

## Priorities over the medium term expenditure framework

*A steadily improving economic outlook allows for upward revisions to the expenditure framework. An additional R78,3 billion is made available for the budgets of national departments, provincial and local governments over the 2006 MTEF period. Allocations will be guided by Government's objectives, including accelerating economic growth by promoting modernisation, broadening participation and removing constraints to growth. New funding will continue progress in the extension of social assistance and the rollout of quality services to all South Africans. Government's role in the realisation of economic prosperity depends not only on funds allocated and the breadth of services provided, but also the effectiveness of its service provision, plans, regulations and implementation.*

*The 2006 budget policy framework prioritises:*

- *Increased investment in sustainable human settlements and the built environment*
- *Improved municipal services and community infrastructure*
- *Expanded investment in commuter rail services, local public transport and industrial infrastructure*
- *Increased allocations to provinces to improve education, health and social welfare services*
- *Improved access to justice, enhanced policing capacity and better quality of courts administration.*

### **Policy priorities and the Budget**

The 2006 Budget policy framework seeks to further the realisation of Government's policy objectives. These are summarised in five focal points:

- Accelerating the pace of economic growth and the rate of investment in productive capacity

- Promoting opportunities for participation of marginalised communities in economic activity, and improving the quality of livelihoods of the poor
- Maintenance of a progressive social security net, alongside investment in community services and human development
- Improving the capacity and effectiveness of the state, including combating crime and promoting service-oriented public administration
- Building regional and international partnerships for growth and development.

*Budget balances support for growth with improvements to services*

The framework for the 2006 Budget gives concrete expression to Government policy by achieving a balance in allocations between support for economic growth, social support, and continuous improvements to the quality and reach of public services. The MTEF allows for the continued expansion of public resources in each of these areas.

*Social assistance system has undergone thorough reform*

In the 11 years since the establishment of democracy in South Africa, Government has made substantial progress in the reprioritisation and transformation of public spending. A thorough reform of the social assistance system has resulted in well-targeted grant programmes and the development of a new agency to manage these transfers. The 2006 MTEF emphasises additional amounts to provide for an increase in the uptake of grants, and continued improvements to the auditing and management of these funds. Social assistance transfers constitute only one part of the overall social wage, and a number of other major elements will receive further funding support over the three-year period.

South Africa's social programmes also include:

- Social development and welfare services partnerships with non-governmental organisations
- An extensive primary school nutrition programme
- Free hospital care for pregnant women and children under the age of six
- A comprehensive housing and settlement support programme
- Provision of free basic services such as electricity, water and sanitation to poor households.

*MTEF sharpens focus on economic growth strategies*

The MTEF also enhances support for economic growth objectives. Specific priority areas identified to achieve these objectives include modernising public sector enterprises, supporting industrial and transport infrastructure, targeted support for potential industrial applications from science and technology, assistance for research and development, increasing trade and competitiveness, the integration of the informal economy, and developing appropriate skills and capacity.

Over the MTEF period, as expenditure is directed towards these priorities, Government will emphasise the developmental role of the state with key funding commitments and policy improvements, while fostering partnerships with the private sector.

*Developmental state to emphasise partnerships with private sector*

A key contribution to economic development is the creation of sustainable communities. A cluster of built-environment spending initiatives covering housing, community infrastructure and local transport receive special attention in this year's MTEF. Major increases in funding commitments are put in place for this cluster, and are expected to contribute to economic growth and the quality of Government services.

Small and medium-sized businesses in particular have the potential to create jobs and reach people in rural and underdeveloped areas. Microfinance and investment support for emerging farmers has the added advantage of acting as a ladder between the formal and informal sectors. Support for programmes in these areas will continue over the three-year period.

*Programmes boost small business and agricultural development*

Investment in infrastructure is an integral part of South Africa's growth and social development strategy. Over the MTEF period, Government aims to encourage industrial development through investments in major infrastructure projects in the energy, transport, water and communications sector. Investment in public infrastructure and the built environment will also contribute to preparing for the 2010 Soccer World Cup.

*Public investments in economic and social infrastructure are emphasised*

In the justice sector, major initiatives for the period ahead include courts administration upgrading, modernisation of the Master's Office and continued expansion of the South African Police Service.

Institutional reforms to improve the performance of the state and build an effective public service that can deliver on policy goals will continue to be prioritised. After a decade of restructuring, the focus is firmly on accelerated implementation and monitoring of outcomes. Government will continue to invest in management information systems and capacity-building programmes in core governance services and in local government over the MTEF period.

