

## INTRODUCTION AND OVERVIEW

### **Role of the MTBPS**

The *Medium Term Budget Policy Statement* (MTBPS) outlines the Government's fiscal framework and expenditure plans. It is a preliminary statement in advance of the 2000 Budget which makes Government's budget plans more transparent. By setting out policy considerations, it helps to promote public discussion of the spending proposals.

### **Proposed division of revenue**

The MTBPS includes the proposed division of revenue between national, provincial and local government. Provinces, in particular, benefit from a clear statement of the proposed division of revenue in advance of the new financial year. This helps them to plan their spending and to table their budgets shortly after national Budget Day.

Alongside the Statement, the Government is also publishing an MTBPS summary. This will make information more accessible to those who do not have the time to read this document, or who do not need its technical detail.

### **Overview of the MTBPS**

The MTBPS outlines the Government's fiscal and expenditure policies, in advance of more final and detailed announcements in February's Budget. These policies contribute to realising the vision which the President set out in his opening address to Parliament.

### **Economic recovery**

The context is set by the overall state of the economy, described in chapter 2. Following the international crisis which began in Asia, the months since the 1999 Budget have seen stabilisation and improved world economic prospects. South Africa has benefited from this through falling interest rates and renewed capital inflows.

Revised statistics, announced in June, have also shown the economy to have been healthier than supposed over the last five years.

Chapter 2 includes new forecasts for a number of economic indicators, including growth in gross domestic product (GDP), inflation, and investment and consumption expenditure.

**Structural change in the economy**

Although the present picture is more favourable than it seemed eight months ago, structural problems in the economy will still take time to address. Government is working towards further structural change in the economy through measures such as inflation targeting, steps to promote public and private sector investment, restructuring of the public sector, enhancing the propensity to save and a review of elements in the labour market that may impact on employment creation. Over the longer term, exports should also benefit from the European Union and Southern African Development Community trade agreements.

**Fiscal policy**

The President's opening address to Parliament on 25 June 1999 emphasised the importance of a growing economy capable of extending sustainable and equitable benefits to all South Africans. Management of the public finances is a key element supporting this.

The recent financial crisis of emerging economies has brought into focus the importance of a sound financial environment. It underscored the vulnerability of emerging economies to adverse international developments. It highlighted particularly the problems that can be caused by off-budget public sector debt.

Chapter 3 therefore sets out a more comprehensive fiscal policy which will help ensure lower interest rates and a reduced tax burden. This will stimulate economic growth, lower inflation and job creation.

New budget deficit targets are set, taking into account borrowing outside the budget but within the public sector. These targets will contribute to lowering the Government's claim on available savings, strengthening prospects for future growth.

**Government spending**

Chapter 4 sets out the overall spending picture and summarises trends in national and provincial expenditure. Strong revenues, and a reduction in debt interest payments as a consequence of lowered interest rates, allow an increase in planned non-interest spending. Together with up-dating of the contingency reserve allocation, compared to the last Budget, this provides R4 billion additional spending on services in 1999/00, R7,5 billion extra in 2000/01 and some R10,5 billion extra in 2001/02.

**Defence procurement**

For Africa to prosper it will have to ensure that it is a safer and stable continent. The SANDF will have to play a role. This requires that it replace outdated equipment. The strategic defence procurement package will rectify this deficiency and support the South African National Defence Force's contribution to the Government's aims. It is

the single biggest new item of expenditure, but, nonetheless, defence's share of government expenditure will remain below that for 1995/96.

**Key spending priorities**

A number of other spending initiatives are also outlined. They reflect themes in the President's speech to Parliament:

- ◆ strengthening of a more integrated criminal justice system, including the new Scorpions unit and improved information systems;
- ◆ provision for the South African Revenue Service (SARS) to improve its collection systems in order to maintain and improve revenue without increasing tax levels, and to help combat economic crime;
- ◆ reducing government dissaving through prudent fiscal policies and expenditure management;
- ◆ the skills development programme to promote higher employment through a more skilled workforce;
- ◆ relief of poverty, and support for job creation;
- ◆ extra funding to tackle HIV/AIDS;
- ◆ more money for provinces, which will mainly support improvement of social services; and
- ◆ focusing on the rural poor, extending infrastructure provision and other service delivery to rural areas.

