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SPENDING CHOICES
IN BUDGET 2022

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List of Abbreviations

CIT	Consumer Income Tax
COVID SRD	COVID Social Relief of Distress grant
CPI	Consumer Price Index
GEAR	Growth, Employment and Redistribution macroeconomic strategy
LTSM	Learning and Teaching Support Material
MTEF	Medium-Term Expenditure Framework
NHI	National Health Insurance
NSF	National Skills Fund
NSFAS	National Students Financial Aid Scheme
PEPs	Public Employment Programmes
RAF	Road Accident Fund
SASSA	South African Social Security Agency
SETAs	Sector Education and Training Authority
SOC	State-owned Companies
TCTA	Trans-Caledon Tunnel Authority
TVET	Technical and Vocational Education and Training
UIF	Unemployment Insurance Fund

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Public Economy Project | July 2022

Introduction

In a democratic society, public deliberation informs the allocation of public resources, and citizens have an opportunity to engage with and comment on the budget every year. The budget is a process of political decision-making and, unsurprisingly, the debate is often marked by polemics founded on ideological differences. South Africa is a world leader in budget transparency, and a wealth of budget data is publicly available. Nevertheless, although government is transparent with numbers, the narrative built around these numbers and their presentation are inevitably partial, while the capacity of legislatures and civil society to analyse and engage with budget data is limited.

This report aims to raise the quality of debate by offering an independent appraisal of expenditure choices implied by the budget numbers. It presents National Treasury budget data in a form that is accessible and policy relevant.[1] The analysis may not be uncontroversial or "neutral" but is balanced and grounded in evidence.

The report considers the main trends in planned expenditure tabled in the 2022 budget and their implications for public services. Its first premise is that the Medium-Term Expenditure Framework (MTEF) reflects government's real policy and resource-allocation intentions for the years ahead. The budget forces government to show citizens the choices it is making about the provision of services and public investments. Every year, the budget gives concrete numerical form to policy goals. The quantitative nature of budget choices means that, in contrast to other forms of policy expression, trade-offs between different policy goals are made clear and explicit. These spending choices, and how they are financed, have direct consequences for the welfare of citizens and the distribution of income.

Its second premise is that public deliberation does influence budget choices, and this process can be strengthened by building a shared base of evidence. Changing budget allocations is often a slow and incremental process. Government has made commitments to pay salaries and honour contracts in past budgets, and these expenditure obligations cannot be changed overnight – and even if they could be, building the operational capacities needed to implement new spending programmes takes time. However, the budget is not a *fait accompli*. Public choices *can* alter the composition of spending if these choices are applied consistently over time.

The report's focus is spending allocated through the national budget.[2] Other elements of public spending (such as the state-owned companies, the budgets of metropolitan municipalities and spending financed by rates, levies or user charges) are mentioned where relevant. Tax policy is dealt with in passing but future reports aim to tackle the revenue side of the budget directly. After discussing the fiscal context for expenditure choices, the report analyses the aggregate resource allocation and choices implied by the budget estimates and then considers expenditure trends in each major policy area: healthcare, education, social protection, criminal justice and defence, economic policy and community development.

Fiscal Context

Fiscal policy can contribute towards growth and development, by ensuring the sustainable provision of the public services required for national development and offsetting shocks to aggregate demand or livelihoods. However, South Africa's fiscal position is a major constraint on growth, and doubts about the solvency of the sovereign

[1] National Treasury presents budget data in several ways. For instance, the policy intent of spending (or function group) is presented in terms of government's own budget groups (which align well with South Africa's Constitution and policy framework) and separately in term of the standardised categories required for international reporting (i.e., International Monetary Fund's Government Financial Statistics manual). Various budget aggregates are also used in the budget documents, and this report draws on these where appropriate to analyse policy depending on the setting. For instance, "compensation of employees" in the basic education sector only makes sense if drawn from the "consolidated budget", as the "main budget" includes provincial spending on compensation as part of a transfer, not as compensation of employees. On the other hand, the compensation aggregate that best reflects spending on public service employment is drawn from "consolidated national, provincial and social security funds" which leaves out public entities, whose employees are not on government's payroll. Where appropriate these sources are made clear in the notes to tables and figures, and any departure from National Treasury definitions in the budget are indicated.

[2] The annual deliberation on expenditure choices primarily concerns spending that is financed out of national government taxes and borrowing, which is also allocated to national departments, and provincial and local government through an appropriation in the National Assembly.

(combined with binding electricity supply constraints on growth) severely limit the potential impact of policies to stimulate aggregate demand. Fiscal risks underscore deep uncertainty about the sustainability of South African democracy, which leads to an elevated sovereign risk premium, while high and rising long-term interest rates choke off domestic investment. The chronic fiscal squeeze, imposed by rising debt-service costs, implies continued deterioration in the resources available to provide public services, such as basic education, healthcare and criminal justice. As these public services weaken, so does the foundation for sustained economic growth.

Over the past decade, South Africa's fiscal policy has sought to stabilise the increase in public debt by containing spending withing a nominal expenditure ceiling.[3] But economic stagnation, slowing tax revenues and increasing spending pressures have made the goal of debt stabilisation elusive. Government's fiscal programme – announced and revised in annual budgets – has typically assumed that South Africa's economy would turn the corner and rebound in the years ahead. This justified a backloading of fiscal adjustment, in the hope that the pain of expenditure cuts could be eased, as growth and revenue buoyancy take up the slack. However, for more than a decade, the medium-term growth outlook has disappointed, and the burden of debt has continued to rise.

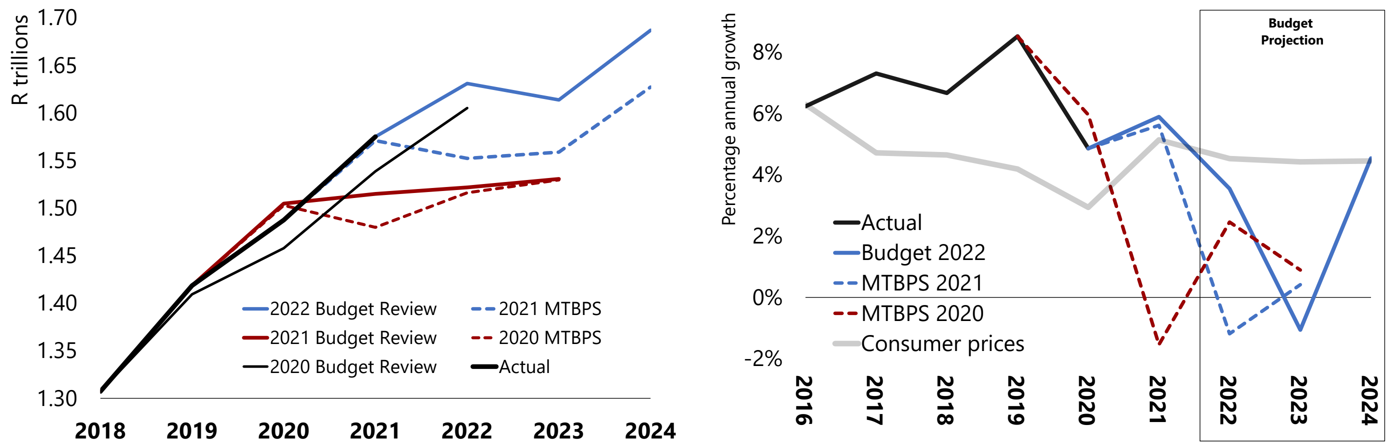
Just prior to the coronavirus pandemic, the National Treasury lowered its projections of medium-term growth, and the budget tabled in February 2020 represented a significant shift in fiscal strategy with, for the first time, a large *frontloaded* fiscal consolidation. The budget aimed to freeze public-service wages and curtail government consumption in the first year of the plan, which would be followed by a permanently lower trajectory of spending growth. However, in the context of the coronavirus pandemic, spending was R30 billion above the 2020 budget ceiling and an estimated R60 billion above the 2021 budget ceiling. For 2022, the ceiling has been increased by R109 billion compared to previous year's budget, as shown in Figure 1. This temporary fiscal support may well have been warranted in the aftermath of the pandemic, but the result has been serial postponement of fiscal consolidation and significant additions to government's permanent spending commitments.

As can be seen in Figure 1, National Treasury now envisages that nominal spending will sharply contract in 2023. This includes a contraction in spending on compensation of employees (see Figure 2). Yet the same budget allocates tens of billions of rands in 2022 to accommodate above-inflation salary improvements for 2021. The growth rate of compensation budgets *has* been contained in recent years. In 2020, wage bill growth for national and provincial government was just 1.7%, as a result of government's unilateral withdrawal from collective agreements. But the wage bill grew by 4.4% in 2021, and this year's budget added R40 billion over the medium-term to offset wage bill pressures in healthcare and basic education. Yet compensation spending is estimated to grow (in nominal terms) at 2.4% in 2022 and -1.6% in 2023.

[3] The spending ceiling is a nominal total set for each of the three forward planning years of the MTEF. It is defined as main budget non-interest expenditure excluding payments directly financed by dedicated revenue sources and others not subject to policy oversight. These exclusions include payments for financial assets financed by asset sales in the same financial year, payment transactions linked to the management of debt and direct charges related to specific payments made in terms of legislation that provides for the collection and transfer of such receipts outside of the main budget, including the skills development levy contributions.

Figure 1: Expenditure ceilings in successive budgets

(a) Spending ceiling (nominal rand amount) | (b) Nominal growth rate (% change)

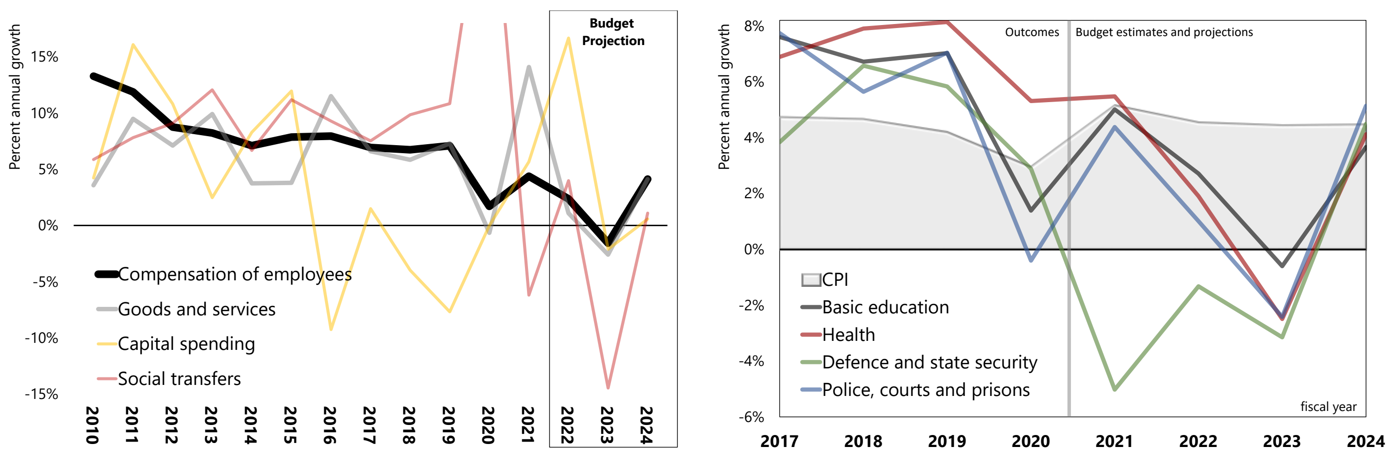


Source: National Treasury budget data; Public Economy Project calculations

This approach – adding resources in the current year while assuming they will be withdrawn next year – is not limited to the wage bill. The budget added R32 billion to finance free higher education but assumes this pressure will abate or be funded within the higher education department's existing budget. It allocates R44 billion to extend the COVID Social Relief of Distress (SRD) grant for a third year but made no allocation for 2023 and beyond. Similarly, the Presidential employment stimulus is extended to for two years, to the tune of R18.4 billion, but has no budget in the third year. These new programmes are presented in the budget narrative as temporary (with no funding provided over the medium term) it is almost certain that these new programmes will entail a structural increase in spending. Every element of government expenditure – compensation, goods and services, capital spending and social transfers – is expected to contract significantly next year (Figure 2).

