

Medium term expenditure framework

Against the backdrop of a clear medium term strategic framework, a growing economy and sound fiscal policy, Government is well-positioned to advance service delivery through effective spending of public resources. The proposed 2005 Medium Term Expenditure Framework focuses on broadening participation in the economy while continuing to contribute to investment for economic growth and social assistance to the poor.

The 2005 budget policy framework provides for:

- *Rapidly growing disability and foster care grant numbers*
- *Stepping up the pace of land restitution*
- *Support for the new direction in housing delivery*
- *Additional resources for road infrastructure*
- *Improving the quality of the schooling system and focused attention on further education and training colleges*
- *Additional funding for the National Student Financial Aid Scheme*
- *Continued improvement of public health services through hospital revitalisation*
- *Expanded capacity in water resource management*
- *Improved salaries for police and educators*
- *Re-engineering the core government services in Home Affairs*
- *Continued support for the African agenda including hosting the Pan African Parliament.*

Policy priorities and the budget

The 2005 Budget is prepared within a clear policy context underpinned by a strong political mandate. The State of the Nation Address delivered by President Mbeki on 21 May 2004 sets out Government's broad policy objectives supported by specific targets in key service delivery areas. Based on these targets, a comprehensive programme of action was announced.

Budget allocations deliver on policy objectives

The medium term strategic framework, outlined in chapter 1, synthesizes Government's objectives into five key focal points:

- Promoting economic growth through an increase in the rate of productive investment in the economy
- Improving the quality of livelihoods for the marginalised by encouraging employment and enterprise development
- Maintaining a social security net, while mobilising human resources and investing in community services
- Improving the State's capacity by enhancing public administration and fighting crime
- Promoting international and regional relations for growth and development.

Growing the economy while providing a safety net for the poor

The proposed framework for the 2005 Budget takes these aims as a point of departure, with a central focus on growing the economy while providing an adequate safety net for vulnerable groups.

2005 Budget will step-up investment in roads, dams and housing....

A key element of meeting the first focus area is increasing the rate of investment from 16 to 25 per cent of GDP over the next decade. This requires a number of concerted interventions that will help to spur economic activity to a new level. While most of the investment required for growth will come from the private sector, stepping up investment in roads, dams, housing and other public infrastructure will be a prominent feature of the 2005 Budget.

...while promoting the integration of formal and informal sectors

The second and third focal points aim to encourage economic activity among marginalised communities, support the acquisition of skills and promote sustainable livelihoods. Through these interventions, Government seeks to reduce levels of poverty, promote the integration of the informal and formal sectors of the economy, and at the same time provide much-needed services to poor communities.

Government has therefore prioritised several programmes aimed at building bridges between the first and second economies. The expanded public works programme supports labour-intensive programmes for building social and economic infrastructure. Developing a more robust small and micro-enterprise sector will also spur growth in the informal sector while forging links with the modern economy. Similarly, skills development, work experience through learnerships and the realignment of further education and training institutions to meet industry requirements will give further momentum to human development. Given the importance of land in the rural economy, land reform and agricultural support programmes are at the centre of Government's strategy to reach disadvantaged and dispossessed communities in rural areas.

Resources allocated for social grants will increase rapidly in the coming three years, as the child support grant eligibility increases along with take up, and the numbers of people receiving disability and foster care grants continue to grow rapidly. Beyond the MTEF period, the present rate of increase cannot be sustained. The establishment of the National Social Security Agency should assist in achieving improved administration and a more moderate spending trend.

Over the MTEF, social grants support expected to taper off and resources to go towards other services for the poor

Improving the performance of the State through institutional reform, better human resource management, improved regulation of utilities and more efficient state owned enterprises is essential to improving service delivery and increasing economic performance. Continuing the expansion of capacity to fight crime is a key priority over the next three years.

Government is focussed on improving the performance of the State

Fostering greater economic cooperation in Southern Africa and strengthening the institutions of the African Union and NEPAD remain a priority going forward.

Commitment to AU and NEPAD remain a priority

In support of these broad policy objectives, the proposed 2005 medium term expenditure framework (MTEF) prioritises the following areas:

- A significant step up in resources for land restitution to complete this process
- Supporting the implementation of the new housing delivery strategy premised on the creation of sustainable human settlements
- Increased allocations for road infrastructure to improve national and provincial road networks in line with the National Roads Strategy
- Further strengthening and stabilisation of social security in the transition to the National Social Security Agency
- Continued improvement of public health services through hospital revitalisation and consolidation of primary health care in provinces
- Expanded policing capacity both in communities and at strategic sites while improving salaries for police officials
- Improving the efficiency of the courts through a dedicated court management system
- Increasing investment in further education and training colleges and improving the quality of teaching through targeted remuneration adjustments
- Ongoing support for the African agenda including the inauguration of the Pan African Parliament and NEPAD.

