

## Medium term expenditure framework

*In marking ten years of democratic government, the 2004 Budget will seek to consolidate the gains that have arisen from a concerted public expenditure reform agenda. The main feature of this agenda has been a substantial redirection of public spending towards key social and economic programmes that allow for a progressive advancement of social and economic rights, particularly for poor and vulnerable groups. The medium term expenditure framework continues to further this broad agenda while providing strong impetus for accelerated economic growth through strategic investments that target infrastructure development and job creation.*

*Real spending grows at an average of 4,4 per cent over the next three years in line with the expansionary stance of the last three budgets. This begins with higher real spending of 5,7 per cent next year continuing the strong fiscal stimulus of the 2003 Budget.*

*Looking ahead, the framework for the 2004 Budget signals:*

- *A renewed focus on employment creation in part through an expanded public works programme*
- *An enhanced commitment to fighting HIV and Aids including a progressive roll-out of anti-retroviral drugs and supporting measures*
- *Further extension of social grants particularly targeting children and other vulnerable groups*
- *Investments in neighbourhoods and communities and further extension of free basic services and municipal infrastructure*
- *Expanded capacity in the safety and security sector and establishment of a new Protection and Security Services division*
- *Improving the quality of school education through targeted allocations directly to poor schools*
- *Improving core services of Home Affairs to citizens, particularly in rural areas*
- *A growing commitment to promoting peace in Africa, and supports for regional trade and development.*

## Policy priorities and the budget

*Employment creation is at the centre of Government's strategy*

The 2004 Budget builds upon Government's core strategic priorities. These priorities seek to reduce dependence on social welfare by increasing the number of people that rely on normal participation in the economy for their livelihood. This places investment, employment creation and improving conditions of work for all at the centre of Government's policy framework. The Growth and Development Summit held in June this year underlined this point and committed Government to an agreement with social partners to undertake strategic interventions across a broad front of economic activity in support of investment and job creation.

In support of these core policy commitments, the proposed budget framework for the next three years provides strong real growth in spending on infrastructure and capital projects including roads, which are prioritised at the national and provincial levels. Similarly, the expanded public works programme will unfold at the provincial and local levels. This will raise the level of fixed investment directly but will also serve as a catalyst for increased private sector investment with positive implications for job creation and poverty reduction, particularly in peri-urban and rural areas.

*Further strengthening of social security*

While growth-enhancing investments will serve as the foundation of the budget, Government will progressively strengthen the social security system to meet the needs of vulnerable groups, including children, the aged and the disabled, recognising the Constitutional imperative of providing for the progressive realisation of the social and economic rights. New legislation focusing on the aged and children will come into effect next year providing a framework upon which social policies and services can be based.

*Ten-year review informs budget priorities*

The 2004 MTEF is the outcome of an ongoing consultative policy process within Government informed by the ten-year review of progress since 1994, and a forward looking medium term strategic framework. This framework draws together the main strategic interventions by which Government can effect accelerated growth and broad-based development. Elements of the emerging framework were reviewed by Cabinet at its July Lekgotla. Clear policy targets were discussed including the need to halve the unemployment rate over the next ten years and to boost growth to an average annual rate of at least 4 per cent from 2006 onwards.

In pursuit of these policy aims, the proposed 2004 medium-term expenditure framework prioritises the following areas:

- A renewed focus on employment creation through an expanded public works programme and a series of

interventions to strengthen the skills base and empower communities.

- A bold commitment to mitigate the impact of HIV and Aids through a roll out of anti-retroviral drugs alongside prevention measures.
- Further extension of social assistance programmes particularly through the child support grant, and grants targeting other vulnerable groups.
- Continued support for free basic services and investment in municipal infrastructure to create sustainable local communities.
- Expanded capacity in the safety and security sector in support of the sector policing strategy and the establishment of a new Protection and Security Services Division.
- Targeted support for school education to ensure provision of learner support materials and other critical supplies.
- Taking core administrative services to citizens, particularly in rural areas where access is still rather limited.
- South Africa's ongoing commitment to actively promote peace in Africa and support regional trade and development.

Overall spending on policy priorities, including social and economic infrastructure, human capital, and administrative services over the MTEF period will grow by an annual average of 4,4 per cent in real terms. This expansionary stance sustains the growth of infrastructure and capital spending established since the 2001 Budget. During this time, underlying processes have improved to ensure better outputs and outcomes.

*Government is driving for better outputs and outcomes from spending*

As the budget remains expansionary over the medium term, Government seeks to ensure that the nature and quality of spending improve each year. This has required strengthening the link between strategic planning, budgeting and reporting. While there is still much to be done in this area, national and provincial departments are now basing their spending plans on strategic plans that have been informed by sound policies. Improved reporting formats are also helping to entrench the accountability and governance cycle that is an integral part of public finances.

Nonetheless, clear challenges remain in terms of improving service delivery and meeting the commitments set out in the Reconstruction and Development Programme. Though the level of funding poses challenges in some areas of service provision, it is not always the main constraint. Effective implementation of Government's plans and policies remains a core objective for the public service. This means addressing weak human resources, management deficiencies, and inadequate systems for

*Effective implementation of policies should be the focus going forward*

monitoring and evaluating performance. The expenditure framework recognises these service delivery bottlenecks and begins to address them in very practical ways.

### **Growth and Development Summit**

Government, business, labour and community representatives reaffirmed their commitment at the Growth and Development Summit to work together to promote higher rates of investment, to expand employment and foster people-centred development.

#### *Job Creation*

The constituencies agreed on a range of intermediate interventions regarding public investment initiatives, expanded public works programmes, sectoral partnerships, local procurement, and small enterprise promotion.

