

RECONSTRUCTION, DEVELOPMENT AND THE BUDGET

Reconstruction and development priorities

Shared commitments

Reconstruction and development are aimed at a better life for all South Africans. This is the foundation of the partnership between government and the people that underpins our medium term policies and priorities. The Foreword to the 1997 *Medium Term Budget Policy Statement* summarised our shared commitments as:

- ◆ meeting the basic needs of the people;
- ◆ accelerating the basis for sustained economic growth, development and job creation;
- ◆ development of our human resources;
- ◆ ensuring the safety and security of the citizen and the state; and
- ◆ transforming the organs of government to reflect the developmental and people-centred nature of our democratic state.

Social and development policies and the budget

This chapter reviews key social and developmental policies reflected in South Africa's medium term budget trends. It reflects the contribution of the fiscus to Government's reconstruction and development initiatives, and highlights the impact of new policies and programmes on the structure and distribution of government spending.

Since 1994, the policies and programmes of Government have been subject to extensive consultation, publication of discussion documents, White Papers and wide-ranging legislative or regulatory reforms. The medium term expenditure framework reflects the spending implications of these transformation initiatives, within a sustainable overall budget framework.

MTEF reviews

Focused reviews of six spending functions – education, health, welfare and social security, infrastructure investment, the integrated

justice sector and personnel spending – were conducted as part of this year’s budget programme. The discussion below summarises many of the findings and recommendations of these reviews.

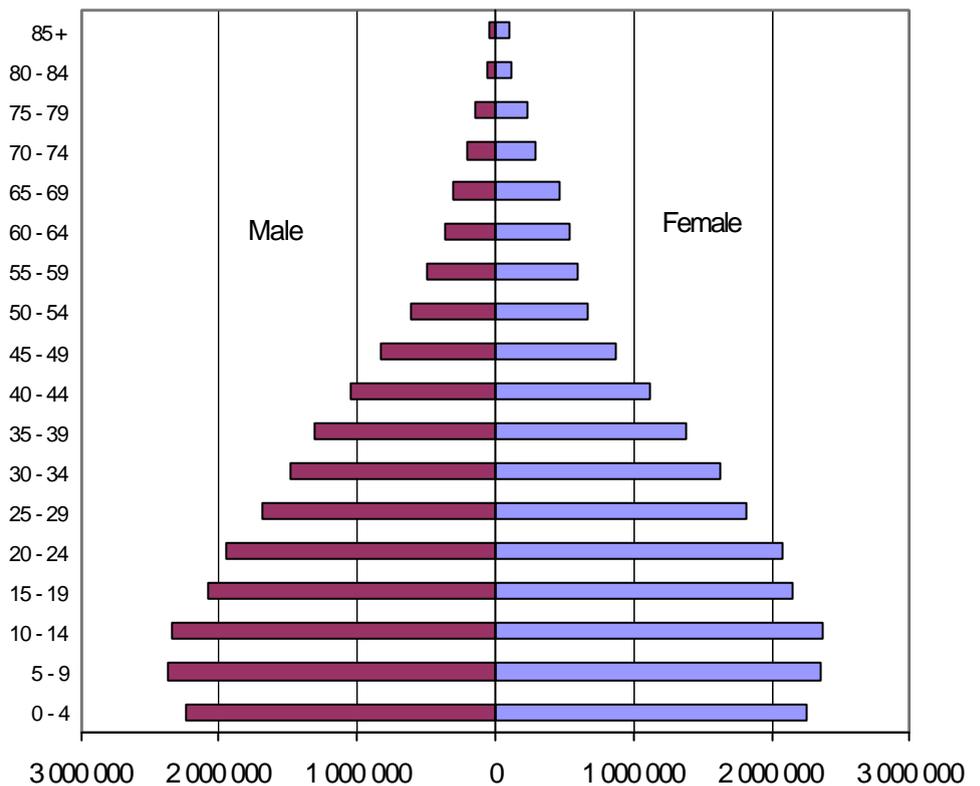
Demographic trends

1996 census results

The final results of the 1996 census have now been published. The estimated age distribution reflected in the 1996 census is illustrated below and the population distribution by province is set out in table 4.1.

Although the revised estimates reflect a larger total population than the preliminary census results published last year, they confirm that fertility rates have declined over the past two decades and migration from rural to urban areas is proceeding steadily.

Figure 4.1: Age distribution of the 1996 population



Population growth trends

Population trends with implications for longer term budgetary planning include the following:

- ◆ population growth has slowed from 2½ per cent in the 1980s to perhaps 2 per cent a year;

- ◆ the age 6 population entering school each year is now about 940 000, set to decline to about 800 000 a year by 2005;
- ◆ the number of young people entering the labour market is about 450 000 a year – this flow will increase to over 600 000 a year in the early 21st century; and
- ◆ the elderly population (men and women over 65) is about 1 960 000 and is growing by about 3 per cent a year.

