

Medium term expenditure framework

Building on a sound fiscal foundation and the progress made in the reconstruction and development programme since 1994, the proposed 2002 Medium Term Expenditure Framework and division of revenue provides for strong real growth in non-interest spending, averaging 3,7 per cent over the next three years.

The proposed 2002 budget framework signals:

- *Priority given to reducing poverty and vulnerability in preparing the 2002 Budget*
- *Increased spending focused on health services and social grants, municipal infrastructure and housing, improved police and justice services and critical administrative services to citizens*
- *Strengthening of programmes that address the impact of the HIV/Aids epidemic*
- *A step up in the electrification programme and support for the restructuring of the Post Office and the Unemployment Insurance Fund*
- *Strong growth in transfers to municipalities, recognising their critical role in extending basic services to under-served communities and households.*

Policy priorities and the budget

The 2002 Budget process placed strong emphasis on early political consideration and guidance on Government's medium-term policy and expenditure priorities which frame resource allocation decisions ahead of the February Budget.

The Ministers' Committee on the Budget, the Budget Council and Cabinet reviewed a wide range of social and economic policy priorities and expenditure options tabled around the achievement of Government's broad policy objectives. These include economic growth, job creation, equity and social development and strengthening the safety and justice sector.

Early review of policy priorities identified reducing poverty and vulnerability as a first priority in preparing Budget 2002

Building on the progress made since 1994 on the

Reconstruction and Development Programme, Government has agreed that reducing poverty and vulnerability remains the first priority in preparing the 2002 Budget. In addition the proposed 2002 medium-term expenditure framework reflects:

The proposed MTEF reflects a balanced response to social, economic and development challenges

- Continued emphasis on investment in, and maintenance and rehabilitation of infrastructure, enhancing South Africa's job creation and economic growth prospects over the medium to long term
- Strengthening programmes that address the impact of the HIV/Aids epidemic
- Rebuilding local government and meeting commitments to ensure free basic service delivery
- Strengthening capacity in the safety and security sector to prevent and combat crime
- Restructuring national entities, specifically the Unemployment Insurance Fund and the South African Post Office, enabling them to improve quality and access to service delivery
- Further strengthening of tax administration capacity and establishing a Financial Intelligence Centre to assist global efforts in combating money laundering.

These priorities informed extensive consultation that helped to shape recommendations to the Budget Council, the Budget Forum, Ministers' Committee on the Budget, and Cabinet on the division of unallocated resources ahead of the 2002 Budget.

Division of revenue between spheres

Division of revenue between the three spheres of government is an outcome of policy priority deliberations

The division of revenue set out in this Statement reflects the executive's balanced approach to meeting Government's priorities, taking into account the spending responsibilities and capacity of the spheres.

Additional resources are made available to national, provincial and local government in the current financial year, through the Adjustments Budget, and over the 2002 medium-term period funded by the drawdown on the contingency reserve and adjustments to the budget framework.

Increased spending in 2001/02

The 2001 Adjusted Estimates provides for revisions to the February Estimates that raise the estimated expenditure level by R2,8 billion in the current year. The adjustments to the main budget estimates include:

Significant adjustments to the February Estimates raise estimated expenditure in 2001/02 by R2,8 billion

- An amount of R1,7 billion announced in the 2001 main Budget, and included in aggregate expenditure estimates, but not voted
- Approved rollovers from unspent 2000/01 allocations of R2,2 billion, which will be partially offset by projected underspending and savings in the current year
- Additional allocations for unforeseen and unavoidable expenditure this year of R4,6 billion.

More specifically, amounts that were announced but not voted in the 2001 Budget comprise:

Supplementary infrastructure amounts and funds for flood and poverty relief announced in the February Budget are voted in the Adjustments Budget

- R1 billion of supplementary infrastructure funds
- R600 million for provinces and R85 million to national departments for repairs arising from flood damage
- R58 million from the poverty relief fund that was unallocated at the time of the February Estimates.