The development of economic and social infrastructure in the public sector aims to accelerate the recent turnaround in gross fixed capital formation by general government. It is expected that capital budgets at national, provincial and local government will continue to grow strongly over the 2004 MTEF. Investment by public enterprises is also increasing, focused on transport infrastructure, electricity and telecommunications.

Over the 2003 MTEF, investments in provincial roads and general municipal infrastructure was budgeted at R56,5 billion and will increase further. These represent significant investments by government highlighting commitment towards growth-enhancing investment and employment, while meeting social delivery backlogs.

#### *Advancing Equity, Developing Skills, Creating Economic Opportunities for all and Extending Services*

Summit agreements centred on accelerating employment equity, black economic empowerment, promoting literacy, learnerships, strengthening the Sector Education Training Authorities (SETAs), broadening access to quality education and to basic services.

Business and government agreed to register at least 72 000 unemployed learners by May 2004. Funding will come from the SETAs and the National Skills Fund. Several departments have already embarked on major learnership drives. To date, more than 26 000 learners have been registered. The SETAs will also promote literacy and numeracy skills aiming to ensure that 70 per cent of workers in the economy attain a basic level of numeracy and literacy.

### **Division of revenue between spheres**

*Division of revenue is the outcome of policy priority deliberations*

The division of revenue set out below is an outcome of Government's policy prioritisation process. This year, the process included the development of a broad strategic framework that reflects the priorities of Government's five clusters. A review of the last ten years and other inputs, allowed Cabinet to reach a balanced view of resource allocation between the three spheres. In taking account of the spending responsibilities and the capacity of each sphere, Government proposes to add a relatively larger share of resources to local and provincial government.

## Adjustments to baseline allocations

The revised budgetary framework over the next three years is presented in table 5.1. It shows the revised budget for 2003/04 as set out in the Adjusted Estimates, and the additional resources available over the new medium-term expenditure period. The budget framework provides for additional allocations of R37 billion over the 2004 MTEF period.

*The preliminary framework proposes R37 billion in additional allocations over the baseline amounts*

Apart from a R1,8 billion adjustment for higher salary costs over the three years and R6 billion for black economic empowerment initiatives, R29,2 billion goes directly to the three spheres for enhanced services and new priorities: R6,4 billion in 2004/05, R9,4 billion in 2005/06 and R13,4 billion in 2006/07. National departments receive 23 per cent of these additional resources, provinces 64 per cent and local government 13 per cent. In relative terms, local government receives the largest increase. Transfers to local government grow by 12,5 per cent a year, compared with 9,7 per cent for provinces and 7,9 per cent for national departments.

Additional resources therefore favour provincial and local government budgets where the largest spending pressures exist relating to delivery of social and economic services to communities. At the local level, the commitment to support free basic service provision underpins the growth in allocations to allow municipalities to meet this challenge over time.

**Table 5.1 Medium term expenditure framework and division of revenue**

	2003/04 Revised	2004/05	2005/06	2006/07	2003/04 – 2006/07 Average annual growth
<b>R million</b>		<b>Medium term estimates</b>			
National allocation	110 833	120 557	131 243	139 133	7,9%
Provincial allocation	161 452	179 426	197 370	213 286	9,7%
<i>of which</i>					
<i>Equitable share</i>	144 743	158 670	172 000	183 890	8,3%
<i>Conditional grants</i>	16 709	20 756	25 370	29 396	20,7%
Local government allocation	12 001	14 249	15 924	17 101	12,5%
<b>Total to be shared</b>	<b>284 286</b>	<b>314 232</b>	<b>344 537</b>	<b>369 520</b>	<b>9,1%</b>
<b>Changes from baseline<sup>1</sup></b>	<b>4 307</b>	<b>7 966</b>	<b>12 001</b>	<b>17 032</b>	
National allocation	1 851	3 008	4 921	5 231	
Provincial allocation	2 457	3 958	5 780	10 201	
<i>of which</i>					
<i>Equitable share</i>	2 357	3 357	4 444	6 280	
<i>Conditional grants</i>	100	602	1 337	3 921	
Local government allocation	–	1 000	1 300	1 600	

1. Baseline allocations comprise the medium term estimates published in the 2003 Budget, together with standard increases of 6 per cent in 2006/07 over the 2005/06 allocations.

Unlike in previous years, the favourable inflation forecast for the next three years means that real spending levels will be maintained without significant inflation adjustments to budgets. The adjustments made in last year's budget make adequate provision for inflation over the MTEF period. However, modest adjustments are made in the current year and over the MTEF period to provide for higher than anticipated salary increases in 2003.

#### **Increased spending in 2003/04**

*The net increase in spending is R3,8 billion in the current year*

The total additional funding provided in the 2003/04 Adjusted Estimates amounts to R6,8 billion. However, the net decrease in the anticipated expenditure level is R2,5 billion, after taking into account projected in-year savings, lower debt service costs, and the contingency reserve of R3,0 billion. The adjustments to the 2003 *Estimates of National Expenditure* include the following:

- Additional allocations of R4,9 billion for unforeseen and unavoidable expenditure, of which R2,1 billion goes to provinces and R250 million towards disaster relief to mitigate the effects of drought and forest fires.
- Approved rollovers of R1,1 billion which arise from unspent balances in the previous financial year.
- Adjustments for higher salary costs amounting to R407 million.
- A once-off allocation of R400 million as an adjustment to the service benefits of departing members of national and provincial legislatures.