Table 4.1: Population by province – 1996 census estimates

| | Male | Female | Urban | Rural | Provincial population | |
|----------------------|-------------------------------------|---------------|---------------|---------------|-----------------------|---------------|
| | Percentage of provincial population | | | | % of total | |
| Eastern Cape | 46,1% | 53,9% | 36,6% | 63,4% | 6 303 000 | 15,5% |
| Free State | 49,3% | 50,7% | 68,6% | 31,4% | 2 634 000 | 6,5% |
| Gauteng | 51,0% | 49,0% | 97,0% | 3,0% | 7 348 000 | 18,1% |
| KwaZulu-Natal | 46,9% | 53,1% | 43,1% | 56,9% | 8 417 000 | 20,7% |
| Mpumalanga | 48,6% | 51,4% | 39,1% | 60,9% | 2 801 000 | 6,9% |
| Northern Cape | 49,1% | 50,9% | 70,1% | 29,9% | 840 000 | 2,1% |
| Northern Province | 45,7% | 54,3% | 11,0% | 89,0% | 4 929 000 | 12,1% |
| North West | 49,2% | 50,8% | 34,9% | 65,1% | 3 355 000 | 8,3% |
| Western Cape | 48,9% | 51,1% | 88,9% | 11,1% | 3 957 000 | 9,7% |
| Total ('000s) | 19 521 | 21 063 | 21 782 | 18 802 | 40 584 000 | 100,0% |
| Percentage | 48,1% | 51,9% | 53,7% | 46,3% | 100,0% | |

Employment and unemployment

The census results indicate that total employment in the economy is 9 114 000, of which about 1 800 000 are informal job opportunities. About 22 per cent of the economically active population is unemployed, numbering some 2 000 000 work seekers. A further 2 200 000 people would like to work but no longer actively seek employment.

Growing youth unemployment remains a major challenge, impacting on crime trends and threatening the integrity of family and community structures. The census confirms that the unemployment burden falls disproportionately on black men and women under the age of 35, and is particularly severe in rural areas.

The employment challenge has been the focus of concerted deliberations of government, business, labour and community representatives over the past months. Key elements of Government's contribution to meeting this challenge are summarised below.

Creating jobs

A joint, broad-based approach

Government and the constituencies of civil society represented in NEDLAC have agreed to act in concert to create jobs and stable employment, as part of our broader strategy for providing a better life, with improvement over time, for all our people.

The understanding reached between participants in the Presidential Jobs Summit held on 30 October 1998 recognises that we will have to combine our efforts, in new and innovative ways, to increase the number of jobs created in the South African economy. The Jobs Summit process has focused on a broad range of policy commitments:

- ◆ sustainable and stable macroeconomic and fiscal policies;
- ◆ industry policy measures and programmes that will directly address employment and encourage investment;
- ◆ new programmes to strengthen further the small, medium and micro enterprises sectors;
- ◆ tourism promotion and enhancement of tourism capacity;
- ◆ enhanced delivery of housing and new initiatives to expand the stock of rental housing;
- ◆ human resource development, support for education and broader access to training; and
- ◆ labour market policies dealing with job security, productivity and employment of youth, woman and the disabled.

Special employment programmes

The national budget includes about R5 billion allocated to special employment projects and labour-intensive infrastructure programmes. These exclude ongoing capital and maintenance expenditure by government and public corporations on roads, telecommunications, regional water networks and electrification, several of which are expanding and have significant employment impacts.

Employment-intensive programmes include:

- ◆ the *consolidated municipal infrastructure programme*, comprising grants to local authorities for bulk infrastructure works in low-income neighbourhoods and housing projects;
- ◆ the *community based public works programme*, largely focused on rural road maintenance and other local infrastructure needs;

- ◆ *working for water*, which clears alien vegetation in water catchment areas;
- ◆ *rural water supply and sanitation*, bringing water services to formerly un-served communities;
- ◆ the *housing subsidy programme*, comprising standard capital subsidies for low-income housing development projects; and
- ◆ support for *social development and income-generating projects* of non-governmental organisations.

Focus on women and children

Several of these programmes focus on infrastructural services that strongly benefit women and children – rural water supplies and social development projects targeted at unemployed women with dependent children, for example. Rural projects provide jobs for women without other sources of income.