Figure 2: Nominal growth rate of spending

(a) Components of spending | (b) Compensation of employees (selected departments)

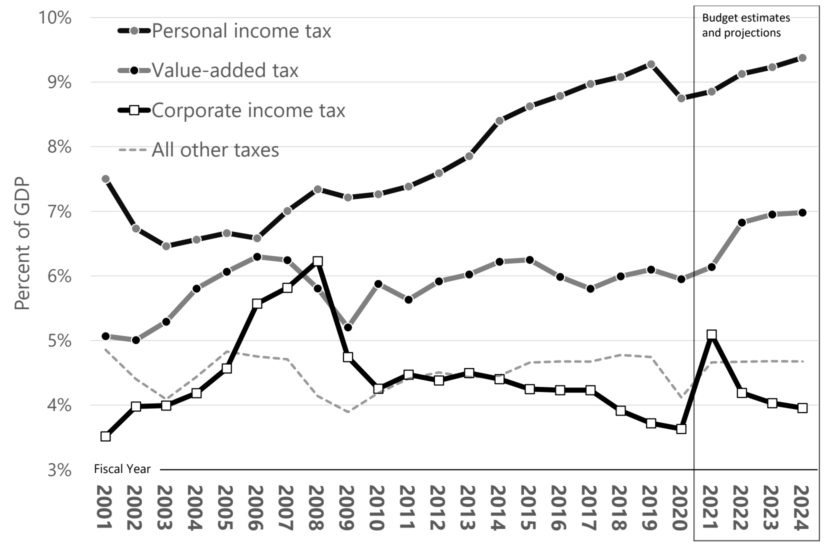


Source: National Treasury budget data; Public Economy Project calculations

Notes: Panel (a) shows data for consolidated national, provincial and social security funds, while panel (b) is based on consolidated spending; Social transfers are transfers to households/social benefits.

As each budget has accommodated existing spending pressures and added new programmes, the claim that expenditures will be decisively curtailed in future has lost credibility. Additions to spending in the current year make next year's consolidation more difficult to achieve. Looking backwards, the government has been raising the expenditure ceiling by large amounts as a matter of necessity. Yet it claims that, going forward, expenditure will be cut deeply. A similar inconsistency is apparent in tax policy. The Budget Review clearly signals the need to raise taxes in the future to accommodate structural increases in spending and to put a price on carbon emissions (National Treasury, 2022b: 42; 47). However, the budget announced a reduction in the headline rate of corporate income tax (CIT), full relief for fiscal drag on personal income tax, an expansion of the employment tax incentive and (for the first time ever) no adjustment to fuel levies.

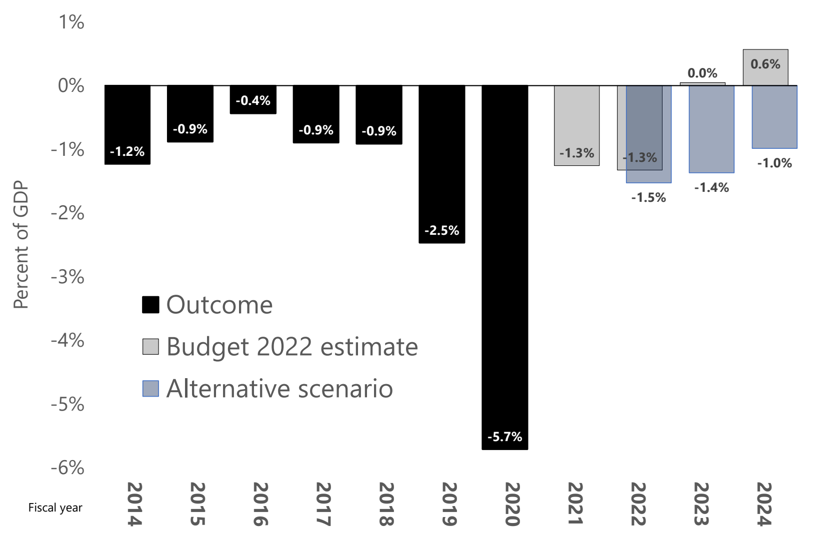
Figure 3: Sources of tax revenue



Source: National Treasury budget data; Public Economy Project calculations

National Treasury has little confidence that the current boom in CIT revenue will be sustained. The trajectory of CIT since the global crisis of 2008 supports this scepticism (Figure 3). However, the external shock arising in the wake of the Ukraine crisis has profoundly regressive consequences, while it lasts. The boom in commodity prices implies a substantial positive income shock for large corporates, banks and the most affluent households. This is a temporary windfall that has little to do with economic contributions and does little to expand production, especially if the proceeds are consumed. Meanwhile, poor households are most affected by the energy and food price shocks. If implemented, the contraction in government spending next year will have further regressive consequences and slow the pace of economic recovery. However, instead of taking the opportunity to signal a sharing of the burden of fiscal consolidation, the budget's tax measures seek to ease the tax burden on corporate monopolies, affluent households and fossil fuels.

Figure 4: Primary balance: Budget projections and alternate scenario



Source: National Treasury budget data; Public Economy Project calculations

Notes: The primary balance is main budget revenue less non-interest expenditure as a share of GDP. The alternative scenario maintains all the assumptions in budget 2022, except: (a) Compensation of national and provincial government grows by CPI (b) COVID-SRD grant is maintained and grows by CPI (c) Presidential employment stimulus continues and grows by CPI.

The spending cuts in 2023 are aimed at closing the primary deficit (the budget deficit excluding interest payments) in order to stabilise the debt-to-GDP ratio. However, if more realistic assumptions are made about the spending path the planned primary surplus disappears. Figure 4 shows the trajectory of the primary balance if we assume that compensation of employees, the COVID SRD grant, and the Presidential employment stimulus all grow by the consumer price index (CPI) in 2023 and 2024 (all other assumptions in the fiscal framework are maintained). The result is a primary balance that is higher than prior to the pandemic, which implies rising debt and accelerating debt payments.

Medium-Term Expenditure Choices

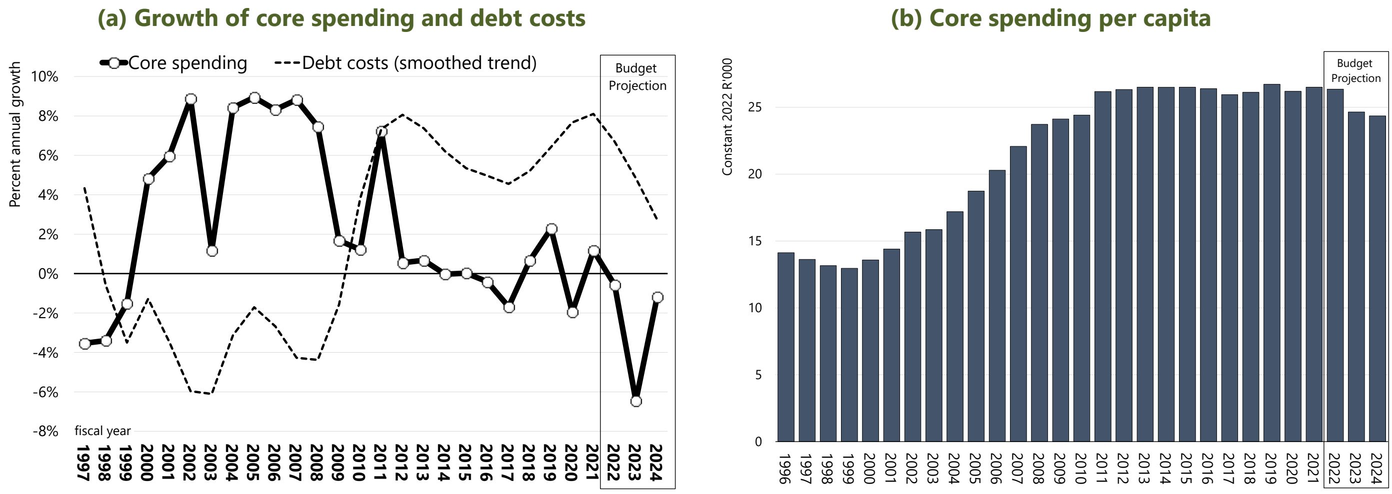
Given the size of the budget and ongoing spending obligations, it takes a long time to steer the budget ship towards new policy priorities. Therefore, it is important to look at expenditure trends over the medium term in order to get a sense of the choices reflected in budget numbers. The impact of policy choices is considered through the overall budget envelope, the allocation to various policy objectives, the purchase of inputs to implement these objectives, and the allocation of funds to departments that must execute policies across national, provincial and local government.

The first clear policy choice is to **reduce spending significantly.** The budget proposes to cut real spending per capita by 8.2% between 2020 and 2024. Despite scepticism about this intention being carried out, the rest of this report takes the budget's proposals as given and assumes they are fully implemented. The proposed cuts are similar in size to those made during the period of GEAR in the early 1990s.[4] Unlike GEAR, these cuts are strongly concentrated in a single year. The new round of cuts also comes after a decade in which spending has stagnated, as shown in Figure 5.

The second policy choice concerns **allocations to various policy objectives**. Figure 6 gives a sense of how the budget is prioritised over the next three years. Basic education is set to receive the largest policy allocation (of an annual average of nearly R300 billion), followed by social protection and healthcare, which (like education) feature strongly in the constitutional imperative to provide resources to socioeconomic rights. The largest expenditure item, however, is debt-service costs, at R333 billion per year on average, but this claim on public resources arises from past fiscal policy choices and does not contribute to any policy priority. In effect, it is a redistribution of resources from taxpayers to government's creditors. If the policy of fiscal consolidation were to be eased, debt service costs would be higher.

Medium-term growth rates illustrate how government intends distributing the burden of consolidation. Figure 7 shows average annual growth rates of spending from before the coronavirus pandemic (2019) to the outer year of the MTEF (2024). When these growth rates are lower than consumer inflation, the budget is being cut in real terms.

Figure 5: Real spending per capita



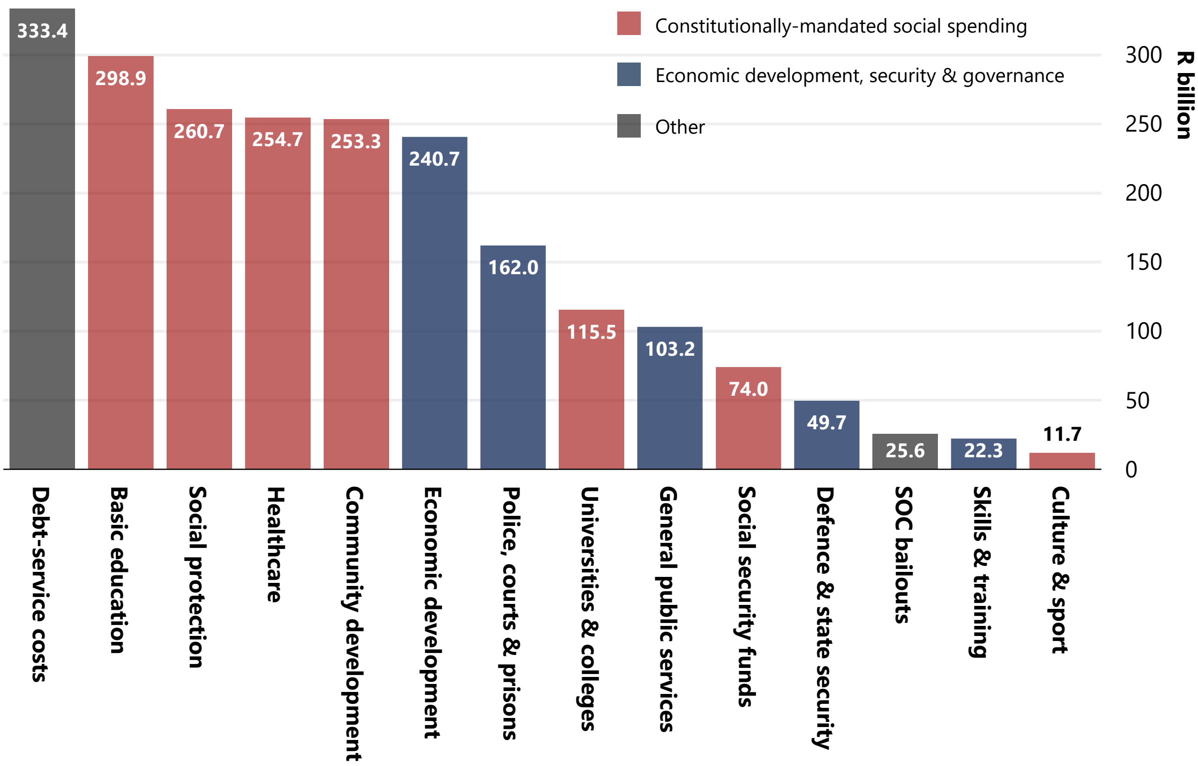
Sources: Public Economy Project calculations using National Treasury budget data and StatsSA data on population and consumer price inflation

Notes: "Core spending" is main budget non-interest expenditure excluding payments for financial assets, skills development levy and fuel levy sharing with metros.