Additional voted allocations comprise R2,9 billion for national departments, increased transfers to provinces of R1,5 billion and a further R328 million for local government.

Additional voted allocations for 2001/02 direct R2,9 billion to national departments, R1,5 billion to provincial government and R328 million to municipalities

National government adjustments include compensation for higher than expected inflation and wage settlements, and provision for the South African Post Office and the Unemployment Insurance Fund.

Increased allocations to provinces provide for R300 million as an advance to Mpumalanga in line with the negotiated section 100 agreement. An increase in the provincial equitable share accommodates other unforeseeable and unavoidable spending commitments, mainly in respect of social security grants and the additional costs of salary increases and meeting backlogs in rank and leg promotions.

The additional allocation to local government provides assistance to selected municipalities to implement free basic services, fund councillor allowances following the promulgation of new remuneration scales and offers interim relief to those municipalities that lack sufficient tax capacity to perform basic functions.

Table 5.1: Division of revenue between spheres

R billion	2001/02	2002/03	2003/04	2004/05
	Revised	Medium term estimates		
National allocation	87,1	93,4	99,3	105,5
Provincial allocation	118,9	130,8	140,9	150,1
<i>of which</i>				
Equitable Share	105,3	116,1	124,9	133,1
Conditional Grants	13,6	14,7	16,1	17,0
Local government allocation	7,0	8,4	10,0	10,6
Total to be shared	213,0	232,6	250,3	266,2
Changes from baseline	4,8	8,9	11,8	
National allocation	2,9	3,9	4,5	
Provincial allocation	1,5	4,0	5,4	
<i>of which</i>				
Equitable Share	1,2	3,6	4,6	
Conditional Grants	0,3	0,4	0,8	
Local government allocation	0,3	1,0	1,8	

Additional spending over the 2002 MTEF

Table 5.1 outlines the funds available to the different spheres and the division of baseline adjustments between the spheres. The revised budget framework provides for an additional R8,9 billion in 2002/03 and R11,8 billion in 2003/04. Over the new medium-term expenditure period, non-interest spending rises by 3,7 per cent in real terms.

The major share of the adjustment over the medium term – R4,0 billion in 2002/03 and R5,4 billion in 2003/04 – is directed towards the provinces. The national share rises by R3,9 billion and R4,5 billion, while local government receives R1,0 billion and R1,8 billion. The adjustment to local government, while smaller in nominal terms, represents an increase on baseline of 20,2 per cent in 2002/03 and 19,4 per cent in 2003/04.

The result of these adjustments is reflected in the proportions of allocations going to the different spheres outlined in table 5.2. The provincial share increases from 55,8 per cent in 2001/02 to 56,4 per cent in 2004/05, while the national share decreases from 40,9 per cent to 39,6 per cent. As a result of the rapid average annual growth of 15,0 per cent, transfers to local government increase from 3,3 to 4,0 per cent of allocated funds over the medium term.

Division of additional resources over the 2002 medium-term period boosts provincial and local shares in line with identified priorities

Table 5.2: Consolidated shares of national revenue and growth ¹

	2001/02 Revised	2002/03	2003/04	2004/05
		Medium term estimates		
National allocation	40,9%	40,2%	39,7%	39,6%
Provincial allocation	55,8%	56,2%	56,3%	56,4%
<i>of which</i>				
Equitable Share	49,5%	49,9%	49,9%	50,0%
Conditional Grants	6,4%	6,3%	6,4%	6,4%
Local government allocation	3,3%	3,6%	4,0%	4,0%
Total to be shared	100,0%	100,0%	100,0%	100,0%
Average Annual Change				2001/02 - 2004/05
National allocation				6,6%
Provincial allocation				8,1%
<i>of which</i>				
Equitable Share				8,1%
Conditional Grants				7,9%
Local government allocation				15,0%
Total				7,7%

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

Spending by type of service

Table 5.3 presents a breakdown of consolidated national and provincial expenditure classified by type of service.

