

Government spending and income

What is in this guide

This guide contains an explanation of the national budget as well as the income sources for government revenue. It has the following sections:

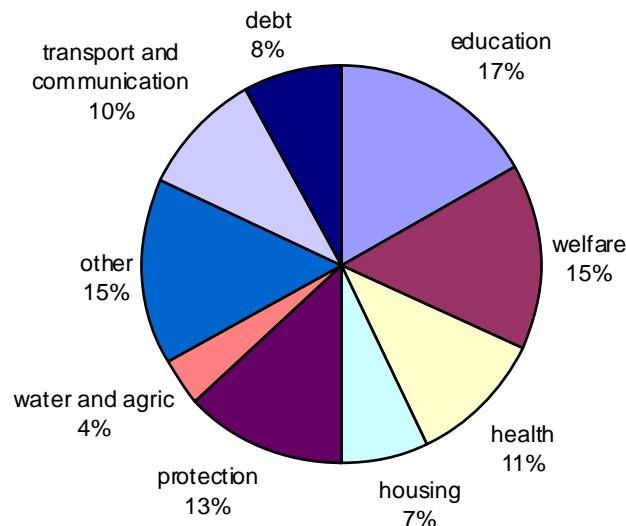
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Government spending overview

Every year government spends billions of rand on providing a better life for our people. In 2009/10, the budget for government spending was R773 billion. (A billion is one thousand times a million and looks like this: R1 000 000 000). An additional R55 billion was to be spent on debt service and R6 billion was kept as a contingency reserve for emergencies. This made a total of R834 billion

The pie chart below shows how most of the money in the national budget was spent in the previous financial year of 2008/9. It is shaped like a cake or a pie and the slices are different sizes to show how much each budget item gets. The size of the slices or percentages does not change much from year to year and the total budget amount is usually increased by more or less the same percentage as inflation.

BUDGET 2008/9



The total budget for 2008/9 was R716 billion. Of this amount R55 billion was allocated for debt.

Spending and budgeting occurs within a medium term expenditure framework (MTEF), which projects income and expenditure for three years. Government has little flexibility to make major changes within the budget since most costs are fixed and recurring – for example salaries, rent and equipment. When more revenue is raised than planned for, it is usually spent on once-off priority programmes such as infrastructure development or above inflation increases for specific categories of staff (for example nurses or police officers).

2. Main spending items

Debt

Debt interest at 8% of our total income is a heavy burden on the total government revenue. The payments we make on interest are for the debts we inherited from apartheid as well as new loans. In 1996 debt was our biggest budget item at over 20%. Government borrows money from time to time for things like building big infrastructure like dams that cost billions and cannot be paid from the budget for one year. These loans come from banks and institutions like the World Bank.

Some people argue that we should not pay the apartheid debts since they were not made by a democratic government, but there are good reasons why we are paying them. Firstly most of the money the previous government borrowed belonged to South African banks and insurance companies. They lent the government money that ordinary people had saved or invested with them for pensions, insurance and benefits. If we refuse to pay the interest, those people would lose their money and government would have to look after them. If we refuse to pay the money we owe to foreign banks, we will get a bad credit record and no-one will lend us money in the future.

Education

Education is the biggest item in the budget and it makes up 17% (one sixth) of the pie. We spend a lot on education because we are still paying for some of the backlogs from the past. Many of our schools still need classrooms, toilets, sports fields and equipment. Salaries of teachers make up about three quarters of the education budget. We have a large proportion of young people in South Africa - around one third of our people are children.

Social welfare

Social welfare at 15% is the second biggest part of government expenditure. Welfare includes all the social grants, old age pensions and poverty relief work of government. Over the last 9 years, the number of people who get social grants has grown from just over 3 million to over 12 million. That is about one quarter of the people in South Africa.

Health

Health takes up 11% - more than one tenth of our budget. The government health budget pays for free health care for children and pensioners, as well as for unemployed people. With almost half the people in South Africa living under the poverty line and almost 20% of adults HIV positive, state health plays a very important role.

Housing

Housing (7%) has been a priority for government in the last 10 years and more than 2.3 million houses have been subsidised by state funding since 1994.

Protection

Protection services have a budget that is around 13% of national spending and includes police, courts and prisons as well as the Defence Force and Intelligence Services. The safety budget has increased over the last few years to deal with crime because government has

prioritised this issue. Defence (about 4%) spending is much less than it was under Apartheid and this is one of the categories where the percentage spending has decreased almost every year since democracy started.

