extra–budgetary governmental institutions, social security funds and non-financial public enterprises.
Public sector borrowing requirement (PSBR)	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Rating agency	Institutions that evaluate the ability of countries or other borrowers to honour their international and domestic debt obligations. Credit ratings are used by international investors as indications of sovereign risk. See also credit rating.
Real effective exchange rate	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.

Real exchange rate	The level of the exchange rate taking account of inflation differences.
Real expenditure	Expenditure measured in constant prices, i.e. after taking account of inflation.
Real wage	The return, or wage, to employees, measured at a constant price level.
Recession	A period in which national output and income decline. A recession is usually defined as two consecutive quarters of negative growth.
Regional integration	An economic policy intended to boost economic activity in a geographical area extending beyond one country.
Remuneration	The costs of personnel including salaries, housing allowances, car allowances and other benefits received by personnel.
Repurchase (repo) rate	The rate at which the Reserve Bank lends to commercial banks.
Repurchase agreements	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.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions.
Residence-based income tax system	A tax system in which the worldwide income accruing to a resident of a country is subject to the taxes of that country.
Saving	The difference between income and spending.
Seasonally adjusted and annualised	The process of removing the seasonal volatility (monthly or quarterly) from a time series. This provides a measure of the underlying trend in the data.
Secondary rebate	A rebate from income tax, in addition to the primary rebate, that is available to taxpayers aged 65 years and older.
Secondary sector	The part of the economy concerned with the manufacture of goods.
Secondary tax on companies (STC)	Tax on dividends declared by a company, calculated at the rate of 10 per cent of the net amount of dividends declared.
Section 21 company	Non-profit entities registered in terms of Section 21 of the Companies Act.
Service and transfer payments	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).

Skills development levy	A payroll tax designed to finance training initiatives, in terms of the skills development strategy.
Source-based income tax system	A system in which income is taxed in the country where the income originates.
Southern African Customs Union (SACU)	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.
Southern African Development Community (SADC)	A regional governmental organisation that promotes collaboration, economic integration and technical cooperation throughout Southern Africa.
Sovereign debt rating	An assessment of the likelihood that a government will default on its debt obligations.
Specific excise duty	A tax on each unit of output or sale of a good, unrelated to the value of a good.
Standing appropriations	Government's expenditure obligations that do not require a vote or statutory provision, including contractual guarantee commitments and international agreements.
Statutory appropriations	Amounts appropriated to be spent in terms of statutes and not requiring appropriation by vote.
Switch auction	Involves government buying back or redeeming certain predetermined securities (e.g. repurchase bonds) that tend to be illiquid, and replacing them with more liquid securities (e.g. replacement bonds).
Syndicated loan	A large loan in which a group of banks, headed by a lead manager, work together to provide funds which they solicit from their clients for the borrower.
Tax amnesty	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.
Tax avoidance	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.
Tax base	The aggregate value of income, sales or transactions on which particular taxes are levied.
Tax evasion	When individuals or businesses illegally reduce their tax liability.
Tax gap	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.

Tax incentives	Specific provisions in the tax code that provide favourable tax treatment to individuals and businesses to encourage specific behaviour or activities.
Tax incidence	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.
Tax loopholes	Unintended weaknesses in the legal provisions of the tax system used by taxpayers to avoid paying tax liability.
Tax-to-GDP ratio	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.
Terms of trade	An index measuring the ratio of a country's export prices relative to its import prices.
Tertiary sector	The part of the economy concerned with the provision of services.
Total factor productivity (TFP)	An index used to measure the efficiency of all inputs that contribute to the production process. Increases in TFP are usually attributable to technological improvements.
Trade balance	The monetary record of a country's net imports and exports of physical merchandise. See also current account.
Trade regime	The system of tariffs, quotas and quantitative restrictions applied to protect domestic industries, together with subsidies and incentives used to promote international trade.
Trade-weighted rand	The value of the rand pegged to or expressed relative to a market basket of selected foreign currencies.
Trademark	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.
Treasury committee	The Cabinet committee that evaluates all requests for additional funds for unavoidable and unforeseen expenditure during a financial year.
Trend GDP growth	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.

Unallocated reserves	Potential expenditure provision not allocated to a particular use. It mainly consists of the contingency reserve and amounts of money left unallocated by provinces.
Unit labour cost	The cost of labour per unit of output. Calculated by dividing average wages by productivity (output per worker per hour).
User charge	Payments made in exchange for direct benefits accrued, e.g. road toll fees.
Vertical division	The division of revenue between spheres of government.
Vertical equity	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.
Virement	The transfer of resources from one programme to another within the same department during a financial year.
Vote	An appropriation voted by Parliament.
Withholding tax	Tax on income deducted at source. Withholding taxes are widely used in respect of dividends, interest and royalties.
Yield	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.
Yield curve	A graph showing the relationship between the yield on bonds of the same credit quality but different maturity at a given point in time.

B

Statistical tables

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 2009 Budget the coverage on the consolidated government account is extended to include the accounts of all the listed public entities of national government, a further step towards the publication of a complete set of consolidated accounts for general government. The consolidation also includes several business enterprises of national government.

Since more than 70 per cent of total expenditure on the main budget of 2009/10 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 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 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.

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 towards defraying expenditure on the Burundi peacekeeping mission, appropriated on the budget of the Department of Defence.

Prior-year adjustments due to function shifts

In previous budgets a number of function shifts have been implemented that 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, resulting in function shifts between national and provincial government and public entities. The shifting of this function to national results 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 books of the Department of Public Works. This results 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, is now replaced by a direct charge financed by the general fuel levy and paid by the National Treasury to metropolitan municipalities. This adjustment is effected in the government accounts as from the 2006/07 financial year.
- 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 6 on national and provincial government 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 Departments (2000/01 to 2007/08) and the revenue accounts of the former self-governing territories and TBVC states.
- Reports of the Auditor-General on the Appropriation Accounts of the nine provinces, Audited Annual Financial Statements of Provincial Departments, as well as draft financial statements for some of the provinces.
- Printed estimates of revenue and expenditure for the national and provincial budgets.
- The Reserve Bank.
- The Development Bank of Southern Africa.
- Annual statements of the branches: 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.

Revenue, expenditure, budget deficit and financing (Table 1)

Table 1 summarises the main budget balances since 2002/03 and medium-term estimates to 2011/12. 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, and payments for capital 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. Expenditure from 2002/03 has been reclassified to be in line with the new classification principles introduced in 2004/05.

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 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.

Medium-term expenditure estimates by votes (Table 4)

Table 4 contains estimates of expenditure on national budget votes for the period 2005/06 to 2011/12. In 2008/09, amounts appropriated in the main budget, the adjusted estimates and preliminary estimates of spending on each vote are shown. The historical numbers have been adjusted for function shifts between 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 and provincial budgets (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 2009 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 brings budget reporting in line with international best practice. Over the past few financial years the National Treasury has been working on a project to further improve the standard chart of accounts. This is the culmination of work on various initiatives to improve financial data, such as the infrastructure reporting process and improvement to item classification, and takes into account lessons learnt from data observances over the past four years. The changes were implemented on 1 April 2008.

In addition, the functional classification categories in the 2009 *Budget Review* have been aligned to the Classification of Functions of Government as set out in the GFS, resulting in the publication of new summarised functional categories, as well as combining or renaming some of the functions published in previous budgets.

Departments are not yet familiar with all of the concepts of this new classification, and it will take some time before they will be in a position to assign completely accurate classifications.

Consolidated government budget (Table 7)

Table 7 shows the economic and functional classification of payments for the consolidated government budget, which consists of the consolidated national, provincial and social security numbers 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 being consolidated 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 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 2009 Budget a total of 155 national and provincial departments and 184 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.

Total debt of government (Table 8)

Table 8 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 2008/09 to 2011/12 are based on national budget data.

Financial guarantees: Amounts drawn on government guarantees (Table 9)

The national government furnishes guarantees to various institutions that will realise as liabilities to the state only 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 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)*

R million		2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Actual outcome				Preliminary outcome	
Main budget revenue							
Current revenue		278 449.9	299 414.7	347 824.2	411 668.6	481 158.2	559 543.7
Tax revenue (gross)	*2)*	*281 939.3*	*302 442.6*	*354 978.8*	*417 195.7*	*495 548.6*	*572 814.6*
Less: SACU payments		*-8 259.4*	*-9 722.7*	*-13 327.8*	*-14 144.9*	*-25 194.9*	*-24 712.6*
Non-tax revenue (departmental receipts)	*3)*	*4 770.0*	*6 694.8*	*6 173.2*	*8 617.8*	*10 804.5*	*11 441.6*
Sales of capital assets		57.8	16.5	30.2	79.3	38.8	230.1
Total revenue		**278 507.7**	**299 431.2**	**347 854.4**	**411 747.9**	**481 197.0**	**559 773.8**
Main budget expenditure							
Direct charges against the National Revenue Fund		144 836.2	158 544.2	175 496.3	192 340.8	209 598.2	233 450.4
Cost of servicing state debt	*4)*	*46 807.7*	*46 312.9*	*48 851.2*	*50 912.0*	*52 192.2*	*52 877.1*
Provincial equitable share		*93 895.3*	*107 538.4*	*120 884.5*	*135 291.6*	*150 752.9*	*172 861.5*
Other	*5)*	*4 133.2*	*4 692.9*	*5 760.7*	*6 137.2*	*6 653.1*	*7 711.9*
Appropriated by vote		146 687.8	170 121.9	192 963.0	224 343.2	260 594.3	308 048.4
Current payments	*6)*	*50 815.5*	*55 600.6*	*61 481.7*	*68 568.7*	*76 655.1*	*87 328.5*
Transfers and subsidies	*7)*	*91 599.8*	*110 082.3*	*126 136.6*	*148 790.8*	*177 579.4*	*212 749.5*
Payments for capital assets	*8)*	*4 272.5*	*4 439.1*	*5 344.7*	*6 983.7*	*6 359.8*	*7 970.3*
Contingency reserve		–	–	–	–	–	–
Total expenditure		**291 524.0**	**328 666.1**	**368 459.4**	**416 684.0**	**470 192.5**	**541 498.8**
Budget balance		**-13 016.2**	**-29 235.0**	**-20 604.9**	**-4 936.1**	**11 004.5**	**18 275.0**
Budget balance as percentage of GDP		*-1.1%*	*-2.3%*	*-1.4%*	*-0.3%*	*0.6%*	*0.9%*
Extraordinary payments	9)	-7 971.3	-7 443.5	-9 787.4	-4 553.9	-4 213.7	-775.6
Extraordinary receipts	10)	8 167.9	1 598.2	2 492.0	6 905.2	3 438.1	2 870.7
Net borrowing requirement (-)		**-12 819.6**	**-35 080.3**	**-27 900.3**	**-2 584.8**	**10 228.9**	**20 370.1**
Financing							
Change in loan liabilities							
Domestic short-term loans (net)		**4 213.9**	**6 719.8**	**6 132.0**	**5 716.4**	**5 334.1**	**5 672.9**
Domestic long-term loans (net)		**-3 017.4**	**31 123.3**	**33 409.3**	**23 086.0**	**891.7**	**-2 448.2**
Market loans		*15 465.1*	*50 554.5*	*50 300.2*	*44 932.0*	*36 938.3*	*26 820.2*
Extraordinary issues		*3 652.7*	*7 205.6*	*9 460.8*	*4 539.0*	–	–
Redemptions		*-22 135.2*	*-26 636.8*	*-26 351.7*	*-26 385.0*	*-36 046.6*	*-29 268.4*
Foreign loans (net)		**14 310.1**	**1 045.1**	**4 537.9**	**518.0**	**181.5**	**-4 745.4**
Market loans		*10 813.2*	*10 576.1*	*9 872.9*	–	*3 617.9*	–
Arms procurement loan agreements		*4 880.7*	*3 770.9*	–	*2 896.8*	*3 690.0*	*2 426.5*
World Bank loans		–	–	–	*50.0*	–	*20.0*
Redemptions (including revaluation of loans)	*11)*	*-1 383.8*	*-13 301.9*	*-5 335.0*	*-2 428.8*	*-7 126.4*	*-7 191.9*
Change in cash and other balances (- increase)		**-2 687.0**	**-3 807.9**	**-16 178.9**	**-26 735.6**	**-16 636.2**	**-18 849.4**
Total financing (net)		**12 819.6**	**35 080.3**	**27 900.3**	**2 584.8**	**-10 228.9**	**-20 370.1**
Gross domestic product (GDP)		*1 198 457*	*1 288 979*	*1 428 094*	*1 585 986*	*1 810 664*	*2 067 884*

1) This table summarises revenue, expenditure and the main budget balance since 2002/03. As available data are incomplete, the estimates are not fully consistent with other sources, such as the government finance statistics series of the 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) Excludes sales of capital assets.

4) Excludes discount and premium on the issuance of new government debt instruments, premium on debt portfolio restructuring and revaluation of foreign loan repayments. Includes cost of raising loans and management cost.

5) Includes statutory appropriations such as judges, magistrates and members of Parliament salaries, skills development funds and general fuel levy sharing with metros. Standing appropriations have been re-classified as Transfers and subsidies.

Table 1
Main Budget:
Revenue, expenditure, budget balance and financing *1)*

2008/09 Budget estimate	2008/09 Revised estimate	2008/09 Deviation	2009/10 Medium-term estimates	2010/11 Medium-term estimates	2011/12 Medium-term estimates		R million
							Main budget revenue
625 204.1	611 025.5	-14 178.7	642 947.2	709 029.2	781 179.5		Current revenue
642 088.6	*627 692.8*	*-14 395.8*	*659 304.0*	*720 935.2*	*793 666.7*		*Tax revenue (gross)*
-28 920.6	*-28 920.6*	*–*	*-27 915.4*	*-26 236.6*	*-27 867.1*		*Less: SACU payments*
12 036.2	*12 253.3*	*217.1*	*11 558.6*	*14 330.5*	*15 379.9*	*3)*	*Non-tax revenue (departmental receipts)*
148.8	98.3	-50.5	43.0	44.8	46.4		Sales of capital assets
625 353.0	**611 123.8**	**-14 229.2**	**642 990.2**	**709 074.0**	**781 225.9**		**Total revenue**
							Main budget expenditure
259 788.3	267 512.1	7 723.7	302 919.6	332 004.2	359 808.5		Direct charges against the National Revenue Fund
51 236.0	*54 281.0*	*3 045.0*	*55 268.0*	*60 140.0*	*66 826.0*	*4)*	*Cost of servicing state debt*
199 377.0	*204 009.9*	*4 632.9*	*231 050.9*	*253 670.5*	*272 934.1*		*Provincial equitable share*
9 175.4	*9 221.1*	*45.8*	*9 800.6*	*10 651.3*	*11 517.3*	*5)*	*Other*
345 307.6	366 394.9	21 087.3	429 643.2	448 350.2	469 162.3		Appropriated by vote
99 831.6	*102 000.0*	*2 168.4*	*112 939.4*	*123 263.3*	*133 393.2*	*6)*	*Current payments*
238 010.7	*255 343.6*	*17 333.0*	*308 173.2*	*315 873.7*	*322 456.4*	*7)*	*Transfers and subsidies*
7 465.3	*9 051.2*	*1 585.9*	*8 530.5*	*9 213.1*	*13 312.7*	*8)*	*Payments for capital assets*
6 000.0	–	-6 000.0	6 000.0	12 000.0	20 000.0		Contingency reserve
611 095.9	**633 906.9**	**22 811.0**	**738 562.8**	**792 354.3**	**848 970.8**		**Total expenditure**
14 257.1	**-22 783.1**	**-37 040.2**	**-95 572.6**	**-83 280.3**	**-67 744.9**		**Budget balance**
0.6%	*-1.0%*	*-1.6%*	*-3.9%*	*-3.1%*	*-2.3%*		*Budget balance as percentage of GDP*
–	-5 246.0	-5 246.0	-900.0	–	–	*9)*	Extraordinary payments
850.0	8 123.0	7 273.0	6 100.0	1 000.0	1 000.0	*10)*	Extraordinary receipts
15 107.1	**-19 906.1**	**-35 013.2**	**-90 372.6**	**-82 280.3**	**-66 744.9**		**Net borrowing requirement (-)**
							Financing
							Change in loan liabilities
5 750.0	**13 200.0**	**7 450.0**	**15 400.0**	**12 400.0**	**6 000.0**		**Domestic short-term loans (net)**
5 309.2	**20 675.0**	**15 365.8**	**61 521.7**	**61 588.9**	**51 947.2**		**Domestic long-term loans (net)**
30 000.0	*39 945.8*	*9 945.8*	*70 499.8*	*70 499.8*	*68 599.9*		*Market loans*
–	*–*	*–*	*–*	*–*	*–*		*Extraordinary issues*
-24 690.8	*-19 270.8*	*5 420.0*	*-8 978.1*	*-8 910.9*	*-16 652.7*		*Redemptions*
-3 495.8	**-3 954.7**	**-458.9**	**3 836.8**	**8 291.4**	**7 797.7**		**Foreign loans (net)**
–	*–*	*–*	*9 800.0*	*9 600.0*	*9 900.0*		*Market loans*
2 614.0	*3 039.0*	*425.0*	*3 872.0*	*2 350.0*	*1 980.0*		*Arms procurement loan agreements*
–	*2.0*	*2.0*	*–*	*–*	*–*		*World Bank loans*
-6 109.8	*-6 995.7*	*-885.9*	*-9 835.2*	*-3 658.6*	*-4 082.3*	*11)*	*Redemptions (including revaluation of loans)*
-22 670.5	**-10 014.0**	**12 656.5**	**9 614.1**	**–**	**1 000.0**		**Change in cash and other balances (- increase)**
-15 107.1	**19 906.1**	**35 013.2**	**90 372.6**	**82 280.3**	**66 744.9**		**Total financing (net)**
2 286 906	*2 304 111*	*17 205*	*2 474 214*	*2 686 254*	*2 952 989*		*Gross domestic product (GDP)*

6) Includes compensation of employees, payments for goods and services, interest on overdue accounts, rent on land and financial transactions in assets and liabilities. Payment for medical benefits to former employees has been moved to transfers.
7) Includes current and capital transfers and subsidies to business, households, foreign countries and other levels and funds of general government.
8) Includes acquisition and own account construction of new assets and the cost of upgrading, improving and extentions to existing capital assets.
9) Includes premiums incurred on loan issues, bond switch and buy-back transactions.
10) 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.
11) Revaluation estimates are based on National Treasury's projection of exchange rates.

Table 2
Main Budget:
Summary of revenue *1)*

R million		1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
		Actual collections						
Taxes on income and profits		**44 661.6**	**47 559.4**	**50 933.7**	**61 004.7**	**68 883.8**	**82 876.1**	**95 003.6**
Persons and individuals		29 968.9	33 833.0	37 805.3	44 972.8	51 179.3	59 519.8	68 342.4
Gold mines		523.7	421.5	622.5	1 172.7	893.7	507.7	332.5
Other mines		1 048.9	575.7	508.6	457.2	714.8	1 341.6	1 349.4
Companies		12 490.8	12 126.0	10 359.3	11 961.3	14 059.0	16 985.0	19 696.4
Secondary tax on companies		–	–	876.7	1 303.6	1 262.2	1 337.9	1 446.4
Tax on retirement funds		–	–	–	–	–	2 565.5	3 229.7
Other	*2)*	629.3	603.1	761.4	1 137.1	774.8	618.6	606.8
Taxes on payroll and workforce		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Skills development levy	*3)*	–	–	–	–	–	–	–
Taxes on property		**1 127.8**	**1 187.5**	**1 500.9**	**2 074.7**	**2 233.9**	**2 359.3**	**2 618.4**
Donations tax		6.8	18.0	39.0	104.4	61.0	46.7	17.7
Estate duty		78.7	84.9	118.3	125.3	181.3	181.8	302.6
Securities transfer tax	*4)*	199.8	164.5	267.0	431.5	462.9	397.3	442.3
Transfer duties		842.6	920.1	1 076.7	1 413.5	1 528.7	1 733.5	1 855.8
Demutualisation charge		–	–	–	–	–	–	–
Domestic taxes on goods and services		**28 140.9**	**29 551.5**	**38 949.2**	**44 070.3**	**48 881.7**	**53 572.9**	**60 619.0**
Value-added tax	*5)*	18 791.8	17 506.1	25 449.0	29 288.4	32 768.2	35 902.9	40 095.6
Specific excise duties		3 360.1	4 099.5	4 628.3	5 431.3	6 075.0	5 912.4	7 425.8
Ad valorem excise duties		465.2	336.5	338.7	372.9	400.2	718.7	581.6
General fuel levy		5 421.3	7 083.1	7 860.2	8 351.5	8 928.0	10 391.6	12 091.2
Air departure tax		–	–	–	–	–	–	–
Other	*6)*	102.5	526.4	673.0	626.2	710.2	647.2	424.8
Taxes on international trade and transactions		**4 321.1**	**4 644.7**	**5 246.9**	**5 606.4**	**6 169.6**	**7 200.5**	**5 638.6**
Customs duties		2 736.1	2 961.1	3 413.4	4 247.0	5 325.9	6 518.0	6 055.7
Import surcharges		1 455.5	1 520.9	1 756.1	1 170.8	456.7	-5.9	-1.4
Other	*7)*	129.5	162.7	77.3	188.5	387.1	688.4	-415.7
Stamp duties and fees		**712.2**	**760.4**	**846.7**	**942.9**	**1 024.8**	**1 202.4**	**1 483.8**
State miscellaneous revenue	*8)*	**35.2**	**25.8**	**10.3**	**75.6**	**84.1**	**121.2**	**-36.0**
TOTAL TAX REVENUE (gross)		**78 998.8**	**83 729.3**	**97 487.7**	**113 774.5**	**127 278.0**	**147 332.3**	**165 327.4**
Non-tax revenue (departmental receipts)	*9)*	**1 740.4**	**2 131.0**	**2 275.7**	**1 802.2**	**2 614.9**	**3 522.7**	**3 299.4**
Less: SACU payments	*10)*	**-2 760.3**	**-2 984.1**	**-3 089.4**	**-3 248.8**	**-3 890.1**	**-4 362.7**	**-5 237.2**
TOTAL MAIN BUDGET REVENUE		**77 979.0**	**82 876.1**	**96 674.0**	**112 327.9**	**126 002.7**	**146 492.4**	**163 389.6**
Current revenue		**77 954.2**	**82 807.3**	**96 645.2**	**112 312.4**	**125 979.4**	**146 477.7**	**163 371.2**
Direct taxes		44 747.2	47 662.3	51 091.0	61 234.4	69 126.1	83 104.6	95 323.9
Indirect taxes		34 216.5	36 041.2	46 386.4	52 464.5	58 067.7	64 106.6	70 039.5
State miscellaneous revenue		35.2	25.8	10.3	75.6	84.1	121.2	-36.0
Non-tax revenue (departmental receipts)	*11)*	1 715.7	2 062.2	2 246.9	1 786.7	2 591.5	3 508.0	3 280.9
Less: SACU payments		-2 760.3	-2 984.1	-3 089.4	-3 248.8	-3 890.1	-4 362.7	-5 237.2
Sales of capital assets		**24.8**	**68.8**	**28.8**	**15.5**	**23.4**	**14.7**	**18.4**
Extraordinary receipts	*12)*	*959.0*	*1 221.5*	*1 583.7*	*1 201.0*	*1 391.4*	*1 629.4*	*2 947.4*

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) and levies on financial services (up to 2004/05). Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for

Table 2
Main Budget:
Summary of revenue *1)*

1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05		R million
Actual collections								
108 021.5	**116 148.9**	**126 145.2**	**147 310.4**	**164 565.9**	**171 962.8**	**195 219.1**		**Taxes on income and profits**
77 733.9	85 883.8	86 478.0	90 389.5	94 336.7	98 495.1	110 981.9		Persons and individuals
188.6	–	–	–	–	–	–		Gold mines
1 946.1	–	–	–	–	–	–		Other mines
20 388.0	20 971.6	29 491.8	42 354.5	55 745.1	60 880.8	70 781.9		Companies
1 930.8	3 149.9	4 031.3	7 162.7	6 325.6	6 132.9	7 487.1		Secondary tax on companies
5 098.8	5 330.4	5 219.8	6 190.6	6 989.7	4 897.7	4 406.1		Tax on retirement funds
735.3	813.1	924.3	1 213.1	1 169.0	1 556.3	1 562.2	*2)*	Other
–	**0.1**	**1 257.4**	**2 717.3**	**3 352.1**	**3 896.4**	**4 443.3**		**Taxes on payroll and workforce**
–	0.1	1 257.4	2 717.3	3 352.1	3 896.4	4 443.3	*3)*	Skills development levy
2 830.4	**3 808.4**	**3 978.8**	**4 628.3**	**5 084.6**	**6 707.5**	**9 012.6**		**Taxes on property**
9.1	15.2	32.1	20.6	17.7	17.1	25.2		Donations tax
256.4	304.2	442.7	481.9	432.7	417.1	506.9		Estate duty
721.1	1 090.4	1 102.1	1 212.8	1 205.2	1 101.1	1 365.9	*4)*	Securities transfer tax
1 565.4	1 821.6	2 401.9	2 913.0	3 429.0	5 172.1	7 114.6		Transfer duties
278.5	577.0	–	–	–	–	–		Demutualisation charge
66 213.2	**72 184.7**	**78 877.5**	**86 885.1**	**97 311.5**	**110 108.6**	**131 980.6**		**Domestic taxes on goods and services**
43 985.4	48 376.8	54 455.2	61 056.6	70 149.9	80 681.8	98 157.9	*5)*	Value-added tax
8 052.8	8 886.1	9 126.6	9 797.2	10 422.6	11 364.6	13 066.7		Specific excise duties
518.9	584.3	693.9	776.1	1 050.2	1 016.2	1 015.2		*Ad valorem* excise duties
13 640.0	14 289.8	14 495.3	14 923.2	15 333.8	16 652.4	19 190.4		General fuel levy
–	–	85.8	296.4	324.8	367.2	412.2		Air departure tax
16.0	47.6	20.7	35.5	30.3	26.5	138.3	*6)*	Other
6 052.5	**6 778.1**	**8 226.6**	**8 680.1**	**9 619.8**	**8 414.3**	**13 286.5**		**Taxes on international trade and transactions**
5 985.7	6 517.8	7 853.6	8 632.2	9 330.7	8 479.4	12 888.4		Customs duties
1.6	0.4	0.0	0.5	0.0	–	–		Import surcharges
65.2	259.9	372.9	47.5	289.1	-65.1	398.1	*7)*	Other
1 489.0	**1 618.9**	**1 561.6**	**1 767.2**	**1 572.4**	**1 360.1**	**1 167.7**		**Stamp duties and fees**
179.3	**727.0**	**72.0**	**306.7**	**433.0**	**-7.1**	**-130.9**	*8)*	**State miscellaneous revenue**
184 785.9	**201 265.9**	**220 119.1**	**252 295.0**	**281 939.3**	**302 442.6**	**354 978.8**		**TOTAL TAX REVENUE (gross)**
4 796.2	**4 093.8**	**3 868.8**	**4 172.2**	**4 827.9**	**6 711.3**	**6 203.3**	*9)*	**Non-tax revenue (departmental receipts)**
-5 576.7	**-7 197.3**	**-8 396.1**	**-8 204.8**	**-8 259.4**	**-9 722.7**	**-13 327.8**	*10)*	**Less: SACU payments**
184 005.4	**198 162.4**	**215 591.9**	**248 262.4**	**278 507.7**	**299 431.2**	**347 854.4**		**TOTAL MAIN BUDGET REVENUE**
183 978.6	**198 120.7**	**215 548.4**	**248 258.2**	**278 449.9**	**299 414.7**	**347 824.2**		**Current revenue**
108 565.5	117 045.3	127 877.4	150 530.1	168 368.4	176 293.5	200 194.5		Direct taxes
76 041.1	83 493.7	92 169.7	101 458.2	113 137.9	126 156.1	154 915.3		Indirect taxes
179.3	727.0	72.0	306.7	433.0	-7.1	-130.9		State miscellaneous revenue
4 769.3	4 052.1	3 825.4	4 168.0	4 770.0	6 694.8	6 173.2	*11)*	Non-tax revenue (departmental receipts)
-5 576.7	-7 197.3	-8 396.1	-8 204.8	-8 259.4	-9 722.7	-13 327.8		Less: SACU payments
26.9	**41.7**	**43.5**	**4.2**	**57.8**	**16.5**	**30.2**		**Sales of capital assets**
2 757.6	*7 238.3*	*2 983.5*	*4 159.1*	*8 167.9*	*1 598.2*	*2 492.0*	*12)*	*Extraordinary receipts*

comparative purposes.

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, 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) *Excludes sales of capital assets.*

12) *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:
Summary of revenue *1)*

R million		2005/06	2006/07	2007/08	2008/09		2009/10	
		Actual collections			Revised estimates	% change on actual 2007/08	Budget estimates Before tax proposals	After tax proposals
Taxes on income and profits		**230 803.6**	**279 990.5**	**332 058.3**	**383 635.0**	**15.5%**	**403 590.0**	**389 040.0**
Persons and individuals		125 645.3	140 578.3	168 774.4	199 000.0	17.9%	221 000.0	207 450.0
Companies		86 160.8	118 998.6	140 119.8	162 000.0	15.6%	161 000.0	160 000.0
Secondary tax on companies		12 277.6	15 291.4	20 585.4	20 000.0	-2.8%	19 000.0	19 000.0
Tax on retirement funds		4 783.1	3 190.5	285.4	230.0	-19.4%	–	–
Other	2)	1 936.7	1 931.7	2 293.3	2 405.0	4.9%	2 590.0	2 590.0
Taxes on payroll and workforce		**4 872.0**	**5 597.4**	**6 330.9**	**7 255.6**	**14.6%**	**7 750.0**	**7 750.0**
Skills development levy	3)	4 872.0	5 597.4	6 330.9	7 255.6	14.6%	7 750.0	7 750.0
Taxes on property		**11 137.5**	**10 332.3**	**11 883.9**	**9 710.0**	**-18.3%**	**10 420.0**	**10 420.0**
Donations tax		29.5	47.0	27.6	110.0	–	80.0	80.0
Estate duty		624.7	747.4	691.0	685.0	-0.9%	700.0	700.0
Securities transfer tax	4)	1 973.4	2 763.9	3 757.1	3 875.0	3.1%	4 300.0	4 300.0
Transfer duties		8 510.0	6 774.0	7 408.2	5 040.0	-32.0%	5 340.0	5 340.0
Domestic taxes on goods and services		**151 223.6**	**174 671.4**	**194 690.3**	**202 064.0**	**3.8%**	**216 832.0**	**226 757.0**
Value-added tax	5)	114 351.6	134 462.6	150 442.8	154 919.0	3.0%	168 807.0	168 807.0
Specific excise duties		14 546.5	16 369.4	18 218.4	20 420.0	12.1%	20 500.0	22 600.0
Ad valorem excise duties		1 157.3	1 282.7	1 480.5	1 370.0	-7.5%	1 350.0	1 350.0
General fuel levy		20 506.7	21 844.6	23 740.5	24 480.0	3.1%	25 200.0	30 090.0
Air departure tax		458.2	484.8	540.6	580.0	7.3%	650.0	770.0
Electricity levy		–	–	–	–	–	–	2 780.0
Other	6)	203.4	227.2	267.4	295.0	10.3%	325.0	360.0
Taxes on international trade and transactions		**18 201.9**	**24 002.2**	**27 081.9**	**24 410.2**	**-9.9%**	**25 287.0**	**25 337.0**
Customs duties		18 303.5	23 697.0	26 469.8	23 780.0	-10.2%	24 635.0	24 635.0
Other	7)	-101.6	305.2	612.1	630.2	2.9%	652.0	702.0
Stamp duties and fees		**792.8**	**615.7**	**557.1**	**618.0**	**10.9%**	**–**	**–**
State miscellaneous revenue	8)	**164.2**	**339.2**	**212.2**	**–**	**–**	**–**	**–**
TOTAL TAX REVENUE (gross)		**417 195.7**	**495 548.6**	**572 814.6**	**627 692.8**	**9.6%**	**663 879.0**	**659 304.0**
Non-tax revenue (departmental receipts)	9)	**8 697.1**	**10 843.3**	**11 671.7**	**12 351.6**	**5.8%**	**11 601.6**	**11 601.6**
Less: SACU payments	10)	**-14 144.9**	**-25 194.9**	**-24 712.6**	**-28 920.6**	**17.0%**	**-27 915.4**	**-27 915.4**
TOTAL MAIN BUDGET REVENUE		**411 747.9**	**481 197.0**	**559 773.8**	**611 123.8**	**9.2%**	**647 565.2**	**642 990.2**
Current revenue		**411 668.6**	**481 158.2**	**559 543.7**	**611 025.5**	**9.2%**	**647 522.2**	**642 947.2**
Direct taxes		236 329.7	286 382.4	339 107.8	391 685.6	15.5%	412 120.0	397 570.0
Indirect taxes		180 701.8	208 827.1	233 494.6	236 007.2	1.1%	251 759.0	261 734.0
State miscellaneous revenue		164.2	339.2	212.2	–	–	–	–
Non-tax revenue (departmental receipts)	11)	8 617.8	10 804.5	11 441.6	12 253.3	7.1%	11 558.6	11 558.6
Less: SACU payments		-14 144.9	-25 194.9	-24 712.6	-28 920.6	17.0%	-27 915.4	-27 915.4
Sales of capital assets		**79.3**	**38.8**	**230.1**	**98.3**	**-57.3%**	**43.0**	**43.0**
Extraordinary receipts	*12)*	*6 905.2*	*3 438.1*	*2 870.7*	*8 123.0*		*6 100.0*	*6 100.0*

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) and levies on financial services (up to 2004/05). Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for

Table 2
Main Budget:
Summary of revenue *1)*

2009/10		2010/11		2011/12			
% change on revised 2008/09	% of total budget revenue	Estimates	% change on after tax proposals 2009/10	Estimates	% change on 2010/11		R million
1.4%	**60.5%**	**424 280.0**	**9.1%**	**469 384.0**	**10.6%**		**Taxes on income and profits**
4.2%	32.3%	230 740.0	11.2%	256 290.0	11.1%		Persons and individuals
-1.2%	24.9%	179 070.0	11.9%	197 160.0	10.1%		Companies
-5.0%	3.0%	11 670.0	-38.6%	12 850.0	10.1%		Secondary tax on companies
–	–	–	–	–	–		Tax on retirement funds
7.7%	0.4%	2 800.0	8.1%	3 084.0	10.1%	*2)*	Other
6.8%	**1.2%**	**8 424.2**	**8.7%**	**9 148.7**	**8.6%**		**Taxes on payroll and workforce**
6.8%	1.2%	8 424.2	8.7%	9 148.7	8.6%	*3)*	Skills development levy
7.3%	**1.6%**	**11 530.0**	**10.7%**	**13 100.0**	**13.6%**		**Taxes on property**
-27.3%	0.0%	90.0	12.5%	100.0	11.1%		Donations tax
2.2%	0.1%	770.0	10.0%	850.0	10.4%		Estate duty
11.0%	0.7%	4 800.0	11.6%	5 280.0	10.0%	*4)*	Securities transfer tax
6.0%	0.8%	5 870.0	9.9%	6 870.0	17.0%		Transfer duties
12.2%	**35.3%**	**250 039.0**	**10.3%**	**273 590.0**	**9.4%**		**Domestic taxes on goods and services**
9.0%	26.3%	187 940.0	11.3%	208 940.0	11.2%	*5)*	Value-added tax
10.7%	3.5%	23 390.0	3.5%	24 350.0	4.1%		Specific excise duties
-1.5%	0.2%	1 420.0	5.2%	1 490.0	4.9%		*Ad valorem* excise duties
22.9%	4.7%	32 140.0	6.8%	33 460.0	4.1%		General fuel levy
32.8%	0.1%	800.0	3.9%	830.0	3.8%		Air departure tax
–	0.4%	3 965.0	42.6%	4 120.0	3.9%		Electricity levy
22.0%	0.1%	384.0	6.7%	400.0	4.2%	*6)*	Other
3.8%	**3.9%**	**26 662.0**	**5.2%**	**28 444.0**	**6.7%**		**Taxes on international trade and transactions**
3.6%	3.8%	25 890.0	5.1%	27 580.0	6.5%		Customs duties
11.4%	0.1%	772.0	10.0%	864.0	11.9%	*7)*	Other
–	**–**	**–**	**–**	**–**	**–**		**Stamp duties and fees**
–	**–**	**–**	**–**	**–**	**–**	*8)*	**State miscellaneous revenue**
5.0%	**102.5%**	**720 935.2**	**9.3%**	**793 666.7**	**10.1%**		**TOTAL TAX REVENUE (gross)**
-6.1%	**1.8%**	**14 375.3**	**23.9%**	**15 426.3**	**7.3%**	*9)*	**Non-tax revenue (departmental receipts)**
-3.5%	**-4.3%**	**-26 236.6**	**-6.0%**	**-27 867.1**	**6.2%**	*10)*	**Less: SACU payments**
5.2%	**100.0%**	**709 074.0**	**10.3%**	**781 225.9**	**10.2%**		**TOTAL MAIN BUDGET REVENUE**
5.2%	**100.0%**	**709 029.2**	**10.3%**	**781 179.5**	**10.2%**		**Current revenue**
1.5%	61.8%	433 564.2	9.1%	479 482.7	10.6%		Direct taxes
10.9%	40.7%	287 371.0	9.8%	314 184.0	9.3%		Indirect taxes
–	–	–	–	–	–		State miscellaneous revenue
-5.7%	1.8%	14 330.5	24.0%	15 379.9	7.3%	*11)*	Non-tax revenue (departmental receipts)
-3.5%	-4.3%	-26 236.8	-6.0%	-27 867.1	6.2%		Less: SACU payments
-56.3%	**0.0%**	**44.8**	**4.3%**	**46.4**	**3.5%**		**Sales of capital assets**
		1 000.0		*1 000.0*		*12)*	*Extraordinary receipts*

comparative purposes.