## **Division of revenue between spheres of government**

The division of revenue is based on policy priorities articulated by the national executive and provincial governments. It takes into account the spending responsibilities and capacities of national, provincial and local government, as well as the recommendations of the FFC.

The MTEF is the result of an extensive process that begins with Cabinet outlining policy priorities, followed by consultations between the different levels of government.

*Constitutional mandates at all three levels of government*

Each level of government has a constitutional mandate to deliver separate as well as concurrent services. While land reform, defence, foreign policy and policing are some of the main functions delivered by national government, provinces are responsible for primary and secondary education, and provision of health and social welfare services. Municipalities are responsible for provision of household services, such as electricity and water, and are the key delivery agents of Government's free basic services programme.

While municipalities have revenue-raising powers, the bulk of provincial spending is financed through the equitable division of tax revenue between the three spheres. Constitutionally, provinces have the power to decide on the allocation of their equitable share and appropriation by their respective legislatures. Provinces also receive transfers from national departments that are earmarked for specific programmes. These are known as conditional grants.

A discussion of intergovernmental fiscal relations, and spending in provinces and local government, is provided in Chapter 6.

### **Additional allocations to baseline**

*Additional allocations total about R102 billion over the next three years*

Table 5.1 outlines the revised budget framework for the next three years. It shows the adjusted budget for 2005/06, as well as the additional resources available for national, provincial and local government. Over the MTEF period, additional allocations total R102,3 billion, of which new spending of R78,3 billion is proposed.

Investments in transport, community infrastructure, the housing programme and municipal services are allocated approximately 31 per cent of the additional resources.

Excluding RSC levies, national government receives 38,8 per cent of new allocations over the three years, 58,7 per cent goes to provinces and 2,5 per cent goes to local government.

Annexure A contains detailed tables on the 2004/05 outcome 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, 2005/06 – 2008/09**

R million	2005/06 Revised	2006/07 Medium term estimates	2007/08 Medium term estimates	2008/09 Medium term estimates	2005/06 – 2008/09
National	136 676	152 934	166 826	181 517	9,9%
Provincial	209 779	238 087	262 809	290 049	11,4%
<i>of which</i>					
<i>Equitable share</i>	135 356	150 746	167 694	187 092	11,4%
<i>Conditional grants</i>	74 424	87 341	95 116	102 957	11,4%
Local <sup>1</sup>	17 456	27 008	29 911	33 562	24,3%
<b>Total to be shared<sup>2</sup></b>	<b>363 912</b>	<b>418 029</b>	<b>459 546</b>	<b>505 128</b>	<b>11,5%</b>
<b>Shares of national revenue</b>					
National	37,6%	36,6%	36,3%	35,9%	
Provincial	57,6%	57,0%	57,2%	57,4%	
<i>of which</i>					
<i>Equitable share</i>	37,2%	36,1%	36,5%	37,0%	
<i>Conditional grants</i>	20,5%	20,9%	20,7%	20,4%	
Local	4,8%	6,5%	6,5%	6,6%	
<b>Total to be shared</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	
<b>Changes to baseline<sup>3</sup></b>					
National	414	6 347	9 231	14 779	
Provincial	507	8 592	14 352	23 056	
<i>of which</i>					
<i>Equitable share</i>	–	3 511	9 517	17 853	
<i>Conditional grants</i>	507	5 081	4 835	5 203	
Local	297	7 300	8 450	10 200	
<b>Total to be shared</b>	<b>1 217</b>	<b>22 239</b>	<b>32 033</b>	<b>48 035</b>	

1. Includes provision for RSC levies of R7 billion in 2006/07, R8 billion in 2007/08 and R9 billion in 2008/09.

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

3. Baseline allocations comprise the medium term estimates published in the 2005 Budget, together with an inflation projection and growth assumption for 2008/09.

### Increased spending and the Adjustments Budget

For the 2005/06 fiscal year, the revised budget, taking into account adjustments to expenditure, increases from R415,3 billion to R418,2 billion. The adjustments to the 2005 appropriations for national votes include:

- Additional allocations of R1,1 billion for unforeseen and unavoidable expenditure at national level
- Approved rollovers of R1,5 billion arising from unspent balances in the previous financial year
- A contribution of R140 million to the World Food Programme for Lesotho, Malawi, Swaziland, Zambia, Namibia and Zimbabwe.