[4] GEAR refers to the "Growth, Employment and Redistribution", government's economic and fiscal programme executed from 1996.

Figure 6: Spending by policy function

Annual average 2022–2024, consolidated budget



Source: National Treasury budget data; Public Economy Project calculations

Note: Note: "Policy functions" differs from National Treasury's "budget groups". Here, home affairs is included in the General Public Services function (security cluster in treasury documents); Skills levy contributions are separated from universities and TVET colleges; SOC bailouts reflects amounts defined by Treasury as "payments for financial assets".

In sum, the growth rates in Figure 7 show that:

- Community development is the only element whose resource envelope will grow faster than inflation. Every other policy function faces real spending cuts over the next three years.
- Community development, universities and economic development absorb a rising share of spending, as they grow faster than the average.
- Healthcare, social protection and basic education will see significant declines in real resource allocation and will be reduced as a share of the budget.
- The criminal justice system and defence will see very large declines in real resource allocation. In 2024, the defence and state security budget will be about R22 million less than the budget for 2019.

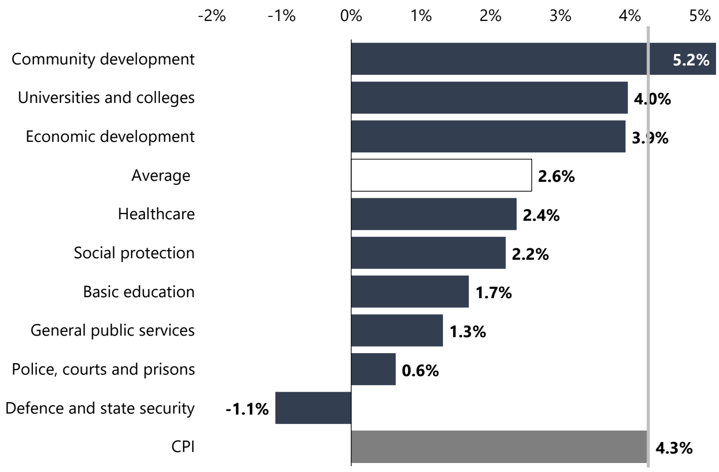
Figure 7 does not show the growth in debt-service costs, but Figure 5 shows how core spending has been cut to accommodate interest costs. Already the largest share of spending, debt-service costs will grow by on average more than 12% each year over the medium term.

Choices about how to allocate spending also involve deciding **which inputs must be purchased**, such as compensation of employees, goods and services, capital investments and transfers to households. Government aims to target "consumption", which is employee compensation and goods and services. These inputs dominate the provision of basic education, healthcare, criminal justice and defence. The growth rate of employee compensation has been falling since 2008, when it peaked with the introduction of occupation-specific dispensations. Compensation growth was particularly low in 2020 and 2021 and is planned to fall in nominal terms in 2023 (see Figure 2), with goods and services growth following a similar pattern. Capital spending has been contracting for several years but is expected to surge in 2022 and then to be cut in 2023, like the other elements of spending in the budget.

Spending on social transfers to households is the most volatile element in Figure 2. In 2020, spending on social transfers surged by 34% due to the introduction of the COVID SRD grant and special COVID-related payments by the Unemployment Insurance Fund (UIF), but fell in 2021, when the UIF support was withdrawn. The fiscal consolidation planned for 2023 assumes the withdrawal of the COVID SRD grant, which will lead to a further large reduction in social grant spending. In sum, fiscal consolidation in 2023 relies on a simultaneous contraction of spending on compensation, goods and services, capital and social grants. This across-the-board contraction is likely to be disruptive to service provision and to impose a negative fiscal impulse on economic growth.

Figure 7: Spending growth by policy function

Annual average compound growth 2019–2024



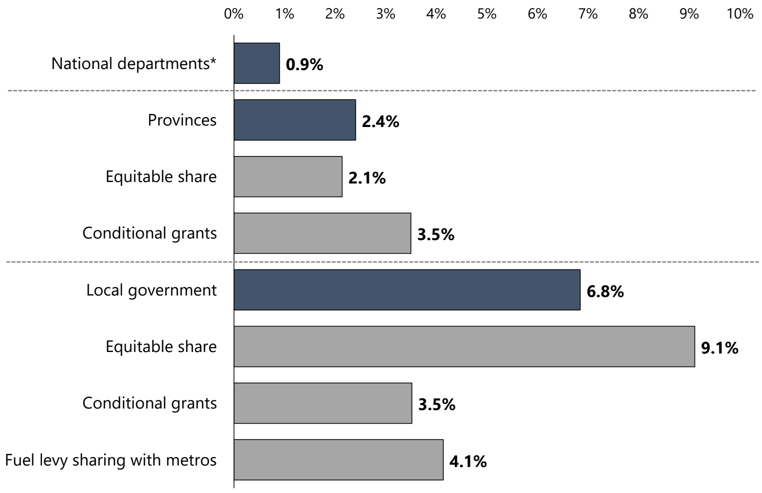
Source: *National Treasury budget data; Public Economy Project calculations*

Lastly, choices are made about **allocating budgets to different spheres of government.** Education and healthcare are funded from provincial budgets; criminal justice, defence and social protection are national functions, while community development is largely delivered by local government. The Budget Review shows that national departments face the largest burden of real cuts, with planned annual expenditure growth of just 1.1% over the next three years.[5] The provincial equitable share, which mainly funds education and healthcare, will grow by only 1% per year, while conditional grants will grow more strongly, reflecting the fact that many of these grants support capital and investment activities. The fastest-growing element is the local equitable share, which is an unconditional grant aimed at subsidising free basic services for poor households.

Over the last decade, funding for local government has grown faster than for the other spheres of government, and yet the fiscal, operational and governance crisis of local government continues to intensify. Municipalities increasingly use the local equitable share for purposes other than subsidising free basic services and are increasingly reliant on grants from national government to finance operations, maintenance and especially infrastructure investment. They are owed consumer debt of R261.5 billion and have hardly improved their ability to collect service charges and rates from those who can afford to pay (National Treasury, 2022a). Furthermore, local government spending on employee compensation has grown significantly faster than in any other sphere of government and, to accommodate this, local government has curtailed spending on the maintenance of its asset base (Sachs, 2021).

Figure 8: Spending growth by sphere of government

Annual average compound growth 2019–2024



Source: National Treasury budget data; Public Economy Project calculations

* Excludes interest payments and bailouts to state-owned companies

In this context, it is not at all clear that increasing the local equitable share is the best use of limited resources, especially when core government services such as healthcare, basic education and policing face deep cuts to real spending.

[5] This excludes bailouts for state owned companies, particularly ESKOM, and reflects only the resources allocated to national government departments.

Table 1: Allocations to policy objective

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
Basic education	230.8	245.5	261.3	269.0	284.3	298.1	297.3	301.3	17.1%	4.5%	2.9%	3.5%
Social protection	178.7	190.5	220.9	250.9	258.9	280.2	244.7	257.2	14.9%	8.2%	3.1%	5.1%
Healthcare	192.5	207.6	222.7	247.1	256.2	259.0	247.6	257.5	14.8%	5.2%	2.9%	3.7%
Community development	184.5	189.6	196.0	203.2	213.6	237.7	253.7	268.3	13.6%	6.6%	6.5%	6.0%
Economic development	177.5	185.6	185.2	173.3	201.1	227.3	237.7	257.3	12.8%	7.1%	6.8%	5.6%
Police and criminal justice	136.9	143.1	152.0	150.5	158.2	161.0	158.6	166.5	9.5%	1.9%	1.8%	2.6%
General public services	71.4	84.3	135.6	158.1	156.5	104.5	101.8	103.1	7.4%	-8.3%	-5.3%	3.4%
Universities and colleges	57.5	76.2	89.5	90.7	107.0	110.9	114.7	121.0	6.2%	7.4%	6.2%	8.0%
Defence and state security	49.1	48.2	50.3	54.0	49.0	50.0	48.9	50.3	3.1%	-0.2%	0.0%	0.7%
Arts, culture, sport and recreation	9.8	10.3	10.4	9.0	11.2	11.8	11.7	11.7	0.7%	4.3%	2.3%	2.1%
Total: Consolidated core spending	**1 288.7**	**1 381.1**	**1 524.1**	**1 605.8**	**1 696.0**	**1 740.6**	**1 716.6**	**1 794.1**	**100.0%**	**4.5%**	**3.3%**	**4.5%**
Non-core spending												
Contingency reserve					-	10.0	5.0	5.0				
Skills levy institutions [SETAS and NSF)	16.3	17.5	18.3	12.4	18.9	20.6	22.3	24.1				
Social security funds (UIF, RAF, CF)	53.7	62.1	59.9	113.3	93.8	84.2	72.9	65.0				
Payments for financial assets	20.3	15.7	65.9	91.1	74.6	27.2	24.7	25.0				
Debt-service costs (interest on debt)	162.6	181.8	204.8	232.6	268.3	301.8	335.0	363.5				
Consolidated expenditure	**1 541.7**	**1 658.3**	**1 873.0**	**2 055.1**	**2 151.6**	**2 184.4**	**2 176.6**	**2 276.8**				

Table 2: Spending by use of funds

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
Compensation of employees	494.6	528.0	565.2	574.9	600.1	614.2	604.5	629.4	29.9%	2.8%	2.2%	3.5%
Goods and services	181.4	191.4	206.0	204.7	233.5	236.1	230.0	239.4	11.3%	4.6%	3.1%	4.0%
Capital	50.7	48.8	44.9	44.9	47.5	55.4	54.2	54.5	2.5%	7.2%	3.9%	1.0%
Transfers to: Local govt	118.3	126.3	131.7	145.6	144.3	159.4	168.9	179.0	7.8%	6.6%	6.3%	6.1%
Households (mainly grants)	234.6	254.2	278.2	358.3	344.7	357.7	312.2	316.0	16.4%	8.7%	2.6%	4.3%
Agencies & companies	146.4	162.0	180.0	171.8	196.2	209.8	221.8	233.8	10.1%	5.2%	5.4%	6.9%
Other	71.0	83.0	92.9	99.2	101.0	110.0	112.6	110.3	5.2%	5.8%	3.5%	6.5%
Interest and rent	163.1	182.4	205.3	233.0	268.6	302.1	335.3	363.9	14.3%	13.8%	12.1%	12.1%
Financial payments	19.3	14.8	65.1	89.9	73.4	25.6	22.9	22.9	2.5%	-26.7%	-18.9%	2.4%
Total: National, provincial and SSFs	**1 479.4**	**1 590.9**	**1 769.4**	**1 922.3**	**2 009.3**	**2 070.4**	**2 062.4**	**2 149.2**	**100.0%**	**5.4%**	**4.0%**	**5.5%**
Elements excluded from total												
Contingency reserve	-	-	-	-	-	10.0	5.0	5.0				
Unallocated reserves							25.0	30.0				
Consolidated national, provincial and SSFs	**1 479.4**	**1 590.9**	**1 769.4**	**1 922.3**	**2 009.3**	**2 080.4**	**2 092.4**	**2 184.2**				