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, 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) Excludes sales of capital assets.

12) 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 3
Main Budget:
Revenue – detailed classification

R thousands		2005/06 Actual collections	2006/07 Actual collections	2007/08 Before tax proposals	2007/08 After tax proposals	2007/08 Revised estimate	2007/08 Actual collection
Taxes on income and profits		**230 803 550**	**279 990 516**	**326 500 000**	**312 150 000**	**332 270 000**	**332 058 296**
Income tax on persons and individuals		125 645 348	140 578 347	163 900 000	155 335 000	168 500 000	168 774 352
Tax on corporate income							
Companies		86 160 776	118 998 582	139 300 000	138 515 000	141 400 000	140 119 831
Secondary tax on companies		12 277 625	15 291 351	18 000 000	16 000 000	20 200 000	20 585 421
Tax on retirement funds		4 783 107	3 190 529	3 000 000	–	160 000	285 357
Other							
Interest on overdue income tax		1 936 694	1 931 050	2 300 000	2 300 000	2 000 000	2 280 507
Small business tax amnesty		–	657	–	–	10 000	12 828
Taxes on payroll and workforce		**4 872 040**	**5 597 401**	**6 500 000**	**6 500 000**	**6 800 000**	**6 330 917**
Skills development levy		4 872 040	5 597 401	6 500 000	6 500 000	6 800 000	6 330 917
Taxes on property		**11 137 524**	**10 332 290**	**11 000 000**	**10 995 000**	**12 680 000**	**11 883 869**
Estate, inheritance and gift taxes							
Donations tax		29 459	47 022	35 000	30 000	30 000	27 551
Estate duty		624 654	747 447	750 000	450 000	750 000	691 031
Taxes on financial and capital transactions							
Securities transfer tax	*1)*	1 973 373	2 763 861	3 165 000	3 465 000	4 150 000	3 757 114
Transfer duties		8 510 038	6 773 960	7 050 000	7 050 000	7 750 000	7 408 173
Domestic taxes on goods and services		**151 223 639**	**174 671 372**	**196 700 000**	**199 045 000**	**191 447 000**	**194 690 295**
Value-added tax		114 351 638	134 462 599	155 068 000	155 068 000	147 000 000	150 442 849
Specific excise duties							
Beer		4 427 641	4 795 442	4 794 000	5 274 000	5 110 000	5 141 862
Sorghum beer and sorghum flour		40 560	43 357	45 450	45 450	35 000	34 675
Wine and other fermented beverages		848 622	1 031 611	780 000	855 000	1 195 000	1 253 881
Spirits		1 622 520	2 016 802	2 194 400	2 434 400	2 360 000	2 364 130
Cigarettes and cigarette tobacco		6 024 031	6 783 519	6 831 000	7 481 000	7 685 000	7 665 368
Pipe tobacco and cigars		391 873	410 079	402 900	437 900	425 000	379 064
Petroleum products	*2)*	854 720	846 609	970 600	970 600	890 000	901 269
Revenue from neighbouring countries	*3)*	336 568	441 978	294 000	294 000	300 000	478 198
Ad valorem excise duties		1 157 271	1 282 664	1 500 000	1 415 000	1 615 000	1 480 454
General fuel levy		20 506 666	21 844 641	22 987 650	23 937 650	24 000 000	23 740 511
Taxes on specific services							
Levy on financial services		-48	–	–	–	–	–
Taxes on use of goods or permission to use goods or to perform activities							
Air passenger tax		458 158	484 823	520 000	520 000	520 000	540 635
Plastic bags levy		61 385	75 128	82 000	82 000	82 000	86 314
Electricity levy		–	–	–	–	–	–
Incandescent light bulb levy		–	–	–	–	–	–
Other							
Universal Service Fund		142 034	152 120	230 000	230 000	230 000	181 085
Taxes on international trade and transactions		**18 201 875**	**24 002 197**	**27 485 000**	**27 485 000**	**27 001 000**	**27 081 900**
Import duties							
Customs duties		18 303 465	23 697 003	27 084 000	27 084 000	26 600 000	26 469 760
Other							
Miscellaneous customs and excise receipts		-102 116	305 194	401 000	401 000	401 000	612 024
Diamond export levy		526	–	–	–	–	116
Other taxes		**792 842**	**615 670**	**612 000**	**222 000**	**700 000**	**557 123**
Stamp duties and fees		792 842	615 670	612 000	222 000	700 000	557 123
State miscellaneous revenue	*4)*	**164 236**	**339 171**	**–**	**–**	**–**	**212 236**
TOTAL TAX REVENUE (gross)		**417 195 706**	**495 548 617**	**568 797 000**	**556 397 000**	**570 898 000**	**572 814 636**
Less: SACU payments	*5)*	**-14 144 921**	**-25 194 939**	**-23 053 000**	**-23 053 000**	**-24 712 567**	**-24 712 567**
Payments in terms of Customs Union agreements (sec. 51(2) of Act 91 of 1964)		-14 144 921	-25 194 939	-23 053 000	-23 053 000	-24 712 567	-24 712 567
TOTAL TAX REVENUE (net of SACU payments)		**403 050 785**	**470 353 678**	**545 744 000**	**533 344 000**	**546 185 433**	**548 102 069**

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.
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.

Table 3
Main Budget:
Revenue – detailed classification

2008/09 Budget estimates Before tax proposals	2008/09 Budget estimates After tax proposals	2008/09 Revised estimate	% change on 2007/08 actual	2009/10 Before tax proposals	2009/10 After tax proposals		R thousands
384 354 900	**369 754 000**	**383 635 000**	**15.5%**	**403 590 000**	**389 040 000**		**Taxes on income and profits**
198 746 900	191 046 000	199 000 000	17.9%	221 000 000	207 450 000		Income tax on persons and individuals
							Tax on corporate income
163 371 000	156 471 000	162 000 000	15.6%	161 000 000	160 000 000		Companies
20 000 000	20 000 000	20 000 000	-2.8%	19 000 000	19 000 000		Secondary tax on companies
–	–	230 000	-19.4%	–	–		Tax on retirement funds
							Other
2 237 000	2 237 000	2 365 000	3.7%	2 560 000	2 560 000		Interest on overdue income tax
–	–	40 000	–	30 000	30 000		Small business tax amnesty
7 529 600	**7 529 600**	**7 255 600**	**14.6%**	**7 749 980**	**7 749 980**		**Taxes on payroll and workforce**
7 529 600	7 529 600	7 255 600	14.6%	7 749 980	7 749 980		Skills development levy
14 212 000	**14 212 000**	**9 710 000**	**-18.3%**	**10 420 000**	**10 420 000**		**Taxes on property**
							Estate, inheritance and gift taxes
35 000	35 000	110 000	–	80 000	80 000		Donations tax
875 000	875 000	685 000	-0.9%	700 000	700 000		Estate duty
							Taxes on financial and capital transactions
4 682 000	4 682 000	3 875 000	3.1%	4 300 000	4 300 000	*1)*	Securities transfer tax
8 620 000	8 620 000	5 040 000	-32.0%	5 340 000	5 340 000		Transfer duties
214 319 000	**218 420 000**	**202 064 000**	**3.8%**	**216 832 000**	**226 757 000**		**Domestic taxes on goods and services**
167 528 000	167 028 000	154 919 000	3.0%	168 807 000	168 807 000		Value-added tax
							Specific excise duties
5 630 000	5 941 000	5 763 200	12.1%	5 907 600	6 512 800		Beer
35 000	35 000	38 900	12.2%	40 500	40 500		Sorghum beer and sorghum flour
1 320 000	1 410 000	1 405 400	12.1%	1 414 300	1 559 200		Wine and other fermented beverages
2 620 000	2 890 000	2 649 800	12.1%	2 501 300	2 807 500		Spirits
7 780 000	8 375 000	8 591 600	12.1%	8 812 300	9 614 000		Cigarettes and cigarette tobacco
415 000	430 000	424 900	12.1%	457 700	679 700		Pipe tobacco and cigars
925 000	980 000	1 010 200	12.1%	876 300	876 300	*2)*	Petroleum products
325 000	340 000	536 000	12.1%	490 000	510 000	*3)*	Revenue from neighbouring countries
1 682 000	1 682 000	1 370 000	-7.5%	1 350 000	1 350 000		*Ad valorem* excise duties
25 184 000	26 434 000	24 480 000	3.1%	25 200 000	30 090 000		General fuel levy
							Taxes on specific services
–	–	–	–	–	–		Levy on financial services
							Taxes on use of goods or permission to use goods or to perform activities
545 000	545 000	580 000	7.3%	650 000	770 000		Air passenger tax
90 000	90 000	70 000	-18.9%	75 000	90 000		Plastic bags levy
–	2 000 000	–	–	–	2 780 000		Electricity levy
–	–	–	–	–	20 000		Incandescent light bulb levy
							Other
240 000	240 000	225 000	24.3%	250 000	250 000		Universal Service Fund
31 473 000	**31 473 000**	**24 410 170**	**-9.9%**	**25 287 000**	**25 337 000**		**Taxes on international trade and transactions**
							Import duties
31 073 000	31 073 000	23 780 000	-10.2%	24 635 000	24 635 000		Customs duties
							Other
400 000	400 000	630 000	2.9%	652 000	652 000		Miscellaneous customs and excise receipts
–	–	170	46.6%	–	50 000		Diamond export levy
700 000	**700 000**	**618 000**	**10.9%**	**–**	**–**		**Other taxes**
700 000	700 000	618 000	10.9%	–	–		Stamp duties and fees
–	**–**	**–**	**–**	**–**	**–**	*4)*	**State miscellaneous revenue**
652 588 500	**642 088 600**	**627 692 770**	**9.6%**	**663 878 980**	**659 303 980**		**TOTAL TAX REVENUE (gross)**
-28 920 625	**-28 920 625**	**-28 920 625**	**17.0%**	**-27 915 405**	**-27 915 405**	*5)*	**Less: SACU payments**
-28 920 625	-28 920 625	-28 920 625	17.0%	-27 915 405	-27 915 405		Payments in terms of Customs Union agreements (sec. 51(2) of Act 91 of 1964)
623 667 875	**613 167 975**	**598 772 145**	**9.2%**	**635 963 575**	**631 388 575**		**TOTAL TAX REVENUE (net of SACU payments)**

6) New item introduced on the Standard Chart of Accounts (SCOA) from 2008/09. 2005/06 and 2006/07 has been adjusted for comparative purposes.
7) Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for comparative purposes.
8) Royalties, prospecting fees and surface rental collected by the Department of Minerals and Energy.
9) Includes recoveries of loans and advances.

Table 3
Main Budget:
Revenue – detailed classification

R thousands		2005/06 Actual collections	2006/07 Actual collections	2007/08 Before tax proposals	2007/08 After tax proposals	2007/08 Revised estimate	2007/08 Actual collection
TOTAL TAX REVENUE (net of SACU payments)		**403 050 785**	**470 353 678**	**545 744 000**	**533 344 000**	**546 185 433**	**548 102 069**
Sales of goods and services other than capital assets		**2 242 736**	**2 654 047**	**2 425 348**	**2 425 348**	**3 104 266**	**2 841 309**
Sales of goods and services produced by departments							
Sales by market establishments	6)	47 231	78 043	–	–	–	83 112
Administrative fees		1 701 634	2 150 159	1 935 642	1 935 642	2 419 001	2 287 559
Other sales		343 139	361 349	404 072	404 072	488 435	446 893
Sales of scrap, waste, arms and other used current goods		150 732	64 496	85 634	85 634	196 830	23 745
Transfers received		**50 234**	**548**	**206**	**206**	**2 816**	**4 171**
Fines, penalties and forfeits		**279 890**	**417 121**	**450 860**	**450 860**	**380 057**	**448 142**
Interest, dividends and rent on land		**5 207 756**	**5 993 025**	**6 473 809**	**6 473 809**	**7 256 107**	**6 851 070**
Interest							
Cash and cash equivalents		126 455	86 178	210 400	210 400	158 934	91 240
Interest investments		85 913	7 171	–	–	–	42 684
Exchequer investments		1 887 202	2 552 673	1 636 000	1 636 000	1 723 085	1 756 587
Sterilisation deposits		470 845	1 710 715	2 776 000	2 776 000	3 388 000	3 109 463
Dividends							
Airports Company South Africa (ACSA)		220 067	231 257	242 628	242 628	242 823	100 709
Eskom		981 000	–	–	–	–	–
Industrial Development Corporation (IDC)		65 000	70 007	75 000	75 000	75 000	75 000
Registration of Deeds Trading Account surplus		234 447	124 027	–	–	140 000	119 215
SA Reserve Bank (SARB) surplus		7 429	16 299	84 688	84 688	84 689	1 685
Telkom		828 193	1 035 238	1 086 999	1 086 999	1 086 950	1 242 285
SA Forestry Company Ltd (SAFCOL)		30 000	–	–	–	–	–
Rent on land							
Mining leases and ownership	7)	138 289	-33 506	165 000	165 000	165 000	55 916
Royalties, prospecting fees and surface rental	8)	129 767	188 485	130 477	130 477	181 028	244 101
Land rent		3 149	4 481	66 617	66 617	10 598	12 185
Sales of capital assets		**79 282**	**38 785**	**11 818**	**11 818**	**109 858**	**230 100**
Financial transactions in assets and liabilities	9)	**837 226**	**1 739 790**	**1 895 597**	**1 895 597**	**923 755**	**1 296 910**
TOTAL NON-TAX REVENUE (departmental receipts)		**8 697 124**	**10 843 316**	**11 257 638**	**11 257 638**	**11 776 859**	**11 671 702**
TOTAL MAIN BUDGET REVENUE		**411 747 909**	**481 196 994**	**557 001 638**	**544 601 638**	**557 962 292**	**559 773 771**
Extraordinary receipts		***6 905 266***	***3 438 017***	***1 250 000***	***1 250 000***	***1 927 000***	***2 870 714***
Adjustments due to transactions in government stock		*2 408 026*	*910 655*	*802 030*	*802 030*	*350 000*	*245 326*
Agricultural Debt Account surrender		*150 000*	*200 000*	*250 000*	*250 000*	*250 000*	*250 000*
Exchange control penalties and forfeits from SARB		–	–	–	–	–	*1 020 877*
Foreign exchange amnesty proceeds		*2 650 000*	*365 000*	–	–	–	–
Lebowa Minerals Trust abolition		–	*466 511*	–	–	–	–
Proceeds from the sale of Telkom's share in Vodacom		–	–	–	–	–	–
Profits on GFECRA		–	–	–	–	*292 000*	*319 273*
Special dividends							
Airports Company South Africa (ACSA)		–	*667 661*	–	–	–	–
Eskom		*662 000*	–	–	–	–	–
Telkom		*1 035 240*	*828 190*	*197 970*	*197 970*	*1 035 000*	*1 035 238*
Special restructuring proceeds from SASRIA		–	–	–	–	–	–
Winding down of Diabo Share Trust		–	–	–	–	–	–

6) New item introduced on the Standard Chart of Accounts (SCOA) from 2008/09. 2005/06 and 2006/07 has been adjusted for comparative purposes.
7) Mining leases and ownership has been reclassified as non-tax revenue. The historical years from 1998/99 have been adjusted for comparative purposes.
8) Royalties, prospecting fees and surface rental collected by the Department of Minerals and Energy.
9) Includes recoveries of loans and advances.

Table 3
Main Budget:
Revenue – detailed classification

2008/09				2009/10			
Budget estimates Before tax proposals	Budget estimates After tax proposals	Revised estimate	% change on 2007/08 actual	Before tax proposals	After tax proposals		R thousands
623 667 875	**613 167 975**	**598 772 145**	**9.2%**	**635 963 575**	**631 388 575**		**TOTAL TAX REVENUE (net of SACU payments)**
3 448 085	**3 448 085**	**3 042 001**	**7.1%**	**3 256 336**	**3 256 336**		**Sales of goods and services other than capital assets**
							Sales of goods and services produced by departments
–	–	55 411	-33.3%	57 341	57 341	6)	Sales by market establishments
2 753 191	2 753 191	2 287 330	-0.0%	2 461 784	2 461 784		Administrative fees
670 161	670 161	655 596	46.7%	695 599	695 599		Other sales
24 733	24 733	43 664	83.9%	41 612	41 612		Sales of scrap, waste, arms and other used current goods
200	**200**	**231 480**	**–**	**152 985**	**152 985**		**Transfers received**
437 019	**437 019**	**474 883**	**6.0%**	**471 355**	**471 355**		**Fines, penalties and forfeits**
7 436 067	**7 436 067**	**7 435 572**	**8.5%**	**6 623 509**	**6 623 509**		**Interest, dividends and rent on land**
							Interest
203 178	203 178	42 941	-52.9%	118 263	118 263		Cash and cash equivalents
–	–	45 616	6.9%	48 125	48 125		Interest investments
1 412 500	1 412 500	1 784 000	1.6%	1 518 000	1 518 000		Exchequer investments
3 731 000	3 731 000	3 300 000	6.1%	2 600 000	2 600 000		Sterilisation deposits
							Dividends
254 964	254 964	–	–	110 000	110 000		Airports Company South Africa (ACSA)
–	–	–	–	–	–		Eskom
80 000	80 000	80 000	6.7%	85 000	85 000		Industrial Development Corporation (IDC)
140 000	140 000	–	–	150 000	150 000		Registration of Deeds Trading Account surplus
88 923	88 923	119 005	–	93 369	93 369		SA Reserve Bank (SARB) surplus
1 141 297	1 141 297	1 366 514	10.0%	1 366 514	1 366 514		Telkom
–	–	–	–	–	–		SA Forestry Company Ltd (SAFCOL)
							Rent on land
180 000	180 000	495 000	–	325 000	325 000	7)	Mining leases and ownership
196 812	196 812	185 701	-23.9%	195 915	195 915	8)	Royalties, prospecting fees and surface rental
7 393	7 393	16 795	37.8%	13 323	13 323		Land rent
148 832	**148 832**	**98 325**	**-57.3%**	**42 991**	**42 991**		**Sales of capital assets**
714 797	**714 797**	**1 069 381**	**-17.5%**	**1 054 399**	**1 054 399**	9)	**Financial transactions in assets and liabilities**
12 185 000	**12 185 000**	**12 351 642**	**5.8%**	**11 601 575**	**11 601 575**		**TOTAL NON-TAX REVENUE (departmental receipts)**
635 852 875	**625 352 975**	**611 123 787**	**9.2%**	**647 565 150**	**642 990 150**		**TOTAL MAIN BUDGET REVENUE**
850 000	***850 000***	***8 122 462***		***6 100 000***	***6 100 000***		***Extraordinary receipts***
600 000	*600 000*	*5 285 500*		*2 100 000*	*2 100 000*		*Adjustments due to transactions in government stock*
250 000	*250 000*	*250 000*		*150 000*	*150 000*		*Agricultural Debt Account surrender*
–	–	*1 500*		–	–		*Exchange control penalties and forfeits from SARB*
–	–	–		–	–		*Foreign exchange amnesty proceeds*
–	–	–		–	–		*Lebowa Minerals Trust abolition*
–	–	–		*3 500 000*	*3 500 000*		*Proceeds from the sale of Telkom's share in Vodacom*
–	–	–		–	–		*Profits on GFECRA*
							Special dividends
–	–	–		–	–		*Airports Company South Africa (ACSA)*
–	–	–		–	–		*Eskom*
–	–	–		–	–		*Telkom*
–	–	*2 150 000*		*350 000*	*350 000*		*Special restructuring proceeds from SASRIA*
–	–	*435 462*		–	–		*Winding down of Diabo Share Trust*

Table 4
Main Budget: Expenditure defrayed from the National Revenue Fund by vote

R million		2005/06 Expenditure on budget vote Outcome	2005/06 of which transfers to provinces 1)	2005/06 of which transfers to local government 2)	2006/07 Expenditure on budget vote Outcome	2006/07 of which transfers to provinces 1)
Central Government Administration						
The Presidency		190.1	–	–	236.3	–
Parliament		597.9	–	–	755.1	–
Foreign Affairs		2 687.7	–	–	2 944.7	–
Home Affairs		3 172.1	–	–	2 546.9	–
Public Works		2 354.3	*585.4*	–	3 025.8	*710.1*
Financial and Administrative Services						
Government Communication and Information System		253.6	–	–	293.1	–
National Treasury		13 100.7	*2 984.1*	*387.5*	16 171.0	*4 983.5*
Public Administration Leadership and Management Academy		55.4	–	–	58.3	–
Public Service and Administration		197.0	–	–	429.4	–
Public Service Commission		91.1	–	–	96.1	–
Statistics South Africa		643.9	–	–	1 096.6	–
Social Services						
Arts and Culture		1 121.0	–	–	1 329.9	–
Education		12 436.8	*1 248.4*	–	14 249.8	*1 712.5*
Health		9 937.1	*8 907.3*	–	11 338.0	*10 206.5*
Labour		1 295.9	–	–	1 453.5	–
Social Development		55 067.8	–	–	61 676.1	–
Sport and Recreation South Africa		436.8	*24.0*	–	886.5	*119.0*
Justice, Crime prevention and Security						
Correctional Services		9 631.2	–	–	9 251.2	–
Defence		23 510.5	–	–	23 817.6	–
Independent Complaints Directorate		54.5	–	–	65.3	–
Justice and Constitutional Development		5 153.5	–	–	6 005.2	–
Safety and Security		29 360.8	–	–	32 521.2	–
Economic Services and Infrastructure						
Agriculture		1 909.0	*410.0*	–	2 224.0	*401.1*
Communications		1 034.4	–	–	1 319.6	–
Environmental Affairs and Tourism		1 775.7	–	–	2 059.7	–
Housing		5 248.8	*4 867.9*	–	7 166.0	*6 677.8*
Land Affairs		2 874.7	*8.0*	–	3 720.5	*8.0*
Minerals and Energy		2 191.6	–	*297.5*	2 607.7	–
Provincial and Local Government		15 976.1	*40.7*	*15 590.5*	24 575.7	–
of which: Local government equitable share		*9 643.3*	–	*9 643.3*	*18 057.9*	–
Public Enterprises		2 671.5	–	–	2 589.8	–
Science and Technology		2 041.3	–	–	2 613.0	–
Trade and Industry		3 056.4	–	–	3 804.7	*58.2*
Transport		10 409.9	–	*241.7*	13 360.4	*3 241.0*
Water Affairs and Forestry		3 804.0	–	*164.5*	4 305.7	–
		224 343.2	***19 075.9***	***16 681.7***	**260 594.3**	***28 117.8***
Plus:						
Unallocated funds/Projected underspending					–	–
Contingency reserve		–	–	–	–	–
Subtotal: Appropriations by vote		**224 343.2**	***19 075.9***	***16 681.7***	**260 594.3**	***28 117.8***
Plus:						
Direct charges against the National Revenue Fund						
President and Deputy President salary (The Presidency)		2.0	–	–	2.2	
Members remuneration (Parliament)		211.7	–	–	223.3	
State debt costs (National Treasury)		50 912.0	–	–	52 192.2	
Provincial equitable share (National Treasury)	*4)*	135 291.6	*135 291.6*	–	150 752.9	*150 752.9*
General fuel levy sharing with metros (National Treasury)		–	–	–	–	–
Skills levy and Setas (Labour)		4 883.3	–	–	5 328.4	
Judges and magistrates salaries (Justice and Const. Dev.)		1 040.1	–	–	1 099.3	
Main budget expenditure		**416 684.0**	***154 367.5***	***16 681.7***	**470 192.5**	***178 870.8***

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

2006/07	2007/08			2008/09		
of which transfers to local government 2)	Preliminary outcome	*of which transfers to provinces 1)*	*of which transfers to local government 2)*	Budget estimate	Adjusted appro-priation 4)	R million
						Central Government Administration
–	264.2	–	–	290.0	311.7	The Presidency
–	902.1	–	–	904.5	913.8	Parliament
–	4 069.7	–	–	4 340.7	5 569.8	Foreign Affairs
–	3 241.7	–	–	4 505.0	4 816.6	Home Affairs
–	3 402.3	*836.6*	–	4 141.4	4 302.0	Public Works
						Financial and Administrative Services
–	380.9	–	–	418.3	439.8	Government Communication and Information System
410.3	18 966.2	*6 276.2*	*716.5*	21 318.2	31 424.2	National Treasury
–	131.1	–	–	105.5	105.5	Public Administration Leadership and Management Academy
–	370.4	–	–	412.3	420.2	Public Service and Administration
–	108.1	–	–	111.2	113.7	Public Service Commission
–	1 057.0	–	–	1 272.2	1 323.4	Statistics South Africa
						Social Services
–	1 585.8	*163.2*	–	2 117.1	2 160.3	Arts and Culture
–	16 241.3	*2 008.0*	–	18 857.5	19 749.4	Education
–	12 762.7	*11 552.7*	–	15 100.8	15 851.2	Health
–	1 948.6	–	–	1 732.9	1 747.6	Labour
–	67 191.4	–	–	76 008.0	76 554.2	Social Development
600.0	5 048.0	*194.0*	*4 605.0*	3 496.2	4 909.7	Sport and Recreation South Africa
						Justice, Crime prevention and Security
–	11 122.4	–	–	11 671.8	12 338.8	Correctional Services
–	25 180.1	–	–	28 233.2	27 899.0	Defence
–	80.9	–	–	98.5	98.5	Independent Complaints Directorate
–	7 373.8	–	–	8 341.4	8 515.5	Justice and Constitutional Development
–	36 386.1	–	–	40 453.2	41 492.3	Safety and Security
						Economic Services and Infrastructure
–	3 332.8	*761.7*	–	2 534.7	2 937.7	Agriculture
–	1 911.8	–	–	1 723.6	2 331.5	Communications
–	2 788.8	–	–	3 061.7	3 206.6	Environmental Affairs and Tourism
–	8 586.3	*8 149.9*	–	10 586.5	10 928.5	Housing
–	5 893.1	–	–	6 659.4	6 659.4	Land Affairs
390.7	2 947.4	–	*462.5*	3 595.4	3 786.2	Minerals and Energy
24 196.3	30 029.7	–	*29 629.8*	34 193.9	35 639.0	Provincial and Local Government
18 057.9	*20 675.6*	–	*20 675.6*	*24 888.7*	*25 559.7*	*of which: Local government equitable share*
–	4 604.0	–	–	3 007.9	3 269.4	Public Enterprises
–	3 127.3	–	–	3 704.0	3 721.7	Science and Technology
–	5 295.4	–	–	5 102.6	5 126.9	Trade and Industry
518.0	16 331.6	*3 029.4*	*1 174.0*	20 508.5	24 492.8	Transport
385.7	5 385.4	–	*732.9*	6 699.3	7 036.6	Water Affairs and Forestry
26 501.0	**308 048.4**	***32 971.7***	***37 320.7***	**345 307.6**	**370 193.6**	
						Plus:
–			–	–	-4 339.2	Unallocated funds/Projected underspending
–	–	–	–	6 000.0	–	Contingency reserve
26 501.0	**308 048.4**	***32 971.7***	***37 320.7***	**351 307.6**	**365 854.4**	**Subtotal: Appropriations by vote**
						Plus:
						Direct charges against the National Revenue Fund
–	2.3	–	–	2.5	2.5	President and Deputy President salary (The Presidency)
–	240.7	–	–	254.0	254.0	Members remuneration (Parliament)
–	52 877.1	–	–	51 236.0	53 926.0	State debt costs (National Treasury)
–	172 861.5	*172 861.5*	–	199 377.0	204 009.9	*4)* Provincial equitable share (National Treasury)
–	–	–	–	–	–	General fuel levy sharing with metros (National Treasury)
–	6 284.3	–	–	7 529.6	7 529.6	Skills levy and Setas (Labour)
–	1 184.5	–	–	1 389.3	1 389.3	Judges and magistrates salaries (Justice and Const. Dev.)
26 501.0	**541 498.8**	***205 833.2***	***37 320.7***	**611 095.9**	**632 965.7**	**Main budget expenditure**

3) Excludes R2.5 bn for the Political Office Bearers Pension Fund, previously allocated to Parliament.
4) Provincial equitable share, excluding conditional grants to provinces.