However, after taking into account projected in-year savings, lower interest costs (of R1,3 billion), the contingency reserve and other unallocated amounts, total spending is anticipated to be R2,1 billion less than the Budget estimate, or R415,8 billion.

*Total spending is set to be R2,1 billion less than the Budget estimate*

## Key spending areas for the 2006 MTEF

### Housing, community investment and the built environment

*Budget framework responds to accelerated urbanisation*

Over the past decade the pace of urbanisation has quickened in South Africa, and the number of households has grown, even as the average size of families has decreased. Government is committed to creating the conditions for sustainable neighbourhoods through appropriate housing options, basic municipal infrastructure, and other social and economic amenities.

*Government to upgrade all informal settlements by 2014*

The comprehensive plan for the development of sustainable human settlements sets a new target for upgrading all informal settlements by 2014. The implementation of this plan is expected to usher in a new era of housing delivery, with the upgrading of informal settlements, the development of a greater range of housing options, and more sustainable, mixed-use neighbourhoods that are integrated into existing settlements.

#### Remaking the built environment

Over the past century urban settlements grew at a staggering pace worldwide. More than three-quarters of the population in developed countries now lives in cities, and in the 21st century urban Africa and Asia are expected to grow at an even more rapid pace. Similar trends will unfold in South Africa and, in combination with extensive poverty, the pace of growth makes the provision of urban community infrastructure, housing and services an increasingly important and growing component of Government spending.

The 2005 Budget and 2006 MTEF mark a new step forward in addressing the complex of services involved in developing sustainable communities:

- Additional funding of about R3,5 billion is proposed for the new housing programme over the 2006 MTEF, resulting in average real growth of 6,5 per cent per annum
- Rapid growth in municipal infrastructure funding will be supplemented in the outer year of the framework
- An allocation of R2,5 billion for community infrastructure development is provided
- Local transport infrastructure is also supported, including provision for 2010 Soccer World Cup-related transport infrastructure
- Increased funding is projected for water and sanitation.

In total, built environment allocations over the 2006 MTEF average R36 billion a year, and grow annually by more than 11 per cent. Including the local equitable share, average annual growth rises to nearly 17 per cent.

Government spending on the built environment is expected to be supplemented by extensive financing as agreed in the Financial Services Charter, which makes a R42 billion commitment to housing finance over five years, starting in 2006. This will increase access to mortgages, particularly for households earning less than R7 500 per month, and lead to the development of innovative products to finance different types of housing stock.

Over the MTEF period provision will be made for a large increase in spending on community infrastructure development. This aims to provide the infrastructure for community and social services in underserved neighbourhoods, reshape dysfunctional settlements and provide amenities that support social cohesion. Indirectly, neighbourhood upgrading should also help to enhance the economic value of property as collateral. Chapter 6 provides additional details concerning transfers to municipalities

that provide for the implementation of free basic services and related infrastructure.