Marked shift to economic infrastructure spending in the last year of the MTEF

Through its medium term expenditure allocations, Government seeks to reach an appropriate balance between social and economic infrastructure, human capital investment and administrative services. At the national level, key administrative functions receive additional allocations in the first year, with a marked shift towards economic infrastructure in the outer years of the MTEF, supporting the long-term growth potential of the economy.

Monitoring and evaluation services to contribute to delivery

There is, however, greater need to focus on the quality of programme outputs and ultimately outcomes. Diffuse spending on a plethora of programmes will not achieve the major strides required in extending and improving core services, particularly in social services. An initiative is accordingly under way to develop monitoring and evaluation systems across government with a view to unblocking service delivery constraints.

Division of revenue between spheres

The division of revenue between the three spheres is based on policy priorities, while taking account of the spending responsibilities and fiscal capacities of each sphere. For the current MTEF, the largest share of additional resources will go to provinces, confirming government's ongoing commitment to deliver social and economic services to communities.

Additional allocations to baseline

Budget framework provides R50 billion of additional spending

Table 5.1 outlines the revised budget framework for the next three years. It shows the adjusted budget for 2004/05, as well as the additional resources available over the MTEF for national, provincial and local government. Additional funds are provided by a drawdown on the contingency reserve and adjustments to the fiscal framework. Over the next three years, additional allocations of R50 billion are proposed.

The rapid escalation in social grants payments takes up the largest share of available funds. It is anticipated that about R20,8 billion of additional resources over the next three years is required to meet obligations on social security grants.

Vertical division shifts resources to provinces and municipalities

Provinces receive 58,2 per cent of additional allocations, 37,1 per cent goes to national government and 4,7 per cent goes to local government. Although social grant administration will become a national function, grants will continue to be administered by provinces next year through a conditional grant.

Local government share rises to 4,7 per cent of consolidated spending

The local government share continues to grow faster than the other spheres, reflecting the huge developmental tasks facing this sphere. Additional allocations to local government go mainly to the equitable share which funds the delivery of basic

municipal services, with the municipal infrastructure grant increasing in the outer years to accelerate the pace of reducing infrastructure backlogs in areas such as water, electricity, sanitation, refuse removal and roads.

The bulk of the additional resources going to national government will go towards fighting crime, stepping up land restitution, increasing student financial aid, investing in roads and dams and improving administrative capacity in home affairs. The share going to national government is higher in the third year to provide for increased spending on economic infrastructure.

National allocations in the third year go mainly towards infrastructure

Annexure A contains detailed tables on the outcome for 2003/04 for all national departments and key provincial departments as well as spending estimates for the first six months of this fiscal year.

Table 5.1 Medium term expenditure framework and division of revenue

| | 2004/05 Revised | 2005/06 Medium term estimates | 2006/07 | 2007/08 | 2004/05 – 2007/08 Average annual growth |
|--|--------------------|----------------------------------|----------------|----------------|---|
| R million | | | | | |
| National | 121 975 | 133 148 | 143 226 | 154 675 | 8,2% |
| Provincial | 185 354 | 207 782 | 226 380 | 242 428 | 9,4% |
| <i>of which</i> | | | | | |
| <i>Equitable share</i> | 122 425 | 133 647 | 144 792 | 154 756 | 8,1% |
| <i>Conditional grants</i> | 62 928 | 74 135 | 81 588 | 87 672 | 11,7% |
| Local | 14 757 | 16 559 | 17 937 | 19 394 | 9,5% |
| Total to be shared¹ | 322 086 | 357 489 | 387 543 | 416 497 | 8,9% |
| Shares of national revenue | | | | | |
| National | 37,9% | 37,2% | 37,0% | 37,1% | |
| Provincial | 57,5% | 58,1% | 58,4% | 58,2% | |
| <i>of which</i> | | | | | |
| <i>Equitable share</i> | 38,0% | 37,4% | 37,4% | 37,2% | |
| <i>Conditional grants</i> | 19,5% | 20,7% | 21,1% | 21,0% | |
| Local | 4,6% | 4,6% | 4,6% | 4,7% | |
| Total to be shared | 100,0% | 100,0% | 100,0% | 100,0% | |
| Changes from baseline² | | | | | |
| National | 2 378 | 2 101 | 3 549 | 8 014 | |
| Provincial | 4 242 | 8 121 | 10 082 | 15 315 | |
| <i>of which</i> | | | | | |
| <i>Equitable share</i> | 847 | 1 520 | 3 134 | 6 015 | |
| <i>Conditional grants</i> | 3 395 | 6 601 | 6 948 | 9 300 | |
| Local | 477 | 600 | 800 | 1 400 | |
| Total to be shared | 7 097 | 10 822 | 14 431 | 24 729 | |

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

2. Baseline allocations comprise the medium term estimates published in the 2004 Budget, together with standard increases of 5 per cent in 2007/08 over the 2006/07 allocations.