Table 4
Main Budget: Expenditure defrayed from the National Revenue Fund by vote

R million	2008/09			2009/10		
		of which			*of which*	
	Projected vote outturn	*transfers to provinces 1)*	*transfers to local government 2)*	Budget estimate	*transfers to provinces 1)*	*transfers to local government 2)*
Central Government Administration						
The Presidency	311.7	–	–	324.8	–	–
Parliament	913.8	–	–	974.1	–	–
Foreign Affairs	5 353.1	–	–	5 337.0	–	–
Home Affairs	4 671.4	–	–	5 050.6	–	–
Public Works	4 252.0	*889.3*	–	5 298.0	*1 148.0*	*201.7*
Financial and Administrative Services						
Government Communication and Information System	439.8	–	–	482.0	–	–
National Treasury	31 075.0	*7 384.5*	*260.0*	61 676.2	*13 449.2*	*882.0*
Public Administration Leadership and Management Academy	105.5	–	–	119.3	–	–
Public Service and Administration	416.8	–	–	355.8	–	–
Public Service Commission	113.7	–	–	121.3	–	–
Statistics South Africa	1 323.4	–	–	1 608.6	–	–
Social Services						
Arts and Culture	2 126.3	*323.6*	–	2 623.5	*440.6*	–
Education	19 743.4	*2 909.4*	–	21 287.2	*2 571.9*	–
Health	15 551.2	*14 090.8*	–	17 058.1	*15 578.4*	–
Labour	1 643.7	–	–	2 126.4	–	–
Social Development	76 393.2	–	–	86 408.3	–	–
Sport and Recreation South Africa	4 884.7	*278.7*	*4 295.0*	2 859.9	*402.3*	*2 168.7*
Justice, Crime prevention and Security						
Correctional Services	12 338.8	–	–	13 238.6	–	–
Defence	27 749.0	–	–	32 024.4	–	–
Independent Complaints Directorate	98.5	–	–	114.9	–	–
Justice and Constitutional Development	8 515.5	–	–	9 658.0	–	–
Safety and Security	41 492.3	–	–	46 409.7	–	–
Economic Services and Infrastructure						
Agriculture	2 819.6	*868.0*	–	2 792.8	*876.8*	–
Communications	2 331.5	–	–	2 266.9	–	–
Environmental Affairs and Tourism	3 206.6	–	–	3 480.8	–	–
Housing	10 634.7	*9 920.9*	–	13 588.6	*12 592.3*	–
Land Affairs	6 659.4	–	–	6 099.1	–	–
Minerals and Energy	3 685.0	–	*494.4*	4 647.2	–	*1 108.0*
Provincial and Local Government	34 870.2	*29.7*	*34 396.6*	35 607.0	–	*35 131.4*
of which: Local government equitable share	*25 559.7*		*25 559.7*	*23 846.5*	–	*23 846.5*
Public Enterprises	3 267.5	–	–	3 797.3	–	–
Science and Technology	3 721.7	–	–	4 234.1	–	–
Trade and Industry	5 076.9	–	–	6 344.2	–	–
Transport	24 142.3	*4 040.3*	*3 178.9*	23 734.8	*6 409.0*	*2 428.0*
Water Affairs and Forestry	6 466.7	–	*994.6*	7 893.8	–	*978.6*
	366 394.9	***40 735.1***	***43 619.5***	**429 643.2**	***53 468.5***	***42 898.3***
Plus:						
Unallocated funds/Projected underspending	–	–	–	–	–	–
Contingency reserve	–	–	–	6 000.0	–	–
Subtotal: Appropriations by vote	**366 394.9**	***40 735.1***	***43 619.5***	**435 643.2**	***53 468.5***	***42 898.3***
Plus:						
Direct charges against the National Revenue Fund						
President and Deputy President salary (The Presidency)	4.0	–	–	4.3	–	–
Members remuneration (Parliament)	254.0	–	–	376.7	–	–
State debt costs (National Treasury)	54 281.0	–	–	55 268.0	–	–
Provincial equitable share (National Treasury)	204 009.9	*204 009.9*	–	231 050.9	*231 050.9*	–
General fuel levy sharing with metros (National Treasury)	–	–	–	6 800.1	–	*6 800.1*
Skills levy and Setas (Labour)	7 529.6	–	–	7 750.0	–	–
Judges and magistrates salaries (Justice and Const. Dev.)	1 433.5	–	–	1 669.7	–	–
Main budget expenditure	**633 906.9**	***244 745.0***	***43 619.5***	**738 562.8**	***284 519.4***	***49 698.4***

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

R million	2010/11 Budget estimate	2010/11 of which transfers to provinces 1)	2010/11 of which transfers to local government 2)	2011/12 Budget estimate	2011/12 of which transfers to provinces 1)	2011/12 of which transfers to local government 2)
Central Government Administration						
The Presidency	333.4	–	–	349.7	–	–
Parliament	1 033.3	–	–	1 095.2	–	–
Foreign Affairs	5 472.0	–	–	5 501.0	–	–
Home Affairs	5 580.8	–	–	5 007.0	–	–
Public Works	6 598.7	*1 496.2*	*554.0*	8 185.4	*1 962.0*	*1 108.0*
Financial and Administrative Services						
Government Communication and Information System	533.1	–	–	504.8	–	–
National Treasury	48 595.1	*11 314.9*	*994.6*	31 587.9	*13 091.2*	*1 225.1*
Public Administration Leadership and Management Academy	127.3	–	–	133.5	–	–
Public Service and Administration	402.8	–	–	417.4	–	–
Public Service Commission	132.6	–	–	145.5	–	–
Statistics South Africa	2 006.0	–	–	2 757.8	–	–
Social Services						
Arts and Culture	2 435.1	*494.0*	–	2 448.6	*523.6*	–
Education	25 137.9	*3 931.4*	–	28 129.2	*4 978.1*	–
Health	19 614.0	*18 012.8*	–	20 862.8	*19 171.8*	–
Labour	2 271.9	–	–	2 410.2	–	–
Social Development	94 672.1	–	–	102 305.9	–	–
Sport and Recreation South Africa	1 250.2	*426.4*	*512.6*	771.0	*452.0*	–
Justice, Crime prevention and Security						
Correctional Services	14 268.6	–	–	18 098.7	–	–
Defence	32 389.3	–	–	34 418.6	–	–
Independent Complaints Directorate	127.1	–	–	139.5	–	–
Justice and Constitutional Development	10 342.8	–	–	11 056.2	–	–
Safety and Security	50 966.4	–	–	55 030.0	–	–
Economic Services and Infrastructure						
Agriculture	3 089.1	*1 116.9*	–	3 602.5	*1 437.1*	–
Communications	2 264.4	–	–	2 122.8	–	–
Environmental Affairs and Tourism	3 884.1	–	–	4 147.5	–	–
Housing	16 137.5	*15 026.8*	–	18 410.5	*17 222.4*	–
Land Affairs	6 490.2	–	–	7 661.4	–	–
Minerals and Energy	5 106.5	–	*1 240.1*	5 439.0	–	*1 376.6*
Provincial and Local Government	42 541.6	–	*42 008.6*	47 753.5	–	*47 183.2*
of which: Local government equitable share	*29 267.7*	–	*29 267.7*	*31 889.9*	–	*31 889.9*
Public Enterprises	311.9	–	–	183.6	–	–
Science and Technology	4 708.1	–	–	5 097.8	–	–
Trade and Industry	5 753.0	–	–	6 003.8	–	–
Transport	25 480.3	*4 214.7*	*4 300.2*	27 920.9	*4 153.2*	*5 160.1*
Water Affairs and Forestry	8 292.9	–	*570.0*	9 463.1	–	*380.0*
	448 350.2	***56 034.0***	***50 180.0***	**469 162.3**	***62 991.3***	***56 433.0***
Plus:						
Unallocated funds/Projected underspending	–	–	–	–	–	–
Contingency reserve	12 000.0	–	–	20 000.0	–	–
Subtotal: Appropriations by vote	**460 350.2**	***56 034.0***	***50 180.0***	**489 162.3**	***62 991.3***	***56 433.0***
Plus:						
Direct charges against the National Revenue Fund						
President and Deputy President salary (The Presidency)	4.6	–	–	4.8	–	–
Members remuneration (Parliament)	392.7	–	–	409.6	–	–
State debt costs (National Treasury)	60 140.0	–	–	66 826.0	–	–
Provincial equitable share (National Treasury)	253 670.5	*253 670.5*	–	272 934.1	*272 934.1*	–
General fuel levy sharing with metros (National Treasury)	7 542.4		*7 542.4*	8 531.1		*8 531.1*
Skills levy and Setas (Labour)	8 424.2	–	–	9 148.7	–	–
Judges and magistrates salaries (Justice and Const. Dev.)	1 829.9	–	–	1 954.2	–	–
Main budget expenditure	**792 354.3**	***309 704.4***	***57 722.4***	**848 970.8**	***335 925.4***	***64 964.1***

3) Excludes R2.5 bn for the Political Office Bearers Pension Fund, previously allocated to Parliament.

Table 5
Consolidated national, provincial and social security funds expenditure: Economic classification *1)*

R million		2005/06 Outcome	2005/06 % of total	2006/07 Outcome	2006/07 % of total	2007/08 Outcome	2007/08 % of total	2008/09 Revised estimate
Current payments								
Compensation of employees		140 201.6	32.2%	154 687.6	31.3%	177 012.1	31.2%	211 177.5
Goods and services		59 375.0	13.6%	68 052.2	13.8%	77 817.4	13.7%	97 134.6
Interest and rent on land		50 970.8	11.7%	52 250.1	10.6%	52 955.2	9.3%	54 288.6
Financial transactions in assets and liabilities		327.9	0.1%	247.0	0.1%	423.5	0.1%	23.6
Total current payments		**250 875.3**	**57.6%**	**275 236.8**	**55.7%**	**308 208.1**	**54.2%**	**362 624.2**
Transfers and subsidies								
Municipalities		19 885.5	4.6%	29 611.6	6.0%	39 724.5	7.0%	47 323.8
of which: Local government share	*2)*	*16 681.7*	*3.8%*	*26 501.0*	*5.4%*	*37 320.7*	*6.6%*	*43 619.5*
Departmental agencies and accounts		38 503.0	8.8%	45 499.5	9.2%	51 495.9	9.1%	59 054.6
Universities and technikons		9 929.7	2.3%	11 077.9	2.2%	12 108.8	2.1%	14 013.8
Public corporations and private enterprises		14 382.9	3.3%	16 629.1	3.4%	23 233.9	4.1%	31 703.2
Public corporations		10 354.4	2.4%	11 899.4	2.4%	17 981.8	3.2%	26 490.4
Subsidies on production		*4 522.3*	*1.0%*	*5 525.1*	*1.1%*	*6 032.3*	*1.1%*	*8 000.8*
Other transfers		*5 832.1*	*1.3%*	*6 374.3*	*1.3%*	*11 949.5*	*2.1%*	*18 489.5*
Private enterprises		4 028.5	0.9%	4 729.7	1.0%	5 252.1	0.9%	5 212.8
Subsidies on production		*3 671.9*	*0.8%*	*3 842.9*	*0.8%*	*4 750.9*	*0.8%*	*4 942.2*
Other transfers		*356.6*	*0.1%*	*886.8*	*0.2%*	*501.2*	*0.1%*	*270.6*
Foreign governments and international organisations		858.8	0.2%	919.7	0.2%	936.3	0.2%	1 001.0
Non-profit institutions		6 924.2	1.6%	8 698.1	1.8%	11 517.3	2.0%	15 799.2
Households		73 691.4	16.9%	83 238.4	16.9%	94 780.4	16.7%	109 017.4
Social benefits		65 256.8	15.0%	72 730.2	14.7%	80 888.8	14.2%	92 152.4
Other transfers to households		8 434.6	1.9%	10 508.2	2.1%	13 891.7	2.4%	16 865.1
Total transfers and subsidies		**164 175.4**	**37.7%**	**195 674.3**	**39.6%**	**233 797.1**	**41.2%**	**277 913.0**
Payments for capital assets								
Buildings and other fixed structures		13 105.0	3.0%	15 932.6	3.2%	18 979.3	3.3%	23 981.4
Buildings		8 720.8	2.0%	10 997.6	2.2%	13 416.1	2.4%	16 784.4
Other fixed structures		4 384.2	1.0%	4 935.0	1.0%	5 563.2	1.0%	7 197.0
Machinery and equipment		6 896.1	1.6%	6 254.9	1.3%	5 835.1	1.0%	5 946.2
Transport equipment		1 548.4	0.4%	1 990.2	0.4%	1 899.8	0.3%	1 541.0
Other machinery and equipment		5 347.7	1.2%	4 264.7	0.9%	3 935.3	0.7%	4 405.2
Software and other intangible assets		344.6	0.1%	365.2	0.1%	368.0	0.1%	168.1
Land and subsoil assets		198.5	0.0%	412.6	0.1%	944.4	0.2%	1 378.7
Other assets	3)	4.8	0.0%	5.5	0.0%	16.4	0.0%	6.1
Total payments for capital assets		**20 549.0**	**4.7%**	**22 970.8**	**4.7%**	**26 143.2**	**4.6%**	**31 480.5**
Subtotal: Votes and Direct charges		**435 599.7**	**100%**	**493 881.9**	**100%**	**568 148.4**	**100%**	**672 017.7**
Plus:								
Contingency reserve		–	–	–	–	–	–	–
Total consolidated expenditure		**435 599.7**	**100%**	**493 881.9**	**100%**	**568 148.4**	**100%**	**672 017.7**

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 have been adjusted accordingly.

Table 5
Consolidated national, provincial and social security funds expenditure: Economic classification *1)*

2008/09	2009/10		2010/11		2011/12			
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total		R million
								Current payments
31.4%	231 800.4	30.1%	251 713.1	30.5%	268 926.6	30.4%		Compensation of employees
14.5%	104 453.9	13.6%	118 211.7	14.3%	130 272.8	14.7%		Goods and services
8.1%	55 275.4	7.2%	60 148.1	7.3%	66 834.5	7.6%		Interest and rent on land
0.0%	–	–	–	–	–	–		Financial transactions in assets and liabilities
54.0%	**391 529.7**	**50.8%**	**430 072.9**	**52.1%**	**466 033.9**	**52.7%**		**Total current payments**
								Transfers and subsidies
7.0%	53 067.1	6.9%	60 806.3	7.4%	68 204.9	7.7%		Municipalities
6.5%	*49 698.4*	*6.4%*	*57 722.4*	*7.0%*	*64 964.1*	*7.3%*	*2)*	*of which: Local government share*
8.8%	72 520.1	9.4%	69 360.8	8.4%	73 289.1	8.3%		Departmental agencies and accounts
2.1%	15 458.1	2.0%	17 678.4	2.1%	19 167.8	2.2%		Universities and technikons
4.7%	56 718.4	7.4%	44 562.3	5.4%	25 532.0	2.9%		Public corporations and private enterprises
3.9%	50 176.4	6.5%	37 538.7	4.5%	18 001.2	2.0%		Public corporations
1.2%	*9 895.9*	*1.3%*	*11 221.2*	*1.4%*	*12 368.5*	*1.4%*		*Subsidies on production*
2.8%	*40 280.5*	*5.2%*	*26 317.5*	*3.2%*	*5 632.7*	*0.6%*		*Other transfers*
0.8%	6 541.9	0.8%	7 023.6	0.9%	7 530.8	0.9%		Private enterprises
0.7%	*6 117.3*	*0.8%*	*6 552.3*	*0.8%*	*7 009.5*	*0.8%*		*Subsidies on production*
0.0%	*424.7*	*0.1%*	*471.3*	*0.1%*	*521.3*	*0.1%*		*Other transfers*
0.1%	1 278.3	0.2%	1 360.2	0.2%	1 346.7	0.2%		Foreign governments and international organisations
2.4%	17 105.4	2.2%	18 603.7	2.3%	19 978.9	2.3%		Non-profit institutions
16.2%	123 549.6	16.0%	132 575.9	16.1%	144 902.9	16.4%		Households
13.7%	105 809.3	13.7%	112 369.8	13.6%	121 657.0	13.8%		Social benefits
2.5%	17 740.3	2.3%	20 206.2	2.4%	23 245.9	2.6%		Other transfers to households
41.4%	**339 696.9**	**44.1%**	**344 947.5**	**41.8%**	**352 422.3**	**39.8%**		**Total transfers and subsidies**
								Payments for capital assets
3.6%	26 092.1	3.4%	29 764.8	3.6%	36 880.4	4.2%		Buildings and other fixed structures
2.5%	17 141.7	2.2%	19 791.1	2.4%	24 715.0	2.8%		Buildings
1.1%	8 950.4	1.2%	9 973.7	1.2%	12 165.4	1.4%		Other fixed structures
0.9%	7 223.4	0.9%	8 307.5	1.0%	8 884.7	1.0%		Machinery and equipment
0.2%	2 110.9	0.3%	2 225.7	0.3%	2 347.7	0.3%		Transport equipment
0.7%	5 112.5	0.7%	6 081.7	0.7%	6 537.0	0.7%		Other machinery and equipment
0.0%	211.6	0.0%	94.0	0.0%	99.5	0.0%		Software and other intangible assets
0.2%	85.0	0.0%	30.4	0.0%	35.7	0.0%		Land and subsoil assets
0.0%	34.1	0.0%	35.3	0.0%	36.5	0.0%	*3)*	Other assets
4.7%	**33 646.2**	**4.4%**	**38 231.9**	**4.6%**	**45 936.9**	**5.2%**		**Total payments for capital assets**
100%	**764 872.8**	**99.2%**	**813 252.2**	**98.5%**	**864 393.1**	**97.7%**		**Subtotal: Votes and Direct charges**
								Plus:
–	6 000.0	–	12 000.0	–	20 000.0	–		Contingency reserve
100%	**770 872.8**	**100%**	**825 252.2**	**100%**	**884 393.1**	**100%**		**Total consolidated expenditure**

2) Includes equitable share and conditional grants to local government.

3) Includes biological and heritage assets.

Table 6
Consolidated national, provincial and social security funds expenditure: Functional classification *1)*

R million	2005/06 Estimated outcome	2005/06 % of total	2006/07 Estimated outcome	2006/07 % of total	2007/08 Estimated outcome	2007/08 % of total	2008/09 Revised estimate
General public services 2)	**76 325.2**	**17.5%**	**79 973.0**	**16.2%**	**86 746.7**	**15.3%**	**94 761.7**
of which: State debt cost	*50 912.0*	*11.7%*	*52 192.2*	*10.6%*	*52 877.1*	*9.3%*	*54 281.0*
Defense	**24 879.5**	**5.7%**	**25 101.6**	**5.1%**	**26 748.1**	**4.7%**	**29 533.7**
Public order and safety	**47 562.0**	**10.9%**	**51 809.8**	**10.5%**	**59 377.7**	**10.5%**	**67 674.4**
Police services	31 031.2	7.1%	34 541.5	7.0%	38 691.8	6.8%	44 215.5
Law courts	6 440.2	1.5%	7 424.1	1.5%	8 907.1	1.6%	10 340.1
Prisons	10 090.6	2.3%	9 844.3	2.0%	11 778.8	2.1%	13 118.8
Economic affairs	**48 865.9**	**11.2%**	**61 931.6**	**12.5%**	**78 616.4**	**13.8%**	**100 518.7**
General economic, commercial and labour affairs	10 701.8	2.5%	12 437.9	2.5%	16 449.7	2.9%	18 613.3
Agriculture, forestry, fishing and hunting	9 120.1	2.1%	10 538.3	2.1%	13 801.9	2.4%	15 345.2
Fuel and energy	4 732.9	1.1%	4 941.1	1.0%	6 757.6	1.2%	16 280.1
Mining, manufacturing and construction	1 858.1	0.4%	2 306.6	0.5%	2 618.9	0.5%	2 453.1
Transport	19 889.2	4.6%	28 263.9	5.7%	34 764.5	6.1%	42 925.6
Communication	1 395.6	0.3%	1 714.6	0.3%	2 493.0	0.4%	2 954.8
Economic affairs not elsewhere classified	1 168.3	0.3%	1 729.1	0.4%	1 730.8	0.3%	1 946.5
Environmental protection	**2 479.5**	**0.6%**	**2 860.1**	**0.6%**	**3 633.6**	**0.6%**	**4 031.9**
Housing and community amenities	**26 008.7**	**6.0%**	**37 414.9**	**7.6%**	**45 133.6**	**7.9%**	**54 891.7**
Housing development	7 306.6	1.7%	9 049.6	1.8%	11 099.0	2.0%	14 403.1
Community development	12 434.1	2.9%	21 252.4	4.3%	24 563.4	4.3%	29 786.7
Water supply	6 268.1	1.4%	7 112.9	1.4%	9 471.2	1.7%	10 701.8
Health	**48 732.5**	**11.2%**	**55 563.8**	**11.3%**	**64 211.2**	**11.3%**	**78 119.1**
Recreation and culture	**3 014.1**	**0.7%**	**3 881.1**	**0.8%**	**8 354.6**	**1.5%**	**9 600.4**
Education	**85 471.2**	**19.6%**	**94 238.3**	**19.1%**	**105 120.9**	**18.5%**	**127 451.4**
Social protection	**72 261.1**	**16.6%**	**81 107.7**	**16.4%**	**90 205.7**	**15.9%**	**105 434.8**
Subtotal: Votes and Direct charges	**435 599.7**	**100%**	**493 881.9**	**100%**	**568 148.4**	**100%**	**672 017.7**
Plus:							
Contingency reserve	–	–	–	–	–	–	–
Total consolidated expenditure	**435 599.7**	**–**	**493 881.9**	**–**	**568 148.4**	**–**	**672 017.7**

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 *1)*

2008/09	2009/10		2010/11		2011/12		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	R million
14.1%	**97 282.0**	**12.7%**	**107 705.5**	**13.2%**	**116 930.5**	**13.5%**	*2)* **General public services**
8.1%	*55 268.0*	*7.2%*	*60 140.0*	*7.4%*	*66 826.0*	*7.7%*	*of which: State debt cost*
4.4%	**33 922.5**	**4.4%**	**34 705.8**	**4.3%**	**37 172.4**	**4.3%**	**Defense**
10.1%	**75 368.4**	**9.9%**	**82 723.2**	**10.2%**	**92 384.1**	**10.7%**	**Public order and safety**
6.6%	49 396.1	6.5%	54 570.3	6.7%	59 190.4	6.8%	Police services
1.5%	11 791.2	1.5%	12 730.3	1.6%	13 682.7	1.6%	Law courts
2.0%	14 181.1	1.9%	15 422.7	1.9%	19 511.0	2.3%	Prisons
14.9%	**145 043.1**	**19.0%**	**129 703.3**	**15.9%**	**119 622.0**	**13.8%**	**Economic affairs**
2.8%	21 827.8	2.9%	21 870.9	2.7%	23 320.9	2.7%	General economic, commercial and labour affairs
2.3%	15 317.8	2.0%	16 848.3	2.1%	18 990.1	2.2%	Agriculture, forestry, fishing and hunting
2.4%	43 636.0	5.7%	33 111.6	4.1%	14 558.1	1.7%	Fuel and energy
0.4%	2 401.4	0.3%	2 324.3	0.3%	2 363.0	0.3%	Mining, manufacturing and construction
6.4%	56 809.3	7.4%	50 373.3	6.2%	55 001.5	6.4%	Transport
0.4%	3 003.8	0.4%	3 097.9	0.4%	3 125.5	0.4%	Communication
0.3%	2 047.0	0.3%	2 076.8	0.3%	2 262.8	0.3%	Economic affairs not elsewhere classified
0.6%	**4 289.7**	**0.6%**	**4 564.0**	**0.6%**	**4 910.3**	**0.6%**	**Environmental protection**
8.2%	**59 265.9**	**7.7%**	**68 748.9**	**8.5%**	**76 573.5**	**8.9%**	**Housing and community amenities**
2.1%	16 752.1	2.2%	19 341.7	2.4%	21 706.4	2.5%	Housing development
4.4%	29 587.9	3.9%	35 439.4	4.4%	38 609.4	4.5%	Community development
1.6%	12 926.0	1.7%	13 967.8	1.7%	16 257.7	1.9%	Water supply
11.6%	**83 871.8**	**11.0%**	**94 485.8**	**11.6%**	**101 996.0**	**11.8%**	**Health**
1.4%	**7 412.8**	**1.0%**	**5 562.7**	**0.7%**	**5 096.1**	**0.6%**	**Recreation and culture**
19.0%	**140 296.5**	**18.3%**	**156 002.9**	**19.2%**	**169 683.0**	**19.6%**	**Education**
15.7%	**118 120.1**	**15.4%**	**129 050.3**	**15.9%**	**140 025.3**	**16.2%**	**Social protection**
100%	**764 872.8**	**100%**	**813 252.2**	**100%**	**864 393.1**	**100%**	**Subtotal: Votes and Direct charges**
							Plus:
–	6 000.0	–	12 000.0	–	20 000.0	–	Contingency reserve
–	**770 872.8**	**–**	**825 252.2**	**–**	**884 393.1**	**–**	**Total consolidated expenditure**

2) Mainly general administration, cost of raising loans and unallocatable capital expenditure.

Table 7
Consolidated government expenditure *1)*

R million		2005/06 Outcome	2005/06 % of total	2006/07 Outcome	2006/07 % of total	2007/08 Outcome	2007/08 % of total	2008/09 Revised estimate
Economic classification								
Current payments		**301 106.8**	**63.4%**	**329 154.4**	**62.2%**	**367 438.9**	**60.6%**	**431 090.0**
Compensation of employees		156 047.3	32.9%	173 224.8	32.7%	198 197.0	32.7%	236 025.3
Goods and services		90 001.0	19.0%	100 170.6	18.9%	112 249.3	18.5%	137 038.8
Interest and rent on land		54 730.7	11.5%	55 512.1	10.5%	56 569.1	9.3%	58 002.3
Financial transactions in assets and liabilities		327.9	0.1%	247.0	0.0%	423.5	0.1%	23.6
Transfers and subsidies		**146 091.0**	**30.8%**	**170 280.3**	**32.2%**	**201 897.2**	**33.3%**	**239 701.6**
Municipalities		19 890.5	4.2%	30 663.1	5.8%	40 942.4	6.7%	47 817.8
Departmental agencies and accounts		15 537.6	3.3%	17 672.3	3.3%	19 005.7	3.1%	19 792.1
Universities and technikons		9 929.7	2.1%	11 077.9	2.1%	12 108.8	2.0%	14 014.0
Public corporations and private enterprises		15 876.8	3.3%	14 875.0	2.8%	19 148.8	3.2%	29 128.2
Foreign governments and international organisations		919.6	0.2%	1 315.4	0.2%	1 290.3	0.2%	1 700.0
Non-profit institutions		8 262.8	1.7%	9 481.9	1.8%	12 320.6	2.0%	16 673.4
Households		75 673.9	15.9%	85 194.7	16.1%	97 080.6	16.0%	110 576.2
Payments for capital assets		**27 616.2**	**5.8%**	**30 121.0**	**5.7%**	**37 384.8**	**6.2%**	**50 259.9**
Buildings and other fixed structures		16 991.8	3.6%	19 453.1	3.7%	25 379.6	4.2%	36 406.3
Machinery and equipment		9 931.3	2.1%	9 462.2	1.8%	10 048.0	1.7%	10 068.3
Software and other intangible assets		465.5	0.1%	748.2	0.1%	897.7	0.1%	2 317.6
Land and subsoil assets		222.7	0.0%	452.0	0.1%	1 042.9	0.2%	1 461.6
Other assets	*2)*	4.9	0.0%	5.5	0.0%	16.5	0.0%	6.1
Subtotal: Economic classification		**474 814.0**	**100%**	**529 555.8**	**100.0%**	**606 720.9**	**100.0%**	**721 051.6**
Functional classification								
General public services	3)	**80 564.7**	**17.0%**	**85 905.4**	**16.2%**	**92 127.7**	**15.2%**	**102 411.5**
of which: State debt cost		50 912.0	10.7%	52 192.2	9.9%	52 877.1	8.7%	54 281.0
Defense		**25 649.7**	**5.4%**	**26 348.8**	**5.0%**	**27 773.5**	**4.6%**	**30 777.6**
Public order and safety		**47 611.0**	**10.0%**	**51 881.8**	**9.8%**	**59 473.1**	**9.8%**	**67 810.4**
Police services		31 082.6	6.5%	34 627.6	6.5%	38 782.8	6.4%	44 349.0
Law courts		6 437.8	1.4%	7 409.9	1.4%	8 911.5	1.5%	10 342.7
Prisons		10 090.6	2.1%	9 844.3	1.9%	11 778.8	1.9%	13 118.8
Economic affairs		**63 981.5**	**13.5%**	**76 296.6**	**14.4%**	**94 343.6**	**15.5%**	**126 157.2**
General economic, commercial and labour affairs		14 456.8	3.0%	14 536.2	2.7%	18 101.2	3.0%	22 769.9
Agriculture, forestry, fishing and hunting		9 597.8	2.0%	11 034.9	2.1%	14 214.1	2.3%	15 925.7
Fuel and energy		5 364.7	1.1%	5 582.6	1.1%	6 471.9	1.1%	17 220.4
Mining, manufacturing and construction		2 070.6	0.4%	2 723.3	0.5%	2 957.0	0.5%	2 983.8
Transport		21 940.9	4.6%	31 668.8	6.0%	39 044.0	6.4%	51 906.3
Communication		9 382.4	2.0%	9 021.8	1.7%	11 824.5	1.9%	13 404.6
Economic affairs not elsewhere classified		1 168.3	0.2%	1 729.1	0.3%	1 730.8	0.3%	1 946.5
Environmental protection		**3 736.1**	**0.8%**	**4 046.1**	**0.8%**	**4 488.8**	**0.7%**	**5 146.4**
Housing and community amenities		**41 851.6**	**8.8%**	**48 125.6**	**9.1%**	**57 077.8**	**9.4%**	**65 297.0**
Housing development		7 731.4	1.6%	9 633.1	1.8%	12 137.2	2.0%	15 914.7
Community development		12 580.8	2.6%	21 370.6	4.0%	24 693.3	4.1%	29 922.1
Water supply		21 539.4	4.5%	17 121.9	3.2%	20 247.4	3.3%	19 460.2
Health		**50 022.6**	**10.5%**	**57 347.2**	**10.8%**	**66 624.9**	**11.0%**	**80 808.6**
Recreation and culture		**3 197.3**	**0.7%**	**4 138.1**	**0.8%**	**8 529.1**	**1.4%**	**9 856.9**
Education		**85 938.6**	**18.1%**	**94 810.2**	**17.9%**	**105 666.4**	**17.4%**	**127 344.4**
Social protection		**72 261.1**	**15.2%**	**80 656.1**	**15.2%**	**90 616.1**	**14.9%**	**105 441.4**
Subtotal: Functional classification		**474 814.0**	**100.0%**	**529 555.8**	**100.0%**	**606 720.9**	**100.0%**	**721 051.6**
Plus:								
Contingency reserve		–	–	–	–	–	–	–
Total consolidated expenditure		**474 814.0**	**–**	**529 555.8**	**–**	**606 720.9**	**–**	**721 051.6**

1) Consisting of national and provincial government, social security funds and selected 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 7
Consolidated government expenditure *1)*

2008/09	2009/10		2010/11		2011/12			
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total		R million
								Economic classification
59.8%	**472 376.0**	**57.0%**	**516 940.7**	**58.2%**	**558 054.2**	**59.8%**		**Current payments**
32.7%	259 427.0	31.3%	281 744.1	31.7%	301 104.5	32.3%		Compensation of employees
19.0%	152 954.1	18.5%	168 710.4	19.0%	183 170.5	19.6%		Goods and services
8.0%	59 994.9	7.2%	66 486.2	7.5%	73 779.3	7.9%		Interest and rent on land
0.0%	–	–	–	–	–	–		Financial transactions in assets and liabilities
33.2%	**294 611.0**	**35.6%**	**304 642.1**	**34.3%**	**304 397.6**	**32.6%**		**Transfers and subsidies**
6.6%	53 606.7	6.5%	61 400.0	6.9%	68 858.1	7.4%		Municipalities
2.7%	26 174.2	3.2%	27 177.2	3.1%	22 593.9	2.4%		Departmental agencies and accounts
1.9%	15 458.4	1.9%	17 678.8	2.0%	19 168.4	2.1%		Universities and technikons
4.0%	52 826.9	6.4%	41 485.9	4.7%	22 370.1	2.4%		Public corporations and private enterprises
0.2%	1 909.6	0.2%	1 786.6	0.2%	1 962.1	0.2%		Foreign governments and international organisations
2.3%	18 483.6	2.2%	20 068.6	2.3%	21 468.8	2.3%		Non-profit institutions
15.3%	126 151.5	15.2%	135 045.0	15.2%	147 976.3	15.9%		Households
7.0%	**61 348.6**	**7.4%**	**66 161.1**	**7.5%**	**70 617.2**	**7.6%**		**Payments for capital assets**
5.0%	48 002.3	5.8%	51 452.4	5.8%	55 290.8	5.9%		Buildings and other fixed structures
1.4%	11 976.3	1.4%	13 659.5	1.5%	14 352.3	1.5%		Machinery and equipment
0.3%	1 228.8	0.1%	970.4	0.1%	887.7	0.1%		Software and other intangible assets
0.2%	107.1	0.0%	43.6	0.0%	49.8	0.0%		Land and subsoil assets
0.0%	34.1	0.0%	35.3	0.0%	36.5	0.0%	*2)*	Other assets
100.0%	**828 335.5**	**100.0%**	**887 743.9**	**100.0%**	**933 069.0**	**100.0%**		**Subtotal: Economic classification**
								Functional classification
14.2%	**106 524.7**	**12.9%**	**114 519.1**	**12.9%**	**122 913.3**	**13.2%**	*3)*	**General public services**
7.5%	55 268.0	6.7%	60 140.0	6.8%	66 826.0	7.2%		of which: State debt cost
4.3%	**34 708.2**	**4.2%**	**35 527.0**	**4.0%**	**38 030.2**	**4.1%**		**Defense**
9.4%	**75 529.1**	**9.1%**	**82 875.7**	**9.3%**	**92 541.7**	**9.9%**		**Public order and safety**
6.1%	49 540.3	6.0%	54 704.6	6.2%	59 327.0	6.4%		Police services
1.4%	11 807.7	1.4%	12 748.4	1.4%	13 703.7	1.5%		Law courts
1.8%	14 181.1	1.7%	15 422.7	1.7%	19 511.0	2.1%		Prisons
17.5%	**179 558.6**	**21.7%**	**177 721.8**	**20.0%**	**160 591.7**	**17.2%**		**Economic affairs**
3.2%	27 139.4	3.3%	27 228.1	3.1%	27 933.4	3.0%		General economic, commercial and labour affairs
2.2%	15 992.5	1.9%	17 583.2	2.0%	19 788.4	2.1%		Agriculture, forestry, fishing and hunting
2.4%	46 334.0	5.6%	39 415.2	4.4%	21 520.5	2.3%		Fuel and energy
0.4%	2 891.1	0.3%	2 822.6	0.3%	2 964.8	0.3%		Mining, manufacturing and construction
7.2%	69 543.6	8.4%	72 507.9	8.2%	68 962.7	7.4%		Transport
1.9%	15 611.0	1.9%	16 088.0	1.8%	17 159.0	1.8%		Communication
0.3%	2 047.0	0.2%	2 076.8	0.2%	2 262.8	0.2%		Economic affairs not elsewhere classified
0.7%	**5 589.1**	**0.7%**	**6 190.9**	**0.7%**	**6 511.7**	**0.7%**		**Environmental protection**
9.1%	**73 184.1**	**8.8%**	**82 357.6**	**9.3%**	**92 041.4**	**9.9%**		**Housing and community amenities**
2.2%	19 576.0	2.4%	20 837.3	2.3%	23 336.9	2.5%		Housing development
4.1%	29 720.6	3.6%	35 571.8	4.0%	38 744.9	4.2%		Community development
2.7%	23 887.6	2.9%	25 948.5	2.9%	29 959.6	3.2%		Water supply
11.2%	**86 944.6**	**10.5%**	**97 632.4**	**11.0%**	**105 350.6**	**11.3%**		**Health**
1.4%	**7 742.3**	**0.9%**	**5 750.5**	**0.6%**	**5 372.3**	**0.6%**		**Recreation and culture**
17.7%	**140 427.3**	**17.0%**	**156 110.7**	**17.6%**	**169 683.1**	**18.2%**		**Education**
14.6%	**118 127.7**	**14.3%**	**129 058.0**	**14.5%**	**140 033.2**	**15.0%**		**Social protection**
100.0%	**828 335.5**	**100.0%**	**887 743.9**	**100.0%**	**933 069.0**	**100.0%**		**Subtotal: Functional classification**
								Plus:
–	6 000.0	–	12 000.0	–	20 000.0	–		Contingency reserve
–	**834 335.5**	**–**	**899 743.9**	**–**	**953 069.0**	**–**		**Total consolidated expenditure**

2) Includes biological and heritage assets.
3) Mainly general administration, cost of raising loans and unallocatable capital expenditure.

