

THE MEDIUM TERM EXPENDITURE FRAMEWORK

Spending reflects Government priorities

Social and development policies and the budget

This chapter reviews the medium term spending plans of national and provincial government. It outlines the spending of national and provincial government, and the budget allocations to local government. It highlights the impact of key national policy priorities on trends in spending on the main functions of Government, and the trends in investment and personnel spending.

Policy priorities

The President's opening address to Parliament on 25 June 1999 committed Government to building a people-centred society that is sustained by a growing economy capable of providing services to all South Africans.

Social and economic policies in place

Government has made significant strides in developing a comprehensive social and economic policy and legislative framework. The hard work lies ahead – speeding up service delivery and implementing programmes that will improve the quality of life of all people in our country.

Over the past three years there has been a major shift towards social service provision. This has created an environment in which Government is able to focus on improving the efficiency and effectiveness of social spending as it grows moderately in the medium term.

Some of the key medium term policy and development priorities highlighted by the President are:

- ◆ strengthening and modernising the integrated justice system;

- ◆ accelerating investment and further public sector restructuring;
- ◆ implementing poverty relief and Jobs Summit programmes that focus on the rural poor;
- ◆ transforming social services in response to HIV/AIDS and development needs;
- ◆ improving the quality and effectiveness of education and training; and
- ◆ contributing to regional conflict-resolution and promoting the African Renaissance.

Improved safety and security

Government proposes to allocate additional funds to the integrated justice sector to improve the efficiency and effectiveness of the sector in the fight against crime.

Public enterprise restructuring

Restructuring of state assets has focused on core functions of public enterprises, improved management and more effective services. The current restructuring of the Government's forestry operations and the South African Post Office has released resources to be spent on other Government priorities.

Public enterprise restructuring over the next three years will contribute further to reducing government debt and improving the transparency and effectiveness of government entities.

Focus on the rural poor

Rural areas are specifically targeted in several poverty relief and Jobs Summit programmes, the extension of the municipal infrastructure programme, and water supply projects.

HIV/AIDS strategy

Government is committing more funds to developing an intersectoral strategy and transforming social services to combat the spread of HIV/AIDS in South Africa.

Quality education

The efficiency and effectiveness of spending in the formal education system is a key priority. Improved financial management and quality in the classroom are the key elements of reform in provincial education spending. This is supported by an ongoing conditional grant to provinces.

Skills development and further education

A skills development levy-grant programme will be introduced in 2000/01 to strengthen industrial training and create learning opportunities for the unemployed. A skills development levy on payroll will finance implementation of the strategy.

Conflict-resolution

The Government is committed to contributing to conflict-resolution on our continent through concerted diplomatic engagement and defence force peace-keeping activities. A strategic arms procurement

programme will commence in 2000/01 to strengthen South Africa's defence and peace-keeping capacity.

Budgeting for service delivery

Budgets reflect policy priorities

Budgets are more than just numbers. They reflect the Government's policy priorities, and ultimately, are about delivering better services to people. Improving the quality of government spending and strengthening service delivery are central commitments of the democratic Government's second term.

The Medium Term Expenditure Framework (MTEF) provides Government with a tool to manage the tension between competing policy priorities and budget realities. This helps to reprioritise expenditure and make informed policy choices that are affordable in the medium term.

Service delivery information

But spending alone cannot deliver services. Government is placing greater emphasis on the delivery of quality and efficient services to people. Budget decision-making must take account of what money will buy, and direct spending in a way that has the greatest impact on people's quality of life.

Informed budget decision-making

Informed decisions are made on the basis of information on service delivery. Improved service delivery information will indicate how money is being spent, enabling budgeting to direct funds to where they are most needed, and to where they best contribute to meeting Government's priorities.

The *National Expenditure Survey* was introduced this year, for the first time publishing service delivery information with the Budget. Provinces have similarly improved the equality of budget documentation. The 1999 *Intergovernmental Fiscal Review* expanded this information base, outlining key social service delivery information at the provincial level.

Government aims to improve service delivery information that is used to inform budget decisions. Better service delivery information published in budget documentation also enables Parliament and provincial legislatures, as well as the public, to understand what government does, what programmes and activities are funded, and what outputs the budget buys.