Increased spending in 2004/05 and the Adjustments Budget

Total expenditure in 2004/05 projected to be R2,8 billion higher than budgeted

The 2004/05 Adjustments Budget provides for R7,7 billion of additional allocations. However, after taking into account projected in-year savings, lower interest costs, the contingency reserve and other unallocated amounts, the net increase in anticipated spending is R2,8 billion. The adjustments to the 2004 *Estimates of National Expenditure* include the following:

- Additional allocations of R1,6 billion for unforeseen and unavoidable expenditure at national level
- Approved rollovers of R2 billion which arise from unspent balances in the previous financial year
- Drought relief amounting to R430 million to be administered by the Departments of Agriculture, Provincial and Local Government and Water Affairs and Forestry
- A transfer of R150 million to the National Empowerment Fund for black economic empowerment initiatives
- Debt service costs projected to be about R800 million lower
- Savings on the strategic defence package of about R1 billion due mainly to the appreciation of the rand against other currencies.

Provinces receive a total adjustment of R4,2 billion largely to cover the cost of rising social grant expenditure and increased remuneration for educators. The amount will be distributed to provinces according to the equitable share proportion of each province.

Key spending areas for the 2005 MTEF

Social services

About 60 per cent of spending on social services

Social services continue to absorb nearly 60 per cent of Government's non-interest expenditure in order to lay the foundation for growth through human capital development, and to provide direct income support for the poor. In recent years, there has been strong growth in expenditure on recurrent inputs such as textbooks, equipment and other goods and services at school level, as well as education infrastructure spending to enhance efficiency and improve outputs of the education system. In addition, substantial adjustments have been made to support the restructuring of the higher education sector and for student funding through the National Student Financial Aid Scheme (NSFAS). From 2005, the focus in education will include building more robust education management information systems, support for the further education and training (FET) sector, including FET colleges, and supporting the ability of the NSFAS to increase its coverage.

Table 5.2 Consolidated national and provincial expenditure by type of service

| R million | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|----------------|----------------|-----------------------|----------------|----------------|
| | Outcome | Revised | Medium term estimates | | |
| Social services | 176 836 | 201 824 | 223 881 | 243 808 | 259 782 |
| Education | 69 721 | 76 756 | 82 952 | 88 580 | 94 711 |
| Health | 39 653 | 42 510 | 47 014 | 51 284 | 54 960 |
| Welfare and social security | 51 077 | 63 273 | 74 288 | 82 814 | 87 590 |
| Other social services | 16 385 | 19 285 | 19 627 | 21 131 | 22 521 |
| Protection services | 58 031 | 62 516 | 69 922 | 74 274 | 77 899 |
| Defence | 22 212 | 22 243 | 24 794 | 25 342 | 25 226 |
| Justice, police and prisons | 35 819 | 40 273 | 45 128 | 48 932 | 52 673 |
| Economic services and infrastructure | 44 975 | 51 185 | 55 476 | 60 588 | 68 740 |
| Water and related services | 5 963 | 6 670 | 7 096 | 7 394 | 7 941 |
| Agriculture, forestry and fishing | 6 604 | 7 282 | 8 025 | 8 851 | 9 572 |
| Transport and communication | 16 207 | 18 041 | 18 997 | 20 861 | 23 750 |
| Other economic services | 16 201 | 19 192 | 21 358 | 23 483 | 27 477 |
| Administration | 22 397 | 24 868 | 26 884 | 28 639 | 31 169 |
| <i>of which: Local government transfers</i> | 12 390 | 14 757 | 16 559 | 17 937 | 19 394 |
| Total | 302 239 | 340 394 | 376 164 | 407 308 | 437 590 |
| Interest | 46 313 | 49 617 | 53 155 | 58 167 | 63 689 |
| Contingency reserve | – | – | 3 000 | 4 000 | 8 000 |
| Consolidated expenditure | 348 552 | 390 011 | 432 319 | 469 475 | 509 279 |
| Changes from 2004 Budget¹ | | | | | |
| Social services | | 5 139 | 7 906 | 11 004 | 15 338 |
| Education | | 894 | 1 865 | 2 506 | 4 334 |
| Health | | -76 | -124 | 762 | 1 912 |
| Welfare and social security | | 3 338 | 6 269 | 7 385 | 8 390 |
| Other social services | | 983 | -105 | 351 | 702 |
| Protection services | | -730 | 1 367 | 2 308 | 2 334 |
| Defence | | -846 | -172 | -59 | -1 445 |
| Justice, police and prisons | | 115 | 1 539 | 2 367 | 3 780 |
| Economic services and infrastructure | | 1 774 | 562 | 862 | 6 028 |
| Water and related services | | 521 | 300 | 159 | 344 |
| Agriculture, forestry and fishing | | 173 | 120 | 118 | 403 |
| Transport and communication | | 712 | 100 | 542 | 2 415 |
| Other economic services | | 368 | 43 | 43 | 2 866 |
| Administration | | 881 | 928 | 735 | 1 871 |
| <i>of which: Local government transfers</i> | | 477 | 600 | 800 | 1 400 |
| | | 7 064 | 10 763 | 14 909 | 25 572 |
| Interest | | -815 | -831 | 222 | 2 847 |
| Total | | 6 249 | 9 932 | 15 131 | 28 418 |