Classifications are in line with the Government Financial Statistics classification system of the International Monetary Fund and not according to vote as outlined in the 2000 Medium Term Budget Policy Statement. Totals do not include the provincial finance reserves, the national contingency reserve and interest on debt. These estimates are provisional, as national and provincial budgets will only be finalised over the next few months.

The following main revisions have been made to the 2001 Budget estimates:

- Spending on social services is estimated to rise by R5,5 billion in 2002/03 and R7,5 billion in 2003/04. This allows for significant real growth over the medium term in all the social service functions, including provision for the Unemployment Insurance Fund, with average annual growth rates of 8,7 per cent per annum for welfare services and 8,2 per cent for health services.
- Economic services and infrastructure spending increases by R1,9 billion in the first two years of the medium-term expenditure period. This enhances real expenditure growth rates in the sector, giving effect to continued emphasis on investment in and maintenance and rehabilitation of infrastructure.

Spending on social service functions grows strongly over the next three years enabling expansion of social grants, welfare services and health care and provision for Unemployment Insurance

Increases in spending on economic services and infrastructure gives effect to continued emphasis on infrastructure investment

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

R billion	2000/01 Outcome	2001/02 Revised	2002/03	2003/04	2004/05
			Medium term estimates		
Social Services					
Education	52,2	58,6	62,9	67,3	71,4
Health	27,3	29,9	32,8	35,4	37,9
Welfare	30,1	34,0	38,0	41,1	43,6
Other	7,1	8,0	8,7	9,6	10,2
Protection services					
Defence	15,4	17,4	18,7	19,9	20,9
Integrated Justice System	25,3	29,0	31,3	33,2	35,8
Economic services & Infrastructure					
Water and related services	5,0	5,4	5,6	5,9	6,1
Agriculture, forestry & fishing	4,2	4,6	5,1	5,5	5,8
Transport and communication	6,4	7,8	8,5	9,1	9,8
Other economic services	5,9	6,8	8,4	9,2	9,8
Administration	19,8	23,3	25,0	27,2	29,1
Total	198,4	225,0	245,0	263,4	280,4
Changes from 2001 Budget ¹					
Social Services					
Education		0,3	0,6	1,3	
Health		0,3	1,3	1,8	
Welfare		2,1	3,3	3,8	
Other		0,1	0,4	0,6	
Protection services					
Defence		0,1	0,3	0,3	
Integrated Justice System		0,5	0,5	0,7	
Economic services & Infrastructure					
Water and related services		0,0	0,3	0,2	
Agriculture, forestry & fishing		0,0	0,2	0,3	
Transport and communication		0,5	0,6	0,4	
Other economic services		0,2	0,9	1,0	
Administration		1,6	1,6	2,5	
Total		5,9	9,8	13,0	

¹ Total changes from 2001 budget include additional allocations to all spheres, increased expenditure of the Social Security Funds and a draw-down of provincial reserves in 2001/02.

Average growth of 7,2% a year in spending on protection services strengthens capacity to fight crime

- Additional spending on the integrated justice sector amounts to R0,5 billion in 2002/03 and R0,7 billion in 2003/04. This allows for annual average growth of 7,2 per cent over the medium term, strengthening capacity in the sector. Increased allocations will include provision for phasing in of some 6000 additional personnel in the South African Police Service

Increased spending on administrative services strengthens core government functions over the medium term

- Increased spending of R1,6 billion in 2002/03 and R2,5 billion in 2003/04 on administrative services enhances delivery of core government services, particularly those of the Department of Home Affairs and the Post Office, and provides for further investment in revenue collection.

Key spending areas

Table 5.4 provides a breakdown of government expenditure over the medium term by service share.

