NATIONAL TREASURY

A People's guide...

BUDGET 2006

What is the National Budget?

In February of every year the Minister of Finance announces Government's spending, tax and borrowing plans for the next three years. This is called the National Budget. It describes how money raised through taxes and loans will be divided among national departments, provinces and municipalities. Government's spending plan over three years is called the Medium Term Expenditure Framework (MTEF).

Towards an Accelerated and Shared Growth

The South African economy is currently growing at 5 per cent a year, contributing to both job creation and rising incomes. Inflation will remain at about 4,5 per cent on average over the next 3 years, thereby protecting the buying power of South Africans, especially the poor.

The necessary reforms and programmes to achieve more rapid growth and broad-based empowerment are being put in place through the Accelerated and Shared Growth Initiative (ASGISA), led by Deputy-President, Phumzile Mlambo-Ngcuka.

This initiative looks at how to achieve increasing investment, improved productivity and skills development. More investment will help to improve the standard of living of South Africans, as it creates jobs, reduces poverty and increases the number of South Africans who participate in the economy.

2006 Budget at a glance

R billion	2006/07	2007/08	2008/09
Revenue	446,4	492,0	547,1
Expenditure	472,7	519,2	571,3
Deficit	26,4	27,2	24,2
% of GDP	1,5%	1,4%	1,2%
Expenditure per person* (Rands)	R8,793	R9,650	R10,592
*excluding interest on debt			

Revenue collection in 2005/06 was R41,2 billion more than expected. High revenue collection means more resources are available for spending on key social and economic priorities. The 2006 Budget increases expenditure by R106 billion over the next 3 years.

In line with Government's priorities, the 2006 Budget provides additional funds for the following:

- Improvement of Further Education Colleges and the introduction of no-fee schools;
- Fixing of hospitals and acquisition of medical equipment;
- Expanding social welfare services and better management of social grants;
- Building houses and community facilities and improving municipal infrastructure;
- Provision of safe and efficient transport by investing in the passenger rail network;
- Investment in transport infrastructure and better management of roads;
- Improvement of service delivery at public administration centres;
- Increased capacity to fight crime and improve the effectiveness of the courts; and
- Improving municipal facilities to deliver basic services to communities.

Budget Highlights

Tax proposals:

- R13,5 billion in Personal Income Tax relief. People earning R40 000 and less pay no Income Tax
- R7 billion tax relief from the abolition of RSC levies
- Transfer duty relief of R4,5 billion
- Reduction in retirement funds tax
- Tax on the medical aid subsidy is changing to benefit low income families
- Tax allowance for Learnerships extended to 2011
- Tax amnesty for small businesses
- The Road Accident Fund (RAF) levy will increase by 5c a litre
- A packet of 20 cigarettes will cost 52c more, a 340 ml beer can will cost 5c more and spirits will cost R1,54 more per 750 ml bottle

Total Spending 2006/07:

- R80,6 billion for welfare and social security
- R92,1 billion for education
- R54,5 billion for health
- R88,6 billion for economic services
- R9,2 billion for housing
- R25,6 billion for community development
- R34,7 billion towards transport and communication
- R79,6 billion for protection services such as police, justice and defence

Division of Revenue: 2006 MTEF

R billion	2006/07	2007/08	2008/09
National Departments	215,0	234,0	254,5
Provinces	176,7	196,4	217,5
Municipalities	26,5	30,5	35,6
Reserve (unallocated)	2,5	5,0	8,0
Total non-interest expenditure	420,7	465,9	515,6
% increase over previous year	9,7%	6%	5,4%

The division of nationally collected revenue this year takes special account of the need to improve local economic development, education, health and welfare services. With the establishment of the South African Social Security Agency, responsibility for social grants payments shifts from provinces to national government. In 2006/07, provinces will receive 42,3 per cent of government revenue. National Departments will receive 51,4 per cent and local government will receive a total allocation of R26,5 billion.

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Better Management of Social Grants

Government is committed to protecting the most vulnerable through monthly income support from the grant system. This helps to reduce poverty and improve the standard of living of poor South Africans.

An Agency (the South African Social Security Agency) has been established to make the payments of social grants more efficient and predictable. The Agency will also work towards reducing corruption and ensuring that social grants reach those who need them the most.