Table 3: Allocations to spheres of government

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
National departments	**592.6**	**634.3**	**749.7**	**804.5**	**763.3**	**736.3**	**739.0**	**739.0**	48.1%	-0.6%	-0.3%	3.2%
Financial payments*	19.3	14.8	65.1	89.9	73.4	25.6	22.9	22.9	3.2%	-26.7%	-18.9%	2.4%
National excluding financial payments*	573.3	619.5	684.6	714.6	689.9	710.6	716.0	716.1	44.9%	1.3%	0.9%	3.2%
Provinces	**542.4**	**575.8**	**616.4**	**631.9**	**665.2**	**687.2**	**671.9**	**694.2**	42.1%	3.7%	2.4%	3.6%
Equitable share	441.3	470.3	505.6	520.7	544.8	560.8	543.1	562.0	34.4%	3.5%	2.1%	3.5%
Conditional grants	97.2	101.7	107.9	108.1	116.4	121.8	124.2	128.1	7.5%	4.1%	3.5%	4.0%
Indirect transfers**	3.8	3.9	2.9	3.1	4.0	4.6	4.6	4.0	0.2%	16.4%	6.5%	0.7%
Local government	**118.9**	**124.8**	**128.6**	**141.2**	**140.2**	**158.7**	**169.0**	**179.0**	9.7%	7.3%	6.8%	6.0%
Equitable share	55.6	60.8	65.6	83.1	75.7	87.3	94.1	101.5	5.4%	10.0%	9.1%	9.0%
Conditional grants	43.7	45.3	44.2	40.0	45.0	48.0	51.0	52.5	3.0%	2.8%	3.5%	2.7%
General fuel levy sharing with metros	11.8	12.5	13.2	14.0	14.6	15.3	15.4	16.1	0.9%	5.2%	4.1%	4.6%
Indirect transfers**	7.8	6.3	5.6	4.1	4.9	8.1	8.5	8.9	0.4%	13.1%	9.8%	1.8%
Total: Main budget allocations	**1 253.9**	**1 335.0**	**1 494.6**	**1 577.5**	**1 568.7**	**1 582.1**	**1 579.8**	**1 612.2**	**100.0%**	**1.9%**	**1.5%**	**3.7%**
Elements excluded from total												
Contingency reserve						10.0	5.0	5.0				
Not assigned to votes							25.0	30.0				
Debt-service costs	162.6	181.8	204.8	232.6	268.3	301.8	335.0	363.5				
Main budget expenditure	**1 416.6**	**1 516.8**	**1 699.4**	**1 810.1**	**1 837.0**	**1 893.9**	**1 944.8**	**2 010.7**				

* Financial payments are mainly transfers to state owned companies. They are called "payments for financial assets" in the National Treasury budget data

** Indirect transfers are on the budget of national departments

Source: National Treasury budget data; Public Economy Project calculations

Abbreviations: ST: Short term (2019–2022), MT: Medium term (2019-2024) LT: Long term (2017–2024) SSF: Social security fund, SETAs: Sector Education and Training Authorities, NSF: National Skills Fund, UIF: Unemployment Insurance Fund, RAF: Road Accident Fund, CF: Competition Fund

Healthcare

The coronavirus pandemic led to a dramatic fall in the use of healthcare services, generating backlogs in the provision of services and extending waiting lists for critical medical interventions.[6] As the system normalises, next year’s large budget reductions will surely add to pressure on services, but government has not tabled a clear plan to respond to this outcome.

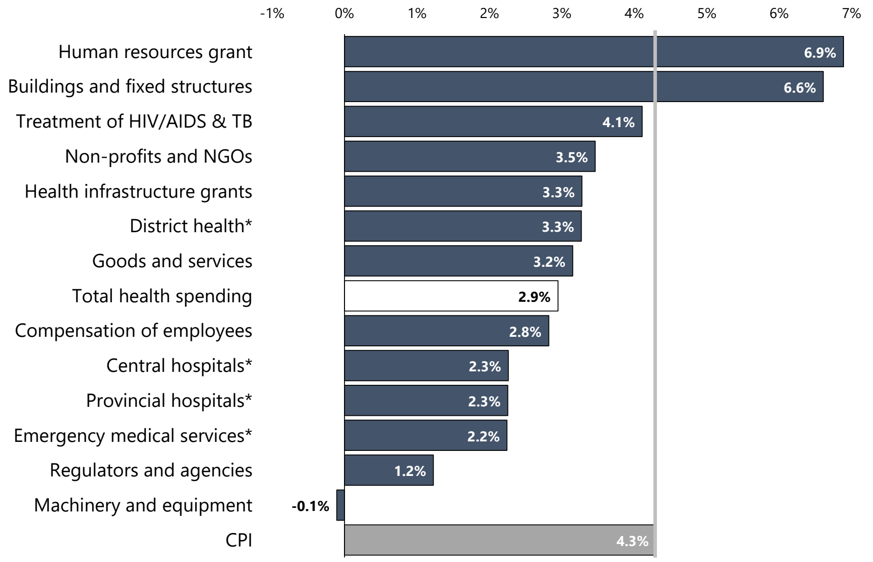
Yet the healthcare system faces a large resource shock as it recovers from the pandemic. Over the medium term, spending is planned to grow at around 3% per year, far below CPI estimates, which implies a significant cut in real spending. For the last decade, health budgets have faced chronic spending pressures, and resources have been insufficient to cover medicines and other essential consumables. This has resulted in large hidden deficits in the form of accrued liabilities, which now amount to 20% of spending on goods and services in provincial health departments. Meanwhile, medico-legal claims (which are never budgeted for) absorb a rising share of spending (Blecher et al., 2017; Sachs, 2021). Salaries, maintenance, supplies and other elements of “consumption spending” now face acute real cuts, especially the often-underspent budgets for medical equipment (Figure 9).

The only two elements of the healthcare budget that will grow faster than inflation are training and filling of clinical posts, and buildings and other fixed structures.

Between 2018 and 2022, grants for provinces to train and fill clinical posts almost doubled, from R2.8 billion to R5.4 billion. Additional allocations support the filling of community service posts and medical interns, which are critical for service provision and for student-doctors to complete their training and qualify. However, unless pressures on the compensation budget abate soon (which is doubtful), there is likely to be a lack of posts for clinical interns once they qualify. Furthermore, although the new allocations alleviate pressure in one part of the system (i.e., the training and employment of doctors), the broader health compensation budget is growing far below inflation, at less than 3% over the medium term. This raises the danger of public health sector employment becoming increasingly unbalanced, with doctors being trained and employed, at the expense of lower real remuneration and fewer funded posts for nurses and non-clinical workers. Moreover, as pointed out in a civil society commentary, “an investment in medical interns and community services doctors, which is not balanced by an investment in medical practitioners and specialists to train and supervise them, is a disaster waiting to happen”.[7]

Figure 9: Healthcare spending growth (2019–2024)

Selected items | Average annual nominal growth rate



Source: National Treasury budget data; Public Economy Project calculations

* Based on unaudited in-year estimates of expenditure in 2019 and 2020.

Spending on buildings and other fixed structures is estimated to grow significantly, in line with government’s intention to shift spending from “consumption” to “capital”. While making resources available to revitalise existing facilities is certainly laudable, two caveats are worth mentioning. First, revitalising and extending the number of clinics and hospitals may be a good thing but is not necessarily rational when budgets for healthcare workers, goods, services and medical

[6] Lencoasa et al (2022)

[7] Ibid.

equipment are contracting in real terms. Government will need to avoid the construction of white elephants – shiny new hospitals without staff or X-ray machines. Second, budgets for capital spending in hospitals are often underspent, especially at provincial level. The recent situation at the Charlotte Maxeke hospital illustrates that budget allocations need not be the most important constraint on capital spending. Indeed, these budgets are often underspent, and this suggests that the budgets' estimate that capital spending will grow robustly may turn out to be overly optimistic.

Funding for national programmes to treat HIV/AIDS and TB is set to continue growing, but the broader healthcare system faces an intensification of funding pressure. District health services (which include treatment of communicable diseases, such as HIV/AIDS) will grow faster than other levels of care, but only at 3.2% a year, far below CPI estimates. Spending for provincial and central hospital services are estimated to grow by 1.8% and 1.3% a year respectively. Budgets for emergency medical services will fall in nominal terms over the next three years, in a context where ambulance services in some provinces are already crippled by under-resourcing.[8] Non-profit and non-governmental organisations, which play a vital role in promoting health and delivering services, look set to have their budgets protected, in contrast with social development, which looks set to slash budgets for non-governmental service providers. Departmental agencies and health regulators also face significant cuts to their allocations.

Table 4: Healthcare spending

	Outcomes				Estimate	Budget	Projections		% of total	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024		ST	MT	LT
Consolidated economic classfication												
Compensation of employees	120.8	130.4	141.0	148.5	156.6	159.6	155.6	162.0	62.0%	4.2%	2.8%	4.3%
Goods and services	55.3	59.6	63.6	77.2	81.2	78.9	71.5	74.2	30.0%	7.4%	3.2%	4.3%
Transfers and subsidies	7.0	7.7	7.4	6.5	7.0	7.5	7.7	8.5	3.0%	0.3%	2.8%	2.8%
Buildings and other fixed structures	5.8	6.3	5.6	8.6	5.4	7.6	7.8	7.7	2.9%	10.5%	6.6%	4.3%
Machinery and equipment	3.6	3.5	5.0	6.2	5.9	5.5	4.9	5.0	2.2%	3.2%	-0.1%	4.9%
Consolidated programmes*												
District health services			98.5	106.1	111.9	115.7	111.0	115.7	44.2%	5.5%	3.3%	
Central hospital services			44.1	44.6	47.1	49.4	47.6	49.4	18.9%	3.8%	2.3%	
Provincial hospital services			36.4	37.2	38.8	40.4	39.2	40.7	15.6%	3.6%	2.3%	
Emergency medical services			8.2	7.3	8.7	8.9	8.9	9.2	3.4%	2.4%	2.2%	
Other healthcare spending			35.4	51.9	49.6	44.7	41.0	42.6	17.8%	8.0%	3.7%	
Selected programmes												
HIV/AIDS & TB programme	18.0	20.3	22.4	27.5	28.2	24.6	24.4	25.5	10.2%	3.2%	2.6%	5.1%
Tertiary services grant	11.7	12.4	13.2	14.0	13.7	14.3	14.0	14.7	5.6%	2.8%	2.1%	3.3%
Health infrastructure programme	6.4	6.8	7.2	7.2	7.4	8.3	8.9	8.5	3.2%	4.8%	3.3%	4.2%
Human resources grants**	2.6	2.8	3.8	4.3	4.3	5.4	5.5	5.4	1.9%	12.3%	6.9%	10.7%
District health grants	-	0.2	1.7	6.3	4.3	4.9	2.9	3.1	1.6%	40.9%	11.9%	
NHI programme**	0.6	1.2	0.9	1.0	1.0	1.5	1.5	1.6	0.5%	17.8%	11.5%	14.1%
Regulators and agencies	1.5	1.7	1.8	2.0	1.8	1.9	1.9	1.9		1.1%	1.2%	3.6%
Non-profits	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1%	4.2%	3.5%	4.4%
Consolidated healthcare	**192.6**	**207.6**	**222.7**	**247.1**	**256.2**	**259.0**	**247.6**	**257.5**	**100.0%**	**5.2%**	**2.9%**	**4.2%**

* Consolidated programmes are drawn from tables contained in chapter 5 of the budget review. Outcomes have not been revised following audits and are therefore estimates made at the time of the budget.
** The human resources capacitation grant, provided only 2019 and amounting to R905m is included under human resource grants and subtracted from NHI programme

Source: National Treasury budget data; Public Economy Project calculations

[8] Hancke H. 2022. 'Mpumalanga Emergency Medical Services Are a Failure', Citypress, 13 April 2022.