**Table 5.2 Consolidated national and provincial expenditure by type of service, 2004/05 – 2008/09**

R million	2004/05 Outcome	2005/06 Revised	2006/07	2007/08	2008/09
			Medium term estimates		
<b>Social services</b>	<b>199 099</b>	<b>224 670</b>	<b>251 991</b>	<b>278 326</b>	<b>305 168</b>
Education	75 014	82 103	91 194	101 708	112 816
Health	41 867	48 121	53 492	58 539	64 553
Welfare and social security	62 863	72 843	82 187	89 985	97 244
Housing and community development	19 355	21 603	25 118	28 093	30 555
<b>Protection services</b>	<b>63 241</b>	<b>71 889</b>	<b>77 181</b>	<b>82 793</b>	<b>89 912</b>
Defence and intelligence	22 359	25 399	25 702	26 696	29 076
Justice, police and prisons	40 882	46 490	51 479	56 098	60 835
<b>Economic services and infrastructure</b>	<b>49 067</b>	<b>56 997</b>	<b>69 630</b>	<b>76 567</b>	<b>83 817</b>
Water and related services	5 786	6 712	8 158	9 041	10 100
Agriculture, forestry and fishing	7 429	9 951	11 223	12 619	13 519
Transport and communication	17 754	19 843	25 990	28 298	30 407
Other economic services	18 098	20 491	24 260	26 609	29 791
<b>Administration</b>	<b>25 217</b>	<b>28 090</b>	<b>38 970</b>	<b>42 642</b>	<b>48 186</b>
<i>of which: Local government equitable share<sup>1</sup></i>	7 678	9 643	17 815	19 821	22 508
<b>Total</b>	<b>336 624</b>	<b>381 646</b>	<b>437 772</b>	<b>480 329</b>	<b>527 082</b>
Interest	48 851	51 849	53 938	54 796	56 577
Contingency reserve	–	–	2 000	4 000	7 000
<b>Consolidated expenditure</b>	<b>385 475</b>	<b>433 495</b>	<b>493 710</b>	<b>539 125</b>	<b>590 660</b>
<b>Changes to baseline<sup>2</sup></b>					
<b>Social services</b>		<b>363</b>	<b>4 769</b>	<b>10 777</b>	<b>19 158</b>
Education		107	1 656	4 975	9 409
Health		53	1 108	2 429	4 571
Welfare and social security		114	1 651	2 599	3 828
Housing and community development		88	354	773	1 350
<b>Protection services</b>		<b>-85</b>	<b>829</b>	<b>2 458</b>	<b>4 033</b>
Defence and intelligence		36	8	1 234	1 858
Justice, police and prisons		-121	821	1 224	2 175
<b>Economic services and infrastructure</b>		<b>1 425</b>	<b>7 176</b>	<b>6 681</b>	<b>9 108</b>
Water and related services		376	612	556	1 029
Agriculture, forestry and fishing		194	4	2	32
Transport and communication		310	4 135	3 430	3 822
Other economic services		546	2 425	2 694	4 226
<b>Administration</b>		<b>-247</b>	<b>9 532</b>	<b>11 139</b>	<b>14 509</b>
<i>of which: Local government equitable share<sup>1</sup></i>		–	7 300	8 450	9 700
		<b>1 457</b>	<b>22 306</b>	<b>31 055</b>	<b>46 809</b>
<b>Interest</b>		<b>-1 276</b>	<b>-2 665</b>	<b>-4 585</b>	<b>-6 901</b>
<b>Total</b>		<b>181</b>	<b>19 641</b>	<b>26 470</b>	<b>39 908</b>

1. Includes provision for RSC levies of R7 billion in 2006/07, R8 billion in 2007/08 and R9 billion in 2008/09.

2. Total changes from 2005 Budget include additional allocations to all spheres, increased expenditure of the Social Security Funds and a drawdown of provincial reserves in 2004/05.

## Economic services and infrastructure

*Support for transport, communications, energy and water services*

Government's economic policy objectives are focused on accelerating growth within a sustainable environment, broad-based empowerment, and economic and social inclusion. The 2006 Budget proposes increased support for sector-specific investments, especially in transport, communications, energy and water services.

Over the medium term Government will significantly step up grant funding for public transport infrastructure and systems. An amount of R241,7 million has already been approved for expenditure this year on a range of transport projects, many of which are located in cities that will host 2010 Soccer World Cup matches. Funding for these transport infrastructure allocations will be revised upward to allow for major drawdowns for infrastructure in coming years.

### Transport networks: moving goods efficiently

Bottlenecks in the freight logistics environment have hampered import and export industries and constrain industrial development. At the same time, rail freight operations have lost market share to road transport operations. As a result, the maintenance of national and provincial roads has not kept pace with the wear and tear resulting from heavy vehicle traffic.

The National Freight Logistics Strategy identifies the key infrastructure investments required along the primary freight movement corridors. The strategy also identifies regulatory and operational bottlenecks in the freight logistics sector and makes recommendations about public investment in information systems and regulatory capacity to support more efficient movement of goods.

To address the immediate problem of deteriorating road infrastructure and inadequate maintenance of roads, the budget for national roads is anticipated to increase by an average of 18,2 per cent a year from 2005/06 to 2007/08. This is due to increases in the allocation for the upgrading and maintenance of national roads and roads to border posts, and the transfer of some provincial roads to the National Roads Agency. Additional funding is also to be prioritised for strategic road infrastructure at border posts (including roads and bridges) to support the efficiency of SADC regional road networks.

*Water sector requires more than R20 billion over next two decades*

Funding for water and sanitation improvements was significantly increased in the 2005 Budget, and will receive further provision over the MTEF period to ensure continued maintenance and rehabilitation, and to augment supply for both industrial and domestic users. Overall, the water resources sector requires more than R20 billion over 20 years to invest in dams, canals and related infrastructure. The Department of Water Affairs is also in the process of establishing a National Water Resource Infrastructure Agency (to be operational 1 April 2008) to implement these infrastructure requirements. It is envisaged that funding requirements will be met through partnerships with the private sector and funds raised through the capital markets, with a portion funded by the fiscus.