Projected expenditure trends and the division of revenue

Projected expenditure trends set out in tables 4.1 to 4.3 include consolidated national and provincial expenditure, and reflect the share of the national budget going to local government.

Preliminary spending projections

Spending projections reflected in this chapter are based on preliminary proposals for national and provincial spending. More detailed *Estimates of Expenditure* will be tabled before Parliament and provincial legislatures in February 2000.

Spending by sphere of government

Table 4.1 shows projected spending by national and provincial government, and the national budget allocation to local government, comparing projections to the 1999 Budget.

Table 4.1: Consolidated expenditure by sphere of government

	1998/99	1999/00	2000/01	2001/02	2002/03	1999/00	2000/01	2001/02
R billion	Outcome	Revised	Medium term estimates			Changes from 1999 Budget		
National spending (excluding conditional grants)	68,2	71,7	77,4	82,7	87,2	1,7	4,7	6,5
Provincial spending	92,7	97,3	104,5	110,3	117,0	1,9	2,3	3,3
Total national and provincial spending	160,9	169,0	181,9	193,1	204,2	3,7	7,0	9,8
Local government equitable share plus conditional grants	2,2	2,5	2,8	3,0	3,2	0,2	0,4	0,5
Debt service costs	42,6	44,7	47,6	50,8	53,0	- 1,4	- 2,2	- 1,8
Unallocated reserves	0,0	2,5	3,7	5,7	8,3	- 1,0	- 1,4	- 3,8
Committed funds	0,5	1,3	1,5	2,5	2,7	0,5	-0,3	-0,3
Total	206,2	219,9	237,5	255,0	271,4	1,9	3,5	4,4

Compared to projections at the time of the 1999 Budget, non-interest expenditure has increased and debt service costs fallen.

Shares of spending

Table 4.2 shows the shares of spending for national and provincial government, and the local government equitable share, and their projected growth over the MTEF period.

Table 4.2: Consolidated expenditure shares and growth

	1998/99	1999/00	2000/01	2001/02	2002/03	1999/00 to 2002/03
per cent	Outcome	Revised	Medium term estimates			Average annual growth
National spending (excluding conditional grants)	41,8%	41,8%	41,9%	42,2%	42,0%	6,7%
Provincial spending	56,9%	56,7%	56,6%	56,3%	56,4%	6,4%
Local government equitable share plus conditional grants	1,3%	1,5%	1,5%	1,5%	1,6%	8,7%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	6,6%

Unallocated reserves

Excluding debt service costs, total expenditure shown in table 4.1 above rises on average by 7,6 per cent a year from 1999/00 to 2002/03. After setting aside the contingency reserve and committed funds, available expenditure grows by 6,6 per cent a year. Table 4.2 excludes the unallocated provincial finance reserves and the contingency reserve of the national budget. The proportion of the reserve that will ultimately be allocated to expenditure, and the division of that between spheres, cannot be projected.

Spending shares

The increase in the proportion of spending in the national share mainly reflects provision to the Defence budget required for the new arms procurement programme.

Expenditure by economic type

Table 4.3 below shows projected estimates of consolidated national and provincial spending on personnel, and other current and capital spending, compared to the 1999 Budget.

Table 4.4 below draws out the national component from the consolidated picture, showing projected national spending (excluding conditional grants and interest payments on government debt) on personnel, and other current and capital spending.

Table 4.3: Consolidated national and provincial spending by economic type

R billion	1998/99 Outcome	1999/00 Revised	2000/01	2001/02	2002/03	1999/00	2000/01	2001/02
			Medium term estimates			Changes from 1999 Budget		
Current expenditure								
Personnel	82,2	85,6	90,4	95,4	100,2	1,4	1,4	3,0
Transfer payments	43,0	39,7	43,7	46,1	49,0	0,9	4,1	5,1
Goods and supplies	23,1	32,0	34,7	37,5	40,0	1,1	0,8	0,9
Capital expenditure								
Acquisition of assets	7,5	8,0	9,2	9,8	10,6	0,2	0,5	0,6
Transfer payments	5,2	3,7	3,9	4,3	4,4	0,2	0,1	0,4
Total	160,9	169,0	181,9	193,1	204,2	3,7	7,0	9,8

