

# PEOPLE'S GUIDE



## What is the BUDGET?

In February of each year, the Finance Minister tables the national budget, whereby he announces government's spending, tax and borrowing plans for the next three years. The national budget divides money between national departments, provinces and municipalities.

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## HOW IS THE BUDGET PUT TOGETHER?

- 1 Departmental guideline is issued indicating budget information required
- 2 Departments prioritise their programmes, compile spending plans and service delivery commitments
- 3 Budget proposals are submitted to treasury and deliberated on
- 4 Interdepartmental committees of Directors-General consider allocation proposals
- 5 They make recommendations to Ministers' Committee on the Budget
- 6 Medium Term Budget Policy Statement signals the upcoming Budget
- 7 Finally allocations are decided in Cabinet
- 8 Budget documents are prepared
- 9 Main Budget is tabled
- 10 Parliament deliberates and adopts a Budget
- 11 Sent to the President for signing into Law



# RESTORING SOUTH AFRICA'S PUBLIC FINANCES ON A SUSTAINABLE PATH

**F**or some time, the South African government has been spending more than it can afford, leading to rising debt.

The economy has also been growing at a slow pace as a result of low business confidence and falling private investment. At the time of the October *Medium Term Budget Policy Statement* government presented an unsustainable debt outlook. The 2018 Budget presents proposals to rebuild confidence and put the public finances on a more sustainable path.

South Africa has an opportunity to build on the positive developments that have emerged in recent months. The economy has performed slightly faster than expected, with economic growth now projected to be 1 per

cent in 2017, 1.5 per cent in 2018 and 2.1 per cent by 2020. This pace of economic growth is welcome, but is still too slow to address unemployment and poverty. This will make it difficult for government to achieve its targets for public finances.

The central budget proposals involve boosting the public finances by raising taxes, reducing spending and reprioritising. Government will raise taxes by R36 billion through a one

percentage point increase in the VAT rate to 15 per cent, and adjustments to other taxes. Raising VAT is estimated to have the least harmful effects on growth over the period ahead. Spending will also be reduced in other areas and reallocations will be made to other priorities mostly fee-free higher education and training over the next three years.

Despite these changes, national government will still need to borrow

R191 billion in 2018/19. However, the national debt outlook is now on a sustainable path. A sustainable budget is the first step in getting the economy back on track and growing more quickly.

Government will work to deliver on important policy reforms as well as working on improving the governance and performance of state-owned-companies (SOCs) which is also key in supporting the growth of the economy.

Although the economic situation has improved, the risks are still significant. The possibility of government collecting less revenue than it budgeted for, low economic growth and severe financial weakening at several major SOCs, still remain a factor ■

**A sustainable budget is the first step in getting the economy back on track and growing more quickly**



# RESPONDING TO THE DROUGHT EMERGENCY

Several provinces in South Africa including the Western Cape and parts of the Eastern Cape are experiencing a serious drought.

Government is responding to both the short-term challenge of ensuring that water supplies are not interrupted, and to the longer-term need to build a sustainable water system. For the short-term, water restrictions are already

in place and have been significantly extended especially in the Western Cape. The 2018 Budget provisionally allocates funds in 2018/19 that will be used to support the initiation of major long-term schemes to expand water supply. Government is committed to managing available supply to ensure that basic needs are met, while implementing plans to improve long-term sustainability.



# FEE-FREE HIGHER EDUCATION AND TRAINING FOR STUDENTS FROM POOR AND WORKING CLASS FAMILIES

In December 2017, former President Zuma announced fee-free higher education and training for students from families whose income is less than R350 000 a year. An additional amount of R57 billion has been allocated to fund the system over the medium term.

This includes a subsidy to universities to fund the zero fee increase for students from families with household income of between R350 000 and R600 000.

The National Student Financial Aid Scheme(NSFAS)will provide bursaries for undergraduate university and technical and vocational education and training (TVET) college students below household income of R350 000. The bursary will cover the full cost of study, which includes tuition

fees, study material, and subsidised meals, accommodation and/or a travel allowance. In the first year of the new system (2018), the bursary will only cover students in their first year of study. In 2019, the scheme will cover first and second year students. The conditions attached to the bursary have been developed by the Department of Higher Education and Training.