Economic development

Without economic development we cannot create more jobs, and will not deal with the long term causes of poverty. Communication and transport (10%) and water and agriculture at (4%) are big spending items that pay for many of the massive new infrastructure projects and for developing the farming sector. Some other economic development services also fall under the category 'Other'. Examples are small business development, industrial development and loans to small and medium businesses.

Other

Apart from economic services 'Other' covers transfers to local government and many other government departments. It also covers the costs of parliament, provincial legislatures and all other public servants who do not fall under any of the other categories listed here.

Contingency reserve and budget review

Government must budget for around 1% contingency reserve for emergency and unforeseen expenditure. Halfway through the budget year a review will be done by the Minister of Finance to check how much of the reserve is unspent. The unspent budget for the first six-month period will be re-allocated to departments that have overspent or have developed new needs.

Equitable share

National government receives all the revenue collected by SARS and distributes most of it to provinces for spending on the big items like education and health. Provinces get their share of the national budget according to the number of people and the number of poor people living in their province. Local government also gets allocations from national government according to the number of poor people living in each municipality. The formula for calculating how much each province or municipality should get is developed by the Financial and Fiscal Commission, an independent advisory body set up in terms of the Constitution.

Many people feel that government should spend more on health, education, welfare and community safety, and pay police, nurses and teachers higher salaries. From the pie chart above you can see more than half the money spent by government goes to these four categories. Almost half of the overall government budget pays for the salaries of public servants. The rest goes towards items like buildings, infrastructure development and equipment (medicines, school books, hospitals etc.). The majority of public servants are policemen, teachers and nurses. Most people agree that all of them deserve improved pay because of the very tough jobs they have. At the same time, if you increase their salaries much beyond inflation, government has to find the money from somewhere. At the moment, it means taking it away from one of the other items, or increasing taxes

3. Government income sources

Government income comes mainly from taxes. The four biggest sources are:

- **Personal income tax (29% of government income):** Income tax is paid by everybody who earns a regular wage or salary. Richer people pay a higher percentage of their income as tax and once a person earns below a certain amount they pay no income tax.
- **Company tax (27% of government income):** All registered companies have to pay 29% of their profits as company tax.
- **Value added tax (VAT – 26% of government income):** All people in South Africa pay 14% VAT on any item that they buy unless that item is exempted from VAT (like bread, fresh vegetables and paraffin.) Many people think that poor people do not pay tax, but VAT is the one form of tax that they make a big contribution to.

- **Customs and Excise (5%):** When you import things from other countries you have to pay a set amount in import duties or tax. The reason for this is to protect jobs in South Africa. If we could import cheap things without paying any tax on them, then South African companies that make the same products would suffer.

(Treasury figures for 2008/9)

All the taxes above are paid to the South African Revenue Service (SARS) and handed over to Treasury to distribute to government departments as well as provincial and local government. Government also gets money from sin taxes, loans, donations and investments.

Local government gets most of its income from selling electricity and water and from a special tax on property called 'property rates'. They also get grants from national Treasury for infrastructure and for the equitable share. Most of local government spending is on services like water, electricity, sewage, waste removal, roads and facilities.

4. Increasing income

Increasing government income is not a simple matter. If government increases personal income tax, all working people will have to pay more to government. This means that we will have less money to look after our families' needs and government will have to provide more for education, health, social grants, etc.

If we make taxes much higher for higher income earners, they will complain that they do not get enough for the money they pay since most of them already pay extra for schooling, private health care, pensions and security. Our pro-poor government prioritises delivery for poor people and relies on middle class and wealthy people to carry some of their own costs. Countries with a higher personal tax rate tend to provide more services to the middle class – for example free health care and/or education.

If we increase company tax, some of the small ones will go bankrupt, while the big companies may decide to move to countries with lower tax rates. Companies may also employ less people if they make less profit and this will reduce the amount government receives from the income tax and VAT those workers would have paid.

If we increase VAT, it will have a very bad effect on poor people. It is also not simple to increase the taxes we charge on imported goods because we are part of international trade agreements that set fair tariffs for imports.

The only real way for government to get more money is through more people paying income tax, and more companies paying company tax. This means that our economy has to grow, and create more jobs. At the moment, our economy grew for the last three terms of government, but it did not create enough new jobs to absorb the number of unemployed people and the young people who finish school and studies and enter the labour market.