Cost per job opportunity

Special employment programmes create a “person-year” of work at a cost of about R15 000. These initiatives currently account for about 300 000 jobs, and will add another 100 000 jobs over the next three years.

Government recognises that public spending channelled to employment-intensive activities can contribute to job creation, although this cannot address the entire shortfall in the labour market. Policies aimed at strengthening job creation in the private sector take time to bear fruit, but market-related employment has the advantage of being self-sustaining.

Employment and development

Government has adopted a mix of special employment initiatives that are integrally bound up with key development initiatives. These may involve temporary or short-term projects, but they are elements of a broad-based sustainable reconstruction of the South African economy. Further programmes under consideration include targeted investment in tourism-related infrastructure and a “clean cities” campaign. It is recognised that more work is required to ensure that job creation and training opportunities are maximised in these programmes and progress in this regard will be closely monitored.

Government’s employment creation projects have explicit training components, are aimed at strengthening small businesses and community organisations and will make lasting contributions to local infrastructure. This is a strategy for employment linked to local economic development.

Infrastructure investment

Benefits of infrastructure

Government recognises the importance of strengthening infrastructure investment over the medium term. Energy, transport, communications and social infrastructure bring significant benefits to poor people, and underpin an improved performance of the economy.

Expansion of public sector investment spending

Electrification, investment in airports, construction of toll roads and more recently the investment of Telkom in expanding telecommunication infrastructure have contributed to the recovery of public sector investment spending in recent years. The tariff policies set out in the National Water Policy will over time strengthen the financing of water resource maintenance and construction. The Development Bank of Southern Africa is playing an expanding role in financing infrastructure.

The 1999 Budget and medium term spending projections will give added impetus to Government's contribution to infrastructure investment. Planned capital spending includes:

- ◆ a hospital rehabilitation programme initiated in 1998 that will accelerate over the next three years;
- ◆ a steady increase in the contribution of the fiscus to national roads maintenance; and
- ◆ several major water projects, including the ongoing Komati River project, a joint undertaking with Swaziland, and a new regional water project in the Northern Province.

MTEF infrastructure investment review

The 1998 MTEF review of infrastructure investment draws two main conclusions:

- ◆ South Africa lags behind comparable countries in investing in household infrastructure, while economic infrastructure is broadly in line with the level of development of the economy; and
- ◆ inadequate maintenance of existing infrastructure is weakening the asset base of the country.

Maintenance and rehabilitation backlogs

Economic infrastructure spending is about 20 per cent of gross domestic fixed investment (GDFI) and has increased since 1994, mainly because of the electrification programme. The infrastructure report notes the projected strengthening of telecommunications spending in coming years, which will have wide-ranging benefits for the operational efficiency of the economy. South Africa has about 9 telephone lines per 100 people, compared with 30 for East Asian middle-income economies. The report notes the growing

maintenance and rehabilitation backlog of the roads system and railways rolling stock. Inadequate maintenance of infrastructure is currently depleting the nation's national water supply capacity.

Low social infrastructure spending

Social infrastructure spending is now little more than 2 per cent of GDFI. Although audits of backlogs in the hospital and college sectors have been undertaken, rehabilitation programmes are not yet in progress.

Housing delivery has gathered considerable momentum. It is recognised that infrastructure spending has to maintain an appropriate balance between the housing strategy and municipal infrastructure provision, water services, schools and other facilities.

Key policy issues

The report identifies several key policy issues:

- ◆ clarity is required as to the future fiscal responsibility for supporting the electrification programme, in the context of the envisaged corporitisation of Eskom;
- ◆ a phased increase in support for housing, municipal infrastructure and the rural water and sanitation programmes needs to be considered;
- ◆ consolidated government spending needs to reflect the infrastructure maintenance and rehabilitation responsibilities of local and provincial government;
- ◆ a coherent policy on public-private financing partnerships is needed, bringing together existing initiatives and strengthening the share of infrastructure spending sourced from outside the budget, within a sound financial framework; and
- ◆ further scope appears to exist for accelerating infrastructure investment and maintenance through public enterprise restructuring and equity partnerships, particularly in the Transnet group.

Integrated justice sector

Increased spending on the justice sector

Justice, Police and Correctional Services have increased their share of the national budget from 7 per cent in 1986/87 to nearly 10 per cent today. Nonetheless, the three departments have frequently exceeded their budgeted allocations. Personnel spending has grown particularly rapidly.

Adjusted allocations to these budget votes in recent years now put the integrated justice sector on a sound footing. Projects are

underway to update the information technology in use in the justice system and to enhance the efficiency of the courts. High risk prisoners are being held in more secure facilities and substantial improvements have been effected in 18 prisons. Modernisation and streamlining of the SA Police Service has been identified as a critical priority.