*Provinces receive a total adjustment of R2,5 billion in the current year*

The total adjustment for provinces is R2,5 billion of which R2,1 billion is for unforeseen and unavoidable expenditure arising from the higher than anticipated growth in grant beneficiary numbers, particularly for the disability grant. This adjustment to social development budgets will go towards meeting expected shortfalls. The division of additional funds across the provinces will be done according to the equitable share formula proportions for 2003/04.

Besides the adjustment for sharply rising beneficiary numbers, a separate adjustment has been made to support the phased extension of the child support grant that was initiated in the 2003 Budget framework. In that framework, allocations were made to extend the grant to 7 and 8 year olds in the current financial year, to 9 and 10 year olds next year, and to 11-13 year olds in 2005/06. The take-up rate to September 2003 and projections for the rest of the year call for a further allocation of R100 million to ensure that the objective for 2003/04 are met.

This amount will be distributed between provinces according to their projected budget shortfalls.

A final adjustment of R257 million to provincial budgets makes up the 0,5 per cent difference between the budgeted 2003/04 salary increase and the final wage agreement. A corresponding adjustment is made at the national level amounting to R151 million.

### Consolidated spending shares

The overall impact of adjustments over the MTEF is a moderate reallocation in the consolidated share of resources away from national government towards the provinces and local government.

*A moderate reallocation of resources towards provincial and local governments is proposed*

Table 5.2 shows the division of revenue across government as proportions of non-interest expenditure, excluding the contingency reserve. There is a significant increase in the share for local government which goes up from 4,2 per cent in the current year to 4,6 per cent in 2006/07. The provincial allocation rises from 56,8 per cent to 57,7 per cent in the outer year, while the national share declines by 1,3 per cent over the same period. The reallocation of resources towards local government supports the provision of free basic services and of municipal infrastructure programmes, including provision for the Expanded Public Works Programme. The reduced national share takes into account savings from the effects of the strengthening of the rand on foreign service spending and arms procurement costs, and the phasing down of strategic defence procurement commitments in 2006/07.

**Table 5.2 Consolidated shares of national revenue and growth by sphere <sup>1</sup>**

Per cent	2003/04	2004/05	2005/06	2006/07
	Revised	Medium term estimates		
National allocation	39,0%	38,4%	38,1%	37,7%
Provincial allocation	56,8%	57,1%	57,3%	57,7%
<i>of which</i>				
<i>Equitable share</i>	50,9%	50,5%	49,9%	49,8%
<i>Conditional grants</i>	5,9%	6,6%	7,4%	8,0%
Local government allocation	4,2%	4,5%	4,6%	4,6%
<b>Total to be shared</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<b>Average annual change</b>				<b>2003/04 – 2006/07</b>
National allocation				7,9%
Provincial allocation				9,7%
<i>of which</i>				
<i>Equitable share</i>				8,3%
<i>Conditional grants</i>				20,7%
Local government allocation				12,5%
<b>Total</b>				<b>9,1%</b>

1. Excludes the contingency reserve which is not allocated to any sphere.

## Spending by type of service

In table 5.3, consolidated national and provincial expenditure trends over the MTEF are presented by type of service. There are four main service groups: social services, protection services, economic services and infrastructure, and administration. The aggregate spending in the tables that follow includes national and provincial departmental expenditure, transfers to local government and the social security funds. This covers a wider envelope than the national budget framework discussed above.

**Table 5.3 Consolidated national and provincial expenditure by type of service**

R million	2002/03 Outcome	2003/04 Revised	2004/05	2005/06	2006/07
			Medium term estimates		
<b>Social Services</b>					
Education	62 868	69 329	75 582	80 530	85 626
Health	35 052	39 305	43 401	47 502	51 691
Welfare and social security	41 485	49 287	55 664	64 259	70 577
Other social services	13 677	16 736	18 219	19 674	20 771
<b>Protection services</b>					
Defence	20 763	22 981	23 131	25 099	24 781
Justice, police and prisons	32 656	36 021	39 778	43 211	46 164
<b>Economic services &amp; Infrastructure</b>					
Water and related services	4 679	6 374	6 104	6 758	7 191
Agriculture, forestry & fishing	5 729	6 750	7 155	7 701	8 218
Transport and communication	13 825	15 623	16 929	19 403	20 615
Other economic services	12 176	15 396	17 044	19 145	21 666
<b>Administration</b>	20 119	22 426	27 395	29 995	32 193
<i>of which: Local government equitable share</i>	3 964	7 180	8 536	9 578	10 356
<b>Total</b>	<b>263 028</b>	<b>300 229</b>	<b>330 400</b>	<b>363 277</b>	<b>389 493</b>
<b>Changes from 2003 Budget <sup>1</sup></b>					
<b>Social Services</b>					
Education		156	1 303	1 537	1 909
Health		157	840	1 771	3 231
Welfare and social security		565	378	1 250	3 791
Other social services		16	28	273	206
<b>Protection services</b>					
Defence		500	-73	-113	-1 944
Justice, police and prisons		27	334	651	1 062
<b>Economic services &amp; Infrastructure</b>					
Water and related services		346	214	303	368
Agriculture, forestry & fishing		34	127	195	262
Transport and communication		70	351	387	458
Other economic services		14	1 603	3 145	4 711
<b>Administration</b>		683	1 463	1 665	2 172
<i>of which: Local government equitable share</i>		-	600	700	900
<b>Total</b>		<b>2 568</b>	<b>6 568</b>	<b>11 064</b>	<b>16 225</b>

1. Total changes from 2003 budget include additional allocations to all spheres, increased expenditure of the Social Security Funds and a draw-down of provincial reserves in 2002/03.