In the area of communications infrastructure, an additional allocation will be made to enable Sentech to upgrade its ageing signalling infrastructure. This will allow both analogue and

digital transmissions, thereby extending the reception of radio and television coverage to a greater proportion of the population.

Government intends to improve the alignment of science and technology with industrial policy. The Department of Science and Technology has developed a comprehensive strategy that should be used to identify immediate priorities and a clear sequence of science and technology investments for the next 10 years. The 2006 MTEF will make provision for a significant step-up in funding for targeted research and development, including for industrial applications.

*Government aims for better alignment of science and technology with industrial policy*

### **Social services**

Government aims to balance its efforts to broaden access to economic opportunity and develop human capital with the provision of an effective social safety net for the poor and vulnerable. This safety net consists of an extensive range of public social services and transfers.

Social assistance grants will in future be administered by a Social Security Agency, incorporating the present provincial social security administration components. Welfare services will remain a provincial function, and will undergo considerable reform in the years ahead as part of Government's progressive extension of improved protection and care to older persons, families affected by HIV and Aids, and children in conflict with the law.

*New Social Security Agency to take shape*

Over the past 10 years, the number of students enrolled in higher education institutions increased by 20 per cent, including rising numbers of students from poor communities. Additional funding increases to all levels of education – including higher education and further education – continue the process of improving education outcomes, and cater for growth in student enrolment and other needs.

The Department of Health has identified an extensive need for medical equipment in public health facilities. Addressing the backlog will help alleviate bottlenecks in health services and improve efficiencies through reduced patient waiting time and average length of hospital stay. The hospital revitalisation programme is expected to receive significant additional funding over the three-year period, complemented by an increase in the provincial equitable share for hospital modernisation and equipment.

*Programme aims to alleviate backlogs in public health facilities*

Over the period Government will implement a range of new social welfare legislation, including the Older Persons Bill, the Children's Bill and the Child Justice Bill. The financial

obligations associated with this legislation will be shared between national and provincial government.

*Community library funding and sustainability is a priority*

The funding and sustainability of community libraries has become a priority. Constitutionally, library services are now an exclusive provincial function, although local government has fulfilled this function to date. Over the next year, the full cost of these services will be determined and an appropriate funding framework for the function will be developed.

### **Justice and protection services**

Government is committed to ensuring a safe and secure environment that enhances citizens' quality of life and promotes economic activity. A key challenge for all departments in the justice cluster relates to their personnel management and remuneration models. An appropriate balance needs to be struck between personnel numbers and salary levels, and between support staff and front-line delivery staff.

*Justice Department to conduct review of criminal justice system*

The Department of Justice will this year lead a comprehensive review of the criminal justice system. The review will audit systems and practices with the goal of removing blockages. The rehabilitation of 361 courts, training at justice colleges, rollout of the case management system and enhancement of Guardian Fund operations will all receive attention over the three-year period. The Department of Justice also plans to modernise the justice service delivery system, and additional funds will be provided for this purpose.

*Additional funding proposed for more police and paid reservist system*

Further expansion of the South African Police Service is proposed in the 2006 MTEF, building on significant increases provided in the 2005 Budget. Additional funding is intended for greater police numbers, the implementation of a paid reservist system, modernisation of infrastructure and increased border patrols.

In support of the growing role of the South African National Defence Force (SANDF) in African peacekeeping operations, the 2005 Budget allocated R300 million a year to the Department of Defence. Plans to modernise and improve the combat readiness of the SANDF to fulfil its constitutional mandate will be strengthened by additional allocations in the 2006 MTEF.

### **Governance and administration**

*Medical coverage to be extended to all public service employees*

Improving the quality of public service delivery has been a clear and consistent theme in Government's overall policy framework, and in the restructuring and transformation of public service institutions. Critical reforms supported in the

2006 MTEF include the implementation of a new medical scheme for government employees, and extension of coverage to all public service employees.