Table 5.4: Service shares and growth

Per cent	2000/01	2001/02	2002/03	2003/04	2004/05	2001/02 to 2004/05
	Outcome	Revised	Medium term estimates			Average annual growth
Social Services	58,8%	58,0%	58,1%	58,3%	58,2%	7,7%
Protection services	20,5%	20,7%	20,4%	20,2%	20,2%	6,8%
Economic services & Infrastructure	10,8%	11,0%	11,3%	11,2%	11,2%	8,5%
Administration	10,0%	10,4%	10,2%	10,3%	10,4%	7,6%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	7,6%

Consolidated spending by national and provincial government shows strong growth, averaging 7,6 per cent a year over the next three years.

The service shares confirm that provision of social services remains the most significant function of government and is expected to absorb around 58 per cent of consolidated non-interest spending over the medium term.

After declining marginally to 58,0 per cent in 2001/02, changes to the 2001 Budget estimates allow a recovery in the share of social service expenditure to 58,2 per cent by 2004/05.

Having received significant increases in recent years, the share of protection services falls marginally from 20,7 per cent in 2001/02 to 20,2 per cent in the outer year and that of economic services rises slightly from 11,0 per cent to 11,2 per cent over the same period. Growth, however, remains significant in real terms for both functions over the next three years.

Administrative services grow strongly, increasing by an average of 7,6 per cent a year over the medium term, reflecting enhanced support for core government services.

Social services

Strengthening social service provision over the medium term gives effect to Government's special focus on poverty alleviation. Social services – namely, school and higher education, primary health care and hospital services, social grants and welfare services, and housing – play a key role in improving economic and development opportunities and reducing the physical and economic vulnerability of communities.

Provincial governments are responsible for delivering the bulk of social service provision. About 81 per cent of

The 2002 Budget framework provides for bold increases in consolidated national and provincial expenditure, averaging 7,6% a year over the next three years.

Strengthening social service provision at the provincial level plays a significant role in improving economic opportunities and reducing poverty and vulnerability

Addressing the impact of HIV/Aids

Government recognises the steadily increasing impact of HIV/Aids, particularly on the living standards of the poor and vulnerable. The rising burden of communicable diseases intensifies our development challenge and affects the potential growth of the South African economy. The 2001 Intergovernmental Fiscal Review highlighted that Government directs substantial resources towards prevention and treatment programmes:

Provincial health spending on Aids-related illnesses has been estimated at nearly R4,0 billion for 2001/02. Provinces also spend resources on prevention efforts.

The Government Aids Action Plan, managed by the national Department of Health, amounts to about R190 million per year. The Action Plan plays a key role in prevention through initiatives such as condom distribution.

R125 million is budgeted for the special allocation for an integrated strategy in 2001/02 and medium-term baseline allocations are expected to increase in the next three years. Funding flows to provinces through the conditional grant mechanism and is directed towards prevention activities (life-skills, voluntary counselling and testing) and community-based care initiatives.

Over the next three years additional resources will be targeted towards improving control of the epidemic in line with the Enhanced Response to HIV/Aids strategy that was developed by the national Department of Health. Increased spending will strengthen a national preventive and public health response, support the development of appropriate care options and protect and build appropriate treatment capacity in public hospital services.

More specifically, increased amounts for the special allocation for an integrated strategy for HIV/Aids, managed by the Departments of Health, Education and Welfare, amount to R320 million in 2002/03, R422 million in 2003/04 and R546 million in 2004/05. These grants aim to strengthen home and community-based care; support voluntary counselling and testing; and strengthen lifeskills programmes in schools. Other interventions are likely to be funded through increased allocations to the national Department of Health and additions to the provincial equitable share.

spending in the sector funds provincial education, health, welfare and housing services and is supported by policy-making and monitoring activities at the national level.

On average, social spending grew strongly in the four-year period up to 1998/99, reflecting the impact of the 1996 wage settlement as well as provincial efforts to increase access to social services and achieve greater equity in spending. Over the following three years, provinces struggled to pay back debts incurred, contributing to slower spending in the social sector.