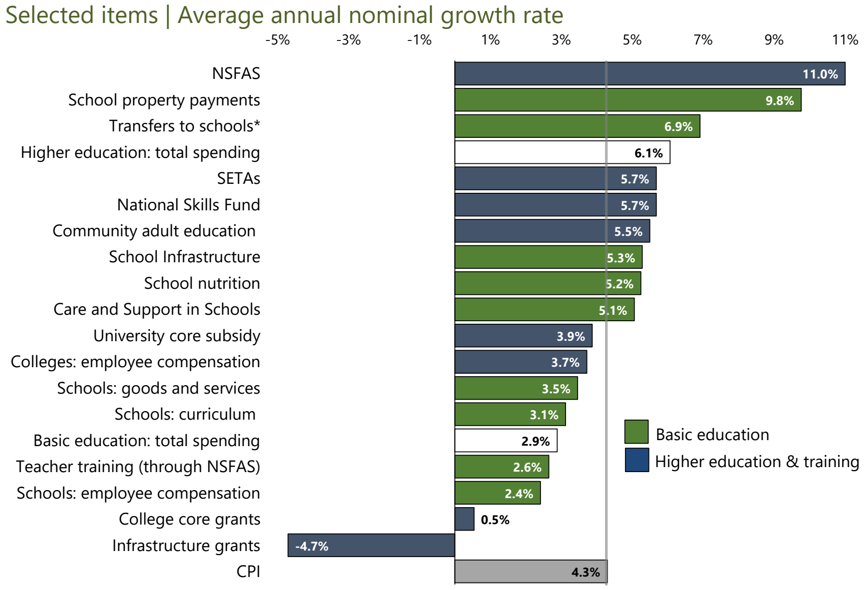
Education

The basic education budget will continue to fall in real terms in the years ahead. National Treasury has clearly and repeatedly warned that this will lead to an erosion of services and have negative consequences for educational outcomes, particularly for the poorest learners (National Treasury, 2021a: 59; 2021b: 42; 2022b: 58). These pressures are likely to be exacerbated by the impact of the coronavirus pandemic. The loss of more than one year of schooling will have to be caught up in the period ahead, but no plan nor clear budget allocation for this is in place (Spaull, 2022).

The 2022 budget added R24.6 billion to ease the budget pressure that several provinces face from their basic education wage bill. This allocation is intended to prevent cashflow crises (i.e., running out of funds to pay teacher salaries) and enable the filling of teaching posts to limit the increase in average class sizes. However, a significant share of these funds will probably go towards higher teacher pay over the next few years, unless government is able to win substantial pay cuts in bargaining with labour currently under way.

Figure 10: Education spending growth (2019–2024)

Selected items | Average annual nominal growth rate



Source: National Treasury budget data; Public Economy Project calculations

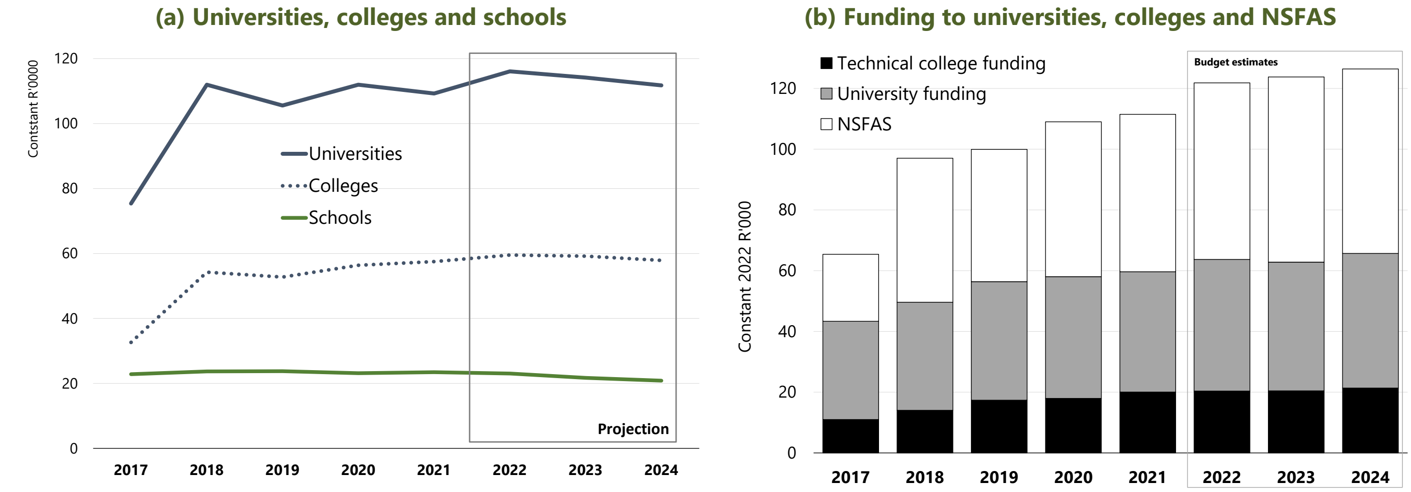
* Excludes provision for teacher assistants

The pressure on school budgets is not confined to salaries. Spending on textbooks and funding for teacher training will both be cut in real terms. The school nutrition programme will struggle to keep pace with food prices, especially given the growth in learner numbers. Although maintaining and servicing school properties is a severe strain on school budgets, cash transfers to school governing bodies – which contribute to operating costs and learner support material – will grow fast enough to accommodate both inflation and reasonable growth in learners.

A large addition to the basic education budget is made to employ teaching assistants as part of the Presidential employment stimulus. The budget assumes that these payments will be terminated in 2024, but this is unlikely. Schools recruit teaching assistants from local youth, helping to alleviate unemployment in the community, whilst also improving learning outcomes. If successful, there will be pressure to extend and expand the programme. Although popular and potentially effective, the teaching assistant programme receives budget support even as learner nutrition, textbooks and school maintenance face austerity measures. In effect, lower skilled employees are being drafted into the education system even while the number of teachers is set to fall, and while teachers are expected to earn significantly less. It is not clear that these trade-offs make sense, and no explanation is provided in the budget documents.

In contrast to the deteriorating budgets for basic education, funding for **higher education** continues to grow apace. Government already allocates around R120,000 rand per university student, but only R20,000 for each school learner (Figure 11). This disparity is set to widen as new resources are channelled into the National Student Financial Aid Scheme (NSFAS), which sees its budget grow fivefold, from R10 billion in 2017 to R52 billion in 2024. However, while direct support for students grows dramatically, core funding for both universities and colleges is being cut in real terms, and grants for higher education infrastructure are dwindling.

Figure 11: Real spending per learner



Source: Public Economy Project based on data from National Treasury (2022a; 2022c)

Notes: In panel (a) NSFAS allocations have been imputed between universities and colleges based on historic allocations and included in the estimate of per learner spending.

The budget assumes that university undergraduate enrolment will continue to grow, largely driven by increases in students funded through NSFAS. Enrolment at TVET colleges is anticipated to fall. The rising number of university undergraduates could face a dwindling resource base as spending for lecturers, infrastructure and operating payments is cut. Figure 11(b) shows the imbalance between NSFAS allocations to students and core funding for universities and technical colleges. Such imbalances may lead to a deterioration in the quality of learning and teaching at higher education institutions, while the ability of universities to sustain research and post-graduate learning is likely to come under pressure.

Table 5: Basic education spending

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
Consolidated economic classfication												
Compensation of employees	178.0	190.0	203.3	206.2	216.5	222.3	221.0	229.1	75.9%	3.0%	2.4%	3.7%
Goods and services	22.5	24.2	26.1	26.4	28.8	30.0	29.5	30.9	10.0%	4.8%	3.5%	4.7%
Transfers to schools**	14.9	16.4	17.6	17.7	17.6	23.5	23.7	24.6	7.3%	10.1%	6.9%	7.4%
Teaching assistants				7.0	6.0	6.2	6.5		1.5%			
New school buildings	11.7	11.0	10.2	7.4	11.0	11.5	11.9	11.6	3.7%	4.0%	2.7%	0.0%
Consolidated programmes*												
Provincial compensation of employees			203.5	206.1	215.8	221.6	220.3	228.4	75.7%	2.9%	2.3%	
Property payments			3.6	3.9	4.0	5.5	5.0	5.7	1.6%	15.0%	9.8%	
Workbooks and LTSM			5.3	5.9	5.3	5.6	5.6	5.7	2.0%	1.9%	1.5%	
Selected programmes												
School Infrastructure	12.3	12.2	12.0	10.9	14.1	14.8	15.2	15.5	4.8%	7.2%	5.3%	3.4%
School nutrition	6.4	6.8	7.2	7.7	8.1	8.5	8.9	9.3	2.9%	5.8%	5.2%	5.4%
Care and Support in Schools	6.7	7.1	7.5	7.9	8.4	8.8	9.2	9.6	3.0%	5.5%	5.1%	5.2%
Teacher training (through NSFAS)	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.4	0.5%	2.8%	2.6%	3.5%
Curriculum and quality enhancement	1.5	1.5	1.5	1.4	1.8	1.7	1.7	1.8	0.6%	3.6%	3.1%	2.8%
Consolidated basic education	**231.0**	**245.5**	**261.3**	**269.0**	**284.3**	**298.1**	**297.3**	**301.3**	**100.0%**	**4.5%**	**2.9%**	**3.9%**

* Consolidated programmes are drawn from tables contained in chapter 5 of the budget review. Outcomes have not been revised following audits and are therefore estimates made at the time of the budget.

** Excludes provision for teacher assistants

Source: National Treasury budget data; Public Economy Project calculations

Table 6: Higher education and training spending

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
NSFAS	**10.1**	**22.1**	**30.8**	**35.1**	**38.6**	**44.4**	**47.9**	**52.0**	33.6%	12.9%	11.0%	26.3%
Student support	10.0	21.8	30.5	34.8	38.2	44.0	47.6	51.6	33.4%	13.0%	11.1%	26.5%
Grant administration	0.2	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3%	3.7%	3.2%	8.4%
University core funding	**31.6**	**36.9**	**42.4**	**43.1**	**43.2**	**47.6**	**47.9**	**49.9**	37.0%	4.0%	3.3%	6.7%
Core subsidy	27.3	32.0	37.0	38.9	39.9	42.4	42.8	44.7	33.2%	4.6%	3.9%	7.3%
New universities and special projects	0.8	1.1	1.3	1.5	1.5	1.6	1.7	1.6	1.3%	7.4%	4.1%	10.0%
Infrastructure grants	3.5	3.8	4.0	2.7	1.8	3.6	3.5	3.5	2.6%	-4.0%	-2.9%	0.0%
TVET colleges core funding	**7.7**	**9.6**	**11.4**	**12.1**	**12.2**	**12.6**	**12.7**	**13.2**	10.0%	3.4%	3.0%	8.0%
Current grants	1.5	3.0	3.9	4.6	4.6	3.9	3.8	4.0	3.3%	-0.1%	0.5%	15.1%
Compensation of employees	6.0	6.4	7.0	6.9	6.9	7.9	8.0	8.4	6.1%	4.3%	3.7%	4.8%
Infrastructure grants	-	1.3	1.1	0.4	0.2	0.9	0.7	0.6	0.5%	-6.0%	-12.8%	
Community adult education	**1.9**	**2.0**	**2.1**	**2.0**	**2.4**	**2.5**	**2.6**	**2.7**	1.9%	6.5%	5.5%	4.8%
Skills development levy	**16.3**	**17.5**	**18.3**	**12.4**	**18.9**	**20.6**	**22.3**	**24.1**	15.8%	4.1%	5.7%	5.8%
SETAs	13.1	14.0	14.6	9.9	15.1	16.5	17.9	19.3	12.6%	4.1%	5.7%	5.7%
National Skills Fund	3.2	3.5	3.7	2.5	3.9	4.2	4.6	4.8	3.2%	4.9%	5.7%	6.0%
Consolidated higher education and traning	**68.6**	**90.3**	**107.1**	**106.1**	**116.8**	**130.1**	**135.6**	**143.7**	**100.0%**	**6.7%**	**6.1%**	**11.2%**

Source: National Treasury budget data; Public Economy Project calculations

Notes: NSFAS: National Student Financial Aid Scheme; TVET: Technical and Vocatinoal Education and Training; SETA: Sector Education and Training Authority