Relative to last year, the shares for economic services and social services rise, administration is broadly stable while protection services falls. Social services account for 58,3 per cent of projected non-interest expenditure next year, protection services 19,0 per cent, economic services and infrastructure 14,3 per cent and administration functions 8,3 per cent.

*The largest increases in spending occurs in social services*

As in the last budget, social services receive the largest additions to baseline budgets over the period. This is largely due to the expansion of the social security system, the anti-retroviral roll-out in provinces and higher direct allocations to schools. The main revisions proposed for the 2004 MTEF are as follows:

*Increased allocations for social grants, health services and education*

- Additional spending on social services above baseline over the next three years totals R16,4 billion. This maintains annual average growth in social spending of 9,4 per cent over the period. Within education, spending on critical learning materials and other supplies will be prioritised. In health, the rollout of the ARV programme dominates the new allocations.
- The main adjustments in economic services and infrastructure relate to national and provincial roads, water services, land reform and restitution, and municipal infrastructure.
- The integrated justice system receives additional funds for modernisation of the sector and to further improve courts administration. The Police Service receives funding for more personnel while savings on Defence arise from adjustments in exchange rate projections.
- Increased allocations for administrative services include increasing access to services delivered by Home Affairs, strengthening capacity for statistical analysis and allocations for national and provincial elections next year and local elections thereafter. Setting up institutions in support of Nepad and the African Union are also accommodated, notably the African Peer Review mechanism. The increase to the local government equitable share also falls in this category contributing to the large growth in administration spending.

### **Key spending areas**

Table 5.4 is a breakdown of total non-interest expenditure according to service share. Large annual increases in spending over the next three years occur in welfare and social security (12,7 per cent), transport and communications (9,7 per cent), and health services (9,6 per cent).

*Social security spending increases by 12,7 per cent a year*

**Table 5.4 Service shares and growth**

	2002/03 Outcome	2003/04 Revised	2004/05	2005/06	2006/07	2003/04 – 2006/07 Average annual growth
Per cent	Medium term estimates					
<b>Social Services</b>						
Education	23,9%	23,1%	22,9%	22,2%	22,0%	7,3%
Health	13,3%	13,1%	13,1%	13,1%	13,3%	9,6%
Welfare and social security	15,8%	16,4%	16,8%	17,7%	18,1%	12,7%
Other social services	5,2%	5,6%	5,5%	5,4%	5,3%	7,5%
<b>Protection services</b>						
Defence	7,9%	7,7%	7,0%	6,9%	6,4%	2,5%
Justice, police and prisons	12,4%	12,0%	12,0%	11,9%	11,9%	8,6%
<b>Economic services &amp; Infrastructure</b>						
Water and related services	1,8%	2,1%	1,8%	1,9%	1,8%	4,1%
Agriculture, forestry & fishing	2,2%	2,2%	2,2%	2,1%	2,1%	6,8%
Transport and communication	5,3%	5,2%	5,1%	5,3%	5,3%	9,7%
Other economic services	4,6%	5,1%	5,2%	5,3%	5,6%	12,1%
<b>Administration</b>	7,6%	7,5%	8,3%	8,3%	8,3%	12,8%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>9,1%</b>

### Social Services

*Social service delivery mostly at provincial level*

A key pillar of Government's development strategy is investment in human capital through the education, skills development and health systems and the extension of income support through the social grant system. In 2004/05, social services expenditure is projected to rise to R192,9 billion. The bulk of this spending takes place at provincial level where primary responsibility lies for delivering school education, primary health care and hospital services, social grants and welfare services.

*Growth in beneficiary numbers*

Current budgets provide for strong growth in provincial social grant spending, underlining Government's commitment to broadening social security. Beneficiary numbers exceeded 7 million in October 2003 with the number of child support grants increasing by more than a million since March 2003, to 3,6 million. Additional funding on the provincial equitable share accommodates the full phasing-in of the extension of the child support grant to children between ages 7 and 14 and to accommodate rapid growth in access to other grants, notably the disability and foster care grants.

*Establishment of a National Social Security Agency*

The first phases of setting up a public entity for the administration of grants, with legislation to establish the National Social Security Agency currently passing through Parliament, will be funded on the Vote of the national Department of Social Development. This strengthens efforts to improve the operation of the grant system.

There has been progress in improving the financial health of the social security funds. Adjustments to the unemployment insurance legislation, better revenue collection and other administrative reforms have led to a successful turnaround of the financial position of the Unemployment Insurance Fund. In contrast to the experience of past years, substantial cash flow surpluses are now being generated. Government is also considering recommendations by the Satchwell Commission on restructuring the Road Accident Fund to improve its operation and basis of funding. Rationalisation of the various compensation funds under the leadership of the Department of Labour also continues to receive attention.

*Successful turnaround of the UIF*

Health expenditure estimates provide for improvement in the remuneration of medical professionals and adjustment of rural allowances. Baseline budgets also provide for significant growth in the Hospital Revitalisation Programme and the Integrated Nutrition Programme. Planning for the transfer of the school nutrition component of the Integrated Nutrition Programme grant to the Department of Education from 1 April 2004 is also at an advanced stage.

The 2004 MTEF will continue to strengthen health funding to deal with the impact of HIV and Aids. Baseline increases in the health conditional grant for HIV and Aids will accommodate extending appropriate treatment programmes. Planning for implementation of a national anti-retroviral programme is at an advanced stage, and procurement teams are exploring mechanisms to reduce the unit costs of treatment further. The new treatment programme complements the ongoing prevention and treatment activities under the Enhanced Response to HIV and Aids.