Table 8
Total debt of government *1)*

R million		1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
Marketable domestic debt		28 651	33 544	39 956	47 385	61 124	72 923	85 546
Government bonds		*27 797*	*32 808*	*39 195*	*47 173*	*60 860*	*71 026*	*82 824*
Treasury bills		*854*	*736*	*761*	*212*	*264*	*1 897*	*2 722*
Bridging bonds		–	–	–	–	–	–	–
Non-marketable domestic debt	*3)*	4 187	3 646	4 443	7 675	5 386	6 883	7 989
Total domestic debt		32 838	37 190	44 399	55 060	66 510	79 806	93 535
Total foreign debt	*4)*	2 201	2 295	2 446	2 442	2 227	2 090	1 770
Total loan debt gross		**35 039**	**39 485**	**46 845**	**57 502**	**68 737**	**81 896**	**95 305**
Cash balances	*5)*	893	1 081	1 573	1 588	3 785	11 181	8 524
Total loan debt net		**34 146**	**38 404**	**45 272**	**55 914**	**64 952**	**70 715**	**86 781**
Gold and Foreign Exchange Contingency Reserve Account	*6)*	-2 033	-1 940	-3 469	-2 554	-11 158	-14 140	-10 351
Composition of debt (excluding cash balances):								
Marketable domestic debt		81.8%	85.0%	85.3%	82.4%	88.9%	89.0%	89.8%
Government bonds		*79.3%*	*83.1%*	*83.7%*	*82.0%*	*88.5%*	*86.7%*	*86.9%*
Treasury bills		*2.4%*	*1.9%*	*1.6%*	*0.4%*	*0.4%*	*2.3%*	*2.9%*
Bridging bonds		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Non-marketable domestic debt	*3)*	11.9%	9.2%	9.5%	13.3%	7.8%	8.4%	8.4%
Total domestic debt		93.7%	94.2%	94.8%	95.8%	96.8%	97.4%	98.1%
Total foreign debt	*4)*	6.3%	5.8%	5.2%	4.2%	3.2%	2.6%	1.9%
Percentages of GDP:								
Total domestic debt		28.7%	28.3%	28.5%	30.3%	30.3%	30.6%	31.2%
Total foreign debt		1.9%	1.7%	1.6%	1.3%	1.0%	0.8%	0.6%
Total loan debt gross		30.6%	30.1%	30.1%	31.6%	31.3%	31.4%	31.8%
Total loan debt net		29.8%	29.3%	29.1%	30.7%	29.6%	27.1%	29.0%

Sources: National Treasury and South African Reserve Bank.

1) *Debt of the central government, excluding extra-budgetary institutions and social security funds.*
2) *As projected at the end of January 2009.*
3) *Includes non-marketable treasury bills, retail bonds, former Namibian loans and loan levies.*

Table 8
Total debt of government *1)*

1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98		R million
104 646	138 681	181 460	225 662	263 844	290 424	318 773		Marketable domestic debt
100 662	*132 853*	*174 892*	*210 191*	*248 877*	*276 124*	*301 488*		*Government bonds*
3 984	*5 828*	*6 568*	*7 018*	*10 700*	*14 300*	*17 285*		*Treasury bills*
–	–	–	*8 453*	*4 267*	–	–		*Bridging bonds*
6 520	4 703	3 310	5 705	4 700	6 421	2 778	*3)*	Non-marketable domestic debt
111 166	143 384	184 770	231 367	268 544	296 845	321 551		Total domestic debt
2 940	2 348	5 201	8 784	10 944	11 394	14 560	*4)*	Total foreign debt
114 107	**145 731**	**189 970**	**240 151**	**279 488**	**308 239**	**336 111**		**Total loan debt gross**
9 762	4 750	4 591	6 665	8 630	2 757	4 798	*5)*	Cash balances
104 345	**140 981**	**185 379**	**233 486**	**270 858**	**305 482**	**331 313**		**Total loan debt net**
-12 508	-8 934	-2 190	-4 147	–	-2 169	-73	*6)*	Gold and Foreign Exchange Contingency Reserve Account
								Composition of debt (excluding cash balances):
91.7%	95.2%	95.5%	94.0%	94.4%	94.2%	94.8%		Marketable domestic debt
88.2%	*91.2%*	*92.1%*	*87.5%*	*89.0%*	*89.6%*	*89.7%*		*Government bonds*
3.5%	*4.0%*	*3.5%*	*2.9%*	*3.8%*	*4.6%*	*5.1%*		*Treasury bills*
0.0%	*0.0%*	*0.0%*	*3.5%*	*1.5%*	*0.0%*	*0.0%*		*Bridging bonds*
5.7%	3.2%	1.7%	2.4%	1.7%	2.1%	0.8%	*3)*	Non-marketable domestic debt
97.4%	98.4%	97.3%	96.3%	96.1%	96.3%	95.7%		Total domestic debt
2.6%	1.6%	2.7%	3.7%	3.9%	3.7%	4.3%	*4)*	Total foreign debt
								Percentages of GDP:
32.3%	37.5%	41.8%	46.5%	47.6%	46.7%	45.9%		Total domestic debt
0.9%	0.6%	1.2%	1.8%	1.9%	1.8%	2.1%		Total foreign debt
33.2%	38.1%	43.0%	48.3%	49.5%	48.5%	48.0%		Total loan debt gross
30.3%	36.8%	41.9%	47.0%	48.0%	48.1%	47.3%		Total loan debt net

Sources: National Treasury and South African Reserve Bank.

4) Valued at appropriate foreign exchange rates up to 31 March 2008 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2009, projected to depreciate in line with inflation differentials.

5) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).

6) Forward cover profits on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2009 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 8
Total debt of government *1)*

R million		1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Marketable domestic debt		344 938	354 706	365 231	349 415	350 870	388 300	428 593
Government bonds		*325 938*	*332 706*	*339 731*	*331 505*	*328 820*	*359 700*	*394 143*
Treasury bills		*19 000*	*22 000*	*25 500*	*17 910*	*22 050*	*28 600*	*34 450*
Bridging bonds		–	–	–	–	–	–	–
Non-marketable domestic debt	*3)*	2 013	998	2 382	2 030	1 910	1 999	3 498
Total domestic debt		346 951	355 704	367 613	351 445	352 780	390 299	432 091
Total foreign debt	*4)*	16 276	25 799	31 938	82 009	74 286	64 670	69 405
Total loan debt gross		**363 227**	**381 503**	**399 551**	**433 454**	**427 066**	**454 969**	**501 497**
Cash balances	*5)*	5 166	7 285	2 650	6 549	9 730	12 669	30 870
Total loan debt net		**358 061**	**374 218**	**396 901**	**426 905**	**417 336**	**442 300**	**470 627**
Gold and Foreign Exchange Contingency Reserve Account	*6)*	-14 431	-9 200	-18 170	-28 024	-36 577	-18 036	-5 292
Composition of debt (excluding cash balances):								
Marketable domestic debt		95.0%	93.0%	91.4%	80.6%	82.2%	85.3%	85.5%
Government bonds		*89.7%*	*87.2%*	*85.0%*	*76.5%*	*77.0%*	*79.1%*	*78.6%*
Treasury bills		*5.2%*	*5.8%*	*6.4%*	*4.1%*	*5.2%*	*6.3%*	*6.9%*
Bridging bonds		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Non-marketable domestic debt	*3)*	0.6%	0.3%	0.6%	0.5%	0.4%	0.4%	0.7%
Total domestic debt		95.5%	93.2%	92.0%	81.1%	82.6%	85.8%	86.2%
Total foreign debt	*4)*	4.5%	6.8%	8.0%	18.9%	17.4%	14.2%	13.8%
Percentages of GDP:								
Total domestic debt		45.8%	42.5%	38.6%	33.5%	29.4%	30.3%	30.3%
Total foreign debt		2.1%	3.1%	3.4%	7.8%	6.2%	5.0%	4.9%
Total loan debt gross		48.0%	45.6%	42.0%	41.3%	35.6%	35.3%	35.1%
Total loan debt net		47.3%	44.7%	41.7%	40.7%	34.8%	34.3%	33.0%

Sources: National Treasury and South African Reserve Bank.

1) *Debt of the central government, excluding extra-budgetary institutions and social security funds.*
2) *As projected at the end of January 2009.*
3) *Includes non-marketable treasury bills, retail bonds, former Namibian loans and loan levies.*

Table 8
Total debt of government *1)*

2005/06	2006/07	2007/08	2008/09 2)	2009/10	2010/11	2011/12		R million
457 780	467 864	478 265	531 241	627 303	720 437	796 559		Marketable domestic debt
417 380	*422 064*	*426 415*	*465 961*	*546 473*	*627 207*	*697 329*		*Government bonds*
40 400	*45 800*	*51 850*	*65 280*	*80 830*	*93 230*	*99 230*		*Treasury bills*
–	–	–	–	–	–	–		*Bridging bonds*
3 699	3 238	2 555	2 219	1 990	1 927	1 927	*3)*	Non-marketable domestic debt
461 479	471 102	480 821	533 460	629 293	722 364	798 486		Total domestic debt
66 846	82 581	96 218	95 227	107 286	111 309	120 006	*4)*	Total foreign debt
528 324	**553 683**	**577 039**	**628 687**	**736 579**	**833 673**	**918 492**		**Total loan debt gross**
58 187	75 315	93 809	108 023	102 009	105 609	108 209	*5)*	Cash balances
470 137	**478 368**	**483 230**	**520 664**	**634 570**	**728 064**	**810 283**		**Total loan debt net**
1 751	28 514	72 186	96 835	96 835	96 835	96 835	*6)*	Gold and Foreign Exchange Contingency Reserve Account
								Composition of debt (excluding cash balances):
86.6%	84.5%	82.9%	84.5%	85.2%	86.4%	86.7%		Marketable domestic debt
79.0%	*76.2%*	*73.9%*	*74.1%*	*74.2%*	*75.2%*	*75.9%*		*Government bonds*
7.6%	*8.3%*	*9.0%*	*10.4%*	*11.0%*	*11.2%*	*10.8%*		*Treasury bills*
0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*		*Bridging bonds*
0.7%	0.6%	0.4%	0.4%	0.3%	0.2%	0.2%	*3)*	Non-marketable domestic debt
87.3%	85.1%	83.3%	84.9%	85.4%	86.6%	86.9%		Total domestic debt
12.7%	14.9%	16.7%	15.1%	14.6%	13.4%	13.1%	*4)*	Total foreign debt
								Percentages of GDP:
29.1%	26.0%	23.3%	23.2%	25.4%	26.9%	27.0%		Total domestic debt
4.2%	4.6%	4.7%	4.1%	4.3%	4.1%	4.1%		Total foreign debt
33.3%	30.6%	27.9%	27.3%	29.8%	31.0%	31.1%		Total loan debt gross
29.6%	26.4%	23.4%	22.6%	25.6%	27.1%	27.4%		Total loan debt net

Sources: National Treasury and South African Reserve Bank.

4) Valued at appropriate foreign exchange rates up to 31 March 2008 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2009, projected to depreciate in line with inflation differentials.

5) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).

6) Forward cover profits on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2009 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
Financial guarantees:
Amounts drawn on government guarantees

R million	2004/05			2005/06		
	Domestic	Foreign	Total	Domestic	Foreign	Total
General Government Sector	**8 329**	**–**	**8 329**	**7 492**	**–**	**7 492**
Central Government	8 329	–	8 329	7 492	–	7 492
Former regional authorities	*322*	–	*322*	*262*	–	*262*
Guarantee scheme for housing loans to employees	*638*	–	*638*	*586*	–	*586*
Guarantee scheme for motor vehicles - senior officials	*18*	–	*18*	*14*	–	*14*
South African National Roads Agency	*6 655*	–	*6 655*	*6 199*	–	*6 199*
Universities and Technikons	*696*	–	*696*	*431*	–	*431*
Public Entities	**46 435**	**18 642**	**65 077**	**41 984**	**18 129**	**60 113**
Non-financial	41 877	5 758	47 635	37 628	5 389	43 017
Central Energy Fund	–	*587*	*587*	–	*445*	*445*
Eskom	–	*156*	*156*	–	*143*	*143*
Irrigation Boards	*65*	–	*65*	*67*	–	*67*
Kalahari East Water Board	*16*	–	*16*	*17*	–	*17*
Komati Basin Water Authority	*1 687*	–	*1 687*	*1 746*	–	*1 746*
Lesotho Highlands Development Authority	*32*	*691*	*723*	*12*	*602*	*614*
South African Airways	–	–	–	–	–	–
Nuclear Energy Corporation of South Africa	*20*	–	*20*	*20*	–	*20*
Telkom South Africa	*4 655*	*94*	*4 749*	*4 684*	*85*	*4 769*
Trans-Caledon Tunnel Authority	*18 913*	*322*	*19 235*	*16 643*	*297*	*16 940*
Transnet	*16 489*	*3 908*	*20 397*	*14 439*	*3 817*	*18 256*
Financial	4 558	12 884	17 442	4 356	12 740	17 096
Development Bank of Southern Africa	–	*11 447*	*11 447*	–	*11 568*	*11 568*
Industrial Development Corporation of South Africa	–	*1 437*	*1 437*	–	*1 172*	*1 172*
Land Bank	–	–	–	–	–	–
South African Reserve Bank	*4 558*	–	*4 558*	*4 356*	–	*4 356*
Private Sector	**305**	**–**	**305**	**120**	**–**	**120**
Agricultural Co-operatives	100	–	100	100	–	100
Servcon Housing Solutions	205	–	205	20	–	20
Foreign Sector	**361**	**–**	**361**	**155**	**–**	**155**
Foreign Central Banks and Governments	361	–	361	155	–	155
Total[1]	**55 430**	**18 642**	**74 072**	**49 751**	**18 129**	**67 880**

1. Differs from the figures published in the consolidated financial information of national government as at 31 March 2007 and 2008 due to certain departments not fully disclosin government guarantees in their financial statements.

Table 9
Financial guarantees:
Amounts drawn on government guarantees

R million	2006/07 Domestic	2006/07 Foreign	2006/07 Total	2007/08 Domestic	2007/08 Foreign	2007/08 Total
General Government Sector	**6 948**	**–**	**6 948**	**7 313**	**–**	**7 313**
Central Government	6 948	–	6 948	7 313	–	7 313
Former regional authorities	*248*	–	*248*	*212*	–	*212*
Guarantee scheme for housing loans to employees	*446*	–	*446*	*374*	–	*374*
Guarantee scheme for motor vehicles - senior officials	*14*	–	*14*	*10*	–	*10*
South African National Roads Agency	*5 885*	–	*5 885*	*6 441*	–	*6 441*
Universities and Technikons	*355*	–	*355*	*276*	–	*276*
Public Entities	**41 918**	**18 677**	**60 595**	**38 205**	**18 781**	**56 986**
Non-financial	39 655	5 279	44 934	35 863	5 173	41 036
Central Energy Fund	–	*360*	*360*	–	*243*	*243*
Eskom	–	*133*	*133*	–	–	–
Irrigation Boards	*44*	–	*44*	*43*	–	*43*
Kalahari East Water Board	*16*	–	*16*	*16*	–	*16*
Komati Basin Water Authority	*1 548*	–	*1 548*	*1 514*	–	*1 514*
Lesotho Highlands Development Authority	*12*	*606*	*618*	*9*	*604*	*613*
South African Airways	*1 300*	–	*1 300*	*4 460*	–	*4 460*
Nuclear Energy Corporation of South Africa	*20*	–	*20*	*20*	–	*20*
Telkom South Africa	*4 679*	*106*	*4 785*	–	*140*	*140*
Trans-Caledon Tunnel Authority	*17 417*	*273*	*17 690*	*19 021*	*250*	*19 271*
Transnet	*14 619*	*3 801*	*18 420*	*10 780*	*3 936*	*14 716*
Financial	2 263	13 398	15 661	2 342	13 608	15 950
Development Bank of Southern Africa	–	*12 178*	*12 178*	–	*12 414*	*12 414*
Industrial Development Corporation of South Africa	–	*1 220*	*1 220*	–	*1 194*	*1 194*
Land Bank	*1 500*	–	*1 500*	*1 500*	–	*1 500*
South African Reserve Bank	*763*	–	*763*	*842*	–	*842*
Private Sector	**95**	**–**	**95**	**95**	**–**	**95**
Agricultural Co-operatives	95	–	95	95	–	95
Servcon Housing Solutions	–	–	–	–	–	–
Foreign Sector	**145**	**–**	**145**	**91**	**–**	**91**
Foreign Central Banks and Governments	145	–	145	91	–	91
Total[1]	**49 106**	**18 677**	**67 783**	**45 704**	**18 781**	**64 485**

C

Summary of additional tax proposals for 2009/10

Direct tax proposals

Personal income tax rate and bracket structure

The primary rebate is increased to R9 756 a year for all individuals. The secondary rebate is increased to R5 400 a year for individuals age 65 and over. The rates of tax in respect of the 2008/09 tax year and those proposed for 2009/10 are set out in Table C.1.

Table C.1 Personal income tax rate and bracket adjustments, 2008/09 and 2009/10

2008/09		2009/10	
Taxable income	**Rates of tax**	**Taxable income**	**Rates of tax**
R0 – R122 000	18% of each R1	R0 – R132 000	18% of each R1
R122 001 – R195 000	R21 960 + 25% of the amount above R122 000	R132 001 – R210 000	R23 760 + 25% of the amount above R132 000
R195 001 – R270 000	R40 210 + 30% of the amount above R195 000	R210 001 – R290 000	R43 260 + 30% of the amount above R210 000
R270 001 – R380 000	R62 710 + 35% of the amount above R270 000	R290 001 – R410 000	R67 260 + 35% of the amount above R290 000
R380 001 – R490 000	R101 210 + 38% of the amount above R380 000	R410 001 – R525 000	R109 260 + 38% of the amount above R410 000
R490 001 and above	R143 010 + 40% of the amount above R490 000	R525 001 and above	R152 960 + 40% of the amount above R525 000
Rebates		**Rebates**	
Primary	R8 280	Primary	R9 756
Secondary	R5 040	Secondary	R5 400
Tax threshold		**Tax threshold**	
Below age 65	R46 000	Below age 65	R54 200
Age 65 and over	R74 000	Age 65 and over	R84 200

The proposed tax schedule eliminates the effects of inflation on income tax liabilities and results in a reduced tax liability for taxpayers at all income levels. These tax reductions are set out in Tables C.2 and C.3. The average tax rates (tax as a percentage of taxable income) for individuals are illustrated in Figures C.1 and C.2.

Table C.2 Income tax payable, 2009/10 (taxpayers below age 65)

Taxable income (R)	2008 rates (R)	Proposed rates (R)	Tax reductions (R)	% reduction
54 200	1 476	–	-1 476	-100.0%
55 000	1 620	144	-1 476	-91.1%
60 000	2 520	1 044	-1 476	-58.6%
65 000	3 420	1 944	-1 476	-43.2%
70 000	4 320	2 844	-1 476	-34.2%
75 000	5 220	3 744	-1 476	-28.3%
80 000	6 120	4 644	-1 476	-24.1%
85 000	7 020	5 544	-1 476	-21.0%
90 000	7 920	6 444	-1 476	-18.6%
100 000	9 720	8 244	-1 476	-15.2%
120 000	13 320	11 844	-1 476	-11.1%
150 000	20 680	18 504	-2 176	-10.5%
200 000	33 430	31 004	-2 426	-7.3%
250 000	48 430	45 504	-2 926	-6.0%
300 000	64 930	61 004	-3 926	-6.0%
400 000	100 530	96 004	-4 526	-4.5%
500 000	138 730	133 704	-5 026	-3.6%
750 000	238 730	233 204	-5 526	-2.3%
1 000 000	338 730	333 204	-5 526	-1.6%

Figure C.1 Average tax rates for people under age 65

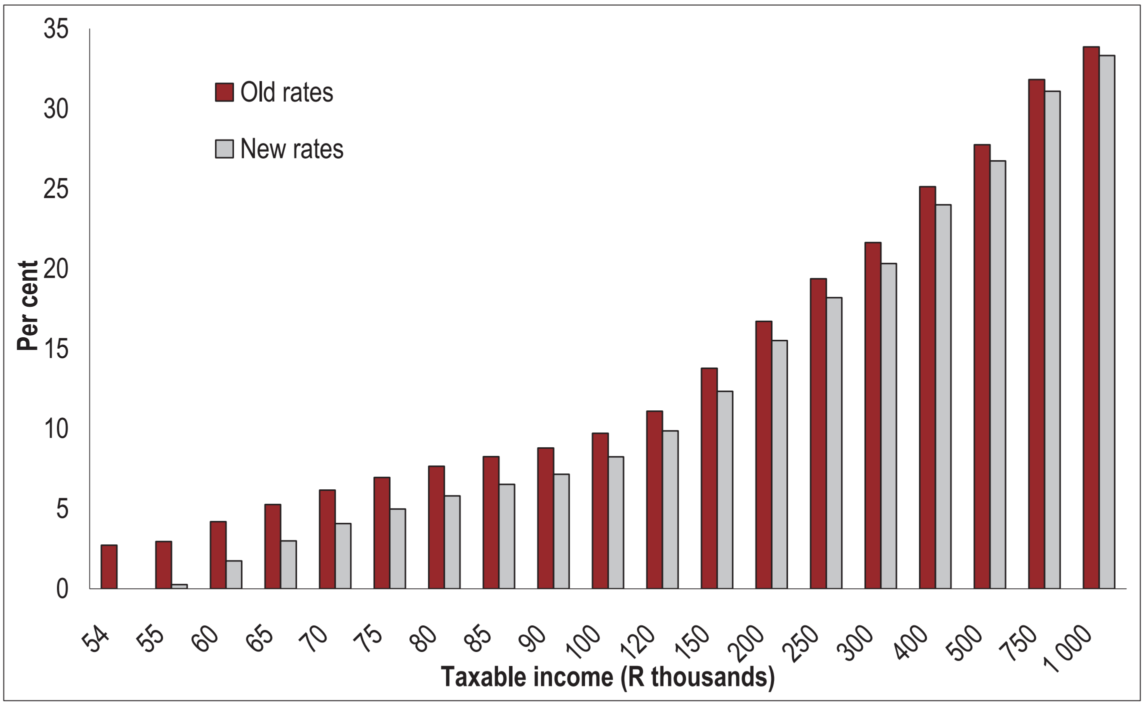
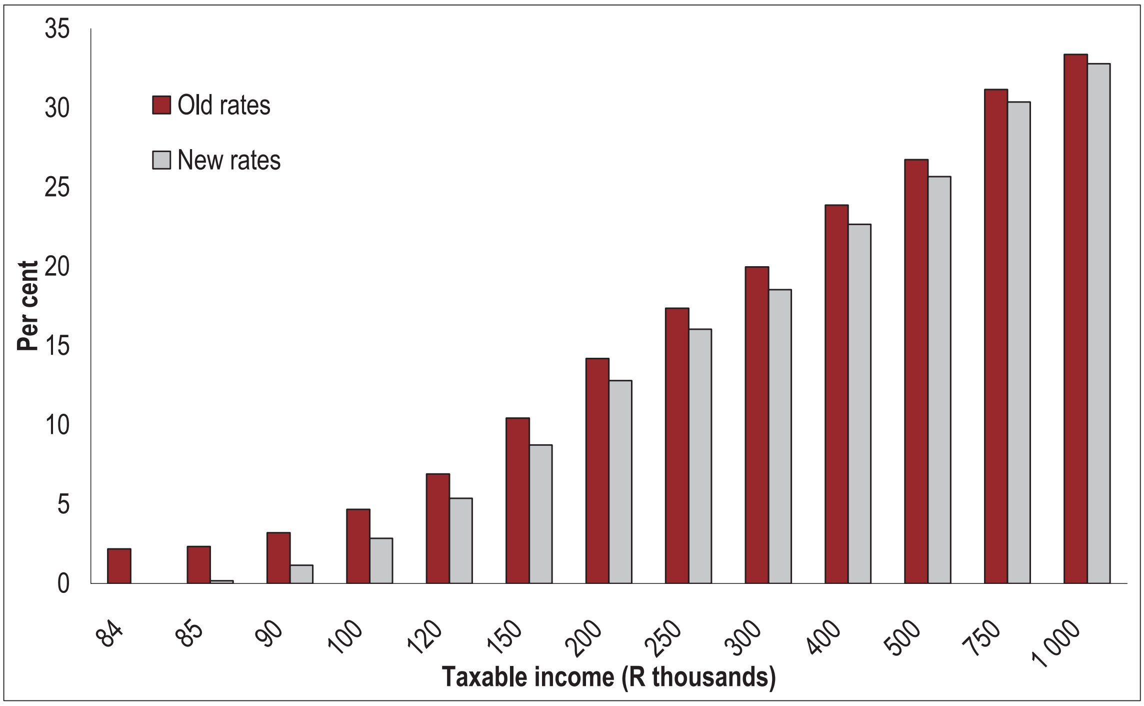


Table C.3 Income tax payable, 2009/10 (taxpayers age 65 and over)

Taxable income (R)	2008 rates (R)	Proposed rates (R)	Tax reductions (R)	% reduction
84 200	1 836	–	-1 836	-100.0%
85 000	1 980	144	-1 836	-92.7%
90 000	2 880	1 044	-1 836	-63.8%
100 000	4 680	2 844	-1 836	-39.2%
120 000	8 280	6 444	-1 836	-22.2%
150 000	15 640	13 104	-2 536	-16.2%
200 000	28 390	25 604	-2 786	-9.8%
250 000	43 390	40 104	-3 286	-7.6%
300 000	59 890	55 604	-4 286	-7.2%
400 000	95 490	90 604	-4 886	-5.1%
500 000	133 690	128 304	-5 386	-4.0%
750 000	233 690	227 804	-5 886	-2.5%
1 000 000	333 690	327 804	-5 886	-1.8%

Figure C.2 Average tax rates for people age 65 and over



Indirect tax proposals

Specific excise duties

It is proposed that the customs and excise duties in Section A of Part 2 of Schedule 1 of the Customs and Excise Act, No. 91 of 1964, be amended with effect from 11 February 2009 to the extent shown in Table C.4.

Table C.4 Specific excise duties, 2008/09 – 2009/10

Tariff item	Tariff heading	Description	2008/09 Present rate of duty Excise	Customs	2009/10 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:				
.10		Traditional 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	Beer made from malt:				
.10		Traditional beer as defined in Additional Note 1 to Chapter 22	7.82c/ℓ	7.82c/ℓ	7.82c/ℓ	7.82c/ℓ
.20		Other	R42.38/ℓ of absolute alcohol	R42.38/ℓ	R46.41/ℓ of absolute alcohol	R46.41/ℓ
104.15	22.04	Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):				
	22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:				
.02		Sparkling wine	R5.63/ℓ	R5.63/ℓ	R6.16/ℓ	R6.16/ℓ
.04		Unfortified wine	R1.84/ℓ	R1.84/ℓ	R1.98/ℓ	R1.98/ℓ
.06		Fortified wine	R3.40/ℓ	R3.40/ℓ	R3.72/ℓ	R3.72/ℓ
104.17	22.06	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:				
.05		Traditional beer as defined in Additional Note 1 to Chapter 22	7.82c/ℓ	7.82c/ℓ	7.82c/ℓ	7.82c/ℓ
.15		Other fermented beverages, unfortified	R2.12/ℓ	R2.12/ℓ	R2.33/ℓ	R2.33/ℓ
.17		Other fermented beverages, fortified	R4.32/ℓ	R4.32/ℓ	R4.73/ℓ	R4.73/ℓ
.22		Mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages	R2.12/ℓ	R2.12/ℓ	R2.33/ℓ	R2.33/ℓ
.90		Other	R4.32/ℓ	R4.32/ℓ	R4.73/ℓ	R4.73/ℓ
104.20	22.07	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:				

Table C.4 Specific excise duties *(continued)*

Tariff item	Tariff heading	Description	2008/09 Present rate of duty Excise	2008/09 Present rate of duty Customs	2009/10 Proposed rate of duty Excise	2009/10 Proposed rate of duty Customs
	22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent; spirits, liqueurs and other spirituous beverages:				
.10		Wine spirits, manufactured by the distillation of wine	R67.72/ℓ of absolute alcohol	R67.72/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol
.15		Spirits, manufactured by the distillation of any sugar cane product	R67.72/ℓ of absolute alcohol	R67.72/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol
.25		Spirits, manufactured by the distillation of any grain product	R67.72/ℓ of absolute alcohol	R67.72/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol
.29		Other spirits	R67.72/ℓ of absolute alcohol	R67.72/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol
.40		Liqueurs and other spirituous beverages	R67.72/ℓ of absolute alcohol	R67.72/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol	R77.67/ℓ of absolute alcohol
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:				
.10		Cigars, cheroots, and cigarillos, of tobacco or of tobacco substitutes	R1 726.92 /kg net	R1 726.92 /kg net	R1 951.43 /kg net	R1 951.43 /kg net
.20		Cigarettes, of tobacco or of tobacco substitutes	R3.41 /10 cigarettes	R3.41 /10 cigarettes	R3.85 /10 cigarettes	R3.85 /10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences:				
.10		Cigarette tobacco and substitutes thereof	R173.49/kg	R173.49/kg	R183.04/kg	R183.04/kg
.20		Pipe tobacco and substitutes thereof	R92.15 /kg net	R92.15 /kg net	R100.10 /kg net	R100.10 /kg net

Environmental adjustment to the ad valorem excise duty on motor vehicles

As noted in Chapter 4, improved fuel efficiency is important in curbing CO_2 emissions. It is proposed that the existing ad valorem excise duties on motor vehicles be adjusted to incorporate CO_2 emissions as an environmental criterion.

The current "luxury" ad valorem excise duties on new motor vehicle sales (passenger cars and light commercial vehicles) are based solely on price. At present, the following formula applies:

A. The tax rate (per cent) is equal to 0.00003 x (retail price less 20 per cent) less 0.75.

B. The tax base, which equals the recommended retail selling price less 28 per cent.

Imported new vehicles (passenger cars and light commercial vehicles) are subject to roughly similar formulas to ensure a similar tax incidence.

It is proposed to reduce the "luxury" ad valorem excise duty rate on the sale of new motor vehicles while introducing an additional tax (also ad valorem) component to take into account CO_2 emissions. The revised "luxury" component of the ad valorem excise duty will be as follows:

A. The tax rate (**X**) (per cent) is equal to 0.00002 x (retail price less 20 per cent) - 1.0.

B. The tax base, which equals the retail price less 28 per cent (the same as the current formula although the 28 per cent might be reviewed).

It is also proposed that the CO_2 emissions g/km tax rate for new vehicles be calculated as follows:

Tax rate (**Y**) (per cent) is equal to CO_2 emissions (g/km) / 15.0 - 8.0.

Tax rate (**Y**) (per cent) is equal to 0 per cent in the case of negative values.

The total ad valorem tax rate will equal **X +Y**.

The tax bases for the emission component will be the same as for the "luxury" component. The calculation for the "luxury" ad valorem tax rate component on imported vehicles will be adjusted.

The proposed rate structure will become effective from 1 March 2010. Tables C.5 and C.6 provide some examples.

Table C.5 Ad valorem "luxury" excise duty rates on motor vehicles (X)

Retail price	Current rate	Proposed rate	Deviation
R 50 000	0.5%	0.0%	-0.5%
R 100 000	1.7%	0.6%	-1.1%
R 150 000	2.9%	1.4%	-1.5%
R 200 000	4.1%	2.2%	-1.9%
R 300 000	6.5%	3.8%	-2.7%
R 400 000	8.9%	5.4%	-3.5%
R 500 000	11.3%	7.0%	-4.3%
R 600 000	13.7%	8.6%	-5.1%
R 800 000	18.5%	11.8%	-6.7%
R 864 500	20.0%	12.8%	-7.2%
R 1 000 000	20.0%	15.0%	-5.0%
R 1 312 500	20.0%	20.0%	0.0%

Table C.6 Ad valorem "emission" tax rates on motor vehicles (Y)

Emission component	
CO_2 (g/km)	CO_2 emissions tax rate
100	0.0%
110	0.0%
120	0.0%
140	1.3%
160	2.7%
180	4.0%
200	5.3%
220	6.7%
240	8.0%
260	9.3%
280	10.7%
300	12.0%

Miscellaneous income tax amendments

Personal and employment tax issues

- *Employer contributions to a retirement annuity fund:* If retirement annuity fund contributions are paid directly by the employer for the benefit of employees, the contributions are included in the gross income of the employees but are not deductible by the employees. It is proposed that these contributions should be deductible, subject to existing limits, so that they are placed on par with other retirement annuity fund contributions made directly by employees.

- *Additional deductions for learnerships:* Employers obtain additional deductions for employees engaged in learnerships (i.e. a deduction in addition to the normal deduction for a salary expense) to encourage skills training. The legislation relating to these deductions, however, is overly complex due to the excessive number of variables. Under consideration is a reduction of variables (without compromising the value of the incentive) so that the legislation can be simplified in terms of compliance and enforcement.
- *Pre-1998 retirement benefits for public servants:* Lump-sum retirement benefits of public servants were tax free prior to 1998. The Income Tax Act was amended three years ago to protect the retrospective pre-1998 retirement benefits of non-statutory forces that were incorporated into the new defence force. There are, however, other public-sector employees who were previously denied such retirement benefits and, in terms of a Public Sector Bargaining Council agreement, such current and former employees' retirement benefits will be partially restored. The restored retirement benefits that predate 1998 should also be treated as tax exempt. The Income Tax Act will be amended accordingly.
- *Treatment of unrealised gains on death:* The tax system generally imposes tax on unrealised gains associated with the assets of the deceased upon date of death. Gains so taken into account should not be taxed again in the hands of an heir or legatee who acquires those assets. It has now emerged that certain assets technically fall outside this general relief, thereby giving rise to additional taxation. This unintended additional layer of tax will be removed.