Social protection

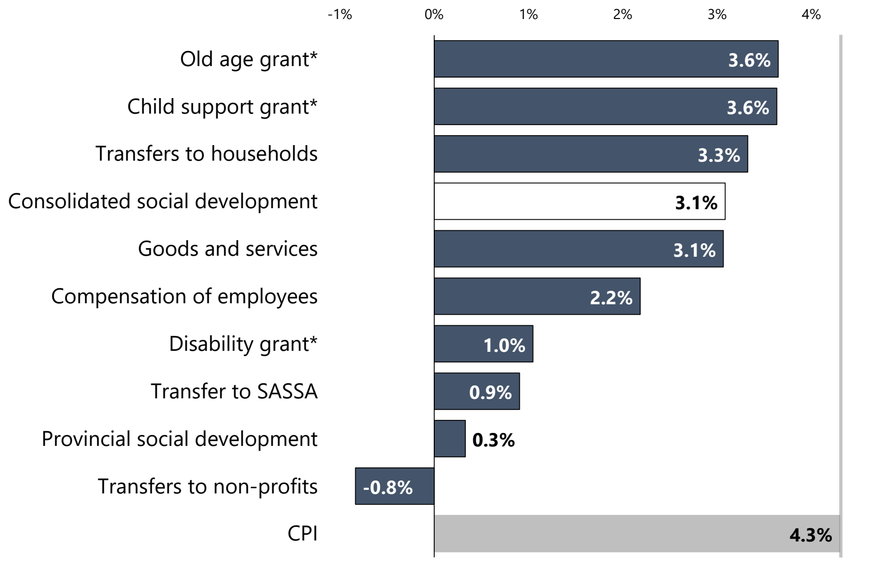
The COVID SRD grant extends the grant system to working-age adults and is widely expected to be a precursor to a permanent income support for poor workers and the unemployed. The monetary value of the grant has not been adjusted for inflation since its introduction at R350 per month in 2020. Between 2020 and 2022, spending on the grant grew from R19.3 billion to R44 billion, but no budget exists for the grant in 2023 or beyond. Until the design of a more permanent arrangement has been concluded, projecting future budget requirements is difficult. If the grant were to grow at the rate of inflation, transfers to households, which is the broadest measure of spending on social grants, would grow at 7.4% over the medium term.

However, apart from the COVID SRD grant, no element of the social protection budget grows faster than inflation over the medium term. Transfers to households increase by only 3.3% per year, well below inflation. The South African Social Security Agency (SASSA), which administrates grants, will face increasing fiscal pressure. In 2017, the SASSA budget was equivalent to nearly 5% of the grants it administrates but will be only 3.5% in 2024 (Table 7) despite the likelihood that its mandate will expand. The budget for provincial social development, which mainly finances the employment of social workers, hardly grows in nominal terms, while allocations to non-profit groups that provide services in the community will be reduced significantly.

The two largest existing grants are the old-age and child support grants. The budget allocated an additional R6.2 billion in 2023 and R8.5 billion in 2024 to bring grant values in line with inflation. However, although monthly grant values outpaced CPI in 2020 (increasing by 4.5% against consumer inflation of only 2.9%), in 2021 they increased by just 1.6% while prices increased by more than 5%. The net result is an erosion of the money-value of grants over the medium-term.

Figure 12: Social protection spending growth (2019–2024)

Selected items | Average annual nominal growth rate



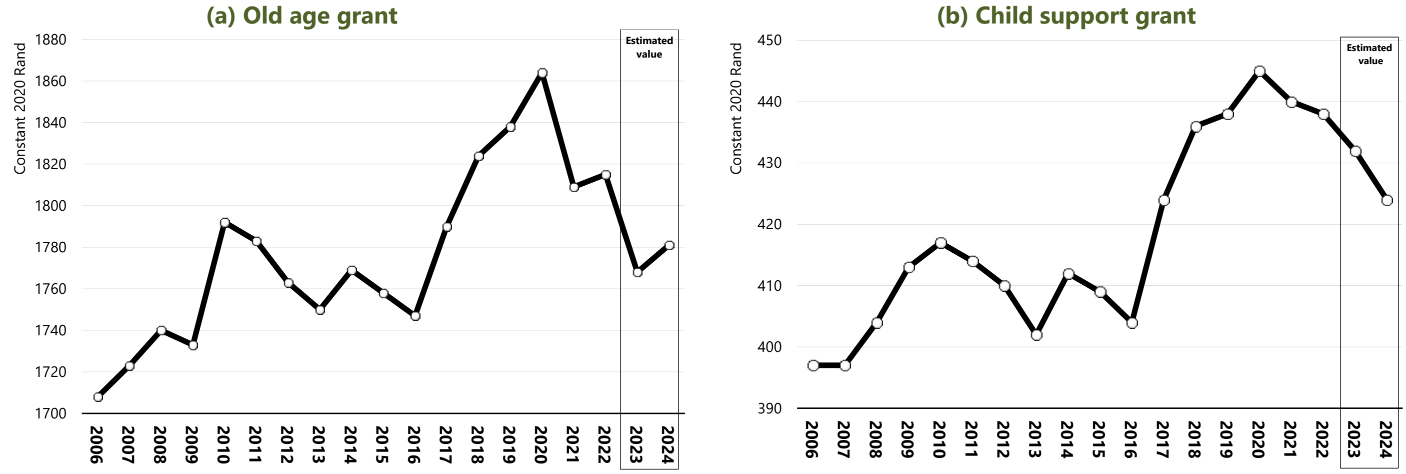
Source: Public Economy Project calculations based on National Treasury Budget 2022 data

*Growth rate of average monthly grant value per recipient.

Figure 13 shows the real purchasing power of the old-age and child support grants. The values shown are deflated with a CPI index that is weighted to reflect the price pressures facing grant recipients. For both grants, the increases of recent years are likely to be substantially reversed over the medium term, which will put pressure on poor households.

Payments by social security funds will also fall dramatically, as the UIF special support unwinds and funding for the Road Accident Fund (RAF) is reduced. National Treasury estimates that the UIF's accumulated surplus will be restored to R133 billion by 2024. The justification for continuing to hold such a large reserve in the public sector at a time of economic hardship and stagnation remains unclear, but these choices fall outside the ambit of the national budget and are constrained by social accords between business and labour. The RAF faces a liability of about R400 billion, which grows by about R45 billion each year and will increase further following the Minister of Finance's post-budget decision to waive fuel taxes to reduce the petrol price by R1.50. This decision will lengthen the queue of road accident victims suffering financial stress, as the RAF will have less funding to make available. Like the UIF, the RAF falls outside the direct budget process, but government has been dithering on reform for decades while the liability grows.

Figure 13: Real value of social grants



Source: Public Economy Project, based on National Treasury data and StatisticsSA CPI

Note: Grant values are deflated using a weighted average of CPI for household expenditure deciles, based on StatSA measures, weighted by the expenditure decile of grant recipients.

Table 7: Social protection and social security spending

	Outcomes				Estimate	Budget	Projections			Annual growth rates		
R billion	2017	2018	2019	2020	2021	2022	2023	2024	% of total	ST	MT	LT
Total spending (R billions)												
Child support	55.8	60.6	70.7	85.6	73.3	77.2	80.7	84.3	31.2%	3.0%	3.6%	6.1%
Old age	64.1	70.5	83.5	81.0	86.5	92.1	95.1	102.4	35.7%	3.3%	4.2%	6.9%
Disability	20.9	22.0	25.1	23.0	23.6	24.7	26.8	27.0	9.9%	-0.5%	1.5%	3.7%
Foster care	5.2	5.1	5.4	4.8	4.3	4.1	3.6	3.7	1.7%	-9.0%	-7.1%	-4.6%
Care dependency	2.8	3.6	3.4	3.7	3.9	3.9	4.1	-	1.3%	4.1%		
Grant in aid	0.8	1.0	1.4	1.3	1.6	1.9	1.8	1.9	0.7%	10.7%	6.2%	12.7%
Social relief of distress	0.5	0.4	0.4	19.8	31.6	44.4	0.4	0.4	6.4%	379.6%	0.2%	-4.2%
Total: Transfers to households	**150.6**	**162.7**	**190.0**	**218.9**	**224.5**	**248.3**	**212.3**	**223.8**	**87.1%**	**9.3%**	**3.3%**	**5.8%**
Recipients (millions of people)												
Child support	12.2	12.5	12.8	13.0	13.2	13.4	13.6	13.9		1.5%	1.6%	1.8%
Old age	3.4	3.5	3.7	3.7	3.7	3.8	3.9	4.0		1.6%	1.8%	2.4%
Disability	1.1	1.1	1.1	1.0	1.0	1.1	1.1	1.1		-0.2%	0.4%	0.3%
Foster care	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.1		-13.8%	-18.1%	-14.9%
Care dependency	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2		0.8%	1.7%	1.8%
Average monthly value (rand)												
Child support	380	405	425	445	460	480	495	508		4.1%	3.6%	4.2%
Old age*	1 604	1 699	1 784	1 864	1 894	1 989	2 025	2 134		3.7%	3.6%	4.2%
Disability	1 650	1 739	1 977	1 917	1 893	1 957	2 094	2 083		-0.3%	1.0%	3.4%
Foster care	1 085	1 167	1 282	1 265	1 324	1 504	1 604	2 408		5.5%	13.4%	12.1%
Care dependency	1 589	1 979	1 853	2 013	2 096	2 043	2 072	-		3.3%		
OTHER SOCIAL PROTECTION BUDGETS (Consolidated)												
SA Social Security Agency (SASSA)	7.2	7.8	7.6	7.5	8.0	7.5	7.6	7.9	3.0%	-0.3%	0.9%	1.3%
SASSA transfer as a share of total grant spendi	*4.8%*	*4.8%*	*4.0%*	*3.4%*	*3.5%*	*3.0%*	*3.6%*	*3.5%*				
Transfers to non-profits	6.4	6.7	7.3	8.1	8.3	6.6	6.8	7.0	2.9%	-3.4%	-0.8%	1.4%
Provincial social development	18.9	20.2	22.3	23.0	23.0	22.0	21.9	22.7	8.9%	-0.4%	0.3%	2.7%
Compensation of employees	12.4	12.8	14.4	14.6	15.5	15.8	15.4	16.0	6.1%	3.1%	2.2%	3.7%
Goods and services	8.3	7.0	7.6	8.2	9.5	8.4	8.5	8.8	3.4%	3.4%	3.1%	1.0%
Payments for capital assets	1.0	0.9	1.0	0.8	0.3	0.7	0.6	0.6	0.3%	-11.5%	-8.2%	-5.6%
Consolidated social protection	**178.8**	**190.5**	**220.9**	**250.9**	**258.9**	**280.2**	**244.7**	**257.2**	**100.0%**	**8.2%**	**3.1%**	**5.3%**
Social Security Funds												
Transfers to households	47.2	55.0	51.9	105.7	82.3	71.1	59.7	51.6	27.9%	11.1%	-0.1%	1.3%
Other spending	6.5	7.1	7.9	7.6	11.5	13.1	13.2	13.4	4.4%	18.0%	11.1%	10.9%
Total	**53.7**	**62.1**	**59.9**	**113.3**	**93.8**	**84.2**	**72.9**	**65.0**	**32.3%**	**12.0%**	**1.7%**	**2.8%**

Source: National Treasury budget data; Public Economy Project calculations

Criminal justice and defence

In July 2021, South Africa experienced several days of violence and looting, which overwhelmed the police and led to the deployment of the army. The adequacy of resources was one issue that arguably undermined the response of the security forces, a factor which has also played a prominent role in the recent floods in KwaZulu-Natal. Over the medium term, the police and the broader criminal justice system will see very deep cuts to their budgets. The defence force faces the largest cuts: the defence budget in 2024 will be about R1 billion less than in 2019. Although reductions in transfers to the secretive "special defence account" carry a large share of this burden, capital budgets also decline precipitously.