Table 4.4: National spending (excluding conditional grants) by economic type

R billion	1998/99 Outcome	1999/00 Revised	2000/01	2001/02	2002/03	1999/00	2000/01	2001/02
			Medium term estimates			Changes from 1999 Budget		
Current expenditure								
Personnel	25,3	26,5	27,4	28,6	29,5	0,8	0,5	1,0
Transfer payments	23,0	17,9	20,9	22,4	23,8	0,1	3,4	4,4
Goods and supplies	11,1	19,8	21,2	22,8	24,3	0,6	0,3	0,4
Capital expenditure								
Acquisition of assets	4,0	4,1	4,4	4,8	5,4	0,1	0,5	0,6
Transfer payments	4,7	3,4	3,6	4,1	4,2	0,1	0,0	0,1
Total	68,2	71,7	77,4	82,7	87,2	1,7	4,7	6,5

The increase in current transfer payments over the medium term is largely due to the envisaged transfer to the Special Defence Account for purchase of strategic military equipment.

**Personnel
expenditure**

Personnel expenditure forms about half of consolidated national and provincial spending, excluding payment of interest on government debt.

Total employment in the public service has declined slightly since 1997, while average remuneration has increased by about 2 per cent a year in real terms.

A new remuneration policy will be tabled in due course for discussion in the Public Sector Co-ordinating Bargaining Chamber. The policy will benefit from the certainty brought by Government's targeting of inflation over the medium term. Government spending proposals envisage average personnel spending growth of about 5,4 per cent a year.

Under the new remuneration policy, Government aims to:

- ◆ Provide greater clarity for employers and employees on remuneration issues;
- ◆ Support development of a public service geared towards better service delivery;
- ◆ Attract and retain appropriate skilled personnel; and
- ◆ Improve the consistency between available resources, Government spending priorities and human resource development in the public service.

Infrastructure

Government spending on infrastructure includes spending on housing, municipal infrastructure development, and investment in water infrastructure and services. Public sector investment on infrastructure development such as telecommunications and electrification is largely the responsibility of public enterprises and municipalities, which are not reflected in these tables.

**Public Private
Partnerships**

Government is focusing increasingly on public-private partnerships (PPPs) for infrastructure and service delivery. Public-private partnership investment projects include national road concessions, Build-Operate-Transfer (BOT) and management contracts for prisons, and municipal services.

Major new projects include two maximum-security facilities, located in Bloemfontein and Louis Trichardt. Both facilities, each to hold approximately three thousand prisoners, are expected to be operational in April 2001.

While public-private partnerships are not a new concept in South Africa, they are not yet widely accepted or applied. And, while some

public-private partnerships have improved efficiency of service delivery, others have generated mixed results.

An enabling environment for PPPs

Taking these concerns into account, and the potential of public-private partnerships to improve service delivery, an interdepartmental task team has explored ways of increasing their use. This will be followed by a process of legislative, regulatory and institutional reforms to strengthen the enabling environment in support of public-private partnerships.

Expenditure by type of service

Table 4.5 presents a projected breakdown of consolidated national and provincial expenditure classified by type of service. These medium term projections, based on preliminary budget proposals, are subject to possible changes as budgets are finalised by national and provincial governments.

Table 4.5: Consolidated national and provincial expenditure by type of service

	1998/99	1999/00	2000/01	2001/02	2002/03	1999/00	2000/01	2001/02
R billion	Outcome	Revised	Medium term estimates			Changes from 1999 Budget		
Social services								
Education	44,9	47,2	50,8	53,7	56,8	0,3	0,8	1,1
Health	23,3	25,3	26,8	28,4	30,3	0,9	0,5	0,9
Welfare	18,3	19,7	20,9	22,1	23,3	0,6	0,5	0,7
Protection Services								
Defence and intelligence	11,4	11,4	14,6	16,1	17,3	- 0,1	2,8	3,9
Integrated justice system	20,9	22,2	24,4	25,7	26,9	0,0	0,5	0,8
Economic services								
Infrastructure	23,8	21,0	20,3	21,5	22,6	1,8	0,4	0,4
Administration	7,1	10,7	12,0	12,5	13,1	- 0,3	1,3	1,7
Total	160,9	169,0	181,9	193,1	204,2	3,7	7,0	9,8

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

Provincial finance reserves and the contingency reserve on the national budget, which are likely in part to be allocated to services, are not included in the breakdown.