In 2006, it is expected that the number of those who receive social grants will increase to 11 million. The 2006 Budget also provides for an increase in social grants payment of more than the inflation rate, giving recipients a real income increase.

From April 2006, the old age pension and the disability grant will increase to a maximum of R820 a month. The child-support grant, covering children up to age 14, will go up to R190 a month.

More Funds for Municipal Services and Infrastructure Development

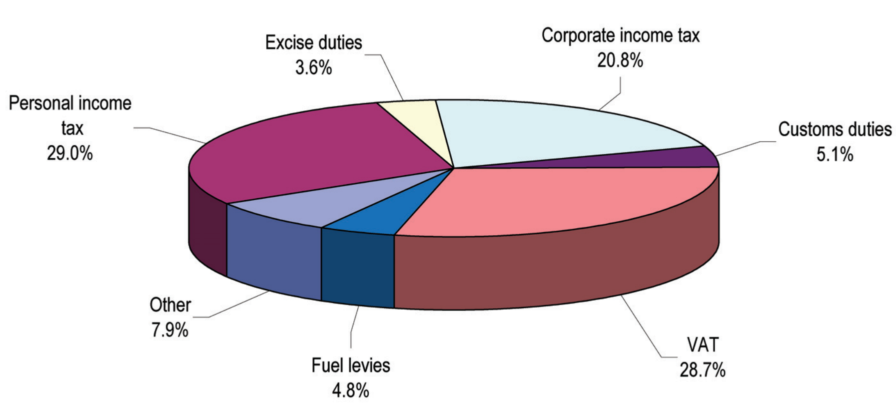
The improvement of local service delivery is particularly important, as it is at the heart of service delivery for government. The 2006 Budget has prioritised municipal services and community infrastructure by allocating R28,4 billion over the next three years.

These services will include the improvement in basic municipal infrastructure, the improvement in the provision of water and sanitation, the building of houses to facilitate government's plan of building sustainable communities and the upgrading of informal settlements by 2014.

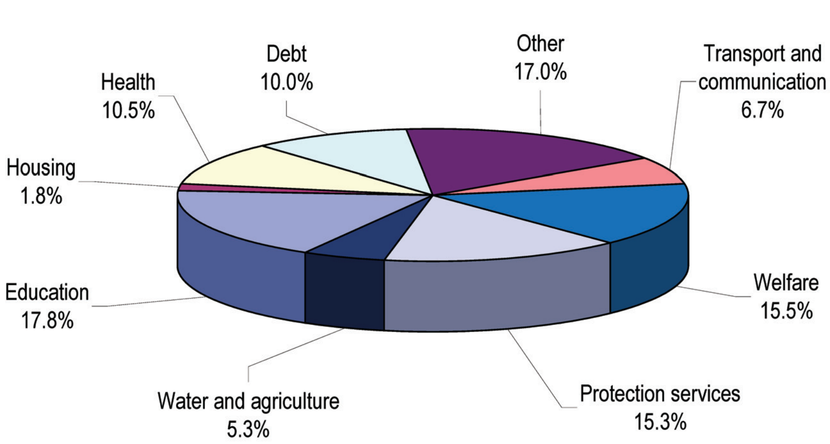
Training prorammes to improve the administation of municipalities remain a priority.

Government has prioritised local transport infrastructure. R1,3 billion has been allocated towards improving commuter rail services and local public transportation. Better road infrastructure will also facilitate the transportation of goods, services and people efficiently and effectively.

Tax Revenue



Government expenditure



Infrastructure Investment for Growth

Investment in economic infrastructure remains one of the crucial priorities of Government, as it is the key to economic growth and job creation.

Over the next 3 years, Government will increase spending on infrastructure by R33 billion. These funds will be used towards the refurbishment of hospitals, improvement of transport infrastructure, support for the Gautrain Rapid Rail Link, the building of World Cup stadiums and the allocation of resources to national, provincial and local roads.

State owned enterprises reinforce Government's commitment to infrastructure by planning R123,4 billion in economic infrastructure spending over the next 3 years. This includes R32 billion investment spending on rail and ports infrastructure, which will contribute to efficient and effective transportation of goods, as production by our mines and factories increase.