Performance of the justice system

The 1998 MTEF review team on the integrated justice sector devoted considerable effort to analysing relevant indicators of performance in control of crime and prosecution of justice. In recent years the proportion of cases successfully completed by the police and in turn taken through the justice system has declined. One outcome is that the prisons now house 43 103 awaiting trial prisoners, up from 24 265 in 1995. More effective and more streamlined administration of justice needs to be sought.

Cost pressures in the justice system

The MTEF review notes that average real remuneration has increased sharply in the justice sector since 1994, taking up the available increases in resources. Other sources of increased spending include the provision for legal aid, commissions and other rights-related agencies on the Justice budget and the phasing in of higher standards of accommodation and rehabilitation in prisons.

Government recognises that to improve performance in controlling crime, several key choices have to be made:

- ◆ reorientation of expenditure from real wage increases towards investment in capital, equipment and training;
- ◆ moderation of expenditure on legal aid and rights commissions in favour of improved court management and prosecutorial efficiency; and
- ◆ limiting the standards at which prisoners are accommodated to current Correctional Services norms, with a view to reducing overcrowding within an affordable accommodation plan.

Education

Focus on enhancing quality

Following last year's emphasis on improved financial management and quality enhancement, the 1998 education review team focused on a range of possible solutions geared towards improving quality in the classroom.

This year's national Education budget includes R200 million set aside for supporting provincial education. The greater part of the funds are assigned to strengthening district management of the

school system and teacher development programmes. This will continue to be a priority allocation in the national budget.

Reforming provincial education spending

Against the background of significant budget over-runs in provincial education departments, the 1998 MTEF review explored several options for reforming provincial education spending. With overall spending already some R40 billion a year, this is a function in which improved and extended services have largely to be achieved within the present real resource limits. To achieve the desired redistribution and quality enhancement in schooling, the review proposes that Government:

- ◆ keep average salary growth below inflation;
- ◆ allow average learner : educator ratios to increase from 34 to 37;
- ◆ manage the required reduction in the employment of teachers so far as practical through natural attrition and redeployment;
- ◆ increase non-personnel spending to 15 per cent of education expenditure;
- ◆ increase efficiency measures across a broad front, including increased teacher workloads, lower teacher substitution, curriculum development and quality enhancement programmes; and
- ◆ decrease the incidence of out-of-age enrolment.

The Minister of Education has recently published policy to regulate admissions and repetition in public schools.

Skills development and further education

Legislation giving effect to Government's skills development strategy was introduced to Parliament in 1998. The strategy envisages the introduction of a wide range of "learnerships" within the context of the South African Qualifications Framework, providing a bridge between formal education and the workplace, strengthening industrial training and creating learning opportunities for the unemployed. Consistent with the broadening of the overall tax base, the skills development strategy will be financed by levies on payroll at a rate of 1 per cent.

A White Paper and Bill on further education have been introduced this year. In line with the new policies the 1998 MTEF education report proposes a "fast-track" approach to introducing innovative vocationally oriented projects in colleges or senior secondary schools, in association with industry training bodies, employers and employees. In the longer term, a new funding framework is needed for further education and training institutions, comprising formula funding of programmes, earmarked funding for specified priorities

and capacity building, student financial aid and greater recovery of income from students and employers.

Higher education

Government funding of higher education has increased strongly in recent years, accommodating both rising student numbers and a new student financial assistance programme. Work is in progress on a new approach to subsidising universities and technikons. A key step in the new approach was taken this year as all higher education institutions have been required to submit three-year plans to the national Department.

Health services

MTEF review of health This year's review of health expenditure included an evaluation of provincial health spending trends, a discussion of revenue retention, cross boundary billing and hospital rehabilitation, an assessment of the health conditional grants and a review of personnel issues.

Hospital construction and maintenance

The construction of a new academic hospital at Cato Manor to relieve pressure on existing Durban hospitals is progressing well. Following the nationwide health facilities audit, funds have been set aside in the national Health vote for a nationwide hospital rehabilitation programme. This will gather momentum over the next three years. Government recognises the importance of strengthening hospital administration along with improved maintenance of facilities.

Hospital revenue

The 1998 review included an examination of options for improving revenue collection by public hospitals and updating tariff levels. The report includes several specific recommendations on cross-border billing where patients are officially referred for services other than central hospital services, and where provincial health departments provide services on behalf of other departments.

Health conditional grants

It was agreed that the conditional grants for health services should be retained for the 1999/00 to 2001/02 years, and that an expert group should be formed to explore further refinement of the grants.