*ARV programme planning at advanced stage*

Increasing allocations to infrastructure, learning materials and other support services in schools are key elements of the strategy to improve quality in the school system. Additional funds will go to curriculum development and for increasing the supply of learning and teaching materials to poor schools.

*Targeted support to improve quality in schools*

At the national level, further allocations are proposed for the transformation of higher education. The cost of restructuring the higher education sector is anticipated to reach R3 billion. Strategies to improve further education and training are also ongoing while the funding of the National Student Financial Aid Scheme, enabling more poor students to gain access to tertiary education, remains a priority. These investments in the education sector will contribute to deepening the skills base by creating financially stable tertiary institutions that are better placed to respond to the needs of the economy and of society in general.

*Promoting financially stable tertiary institutions*

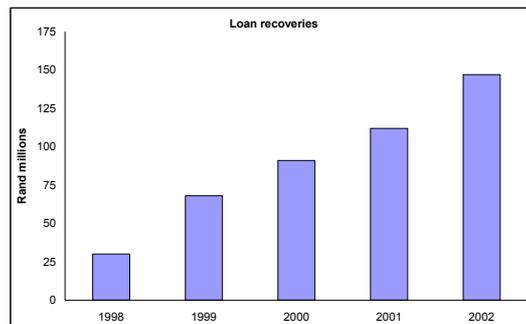
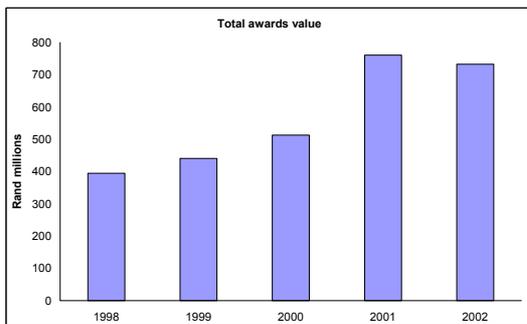
### The National Student Financial Aid Scheme – Addressing the Human Resource Challenge

The National Student Financial Aid Scheme (NSFAS) seeks to impact on South Africa’s skewed student population by providing a sustainable financial aid system that enables academically deserving and financially needy students to meet their own and South Africa’s development needs. The NSFAS has been constituted through the NSFAS Act (56 of 1999) according to which it has the responsibility to allocate funds for loans and bursaries to eligible students, raise funds and recover loans. For the 2003 academic year, NSFAS financial assistance is structured as follows:

- A maximum award of R20 000 and a minimum of R1 500;
- A maximum of 40% of an award may be converted into a bursary, based on student’s academic results (interest on converted part of loan is written off);
- Present interest rate on loans - 10,4%; and
- Loan repayments begin at 3% of annual salaries earned at R26 000 and rise to 8% of salaries earned at R59 000.

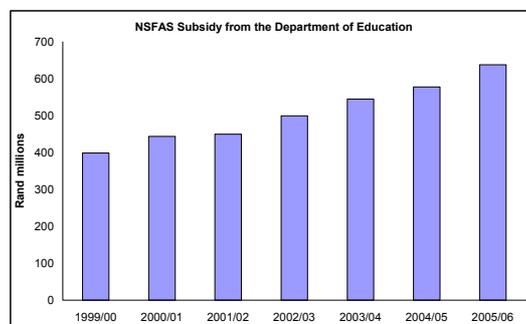
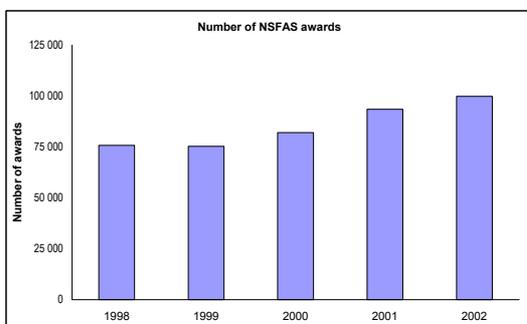
The NSFAS generates resources from various stakeholders. These include the Department of Education, various donors (international and local) and, more recently, the National Skills Development Fund. Successful loan recovery to assist future generations of students is a growing feature of the scheme.

The value of total awards increased from R71 million in 1994 to R733 million in 2002. The NSFAS is acknowledged as a successful loan and bursary scheme with a proven and effective administration system, a flexible, resilient and innovative IT infrastructure and political backing to ensure its ongoing existence. Through these qualities and sound management, governance and staffing structures, the Scheme can move forward with confidence in building a sustainable financial aid scheme.



The Department of Education’s allocations to the NSFAS have more than doubled since its establishment and reached an amount of R500 million in the 2002/03 financial year. This amount is expected to grow to almost R700 million over the 2004 MTEF. The Department is presently reviewing the existing formula for determining the NSFAS grants to institutions to improve access and equity further.

The relationship between the NSFAS and the public higher education institutions is an integral part of the success of the scheme. A Financial Aid Office has been established at every institution to administer the loan application process. The number of NSFAS awards increased from 28 260 in 1994 to 75 764 in 1998. A further upward trend has been experienced since then, totalling 99 873 awards in 2002 that assisted 86 151 students. The scheme also serves as a tool for Government and donors to target the kinds of subjects that will strengthen scarce skills in the economy.



Sport and recreation contribute to a balanced education, creates economic opportunities and promotes a national identity. Provision is made for launching a national sports academy and for building increased participation in sport and recreation activities. Should the 2010 Soccer World Cup Bid be successful, Government will consider options for supporting the successful hosting of the tournament, including contributions to investment in upgrading stadiums.

