

THE MEDIUM TERM EXPENDITURE FRAMEWORK

Projected expenditure trends

This chapter projects expenditure over the next three years. It looks at trends in spending on the main services, and the trends in capital and personnel spending.

Coverage

The classification of spending set out below includes consolidated national and provincial expenditure. The local government equitable share in the medium term expenditure plans, and the equivalent grants in the earlier years, are excluded from tables 6.3 to 6.6.

Some provincial spending is financed by own-revenues, which does not form part of the national budget. Thus consolidated national and provincial spending as projected in this chapter exceeds spending in the national budget shown in previous chapters.

Basis of projections

The projections are based on preliminary indications of national and provincial budgets. Actual budgets for the next three years will be announced in February 1999. These figures will therefore change between now and the budget.

Spending by sphere of government

Table 6.1 shows spending by the three spheres of government, and compares the projections to the 1998 Budget.

Table 6.1: Consolidated expenditure by sphere of government

R billion	Outcome	Revised	Medium term estimates			Changes since Budget 98		
	97/98	98/99	99/00	00/01	01/02	98/99	99/00	00/01
National spending (excl. conditional grants)	64,8	68,2	71,0	73,8	77,6	1,0	-0,6	-2,1
Provincial spending	93,4	94,0	98,4	104,4	109,3	0,8	-0,4	-2,7
Total national & provincial spending	158,2	162,2	169,4	178,2	186,9	1,8	-1,0	-4,8
Local government spending	2,0	2,2	2,3	2,5	2,6	0,0	0,0	-0,1
Debt service costs	39,4	43,7	48,0	51,0	54,0	1,2	3,0	3,0
Contingency reserve	0,0	0,0	1,5	3,0	7,0	-1,0	-1,5	-4,0
Recovery from pension fund	0,0	-0,9	-0,9	-1,0	-1,0	0,0	0,0	0,0
Total	199,5	207,2	220,3	233,7	249,4	2,0	0,5	-5,9

The lower projected level of GDP and rising debt interest costs have reduced funds available to each of the spheres of government compared to the projections at Budget time.

Shares of spending

Table 6.2 shows the shares of spending, and projected growth rates over the MTEF period for the three spheres of government.

Table 6.2: Consolidated expenditure shares and projected growth

per cent	Outcome	Revised	Medium term estimates			Average annual growth
	97/98	98/99	99/00	00/01	01/02	98/99 – 01/02
National spending	40,5%	41,5%	41,3%	40,8%	40,9%	4,4%
Provincial spending (inc conditional grants)	58,3%	57,2%	57,3%	57,8%	57,7%	5,1%
Local government spending	1,2%	1,3%	1,3%	1,4%	1,4%	6,2%
Total	100%	100%	100%	100%	100%	4,9%

Provincial spending

Provincial spending benefits from a rising equitable share, but own-revenues have not been buoyant, resulting in moderate growth in total spending.

Growth rates

Total non-interest expenditure by national and provincial governments, excluding the contingency reserve, is expected to grow by some 4,8 per cent a year over the next three years.

Expenditure by type of service

Basis of projections

Table 6.3 presents a projected breakdown of expenditure over the new MTEF period classified by type of service. These estimates, based on preliminary departmental allocations, are subject to possible changes, as budgets are finalised by the national government and provincial governments.

Table 6.3: Expenditure by type of service

R billion	Outcome	Revised	Medium term estimates			Changes since Budget 98		
	97/98	98/99	99/00	00/01	01/02	98/99	99/00	00/01
Social services	85,3	87,8	92,9	98,7	103,7	0,6	-0,5	-2,1
Education	44,6	45,3	48,5	51,2	53,7	0,0	-0,3	-1,2
Health	22,9	23,6	24,6	26,4	28,1	0,7	-0,1	-0,7
Welfare	17,8	18,9	19,8	21,1	21,9	-0,1	-0,1	-0,2
Protection services	30,5	31,7	33,4	35,1	36,6	1,1	0,8	0,6
Defence & intelligence	11,9	11,2	11,3	11,8	12,4	1,2	0,8	0,8
Justice, police & prisons	18,5	20,6	22,2	23,3	24,2	-0,1	0,0	-0,2
Economic services	10,4	9,7	9,4	9,6	10,1	0,0	-0,9	-1,6
Infrastructure	23,1	22,4	23,3	24,7	26,1	0,3	0,1	-0,3
Administration	8,9	10,6	10,4	10,2	10,3	-0,2	-0,6	-1,4
Total	158,2	162,2	169,4	178,2	186,9	1,8	-1,0	-4,8
<i>Contingency reserve</i>	<i>0,0</i>	<i>0,0</i>	<i>1,5</i>	<i>3,0</i>	<i>7,0</i>	<i>-1,0</i>	<i>-1,5</i>	<i>-4,0</i>

This classification does not fully correspond with the more detailed functional breakdown of expenditure that is published in the Budget Review and in the official general government statistics.

In addition, the amounts exclude the contingency reserve, part of which is likely to be allocated to services.

Service shares

The table below shows spending in each service as a share of non-interest spending, and projected growth rates over the MTEF period.