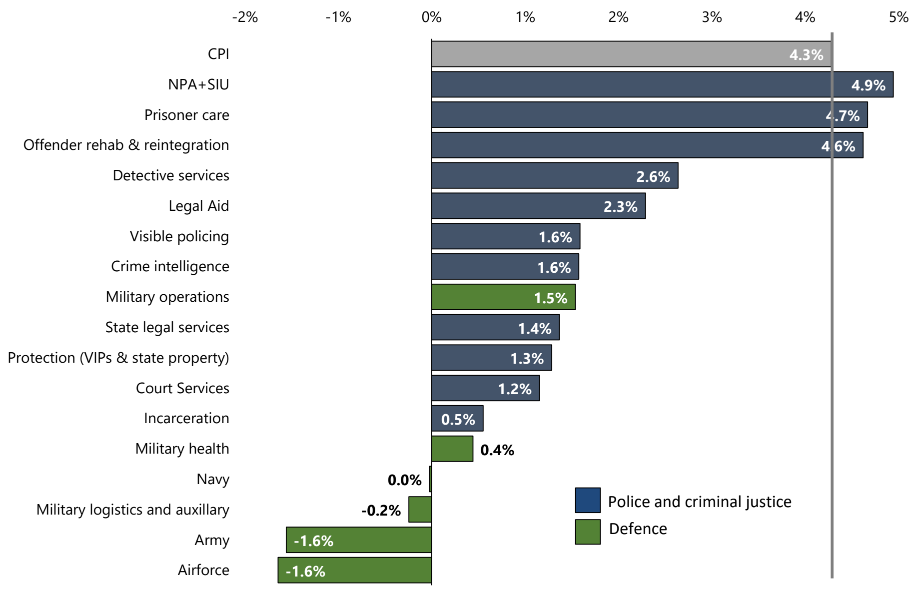
More than 60% of defence expenditure is on compensation of employees, which declines yearly from 2020 (see Figure 2). The Budget Review allocates R1.8 billion over the medium term to support early retirement, suggesting reforms to personnel structures. But the *Estimates of National Expenditure* reports that defence headcounts will be stable at around 73 000 personnel, while average pay is assumed to fall significantly (National Treasury, 2022a; 2022c). Any reduction in force numbers could run into political challenges, but if the compensation budget is insufficient, spending will have to be moved from other line items. Compensation has increased from 38% of defence spending in 2008 (National Treasury, 2017: 60) to 64% in 2021. Without a clear plan for implementing budget cuts, the danger of perverse outcomes, such as the chronic deterioration of operational capabilities, rises sharply over the medium-term. If this occurs, it will be a continuation of the trend of the last two decades, albeit at a much faster pace.

Like the defence force, headcount projections contained in the *Estimates of National Expenditure* suggest that the police are ambivalent about reducing headcounts and prefer to rely on the hope that sharp reductions in pay will keep the department within budget. The 2021 budget anticipated that police numbers would fall by 25 000 over the medium term, whereas the 2022 budget presents an entirely different outlook, with numbers falling by around 8500 and then stabilising at 178 000 employees (Figure 15). To compensate for this revision, the 2022 budget assumes that average pay in the police will fall by 3% over the next two years. This would far exceed the restraint achieved in 2020 when average pay increased by 1%. Given that average pay in 2021 increased by 8.1%, strongly in line with its historical average, it is hard to see how the reductions envisaged in the budget will be achieved in the years ahead, especially without a clear and explicit plan.

The courts and prisons fare only slightly better. The combined budget for the National Prosecuting Authority and Special Investigative Unit will increase by around R1.5 billion over the medium term, but legal aid, state legal services and court operations budgets will fall in real terms, as will the incarceration budget, which accounts for more than 60% of spending on correctional services.

Figure 14: Criminal justice and defence spending growth (2019–2024)

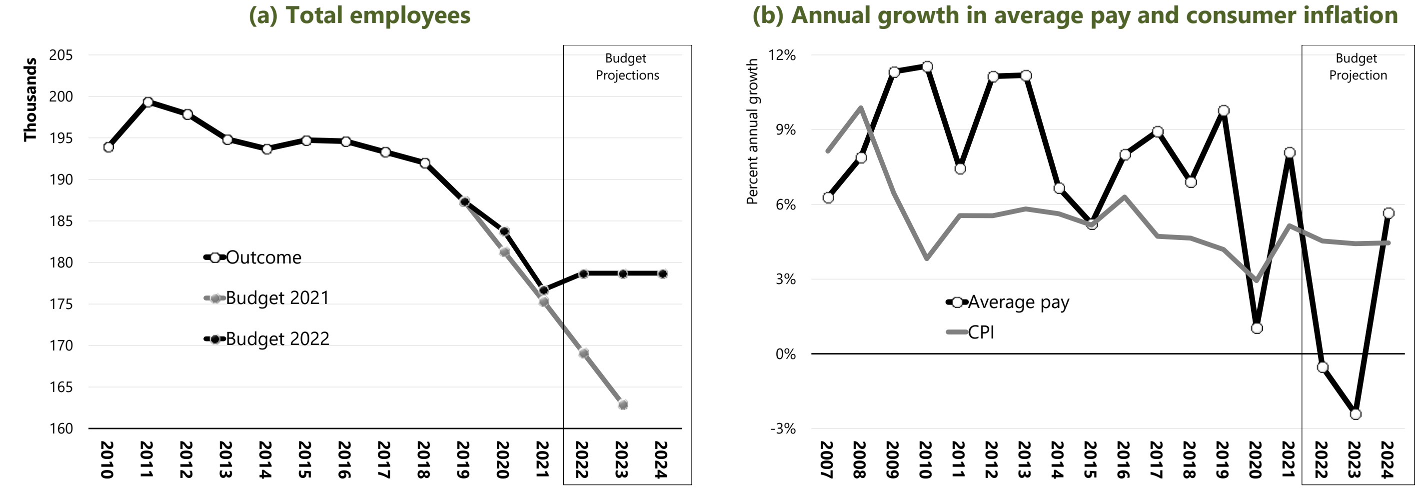
Selected items | Average annual nominal growth rate



Source: Public Economy Project calculations based on National Treasury budget data

The violence of July 2021 raised difficult questions about the capabilities of both the police service and the defence force. Performance of the police has been deteriorating even faster than the resource envelope (Newham, 2021). Poor leadership, weak management and the politicisation of security services have all contributed to the erosion of public safety and security. This implies that services might be significantly improved through efficiencies rather than additional resources. However, the size of the proposed resource shock is large, and a shrinking resource envelope will make realising efficiencies doubly difficult, as improvements often require upfront investments. Furthermore, falling incomes for service members and shortfalls in other critical inputs may undermine morale and complicate the difficult process of restructuring. To avoid outcomes that could significantly worsen the security environment, the process of consolidation and change in the security services will need to be handled with particular care and foresight, to prevent government's fiscal plans finding themselves in direct contradiction with its security policy.

Figure 15: Police headcounts and pay



Source: National Treasury (2022c); Public Economy Project calculations

Table 7: Criminal justice and defence spending

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
Defence	**48.4**	**47.9**	**50.2**	**54.1**	**48.8**	**49.1**	**48.0**	**49.3**	**25.4%**	**-0.8%**	**-0.4%**	**0.3%**
Admin	4.9	5.1	5.3	5.3	5.6	5.8	5.7	5.9	2.8%	2.7%	2.0%	2.7%
Military operations	3.2	3.2	3.5	4.7	4.5	3.7	3.6	3.8	2.0%	2.0%	1.5%	2.3%
Army	16.7	16.4	16.8	17.2	15.2	15.6	15.1	15.5	8.1%	-2.5%	-1.6%	-1.1%
Airforce	6.8	6.3	6.7	7.7	6.4	6.2	6.0	6.2	3.3%	-2.6%	-1.6%	-1.3%
Navy	4.6	4.5	4.7	4.7	4.5	4.7	4.6	4.7	2.4%	-0.3%	0.0%	0.3%
Military health	4.9	5.1	5.4	5.5	5.5	5.5	5.4	5.5	2.8%	1.0%	0.4%	1.8%
Military logistics and auxillary	7.4	7.4	7.9	9.0	7.2	7.7	7.5	7.8	4.0%	-0.8%	-0.2%	0.8%
Justice	**18.5**	**19.2**	**20.3**	**20.0**	**21.9**	**22.4**	**22.2**	**23.2**	**11.0%**	**3.4%**	**2.7%**	**3.3%**
Admin and auxillary services	3.3	3.7	4.1	3.8	4.4	4.4	4.5	4.8	2.2%	2.3%	2.8%	5.5%
Court Services	6.3	6.3	6.4	6.2	6.8	6.8	6.5	6.8	3.4%	1.9%	1.2%	1.0%
State legal services	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.4	0.7%	1.3%	1.4%	2.3%
NPA+SIU	4.1	4.2	4.4	4.6	5.0	5.4	5.3	5.6	2.6%	7.0%	4.9%	4.5%
Legal Aid	1.8	1.8	2.0	2.0	2.0	2.1	2.1	2.2	1.0%	2.0%	2.3%	3.3%
Magistrates' salaries	1.9	2.0	2.1	2.1	2.4	2.4	2.4	2.5	1.2%	4.5%	3.7%	3.8%
Police	**86.5**	**90.3**	**95.9**	**95.5**	**100.5**	**100.7**	**99.0**	**104.4**	**50.5%**	**1.6%**	**1.7%**	**2.7%**
Admin	18.3	18.5	19.8	18.7	20.3	20.4	20.1	21.0	10.2%	1.0%	1.2%	1.9%
Visible policing	43.9	47.1	49.7	50.7	52.2	51.7	50.6	53.8	26.2%	1.3%	1.6%	2.9%
Detective services	17.7	17.8	18.9	18.7	20.2	20.8	20.6	21.5	10.2%	3.2%	2.6%	2.8%
Crime intelligence	3.7	3.9	4.2	4.1	4.3	4.4	4.3	4.5	2.2%	1.6%	1.6%	2.8%
Protection (VIPs and state property)	2.8	3.0	3.4	3.2	3.5	3.5	3.5	3.6	1.7%	1.1%	1.3%	3.5%
Prisons	**22.8**	**23.8**	**25.2**	**25.0**	**25.9**	**26.1**	**25.6**	**26.7**	**13.1%**	**1.2%**	**1.2%**	**2.3%**
Admin	3.9	4.3	4.9	4.7	4.5	4.7	4.6	4.8	2.4%	-1.7%	-0.6%	2.9%
Incarceration	13.9	14.5	15.2	15.0	15.5	15.3	14.9	15.6	7.8%	0.2%	0.5%	1.6%
Rehabilitation and reintegration	2.6	2.7	2.9	2.9	3.5	3.5	3.5	3.6	1.7%	7.0%	4.6%	5.0%
Prisoner care	2.3	2.3	2.2	2.5	2.5	2.6	2.6	2.7	1.3%	6.2%	4.7%	2.4%
Total	**176.1**	**181.2**	**191.6**	**194.6**	**197.1**	**198.3**	**194.8**	**203.6**	**100.0%**	**1.1%**	**1.2%**	**2.1%**

Source: National Treasury budget data; Public Economy Project calculations

Economic policy, community development and public employment

Community and economic development functions grow faster than average, reflecting government's commitment to infrastructure spending. However, within this overall trend, large reductions are anticipated for public housing and local public transport, whereas the local equitable share is one of the fastest growing items in the budget, and water infrastructure looks set for a significant boost in spending.

National Treasury classifies water and road infrastructure as part the "economic development" budget group. These large infrastructure budgets are slated for substantial growth, especially relative to the rest of the budget, while other elements of economic and development policy look set for very large budget contractions. Budgets for industrial policy incentives, trade and investment promotion, land reform and agricultural development are stagnant or falling in real terms, and in some instances face nominal budget cuts, whereas competition policy receives significant addition funding, at least until the outer year of the framework.

With the new Presidential employment stimulus, the total spending on public employment programmes increases to R16.4 billion. Of this amount, R3.1 billion is allocated to the Expanded Public Works Programme, R4.2 billion to the Community Works Programme and R6.2 billion for teacher assistants in schools. Government already employs around 450 000 people as community health and development workers, and to provide nutrition in schools and early childhood development (Hassen, 2021). The teacher assistant programme seeks to expand this by creating 250 000 new work opportunities.