**Table 5.3 Service shares and growth, 2004/05 – 2008/09**

	2004/05 Outcome	2005/06 Revised	2006/07 Medium term estimates	2007/08	2008/09	2005/06 – 2008/09 Average annual growth
<b>Per cent</b>						
<b>Social services</b>	<b>59,1%</b>	<b>58,9%</b>	<b>57,6%</b>	<b>57,9%</b>	<b>57,9%</b>	<b>10,7%</b>
Education	22,3%	21,5%	20,8%	21,2%	21,4%	11,2%
Health	12,4%	12,6%	12,2%	12,2%	12,2%	10,3%
Welfare and social security	18,7%	19,1%	18,8%	18,7%	18,4%	10,1%
Housing and community development	5,7%	5,7%	5,7%	5,8%	5,8%	12,2%
<b>Protection services</b>	<b>18,8%</b>	<b>18,8%</b>	<b>17,6%</b>	<b>17,2%</b>	<b>17,1%</b>	<b>7,7%</b>
Defence and intelligence	6,6%	6,7%	5,9%	5,6%	5,5%	4,6%
Justice, police and prisons	12,1%	12,2%	11,8%	11,7%	11,5%	9,4%
<b>Economic services and infrastructure</b>	<b>14,6%</b>	<b>14,9%</b>	<b>15,9%</b>	<b>15,9%</b>	<b>15,9%</b>	<b>13,7%</b>
Water and related services	1,7%	1,8%	1,9%	1,9%	1,9%	14,6%
Agriculture, forestry and fishing	2,2%	2,6%	2,6%	2,6%	2,6%	10,8%
Transport and communication	5,3%	5,2%	5,9%	5,9%	5,8%	15,3%
Other economic services	5,4%	5,4%	5,5%	5,5%	5,7%	13,3%
<b>Administration</b>	<b>7,5%</b>	<b>7,4%</b>	<b>8,9%</b>	<b>8,9%</b>	<b>9,1%</b>	<b>19,7%</b>
<i>of which: Local government equitable share</i>	2,3%	2,5%	4,1%	4,1%	4,3%	32,6%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>11,4%</b>

Government will transfer responsibility for the costs of office accommodation from Public Works to individual departments. This reform addresses one of the central objectives of the Public Finance Management Act – letting managers manage – by putting responsibility for accommodation in their hands.

*Accommodation costs shift from Public Works to individual departments*

The reform process in local government is focused on the creation of sustainable institutional and governance structures, the construction and maintenance of municipal infrastructure, and the effective delivery of free basic municipal services to poor households.

Government launched Project Consolidate to expand the capacity of local government to meet its obligations. Teams of financial experts, project management and planning specialists, and other professionals are being assigned to municipalities that lack capacity to support and provide training to local officials. Over the next three years the programme will extend to 136 municipalities. Building the appropriate capacity in municipalities is key to the successful realisation of Government's economic growth objectives, its development of sustainable human settlements, and its ability to provide basic services such as water and sanitation.

*Project Consolidate will extend to 136 municipalities*

Over the medium term, the African Union will launch programmes on institutional transformation, peacekeeping initiatives, human security and governance, regional integration and a shared vision. The 2006 Budget will provide an additional injection into the African Renaissance Fund. This will strengthen South Africa's support for NEPAD-aligned initiatives and boost capability to respond to emergencies on the continent.

### **Economic classification of expenditure**

*Payments for capital assets grows strongly*

Table 5.4 sets out an economic classification of consolidated expenditure for the national and provincial spheres, excluding debt service costs. Current payments, including compensation of employees and goods and services, constitute 51,8 per cent of expenditure. Payments for capital assets continue to grow strongly, increasing at an annual average rate of 22 per cent over the MTEF.

*Compensation to grow by an annual average of 4,1 per cent*

Spending on compensation of employees remains the largest component of current payments and grows by an annual average of 4,1 per cent – from R146 billion in 2005/06 to R189,4 billion in 2008/09. The 2004 salary agreement with public service unions effectively linked salary increases to projected inflation rates, and improved housing benefits and compensation for scarce skills.

Apart from the general salary increases, the education and police sectors received significant additional resources in the 2005 Budget. Further support for aligning remuneration and increasing employment is accommodated for the justice sector and police. The baseline allocation for the 2008/09 fiscal year was increased in real terms to enable departments to finance some increases in remuneration costs where appropriate.

*Social-benefit transfers to households increase strongly*

A significant component of consolidated government expenditure consists of transfers to households, various public entities, and non-profit institutions. Transfers provide households with social benefits such as welfare grant payments, unemployment insurance and Road Accident Fund payments. Together, these grow to R98,2 billion in the third year of the MTEF. 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 R6,1 billion to R11,4 billion.