1. Total changes from 2004 Budget include additional allocations to all spheres, increased expenditure of the Social Security Funds and a draw-down of provincial reserves in 2003/04.

Money set aside for the adjustment to educator salaries takes account of the need to provide for career pathing and pay progression in this important sector as a means of retaining skills and rewarding good performance.

The National Health Act of 2003 will be implemented in 2005/06 and aims to consolidate fragmented primary health services under a single level of government. The new framework locates responsibility for the primary health services

function at provincial government, with local government only responsible for the narrowly defined environmental health services. Provincial governments may choose to take over primary health care services, but also have the option to assign the function to local government. Increases on the provincial equitable share will be partly utilised to replace portions of what local government has been spending on this function while metropolitan councils are likely to maintain delivery of these services.

Health infrastructure spending accelerates rapidly

In addition to the Hospital Revitalisation programme, which will see ten of the original 27 targeted hospitals completed over the next two years, the health sector has also prepared a plan for modernisation of the tertiary health sector. Proposals for accelerating the rate of hospital revitalisation and the financial and resource implications of building the tertiary sector are currently being considered. Budgets also accommodate building the capacity of the national Department of Health to support and monitor the implementation of the comprehensive programme for HIV and Aids, delivered mainly through provinces and non-governmental organizations.

Capacity to implement 2010 World Cup supported

South Africa's successful bid to host the 2010 World Cup will require provision for Government's role in preparing for the competition, which holds large potential benefits for the country. Government will contribute to funding part of the stadium infrastructure requirements. Initiatives to increase mass participation in sport and to build school sports will continue.

Social security grants

In 2005/06, the financing of social grants will be centralised at the national level and funding for grants and its administration will in future flow through the national department. There will be a commensurate decrease in the equitable share allocation to provinces leading to a substantial change in the overall structure of the budgets of provinces and of the division of revenue. While the South African Social Security Agency is being established, 2005/06 will see continued provincial administration and payment of social grants from national funding.

The shift of social grants administration is part of Government's continued endeavour to expand access to social services and improve the efficiency of service delivery. In addition to funding the establishment of the agency, the 2005 MTEF contains substantial baseline adjustments to accommodate continued rapid growth in access to disability grants, in addition to already high rates of growth in expenditure as the extension of the child support to children under the age of 14 years is completed.

Overall, beneficiary numbers for social grants were close to nine million by the end of September 2004. This represents an increase of more than two million beneficiaries since April 2004. Additional funding for the final phase-in of the child support grant to children up to their 14th birthday will accommodate more than 1.2 million children.

Disability grants for adults, care dependency (disability) grants for children and foster care grants have been growing much faster than other grants. There is concern that a significant part of the growth arises from administrative failures. Government is currently investigating the underlying causes for this growth which may include the impact of HIV and Aids, a better understanding and access, fraud or abuse, and unclear guidelines about how to treat conditions - especially chronic illnesses like TB. New procedures are being developed to improve the efficiency and integrity of these programmes, so that officials and taxpayers can know that benefits are going to those whom the programmes were set up to assist.

Justice and Protection Services

Providing a safe environment for citizens allows communities to build networks of social inclusion. A crime free environment promotes social stability, is a cornerstone of further human development and supports an attractive investment environment.

In support of Government's focus on preventing and combating crime, the Department of Safety and Security will continue its focus on sector policing and in addition, enhance policing at certain strategic installations in a pilot phase. Provision is made for the enlistment of more than 8 000 additional personnel. Improved remuneration will also assist in retaining skilled police personnel.

Provision for further increases in policing capacity

The Department of Justice and Constitutional Development continues to focus on the improvement of court efficiency in order to address the long-standing challenge of managing case backlogs. Provision has been made for the appointment of additional personnel, as well as the implementation of a court management information system, that will ensure efficient case flow management and the availability of information at court level. Over the medium term, more sensitive service to vulnerable groups remains a focus of the Department. Funding is also allocated for public awareness and rural outreach in respect of citizens' rights.