Looking ahead, additional allocations provide for strengthening the central coordinating role of national departments but more significantly for strengthening service delivery at the provincial level. Education and health also benefit from the increased spending on infrastructure announced in the 2001 Budget.

Additional resources over the next three years enable provinces to:

- Increase the numbers of children benefiting from the child support grant from 1,5 million presently to 3 million by the end of 2002/03 as well as making

provision for inflation-related increases in the value of all social grants.

- Increase the size and quantity of housing subsidies to improve the quality of homes built and accelerate the pace of housing delivery.
- Enable health departments to cope with increased health needs and hospital admissions related to emerging and re-emerging communicable diseases (particularly HIV/Aids, tuberculosis and malaria) by providing targeted resources to implement the national health strategies and programmes.
- Expand initiatives to improve the quality of education through strengthening early childhood programmes and those aimed at learners with special needs.

Social security grants are an effective mechanism against poverty, providing income support to more than four million South Africans every month. Welfare spending rises by an average of 8,7 per cent a year over the medium-term as provinces provide for increased take-up rates of the child support grant, while further extending the coverage and raising the value of all other grants.

Additional resources for welfare allow provinces to extend coverage and raise the value of social security grants targeted to the poor

Unemployment benefits also form part of the social security net. The Unemployment Insurance Fund (UIF) provides short-term income replacement in the case of unemployment, short-term sickness, maternity, death or the adoption of a child. The Fund is financed through a dedicated tax on the salary bill, with employers and employees both contributing 1 per cent of wage earnings. Benefits are only available to people who have contributed to the Fund.

Restructuring of the UIF targets benefits more effectively to the poor and enables the Fund to become self-financing over the next few years

The Minister of Labour has recently tabled legislation aimed at strengthening the administration of the Fund, targeting benefits more effectively at the poor and extending the coverage of the scheme. These measures are aimed at improving the financial sustainability and viability of the Fund. Preliminary national budget estimates include support for the restructuring of the Fund over the next three years. It is envisaged that the Fund should become self-financing by the end of the MTEF period.

Since 1994, Government has contributed to over 1,1 million low-cost housing opportunities, providing shelter to over 4,9 million people. Additional resources over the next three years allow the sector to respond to the challenge to accelerate delivery and address the spatial environment and quality of community life.

The housing sector is poised to accelerate delivery and ensure improved quality of housing development over the medium term

Efforts to contain personnel spending in education now allow provinces to increase capital and other non-personnel spending, addressing issues of efficiency and quality of schooling

In education, capital spending rises strongly over the next three years reflecting Government's commitment to ensure adequate provision for classrooms, water, sanitation and electricity in schools and to invest in hospital rehabilitation. Other non-personnel spending also increases, allowing for greater provision of textbooks, equipment and learning support programmes. These allocations, combined with the scaling up of the provision for early childhood development and improved school and district management, will improve efficiency and enhance the quality of teaching and learning.

Increased spending on health services at the national and provincial level will allow the sector to respond to the challenges of HIV/Aids and related diseases

Health service delivery has come under considerable pressure due to the substantial reprioritisation of services towards primary care, increased demand for free primary health care services and wage pressure resulting from the 1996 wage settlement.

Consolidated health spending is estimated to increase by an annual average of 8,2 per cent over the medium term. This will put the health sector in a better position to cope with cost pressures such as HIV/Aids.

Economic services and infrastructure

Expanding economic services and infrastructure provision supports development in rural areas and basic services provision to communities

Spending on economic services and infrastructure rises sharply up to 2004/05 reinforcing Government's commitment to expand economic infrastructure and build skills in the economy. In particular, additional spending directed towards economic services and infrastructure allocations will improve maintenance of water and road infrastructure as well as facilitating significant expansion of networks that support basic service provision to communities.