This extension of public works employment may presage a restructuring of the public service and the creation of some form of "employment guarantee", which would involve expanding public employment by paying low wages for less skilled employees on short-term contracts. Such a strategy may enable public services to be extended at a lower cost than that implied by the current structure of government's payroll. However, the cost of this type of employment would need to align with the national minimum wage and would need to be backed by increased budget allocations; if not, the result will be a fall in the number of such "stipend workers" (ibid). Similarly, large numbers of community health workers have recently been brought onto governments payroll, while critical medical and nursing posts remain unfunded; and the teacher assistant programme is being rolled out, while the number of teachers looks set to fall on the back of budget cuts. If, like community health workers, these and other public works employees are incorporated into the government payroll and included as part of the bargaining unit, the result could be a significant expansion of compensation budgets, which would contradict government's intention to contain the wage bill.

Table 8: Social infrastructure spending (selected programmes)

	Outcomes				Estimate	Budget	Projections		% of	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024	total	ST	MT	LT
Housing: local	11.4	11.3	11.7	10.6	11.4	11.5	12.0	12.6	4.4%	-0.4%	1.5%	1.4%
Housing: provincial	20.0	19.0	19.6	15.3	17.6	18.7	19.6	20.0	7.1%	-1.5%	0.4%	0.0%
Household electrification	6.1	5.3	5.0	3.3	5.1	5.9	6.3	6.6	2.1%	5.9%	5.6%	1.1%
Community libraries	1.4	1.4	1.5	1.2	1.5	1.6	1.6	1.6	0.6%	1.6%	1.8%	2.1%
Municipal infrastructure	16.7	16.0	16.4	16.1	18.2	19.5	20.4	20.4	7.1%	6.0%	4.5%	2.9%
Local equitable share	55.6	60.8	65.6	83.1	75.7	87.3	94.1	101.5	32.4%	10.0%	9.1%	9.0%
National roads	16.3	18.9	21.7	20.9	22.2	22.6	26.6	28.7	9.1%	1.3%	5.7%	8.5%
Provincial roads maintenance	10.0	10.3	10.6	10.5	11.9	10.8	13.0	13.6	4.5%	0.4%	5.0%	4.5%
Regional bus services	5.7	6.0	6.3	6.7	7.1	7.1	7.4	7.7	2.7%	3.9%	4.1%	4.4%
Local public transport	6.1	6.3	6.4	4.4	5.2	6.0	6.7	7.7	2.3%	-1.9%	3.9%	3.4%
Commuter rail	14.5	15.9	16.6	9.6	16.8	20.0	20.6	21.5	6.7%	6.5%	5.4%	5.8%
National water infrastructure	2.0	2.5	2.6	2.6	2.6	2.9	3.5	4.0	1.2%	3.4%	9.0%	10.4%
Local & regional water infrastructure	9.0	9.7	8.0	7.4	10.4	10.4	11.2	11.4	3.8%	9.3%	7.3%	3.5%
TCTA*	2.2	2.2	4.9	1.4	6.6	7.9	7.9	13.5	2.7%	17.3%	22.3%	29.3%
Water trading entity*	7.5	7.0	7.4	7.3	9.0	9.4	9.9	10.4	3.4%	8.2%	6.8%	4.7%
Water boards	17.1	19.3	22.2	23.0	24.6	26.8	29.2	31.7	10.1%	6.4%	7.4%	9.2%
Total	**201.6**	**211.8**	**226.6**	**223.4**	**246.0**	**268.6**	**289.9**	**312.9**	**100.0%**	**5.8%**	**6.7%**	**6.5%**

* Non-interest spending

Source: National Treasury budget data; Public Economy Project calculations

Table 9: Economic policy and public employment (selected programmes)

	Outcomes				Estimate	Budget	Projections		% of total	Annual growth rates		
R billions	2017	2018	2019	2020	2021	2022	2023	2024		ST	MT	LT
Trade, industry and competitiveness	**10.1**	**10.5**	**10.9**	**9.0**	**11.7**	**10.9**	**10.9**	**10.6**	**13.6%**	**-0.1%**	**-0.6%**	**0.6%**
Industrial incentives	5.6	5.6	5.9	4.9	6.2	5.0	5.1	5.4	6.9%	-5.3%	-1.8%	-0.5%
Industrial policy	2.0	2.1	2.2	1.8	1.9	2.0	2.0	2.1	2.5%	-3.8%	-1.5%	0.8%
Competition policy	0.7	0.8	0.7	0.6	1.7	1.7	1.7	0.9	1.6%	36.7%	6.3%	4.5%
Trade and investment	0.7	0.8	0.8	0.6	0.7	0.8	0.8	0.8	1.0%	-1.9%	-0.5%	0.9%
Agriculture and land reform	**15.2**	**16.6**	**16.9**	**14.1**	**18.0**	**17.3**	**17.4**	**18.2**	**21.7%**	**0.7%**	**1.4%**	**2.6%**
Restitution	3.1	3.2	3.7	2.8	3.5	3.7	3.8	4.0	4.6%	-0.3%	1.5%	3.8%
Food security	1.7	1.6	1.8	1.4	3.1	2.1	2.1	2.2	2.7%	5.3%	4.5%	3.8%
Agricultural production services	1.0	1.2	1.2	1.2	1.3	1.3	1.2	1.3	1.6%	3.0%	1.3%	4.1%
Agricultural research	1.0	1.0	1.2	1.2	1.3	1.2	1.2	1.2	1.6%	-0.9%	0.3%	3.6%
Farmer support and extension	1.3	1.6	1.2	0.8	1.2	1.2	1.2	1.2	1.5%	-0.7%	0.3%	-0.5%
Land redistribution and tenure	0.9	0.9	1.0	0.8	0.9	0.9	0.8	0.9	1.1%	-2.5%	-3.4%	0.1%
Land administration	0.6	0.6	0.7	1.0	0.8	0.7	0.7	0.7	1.0%	0.5%	-0.2%	1.6%
Agricultural development and trade	1.1	1.2	0.9	0.5	0.9	0.7	0.7	0.8	0.9%	-6.5%	-2.0%	-4.5%
Employment programmes	**5.5**	**5.9**	**6.5**	**5.9**	**18.1**	**16.4**	**16.8**	**7.8**	**15.2%**	**36.4%**	**3.8%**	**5.1%**
Expanded public works programme	2.4	2.5	2.6	2.4	2.9	3.1	3.1	3.2	3.7%	5.2%	4.1%	4.5%
Community work programme	3.1	3.3	3.8	3.5	4.2	4.3	4.4	4.6	5.3%	4.3%	3.5%	5.6%
Presidential employment initiative					11.0	9.0	9.4					
Other national departments												
Minerals and Energy	9.7	9.0	8.9	7.2	9.2	10.3	10.7	11.2	12.2%	5.1%	4.7%	2.1%
Science and Innovation	7.5	7.9	8.1	7.2	9.0	9.1	9.2	9.7	11.1%	4.2%	3.6%	3.6%
Environment, Forestry and Fisheries	7.9	8.0	8.7	8.3	7.5	8.9	8.9	9.3	11.0%	1.0%	1.5%	2.4%
Employment and labour	2.8	3.1	3.2	3.1	3.8	4.0	4.0	3.8	4.6%	7.1%	3.2%	4.1%
Communications and digital tech	5.7	4.8	5.7	3.2	3.9	2.7	2.4	2.5	4.3%	-21.7%	-14.8%	-10.9%
Small Business	1.5	1.4	2.2	2.2	2.6	2.6	2.6	2.7	3.2%	4.8%	3.8%	9.1%
Tourism	2.1	2.2	2.4	1.4	2.5	2.5	2.5	2.6	3.0%	1.5%	1.8%	2.9%
Total	**68.1**	**69.5**	**73.5**	**61.6**	**86.4**	**84.7**	**85.4**	**78.3**	**100.0%**	**4.9%**	**1.3%**	**2.0%**

Source: National Treasury budget data; Public Economy Project calculations

Summary and conclusions

South Africa's chronic fiscal position is a key obstacle to accelerated growth and development. To offset rising pressure from debt-service costs, government intends to consolidate the fiscal position by reducing expenditure on public services and cash transfers. Over the last decade, government has sought to contain spending through an expenditure ceiling. Within this limit, government has sought to accommodate increased remuneration of public servants, while committing to an expanded set of spending obligations.

Until now, these two opposing forces (an expenditure ceiling and rising pressure from compensation and new policy commitments) have resulted in decreased spending on capital and essential goods and services and in public employment stagnation, which have led to a deterioration in the quality of public services. However, since the coronavirus pandemic, government has been unable to square the circle, and the expenditure ceiling has ceased to be a binding constraint. In successive budgets, the ceiling has been raised by large amounts to accommodate spending pressures arising from the wage bill and to finance new policy initiatives, such as the extension of social grants, the expansion of public employment programmes and the financing of fee-free university education for students from low-income households. Yet, in the same breath, government remains committed to reduced spending. Successive budgets have, therefore, raised the spending ceiling *this year*, while claiming that deep cuts will be made *next year*. Similarly, while signalling the need to raise taxation *in the future*, to finance new spending and to put a price on carbon, government is acting to ease the tax burden on relatively affluent households, corporations and carbon-intensive consumption.

The Budget Review states that strong action next year will "bring the period of fiscal consolidation to a close" (National Treasury, 2022b: 2). This will be followed by a moderate path of spending growth that maintains fiscal balance into the future. The plan is to close the primary deficit in 2023, as a step towards stabilising the debt-to-GDP ratio in 2025. This is based on assumptions about future economic growth and revenue collection, which are profoundly uncertain. It is also doubtful that government will deliver on the expenditure cuts slated for next year, or fundamentally change the path of expenditure growth in the medium term. Taking the budget's revenue assumptions at face value, continued slippage on expenditure targets implies a worsening position. Rising debt-service costs will continue to squeeze out primary spending, eroding the quality of public services on which the poor depend.

In this depressing fiscal context, the 2022 budget reflects choices:

- To continue growing spending on local government, economic infrastructure and subsidies for students in higher education.
- To increase spending on new social grants and public employment programmes (PEPs).
- To reduce real spending on basic education, healthcare and other elements of social protection.
- To substantially cut back spending on police, criminal justice and defence.

Reducing the budgets for basic education, healthcare, criminal justice and defence depends on large cuts to the remuneration of public servants. In recent years, the National Treasury has succeeding in slowing the growth of compensation budgets. However, the budget makes unrealistic assumptions about future compensation trends, especially in a context of rising inflation and an eventful political calendar leading to the national elections in 2024. The budget proposes a simultaneous contraction of spending on compensation, goods and services, capital and social grants in 2023, which – if implemented – would disrupt service provision, slow economic recovery and widen inequality.

This amounts to a short, sharp fiscal shock in 2023, which looks to be unrealistic, followed by a spending path based on little more than crossing fingers and touching wood. A more realistic approach to budget planning would require government to make clear political choices about its policy priorities, and to accept the sacrifices needed to fund these priorities. This might involve (for example) closing large programmes that are underperforming, reducing the size of the defence force or some other large public employer, and articulating a clear and credible plan to resolve the operational and financial crisis engulfing local government and state-owned companies.

Fiscal consolidation requires facing down pressures on existing policy goals (such as those arising from the wage bill) and withdrawing new policy interventions. Currently, government is making policy choices that are wholly inconsistent with the fiscal path proposed in the budget, thereby eroding the credibility, performance and quality of the medium-term fiscal framework, centralised fiscal authority, and clear oversight and control of budgets. These fiscal institutions are critical underpinnings of South Africa's constitutional democracy. As they are weakened, the ability of the state to redistribute resources and access long-term capital at low interest rates will be undermined.

Changing course requires a public-sector restructuring programme that supports the path of fiscal consolidation. Spending cuts need to be backed by clear policy and explicit plans, with the aim of protecting frontline services and limiting the fall in public employment. This means explicitly identifying services and programmes that are to be curtailed in order to save others, rather than relying on across-the-board cuts. User charges and cost recovery for non-poor users of public services and infrastructure also needs reconsideration, as the current path involves shifting an ever-greater burden of financing onto general taxation. This amounts to a structural reform of the public sector, which would need to be negotiated, including with public sector workers.

The political leadership of government must be prepared to explain and defend such choices. In the absence of clear policy choices backed by strong action from cabinet, fiscal pressure will continue to grow across all spending items, imposing debilitating austerity conditions on an indiscriminate basis. If the underlying imbalances are not resolved one way or another, there is little that budget authorities can do to change this path.

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