*Capital spending targets housing, roads and water resource development*

Government is accelerating the rate of capital spending. Over the MTEF period, expenditure grows from R18,9 billion to R39,5 billion. This provides for a steady improvement in social

and economic infrastructure, including increases for the housing programme, rail and road infrastructure, and water services.

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

**Table 5.4 Consolidated national and provincial expenditure by economic classification, 2004/05 – 2008/09**

R million	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome	Revised	Medium term estimates		
<b>Current payments</b>	<b>231 329</b>	<b>257 312</b>	<b>281 162</b>	<b>303 489</b>	<b>329 484</b>
Compensation of employees	129 580	145 977	160 519	173 671	189 402
Goods and services	52 040	59 390	66 512	74 815	83 282
Interest and rent on land	48 961	51 939	54 126	54 997	56 793
<i>State debt cost</i>	<i>48 851</i>	<i>51 849</i>	<i>53 938</i>	<i>54 796</i>	<i>56 577</i>
Other current payments	748	6	5	5	6
<b>Transfers and subsidies</b>	<b>138 095</b>	<b>157 255</b>	<b>182 058</b>	<b>198 017</b>	<b>214 657</b>
Municipalities <sup>1</sup>	17 064	22 166	32 143	35 855	39 580
Departmental agencies and accounts	29 801	33 548	35 297	36 458	38 288
Universities and technikons	9 412	9 946	10 862	11 593	12 661
Public corporations and private enterprises	11 652	10 765	11 482	12 038	13 253
Foreign governments & international organisations	705	1 014	1 057	1 180	1 310
Non-profit institutions	5 637	6 139	7 902	9 491	11 385
Households	63 823	73 678	83 314	91 402	98 180
<b>Payments for capital assets</b>	<b>16 050</b>	<b>18 928</b>	<b>28 491</b>	<b>33 619</b>	<b>39 519</b>
Buildings and other fixed structures	11 172	13 036	21 277	23 166	26 889
Machinery and equipment	4 656	5 592	7 054	10 312	12 327
Land and subsoil assets	49	23	18	18	19
Other payments for capital assets	174	276	142	122	284
<b>Total</b>	<b>385 475</b>	<b>433 495</b>	<b>491 710</b>	<b>535 125</b>	<b>583 660</b>
Contingency reserve	–	–	2 000	4 000	7 000
<b>Consolidated expenditure</b>	<b>385 475</b>	<b>433 495</b>	<b>493 710</b>	<b>539 125</b>	<b>590 660</b>
<b>Changes to baseline</b>					
<b>Current payments</b>		<b>-1 195</b>	<b>1 100</b>	<b>3 098</b>	<b>8 366</b>
Compensation of employees		479	3 581	5 720	9 862
Goods and services		-338	158	1 932	5 369
Interest and rent on land		-1 343	-2 644	-4 558	-6 871
Other current payments		6	5	5	6
<b>Transfers and subsidies</b>		<b>1 368</b>	<b>12 865</b>	<b>15 948</b>	<b>20 024</b>
Municipalities <sup>1</sup>		297	7 104	8 253	10 073
Households		57	1 212	1 183	1 736
Other transfers and subsidies		1 014	4 549	6 511	8 215
<b>Payments for capital assets</b>		<b>8</b>	<b>5 675</b>	<b>7 424</b>	<b>11 518</b>
Buildings and other fixed structures		153	5 582	5 138	7 618
Machinery and equipment		-160	83	2 276	3 736
Land and subsoil assets		11	6	6	7
Other payments for capital assets		4	4	4	157
<b>Total</b>		<b>181</b>	<b>19 641</b>	<b>26 470</b>	<b>39 908</b>

1. Includes provision for RSC levies of R7 billion in 2006/07, R8 billion in 2007/08 and R9 billion in 2008/09.

## Conclusion

*Large revenue increases allow for growth in all spending categories*

The 2006 MTEF is marked by strong growth in overall expenditure allocations arising from robust economic growth and large increases in revenue. These resources enable Government to propose significant increases to expenditure in all categories of spending. Emphasis is placed on substantial additional investments to help create sustainable communities. At the national level, significant additions are estimated for transport and industrial infrastructure, and research and development, to support economic modernisation and competitiveness. Provincial and local allocations are also expected to increase strongly, as discussed in greater detail in Chapter 6.