Improving court administration remains a major priority

Additional resources will also be channelled to increase the capacity of the Independent Complaints Directorate to investigate complaints by citizens against police personnel.

Table 5.3 Service shares and growth

| | 2003/04 Outcome | 2004/05 Revised | 2005/06 Medium term estimates | 2006/07 | 2007/08 | 2004/05 – 2007/08 Average annual growth |
|---|--------------------|--------------------|----------------------------------|---------------|---------------|---|
| Per cent | | | | | | |
| Social services | 58,5% | 59,3% | 59,5% | 59,9% | 59,4% | 8,8% |
| Education | 23,1% | 22,5% | 22,1% | 21,7% | 21,6% | 7,3% |
| Health | 13,1% | 12,5% | 12,5% | 12,6% | 12,6% | 8,9% |
| Welfare and social security | 16,9% | 18,6% | 19,7% | 20,3% | 20,0% | 11,4% |
| Other social services | 5,4% | 5,7% | 5,2% | 5,2% | 5,1% | 5,3% |
| Protection services | 19,2% | 18,4% | 18,6% | 18,2% | 17,8% | 7,6% |
| Defence | 7,3% | 6,5% | 6,6% | 6,2% | 5,8% | 4,3% |
| Justice, police and prisons | 11,9% | 11,8% | 12,0% | 12,0% | 12,0% | 9,4% |
| Economic services and infrastructure | 14,9% | 15,0% | 14,7% | 14,9% | 15,7% | 10,3% |
| Water and related services | 2,0% | 2,0% | 1,9% | 1,8% | 1,8% | 6,0% |
| Agriculture, forestry and fishing | 2,2% | 2,1% | 2,1% | 2,2% | 2,2% | 9,5% |
| Transport and communication | 5,4% | 5,3% | 5,1% | 5,1% | 5,4% | 9,6% |
| Other economic services | 5,4% | 5,6% | 5,7% | 5,8% | 6,3% | 12,7% |
| Administration | 7,4% | 7,3% | 7,1% | 7,0% | 7,1% | 7,8% |
| of which: Local government transfers | 4,1% | 4,3% | 4,4% | 4,4% | 4,4% | 9,5% |
| Total | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 8,7% |

Shift to rehabilitation the major challenge in correctional service

Delivering services according to the principles of the new White Paper on Corrections will be a key priority for the Department of Correctional Services over the next five years. The emphasis of the new strategic direction is on delivering appropriate services to persons under its care, creating a working environment for officials that is conducive to their role in rehabilitation, providing facilities that support rehabilitation, and improving relations and partnerships with external stakeholders and oversight authorities.

Regional peace support operations a key priority for defence

Regional peacekeeping, particularly in Burundi and the Democratic Republic of the Congo, remains a priority for the Department of Defence. Current deployment levels will be sustained and funding in respect of peace support operations remains a significant spending pressure over the MTEF period. Additional funding also provides for enhanced infrastructure maintenance and integration of newly acquired strategic defence equipment.

Economic services and infrastructure

Strong growth in spending on economic services, especially in outer year of MTEF

Spending on economic services and infrastructure in the consolidated budget shows strong growth, especially in the last year of the MTEF period.

The 2005 Budget will make significant financial resources available for the land restitution programme. Most of the 56 650 claims that have already been settled are in urban areas. Of the remaining 22 646 claims, about 9 238 are in rural areas. These claims involve substantial costs as they relate to large communities.

Housing

Following a review of the national housing programme, Government has adopted a new *Comprehensive plan for the development of sustainable human settlements*. This plan was presented to Cabinet in September 2004. Sustainable human settlements are defined as well managed living areas in which economic growth and social development are in balance with the carrying capacity of the natural systems on which they depend for their existence. This new approach to housing delivery emphasises the provision of basic shelter within the context of well-serviced, integrated settlements that are well located, enjoy secure environments and facilitate good governance and better policing.

The comprehensive plan proposes greater participation in housing delivery by the private sector, especially the banking and construction sectors, and greater focus on providing social infrastructure and amenities. Implementation of this plan will usher in a new era in housing delivery, including the upgrading of informal settlements and the development of a greater range of housing options. In summary the new direction proposes:

- A conceptual shift from a commoditised, project-based housing delivery model to a responsive, area-based human settlement development model;
- The introduction of new housing subsidy mechanisms to satisfy a more diverse range of housing needs, such as alternative tenure options and affordable rental housing; and
- The devolution of the administration of housing programmes to municipalities.

Ensuring adequate water supply for both domestic and industrial use remains a major challenge. Government has identified the need for new water resource infrastructure in the upper Vaal River, the Olifants River and Groot Letaba River. Funds have been provided to support significant infrastructure in dams, and the Department of Water Affairs and Forestry will also raise private finance through the Trans Caledon Tunnel Authority (TCTA).