### **Protection Services**

Crime prevention remains a core priority for Government. Further support is proposed to enhance the sector policing strategy of the SA Police Service. An additional 3 000 personnel will be provided for over the MTEF period. Beyond extra personnel, the vehicle fleet and IT infrastructure of SAPS will be expanded. The criminal justice system is undergoing considerable modernisation and re-engineering of business processes through the Integrated Justice System Programme.

*Significant modernisation of the criminal justice system*

In the Justice system, policies and programmes catering for vulnerable groups are prioritised. Provision has been made to implement the Children's Bill and the Child Justice Bill, aimed at establishing Child Justice Centres, which will result in the diversion of children away from prisons towards more rehabilitative programmes. Similarly, the roll out of sexual offences courts, the appointment of family advocates and counsellors and dedicated maintenance officers will improve the quality of services to vulnerable groups.

*Services to vulnerable groups are prioritised*

The Department of Correctional Services is focussing on efforts to reduce re-offending rates by providing rehabilitative programmes in prisons and monitoring the progress of offenders. The composition of remission and parole boards is also under review to include victims and community representatives. The longer-term challenge for the department is strengthening capacity for rehabilitation and correctional interventions in the face of a rising prisoner population.

*Re-offender rates are being targeted*

The Department of Defence will continue its regional peacekeeping role, particularly in the Democratic Republic of the Congo and Burundi. In recognition of South Africa's increasing regional responsibilities, significant allocations are made over the MTEF period. Efforts are also under way to secure greater collaboration with the United Nations and other members of the Africa Union in the spirit of regional partnership.

## Fighting Crime

South Africa's crime prevention strategy is based on community policing principles - communities in partnership with the SAPS. A sector policing approach was introduced in 2002/03 to increase the visibility of and access to police officers, particularly in poor areas where crime levels are high. This approach is continuing into future financial years and is supported by a recruitment programme which will see the number of officers increasing to 155,560 by the end of March 2007, an 18.2 per cent increase.

Incidence of Crime per 100 000 of the Population						
	1998/99	1999/00	2000/01	2001/02	2002/03	Change 1yr
Murder	59.6	52.5	49.8	48.0	47.4	-1.3%
All Assault	1118.1	1212.5	1264.3	1250.3	1286.4	2.9%
All Robbery	374.1	403.0	466.8	464.4	502.6	8.2%
Rape	117.9	122.9	121.0	121.8	115.3	-5.3%
All Housebreakings	874.4	889.6	903.3	874.7	866.7	-0.9%
Stock-theft	98.5	96.2	95.1	93.4	102.7	10.0%
Shoplifting	153.3	153.4	154.9	153.5	151.8	-1.1%
Theft-Motor vehicle	255.0	239.3	229.0	217.4	204.9	-5.8%
Theft-out of/from vehicle	451.0	453.9	459.0	447.2	431.0	-3.6%
Other Thefts	1048.0	1152.9	1281.1	1294.1	1364.5	5.4%
Commercial crime	150.4	157.7	152.4	131.2	123.7	-5.7%
Malicious damage to property	306.6	312.0	319.2	326.4	345.6	5.9%
Illegal possession of firearms	34.9	35.7	33.8	34.8	34.8	0.0%
Drug related crime	93.7	101.0	102.9	118.7	118.4	-0.3%
Driving under the influence of alcohol or drugs	59.6	60.4	58.4	55.1	48.7	-11.6%

Source: SAPS Annual Report 2002/03

SAPS statistics, summarised above, show stabilisation or reductions in the incidence of several categories of serious crime, but overall levels remain unacceptably high. Amongst various initiatives, major changes in the SAPS's Detective Services function and the enhancement of crime prevention programmes have contributed to the progress made. Moreover, there is a renewed focus on serious and priority crimes such as murder and crimes against women and children. Measures that contribute to strengthening the fight against crime include:

- Full implementation of sector policing at 943 of 5 756 stations
- Increases provision of equipment, to cater for all newly recruited personnel
- Restructuring of the specialised investigation units
- Implementation of the Firearm Control System to aid the recovery of firearms
- Use of the Automated Fingerprint Identification System to eliminate identification delays
- Introduction of an exhibit management system in the forensic science division
- Improvement of crime intelligence.

## Economic services and infrastructure development

Increasing investment in infrastructure is a key element of the strategy to spur economic growth. From 2000/01 to 2003/04, national and provincial government spending on roads amounted to R20,8 billion. To address the maintenance and rehabilitation backlogs on the roads network, additional spending of R750 million is proposed for the next three years. This will also provide for the transfer of strategic provincial roads to the SA National Roads Agency Limited. At the same time, improved regulation and monitoring of road traffic is prioritised including the completion of the National Traffic Information System (NaTIS) project.

*Completion of the NaTIS strengthens road traffic management*

Another key infrastructure priority relates to increased municipal infrastructure investment and the creation of self-sustaining neighbourhoods and communities. To facilitate delivery of infrastructure to poor communities, the Municipal Infrastructure Grant (MIG) will consolidate all other infrastructure grants to local government. Through the MIG, Government aims to eliminate backlogs in basic infrastructure to poor households over a ten-year period.

*Municipal infrastructure investment facilitated through the MIG*

### Road Infrastructure: Partnership and Co-operation

The road network in South Africa is a major asset, providing services directly, and serving as a catalyst for economic integration, redistribution and development. There are 752 000 kms of roads in SA, of which 532 000 km are proclaimed and 220 000 km are unclassified. These roads are managed by all three spheres of government in a complex series of partnerships and co-operative arrangements.