More specifically, Government has promoted delivery on the national electrification programme as part of the integrated infrastructure development initiatives under the reconstruction and development programme. The electrification programme, which aims to improve access to basic electricity services, has surpassed its delivery target, connecting 2,7 million households in the period 1994 to 1999. Over the next three years the programme will focus on connecting households in rural areas. The preliminary 2002 budget framework increases provision for the national electrification programme on the Minerals and Energy vote from R600 million to R950 million a year in support of these objectives.

Proposed allocations direct further support to rural areas, increasing spending on land restitution and other reform initiatives as well as strengthening agricultural infrastructure such as the rehabilitation of communal

dipping tanks and small-scale irrigation schemes and rehabilitation of district roads in rural areas. These initiatives will improve access to land and economic opportunities for those living in rural areas.

Facilitating access to safe and affordable public transport also enhances economic activity and supports sustained growth and development across the country. Key initiatives in this regard include rehabilitation of the national roads and rail networks and extension of new networks, refurbishment of the South African Rail Commuter Corporation rolling stock, and improved law enforcement and collection of fines to ensure adequate levels of road safety.

Rehabilitation of road and rail networks enhances economic activity and promotes development

Recent outbreaks of cholera have given impetus to rehabilitating and extending water and sanitation infrastructure, increasing access to clean, safe water and sanitation facilities. Complemented by municipal social infrastructure initiatives, these investments support Government's commitment to deliver a basic level of essential municipal services, including safe drinking water and sanitary facilities to all households over the medium term.

Investments in water and sanitation infrastructure support Government's commitment to deliver free basic services to communities

Investment in social infrastructure is complemented by rising expenditure on economic infrastructure, laying foundations for sustainable growth over the medium term. Over the next few years we will see progress in a number of critical infrastructure initiatives. These include industrial development zones that encourage competitiveness of the manufacturing sector, critical infrastructure projects that support key public sector or private sector projects, rehabilitation and extension of the road and rail networks, completion of the Lubombo spatial development initiative road and construction of the Skuifraam Dam in the Western Cape.

Government is making progress in a number of critical infrastructure initiatives, providing impetus to job creation and economic growth over the next few years

Administrative services

The share of administrative expenditure increases by an annual average of 7,6 per cent over the medium term, maintaining steady growth in spending on core government services in support of improved basic and social service delivery at the provincial and local government level. In particular, additional resources are provided for electoral, postal and revenue collection services, core functions of the Department of Home Affairs and to accommodate rising foreign affairs costs.

Preparations for South Africa's third democratic elections in 2004 are underway. Additional allocations to the Electoral Commission in the first two years of the MTEF will facilitate the maintenance of various systems, including registration of voters and updating voting districts following the recent municipal demarcation and enable the upgrading of essential information technology in preparation for the

Restructuring of the SA Post Office will place postal services on a sound footing and facilitate extension of services in under serviced areas

election.

The financial position of the South African Post Office has weakened considerably despite the appointment of a strategic management partner (New Zealand Post International). New technologies such as the short mail service (SMS), fax machines and electronic mail have curtailed the revenue flow of the post office. The proposed 2002 Budget includes provision for financial assistance to the Post Office to enable it to restructure while continuing to extend services in under serviced areas.

Challenged to implement extensive tax reforms, SARS is striving ahead with its internal transformation programme - Siyakha - to raise efficiencies in revenue collection further over the medium term

The South African Revenue Service (SARS) has made significant progress in enhancing its administrative capacity and overcoming important challenges to tax collection, leading to notable improvements in revenue performance. Tasked with implementing an extensive set of tax reforms, including the residence-based income tax system and capital gains tax, SARS intends progressing with Siyakha, its internal restructuring programme to ensure enhanced systems and capacity, increased efficiency and significantly improved output over the next few years.