Business issues

- *Small business owners' use of shelf companies:* If a shareholder owns multiple companies, these companies may not access small business corporation relief or the turnover tax for micro businesses. The purpose of this prohibition is to prevent shareholders from dividing a single large business into multiple small businesses so as to artificially obtain undue tax benefits for each of these divided parts. Unfortunately, this exclusion has the unintended effect of denying relief for small business owners who place their businesses in purchased shelf companies. To remedy this situation, the exclusion against multiple company ownership should not apply in respect of companies that have never been more than a shell.
- *Permissible short-term insurance reserves:* Taxpayers engaged in domestic short-term insurance operations can only deduct their reserves if these reserves are regulated by the Financial Services Board as a condition for engaging in the short-term insurance business. The law needs to be clarified to ensure that reserves relating to offshore short-term insurance operations are eligible for potential deductions only if subject to substantially similar regulation and evaluation by SARS.
- *Application of leasing losses against corresponding recoupments:* Leasing losses from financial (i.e. non-operating) leases or leasing losses of a bank or financier can only be used against leasing income. A technical anomaly has arisen that prevents these leasing losses from being used against corresponding recoupments from the disposal of assets giving rise to these leasing losses. No reason exists for preventing the application of these losses in these circumstances, and this anomaly will accordingly be removed.
- *Controlled foreign company (CFC) rulings relief:* CFCs generate net income that is imputed to their South African resident shareholders (thereby being subject to South African tax) to the extent these CFCs have tainted income (e.g. passive income and income likely to be diverted offshore for tax avoidance reasons). Because the objective nature of the tainted CFC income characterisation sometimes creates tax where no tax avoidance exists, Section 9D(10) was added to provide relief if SARS provides a ruling that the transaction does not represent an erosion of

the tax base. However, this relief measure is proving difficult to administer because the issues raised are typically of a policy nature as opposed to administrative interpretation. It is accordingly proposed that the rulings exemption be re-examined along with the creation of additional objective exemptions where circumstances so warrant.

- *Liquidating inactive entities:* Various pressures exist to liquidate entities with inactive real estate (e.g. vacant land and residential property). To alleviate these pressures, it is proposed that rollover relief be provided to facilitate these liquidations for a transitional period.
- *Securities lending arrangements:* Securities lending has features of both loans and disposals. The tax law generally treats these loans as disposals, with limited relief for 12 months for certain arrangements. It has now been discovered that certain securities lending arrangements seek to be treated as loans for certain purposes and as a loss of ownership for others, generating artificial losses. While this treatment is suspect under current law, it may be necessary to clarify the law so that all forms of securities lending fall under either loan or disposal treatment (not a mix of both).
- *Company law reform:* A revised Companies Act was introduced in 2008 that will become effective as of 1 January 2010. The impact of this new legislation on income tax is under review. Corresponding tax changes will generally be initiated in 2010 once the full ramifications of the revised act are fully accounted for, with urgent matters initiated in 2009.
- *Oil and gas companies conducting incidental trades:* Two years ago, government enacted an income tax incentive to encourage domestic oil and gas exploration and production. To qualify for this relief, it was intended that companies must be engaged solely in oil exploration and production, with other sources of income coming solely from passive sources. On review, it has been determined that the legislation was too restrictive because typical oil and gas operations entail incidental business activities. It is accordingly proposed that the oil and gas incentive regime be liberalised in this respect. However, the law also needs to be clarified to ensure that the incentive does not permit the deduction of oil and gas exploration expenditure outside the Republic.
- *Underwater telecommunication cables:* Telephone lines and cables are currently eligible for a 5 per cent depreciation write-off over 20 years. The telecommunications industry is now seeking to lay underwater cables for voice and data communications off the African coast. It is accordingly proposed that these underwater cables be given the same 5 per cent write off as land-based telephone lines and cables. An issue under examination is the extent to which this write-off should be available for different forms of utilisation (e.g. joint ownership versus an indefeasible right of use).
- *Telecommunication license consolidation:* The telecommunications industry operates under a variety of licenses (e.g. 2G and 3G, frequency and internet provider). The Independent Communications Authority of South Africa is planning to require consolidation of these related licenses into a single telecommunications license per company to simplify administration. It is proposed that these regulatory consolidations be legislatively treated as a tax-free rollover event (to the extent the consolidation would otherwise give rise to capital gains taxation).
- *Depreciation of improvements:* As a theoretical matter, improvements should be treated on par with underlying initial investments for purposes of tax depreciation. If an initial "new and unused" investment can be depreciated over 20 years, "new and unused" improvements for a similar investment should similarly be depreciable over 20 years (even if the underlying investment is not "new and unused"). While this principle exists in certain circumstances, the law needs to be clarified to ensure that this principle uniformly applies for all depreciable items.

Special circumstances

- *Pre-existing cooperatives:* South Africa has three main forms of cooperatives: those engaged in agriculture, consumer purchase "buy-aids" and small retail banking cooperatives. In 2005, the Department of Trade and Industry sought to revise and expand the role of cooperatives through new legislation, which will only become fully effective in 2010. In view of this legislation, the tax law will be reviewed to determine whether legislation is required to preserve tax benefits that existed under prior law, with necessary amendments being made accordingly.
- *Agricultural trusts:* Agricultural boards under the indirect auspices of the Department of Agriculture have long been exempt as indirectly controlled government parastatals. Many years ago, these boards were converted into trusts pursuant to a legislative mandate that narrowed their authority, while the Department of Agriculture continued to retain control over certain trustee positions, trustee rules amendments and certain cash-flows (e.g. levies). The purpose of these trusts is to promote South African agriculture in the areas of research, training, support for land reform and in other areas. Despite their conversion into trusts, the underlying activities should largely retain their exemption, with possible legislative amendments required to achieve this objective.
- *Converted Section 21 companies:* Section 21 non-profit companies may be eligible for tax relief if formed or incorporated as a Section 21 company. However, this relief is technically not available for the same entity if that entity begins as a for-profit company and subsequently converts to a Section 21 company. This anomaly will be removed.
- *Amendments to the partial taxation of clubs:* Tax relief for clubs was changed in 2006 from complete exemption to a system of exempting specified activities. All clubs created from 1 April 2007 fall under this new system, with pre-existing clubs being required to apply for the partial exemption system by the close of 31 March 2009. It is proposed that the application deadline for pre-existing clubs be moved to 30 September 2010 due to compliance difficulties. Other technical anomalies associated with the revised taxation of clubs will also be remedied.
- *Supporting public benefit organisations:* Some public benefit organisations enjoy exemption while others enjoy both exemption and the ability to receive deductible donations. Under current law, however, some supporting public benefit organisations (i.e. those designed to provide support to other public benefit organisations) cannot obtain deductible donations even if dedicated solely to public benefit organisations that enjoy deductible donation status. The deductible donation status of supporting public benefit organisations will be considered to the extent that it does not give rise to avoidance.
- *Financial Consumer Education Foundation:* In 2007, it was announced that the Financial Consumer Education Foundation (formed under the auspices of the Financial Services Board) would be eligible for tax-deductible donations. It was initially believed that this result could be achieved via interpretation, but it has now been determined that legislation will be required.
- *Film rebate subsidies:* The DTI provides rebates for a portion of the costs incurred for producing a South African-located film. The Income Tax Act also contains an explicit exemption for parties receiving or accruing these DTI rebates, but this exemption fails to account for the practical structures used to receive the rebate. Film producers typically wish to assign these rebates to their investor-owners as part of their funding arrangements but find that this funding mechanism undermines the tax exemption. It is accordingly envisioned that the tax exemption be extended so that the rebate can be assigned to investor-owners without triggering additional tax. On a related note, the current film scheme anti-avoidance rules may need expansion in view of a new set of film schemes currently in the market.
- *Judicial decisions in respect of trading stock and restraint of trade:* Two recent court decisions may require legislative intervention to preserve the status quo. In the first decision, the Tax Court held that mining stockpiles could not be considered to be trading stock. While this decision will

be appealed, it may be necessary to amend the Income Tax Act with immediate effect to prevent other taxpayers engaged in mining from taking this position while the appeal is under way. In the second decision, the Supreme Court of Appeal overturned a decision by the Tax Court that multiple restraints of trade paid by a company to the same individual were in the nature of a salary substitute and therefore taxable in the individual's hands after the first payment. While an amendment was passed in 2000 making restraints of trade fully taxable, a further legislative intervention may be required to round out this amendment.

Administrative tax issues

- *Clarification of Section 88A settlement procedures:* When the Section 88A settlement procedures were introduced into legislation in 2003, the underlying assumption was that the settlement of disputes would only commence after the relevant assessment. Operational uncertainty now exists as to whether settlements may be concluded prior to assessments. It is therefore proposed that section 88A be clarified to ensure that settlement procedures are limited to post-assessment.
- *Payment of interest on allowance of an objection:* The Income Tax and VAT Acts do not require SARS to pay interest on the overpayment of tax when a taxpayer is required to pay a disputed amount while the amount is subject to objection – with the objection subsequently being allowed. This non-payment of interest is arguably contrary to one of the core principles on which the constitutionality of the "pay now argue later" principle is based. In order to address these concerns, it is proposed that the Income Tax and VAT Acts be amended to: (i) clarify that payment is not suspended due to objection, (ii) formalise the circumstances where payment will be required despite objection, and (iii) provide for interest where a payment made pending consideration of an objection is refunded.
- *Interest on delayed payment by employers of PAYE:* If employers fail to withhold and pay over to SARS employees' tax, SARS can enforce payment of this tax amount as a "penalty". Current legislative treatment of this failure to pay employee taxes as a "penalty" is theoretically incorrect and has the unintended impact of preventing SARS from charging interest for the delayed payment. Interest charges will be imposed accordingly.
- *Rounding*: To further simplify the income tax return process, the rounding off of employees' tax, provisional tax, foreign tax credits and tax calculated to the nearest rand is proposed.

Miscellaneous estate duty amendments

- *Portable R3.5 million deduction between spouses:* Under current law, both spouses are each entitled to an estate duty deduction of R3.5 million. In widely accepted estate planning, each spouse seeks to use the R3.5 million deduction by removing assets worth R3.5 million from the estate while keeping practical control of the assets for the benefit of the spouse via a trust mechanism. It is proposed that spouses be given flexibility in using their combined estate duty deductions without the artifice of the (often costly and complex) trust mechanism. Under this proposal, the surviving spouse's (or spouses') estate will benefit from the unused deduction of the deceased spouse automatically.
- *Timing and recovery of additional assessments:* Estates with a value exceeding the R3.5 million deduction threshold are issued their initial estate duty assessments (or deemed assessments) when the assets of the estate are distributable. SARS can also raise additional assessments within the following five years (and in some cases beyond). Enforcement after closure of the estate, however, is problematic as a practical matter because the executor no longer has control over the assets. It is therefore proposed that the current five-year rule for additional assessment and recovery be reconsidered so as to reach finality upon the closure of the estate (to the extent possible) while protecting the fiscus against fraud, misrepresentation and non-disclosure.

- *One-year usufructuary interest schemes:* A commonly known one-year usufructuary scheme exists in the market that allegedly undermines the estate duty. This scheme involves the estate duty-free transfer of a life-time usufructuary interest to a spouse, with the children receiving the bare dominium. On the death of the spouse, the usufructuary interest is transferred with a one-year interest going to a person, after which the remaining rights transfer to the intended heirs. The scheme essentially relies on the misapplication of the 12 per cent per annum valuation presumption in the context of a one-year interest. This scheme will accordingly be closed.

Miscellaneous VAT amendments

- *VAT implications of reorganisations:* Following the enactment of reorganisation rollover relief for income tax in 2001/02, reorganisation relief provisions were enacted for VAT in 2005. However, interpretational issues have arisen regarding changes in use and input credits (e.g. commissions and legal fees). Many of these reorganisation problems appear to have their roots in the transfer of assets involving mixed supplies (e.g. banks, insurers and transport companies having both taxable and tax-exempt supplies). To remedy these concerns, an interpretation note will be issued clarifying these matters (with possible legislation if required).
- *Taxpayer relief from late payment interest charges:* Taxpayers are required by law to pay interest on late payments or excessive refunds. SARS has the discretionary power to grant full or limited relief for interest due on late payments if: (i) there is no loss to the state, or (ii) there is no financial benefit for the taxpayer. The choice of which of these grounds should be used often complicates the application of this relief provision. It is proposed that clarification be provided to eliminate the potential for inconsistent application.
- *Share block schemes:* Shares of a share block scheme represent a special form of interest in underlying real estate. Under current law, the transfer of these shares can trigger transfer duty, VAT or neither. The law will be clarified so at least one form of indirect tax applies.

Customs and excise amendments

- *Ensuring a single procedure for customs dispute resolution:* Amendments will be considered to align the remission and mitigation provisions within the customs dispute resolution procedure in order to ensure that a single procedure is followed. Further amendments may also be considered based on the outcome of a recently completed internal review of the dispute resolution procedure and its application.
- *Further simplification of warehouse policies and procedures:* A facility to allow for the periodic clearance of goods exported from licensed warehouses is required to assist with the administration of, among others, ship stores.
- *Advance passenger information:* The Customs and Excise Act was recently amended to provide for the compulsory electronic communication of advance passenger information and the protection of personal information contained therein. It is anticipated that further consequential amendments may be necessary following implementation.
- *Amendments to customs transit procedures:* Amendments to the Customs and Excise Act will be considered for improved provision for interruptions in transit (for example, as a result of re-packing, tallying, sorting, cleaning, inspecting and sealing the goods, carrying out activities directed at preserving the condition of the goods, as well as the consolidation of shipments).
- *Customs enforcement at the border:* In order to further support the Customs Border Control Unit (CBCU) in successfully carrying out its mandate, amendments to the Customs and Excise Act will be considered relating to, *inter alia*, the powers of officers to patrol and carry out surveillance, the powers of officers to question and search persons, equipment and facilities used

for the detection of illicit goods concealed on a person and to provide for equipment used by the unit.

- *Treatment of duty-free VAT-exempt goods:* Goods that are free of customs duty can currently not be cleared under any item to Schedule 4 to the Customs and Excise Act relating to a rebate of customs duty. Amendments to the relevant acts will be considered to enable duty-free VAT-exempt goods to be cleared.
- *2010 FIFA World Cup:* Provision has already been made for special tax matters relating to the 2010 FIFA World Cup (including the 2009 Confederations Cup). Other procedural or administrative matters contained in the Customs and Excise Act may, however, require amendment as a result of the tournament or for its duration. Suitable amendments will be considered as required.

General miscellaneous amendments

Ratification of ministerial determined transfer duty and securities transfer tax rate and exemption changes: Rate reductions (and new exemptions) for the transfer duty and the securities transfer tax should normally take effect on 1 March of that year or shortly after the Budget Speech. The law allows the change to apply from these dates until the close of a six-month period following ministerial announcement, thereby allowing enough time for consideration by Parliament. In view of certain envisaged changes to the tax legislative process, it is proposed that the six-month period be extended to 12 months in line with similar rules in existence for customs and excise.

Technical corrections

In addition to the miscellaneous amendments above, the 2009 legislation will contain various technical corrections. These technical corrections will address non-revenue impact items, such as typing and grammatical errors, incorrect or misleading headings or definitions, misplaced cross-references, differences between the two texts of the legislation, obsolete provisions (e.g. updating the tax acts in the light of other non-tax legislative changes), incorporation of regulation into law and problems relating to effective dates. These technical corrections may also occasionally include changes to legislation clearly at odds with legislative intent as well as obvious ambiguities and omissions, especially in respect of legislation introduced in 2008. All technical corrections described herein are not intended as a change in policy.

Items of small note relate to the specific inclusion of rates and thresholds stemming from the 2008 legislation (such as the rates for the turnover tax for micro businesses) as well as some final refinements relating to retirement (especially divorce). Other technical changes are envisioned stemming from the Mineral and Petroleum Resources Royalty Act as well as the Diamond Export Levy Act. Both tax instruments are being implemented with some changes requested to account for unanticipated circumstances. The Diamond Export Levy Act amendments largely relate to administration (e.g. registration), and the Mineral and Petroleum Resources Royalty Act amendments relate to technical aspects.

W1

Website annexure to the 2009 Budget Review

Explanatory memorandum to the division of revenue

Background

The allocation of resources to the three spheres of government is a critical step in the budget process, required before national government, nine provinces and 283 municipalities can determine their own budgets. The allocation process needs to take into account the powers and functions assigned to the three spheres of government. The process for making this decision is at the heart of cooperative governance as envisaged in the Constitution.

To foster transparency and ensure smooth intergovernmental relations, section 214(1) of the Constitution requires that every year a Division of Revenue Act determine the equitable division of nationally raised revenue between the three spheres of government. 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 the process of considering recommendations made with regard to the equitable division of nationally raised revenue.

This explanatory memorandum to the 2009 Division of Revenue Bill fulfils the requirement set out in section 10(5) of the Intergovernmental Fiscal Relations Act that requires the Division of Revenue Bill to be accompanied by an explanatory memorandum detailing how the bill takes account of the matters listed in section 214(2) (a) to (j) of the Constitution, government's response to the recommendations of the FFC, and any assumptions and formulas used in arriving at the respective divisions among provinces and municipalities. This explanatory memorandum contains five parts:

- Part 1 describes the division of resources between the three spheres of government.
- Part 2 sets out how the FFC's recommendations on the 2009 division of revenue have been taken into account.

- Part 3 explains the formula and criteria for the division of the provincial equitable share and for conditional grants to provinces.
- Part 4 sets out the formula and criteria for the division of the local government equitable share and conditional grants between municipalities.
- Part 5 summarises issues that will form part of subsequent reviews of provincial and local government fiscal frameworks.

This memorandum should be read with the Division of Revenue Bill. The Division of Revenue Bill and its underlying allocations are the culmination of extensive consultation processes between national, provincial and local government. The Budget Council deliberated on the matters discussed in this memorandum at its August 2008 lekgotla and at several other meetings during the year. The approach to local government allocations was discussed with organised local government at several technical meetings with the South African Local Government Association (SALGA), culminating in a meeting of the Budget Forum (Budget Council plus SALGA) on 2 October 2008. An extended Cabinet meeting involving ministers, provincial premiers and the chairperson of SALGA was held on 8 October 2008, and agreed on the final budget priorities and the division of revenue for the next three years.

Part 1: The 2009 division of revenue

The 2009 medium-term expenditure framework (MTEF) recognises the important developmental role played by provincial and local government and continues to strengthen their ability to provide social and municipal basic services and perform the functions allocated to them in line with section 214(2)(a) to (j) of the Constitution. Excluding debt service costs and the contingency reserve, allocated expenditure to be shared between the three spheres amounts to R677.3 billion, R720.2 billion and R762.1 billion 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. Further, the design of the equitable share formulas for both provincial and local governments are such that these spheres have desirable, stable and predictable revenue shares, and economic and fiscal disparities are addressed.

Government's policy priorities for the 2009 MTEF

Government's major budget priorities over the MTEF include:

- Enhancing the quality of education
- Improving the provision of health care, particularly for the poor, to reduce infant, child and maternal mortality rates
- Reducing the levels of crime and enhancing citizen safety
- Expanding the built environment to improve public transportation and meet universal access targets in housing, water, electricity and sanitation
- Decreasing rural poverty by taking steps to raise rural incomes and improve livelihoods by extending access to land and support for emerging farmers.

In addition to these priorities, policy focuses on three cross-cutting themes: support for increased employment creation, initiatives to improve the capacity of the state and, over the longer term, steps to reduce carbon emissions and mitigate the effects of climate change.

Provinces play a key role with respect to improving access to better-quality services, supporting labour-intensive services and infrastructure programmes, and investing in infrastructure and services that raise the long-term growth potential of the economy and facilitate higher exports.

Provinces have limited revenue-raising capacity and rely largely on national transfers to fund the functions that seek to achieve government's strategic objectives. Additional resources are directed towards areas where there is a clear spending impact or to protect buying power in critical areas of service delivery. Local government plays a key role with respect to broadening access to household services such as water, sanitation, electricity and to eliminate informal settlements.

The division of revenue for the 2009 MTEF remains supportive of pro-poor policy programmes that are designed to progressively roll out infrastructure and services in municipalities.

Table W1.1 shows how the additional allocations are apportioned to the different priority areas across the three spheres of government.

Table W1.1 2009 Budget priorities – additional MTEF allocations

R million	2009/10	2010/11	2011/12	Total
Provincial equitable share Includes school education, health care and welfare services	5 585	7 364	11 849	**24 798**
Local government equitable share	491	614	1 829	**2 934**
Education, health and welfare				
Higher education, National Student Financial Aid Scheme and recapitalisation of technical high schools	548	764	1 597	**2 909**
School nutrition programme	583	1 322	2 097	**4 002**
Hospitals and tertiary services	204	360	397	**961**
Comprehensive HIV and Aids	200	325	407	**932**
Social grants and SASSA	2 510	4 231	6 433	**13 174**
Housing and built environment				
Housing grants	711	804	2 146	**3 662**
Municipal infrastructure and related services	755	851	2 690	**4 295**
Infrastructure grant to provinces	453	1 234	2 456	**4 143**
Cultural institutions (Freedom Park)	200	134	–	**334**
Economic infrastructure and investment				
Public transport, roads and rail infrastructure	1 377	1 796	3 221	**6 394**
Communications infrastructure including ICT for 2010 FIFA World Cup	570	601	415	**1 586**
2010 FIFA World Cup stadiums	281	217	–	**497**
Eskom loan	30 000	20 000	–	**50 000**
Gautrain loan	4 200	–	–	**4 200**
Public Enterprises (South African Airways)	1 560	–	–	**1 560**
Industrial development and productive capacity of the economy				
Industrial development and regulatory capacity	364	647	623	**1 634**
Land and agrarian reform	197	305	1 277	**1 779**
Justice, crime prevention and policing				
Policing personnel, facilities and 2009 elections	300	900	2 600	**3 800**
Justice and occupation-specific dispensation for legally qualified personnel	150	225	300	**675**
Correctional Services personnel	300	300	300	**900**
International relations and defence				
Defence account and Waterkloof Air Base renovations	541	150	250	**941**
Foreign Affairs capacity and African Renaissance Fund	225	65	230	**520**
Public administration capacity				
Home Affairs and entities	235	316	677	**1 227**
Border control	100	300	500	**900**
Expanded public works programmes - Public Works	81	360	309	**749**
Other adjustments	7 743	3 613	9 758	**21 114**
Total policy adjustments	**60 463**	**47 797**	**52 361**	**160 621**

1. Includes R 461million in 2011/12 for the 3 new metros share of the general fuel levy.

The fiscal framework

Table W1.2 presents medium-term macroeconomic forecasts for the 2009 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, 2008/09 – 2011/12

	2008/09		2009/10		2010/11		2011/12
R billion	2008 Budget	2009 Budget	2008 Budget	2009 Budget	2008 Budget	2009 Budget	2009 Budget
Gross domestic product	2 286.9	2 304.1	2 506.9	2 474.2	2 758.6	2 686.3	2 953.0
Real GDP growth	*4.0%*	*2.6%*	4.2%	*1.4%*	*4.7%*	*3.4%*	*4.1%*
GDP inflation	*7.5%*	*8.6%*	5.2%	*5.9%*	*5.1%*	*5.0%*	*5.6%*
National budget framework							
Revenue	625.4	611.1	692.9	643.0	759.0	709.1	781.2
Percentage of GDP	*27.3%*	*26.5%*	*27.6%*	*26.0%*	*27.5%*	*26.4%*	*26.5%*
Expenditure	611.1	633.9	681.6	738.6	744.7	792.4	849.0
Percentage of GDP	*26.7%*	*27.5%*	*27.2%*	*29.9%*	*27.0%*	*29.5%*	*28.7%*
Main budget balance[1]	-14.3	-22.8	-11.3	-95.6	-14.3	-83.3	-67.7
Percentage of GDP	*-0.6%*	*-1.0%*	*-0.5%*	*-3.9%*	*-0.5%*	*-3.1%*	*-2.3%*

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

Table W1.3 sets out the division of revenue for the 2009 MTEF after taking into account new policy priorities.

Table W1.3 Division of revenue between spheres of government, 2005/06 – 2011/12

R million	2005/06	2006/07 Outcome	2007/08	2008/09 Revised estimate	2009/10	2010/11 Medium-term estimates	2011/12
National departments	192 425	210 168	242 632	288 277	343 077	352 788	361 255
Provinces	156 665	181 331	208 669	247 729	284 519	309 704	335 925
Equitable share	*135 292*	*150 753*	*172 862*	*204 010*	*231 051*	*253 670*	*272 934*
Conditional grants	*21 374*	*30 578*	*35 808*	*43 719*	*53 468*	*56 034*	*62 991*
Local government	16 682	26 501	37 321	43 620	49 698	57 722	64 964
Equitable share[1]	*9 643*	*18 058*	*20 676*	*25 560*	*23 847*	*29 268*	*31 890*
Conditional grants	*7 038*	*8 443*	*16 645*	*18 060*	*19 052*	*20 912*	*24 543*
General fuel levy sharing with metropolitan municipalities	–	–	–	–	*6 800*	*7 542*	*8 531*
Non-interest allocations	**365 772**	**418 000**	**488 622**	**579 626**	**677 295**	**720 214**	**762 145**
Percentage increase	*14.4%*	*14.3%*	*16.9%*	*18.6%*	*16.9%*	*6.3%*	*5.8%*
State debt cost	50 912	52 192	52 877	54 281	55 268	60 140	66 826
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Main budget expenditure	**416 684**	**470 192**	**541 499**	**633 907**	**738 563**	**792 354**	**848 971**
Percentage increase	*13.1%*	*12.8%*	*15.2%*	*17.1%*	*16.5%*	*7.3%*	*7.1%*
Percentage shares							
National departments	*52.6%*	*50.3%*	*49.7%*	*49.7%*	*50.7%*	*49.0%*	*47.4%*
Provinces	*42.8%*	*43.4%*	*42.7%*	*42.7%*	*42.0%*	*43.0%*	*44.1%*
Local government	*4.6%*	*6.3%*	*7.6%*	*7.5%*	*7.3%*	*8.0%*	*8.5%*

1. With effect from 2006/07, the local government equitable share includes compensation for the termination of RSC/JSB levies for metros and district municipalities. From 2009/10 the RSC levies replacement grant will only be allocated to district municipalities.

Table W1.4 shows how additional resources are divided among the three spheres of government. The new priorities and additional allocations are accommodated through reprioritisation and growth in the resource envelope.

Table W1.4 Changes over baseline, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12
National departments	45 138	32 105	24 299
Provinces	13 293	12 842	21 650
Local government	2 032	2 850	6 412
Allocated expenditure	**60 463**	**47 797**	**52 362**

Table W1.5 sets out Schedule 1 of the Division of Revenue Bill, which reflects the legal division of revenue between the three spheres. In this division, the national share includes all conditional grants to the other two spheres in line with section 214(1) of the Constitution, and the provincial and local government allocations reflect their equitable shares only.

Table W1.5 Schedule 1 of the Division of Revenue Bill, 2009/10 – 2011/12

	2009/10	2010/11	2011/12
	Column A	Column B	
R million	Allocation	Forward estimates	
National[1, 2]	483 665	509 416	544 147
Provincial	231 051	253 670	272 934
Local	23 847	29 268	31 890
Total	**738 563**	**792 354**	**848 971**

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. *The direct charges for the provincial equitable share are netted out.*

The 2009 *Budget Review* sets out in detail how the constitutional issues and government's priorities are taken into account in the 2009 division of revenue. It focuses on the economic and fiscal policy considerations, revenue issues, debt and financing considerations, and expenditure plans of government. Aspects of national, provincial and local government financing are discussed in some detail in Chapters 7 and 8. For this reason, this memorandum should be read with the 2009 *Budget Review*.

Part 2: Response to the recommendations of the FFC

Section 214 of the Constitution and section 9 of the Intergovernmental Fiscal Relations Act (1997) require the FFC to make recommendations in April every year, or soon thereafter, on the division of revenue for the coming budget. The FFC complied with this obligation by tabling its submission entitled *Submission for the Division of Revenue 2009/10* to Parliament in June 2008. This part of the explanatory memorandum complies with the Constitution and section 10 of the Intergovernmental Fiscal Relations Act by setting out how government has taken into account the FFC's recommendations when determining the division of revenue for the 2009 MTEF.

The 2009/10 recommendations are divided into three parts. Part A deals with national-provincial fiscal relations matters relating to financing of basic education and health care, transport and bottlenecks hampering housing delivery. Part B deals with local government fiscal relations matters pertaining to augmenting local government revenue, electricity pricing, generation and distribution and World Cup 2010 transport infrastructure. Part C covers intergovernmental data issues.

Part A: National-provincial fiscal relations

Education: The financing of basic education

FFC proposal on the re-ranking of schools

The FFC recommends that government should review the method used to inform the national quintile ranking of schools. Rather than classifying schools according to the ward or neighbourhood in which they are located, the method should take into account the socioeconomic circumstances of the learners (with particular reference to inequality and poverty).

Government response

Government agrees with the FFC that the socioeconomic circumstances of learners should be taken into account. It is the intention of the Department of Education to, in addition to the two poorest quintiles (1 and 2), phase-in the no-fee schools policy to quintile 3, which will extend coverage to 60 per cent of schools. The department is also working on a policy to provide assistance to schools up to quintile 5 that accommodate very poor learners.

FFC proposal on learner transport

The FFC recommends that national norms and standards for the provision of learner transport should be established. This will be possible once the location of this function has been clearly demarcated between the national departments of Education and Transport. This responsibility should be clarified as a matter of urgency. In the interim, all provinces should implement the statutory provisions that ensure learners are afforded the opportunity of equal access to the right to education, irrespective of their province of residence and irrespective of whether they reside in a rural or urban area.

Government response

Government agrees with the recommendations of the FFC. The functional responsibilities with respect to learner transport are those of the Department of Education, which is responsible for the provision of scholar transport, while the Department of Transport is responsible for regulatory requirements with respect to all public transport. Once the function has been clarified, scholar transport needs are to be included in the integrated transport plans at local government level and aligned with the Public Transport Strategy.

Financing of health care

FFC proposal on fiscal performance of community health clinics subprogramme

The FFC recommends that, just as the 2008 Division of Revenue Act requires that indicative allocations to schools and hospitals be gazetted with the tabling of provincial budgets, this practice be extended to clinics and other public health care facilities, as and when they fall under provincial control.

Government response

Government agrees that allocations per primary health care facility should be published when provincial budgets are tabled. Given the capacity constraints in certain provinces, attention is currently being given to ensuring compliance with existing requirements with respect to indicative allocations for schools and hospitals.

FFC proposal on infrastructure for primary health care and health outcomes

The FFC recommends that greater emphasis be placed on improving the quality of service provided at clinics and funding the maintenance of existing primary health care facilities. A need for the construction of clinics in poorly serviced rural and urban informal settlements still remains.

The FFC also recommends that the health components of the *infrastructure grant to provinces* should be aligned to the roll-out of infrastructure through *municipal infrastructure grants*.

Government response

Government agrees that emphasis should be placed on improving the quality of health services provided at clinics. In this regard, government introduced in the 2008 Budget a special allocation for complementary infrastructure (water, sanitation and electricity) that targets primary health care facilities. In addition, roads expenditure in provinces has increased sharply over the past few years and this trajectory is to be maintained over the MTEF. Part of this expenditure is targeted at not only ensuring access to health facilities but also to ensuring access to other social services and economic opportunities.

Government recognises that it is exceedingly important that other inputs (staffing, equipment, drugs and medicines) be managed in a manner that ensures optimal outcomes. Health maintenance budgets, albeit from a low base, are budgeted to increase sharply over the medium term.

Government agrees that appropriate coordination between provincial and municipal infrastructure grants will result in optimal outcomes from infrastructure investments. In general, municipal infrastructure developments support social infrastructure. To address misalignment where this exists, government introduced the electricity, water and sanitation grants to ensure that municipal infrastructure supports health and the schools infrastructure programme.

Transport

FFC comments on the classification and earmarking of roads

The FFC recommends that the process of classifying roads among the national, provincial and municipal spheres of government should be accelerated in line with the classification framework already established. The premiers of provinces with roads earmarked for incorporation into the national road system should make the necessary applications without further delay.

Government response

Government supports the recommendation that the road classification process be accelerated in line with the established framework. Delays could lead to unintended consequences, such as underinvestment in the function or lack of proper maintenance.

Housing

FFC comments on addressing the bottlenecks hampering housing delivery

The FFC reiterates its previous recommendation that government should address housing delivery bottlenecks to reduce underspending in provinces. In cases where municipalities have the capacity to administer housing programmes, they should be accredited to do so, because delays in such accreditation and transfer of funds are the primary bottlenecks hampering housing service delivery. The FFC accordingly recommends that the accreditation of municipalities with adequate capacity should be accelerated in line with the *integrated housing and human settlement development grant* framework.

Government response

In its quest to streamline and accelerate service delivery, government is reviewing the powers and functions of provinces and local government. The location of the housing function will be addressed as part of this review. In the interim, steps are taken to publish allocations that are transferred to municipalities for housing over the next three years to improve planning and speed up delivery.

Part B: Local fiscal relations

Augmenting local government revenue

FFC comments on replacements for RSC levies

The FFC recommends that, in light of the abolition of the Regional Services Council (RSC) levy, which formed a significant source of municipal revenue, the replacement revenue source for municipalities should be a tax that enhances the fiscal autonomy and discretion of local governments; strengthens the accountability of local government regarding the administration and use of the proposed tax base; yields an adequate and buoyant revenue stream for municipalities in the face of cyclical instability; and maintains macroeconomic balance.

Government response

Government agrees that it is important that reforms to the fiscal framework for local government ensure that the fiscal autonomy of municipalities is not compromised but enhanced and supports the principles proposed to underpin the choice(s) for replacement sources of revenue for the RSC levy.