Additional allocations for bulk water resource infrastructure

In sanitation, the immediate challenge is the eradication of the bucket system that still prevails in some townships. There are currently 457 000 buckets to be replaced with alternative forms of sanitation. Over the MTEF period, the Municipal Infrastructure Grant (MIG) provides substantial resources for water and sanitation projects.

Hospital revitalisation

The hospital revitalisation programme started in 2002/03 as a new approach to upgrading the national hospital stock, which faced large backlogs. It is focused on upgrading or replacing entire hospitals, which are reaching the end of their lifespan. Such projects are typically expensive, making them difficult for provinces to fund. Nine hospitals were included in the programme in 2002/03 and a further 18 hospitals in 2003/04, bringing the total to 27. Besides upgraded or new infrastructure, the programme is intended to ensure modern medical equipment, adequate maintenance and improved hospital management systems. The first eleven hospitals, which will be completed over the course of the next two years, are listed below:

| | 2004/05 | 2005/06 | 06/07 |
|---------------|---|--|---|
| Eastern Cape | | Mary Theresa – revitalisation 248 bed district hospital | |
| Limpopo | Lebowakgomo – replacement 241 bed district hospital | Jane Furse – replacement 331 bed district hospital Dilokong replacement 140 bed district hospital | |
| Mpumalanga | | Piet Retief – replacement 140 bed district hospital | |
| Northern Cape | Colesberg – new 35 bed district hospital Calvinia – new 35 bed district hospital | | |
| North West | Swartruggengs – new 28 bed district hospital | | |
| Western Cape | | George – revitalise 265 bed regional hospital Vredenberg – revitalise 50 bed district hospital | Eben Donges Worcester – revitalise 315 bed regional |

The 2005/06 budget will see the entry of additional new hospitals into the programme. The optimal scenario would see four active projects per province, i.e. a total of 36 projects. However, to achieve this the management capacity and systems at both national and provincial levels require strengthening and business cases need to be finalised, evaluated and approved.

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|---|--|
| <i>Scrapping allowance for taxi industry</i> | Lack of progress in rolling out the taxi recapitalisation programme over the past four years has resulted in dissatisfaction in the taxi industry. Agreement between all role players appears to have been reached on the principles of a more feasible and sustainable rollout plan. The MTEF provides resources to be utilised for scrapping allowances for older, unroadworthy vehicles, subject to a suitable plan. |
| <i>Broad-based black economic empowerment initiatives</i> | To respond to the challenge of increasing the participation by black people in the economy of South Africa, Government passed the Broad-based Black Economic Empowerment Act. The Act aims to broaden the entrepreneurial base, extend black participation in the economy as measured in terms of ownership, management and skills development, develop local communities and employees and reduce income inequalities. The National Empowerment Fund will receive funds for targeted initiatives over the MTEF, to complement current initiatives of the private sector under the auspices of the Financial Sector Charter. |
| <i>Road network critical for economic development</i> | In recognition of the importance of road infrastructure in stimulating economic growth, the 2005 MTEF provides significant additional resources over baseline. These resources are aimed at improving national and provincial road networks in line with the Roads Infrastructure Strategic Framework. About 7 900 kilometres of strategic provincial roads will be reclassified as national roads, and in due course a larger allocation will go towards the National Roads Agency to rehabilitate and maintain the transferred network. |

Administrative Services

After a period of policy and legislative development, government is shifting focus to improved implementation and monitoring and evaluation processes. Going forward, implementation capabilities and sound administrative practices will be emphasised and bureaucratic procedures will be simplified to free administrative capacity. Allowing ‘managers to manage’ will entail greater decentralisation of management authority to the level of institutions such as hospitals, schools and clinics.

| | |
|--|---|
| <i>Need for increased capacity to monitor service delivery</i> | Over the MTEF, government will increase monitoring and evaluation capacity in the Presidency and departments of Public Service and Administration and Provincial and Local Government. Government-wide indicators will be designed to monitor service delivery, in conjunction with measurable objectives developed through the budget process. |
| <i>Home affairs turnaround strategy supported</i> | The services rendered by Home Affairs are central to giving citizens access to basic benefits and other government services. Government has launched a turnaround strategy to upgrade services of the Department, and funds are provided for this in |

the MTEF. As a first step, Home Affairs will increase its personnel, upgrade some existing offices, implement an appropriate technology platform for the department and provide additional service points that will include mobile units. The first phase of the Home Affairs National Identification System (HANIS) smart card project is near completion and a sustained roll-out of the system will now commence.