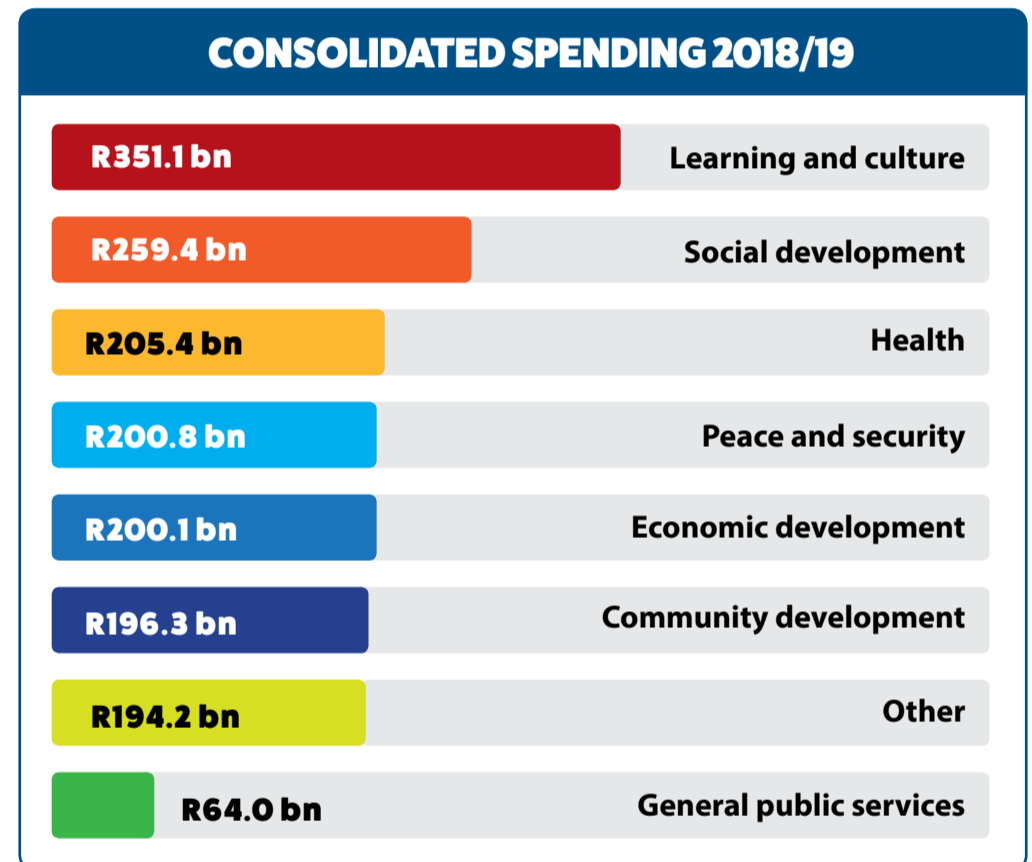
Returning NSFAS university students (those from a family income of under R122 000 a year) who are in their second, third or fourth year of study in 2018 will have their loans converted into a bursary under the same conditions as when they first received the financial support. For TVET students currently on NSFAS, this does not apply as they have always received a bursary and not a loan.

# WHERE IS THE MONEY COMING FROM AND HOW WILL IT BE SPENT IN 2018/19?

The money that government spends comes from taxes and levies. Government proposes raising additional tax revenue mainly from value-added tax (VAT) and other taxes.

Therefore, R1.345 trillion is expected to be collected in 2018/19. Since the revenue will not be enough to cover all the expenses, government will need to borrow R191 billion in 2018/19.

TAX REVENUE (R billion)	2018/19	%
Personal income tax	505.8	37.6
VAT	348.1	25.9
Corporate income tax	231.2	17.2
Other	84.8	6.3
Fuel levies	77.5	5.8
Customs and excise duties	97.4	7.2
<b>TOTAL</b>	<b>1 345.0</b>	<b>100.0</b>



# PROVIDING SOCIAL SUPPORT TO THE POOR



18.1 million South Africans will be receiving social grants by 2020. In the 2018 Budget, government will increase social grants at a higher rate than before in order to compensate the poor for the increase in VAT. This

means that in 2018/19, the child support grants will increase by R25 per month while the foster care grant will go up by R40. The old age grant will increase by R95 a month in 2018/19.

	2017/18	2018/19
State old age grant	R1 600	R1 695
State old age grant, over 75s	R1 620	R1 715
War veterans grant	R1 620	R1 715
Disability grant	R1 600	R1 695
Foster care grant	R920	R960
Care dependency grant	R1 600	R1 695
Child support grant	R380	R405