However, the revenue capacities of individual municipalities need to be taken into account, because a replacement revenue instrument that is purely in the form of a tax is unlikely to achieve the desired goal of enhancing local government fiscal autonomy for poorly resourced and rural municipalities, and will at best reproduce the existing inequalities in local government own-revenue generation.

As part of a package of reforms, the VAT zero-rating of municipal property rates and other VAT reforms were introduced from 1 July 2006. Further reforms under consideration include the sharing of the general fuel levy and/or transfer duty in the medium term, a local business tax in the longer-term, as well as grants as a guaranteed revenue source for municipalities or categories of municipalities.

Electricity pricing generation and distribution

FFC comments on the restructuring of the electricity distribution industry

The slow pace at which the restructuring process is unfolding poses great concerns for stakeholders affected by the process, especially municipalities that are currently distributing electricity. The impact of the potential loss of a crucial revenue source from electricity distribution for municipalities will need to be adequately addressed. To ensure the commitment and full buy-in from all participants involved in the restructuring process, further guidelines on the participation of municipalities and Eskom in the regional electricity distributors (REDs) need to be worked out.

The FFC recommends that government should address the potential loss of a crucial revenue source for local government as a result of the establishment of REDs. The proposed restructuring process needs to factor in current reforms to the fiscal framework and the greater developmental role envisaged for local government. There is a need to review legislation as it concerns the transfer of assets, the national pricing framework and the establishment of the REDs.

Government response

Government acknowledges that the slow pace of the restructuring of the electricity distribution industry is a concern and is currently addressing the outstanding policy and legislative issues, including an asset transfer framework for transferring Eskom's and municipalities' assets to REDs. The asset transfer framework prescribed in the Municipal Finance Management Act (2003) (MFMA) deals with municipal assets generally. Government will also address any possible financial and other risks for Eskom and municipalities.

Government agrees that the reforms in the electricity distribution industry need to take into consideration reforms in the fiscal framework as well as the role of local government in its developmental capacity.

FFC comments on electricity investments and electricity pricing policy

The FFC recommends that government should work with the National Energy Regulator of South Africa to put in place a financing framework that deals effectively with electricity pricing. Such a framework should capture the scarcity of the resource in a pricing environment that reflects costs, efficiency, stability and eventually, externalities.

Given that reforms in the electricity pricing structure will necessitate an increase in electricity prices, such higher electricity prices will adversely impact on poor households with access to electricity as well as raise the cost to government of extending basic access to electricity for poor households. As such, government will need to increase annual funding for the rollout of services under the free basic electricity programme.

For greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources, government will need to increase funding resources set aside for such purposes and enhance incentives with a view to establishing and implementing a framework that encourages new forms of electricity generation technologies to enter the market; expands opportunities to consumers to access such forms of energy; allows non-utility developers equal market opportunity to compete with established providers; and incorporates financial incentives to expand production and distribution capacity, and to effect savings through improving end-user efficiency.

Government response

Government agrees that the electricity (generation) price should reflect costs, efficiency, stability and, eventually, externalities – that is, reflect marginal rather than historical costs. The Department of Minerals and Energy recently released a draft electricity pricing policy framework to harmonise electricity pricing. The implications of higher prices for the cost of providing free basic electricity to poor households will be taken into account as part of the division of revenue.

Government has acknowledged the need to promote greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources. Tax incentives to encourage the uptake and development of renewable energy, such as accelerated depreciation allowances, are already in place. The 2008 *Budget Review* proposed the imposition of a 2c/kWh tax on the sale of electricity generated from non-renewable sources, to be collected at source by the producers/generators of electricity. The 2008 *Medium Term Budget Policy Statement* pointed out that the electricity levy should be seen as the first step towards the introduction of a more comprehensive emissions-based carbon tax. Implementation of the levy has been postponed to 1 July 2009 to coincide with the commencement of the next municipal financial year.

This measure will serve the dual purpose of helping to manage the current electricity supply shortages and protecting the environment. The 2008 *Budget Review* also announced that government would make funds available to support programmes aimed at encouraging the more efficient use of electricity, generation from renewable sources, installation of electricity-saving devices and co-generation projects. The adjusted appropriation for 2008/09 made available R180 million for electricity demand-side management and R20 million for retrofitting government buildings to improve energy efficiency. The 2008 *Medium Term Budget Policy Statement* also points out that funds will be earmarked as part of the 2009 Budget for electricity demand-side management.

World Cup 2010 transport infrastructure

FFC recommendation on the financing of public transport

The FFC recommends that spending on public transport infrastructure for 2010 should be linked to broader city development plans. The FFC proposes a better resourced *public transport infrastructure and systems grant* that must continue after the 2010 FIFA World Cup. Projects funded under this arrangement should be selected based on full appraisal of economic, environmental and social costs/benefits; and funding mechanisms to cover maintenance costs of constructed 2010 facilities should be developed.

Government response

Government supports the recommendation that projects funded through the *public transport infrastructure and systems grant* should be selected based on full appraisal of economic, environmental and social costs/benefits. Government further supports recommendations that key performance indicators relating to access to public transport, efficiency and effectiveness be developed.

The existing *public transport infrastructure and systems grant* will continue beyond 2010 as outlined in the 2008 *Budget Review*. The grant is aligned to the Public Transport Strategy, which provides guidance on the creation of integrated public transport networks throughout South Africa up to 2020. Moreover, projects funded under this grant are part of the integrated transport plans contained in the integrated development plans of municipalities.

Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities.

Part C: Intergovernmental data issues

Performance monitoring framework

FFC proposal on education

With respect to measuring the costs of basic education, the FFC recommends that to assess the pro-poor impact of school funding norms, the Department of Education should make publicly available and accessible the funding norms of no-fee schools in line with new provisions of the 2008 Division of Revenue Act requiring indicative allocations by school. Provincial education departments should be enabled to report on budgets and spending on learner transport in line with the new economic reporting format.

Government response

Government agrees with the FFC on the recommendation to make public and accessible the funding norms of no-fee schools. Provision is made in the National Norms and Standards for School Funding that provinces must gazette the resource targeting list which includes a list of schools with their

Education Management Information System numbers, names, poverty score, school allocation, no-fee status, section 21 status, and the national quintile in which they are situated. The list of no-fee schools per province, per allocation and per location is also published annually, and is available on the Department of Education's website.

Government also supports the recommendation that provincial education departments should report on budget and expenditure in terms of learner transport and that more focus should be placed on non-financial reporting on the programme itself. This will ensure that the performance monitoring framework works effectively.

FFC proposal on health

In line with international and national practice and the specific reference in the National Health Act (2003), Section 2(c)(iv) on the rights of vulnerable groups, the FFC recommends that health statistics for vulnerable groups –such as the proportion of women with access to antenatal care; the availability, affordability and accessibility of health facilities for TB, HIV and Aids; and data concerning children, older persons and persons with disabilities – should be collected and improved using the South African Statistical Quality Assurance Framework.

Government response

Government supports this recommendation and would like to indicate that the Department of Health has proposed that a TB nationwide prevalence survey be conducted. The survey will also incorporate HIV testing and determine the socioeconomic risk factors to ensure interventions implemented are comprehensive. The survey will assist in capturing appropriate data on vulnerable groups affected by TB and also assist government in strengthening the TB programme and/or HIV and Aids interventions.

FFC proposal on public works and transport

The FFC recommends that, in accordance with the prescripts of the expanded public works programme, job-creation target groups such as women, youth and people with disabilities should be included in the reporting of the outcomes measures for all conditional infrastructure grants to provinces and municipalities.

Government response

The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act.

FFC proposal on housing

With respect to the performance framework on housing, the FFC recommends that all provincial departments receiving the *integrated housing and human settlement development grant* should comply with the measurable outputs related to reporting requirements detailed in the housing conditional grant framework and published annually in the Division of Revenue Act. To enable measurement of housing delivery, the following should be reported on: the number of houses completed separate from those under construction; the proportion and number of these houses completed that are occupied; the proportion and number of these properties that have been transferred to their occupiers; and the value of these houses and norms regarding average construction time. The FFC also recommends that all provincial departments assigned the housing function should provide financial and non-financial output and impact data to a subprogramme level, so that data can be analysed for every component of the housing subsidy programme (e.g. project-based, People's Housing Process, social housing, rural housing etc).

Government response

Government agrees with the recommendation that all provincial departments receiving the *integrated housing and human settlement development grant* should comply with the measurable outputs related to reporting requirements. The Department of Housing annually revises the quarterly reporting template for provinces into sector-specific information relating to delivery on the housing instruments in alignment with the business plans for a specific year.

With regards to the recommendation made on the provision of financial and non-financial output and impact data at subprogramme level, government embarked on a process to review the key deliverables under each of the housing programmes approved for implementation during the 2005/06 financial year. This was to determine the standard key output indicators to be used for business planning by provinces from 2006/07 onwards. The final approved business plan template includes the four major categories of interventions, which are classified as financial interventions, incremental housing programmes, social and rental housing programmes and rural housing programmes, as outlined in the new comprehensive housing plan.

The details of the budget allocation at housing programme level and the expenditure thereof is available through the provincial business plans and the housing subsidy system. This information is accessible to both the national and provincial housing departments.

Local government

FFC proposal on local government data requirements

National and provincial government departments, agencies and other organs of state should eliminate duplicate data requests submitted to municipalities.

Uniform definitions should be established between national and provincial organs of state and municipalities with careful consideration given to the purpose of collecting and producing statistics. The interpretation should reflect the purpose and mandate of the department collecting the data and be concurrent with the legislation guiding those organs of state.

A national coordinating body should be established to coordinate and rationalise the data collection activities of local governments. The national body should recommend and implement data collection standards according to the South African Statistical Quality Assessment Framework principles.

Government response

A national coordinating body already exists in the form of the Local Government Data Collection Forum that was established in response to the need to rationalise data collection from local government. The Forum will take the lead as a national coordinator in terms of setting standards, collection and capturing of data, quality assurance and dissemination of data.

In addition, the challenges related to duplication are of a temporary nature, and will decline as the different stakeholders begin to work more closely with each other, and once the mandates of the different role players with regards to the collection of municipal data are worked out and agreed upon. These matters are currently being addressed.

Part 3: Provincial allocations

Sections 214 and 227 of the Constitution require that an equitable share of nationally raised revenue be allocated to the provincial sphere of government to enable it to provide basic services and perform the other functions allocated to the sphere.

Of the R47.8 billion added to the provincial baseline over the next three years, the provincial equitable share baselines are revised upwards by R24.8 billion and conditional grants are increased by R23.0 billion over the next three years. National transfers to provinces increase from R247.7 billion in 2008/09 to R284.5 billion in 2009/10. Over the three-year period provincial transfers will grow at an average annual rate of 11.9 per cent to R335.9 billion in 2011/12.

Table W1.6 below sets out the total transfers to provinces for the 2009/10 financial year, which amounts to R284.5 billion, with R231.1 billion allocated to the provincial equitable share and R53.5 billion to conditional grants.

Table W1.6 Total transfers to provinces, 2009/10

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	35 940	5 400	**41 341**
Free State	14 236	3 552	**17 788**
Gauteng[1]	38 897	17 551	**56 448**
KwaZulu-Natal	49 990	8 828	**58 818**
Limpopo	29 861	4 119	**33 981**
Mpumalanga	19 005	3 101	**22 107**
Northern Cape	6 193	1 778	**7 971**
North West	16 121	3 161	**19 282**
Western Cape	20 807	5 978	**26 785**
Total	**231 051**	**53 468**	**284 519**

1. Inclusive of the Gautrain Rapid Rail Link loan.

Provincial equitable share

A sizeable amount of nationally raised revenue is allocated to provinces through the equitable share. At 78.5 per cent of total provincial revenue and 81.2 per cent of national transfers in 2009/10, the equitable share constitutes the main source of revenue for meeting provincial expenditure responsibilities. The proposed revisions of R5.6 billion, R7.4 billion, and R11.8 billion bring the equitable share allocations to R231.1 billion in 2009/10, R253.7 billion in 2010/11, and R272.9 billion in 2011/12. These revisions result in the provincial equitable shares increasing 13.3 per cent between 2008/09 and 2009/10, and 11.3 per cent over the MTEF in nominal terms.

Policy priorities underpinning equitable share revisions

The additions to baseline equitable shares provide for inflation and policy adjustments. Inflation adjustments are intended to protect the real value of spending. In this regard, inflation adjustments are for critical programmes targeting the poor, including higher costs associated with medical goods and services, as well as learner and teacher support materials.

Policy adjustments in education support improved teaching and learning in public schools; progressively extend the no-fee schools policy (which presently exempts quintile 1 and 2 learners from paying school fees) to quintile 3 schools; reduce the teacher:learner ratio in quintile 1 schools; and ensure that public schools are more inclusive by catering for learners with disabilities.

Increased allocations are intended to ensure that the public health sector meets the needs of society. Allocations are set aside to stabilise the occupation-specific dispensation being implemented for nurses and to enable the phasing-in of this dispensation for doctors and specialists. Two main TB aspects are prioritised: funding teams to track people who have left extreme- and multidrug-resistant TB treatment to return them to therapy, and strengthening TB programme teams at provincial and district office level. Funds are also made available to roll out new vaccines aimed at reducing infant and child mortality. A general provision is also made to improve and support the rendering of primary health care services.

Social welfare services will be scaled up to meet the growing welfare needs of communities, with a focus on expanding early childhood development.

The equitable share also provides for improved maintenance of provincial roads and various programmes aimed at boosting economic development.

The equitable share formula

An objective redistributive formula is used to divide the equitable share among provinces. The formula is reviewed and updated with new data annually. For the 2009 MTEF, the formula has been updated with data from the 2008 Mid-year Estimates, the 2008 Education Snap Survey, the 2007 General Household Survey, the 2006 GDP-R and the 2005 Income and Expenditure Survey. The 2007 Community Survey data were used to update the basic and poverty components. The 2007 General Household Survey was used to update the health component, the 2008 Snap Survey to update the education component and the 2006 GDP-R data to update the economic activity component.

Table W1.7 Comparing 2007 Community Survey and 2008 mid-year population estimates

	2007 Community Survey	2008 Mid-year population estimates	Population Change	Current	New	Change
Eastern Cape	6 528	6 579	51	13.5%	13.5%	0.05%
Free State	2 773	2 878	105	5.7%	5.9%	0.19%
Gauteng	10 450	10 447	-3	21.5%	21.5%	-0.09%
KwaZulu-Natal	10 261	10 106	-155	21.2%	20.8%	-0.40%
Limpopo	5 239	5 275	36	10.8%	10.8%	0.03%
Mpumalanga	3 643	3 590	-53	7.5%	7.4%	-0.14%
Northern Cape	1 058	1 126	68	2.2%	2.3%	0.13%
North West	3 272	3 425	153	6.7%	7.0%	0.29%
Western Cape	5 279	5 262	-17	10.9%	10.8%	-0.08%
Total	**48 503**	**48 687**	**184**	**100.0%**	**100.0%**	**–**

Because the formula is largely population driven, the allocations it generates are sensitive to and capture shifts in population across provinces. Shifts in population in turn lead to changes in the relative demand for public services across the provinces. When the revised population figures are included, the weighted equitable shares of provinces are revised over the MTEF as per table W1.8.

Table W1.8 Changes in weighted shares due to data updates

	2009 MTEF weighted shares 3-year phasing		
	2009/10	2010/11	2011/12
Eastern Cape	-0.05%	-0.24%	-0.43%
Free State	0.03%	-0.04%	-0.10%
Gauteng	0.03%	0.28%	0.53%
KwaZulu-Natal	-0.16%	-0.21%	-0.27%
Limpopo	-0.01%	-0.10%	-0.19%
Mpumalanga	0.00%	-0.01%	-0.03%
Northern Cape	0.01%	0.01%	0.01%
North West	0.16%	0.21%	0.25%
Western Cape	-0.01%	0.10%	0.22%

Summary of the structure of the formula

The formula (Table W1.9) consists of six components that capture the relative demand for services between provinces and take into account specific provincial circumstances. The components of the formula are neither indicative budgets nor guidelines as to how much should be spent on those 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. For the 2009 Budget, the distribution of the weights by component remains unchanged as set out below:

- An *education share* (51 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* (26 per cent) based on the proportion of the population with and without access to medical aid
- A *basic share* (14 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 by region (GDP-R) data.

Table W1.9 Distributing the equitable shares by province

	Education	Health	Basic share	Poverty	Economic activity	Institu-tional	Weighted average
	51%	**26%**	**14%**	**3%**	**1%**	**5%**	**100%**
Eastern Cape	16.8%	13.8%	13.5%	16.7%	7.8%	11.1%	15.2%
Free State	5.7%	5.8%	5.9%	6.1%	5.4%	11.1%	6.0%
Gauteng	15.1%	20.5%	21.5%	15.0%	33.6%	11.1%	17.4%
KwaZulu-Natal	23.0%	21.2%	20.8%	22.2%	16.3%	11.1%	21.5%
Limpopo	14.2%	11.4%	10.8%	14.2%	6.8%	11.1%	12.8%
Mpumalanga	8.5%	7.5%	7.4%	8.7%	6.8%	11.1%	8.2%
Northern Cape	2.2%	2.3%	2.3%	2.6%	2.2%	11.1%	2.7%
North West	6.5%	7.2%	7.0%	8.2%	6.4%	11.1%	7.1%
Western Cape	8.2%	10.2%	10.8%	6.2%	14.6%	11.1%	9.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The weights assigned to the education (51 per cent) and health components (26 per cent) are derived from average provincial spending on education and health in total provincial spending for the past three years, excluding conditional grants.

Phasing-in of the formula

For the 2009 Budget, to mitigate the impact of new data updates on provincial equitable shares, the new weighted shares are phased in over the MTEF. Table W1.10 shows the revised weighted provincial equitable shares for the period 2008/09 to 2011/12.

Table W1.10 Implementation of the equitable share weights, 2008/09 – 2011/12

	2008/09 weighted shares	2009/10	2010/11	2011/12
		2009 MTEF weighted shares 3-year phasing		
Percentage				
Eastern Cape	15.8%	15.6%	15.4%	15.2%
Free State	6.2%	6.2%	6.1%	6.0%
Gauteng	16.6%	16.9%	17.1%	17.4%
KwaZulu-Natal	21.7%	21.6%	21.6%	21.5%
Limpopo	13.0%	12.9%	12.9%	12.8%
Mpumalanga	8.2%	8.2%	8.2%	8.2%
Northern Cape	2.7%	2.7%	2.7%	2.7%
North West	6.9%	7.0%	7.0%	7.1%
Western Cape	8.9%	9.0%	9.1%	9.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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 to 17 years), based on Census 2001, and actual enrolment drawn from the 2008 Snap Survey to reflect relative demand for education, with each element assigned a weight of 50 per cent. Although consideration was given to update the school-age cohort with 2007 Community Survey results, the method used for the survey does not allow for the collection of this data with greater reliability. Table W1.11 shows the impact of updating the education component with the 2008 SNAP survey enrolment data.

Table W1.11 Comparison of new and old education component weighted shares

	Revised education component				New weighted average	Old weighted average	Difference in weighted average
	2008 School enrolment	Age cohort 5 - 17	% share school enrolment	% share age cohort 5 - 17			
Eastern Cape	2 080	2 152	17.0%	16.6%	16.8%	16.9%	-0.12%
Free State	671	760	5.5%	5.9%	5.7%	5.7%	0.00%
Gauteng	1 894	1 893	15.5%	14.6%	15.1%	14.9%	0.15%
KwaZulu-Natal	2 771	3 013	22.6%	23.3%	23.0%	23.1%	-0.16%
Limpopo	1 765	1 799	14.4%	13.9%	14.2%	14.1%	0.03%
Mpumalanga	1 052	1 075	8.6%	8.3%	8.5%	8.5%	-0.09%
Northern Cape	266	281	2.2%	2.2%	2.2%	2.2%	0.02%
North West	779	865	6.4%	6.7%	6.5%	6.4%	0.15%
Western Cape	962	1 095	7.9%	8.5%	8.2%	8.1%	0.03%
Total	**12 239**	**12 933**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**–**

Health component

The health component addresses the need for provinces to deliver health care. As all citizens are eligible for health services, the provincial shares of the total population form the basis for the health share. Within the health component, people without medical aid are assigned a weight four times that of those with medical aid, on the grounds that the former group is likely to use public health care more. The health component is updated for population with medical aid using the 2007 General Household Survey. The 2008 mid-year population estimates are used to update the subcomponent "people without medical aid". Table W1.12 shows the impact of the revised weighted shares of the health component.

Table W1.12 Comparison of new and old health component weighted shares

	Old			New			Difference in weighted shares
	Population with medical aid	Population without medical aid	Weighted shares	Population with medical aid	Population without medical aid	Weighted shares	
Eastern Cape	713	24 536	14.9%	752	23 309	13.8%	-1.06%
Free State	439	10 072	6.2%	468	9 639	5.8%	-0.39%
Gauteng	2 058	30 200	19.0%	2 021	33 704	20.5%	1.50%
KwaZulu-Natal	1 062	35 420	21.5%	1 178	35 710	21.2%	-0.32%
Limpopo	374	20 052	12.0%	385	19 559	11.4%	-0.58%
Mpumalanga	367	12 488	7.6%	420	12 680	7.5%	-0.05%
Northern Cape	131	3 884	2.4%	164	3 848	2.3%	-0.06%
North West	468	11 240	6.9%	359	12 264	7.2%	0.35%
Western Cape	893	15 400	9.6%	1 087	16 700	10.2%	0.61%
Total	**6 505**	**163 292**	**100.0%**	**6 834**	**167 413**	**100.0%**	**–**

Poverty component

The poverty component introduces a redistributive element within the formula and is assigned a weight of 3 per cent. The poor population comprises persons who fall in quintiles 1 and 2 based on the 2005 Income and Expenditure Survey. Each province's share is then expressed as the percentage of the "poor" population residing in that province, where the population figure is drawn from the 2008 Community Survey. Table W1.13 shows the impact of the revised weighted shares of the poverty component.

Table W1.13 Comparison of new and old poverty component weighted shares

	Old				New				Differ-ence in weighted shares
	IES Survey 2000 (Q1+Q2)	Basic component value	Poor population	Weighted shares	IES Survey 2005 (Q1+Q2)	Basic component value	Poor population	Weighted shares	
Eastern Cape	56.4%	6 528	3 684	20.0%	49.8%	6 579	3 279	16.7%	-3.28%
Free State	45.7%	2 773	1 268	6.9%	41.7%	2 878	1 200	6.1%	-0.76%
Gauteng	21.9%	10 450	2 288	12.4%	28.1%	10 447	2 938	15.0%	2.56%
KwaZulu-Natal	43.0%	10 261	4 408	23.9%	43.2%	10 106	4 363	22.2%	-1.68%
Limpopo	56.3%	5 239	2 949	16.0%	52.9%	5 275	2 788	14.2%	-1.80%
Mpumalanga	36.9%	3 643	1 343	7.3%	47.7%	3 590	1 712	8.7%	1.44%
Northern Cape	44.0%	1 058	465	2.5%	44.9%	1 126	506	2.6%	0.05%
North West	37.9%	3 272	1 241	6.7%	46.9%	3 425	1 608	8.2%	1.46%
Western Cape	14.6%	5 279	769	4.2%	23.1%	5 262	1 215	6.2%	2.02%
Total		**48 503**	**18 415**	**100.0%**		**48 687**	**19 608**	**100.0%**	**–**

Economic activity component

The economic activity component is a proxy for provincial tax capacity and is assigned a weight of 1 per cent. For the 2009 MTEF, 2006 GDP-R data is used. Table W1.14 shows the impact of the revised weighted shares of the economic activity component.

Table W1.14 Comparison of new and old economic activity component weighted shares

	Old		New		Difference in weighted shares
	GDP-R, 2005 (R million)	Weighted shares	GDP-R, 2006 (R million)	Weighted shares	
Eastern Cape	122 021	7.9%	136 668	7.8%	-0.08%
Free State	84 068	5.5%	94 269	5.4%	-0.05%
Gauteng	519 017	33.7%	585 114	33.6%	-0.11%
KwaZulu-Natal	251 286	16.3%	283 655	16.3%	-0.03%
Limpopo	103 697	6.7%	118 865	6.8%	0.09%
Mpumalanga	102 378	6.7%	118 825	6.8%	0.17%
Northern Cape	33 380	2.2%	37 613	2.2%	-0.01%
North West	97 627	6.3%	112 234	6.4%	0.10%
Western Cape	225 779	14.7%	253 815	14.6%	-0.09%
Total	**1 539 253**	**100.0%**	**1 741 058**	**100.0%**	**–**

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. 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.

Basic component

The basic component is derived from the proportion of each province's share of the national population and is assigned a weight of 14 per cent. For the 2009 MTEF, population data are drawn from the 2008 mid-year population estimates.

Table W1.15 shows the impact of the revised weighted shares of the basic component.

Table W1.15 Comparison of new and old basic component weighted shares

	Old		New		Difference in weighted shares
	2007 Community Survey	Weighted shares	2008 Mid-year population estimates	Weighted shares	
Eastern Cape	6 528	13.5%	6 579	13.5%	0.05%
Free State	2 773	5.7%	2 878	5.9%	0.19%
Gauteng	10 450	21.5%	10 447	21.5%	-0.09%
KwaZulu-Natal	10 261	21.2%	10 106	20.8%	-0.40%
Limpopo	5 239	10.8%	5 275	10.8%	0.03%
Mpumalanga	3 643	7.5%	3 590	7.4%	-0.14%
Northern Cape	1 058	2.2%	1 126	2.3%	0.13%
North West	3 272	6.7%	3 425	7.0%	0.29%
Western Cape	5 279	10.9%	5 262	10.8%	-0.08%
Total	**48 503**	**100.0%**	**48 687**	**100.0%**	**–**

Conditional grants to provinces

There are three 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 expected from the grant, so accountability is broader and more comprehensive, and related to entire programmes. Schedule 5 grants are conditional grants, with specific responsibilities for both the transferring and receiving provincial accounting officers. A Schedule 8 grant, introduced for 2009/10, is intended to provide provinces and municipalities to meet or exceed prescribed targets.

Changes to conditional grant framework

A number of changes are effected to the provincial fiscal framework for the 2009 MTEF. Several new conditional grants were introduced in 2008/09, and these will be continued as part of the 2009 MTEF, namely the *Ilima/Letsema projects* under the Agriculture vote, and the *overload control grant* and *Sani Pass grant*, both under the Transport vote.

The 2009 Budget introduces five new grants: the *expanded public works programme incentive grant*, aimed at providing incentives for provinces and municipalities to increase spending on labour-intensive programmes; the *public transport operations grant* to allow for improved monitoring and control of expenditure related to bus subsidies and other transport-related issues; the *technical secondary schools recapitalisation grant* to provide for the refurbishment of such schools; and the *health disaster response (cholera) grant* and *housing disaster relief grant* to deal with the costs attributable to various natural disasters. These grants are discussed in more detail below. The *FET college sector recapitalisation grant* is phased into the provincial equitable share from 1 April 2009. The programmes funded through this conditional grant continue as part of the provincial education departments' normal responsibilities and funding thereof continues in provincial budgets.

A new transitional conditional grant was introduced (*devolution of property rate funds grant*) in 2008/09 to ensure that provinces take over the responsibility of paying the property rates and municipal charges of properties that were administered by national government on their behalf.

Table W1.16 shows the revisions to provincial conditional grants which provide for policy and inflation adjustments. Revisions to conditional grant baseline allocations totalling R7.7 billion, R5.5 billion and R9.8 billion or R23.0 billion over the MTEF bring the new conditional grant baselines to R53.5 billion in 2009/10, R56.0 billion in 2010/11 and R63.0 billion in 2011/12. Included in this is a loan of R4.2 billion in 2009/10 to the Gauteng government for the Gautrain Rapid Rail Link project.

Table W1.17 provides a summary of conditional grants by sector for the 2009 MTEF. More detailed information, including the framework and formula for each grant, is provided in Appendix W1 of the 2009 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 in 2007/08 and any other material issues to be addressed.

Table W1.16 Revisions to conditional grant baseline allocations, 2009/10 – 2011/12

R million	2009/10	2010/11	2011/12	2009 MTEF Total revisions
Agriculture	**197**	**305**	**577**	**1 079**
Agricultural disaster management	60	–	–	**60**
Comprehensive agricultural support programme	87	105	177	**369**
Ilima/letsema projects	50	200	400	**650**
Education	**583**	**1 402**	**2 297**	**4 282**
National school nutrition programme	583	1 322	2 097	**4 002**
Technical secondary schools recapitalisation	–	80	200	**280**
Health	**454**	**685**	**804**	**1 943**
Comprehensive HIV and Aids	200	325	407	**932**
Health disaster response (cholera)	50	–	–	**50**
Hospital revitalisation	124	265	339	**728**
National tertiary services	81	95	58	**233**
Housing	**861**	**804**	**2 146**	**3 812**
Housing disaster relief	150	–	–	**150**
Integrated housing and human settlement development	711	804	2 146	**3 662**
National Treasury	**4 653**	**1 234**	**2 456**	**8 343**
Infrastructure grant to provinces	453	1 234	2 456	**4 143**
Gautrain loan	4 200	–	–	**4 200**
Public Works	**151**	**400**	**800**	**1 351**
Expanded public works programme incentive	151	400	800	**1 351**
Transport	**809**	**647**	**720**	**2 176**
Gautrain rapid rail link	325	23	–	**349**
Public transport operations	483	624	720	**1 828**
Total	**7 708**	**5 478**	**9 801**	**22 987**

Table W1.17 Conditional grants to provinces, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12
Agriculture	**868**	**877**	**1 117**	**1 437**
Agricultural disaster management	137	60	–	–
Comprehensive agricultural support programme	614	715	862	979
Ilima/letsema projects	66	50	200	400
Land care programme grant: poverty relief and infrastructure development	51	51	55	58
Arts and Culture	**324**	**441**	**494**	**524**
Community library services	324	441	494	524
Education	**2 909**	**2 572**	**3 931**	**4 978**
Education disaster management	22	–	–	–
Further education and training college sector recapitalisation	795	–	–	–
HIV and Aids (life skills education)	165	177	188	199
National school nutrition programme	1 927	2 395	3 663	4 579
Technical secondary schools recapitalisation	–	–	80	200
Health	**14 091**	**15 578**	**18 013**	**19 172**
Comprehensive HIV and Aids	2 885	3 476	4 312	4 633
Forensic pathology services	595	492	557	590
Health disaster response (cholera)	–	50	–	–
Health professions training and development	1 679	1 760	1 865	1 977
Hospital revitalisation	2 798	3 186	3 881	4 172
National tertiary services	6 134	6 614	7 398	7 799
Housing	**9 921**	**12 592**	**15 027**	**17 222**
Housing disaster relief	–	150	–	–
Integrated housing and human settlement development	9 921	12 442	15 027	17 222
National Treasury	**7 384**	**13 449**	**11 315**	**13 091**
Infrastructure grant to provinces	7 384	9 249	11 315	13 091
Gautrain loan	–	4 200	–	–
Provincial and Local Government	**30**	**–**	**–**	**–**
Internally displaced people management grant	30	–	–	–
Public Works	**889**	**1 148**	**1 496**	**1 962**
Devolution of property rate funds	889	997	1 096	1 162
Expanded public works programme incentive	–	151	400	800
Sport and Recreation South Africa	**279**	**402**	**426**	**452**
Mass sport and recreation participation programme	279	402	426	452
Transport	**7 024**	**6 409**	**4 215**	**4 153**
Gautrain rapid rail link	3 266	2 833	341	–
Overload control	9	10	11	–
Public transport operations	2 984	3 532	3 863	4 153
Sani Pass roads	30	34	–	–
Transport disaster management	735	–	–	–
Total	**43 719**	**53 468**	**56 034**	**62 991**

Agriculture grants

To scale up the grant to support food security and expand the provision of agricultural support services, R369 million is added to the *comprehensive agricultural support programme* over the MTEF: R87 million in 2009/10, R105 million in 2010/11 and R177 million in 2011/12. In addition, the programme aims to further expand farm infrastructure for dipping, fencing, and rehabilitation of irrigation schemes where these could be viable.

The *Ilima/Letsema projects grant* is intended to boost food production. The grant is aimed at assisting previously disadvantaged South African farming communities to achieve an increase in agricultural production. Amounts of R50 million in 2009/10, R200 million in 2010/11 and R400 million in 2011/12 are added to this grant.

An *agriculture disaster management grant* is earmarked to compensate farmers for the effects of drought, veld fires, cold spells, hailstorms and floods. An amount of R60 million is allocated to this grant in 2009/10.

Education grants

The Department of Education administers the *national school nutrition programme grant* and the *HIV and Aids (life skills) programme grant*. The *FET recapitalisation grant* will be phased into the provincial equitable share from 1 April 2009.

The *national school nutrition programme* seeks to improve nutrition of poor school children, enhance active learning capacity and improve attendance in schools. Over the MTEF R4 billion is added to this grant to respond to higher food prices and to feed more children by ensuring that all quintile 1-3 primary school learners can be fed on all school days, and to progressively expand the programme to secondary schools.

The *HIV and Aids (life skills) programme grant* provides for life skills training, sexuality and HIV and Aids education in primary and secondary schools. This grant is allocated R177 million in 2009/10, R188 million in 2010/11 and R199 million in 2011/12. The programme is fully integrated into the school system, with learner and teacher support material provided for grades 1 to 9.

A new conditional grant, *the technical secondary schools recapitalisation grant*, will be made available to provinces from 2010/11. This grant, amounting to R80 million in 2010/11 and R200 million in 2011/12, provides for equipment and facilities in technical high schools.

Health grants

The health sector accounts for nearly two-thirds of the total provincial conditional grants. The sector accounts for five conditional grants with a total allocation of over R15 billion annually.

The *national tertiary services grant* aims to provide strategic funding to enable provinces to plan, modernise, and transform the tertiary hospital service delivery platform in line with national policy objectives. The grant operates in 27 hospitals across the nine provinces, concentrated in urban Gauteng and Western Cape. Consequently, the Western Cape and Gauteng 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. The *national tertiary services grant* is allocated an additional R233 million over the MTEF to address inflation-related increases on goods and services purchased in tertiary hospitals

The *hospital revitalisation programme* plays a key role in transforming and modernising infrastructure and equipment in hospitals. The grant also includes a component aimed at improving systems for medical equipment, and support management development initiatives, including personnel, procurement delegations and financial management capacity. An additional R728 million is added to this grant over the MTEF to compensate for the effects of inflation and ensure that hospitals are appropriately equipped and modernised.