National roads are constructed, operated, and maintained by the SA National Roads Agency Limited (SANRAL) while the National Department of Transport (NDoT) is responsible for developing policy and legislation on roads. The other two spheres of government are directly involved in the planning, construction and maintenance of provincial and municipal roads. Of the proclaimed roads, SANRAL is responsible for 7 000 kms, the provinces for 349 000 kms and local government for the remaining 176 000 kms. National road infrastructure is funded through a transfer from the NDoT to SANRAL, and from toll revenue raised by SANRAL. From 2000/01 to 2003/04, provincial and national spending increased by 20,3 per cent per annum on average. Local government budgets for roads, pavements and storm water control for 2002/03 are estimated to be at least R1,8 billion.

R millions	2000/01	2001/02	2002/03	2003/04
Provinces	2 967	3 689	4 736	5 089
National	701	1 067	1 203	1 291
<b>Total</b>	<b>3 668</b>	<b>4 756</b>	<b>5 939</b>	<b>6 380</b>

(Note: Excludes SANRAL's toll revenue, and municipal spending)

SANRAL receives 25 per cent of the combined national and provincial roads budget for about 6 per cent of the country's paved road network that consists largely of freeways and dual carriage roads. In addition, SANRAL is assisting provinces with the rehabilitation and maintenance of strategically important provincial roads.

Toll fees are an important supplement to public funding for the national road network. SANRAL has established a series of partnerships with private road contractors structured around concessioned or state toll roads. Concessioned toll roads currently account for 18 per cent of national roads (1 296 kms). State toll roads are funded through loans obtained by the private sector backed by government guarantees; they account for about 8 per cent of the national road network. In all, national road partnerships have resulted in R5,3 billion in private investment since 1999, or 58 per cent of the total investment in construction, upgrading, rehabilitation and maintenance of national roads. Looking ahead, the current partnerships are expected to result in further private sector investment of R5,9 billion.

*More effective targeting of free basic services*

Investment in municipal infrastructure will, in part, facilitate the roll out of free basic services. The main challenge is to extend essential services to poor households, particularly those without access to piped water and electricity. The local government equitable share is increased substantially to assist municipalities in this regard. More attention is also required on the sanitation programme. A community based programme approach has been successfully scaled up in the Eastern Cape and KwaZulu Natal and will be expanded to other provinces. Effective targeting of these services is required to finance the backlogs in a sustainable manner.

*Development of large dams in support of industry*

To contribute to broader development requirements associated with water infrastructure, a number of large dams are under construction. These projects have strategic importance in that they support mining and other industries. New mining projects in Limpopo and Mpumalanga will be supported by the Olifants River dam. The capacity of the Tzaneen Dam will also be increased. These dams also support water needs for irrigation and households.

*BEE projects to be jointly financed with private sector.*

In the 2003 Budget speech, a commitment was made to promote broad-based Black Economic Empowerment (BEE) through a R10 billion allocation over the next five years. The 2004 Budget will effect this commitment with an initial R6 billion allocation over the MTEF period. The National Treasury and the Department of Trade and Industry are currently reviewing options for supporting targeted empowerment transactions and, in particular, clarifying the role of the National Empowerment Fund.

*Momentum is maintained in the land reform and restitution programmes*

The land reform and restitution programmes remain central to Government's poverty alleviation strategy. Additional allocations to maintain the momentum of these critical programmes are proposed. The Restitution programme has begun to settle rural claims, which requires enhanced institutional capacity. The Land Redistribution for Agricultural Development (LRAD) programme is transferring land at an accelerating pace but face challenges in ensuring that adequate agricultural support services follow the transfer of land. A policy review of LRAD is expected to address these issues.

**Administrative services**

*Mobile units in rural areas increase accessibility and quality of core services*

Government seeks to provide courteous and efficient services in support of citizen's rights, through modernisation of systems and accountable governance. To this end, Home Affairs is committed to transforming its services to the public and is making major investments in capital works and office accommodation as well as in upgrading its systems infrastructure. Furthermore, to ensure that core services are

accessible to citizens in remote areas, the department is increasing the number and quality of service points, particularly in rural areas where 67 mobile units will be deployed.

To improve the quality of statistics available for development planning and economic management, Statistics South Africa will be strengthening its capacity to collect and analyse key social and economic data sets. Statistics SA has undergone a rigorous planning exercise that has identified strategic interventions over the next few years to allow it to meet the needs of its clients in the public and private sectors. Planning for a follow up to Census 2001 will begin next year, drawing upon the lessons and successes of the last exercise.

*Quality of economic statistics are targeted for improvement*

Next year's national and provincial elections receive additional funding for more than 2000 new voting stations in rural areas and informal settlements. Preparations for the local government elections in 2005 also receive support. As a means of reducing costs, the Independent Electoral Commission has introduced an electronic system of procuring goods and services, which will result in a more efficient and streamlined tendering process.

South Africa's international role, especially in Africa, will continue to grow. The establishment of institutions of the African Union is underway with the formation of the African Peer Review mechanism. The Nepad Secretariat is further strengthened and the African Renaissance Fund will support regional development and conflict resolution. Beyond the Africa region, South-South cooperation with Asia, Latin America and the Caribbean Islands will be actively promoted to facilitate development of common strategies in global trade negotiations and other areas of mutual interest. Foreign properties will be acquired to reduce rental costs to the Department of Foreign Affairs.

*Progress in creating institutions of the Africa Union and Nepad*

In support of local government transformation, provision is made for building institutional and administrative systems. Additional capacity is also provided for coordinating the Free Basic Services programme that will continue to expand through allocations to the local government equitable share.