Table 6.4: Service shares and growth

per cent	Shares of non-interest spending					Average annual growth 1998/99 to 2001/02
	97/98	98/99	99/00	00/01	01/02	
Social services	53,9%	54,2%	54,8%	55,4%	55,5%	5,7%
Education	28,2%	28,0%	28,6%	28,7%	28,7%	5,8%
Health	14,4%	14,6%	14,5%	14,8%	15,0%	6,0%
Welfare	11,3%	11,6%	11,7%	11,8%	11,7%	5,0%
Protection services	19,3%	19,6%	19,7%	19,7%	19,6%	4,9%
Defence & intelligence	7,5%	6,9%	6,7%	6,6%	6,6%	3,5%
Justice, police & prisons	11,7%	12,7%	13,1%	13,1%	13,0%	5,5%
Economic services	6,6%	5,9%	5,5%	5,4%	5,4%	1,7%
Infrastructure	14,6%	13,8%	13,8%	13,9%	14,0%	5,3%
Administration	5,6%	6,5%	6,1%	5,7%	5,5%	-1,0%
Total	100%	100%	100%	100%	100%	4,8%

Social services

The projections demonstrate Government's commitment to protecting social services from the effect of slower economic growth.

Social services are mainly delivered at the provincial level. Education, health and welfare spending by the provinces is expected to grow as a share of total spending and somewhat faster than inflation. In addition, spending on these services at a national level is expected to increase. This reflects continued growth in the budget for higher and further education, and increased spending on social service management systems.

Protection services

Protection services are largely delivered by national government. Total expenditure on protection services is expected to increase in line with inflation, though somewhat slower than social services.

Within this total, the integrated justice system - comprising of justice, police and correctional services - takes up an increased share. This reflects both increased allocations to policing, the courts and prisons and continued spending on civil justice and human rights functions. The projected level of defence spending recognises the importance of diplomatic, intelligence and defence capabilities in meeting South Africa's security requirements.

Economic services

Economic services – such as trade, industrial and agricultural services – are projected to grow more slowly than inflation, and fall as a share of total non-interest spending. These

functions are complemented by the activities of various public sector corporations and extra-budgetary government agencies.

Infrastructure

These projections show infrastructure spending increasing moderately in real terms and as a share of total spending over the MTEF period. This includes government spending on housing, municipal infrastructure development and investment in water resources. Budgetary allocations for infrastructure are supplemented by accelerating capital spending by parastatals.

Administration

Spending on administration services is expected to fall over the MTEF period, reflecting increased efficiencies and rationalisation.

Capital and current spending

Table 6.5 below shows projected personnel, other current and capital spending, broken down between national and provincial governments.

Table 6.5: Capital and current spending

R billion	Outcome	Revised	Medium term estimates		
	97/98	98/99	99/00	00/01	01/02
Personnel expenditure	78,1	83,7	87,3	91,2	95,7
National	24,4	27,2	27,6	28,2	29,3
Provincial	53,6	56,6	59,7	63,1	66,4
Other current spending	69,8	66,5	69,5	73,9	77,6
National	33,6	33,3	34,9	37,4	39,7
Provincial	36,3	33,2	34,6	36,5	37,9
Capital spending	10,3	11,9	12,6	13,1	13,6
National	6,8	7,6	8,5	8,2	8,7
Provincial	3,5	4,3	4,2	4,8	4,9
Total	158,2	162,2	169,4	178,2	186,9

Public sector investment

Public sector spending on infrastructure development is largely the responsibility of public utilities and corporations and municipalities, which are not included in these figures. There is nonetheless an important role for spending from the budget, including support for housing development, road construction and water schemes.

Public-private partnerships

Some investment in public services, such as roads and prisons, is now made by the private sector as a result of public-private partnerships. This investment does not appear as part of government capital spending. Increasing use of private finance may therefore result in lower recorded government capital spending figures, giving a misleading impression that investment in public services and infrastructure are being reduced.

Table 6.6 shows the projected shares of capital and current spending in the total, and average annual growth over the 1998/99 to 2001/02 period.

Table 6.6: Capital and current spending shares and growth

per cent	Outcome	Revised	Medium term estimates			Average annual growth 1998/99 to 2001/02
	97/98	98/99	99/00	00/01	01/02	
Personnel expenditure	49,4%	51,6%	51,5%	51,2%	51,2%	4,6%
National	37,7%	39,9%	38,9%	38,2%	37,7%	2,5%
Provincial	57,4%	60,2%	60,6%	60,4%	60,8%	5,5%
Other current spending	44,2%	41,0%	41,0%	41,5%	41,5%	5,3%
National	51,8%	48,9%	49,2%	50,7%	51,1%	6,0%
Provincial	38,8%	35,3%	35,1%	35,0%	34,7%	4,5%
Capital spending	6,5%	7,3%	7,4%	7,4%	7,3%	4,5%
National	10,5%	11,2%	11,9%	11,2%	11,2%	4,2%
Provincial	3,7%	4,5%	4,2%	4,6%	4,5%	4,9%
Total	100%	100%	100%	100%	100%	4,8%

Personnel

Personnel expenditure is projected to fall slightly as a share of total spending over the MTEF period, mainly as a consequence of slower personnel spending growth in national departments.

Other current spending is expected to increase as a share of spending, reflecting a strengthening of operating and maintenance outlays and steady growth in social grants and other transfers.

Conclusion

The projections in this chapter are based on indicative budgets, and are likely to be revised before the Budget in February.

The projections indicate:

- ◆ the priority of social services and the justice cluster in Government's spending plans;
- ◆ moderate real growth in infrastructure spending;
- ◆ relative declines in economic and administrative services;
- ◆ a shift in favour of non-personnel current spending; and
- ◆ a broadly stable share of spending on capital outlays.

1998 Medium Term Budget Policy Statement