Service shares The table below shows the proportions of expenditure attributed to each service, together with projected growth rates for each service.

Table 4.6: Service shares and growth

per cent	1998/99 Outcome	1999/00 Revised	2000/01	2001/02	2002/03	1999/00 to 2002/03 Average annual growth
			Medium term estimates			
Social services						
Education	27,9%	27,5%	27,7%	27,6%	27,8%	6,4%
Health	14,5%	14,8%	14,6%	14,6%	14,8%	6,2%
Welfare	11,4%	11,5%	11,4%	11,4%	11,4%	5,8%
Protection Services						
Defence and intelligence	7,1%	6,6%	8,0%	8,3%	8,5%	14,9%
Integrated Justice System	13,0%	13,0%	13,3%	13,2%	13,2%	6,6%
Economic services	7,0%	6,6%	6,5%	6,7%	6,8%	7,1%
Infrastructure	14,8%	12,3%	11,1%	11,1%	11,0%	2,4%
Administration	4,4%	6,3%	6,6%	6,4%	6,4%	6,7%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	6,5%

The main changes to the 1999 Budget medium term estimates are:

Social services

- ◆ Additional spending on social services over the period allows average annual growth of 6,4 per cent in education, 6,2 per cent in health, and 5,8 per cent in welfare over the medium term.

Protection services

- ◆ Strong growth in protection services over the medium term largely reflects additional defence spending of R2,8 billion in 2000/01 and R3,8 billion in 2001/02 on the strategic procurement package.
- ◆ Proposed additional spending of R0,5 billion in 2000/01 and R0,8 billion in 2001/02 for the integrated justice system reflects Government's commitment to improving the productivity of this function.

Economic services

- ◆ Economic services – such as trade, industrial and agricultural services – are projected to grow by 7,1 per cent a year over the period. These functions are complemented by the activities of various public sector corporations and extra-budgetary government agencies, such as Eskom and Telkom.

Infrastructure ♦ Changes from medium term estimates in the 1999 Budget indicate that Government spending on infrastructure increases by an additional R2,6 billion between 1999/00 and 2001/02.

Administration ♦ Additional spending of R1,3 billion in 2000/01 and R1,7 billion in 2001/02 on administration includes proposed additional allocations to administrative services such as the South African Revenue Services to strengthen their capacity to broaden the tax base and combat tax evasion and economic crime.

Also included in the administration function are activities to ensure Y2K readiness of all Government departments and systems.

Government has identified several further spending priorities over the next three years. These include:

Action against HIV/AIDS

HIV/AIDS is one of the biggest challenges facing South Africa over the medium term. South Africa has one of the highest HIV infection rates in the world. The pandemic poses a serious risk to our country's economic development prospects and threatens the social fabric of families and communities. Government proposes to allocate significant resources to fund an aggressive intersectoral strategy aimed at combating the spread of the disease.

Poverty relief

As part of Government's commitment to relieving poverty and creating jobs, funds have been set aside for special poverty relief and infrastructure investment projects. The rural poor, particularly, have fewer economic opportunities and access to social services than other South Africans. These projects will therefore focus especially on the needs of the rural poor, as well as on employment creation projects identified for the Presidential Job Summit last year.

Poverty relief projects were allocated R800 million for programmes in 1998/99 and R1,0 billion in 1999/00. This allocation increases to R1 billion in 1999/00, R1,2 billion in 2000/01, and R1,5 billion in 2001/02.

Programmes funded within the 1999/00 allocation are summarised in table 4.7.

Job Summit projects

Following the Presidential Job Summit agreement last year, the poverty relief allocations are focused on projects that have a specific potential for job creation. These include the land care programme, the local tourism infrastructure programme, the community based public works programme, rehabilitation of rural roads, and the Working for Water programme.