## **Economic classification of expenditure**

Table 5.5 is a summary of projected consolidated national and provincial expenditure, excluding debt service costs, by economic category. Current expenditure accounts for just under 90 per cent of non-interest expenditure in 2003/04, declining marginally over the MTEF period, while capital spending rises from 9,5 per cent in 2002/03 to 11,8 per cent in 2006/07.

**Table 5.5 Consolidated national and provincial expenditure – economic classification**

R million	2002/03	2003/04	2004/05	2005/06	2006/07
	Outcome	Revised	Medium term estimates		
<b>Current expenditure</b>	<b>238 020</b>	<b>266 600</b>	<b>293 405</b>	<b>321 217</b>	<b>343 703</b>
Personnel	111 352	122 536	131 793	140 699	149 779
Transfer payments	84 183	99 193	108 365	121 870	129 444
Other	42 485	44 871	53 247	58 648	64 479
<b>Capital expenditure</b>	<b>25 008</b>	<b>33 630</b>	<b>36 995</b>	<b>42 060</b>	<b>45 790</b>
Transfer payments	12 946	16 824	17 983	21 152	23 478
Acquisition of capital assets	12 062	16 806	19 012	20 908	22 312
<b>Non-interest expenditure</b>	<b>263 028</b>	<b>300 229</b>	<b>330 400</b>	<b>363 277</b>	<b>389 493</b>
State debt cost	47 250	47 197	51 266	54 601	57 806
Unallocated	–	–	2 000	4 000	8 000
<b>Total</b>	<b>310 278</b>	<b>347 426</b>	<b>383 666</b>	<b>421 878</b>	<b>455 299</b>
<b>Changes from 2003 Budget</b>					
<b>Current expenditure</b>		<b>2 540</b>	<b>4 642</b>	<b>7 561</b>	<b>11 305</b>
Personnel		723	1 106	1 480	2 207
Transfer payments		1 291	925	2 234	2 630
Other		526	2 611	3 847	6 468
<b>Capital expenditure</b>		<b>28</b>	<b>1 925</b>	<b>3 504</b>	<b>4 921</b>
Transfer payments		20	1 269	2 380	3 580
Acquisition of capital assets		8	656	1 124	1 341
<b>Total</b>		<b>2 568</b>	<b>6 568</b>	<b>11 064</b>	<b>16 225</b>

## Personnel expenditure

*Adjustments to Personnel budgets expected to moderate*

Spending on personnel remains the largest component of current expenditure. However, with low inflation expected over the next few years, adjustments to personnel budgets should ease as salary negotiations become forward looking. The allocations provide for moderate real increases in remuneration, a measured increase in employment in health and the criminal justice sector and resources to attract and retain scarce skills.

*Remuneration to increase in line with inflation*

During 2003, public service salaries were adjusted by 8,0 per cent for senior managers and 8,5 per cent for other personnel. Departments have been compensated for the additional 0,5 per cent in excess of the original personnel budgets. Over the MTEF period, departments and provinces will receive the associated carry-through costs. Furthermore, departmental spending plans take into account pay progression costs amounting to about 1 per cent of payroll each year. The preliminary framework for the 2004 Budget assumes salary increments of 6 per cent, 5 per cent and 5 per cent over the next three years, beginning from 2004/05.

*Targeted adjustments for critical scarce skills*

More broadly, Government is faced with the challenge of recruiting and retaining scarce skills in the public service. Targeted interventions are required such as the proposed agreement for key medical workers. A long-term solution will

require appropriate remuneration policies, development of clear career paths and improved training systems.

Government is also paying attention to revising the benefit structure of the Government Employees Pension Fund. In particular, benefits for orphans and a funeral plan are being introduced. Steps are underway to provide a more equitable pension benefit to members of the SA National Defence Force who came from non-statutory forces.

### **Capital and infrastructure spending**

Increasing capital and infrastructure spending is one of Government's main contributions to boosting economic growth. While provincial capital budgets are growing rapidly, there is still a need for further spending on provincial roads and other infrastructure projects. In the next few years, provincial and local government budgets will provide additional resources for labour-based infrastructure under the umbrella of the Expanded Public Works Programme. Over the MTEF period, infrastructure budgets for national and provincial governments grow by an annual average of 7,9 per cent. However, the slowdown in spending on housing is a cause for concern that needs to be addressed.

*Infrastructure delivery to poorer provinces has been prioritised*

Major national and provincial projects include the upgrading of strategic provincial roads, the construction of four new prisons, the hospital revitalisation programme, transfrontier park infrastructure and urban renewal projects such as Gauteng's Blue IQ projects. At the local level, the implementation of the Municipal Infrastructure Grant (MIG) will contribute to accelerated delivery of social and economic infrastructure.

### **Conclusion**

Real non-interest spending is projected to grow by 4,4 per cent a year over the 2004 MTEF period. Consequently, in spite of slower economic growth, and a narrower resource envelope, Government is able to maintain its core policy commitments and to expand them in key areas of public service delivery and infrastructure development.

*Strong real growth is maintained in spite of slower economic growth*

The 2004 Budget will contribute to a recovery in economic growth primarily through sustained levels of infrastructure spending and a sharp focus on enhancing job creation. The Expanded Public Works Programme will be a key driver in this respect as an increasing proportion of spending is channelled towards labour-intensive construction methods. This will create jobs, develop skills and reduce poverty, particularly in peri-urban and rural areas.

*Government spending will spur growth through strategic investments*

*Growing emphasis on efficiency and impact of spending*

Extensive reforms in public expenditure management have allowed Government progressively to meet the commitments enshrined in the Constitution and given practical effect in the Reconstruction and Development Programme. During the second decade of democracy, there will be a growing emphasis on the efficiency and impact of public spending, alongside further extension and enhancement of services.