Additional support to Home Affairs functions enhances access of the poor and vulnerable to key basic and social services

The Department of Home Affairs undertakes key functions in support of provincial and local government service delivery. In particular, the provision of identity documents, birth and death certificates, migration and border control services influence access to key basic and social services, such as social security grants, as well as enabling democratic participation in elections. The 2002 Budget proposes increased support to the Department of Home Affairs in recognition of the need to strengthen these core government functions.

Protection services

In recent years, allocations to protection services have increased in real terms reflecting budgetary accommodation of the defence procurement programme and a strengthening of the ability of the integrated justice sector – police, justice and correctional services – to deal with crime.

Raising spending capacity and improving its quality in the justice system are of critical concern, and further efforts to strengthen the sector will enhance social and economic stability and reduce the vulnerability of the poor.

Increased spending on the justice system targets resources to raising personnel numbers, particularly in the justice and police functions, over the next three years

Despite increased resources, the sector has experienced a decline in capacity. Increased average remuneration has been accompanied by a significant fall in personnel numbers compared to reported serious crimes and relative to workload.

The preliminary 2002 budget therefore makes provision for strengthening the justice and police functions over the next

three years. Additional resources are targeted at raising personnel numbers, primarily to support court efficiency, the 'sector policing' initiative and to accommodate the carry-through costs of rank and leg promotions of existing police personnel. Provision is also made for upgrading of information technology and communications systems across the sector and modernisation of the police vehicle fleet over the medium term.

Proposed allocations to defence increase over the medium-term to accommodate the impact of higher than expected depreciation of the rand on the costs of the strategic arms package and to provide for the enhanced role of the South African Defence Force in regional peacekeeping activities.

Poverty relief and Job Summit commitments

From 1998, Government has set aside a special allocation to address poverty directly, and to assist departments in refocusing service delivery on the poor.

The special allocation provides an additional R1,5 billion a year for projects that combine income generation, especially for poor rural people, with some additional objectives such as the protection of water resources, erecting useful community infrastructure, waste management and training. Particular target groups include the rural poor, women, youth and the disabled.

Although hampered by under-spending in initial years, a number of key outputs have been successfully delivered. These include infrastructure and service to poor communities, short-term and long-term jobs, and training and support for the development of SMMEs.

In 2002 a thorough independent evaluation of programmes will examine expenditure trends, financial controls, speed of disbursement, monitoring and evaluation systems, targeting, appropriateness of projects, impact of projects, and beneficiary assessments.

Having delivered short-term poverty relief, including critical infrastructure and services to communities in rural areas over the past few years, the special poverty relief allocation will undergo a thorough evaluation in 2002

Where programmes contribute to the core functions of the department, have illustrated their usefulness in alleviating poverty and are sustainable, allocations will become part of the ongoing departmental budgets. Unallocated resources will be reprioritised towards other expenditure programmes that are targeted towards poverty alleviation.

Expenditure by economic type

Table 5.5 summarises consolidated national and provincial spending by economic type.

Personnel expenditure

Given the extent of public resources directed towards

Table 5.5: Consolidated national and provincial expenditure by economic type

R billion	2000/01	2001/02	2002/03	2003/04	2004/05
	Outcome	Revised	Medium term estimates		
Current expenditure	183,2	202,5	217,5	232,8	246,8
Personnel	91,4	98,5	105,2	111,9	118,8
Transfer payments	61,8	68,6	74,2	80,0	84,7
Other	30,0	35,4	38,1	40,9	43,4
Capital expenditure	15,3	22,6	27,5	30,6	33,6
Transfer payments	7,8	10,4	13,8	15,4	17,1
Acquisition of capital assets	7,5	12,2	13,6	15,3	16,4
Total	198,4	225,0	245,0	263,4	280,4
Changes from 2001 Budget ¹					
Current expenditure		5,0	8,2	11,0	
Personnel		0,5	1,9	3,3	
Transfer payments		3,2	3,8	4,7	
Other		1,3	2,4	3,1	
Capital expenditure		0,9	1,6	2,0	
Transfer payments		0,0	1,3	1,5	
Acquisition of capital assets		0,9	0,4	0,5	
Total		5,9	9,8	13,0	

¹ Total changes from 2001 budget include additional allocations to all spheres, increased expenditure of the Social Security Funds and a draw-down of provincial reserves in 2001/02.

personnel, Government has focused on containing personnel expenditure trends within the medium-term expenditure framework in recent years.