Government owns an extensive property and land portfolio. Over the MTEF period the Department of Public Works will review the asset register, develop a comprehensive management framework for government-wide immovable assets, vest government properties with the appropriate sphere, and sell off unwanted property. The backlog in the maintenance of government buildings has been assessed and departments will now be in a position to determine maintenance priorities in line with service delivery.

Management of Government's estate to get a boost

Consolidating the African Agenda

Given our relative economic and technical advantages, SA will continue to play a leading role in advancing the African Agenda with the objective of improving the international image and attractiveness of the African continent to international investors and tourists. Core activities include developing policies and structures for the African Union (AU), continuing with the activities identified under the New Partnership for Africa's Development (NEPAD) and ensuring that the AU and NEPAD policies are harmonised with those of the regional economic communities. All these activities will contribute to building a more dynamic Union, capable of dealing with current global challenges and leading Africa out of conflict and poverty.

The emphasis in the AU so far has been on finalising the protocols relating to the Pan African Parliament (PAP), Peace and Security Council, Court of Justice, Convention Against Terrorism and Common African Defence and Security Policy, and protecting the rights of women in Africa. South Africa is the host to the PAP, but is only partially responsible for the costs.

Foreign Affairs expenditure on the African Agenda

| R million | 2003/04 | 2004/05 | 2005/06 | 2006/07 |
|--------------------------|---------|---------|---------|---------|
| NEPAD Secretariat | 25 | 70,5 | 30 | 30 |
| African Union | 14,5 | 30 | 20 | 20 |
| African Renaissance Fund | 50 | 50 | 100 | 100 |

South Africa led the process of setting up institutions for implementing NEPAD and will be actively involved in developing NEPAD priorities, which include bridging the infrastructure gap, especially in Information Communication Technology (ICT) and energy; Human Resource Development with particular emphasis on education, skills development and reversing the brain drain; health; agriculture; and the market access initiative. NEPAD progress includes the establishment of the Economic and Social Council to encourage civil society's participation in the NEPAD process. South Africa has agreed to be among the first countries to be peer reviewed.

Without peace and stability, efforts aimed at rebuilding the African continent will not bear fruit. In this regard, South Africa continues to focus on:

- Active engagement and providing tangible support to Africa's regional peace initiatives and processes. This is based on the need to create enabling environments conducive to sustainable development..
- Facilitating comprehensive peace agreements, which are linked to the development and implementation of post conflict reconstruction programmes. To this end, South Africa has established strategic partnerships with Tanzania, Rwanda, Burundi and the DRC.

The Department of Public Works currently pays rates and taxes for buildings that are used for service delivery by provincial departments. For smaller municipalities, rates and taxes on government owned buildings are an important source of income. The new Property Rates Act will bring a number of additional government buildings into the tax net. This is expected to significantly increase government's property rates bill such that exempting certain categories of buildings – schools, clinics, police stations – from property tax is under consideration.

Next full population census to be in 2011

Government has decided not to conduct a full population census in 2006. Instead, an extended household survey – the census replacement survey – will be conducted in 2006 to provide key demographic, economic and service delivery information. A full census will be conducted in 2011.

Economic classification of expenditure

Table 5.4 summarises the economic categories of consolidated expenditure for the national and provincial spheres, excluding debt service costs. The data is presented in the new economic classification format. Current expenditure, including personnel and goods and services – constitutes 58,6 per cent of expenditure. Capital expenditure continues to grow strongly, increasing by an annual average growth of 15,4 per cent over the MTEF.

Personnel spending to grow by 6,7 per cent a year

Spending on personnel remains the largest component of current expenditure and grows by an annual average of 6,7 per cent from R132,8 billion to R161,6 billion over three years. The recent salary agreement with public service unions makes provision for salary increases to be linked to projected inflation rates, improved housing benefits and provision for scarce skills.

Apart from the general salary increases, the education and police sectors receive significant additional resources. For teachers, an additional R5 billion is provided to address backlogs in pay progression, for career pathing and scarce skills. To support the retention of skilled police, the South African Police Service will receive R2,25 billion over the next three years. Both sectors will need to develop appropriate recruitment, training and performance systems. In the health sector, the implementation of allowances for scarce skills and rural deployment in 2003 has contributed to the retention of critical health personnel.

Transfers and subsidies increase strongly

A significant component of consolidated government expenditure consists of transfers to households, various public entities, and non-profit institutions. Transfers to households provide direct income support to improve the welfare of households and include social benefits such as welfare grant

payments, unemployment insurance and the road accident fund payments. Together, these transfers grow to R90,9 billion in the third year of the MTEF, pointing to the significant contribution made to the direct welfare of citizens. An important pillar of social development policy is the strengthening of welfare services through non-governmental organisations that work closely with communities. Over the MTEF period, government transfers to these organisations grow from R4,8 billion to R5,8 billion.