The *health professions training and development grant* funds the costs associated with 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 R1.8 billion in 2009/10, R1.9 billion in 2010/11 and R2.0 billion in 2011/12.

The *comprehensive HIV and Aids grant* enables the health sector to develop a specific response to HIV and Aids. In addition to HIV and Aids prevention programmes, the grant supports specific interventions that include voluntary counselling and testing, prevention of mother-to-child transmission, post-exposure prophylaxis and home-based care. This grant receives an additional R932 million over the medium term to meet demand arising from the more rapid take-up of antiretroviral medication. Additions to baseline bring the total planned spending on this programme to R12.4 billion over the period.

The *forensic pathology services grant* assists with the transfer of medico-legal mortuaries from the South African Police Service to the health sector and to provide comprehensive forensic pathology services for the criminal justice system. Amounts of R492 million in 2009/10, R557 million in 2010/11 and R590 million in 2011/12 are allocated to this grant.

The *health disaster response (cholera) grant* will assist with the recent cholera outbreaks in Limpopo. An amount of R50 million is allocated to this grant in 2009/10.

Housing grants

The *integrated housing and human settlement development grant* facilitates the establishment of habitable, stable and sustainable human settlements in which all citizens have access to social and economic amenities. The programme targets eradication or formalisation of informal settlements on a phased basis by 2014. Despite progress made thus far, there are still about 1.8 million families living in informal dwellings. The *integrated housing and human settlement development grant* is allocated an additional R3.7 billion over the MTEF to speed up housing delivery and to raise the value of the housing subsidy in order to keep pace with higher inflation. The additional amounts take the total housing grant over the next three years to R44.7 billion.

The *housing disaster relief grant* will assist with the rebuilding of roofs damaged during the recent disaster in KwaZulu-Natal. An amount of R150 million is allocated to this grant in 2009/10.

National Treasury grants

The *infrastructure grant to provinces* augments provincial funding to accelerate construction, maintenance and rehabilitation of new and existing infrastructure in education, roads, health and agriculture, and also contributes to rural development. The grant also focuses on the application of labour-intensive methods in delivery to maximise job creation and skills development.

In line with government’s commitment to sustain social and economic infrastructure investment in provinces, the *infrastructure grant to provinces* is revised upwards by R4.1 billion over the period to address school infrastructure needs, including extending grade R infrastructure, upgrading schools for learners with special needs, the construction of school libraries, laboratories, sports fields and increased maintenance.

Within the infrastructure grant for provinces, provision is made for specific earmarking for education related infrastructure. Amounts of R100 million in 2010/11 and R400 million in 2011/12 are set aside for grade R infrastructure to ensure that classroom space is available. This is coupled with a further R200 million in 2010/11 and R800 million in 2011/12 to recapitalise schools through upgrading of infrastructure, securing school facilities, increasing maintenance and providing new books and equipment in libraries and laboratories.

The *infrastructure grant to provinces* is further stepped up by R100 million in 2009/10, R200 million in R2010/11 and R320 million in 2011/12 to provide for the rehabilitation of the Mpumalanga coal haulage route and the development of the R33 road network to Medupi Power Station in Limpopo to ensure efficient movement of machinery and equipment for the power station.

Arts and culture grants

Community library services provide direct access to information and knowledge, contributing to education and self-empowerment. The *community library services grant* amounts to R441 million in 2009/10, R494 million in 2010/11 and R524 million in 2011/12 to transform urban and rural community library infrastructure facilities and services.

Sports and recreation grants

The *mass sport and recreation participation programme grant*, which amounts to R402 million in 2009/10, R426 million in 2010/11 and R452 million in 2011/12, promotes mass participation by historically disadvantaged communities in a selected number of developmental sporting activities. Within this, amounts of R187 million in 2009/10, R198 million in 2010/11 and R210 million in 2011/12 are earmarked for specific legacy projects.

Transport grant

The Department of Transport is allocated R2.8 billion in 2009/10 and R341 million in 2010/11 as a contribution to the construction of the Gautrain Rapid Rail Link.

Two grants introduced as part of the 2008 Adjustments Budget, the o*verload control grant* and *Sani Pass roads grant* will continue as part of the 2009 Budget. The o*verload control grant* will fund initiatives to ensure the preservation of road infrastructure through the reduction of overloading practices. The *Sani Pass roads grant* will assist with the development of road infrastructure projects that promote regional integration and development between South Africa and Lesotho. The *overload control grant* receives R10 million in 2009/10 and R11 million in 2010/11. The *Sani Pass roads grant* is allocated R34 million in 2009/10.

A new conditional grant, the *public transport operations grant*, will be introduced as part of the 2009 Budget for the subsidisation of commuter bus services. Although the payment of bus subsidies to operators was previously funded on an agency arrangement between national and provincial government, recent legal action places a greater responsibility on government to ensure contractual obligations are met. This grant will amount to R11.5 billion over the MTEF.

Public works grants

The *devolution of property rate funds grant* was introduced in 2008/09 to ensure that provinces take over the responsibility of paying property rates and municipal charges on properties that were administered by national government on their behalf. The grant is allocated R889 million in 2008/09, R997 million in 2009/10, R1.1 billion in 2010/11 and R1.2 billion in 2011/12. The grant is expected to be phased into the provincial equitable share in about four years.

The 2009 Budget introduces a new grant on the Public Works vote: the *expanded public works programme incentive grant* provides incentives to provinces and municipalities to increase spending on labour-intensive programmes. It receives R151 million in 2009/10, R400 million in 2010/11 and R800 million in 2011/12 for provinces.

Part 4: Local government fiscal framework and allocations

Municipalities have a constitutional mandate to deliver crucial services that meet the public service needs of all while facilitating local economic development. Significant progress has been made in ensuring that municipalities are efficiently funded to continue to roll out infrastructure and services on a sustainable basis. Following the revision and implementation of a new equitable share formula during 2005/06 and the ongoing review of the local government fiscal framework, local government's share of nationally raised revenue continues to increase.

As part of the continuing review, the sharing of the general fuel levy is phased in over the next three years. The local government equitable share formula is also adjusted to improve horizontal equity in the allocation system, resulting in considerable increases in the allocations to poorly resourced municipalities over the MTEF.

National transfers to municipalities are published to enable them to plan fully for their 2009 budgets, and to promote better accountability and transparency by ensuring that all national allocations are included in municipal budgets. Local government equitable share and *municipal infrastructure grant* allocations to district municipalities that are water services authorities, and which consequently receive allocations on behalf of unauthorised local municipalities, are published in the relevant district municipality to enhance transparency in the budget process. Allocations are published for both the national and municipal financial years.

Revisions to the local government grant baselines for the 2009 MTEF are shown in table W1.18.

Table W1.18 Transfers to local government: revisions to baseline, 2009/10 – 2011/12

	2009/10	2010/11	2011/12	2009 MTEF
R million	Medium-term estimates			Total revisions
Equitable share	**491**	**614**	**1 368**	**2 473**
General fuel levy sharing with metros	**–**	**–**	**461**	**461**
Infrastructure transfers	**1 320**	**1 668**	**3 475**	**6 463**
2010 FIFA World Cup stadiums development grant	261	202	–	463
Integrated national electrification programme	36	69	89	194
Public transport and infrastructure grant	93	325	417	835
Municipal infrastructure grant	755	851	2 690	4 295
Electricity demand-side management	175	220	280	675
Current transfers	**221**	**568**	**1 108**	**1 898**
2010 FIFA World Cup host city operating grant	20	14	–	34
Expanded Public Works Programme incentive	202	554	1 108	1 864
Total	**2 032**	**2 850**	**6 412**	**11 294**

National allocations to local government (Table W1.19) grow from a revised allocation of R43.6 billion in 2008/09 to R49.7 billion in 2009/10, R57.7 billion in 2010/11 and R65.0 billion by 2011/12. The share of nationally raised revenue for local government rises from 7.5 per cent in 2008/09, to 8.5 per cent in 2011/12. In addition, R2.9 billion in 2009/10, R2.8 billion in 2010/11 and R3.6 billion in 2011/12 are made available as a grant-in-kind to local government, mostly for infrastructure projects administered on behalf of municipalities.

Table W1.19 National transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07 Outcome	2007/08	2008/09 Revised estimate	2009/10	2010/11 Medium-term estimates	2011/12
Equitable share	9 643	18 058	20 676	25 560	23 847	29 268	31 890
of which							
RSC/JSB replacement grant - district municipalities [1]	–	*7 000*	*8 045*	*9 045*	*3 307*	*3 493*	*3 672*
Water and sanitation operating subsidy: direct transfer	165	386	642	986	979	570	380
Direct transfers	**16 682**	**26 501**	**37 321**	**43 620**	**49 698**	**57 722**	**64 964**
Equitable share and related	9 808	18 444	21 317	26 545	24 825	29 838	32 270
General fuel levy sharing with metropolitan municipalities	–	–	–	–	6 800	7 542	8 531
Infrastructure transfers	6 286	7 447	15 128	16 677	16 864	19 001	22 446
Capacity-building and other current transfers	588	610	875	397	1 209	1 341	1 717
Indirect transfers [2]	**1 753**	**1 436**	**2 027**	**2 267**	**2 879**	**2 843**	**3 598**
Infrastructure transfers	783	943	1 484	1 948	2 744	2 843	3 598
Capacity-building and other current transfers	970	493	543	319	135	–	–
Total	**18 435**	**27 937**	**39 347**	**45 886**	**52 578**	**60 566**	**68 562**
Year-on-year growth							
Equitable share and related		*88.0%*	*15.6%*	*24.5%*	*-6.5%*	*20.2%*	*8.2%*
General fuel levy sharing with metropolitan municipalities		–	–	–	–	*10.9%*	*13.1%*
Infrastructure transfers (direct and indirect)		*18.7%*	*98.0%*	*12.1%*	*5.3%*	*11.4%*	*19.2%*
Capacity-building and other current transfers (direct and indirect)		*-29.2%*	*28.6%*	*-49.5%*	*87.7%*	*-0.3%*	*28.1%*

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 for district municipalities will remain in place pending the outcome of the local government policy review.

2. In-kind transfers to municipalities.

The local government equitable share

The local government equitable share continues to play a vital role in assisting municipalities to fulfil their service provision responsibilities, in particular to assist poor households. The significant improvements in access to services such as water, sanitation and electricity shown in the 2007 Community Survey (*Statistics South Africa*) are evidence of an increasingly productive local government sphere. The local government equitable share allocations continue to supplement municipal own-revenues for the provision of the necessary basic level of services to each poor household within their localities.

Given the limited funds available to all spheres and significant service delivery challenges, government is accelerating efforts to better assist municipalities to improve planning and financial capacity, achieve greater efficiency in delivery, and expand service access to households residing in predominantly rural and poorly resourced municipal areas.

The additional R2.5 billion results in the equitable share increasing from R19.5 billion in 2008/09 (excluding the RSC levies replacement grant/general fuel levy sharing with metros) to R31.9 billion in 2011/12. In the context of these efforts, the equitable share formula allocations (excluding RSC levy replacement for district municipalities and special support for councillor remuneration for municipalities on Grades 1 to 3) grow by an annual average of 19.7 per cent over the next three years to R20.3 billion in 2009/10, R25.5 billion in 2010/11 and R27.9 billion in 2011/12.

Equitable share formula

The structure and components of the formula are summarised in the text box below:

Structure of the local government equitable share formula

Grant = BS + D + I – R ± 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 and

C is a correction and stabilisation factor.

The basic services component

The purpose of the *basic services component* is to assist municipalities in providing basic services to poor households and with meeting municipal health service needs for all. 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 households that are not yet connected to the municipal networks, currently set at a third of the cost of the subsidy to serviced households.

The characteristics of the basic services component are:

- Supporting poor households earning less than R800 per month in 2001 prices.
- Distinguishing between poor households connected to services and those that are not connected to services and may be provided with alternatives.
- Recognising water reticulation, sanitation, refuse removal and electricity reticulation as the core services.
- Providing for municipal health services to all households.

The basic services component

*BS=[Water Subsidy 1*Poor with Water + Water Subsidy 2*Poor without Water] +*

*[Sanitation Subsidy 1*Poor with Sanitation + Sanitation Subsidy 2*Poor without Sanitation] +*

*[Refuse Subsidy 1*Poor with Refuse + Refuse Subsidy 2*Poor without Refuse] +*

*[Electricity Subsidy 1*Poor with Electricity + Electricity Subsidy 2*Poor without Electricity] +*

*[Municipal Health Services*Total number of households]*

The institutional support component

The average low- or medium-capacity municipality (those operating in rural areas or small towns without a significant urban core), spends more than half of its own revenue on administrative and governance costs, leaving a much reduced-portion available for the provision of actual services. Given the existing capacity challenges in these municipalities, the *institutional support component* of the equitable share formula provides assistance in meeting some of these requirements. It is a supplement designed to augment, but not fully cover, institutional costs. While all municipalities receive institutional support, government is continuously working to ensure that such funding is appropriately allocated where it is most needed.

The institutional component

There are two elements to the institutional component: administrative capacity and local electoral accountability. The grant therefore is as follows:

I = Base allocation + [Admin support * Population] + [Council support * Number of seats]

Where the values used in the formula are:

I = R350 000 + [R1*population] + [R36 000* councillors]

The "base allocation" is an amount that will go to every municipality (except for a district management area). The second term of this formula recognises that costs go up with population (in terms of the 2001 Census). The third term is a contribution to the cost of maintaining councillors for the legislative and oversight role. The number of "seats" that will be recognised for purposes of the formula is the one determined by the Minister for Provincial and Local Government for purposes of elections and composition.

The revenue-raising capacity correction

To account for the varying fiscal capacities of municipalities, the formula must account for each municipality's ability to raise revenue for the purposes of fulfilling its constitutional mandate. This component therefore takes into account income from property rates, the general fuel levy for metropolitan municipalities and the RSC/JSB levy replacement grant for district municipalities. In the absence of proper information on property valuation rolls across the spectrum of municipalities and as an interim measure, previous actual property rates collected have been used as a basis for determining future capacity to collect income from this source. In the case of the general fuel levy and the RSC/JSB replacement grant, allocations were separately determined for each municipality and are used as published for the MTEF.

To achieve greater horizontal equity in the allocation system and to accommodate the bigger service level responsibilities of larger municipalities, as well as the greater revenue-raising constraints faced by smaller municipalities, a differentiated "tax" rate on property rates income is applied on the basis of demonstrated revenue raising capacity of the municipalities. The applicable "tax" rate for a municipality (Table W1.20) is based on the estimated level of per capita own operating revenue, while own operating revenue is the difference between past actual total operating revenue and income from grants and subsidies. The estimates are based on actual financial outcomes of municipalities for the period 2004/05 to 2006/07 as captured in the National Treasury's local government database. Population numbers used are those reported in the 2001 Census.

Table W1.20 Differentiated "tax" rates

Operating revenue per capita Rand			Tax rate on property rates
0	–	500	1.5%
501	–	1000	2.5%
1001	–	1500	3.5%
1501	–	1750	5.5%
1751	–	2000	6.5%
2001	–	2225	7.5%
2226	–	2500	8.5%
2501	–	5000	9.5%

The income from the general fuel levy and the RSC/JSB levy replacement grant of metropolitan and district municipalities is “taxed” at 6 per cent.

Stabilising constraint

With the publication of three-year budget allocations, a guarantee mechanism is applied to the indicative outer-year baseline amounts with the aim of ensuring that municipalities are given what was indicated in the previous MTEF round of allocations, as far as this is possible, given overall budget constraints. An additional constraint is to ensure that allocations are not negative due to the revenue-raising correction. In the case of the 2009 MTEF the applicable guarantees are 100 per cent and 90 per cent on the allocations for the first two years of the MTEF cycle, respectively. This means that for 2009/10 municipalities are guaranteed to receive 100 per cent of the allocations published in the Division of Revenue Act (2009). For 2010/11 the minimum that a municipality can expect to receive is 90 per cent of what is published in the act.

Other considerations in applying the formula

The formula, as outlined above, has to be rescaled to make allowance for intricacies in the allocation process. In particular, powers and functions must be taken into account, and the overall budget must balance.

a) Powers and functions

The local government system has a number of asymmetries, not only between different categories of municipalities, but also within the same category of municipalities. Firstly, there is the broad division of the sphere into Category A, B and C municipalities. Secondly, the division of powers and functions between Category B and C municipalities differs – and this is also true between the different Category B municipalities within the same Category C district. In order to deal with these differences the model has to ensure that the allocations made in terms of the “basic services” component go to the municipality that actually performs the function.

b) Balancing allocations

The “horizontal division” of allocations made between municipalities depends on the size of the overall allocation that is made to the local government sphere, normally determined through a separate consultative process to determine the equitable share of nationally raised revenue for each of the three spheres of government (i.e. the “vertical division”). Since there is no guarantee that allocations made in terms of the vertical division add up precisely to the amount allocated to the local government equitable share, such allocations need to be adjusted to fit within the constraints outlined above.

Rescaling of 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, hence the formula actually becomes:

Grant = Adjustment Factor*(BS + D + I) – R ± C

This adjustment factor is calculated so as to ensure that the system balances.

To deal with the constraints, municipalities are divided into two groups: those municipalities that require a "top-up" in order to meet the stabilising constraints and those that do not. The total size of the top-up is calculated and this is deducted from those that do not require a top–up amount in proportion to the "surplus".

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. A process is already underway to update the equitable share formula with the latest available data on population, household numbers, service access and poverty. Nevertheless, the principle of equity is stringently maintained in the current formula, ensuring that measurement is done in a manner that does not arbitrarily discriminate between municipalities.

a) Poverty

The "income" method is used to estimate poverty at a municipal level as it allows for a cross-tabulation of poverty against servicing levels. The majority (over 90 per cent) of funds allocated to each municipality through the formula are aimed at service delivery for poor households.

b) Servicing levels

A key element of the current formula is the subsidy received by poor households for various services delivered to them. The subsidy amounts in the current formula use a study conducted by the Department of Provincial and Local Government (see Table W1.21) and updated for the general increase in the bulk price of electricity in 2008. In addition, municipal health services are subsidised at an amount of R18 a year for all households.

Table W1.21 Service costs

Service costs per month	1998	2008	
	Estimates	Estimates	
Rand		Serviced households	Households not connected to services
Electricity	36.0	45.0	16.0
Water	20.0	30.0	10.0
Sanitation	10.0	30.0	10.0
Refuse	20.0	30.0	10.0
Total	**86.0**	**135.0**	**46.0**

The basic services component is by far the largest component of the local government equitable share. At about 92 per cent of the formula, it amounts to R18.7 billion, R23.5 billion and R25.8 billion over the MTEF period ahead.

When the *adjustment factor* and other components of the formula are applied, the formula calculates actual subsidies per basic service that are much higher than what is listed in Table W1.21 as cost of providing the service. Table W1.22 contains the actual average monthly basic services subsidies per poor household produced by the formula, i.e. rescaled amounts.

Table W1.22 Actual average monthly basic services subsidies per poor household

Monthly	Serviced households			Households not connected to services		
Rand	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
Electricity	136.9	172.0	188.4	50.6	63.3	69.2
Water	97.0	122.1	133.8	28.9	36.0	39.4
Sanitation	64.0	80.9	88.7	42.7	53.3	58.2
Refuse	60.3	76.3	83.7	44.5	55.6	60.7
Total	**358.1**	**451.2**	**494.5**	**166.7**	**208.1**	**227.6**

The actual average monthly subsidy for a basket of the four basic services for poor households *with access* to the services is approximately R358, R451 and R494 over the next three years. This is considerably higher than the R135 estimated cost of providing a basket of the four basic services per month as illustrated in Table W1.21.

The actual average monthly subsidy for a basket of the four basic services for poor households *without access* to the services is approximately R167, R208 and R228 over the next three years. This is also much higher than the R46 estimated cost of providing a basket of four alternative basic services per month as illustrated in Table W1.21, i.e. prior to rescaling to the overall amount available for distribution through the equitable share formula.

Similarly, the actual average annual subsidy per household for the provision of municipal health services is R48, R62 and R68 over the next three years compared to the estimated cost of R18 per year.

c) Revenue-raising capacity

Regular reporting on financial information is now a legal requirement under the MFMA, enforcement of which is actively assisted by the work of the Auditor General. Given that the quality of the previous imputation method has been decreasing as a result of outdated Census data, while the extent and quality of municipal financial reporting gets steadily better, it is important to start making an appropriate shift. Actual revenue information can now be more reliably used to estimate revenue-raising capacity until credible information in the municipal property valuation rolls is readily available. Estimates are based on the 2004/05 and 2005/06 financial statements of municipalities as captured in the National Treasury's local government database.

Funding poorly resourced municipalities through the equitable share formula

From 2009 onwards, the local government equitable share formula will be reviewed to ensure that poorly resourced municipalities are appropriately supported. The first step in this reform process, to be introduced from 2009/10, is to apply differentiated tax rates to measure the revenue-raising capacity of municipalities. Further work in 2009 will include a review of existing components (basic services, institutional support and revenue-raising correction components), investigating alternatives for activating the development (D) component of the formula and the possible updating of the formula with the results of the 2007 Community Survey (2001 Census results are currently being used).

The water service operating subsidy

The *water services operating subsidy* is a Schedule 6 and 7 grant used to fund water schemes and the staff involved in the operations of the schemes through the Department of Water Affairs and Forestry's trading account. These are the schemes that were administered by the department prior to 1994 and are now being transferred to municipalities. To date, 95 per cent of water schemes, and 50 per cent of staff have been transferred to municipalities. In addition, 57 agreements have been signed, 3 236 staff transferred and 1 698 schemes with a total asset value of about R5 932 million transferred to municipalities.

The grant covers staff-related costs and direct operating and maintenance costs, while provision is also made for the refurbishment of infrastructure. The allocation per municipality is according to the operational budget for each scheme and the funding requirements identified and agreed on in the transfer agreement.

In the 2009 MTEF, R2.1 billion is allocated for the *water services operating grant (direct and indirect transfers)*. The grant is phased into the local government equitable share over the period ahead as the water schemes and the remaining staff are transferred to municipalities.

Conditional grants to local government

National government provides conditional grant funding to municipalities on the basis of their varying fiscal capacities to deliver on their responsibilities to eradicate backlogs in crucial infrastructure and essential basic services, and to support municipal capacity-building and other operational initiatives. The total of conditional grants directly transferred to local government, including the *water operating subsidy*, increase from R19.1 billion in 2009/10, R20.9 billion in 2010/11 and R24.5 billion in 2011/12.

Infrastructure conditional grants to local government

National transfers for infrastructure, including indirect or in-kind allocations to entities executing specific projects, amount to R19.6 billion, R21.8 billion and R26 billion for each of the 2009 MTEF years.

Table W1.23 Infrastructure transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
		Outcome		Revised estimate		Medium-term estimates	
Direct transfers	**6 286**	**7 447**	**15 128**	**16 677**	**16 864**	**19 001**	**22 446**
Municipal infrastructure grant	5 436	5 938	8 754	8 620	11 085	12 529	15 069
Public transport infrastructure and systems	242	518	1 174	3 170	2 418	4 290	5 149
National electrification programme	297	391	462	494	933	1 020	1 097
Neighbourhood development partnership grant	–	–	41	80	582	630	840
2010 FIFA World Cup stadiums development	–	600	4 605	4 295	1 661	302	–
Disaster relief	311	–	–	–	–	–	–
Rural transport grant	–	–	–	9	10	10	11
Electricity demand-side management	–	–	–	–	175	220	280
Municipal drought relief grant	–	–	91	9	–	–	–
Indirect transfers[1]	**783**	**943**	**1 484**	**1 948**	**2 744**	**2 843**	**3 598**
Regional bulk infrastructure	–	–	300	450	612	839	1 475
Backlogs in the electrification of clinics and schools	–	–	45	90	150	–	–
Backlogs in water and sanitation at clinics and schools	–	–	105	210	350	–	–
National electrification programme	783	893	973	1 151	1 478	1 769	1 902
Neighbourhood development partnership grant	–	50	61	47	80	125	100
Electricity demand-side management	–	–	–	–	75	110	120
Total	**7 070**	**8 390**	**16 612**	**18 625**	**19 608**	**21 845**	**26 043**

1. In-kind transfers to municipalities.

In addition to funding for municipal infrastructure, public transport infrastructure and the national electrification programme, there is continuing funding for water services regional bulk infrastructure, 2010 FIFA World Cup stadium development, water and sanitation services to schools and clinics, and the electrification of schools and clinics. The MTEF also sees the introduction of the *electricity demand side management grant* and a *rural transport infrastructure grant*.

Municipal infrastructure grant

The largest infrastructure transfers are through the *municipal infrastructure grant* (MIG), which supports government's objective of expanding the delivery of services, as well as alleviating poverty. The grant was introduced as a Schedule 4 grant in the Division of Revenue Act in 2004/05 as it supplements municipal allocations for infrastructure. While the allocations and spending patterns have increased over the years, it has become evident that the design and administration processes of the grant are inconsistent with the prevailing municipal environment, resulting in less than optimal results. Experience gained over the last eight years has shown that there are qualitative differences between South Africa's 283 municipalities. The demographic, economic, infrastructural and institutional challenges facing these categories of municipalities differ significantly. Yet the current approach to funding municipal infrastructure assumes that municipalities are the same.

In this context, government has identified a need to reconceptualise the way in which municipalities are funded to better leverage the capacity of the state as a whole to achieve basic service delivery targets. Cabinet approved the introduction of the *municipal infrastructure grant (cities)* by splitting the MIG into two parts. This decision allows a differentiated funding approach to be introduced to account for significant differences in context, challenges and capabilities between larger urban municipalities and smaller, more rural municipalities.

Adopting a differentiated funding approach will allow national regulation of funding to respond to the generic challenges of different types of municipalities, as well as the specific issues faced by individual municipalities. The *MIG (cities)* focuses on enabling cities to more effectively manage, support and account for built environment outcomes. Greater discretion over the selection and implementation of capital projects, as part of their own capital investment programmes, will be matched with oversight of their entire programme performance rather than solely project inputs. This means that larger urban municipalities will be required to commit to the achievement of specific, measurable developmental outcomes arising from their entire capital programme. Smaller, more rural municipalities will largely continue to operate under the existing MIG framework, with innovations to improve expenditure outcomes introduced over time to address capacity and resource deficiencies.

Cabinet has approved the introduction of the new funding arrangements from 1 April 2009. Although the formula used to determine the allocations between the two groups of municipalities is the same, different conditions will be placed on these two groups of municipalities. The *MIG (cities)* will focus the municipalities and national stakeholders on outputs and outcomes to be achieved from the overall capital investment programme of the cities. This grant will be phased in starting with the metros in 2009/10 and bringing in 21 large cities over the next two years.

The formula for allocating the grant has not changed. A constant component is phased in over three years to ensure that a reasonable minimum allocation is made to poor municipalities. This constant was introduced in the 2008 Budget and the last two years of its phase-in period are 2009/10 and 2010/11, from which point all municipalities receive a minimum allocation of R5 million. The formula includes both a vertical and horizontal division. The vertical division allocates resources to sectors or other priority areas; the horizontal division is determined based on a formula that takes account of poverty, backlogs, and municipal powers and functions. There are five main components of the formula, as demonstrated in the box below.

$$MIG_{(F)} = C + B + P + E + N + M$$

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 (new and rehabilitation of existing ones)

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

The total MIG allocations grow to R11.1 billion, R12.5 billion and R15.1 billion over the MTEF. This represents real growth of 11.9 per cent during the period. The initial allocations for the *MIG (cities)* are R2.2 billion, R2.6 billion and R3.1 billion. The remaining allocations (R8.9 billion, R9.9 billion and R12 billion) will flow to the rest of the municipalities maintaining the current requirements of the grant.

The full incorporation of the electricity programme (which includes both municipal and Eskom programmes) into the MIG is, however, deferred until the completion of the restructuring of the electricity distribution industry.

The public transport infrastructure and systems grant

The *public transport infrastructure and systems grant* is administered by the Department of Transport. The grant is focused towards cities hosting the 2010 FIFA World Cup, and to other cities to provide for the improvement of new and existing public transport and non-motorised transport infrastructure. This includes the provision of bus rapid transit systems in cities. The grant is allocated R2.4 billion, R4.3 billion and R5.1 billion over the next three years.

The rural transport services and infrastructure grant

The *rural transport services and infrastructure grant* is administered by the Department of Transport. The grant is aimed at improving rural infrastructure by upgrading rural access roads, construction of pedestrian bridges and walkways, rural freight logistics facilities and intermodal public transport facilities. This grant was created in 2008/09 and is allocated R9.8 million, R10.4 million and R11.1 million over the next three years.

The neighbourhood development partnership grant

The *neighbourhood development partnership* grant seeks to develop community infrastructure and create a platform for private-sector investment that improves the quality of life in townships. The grant is administered by National Treasury and is allocated R662 million, R755 million and R940 million for the 2009 MTEF for technical assistance and capital projects.

The integrated national electrification programme grant

To sustain the current progress, particularly for poor households, government plans to spend R8.1 billion over the next three years on its national electrification programme. Of this, R3 billion will be spent by municipalities directly and R5.1 billion by Eskom on behalf of municipalities. This programme was instrumental in the connection of 80 per cent of all households in the country to the national electricity grid as reported in the 2007 Community Survey.

Electricity demand-side management grant

The grant is aimed at addressing energy-efficiency demand-side management in residential dwellings, government and commercial buildings to reduce the burden on the national grid, reducing the risk of planned and unplanned power cuts. The grant has been allocated R980 million over the MTEF period.

Regional bulk infrastructure grant

This grant supplements the financing of the social component of regional bulk water and sanitation cutting across several municipal boundaries. In the case of sanitation, it supplements regional bulk connection as well as regional wastewater treatment works. The grant has an allocation of R612 million, R839 million and R1.5 billion over the next three years.

Backlogs in water and sanitation at clinics and schools grant

This grant has been created to eliminate the backlog in access to water and sanitation services at schools and clinics. The sanitation backlogs were eradicated in December 2008 and the grant will focus on the eradication of backlogs in schools to meet the December 2010 target. An amount of R350 million is available for ensuring access for all identified schools in 2009/10.

Backlogs in the electrification of clinics and schools grant

The grant provides funding to the amount of R150 million for connecting schools and clinics across the country with the national electricity grid by the end of the 2009/10 fiscal year. In 2007/08 an additional 51 clinics were connected with a total expenditure of R24 million. The grant will continue till the end of 2009/10.

2010 FIFA World Cup stadiums development grant

The purpose of the grant is to provide funding for the design and construction of new stadiums and the upgrading of existing ones in 2010 FIFA World Cup host cities. The construction and upgrading of stadiums are underway to meet the final target date of December 2009. The grant has been allocated R1.9 billion for 2009/10 and 2010/11.

Capacity-building and other current transfers

The *capacity-building grants* were set up to assist municipalities in building management, planning, technical, budgeting and financial management skills. The 2009 Budget expands the capacity support programme to assist weaker or poorer municipalities to progressively implement financial management reforms. Total allocations for capacity-building grants amount to R500 million in 2009/10, R577 million in 2010/11 and R609 million in 2011/12.

The *financial management grant* 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 MFMA. Total allocations amount to R1.1 billion over the three-year cycle.

Other current transfers include the *2010 FIFA World Cup host city operating grant*. This is a new grant aimed at assisting cities with the hosting of the 2009 Confederations Cup and the 2010 FIFA World Cup. The grant has been allocated R508 million in 2009/10 and R210 million in 2010/11.

The *expanded public works programme incentive for municipalities grant* is a new grant aimed at providing municipalities with incentives to increase the number of employment opportunities on infrastructure projects under the expanded public works programme to maximise job creation and skills development. The grant is allocated R202 million, R554 million and R1.1 billion over the MTEF period.

Table W1.24 Capacity building and other current transfers to local government, 2005/06 – 2011/12

R million	2005/06	2006/07 Outcome	2007/08	2008/09 Revised estimate	2009/10	2010/11 Medium-term estimates	2011/12
Capacity building transfers	**654**	**663**	**928**	**430**	**500**	**577**	**609**
Direct transfers	**588**	**610**	**875**	**380**	**500**	**577**	**609**
Restructuring grant	255	265	530	–	–	–	–
Financial management grant	133	145	145	180	300	365	385
Municipal systems improvement grant	200	200	200	200	200	212	225
Indirect transfers[1]	**66**	**53**	**53**	**50**	**–**	**–**	**–**
Financial management grant	66	53	53	50	–	–	–
Other current transfers	**904**	**440**	**490**	**286**	**845**	**764**	**1 108**
Direct transfers	**–**	**–**	**–**	**17**	**709**	**764**	**1 108**
Internally displaced people management grant	–	–	–	17	–	–	–
2010 FIFA World Cup host city operating grant	–	–	–	–	508	210	–
Expanded public works programme incentive grant for municipalities	–	–	–	–	202	554	1 108
Indirect transfers[1]	**904**	**440**	**490**	**269**	**135**	**–**	**–**
Water and sanitation operating grant	904	440	490	269	135	–	–
Total	**1 558**	**1 103**	**1 418**	**716**	**1 344**	**1 341**	**1 717**

1. In-kind transfers to municipalities.

Part 5: Future work on provincial and municipal fiscal frameworks

Refinement of the local government fiscal framework

The local government fiscal framework has evolved over time, with a number of notable changes to enhance the ability of municipalities to perform their developmental and service delivery responsibilities. Additional refinement of the framework includes further reforms to the local government equitable share formula and infrastructure grants, and the gradual implementation and maturing of significant pieces of legislation affecting municipal financial capacity. These issues are discussed in more detail below.

Policy process to review provincial and local government

The Department of Provincial and Local Government is developing a provincial government policy framework and reviewing the local government policy framework.

The review began in July 2007. The findings, now being compiled by the department, draw on three main sources: written submissions from the public, independent research, and the experiences of practitioners and experts interviewed for the process. These sources have provided the basis for an objective assessment of how these two spheres of government have performed their core mandates.