Spending on personnel grew rapidly after 1996, putting pressure on service delivery in key areas, particularly health, education and policing. Over the past few years, efforts to limit further growth in personnel expenditure have focused on reducing staff numbers and limiting salary increases in line with inflation. As a result, personnel expenditure has declined from nearly 50 per cent of consolidated national and provincial expenditure in 1999/00 to an estimated 43,8 per cent in 2001/02.

The 2001 multi-year salary agreement provides for:

- An increase in 2001 that ranges from 6,5 per cent at the highest salary levels to 8 per cent at the lowest levels, with effect from 1 July 2001
- An increase of CPIX plus 0,5 percentage point in 2002/03 and CPIX plus 1 percentage point in 2003/04
- A once-off payment of R850 per employee in 2001 due to delays in introducing a pay progression system

Negotiation of a multi-year salary agreement helps to contain growth in personnel spending and raise personnel capacity in key sectors over the next three years

- Introduction of a pay progression system in 2002/03, costing 1 per cent of personnel expenditure.

The negotiated settlement results in an upward adjustment in the medium-term provision for personnel expenditure, evident in table 5.5. Over the next three years the personnel share of consolidated national and provisional expenditure is expected to stabilise at about 42,4 per cent. Real growth in personnel expenditure will accommodate the negotiated salary increases and allow expansion of personnel capacity in key sectors such as health and policing.

Capital and infrastructure spending

Accelerating capital and infrastructure spending has been a key objective of Government over the past two years. The 2001 Budget signalled a significant policy shift, with Government taking a more active role in investment in economic and social infrastructure over the medium term. The drive for strengthening capital spending is based on the need to rehabilitate government assets and infrastructure, supporting improved productivity, job creation and a growing economy.

Substantial growth in capital spending averaging 14,2% a year over the next three years gives effect to Government's intention to raise investment in new infrastructure and rehabilitate existing infrastructure

February's Budget announced a major infrastructure investment programme that directs R7,8 billion towards infrastructure spending, including repairing flood damaged infrastructure, rural water supply and sanitation, rail stock, emergency call centres, industrial development, and construction and upgrading of police stations, courts and prisons. Significant allocations to local government were also made in support of the operation, maintenance and extension of residential, social and economic infrastructure.

Table 5.5 shows continued emphasis on capital and infrastructure spending in the 2002 medium-term period. Consolidated national and provincial capital expenditure is projected to increase from R22,6 billion in 2001/02 to R33,6 billion in the outer year. This represents average growth of 14,2 per cent a year over the next three years and will raise capital spending from 10,0 per cent of consolidated non-interested expenditure to 12,0 per cent in 2004/05.

Conclusion

Government's commitment to budgetary restraint over the past five years, reduced borrowings and debt services costs and improved efficiencies in revenue collection facilitate strong real growth in spending over the next three years while still maintaining a sound and sustainable fiscal

policy stance.

Increases in spending are largely directed towards provincial and local government programmes that target the poor and vulnerable, giving effect to Government's stated priorities for the 2002 medium-term period.

Additional resources are also targeted towards core government functions, such as protection services; unemployment benefits; and electoral, postal and revenue collection services in support of improved basic and social service delivery at the provincial and local government level.

Continued emphasis on investment in new infrastructure and rehabilitation of existing economic and social infrastructure will facilitate a recovery in capital spending, particularly at the provincial level. Significant increases in capital spending are possible over the 2002 medium-term period due to improved discipline in spending on personnel. This will enhance quality of spending, improving the delivery of services to communities in the next few years.