Table 5.4 Consolidated national and provincial expenditure by economic classification

| R million | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|----------------|----------------|-----------------------|----------------|----------------|
| | Outcome | Revised | Medium term estimates | | |
| Current payments | 213 448 | 235 067 | 253 835 | 274 262 | 293 721 |
| Compensation of employees | 120 854 | 132 771 | 142 756 | 152 314 | 161 598 |
| Goods and services | 46 062 | 52 523 | 57 725 | 63 574 | 68 217 |
| Interest and rent on land | 46 445 | 49 758 | 53 337 | 58 356 | 63 888 |
| <i>State debt cost</i> | 46 313 | 49 617 | 53 155 | 58 167 | 63 689 |
| Other current payments | 86 | 15 | 17 | 18 | 18 |
| Transfers and subsidies | 119 238 | 137 839 | 155 144 | 167 442 | 181 249 |
| Provinces and municipalities | 16 001 | 19 958 | 21 708 | 23 803 | 25 737 |
| Departmental agencies and accounts | 28 114 | 29 744 | 33 135 | 33 931 | 35 436 |
| Universities and technikons | 8 344 | 9 368 | 9 982 | 10 567 | 11 096 |
| Public corporations and private enterprises | 9 237 | 10 469 | 9 691 | 10 019 | 11 294 |
| Foreign governments & international organisations | 836 | 836 | 829 | 939 | 1 030 |
| Non-profit institutions | 3 884 | 4 762 | 5 198 | 5 519 | 5 795 |
| Households | 52 821 | 62 702 | 74 600 | 82 663 | 90 862 |
| Payments for capital assets | 15 867 | 17 105 | 20 340 | 23 771 | 26 309 |
| Buildings and other fixed structures | 9 764 | 11 190 | 13 525 | 15 146 | 17 590 |
| Machinery and equipment | 5 036 | 4 877 | 5 405 | 5 915 | 6 312 |
| Land and subsoil assets | 980 | 817 | 1 152 | 2 488 | 2 174 |
| Other payments for capital assets | 87 | 220 | 258 | 222 | 233 |
| Total | 348 552 | 390 011 | 429 319 | 465 475 | 501 279 |
| Contingency reserve | – | – | 3 000 | 4 000 | 8 000 |
| Consolidated expenditure | 348 552 | 390 011 | 432 319 | 469 475 | 509 279 |
| Changes from 2004 Budget | | | | | |
| Current payments | | 439 | 1 952 | 5 042 | 11 039 |
| Compensation of employees | | 1 027 | 2 762 | 4 409 | 6 297 |
| Goods and services | | 257 | 22 | 414 | 1 899 |
| Interest and rent on land | | -845 | -833 | 220 | 2 844 |
| Other current payments | | 1 | 1 | -1 | -1 |
| Transfers and subsidies | | 6 287 | 7 524 | 7 814 | 13 640 |
| Provinces and municipalities | | 1 387 | 1 104 | 1 472 | 2 289 |
| Households | | 4 263 | 6 929 | 6 981 | 11 395 |
| Other transfers and subsidies | | 637 | -509 | -639 | -44 |
| Payments for capital assets | | -477 | 456 | 2 276 | 3 739 |
| Buildings and other fixed structures | | -338 | 222 | 429 | 2 137 |
| Machinery and equipment | | -156 | -13 | 342 | 461 |
| Land and subsoil assets | | 8 | 260 | 1 516 | 1 154 |
| Other payments for capital assets | | 9 | -14 | -12 | -13 |
| Total | | 6 249 | 9 932 | 15 131 | 28 418 |

Capital and infrastructure spending a key priority

Increasing capital and infrastructure spending is a key objective of Government. Over the MTEF period, expenditure grows from R17,1 billion to R26,3 billion. This expenditure provides for a steady improvement in social infrastructure while investment in economic infrastructure continues to be a priority.

The MTEF provides for a substantial increase in expenditure on housing development, national road infrastructure and water resource development. Increases to capital and infrastructure allocations are focused in the third year to allow for an adequate lead time for planning.

Economic infrastructure development, as an engine for economic development, receives support through direct government funding of the road network and various PPP projects, and also through state owned enterprises such as Eskom and Transnet.

Conclusion

MTEF aligned with Government's strategic priorities

The 2005 medium term expenditure framework seeks to align spending plans with the medium term strategic direction of Government. In doing this, it is important to find an improved balance between social security spending and direct economic services that are known to support the economy's growth potential. This is reflected through significant allocations to economic infrastructure including the road network, water infrastructure and housing. Substantial pressures on the framework include the upward trend in public service remuneration and the rapid growth in social grant beneficiary numbers. Going forward, these costs need to be managed carefully to create greater fiscal room for other key spending areas.