Table 4.7: Poverty relief and Jobs Summit allocations 1999/00

Department	Programme	Allocation R million
Agriculture	Land care programme	20
Environmental Affairs and Tourism	Clean cities campaign	70
	Local tourism infrastructure and national arts campaign	
Health	Health related issues affecting the poor, such as malnutrition	23
Housing	Introduction of rental housing stock as part of the main housing delivery programme	75
Labour	Social plan projects in response to job losses, in co-operation with the department of Provincial Affairs and Local Government	50
Provincial Affairs and Local Government	Social plan projects in response to job losses, in co-operation with the Department of Labour	45
Public Works	Community based public works and projects to make public buildings friendly to disabled persons	377
Transport	Rehabilitation of rural roads	100
Water Affairs and Forestry	Working for Water programme, and rural and water and sanitation programme	200
Welfare	Income generating projects for the most vulnerable groups	40
Total		1 000

Umsobomvu fund

As announced in the 1998 Budget, the newly created Umsobomvu job creation fund will receive funds from the demutualisation of Sanlam and Old Mutual. The process of setting up a legal trust, which will be a section 21 company, is underway, and is nearing completion. The company will be responsible for the management and disbursement of funds aimed at assisting and stimulating employment creation and the development and upgrading of skills among young people.

The skills development levy

The skills development levy, to be introduced next year, is aimed at increasing the development of skills in the formal and informal sectors of the economy. Starting at 0,5 per cent of payroll, the levy is expected to raise R1 billion in 2000/01. For subsequent years, the rate will rise to one per cent of payroll, which is projected to yield R2 billion in 2001/02 and R2,2 billion in 2002/03.

One-fifth of all levies collected will go to the National Skills Fund, which provides training for people not employed in the formal sector and other disadvantaged groups. Government may also contribute directly to this fund from the fiscus.

Government has made a commitment to devote at least 0,5 per cent of its own payroll, rising to one per cent, to training, through normal budgetary allocations.

Forestry restructuring

The Department of Water Affairs and Forestry is currently restructuring forestry operations under its management. As a result of the restructuring, Government expects to make significant savings on the projected medium term estimates of the commercial forestry budget.

SA Rail Commuter Corporation

The 2000 Budget will include an increased allocation to the transport function to supplement subsidisation of the South African Rail Commuter Corporation.

Eskom's electrification programme

Eskom spends about R1,4 billion per year on its electrification programme, drawing on revenue generated through existing grid electricity consumers. About 90 per cent of urban areas and 40 per cent of rural areas have already been electrified. Government is considering alternatives to grid electrification for more cost-effective energy provision to remote areas of the country.

In due course Eskom will also become liable for income tax and will pay dividends to Government as sole shareholder, while the funding of electrification will shift to the budget.

Strategic arms procurement package

Government is committed to the resolution of conflict on our continent, to make Africa safer and more prosperous. The strategic defence procurement package allows the SANDF to upgrade obsolete defence equipment to help contribute towards Government's objectives in this regard. The total price for the military equipment is R21,3 billion (in 1999 rands), or R29,9 billion if all aircraft options are taken.

Defence and intelligence spending will increase from 7 per cent of non-interest expenditure in 1998/99 to 8,5 per cent in 2002/03, roughly the level of spending on this function in 1995/96. The cost of most of the equipment will be spread over an eight-year period. Extensive industrial participation commitments incorporated into the procurement contracts will in due course benefit both the South African economy and the fiscus.

Integrated justice system

Government is striving to improve the efficiency and productivity of the integrated justice system in the fight against crime. Tables 4.5 and 4.6 show that proposed collective allocations to the Departments of Safety and Security, Justice and Correctional Services on average grow by 6,6 per cent over the medium term.

Government intends allocating additional funds to the sector for direct law enforcement initiatives, including the Directorate of Special Operations, the Office of Public Prosecution, and increased spending

on the lower courts. Government will also spend more on modernisation and integration programmes designed to improve the performance of the justice system, including an electronic docket management system to improve the management of cases and acquisition of an automated fingerprint identification system (AFIS) which will reduce the average length of criminal trials.

Directorate of Special Operations

The newly established Directorate of Special Operations (the ‘Scorpions’) is a high-profile unit charged with investigating and prosecuting high priority crimes. It links the work of dedicated prosecutors, investigators and intelligence workers and focuses primarily on organised crime, serious economic offences, corruption (especially in the criminal justice system), individual high profile crimes, and violent crime.

Increased spending on lower courts

Increased spending on the lower court system is also important in order to improve the impact of spending on law enforcement. Government intends increasing spending on lower courts in an effort to increase the number of cases they process. Improved productivity of the lower court system will contribute to improved productivity of the overall justice system.

Conclusion

The MTEF provides a framework that enables Government’s social and development policy priorities to be reflected in the medium term spending plans of national and provincial government.