The review has set out to answer three basic questions:

- How well have these two spheres performed their core constitutional mandates?
- Are those mandates still the right ones in the current context?

- What should be done to improve the effectiveness of these levels of government?

Introducing the sharing of the general fuel levy with metros as primary replacement for RSC levies

From the 2009 Budget, the general fuel levy will be shared between national government and metropolitan municipalities. The sharing of the general fuel levy is an appropriate primary replacement for the former RSC levies, with several advantages. The general fuel levy is of sufficient size to serve as a primary replacement as the total revenue generated from the general fuel levy was R26 billion in 2008/09, with the 2010/11 amount estimated at R29 billion. The growth in the general fuel levy is on average 6 per cent annually. Similar to the former RSC levies, the base (fuel sales) is linked to economic activity, linking the subsequent fuel levy allocation on the extent of economic growth taking place within the municipal jurisdiction. The equity and flexibility over the base is therefore maintained. Although the sharing of the general fuel levy with metros will be treated as unconditional to enhance fiscal autonomy, municipalities should attempt to direct these resources, similar to that of the former RSC levies, towards basic services and infrastructure development in under-serviced communities, specifically to transport infrastructure given the link between fuel sales and road usage.

The sharing of the general fuel levy also remedies several of the discrepancies that existed in the former RSC levy system. Taking this into consideration, the allocation of the fuel levy corrects situations where municipalities benefited unfairly from the RSC levy as fuel sales offer an equitable and more accurate depiction of economic activity (fuel sales and share of RSC levy grant are similar for four of the six metros). To facilitate a smooth transition from the *RSC levy replacement grant* system to the sharing of the general fuel levy system based on fuel sales and prevent any possible shocks to municipal revenues, implementation will be phased-in over the three year period beginning with the MTEF, for full implementation in 2012/13. This approach will also limit the impact to national government in forfeiting funds to make the sharing of the general fuel levy possible.

Refer to Annexure C of the 2009 *Budget Review* for additional information on implementation and allocation of the sharing of the general fuel levy to individual metropolitan municipalities.

National government will continue to compensate Category C (district) municipalities through the *RSC levy replacement grant*. For the 2009 MTEF, R10.5 billion (R3.3 billion in 2009/10, R3.5 billion in 2010/11 and R3.7 billion in 2011/12) will remain as part of the *RSC levy replacement grant* for Category C municipalities. Reforms will however be made to the replacement grant in future to make it more reflective of the extent of service delivery responsibilities of the municipality rather than historical RSC levy collection rates. Further revisions to the local government fiscal framework, including determining appropriate funding for district municipalities, will be informed by the outcomes of the Department of Provincial and Local Government’s White Paper policy review process.

Implementation of the Municipal Fiscal Powers and Functions Act

The Municipal Fiscal Powers and Functions Act (2007) is one of the final building blocks in the process of creating a regulatory framework that will facilitate proper coordination of fiscal policy objectives across all spheres of government. The two primary purposes of the act are to provide for the authorisation of taxes, levies and duties that municipalities may impose under section 229(1)(b) of the Constitution, and to regulate the exercise by municipalities of their powers to impose surcharges on fees for municipal services in accordance with section 229(1)(a) of the Constitution. The act regulates all municipal taxes except for property rates, which are regulated by the Municipal Property Rates Act.

In terms of section 12(1) of the Municipal Fiscal Powers and Functions Act, by 7 September 2009 a municipality must apply to the Minister of Finance for the authorisation of an existing tax, other than a regional establishment levy or regional services levy imposed under the Regional Services Council Act (1985) or the KwaZulu and Natal Joint Services Act (1990) imposed by that municipality prior to the commencement of the Municipal Fiscal Powers and Functions Act. If a municipality fails to comply with the regulation, such a tax will lapse. National Treasury has put in place processes to assist municipalities in formalising applications to authorise existing taxes prior to the 7 September 2009 deadline.

Work is also under way to put in place norms and standards on municipal surcharges as provided in section 8 of this legislation. These will be developed simultaneously with developments under way to improve the regulation of tariffs for key municipal services, such as electricity reticulation, water and sanitation. The National Treasury will over the next few years work in close consultation with the several sector departments, such as the Department of Water Affairs, Minerals and Energy and Environmental Affairs, as well as regulatory bodies such as the National Energy Regulator of South Africa and SALGA to develop frameworks that will harmonise the tariff and surcharge structures.

Implementation of the Municipal Property Rates Act

The Municipal Property Rates Act (2004) regulates the power of municipalities to impose rates on properties in accordance with section 229(1)(a) of the Constitution. The act makes provision for certain properties that were previously excluded from rating to be liable to pay property rates, such as agricultural properties, public service infrastructure and properties falling in certain rural areas. Any rate levied on newly rateable property must be phased-in over a period of three financial years.

Municipalities were given four years to implement this act – a period that expires on 1 July 2009. To fully implement the legislation, municipalities must have their rates policy adopted by council, introduce a new valuation role based on market value and undergo the necessary consultation process. To date, 85 municipalities have implemented new valuation rolls in terms of the act. The majority of the municipalities (about 67 per cent) are targeting 1 July 2009 as implementation date. The national and provincial departments responsible for local government are providing support to municipalities to meet the 1 July 2009 deadline.

Various amendments have been made to the Municipal Property Rates Act through the Local Government Laws Amendment Act (2008) to facilitate smooth implementation. The Municipal Property Rates Act makes provision for national government to issue regulations, including prescribing ratios between residential and non-residential properties and upper limits to the annual increase of property rates (sections 19 and 20 of the act respectively).

Reforms of the water and electricity distribution industries

The restructuring and reform of the water and electricity distribution industries is necessary to improve the functioning and performance of both sectors, particularly in smaller municipalities with limited scope for achieving efficiencies of scale and scope. A movement towards regionalisation of both sectors seems to be a possible way forward in achieving the necessary economies of scale and the accumulation of appropriate skills and specialisation, the lack of which has hampered the ability of smaller municipalities to deliver these services. Any sector restructuring should be in line with existing legal and fiscal frameworks. Moreover, the financial condition of municipalities currently performing these functions must not be adversely affected.

The restructuring of the water industry is still in its initial phases while the restructuring of the electricity distribution industry is more advanced.

In October 2006, government agreed that six REDs should be established as public entities. The Electricity Regulation Amendment Act (2007) clarified the roles of local government in the electricity reticulation service, equating electricity reticulation and distribution. Government and other interested parties are working together to resolve outstanding policy issues, including the methodology of determining shareholding in a RED and the valuation and compensation methodology for Eskom and municipal assets to be transferred into a RED.

Re-determination of provincial and municipal boundaries

The Municipal Demarcation Board processed a number of requests for changes to municipal boundaries during the 2008 calendar year in preparation for the 2009 national and provincial elections and the 2011 local elections. The requests consisted mainly of boundary changes, changes in the status of three local municipalities to become metropolitan municipalities and the disestablishment of district management areas that will be incorporated into adjacent local municipalities. The Board finalised its work on 30 August 2008 and submitted the changes to the Independent Electoral Commission to assess whether voter representation would be affected as part of the process to determine the effective date of the re-determinations. Most of the proposed changes have been determined to only become effective after the 2011 local elections and will be considered for the 2011 or 2012 Budget.

In addition, legislative processes are under way to bring Merafong Local Municipality back from North West into Gauteng. Future fiscal frameworks for provinces and local government will have to be adjusted to accommodate these and other similar requests that might occur involving re-determination of the borders of former cross-boundary municipalities.

It is anticipated that future allocations of provinces and municipalities will continue to be affected by the work of the Municipal Demarcation Board.

Updates to formulas

Although the 2007 Community Survey is available, one of the current challenges in the local government equitable share formula is that it is biased towards municipalities with large population numbers. As poorly resourced municipalities have smaller populations, but higher levels of poverty, this aspect should also be taken into consideration. The equitable share formula should therefore achieve an appropriate balance between (i) urban challenges resulting from large-scale urbanisation and strong economic activity levels and (ii) rural challenges resulting from past inequities, high poverty (in percentage terms) and low economic activity levels. It is proposed that a detailed review of the local government equitable share be undertaken in conjunction with updating the 2001 Census information with 2007 Community Survey results for possible implementation from the 2010 or 2011 Budget.

It is very important that these outstanding matters, which have fiscal implications for local government, be concluded to ensure further stability in municipal finances.

W2

Website annexure to the 2009 Budget Review

Structure of the government accounts

Introduction

South Africa's national government accounts are presented in Annexure B of the 2009 *Budget Review.* The structure of the reporting tables is based on the recommendations in the most recent version of *Government Finance Statistics*[1] (GFS), published in 2001. It is also in line with the recommendations in the *System of National Accounts*[2] (SNA), published in 1993. However, to take into account the specific nature of the South African environment, certain modifications to the structure of the accounts and the labelling of the receipt and payment items have been made relative to GFS recommendations.

The GFS presentation also differs in some respects from the presentation in Chapter 2 of the *Budget Review*, which is based on the SNA. Currently the SNA manual is under review, and once finalised the National Treasury will consider amendments and adjust the presentations accordingly. This annexure describes the presentation format and structure of the government accounts for South Africa, and explains deviations between GFS recommendations and the way government statistics within the national accounts are compiled and presented. It also contains a section describing the salient characteristics of the part of the SNA that deals with government statistics.

Recording basis

Both the SNA and GFS recommend that items should be recorded on an accrual basis, implying that all government transactions, even those that do not give rise to cash flows, should be included in the government accounts. Examples of transactions that do not give rise to cash flows are changes in inventories, depreciation and accrued interest. Another consequence of accrual accounting is that the time of recording should coincide with the underlying economic event. This means that the entry

[1] International Monetary Fund, 2001, Government Financial Statistics. Washington, D.C. IMF.

[2] United Nations, 1993, System of National Accounts 1993. Brussels, Luxembourg, New York, Paris, Washington, D.C.: Inter-Secretariat Working Group on National Accounts.

does not necessarily coincide with the timing of the resultant cash flow, but rather with the change of ownership or when economic value is created, transformed or extinguished. For example, in accrual accounting debt repayment should be recorded when the debt expires, whether or not this coincides with an actual repayment that gives rise to a cash flow.

The recommendation to use accrual accounting for government financial statements was first made in the 2001 GFS. Government has declared its intention to follow this recommendation over time, but in the near future the practice of presenting government data on a cash basis will continue. This implies that the transaction is recorded when the cash flow occurs and hence does not match the timing of the underlying economic event. However, in some instances modified cash principles are applied. This includes the recording of expenditure at the time of recording the transaction in the cash book (i.e. at the time the transaction is processed in the financial system and the cheque is issued) and accruing interest on some types of government debt (i.e. on zero-coupon bonds).

In strict cash accounting, the time of recording should coincide with the actual cash flow. However, in South Africa, entries for the national budget data are made in the time period in which transactions are captured on the financial systems. For auditing and budgeting control purposes, the national budget system allows for a complementary period for each transaction. This is a period after the financial year-end during which books remain open so that all transactions relating to that specific year can be finalised. These transactions may be summarised as follows:

- Tax payments made during the financial year but not recorded by the South African Revenue Service until after the end of the financial year.
- Late requests for funds by government departments to settle obligations relating to the specific financial year.
- Surrenders of unspent funds by government departments, i.e. funds requested but not used.
- Corrections to revenue, expenditure or financing transactions that were, for example, erroneously classified.
- Adjustments to the expenditure data, for auditing and parliamentary purposes, to show only authorised expenditure for the particular financial year (i.e. excluding all unauthorised spending).

Economic reporting format

The economic reporting format (ERF) was introduced in the 2004 Budget. This format, which conforms to international best practice, replaced the old “standard item” classification. The ERF was based on the GFS presentation, but adapted for South Africa’s specific requirements. The introduction of the budget format was supported by the introduction of a standard chart of accounts (SCOA), which is fully aligned to the ERF and provides for posting-level details of the budget within the financial systems.

In the ERF, as well as in the chart, each descriptive item label reflects the actual content of the item. Labels such as “other” or “miscellaneous” have studiously been avoided, as their content is opaque. This labelling practice has ensured that classifications are consistent across all national and provincial departments, improving the quality of information provided to legislatures and assisting in the policy-making process.

The evolution of accounting and reporting requirements, as well as the pending introduction of the integrated financial management system (IFMS), led to a review of the SCOA in 2007. The 2008/09 financial year saw the implementation of changes to the SCOA that will improve government’s ability to report on infrastructure spending, provide for better control over programme budgets of departments, enable the identification of more appropriate spending items in the chart, enhance asset management through better recording of asset transactions, and give government the ability to monitor spending at regional level. Future budget publications will include this information as the information base is built and improved over time.

To protect the integrity of the chart, the National Treasury took a number of steps to help departments conform to the requirements of the format. These included the design and implementation of a detailed training programme and the establishment of a classification committee and call centre to support practitioners. The aim of the support initiatives is to improve consistency in the application of the new classification rules and to recommend appropriate amendments to the SCOA and the financial system. The classification committee issues classification circulars that provide feedback to practitioners on amendments made to the chart of accounts. These circulars ensure that consistency is maintained as changes are made to the chart.

Structure of accounts

The South African reporting format organises the multitude of government transactions into three broad categories: receipts, payments and financing. The budget balance (deficit or surplus) is calculated as receipts less payments, which is equal to total financing but with the opposite sign.

Receipts

Government receipts are divided into *taxes, sales, transfers, fines, interest, dividends and rent on land* as well as *financial transactions in assets and liabilities*. *Taxes* are classified according to the type of activity on which they are levied, including income, profits, consumption of domestic goods and services, and international trade. *Sales* are disaggregated into sales of capital assets and other sales. *Transfers* are unrequited receipts – i.e. the party making the transfer does not receive anything of similar value directly in return. These are classified according to unit, for example, other government units, private corporations, households, etc. *Fines* consist of all compulsory receipts imposed by a court or quasi-judicial body. *Interest, dividends and rent on land* includes all receipts associated with ownership of financial assets and land.

Financial transactions in assets and liabilities covers two financial transactions. The first is repayments of loans and advances previously extended to employees and public corporations for policy purposes. The rationale for recording this financial transaction as a receipt is that it is fundamentally different from other financial transactions, which are market oriented and thus appear as *financing* items. The second is associated with stale cheques from previous accounting periods. The temporary increase in receipts before a new cheque is issued is recorded as a receipt. The reason for recording it in this way is that the financial system does not allow for a payment for the current accounting period to be reduced due to the cancellation of a payment from a previous period. Remaining financial transactions, for example borrowing and repayment of loans on market basis, are not included under this category, but under *financing*.

Payments

Payments are divided into three broad categories, namely current payments, transfers and subsidies, and payments for capital assets.

Current payments

Current payments provides for funds directly spent by the department. Detail is provided on the following items:

- *Compensation of employees:* This category includes all current personnel-related payments, i.e. all payments to government employees, both salaries and wages and social contributions. Social contributions represent the amounts paid by government as employer for pensions or social security into a social security scheme on behalf of its employees. An example would be payments into the Unemployment Insurance Fund (UIF). This category excludes *capitalised* compensation.

- *Goods and services:* This item refers to all government payments in exchange for goods and services, but excluding capital assets and goods used by government for construction of and improvements to capital assets. This item would in most instances be the second-largest spending item for departments. The specific details of purchases of each department are provided, giving an indication of the largest spending items by department. For example, in an education department school books could be listed, while in a health department medicines might appear. This allows the classification to be adapted for the particular data needs of each department, which facilitates oversight and policy analysis.
- *Interest and rent on land:* This item is defined as payment for the use of borrowed money (interest on loans and bonds) and use of land (rent). It is distinguished from the repayment of borrowed money, which is classified under *financing*.
- *Financial transactions in assets and liabilities:* This item consists mainly of lending to employees and public corporations for policy purposes. The reason for expensing this payment rather than treating it as financing is that, unlike other financial transactions, the purpose of the transaction is not market oriented.

Transfers and subsidies

The second part of the payments table provides for funds that are transferred to other institutions, businesses and individuals, which do not constitute final expenditure by the department. This item therefore includes all unrequited, non-repayable payments by government – i.e. payments for which no goods or services are received in return.

The category *transfers and subsidies* is subdivided into the various targeted recipients or beneficiaries receiving funding from government, such as other levels of general government, households, non-profit institutions and public corporations. This allows for the separation of all transfers from payments controlled directly by departments.

Transfers and subsidies includes current as well as capital transfers. In the past, capital payments included capital transfers. This led to ambiguity because these numbers could be interpreted as exaggerating the actual contribution to capital formation made by government. By including capital transfers with other transfers, a much clearer picture is provided of government spending on capital.

Payments for capital assets

In economic terms it is important to identify capital payments as a separate item, because this shows government's contribution to capital formation and its spending on new infrastructure, including upgrading, additions, rehabilitation and refurbishment of existing infrastructure. Capital assets are divided into seven categories:

- Buildings and other fixed structures
- Machinery and equipment
- Heritage assets
- Specialised military assets
- Biological and cultivated assets
- Software and other intangible assets
- Land and sub-soil assets.

Payments for capital assets covers purchases of new assets, as well as upgrades, additions, rehabilitation and refurbishment to existing assets. This includes own-account construction – that is, when government units engage in capital projects on their own account. An example would be the Department of Public Works constructing a new road. In this case, certain payment categories are capitalised. The relevant payment categories capitalised are compensation of employees, and goods and services.

These two payment categories are not capitalised unless payments are *directly associated* with a *capital project*. A capital project is defined as a project executed by the government unit to construct a new asset or upgrade/add to/rehabilitate/refurbish an existing capital asset. However, payments on *current projects*, namely maintenance and repair of existing capital assets, are not capitalised.

Financing

The broad classification category, *financing*, encompasses all financial transactions other than *financial transactions in assets and liabilities*, which are included as part of receipts and payments. The financing items represent transactions in items on the balance sheet. Items recorded under *financing* reflect the sources of funds obtained to cover a government deficit or the use of funds available from a government surplus. The most important items under *financing* are government borrowing, repayments of the principal component of loans incurred in previous periods, and transactions in government deposits and cash balances.

At the highest level, a distinction is made according to residence of the other party to the transaction – i.e. between financing originating from domestic and foreign sources. These two components are then disaggregated by transaction category (loan, deposit, bond, etc.).

Functional classification

The GFS recommends that each government payment should be classified in two ways, namely according to its functional and economic characteristics. The budget reporting format is in compliance with this recommendation. The items in the economic classification have been described above, under the heading *payments*. The main function of the economic classification is to categorise transactions according to type of object or *input*, for example, compensation of employees, interest payment, etc. This is crucial, as data must be classified this way for calculation of the surplus or deficit, as well as government's contribution to the economy in the form of output, value added and final consumption.

The functional classification is complementary to the economic classification. It serves to distinguish transactions by policy purpose or type of outlay. This is also referred to as expense by *output*. Its main purpose is to facilitate understanding of how funds available to government have been spent. Examples would be health, education, general public services, public order and safety, and so on.

The functional classification categories in the 2009 *Budget Review* have been aligned to the classification of functions of government (COFOG) as set out in the GFS.

The broad categories in the functional classification are listed below:

- *General public services* refers to the administration, operation or support of executive and legislative organs, financial and fiscal affairs, and external affairs. It also includes foreign economic aid to developing countries and economic aid routed through international organisations. The category further provides for general services such as personnel services, overall planning and statistical services, and basic research and research and development (R&D) in the general public service. State debt cost is included in this functional category.
- *Defence* includes administration, operation and support of military and civil defence, and the operation of military aid missions accredited to foreign governments or attached to international military organisations. Applied R&D related to defence is also included.
- *Public order and safety* covers police services, fire protection services, justice and law courts, prisons and related R&D.
- *Economic affairs* covers government spending associated with the regulation and more efficient operation of the business sector. This category incorporates general economic affairs, commercial

and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, mining manufacturing and construction, transport, communication and related R&D.

- *Environmental affairs* relates to protection of biodiversity and landscape – the protection of habitats including the management of natural parks and reserves, waste management, wastewater management, pollution abatement and related R&D.
- *Housing and community amenities* includes the administration of housing and community development affairs and services, water supply, street lighting and related R&D.
- *Health* includes spending on services provided to individual persons and services provided on a collective basis. The function includes medical products, appliances and equipment, outpatient services, hospital services, public health services and related R&D.
- *Recreation and culture* are provided to the community through recreational and sporting services, cultural services, broadcasting and publishing services, and other community services. The function also covers related R&D.
- *Education* includes spending on services provided to individual pupils and students and services provided on a collective basis. It includes pre-primary, primary, secondary and tertiary education, as well as subsidiary services to education and related R&D.
- *Social protection* covers services supplied directly to communities, households or individuals, and includes transfers for sickness and disability, old age, survivors, family and children, unemployment, support to households to meet the cost of housing, and related R&D.

Expenditure in a particular budget vote may cover more than one function; for example, spending in the health vote may include spending on education for medical training.

The consolidated government accounts

The presentation format of the consolidated government accounts includes the accounts of national and provincial government, and the social security funds. In the 2009 *Budget Review* the coverage of the government accounts is extended to include a total of 155 national and provincial departments and 184 entities of central government, currently classified as extra-budgetary agencies. Some government business enterprises are also included in this number, 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.

This presentation is broadly in line with the GFS requirement that the accounts of general government be presented on a consolidated basis. In the consolidation process all relevant spheres of government are included and all intergovernmental transactions are eliminated. This is done to ensure that only the interaction of the general government units with non-governmental units is recorded. The resultant accounts reflect more accurately the financial position of the whole of general government and the impact of its activity on the economy at large.

To present a true set of consolidated general government accounts, the accounts of both national and provincial departments must be consolidated with their associated public entities. The accounts of the social security funds and local authorities are then added to give the consolidated general government accounts.

As a final step, all government business enterprises should be included and consolidated with the general government units. This would result in the consolidated public sector account.

The following dimensions are considered during the consolidation process:

- *Coverage:* This refers to the choice of entities to be included in the consolidation. Firstly, entities belonging to the general government sector should be consolidated. To this consolidation should be added all business enterprises, but privately owned entities should always be excluded. The consolidation of the general government sector includes all entities that are mainly controlled and financed by government, and which provide goods and services at non-market prices. The public sector includes all state-owned entities and local authority trading entities providing goods and services at market-related prices.
- *Elimination of inter-entity transactions:* In the consolidation process all intra-entity transactions must be eliminated. For this to be accurate, all such transactions must be easily identifiable. However, in the accounting systems of government and many of its agencies, not all intra-entity transactions are identified. In many instances where goods and services are procured from other government units, elimination is impossible as such transactions cannot be separated from other transactions in this category. However, all transactions involving transfers from one government unit to another can be identified and have been eliminated from the consolidation.
- *Basis of accounting*: Entity accounts can only be consolidated if such accounts are compiled using the same basis of accounting. In South Africa, the national and provincial governments are on a modified cash basis of accounting, while local authorities and public entities use the accrual basis of accounting. To provide data for consolidation, the accounts of the public entities have been adjusted to cash accounts.

In the consolidation process transfers and other identifiable goods and services were netted out, with the rest of the transactions being aggregated. In future budgets the National Treasury will endeavour to include more entities to provide the full picture of spending by the public sector. The consolidation in this budget includes all the entities listed in Table W2.1.

Table W2.1 List of public entities included in consolidation

Vote	Department	PFMA schedule	Public entity
1	The Presidency	3a	National Youth Commission
3	Foreign Affairs	3a	African Renaissance and International Cooperation Fund
4	Home Affairs	3a	Film and Publication Board
		TE	Government Printing Works
		1	The Independent Electoral Commission
5	Public Works	3a	Construction Industry Development Board
		3a	Council for the Built Environment
		2	Independent Development Trust
		TE	Property Management Trading Entity
6	Government Communication and Information System	3a	International Marketing Council
		3a	Media Development Diversity Agency
7	National Treasury	3a	Accounting Standards Board
		NL	Cooperative Banks for Development Agency
		3a	Financial Intelligence Centre
		3a	Financial Services Board
		3a	Independent Regulatory Board for Auditors
		3b	Public Investment Corporation Limited
		3a	South African Revenue Service
		1	The Financial and Fiscal Commission
8	Public Administration Leadership and Management Academy	TE	Public Administration Leadership and Management Academy Trading Entity
9	Public Service and Administration	3a	State Information Technology Agency
12	Arts and Culture	3a	Freedom Park Trust
		3a	National Arts Council of South Africa
		3a	National Film and Video Foundation of South Africa
		3a	National Heritage Council of South Africa
		3a	South African Heritage Resources Agency
		3a	Libraries Consolidation (2 Libraries)
		3a	Cultural Institutions Consolidation (10 Institutions)
		3a	Arts Institutions Consolidation (7 Institutions)
		1	The Pan South African Language Board
13	Education	3a	Council on Higher Education
		3a	Education Labour Relations Council
		3a	National Student Financial Aid Scheme
		3a	South African Council for Educators
		3a	South African Qualifications Authority
		3a	uMalusi Council of Quality Assurance in General and Further Education and Training
14	Health	3a	Council for Medical Schemes
		3a	National Health Laboratory Service
		3a	Medical Research Council of South Africa
15	Labour	3a	Commission for Conciliation Mediation and Arbitration
		3a	National Economic Development and Labour Council
		NL	National Skills Fund
		3a	Productivity South Africa
		3a	SETAs Consolidation (21 SETAs)
		3b	Umsobomvu Youth Fund

Table W2.1 List of public entities included in consolidation

Vote	Department	PFMA schedule	Public entity
16	Social Development	3a	National Development Agency
		3a	South African Social Security Agency
17	Sport and Recreation South Africa	3a	Boxing South Africa
		3a	The South African Institute for Drug-free Sport
19	Defence	2	Armaments Corporation of South Africa Limited
		3a	Castle Control Board
21	Justice and Constitutional Development	3a	Legal Aid Board
		1	The Public Protector of South Africa
		3a	Special Investigation Unit
		1	The Commission on Gender Equality
		1	The South African Human Rights Commission
23	Agriculture	3a	Agricultural Research Council
		3a	National Agricultural Marketing Council
		3b	Ncera Farms (Pty) Ltd
		3b	Onderstepoort Biological Products Limited
		3a	Perishable Products Export Control Board
24	Communications	3a	National Electronic Media Institute of South Africa
		2	South African Post Office Limited
		3b	Sentech Limited
		1	The Independent Communications Authority of South Africa
		3a	Universal Service Access Agency of South Africa
		3a	Universal Service and Access Fund
25	Environmental Affairs and	3a	iSimangaliso Wetland Park
		3a	Marine Living Resources Fund
		3a	South African National Biodiversity Institute
		3a	South African National Parks
		3a	South African Tourism
		3a	South African Weather Service
26	Housing	3a	National Home Builders Registration Council
		3a	National Housing Finance Corporation Limited
		3a	National Urban Reconstruction and Housing Agency
		3a	Rural Housing Loan Fund
		3a	Servcon Housing Solutions (Pty) Ltd
		3a	Social Housing Foundation
		3a	Thubelisha Homes
27	Land Affairs	3a	Ingonyama Trust Board
		TE	Registration of Deeds Trading Entity
28	Minerals and Energy	3a	Council for Geoscience
		3b	Council for Mineral Technology
		3a	Electricity Distribution Industry Holdings (Pty) Ltd
		3a	Mine Health and Safety Council
		3a	National Energy Regulator of South Africa
		3a	National Nuclear Regulator
		3a	South African Diamond and Precious Metals Regulator
		2	South African Nuclear Energy Corporation Limited

Table W2.1 List of public entities included in consolidation

Vote	Department	PFMA schedule	Public entity
29	Provincial and Local	3a	South African Local Government Association
		1	Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities
		1	The Municipal Demarcation Board
30	Public Enterprises	2	Broadband Infrastructure Company (Pty) Ltd
		NL	Pebble Bed Modular Reactor
31	Science and Technology	NL	Academy of Science of South Africa
		3a	Africa Institute of South Africa
		3b	Council for Scientific and Industrial Research
		3a	Human Sciences Research Council
		3a	National Research Foundation
		NL	Tshumisano Trust
32	Trade and Industry	TE	Companies and Intellectual Properties Registration Office
		3a	Competition Commission
		3a	Competition Tribunal
		3a	Estate Agency Affairs Board
		3a	International Trade Administration Commission
		3a	National Consumer Commission
		3a	National Consumer Tribunal
		3a	National Credit Regulator
		3a	National Empowerment Fund
		3a	National Gambling Board of South Africa
		3a	National Lotteries Board
		3a	National Metrology Institute of South Africa
		3a	National Regulator for Compulsory Specifications
		3b	South African Bureau of Standards
		3a	South African Micro Finance Apex Fund
		3a	South African National Accreditation System
		3a	Small Enterprise Development Agency
33	Transport	TE	Credit Card Driving Licences Trading Entity
		3a	Cross-Border Road Transport Agency
		3a	Railway Safety Regulator
		3a	Road Traffic Management Corporation
		3a	South African Civil Aviation Authority
		3a	South African Maritime Safety Authority
		3a	The South African National Roads Agency Limited
		3b	South African Rail Commuter Corporation Limited
		3a	Urban Transport Fund
34	Water Affairs and Forestry	3a	Inkomati Catchment Management Agency
		TE	The Water Trading Entity
		3a	Water Boards Consolidation (13 Water Boards)
		2	Trans-Caledon Tunnel Authority
		3a	Water Research Commission

National budget data versus GFS recommendations

As mentioned above, compilation of national budget data published in Annexure B is based on GFS guidelines. GFS principles are used for the classification of all transactions at detailed level. However, there are important differences in the final presentation of the data. This explains why the presentation of the government accounts in this publication differs from that published in the Quarterly Bulletin of the Reserve Bank, which strictly adheres to GFS recommendations.

The differences between the National Treasury format and the Reserve Bank format are mainly in the structure of the accounts presented compared to that of the GFS, as well as the use of different labelling for some items. However, due to the fact that the same basis of classification is used at the detailed level, it is possible to convert the South African government tables into a GFS table with a very high degree of accuracy. This is useful for purposes of international comparison.

The most important structural difference is that the receipts and payments tables include both current and capital transactions in the South African reporting format. This is at variance with the GFS presentation of the government accounts, where current and capital transactions are presented in separate sub-accounts.

Differences in item labelling include the following:

- The South African presentation does not include any unclear terms such as *other* and *miscellaneous*.
- The term *grant* is not used in the South African budget presentation format. In the GFS, the term *grant* includes all (transfer) funds flowing from one level of government to another level. However, in the South African context, the majority of funds flowing to other levels of government are not appropriated as grants but are identified as direct charges against the National Revenue Fund and are therefore included under transfers.
- More detail is provided on the various transfer categories in the South African presentation to enhance transparency and facilitate the monitoring process, especially on the payment side.
- Finally, in the South African presentation, certain items are labelled more clearly than in the GFS version. For example, instead of using the term "sales of goods and services" for sales of goods and services produced by government, the label used in the South African presentation is "sales of goods and services produced by a department". The intention is to enhance transparency and facilitate understanding of the various transaction categories.

National budget data versus the national accounts presentation

The SNA is a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format designed for economic analysis, making decisions and formulating policy. The national accounts are compiled for a succession of periods, providing a continuous flow of information for monitoring, analysis and evaluation of economic performance.

The SNA provides a framework for calculating GDP, gross national income (GNI), savings, capital formation and other key economic variables. National accounts data pertain to all resident units in a given economy, which is divided into five sectors. The government is one of these five sectors.

In the national accounts, entries are made to reflect the perspective of all resident economic units, whereas the government accounts reflect the government perspective only. This inevitably leads to some differences in the accounting frameworks for the national accounts and the government accounts. For example, own-account construction is recorded as *payments for capital assets* in the government accounts with a counter-entry to reflect the use of financial assets or incurrence of a financial liability to finance the transaction. In the national accounts, on the other hand, the recording of the transaction is not complete until entries have also been made to reflect the production of a capital asset and the input in the production process of the asset. The productive activity is shown as output in the national accounts. The input is compensation of employees and the goods and services used in the production process. The values for output and compensation of employees/goods and services can be derived from the government accounts for national accounts purposes, but are not directly shown in the financial statements of government. This implies that the values of compensation of employees and goods and services in the government accounts differ from compensation of employees and goods and services payable by government in the national accounts.

Indeed, the government accounts are different in many ways from the national accounts framework, which provides the foundation for the statistics presented in Chapter 2. In addition, as discussed above, the government accounts used in South Africa differ from the government accounts drawn up in the GFS. The most important differences are highlighted in Table W2.2 below:

Table W2.2 Differences between South African reporting format and government statistics in the 1993 SNA and 2001 GFS

Difference	Budget data	GFS	SNA
Basis of reporting	Mainly cash basis; i.e. mainly cash transactions are included in the account. Thus, estimates for consumption of fixed capital and remuneration-in-kind are not included in the account. In addition, the time of recording reflects the cash flow.	Accrual basis; i.e. including all non-cash transactions, for example remuneration-in-kind and consumption of fixed capital, In addition, the time of recording reflects the underlying economic event, not the cash flow.	Accrual.
	For example, goods and services are recorded when they are purchased.	For example, goods and services are recorded when they are used in the production process, not when they are purchased.	
Compensation of employees	Does not include compensation of employees paid out to government employees who are engaged in government own-account construction in association with a capital project	Does not include compensation of employees payable to government employees who are engaged in government own-account construction in association with a capital project.	Includes compensation of employees payable to government employees, who are engaged in government own-account construction in association with a capital project.
Goods and services	Does not include purchases of goods and services used in connection with a capital project within the context of government own-account construction.	Does not include the value of goods and services used in connection with a capital project within the context of government own-account construction.	Includes the value of goods and services used in connection with a capital project within the context of government own-account construction.
Sales by government	This item is explicitly shown in the government accounts.	This item is explicitly shown in the government accounts.	This item is not shown anywhere in the national accounts. Instead it is used to estimate final consumption by government.
Output, final consumption, savings, disposable income	These variables are not explicitly shown in the government accounts, but the account can be used as a framework to derive values for them.	These variables are not explicitly shown in the government accounts, but the accounts can be used as a framework to derive values for them.	These variables are explicitly shown in the accounts. Estimates for these variables have been made from data in the government accounts.