Consideration should also be given to integrating the primary school nutrition grant into a broader nutrition programme in future.

Welfare and social security

Broad range of support for the poor

South Africa provides social grants to over 3 million beneficiaries, representing income support to a large proportion of poor households. Welfare services comprise a wide range of

developmental and community-based functions, including support for the non-governmental welfare sector.

The key challenge for the welfare sector is to manage growth of expenditure on social security entitlement programmes while strengthening the funding of discretionary and developmental welfare services. The aim is to increase the share of spending allocated to developmental welfare services, currently less than 10 per cent of welfare and social security expenditure. A critical focus is ensuring an efficient management and delivery of social assistance grants, thereby contributing savings within the welfare budget.

Refocusing of programmes

Refocusing of financial and programme resources is in progress, including support for developmental income-generating programmes, re-prioritising towards more effective programmes, an emphasis on early intervention and prevention rather than residential care and promotion of family-centred and community-based programmes for children, youth and people with disabilities.

Further savings in welfare will result from integrating targeted welfare services with aspects of social security.

Improved financial management

This year's budget includes R100 million to improve financial management. There have already been significant gains from improved data management and other measures aimed at countering fraud and abuse of the social security system.

MTEF review of welfare

The 1998 MTEF review of welfare recommended that the Department of Welfare should investigate a more integrated and comprehensive social security policy, in collaboration with other role-players. The report recommends that provinces should have separate health and welfare departments.

It is noted that Welfare departments support several other departments' activities. This needs to be examined further with a view to possible budgeting reforms, focusing on developmental needs and integrated service delivery.

Personnel spending

Personnel expenditure trends

Personnel spending fell as a share of the budget in 1995/96, and has increased in subsequent years. A marked increase in average remuneration levels in 1996 has contributed to spending over-runs and pressure on budgets, particularly in provinces.

It appears that budgets for personnel expenditure frequently do not adequately take into account:

- ◆ the full carry-through cost of annual salary increases;
- ◆ the effect of agreements about rank and leg promotion; and
- ◆ the cost of other agreements reached in past years and inflation-related adjustments in benefits and allowances.

Personnel budgeting

The 1998 personnel spending review drew attention to the importance of budgeting procedures in the more decentralised personnel management system that is evolving. The Department of Public Service and Administration is responsible for taking the lead in developing a new remuneration policy, including:

- ◆ appropriate minimum and maximum salaries for the public service;
- ◆ guidelines for annual improvements;
- ◆ more equitable and affordable methods of pay progression; and
- ◆ more appropriate incentives for employees in rural areas or with scarce skills.

Personnel policy will also need to create the flexibility needed to enable departments to introduce new policies without incurring undue personnel costs. This will require fair and affordable redundancy and redeployment instruments and less reliance on traditional approaches such as freezes on recruitment or cuts in funded vacancies.

The budget process will need to adapt to the new policy framework, including greater transparency and clearer reporting of personnel spending and appropriate controls over pay progression.

Redundancy management

The report makes several proposals relating to redundancy management, aimed at assisting the downsizing of some government activities while minimising the negative impact on employees affected. It is noted that medium term planning and budgeting can assist in managing staffing levels without undue disruption and that more effective redeployment procedures need to be developed.

Financing development

Public-private partnerships

The Government aims to extend the range of infrastructure projects and services that make use of private sector participation. Programmes such as electrification and telecommunications are self-financing, recovering costs from users and able to draw on capital market finance. Private finance and management have been brought

into airports and roads. A unit has been established to support the development of business partnerships between municipalities and private service providers. Pilot projects include water, sanitation, refuse collection and transport initiatives.

Innovative projects bringing private support to local police services have recently been developed. Hospital construction and management, further education and welfare services are other areas in which productive opportunities for cooperation between government and the private sector exist.

Umsobomvu Trust

The Umsobomvu Trust will shortly come into being, as announced in the March 1998 budget speech. This fund will receive the proceeds of a charge levied on the demutualisation of Sanlam this year and Old Mutual in early 1999. A Board of Trustees will be established with responsibility for the fund's management and the disbursement of project funding to support the stimulation of employment creation and skills upgrading amongst young people.

National Development Agency

Following extensive consultation and the passage of enabling legislation, the National Development Agency will be established shortly to support developmental civil society organisations, building on the work of the Transitional National Development Trust.

The Agency will channel government funds to organisations for programmes aimed at meeting the development needs of the poor and to strengthen their institutional capacity. It will also serve to facilitate the flow of donor funding set aside for development agencies. This initiative represents an important bridge between Government and civil society partners in meeting our shared reconstruction and development challenges.

1998 Medium Term Budget Policy Statement