**Provinces and local government**

Chapter 5 looks at provinces' and local government's spending. It sets out the vertical division of revenue, and the proposed division between the nine provinces. It highlights co-operative governance in the budget context.

Conditional grants and agency payments to provinces are outlined, noting that over time national departments will be encouraged to convert agency payments to conditional grants. This will enable provincial and local government to be held accountable for delivery of services and the management of funds.

Chapter 5 also reviews allocations to local government. These include revision of funding for R293 towns and the piloting of the Consolidated Municipal Infrastructure Programme in rural areas.

## Improving public services

### **Spending alone cannot solve problems**

A common theme in chapters 4 and 5 is the role of budgeting in improving public services. The budget should not just be about numbers, because expenditure alone will not solve problems. The Government is also putting increased emphasis on the quality and efficiency of service delivery. This was a key theme in the President's speech to Parliament.

### **Budgeting for service delivery**

Budget reforms in the last few years have changed budgeting from a technocratic exercise focusing on financial data, to a tool for reprioritising provision of services to promote reconstruction and development.

The Medium Term Expenditure Framework (MTEF) has placed expenditure planning on a three-year basis in contrast with the previous system's yearly incremental changes. It provides a framework in which to align spending plans and policy-making.

The MTEF also enables legislatures and the public to see what government plans for the future. It allows government to set spending changes in the context of policy developments, and show how they fit with the drive to improve service delivery.

### **More service information in budgeting**

The budget process therefore already plays a part in improving services, for example by ensuring that public funds are directed to where they are most needed and where they can add the most value. The aim now is to improve the information on service delivery that will enable budget decision-making to take yet more account of what money will buy.

The *National Expenditure Survey* was introduced this year, for the first time publishing service delivery information with the Budget. Government will build on this to increase the breadth and the rigour of service information considered in the budget process and published in budget documentation.

### **Piloting service delivery indicators**

In addition to increasing the amount of informal service delivery information available for budgeting, the Departments of Finance and State Expenditure will work with selected pilot departments in national and provincial government to develop more formal service delivery objectives, indicators and targets to assist with budgeting and other management tasks.

### **Public finance management**

Public services can only be as effective as the management of the money that funds them. Parliament's recent passage of the Public Finance Management Act hails a transformation in the way in which public money is managed. No longer will processes simply be administered for their own sake. Such an out-dated approach can never

meet the challenges of reforming public services for the new South Africa. Instead, managers are to be given greater freedom to manage, with a much stronger framework of accountability to ensure that such management delivers the outcomes which are needed.

**Personnel policy and spending**

Personnel spending forms almost half of total government spending, excluding interest on the debt. Part of improving service delivery therefore relates to spending money more wisely on personnel. The Government is developing a remuneration policy that, while allowing appropriate pay increases, will see total personnel spending grow in line with inflation. The new remuneration policy will also enable departments to attract and retain appropriate skilled personnel, supporting development of a public service that is geared to better service delivery.

**Budget reform**

The Government will shortly announce its future budget reform programme, which will particularly reflect the theme of improving service delivery and will support the new fiscal framework outlined in chapter 3.

**Conclusion**

The MTBPS sets out the Government's intended plans for the next three years. As well as the numbers, these plans include key policy developments. But, above all, they look to improve the economy's health and the quality of public services provided to South Africans.

Public comment on the proposals and spending plans set out in the MTBPS may be sent to the Department of Finance before 31 December 1999. Comments may be emailed to [mtbps@Finance.pwv.gov.za](mailto:mtbps@Finance.pwv.gov.za) or posted to:

MTBPS  
Room 1709  
Department of Finance  
Private Bag X115  
Pretoria 0001.

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