

# Overview

## Purpose and scope

### Scope of the National Expenditure Survey

The National Expenditure Survey sets out how national government spends the money raised through taxes and borrowing.

A chapter is devoted to each national government department. Each chapter gives details of that department's expenditure plans for 2000/01, 2001/02 and 2002/03, together with figures for spending in 1999/00 and the previous three years. This is set in the context of developments in the department's policy framework, with the emphasis on policy developments which have implications for public expenditure.

The purpose of public spending is the delivery of public services. Each chapter therefore also provides the reader with information on the outputs which departmental spending is intended to buy.

As well as providing information on departmental spending, the Survey also looks at important agencies and state-owned enterprises for which departments are responsible. In many cases, it is these organisations rather than the departments themselves which directly deliver services to the public.

### Objectives of the National Expenditure Survey

The National Expenditure Survey aims to improve the transparency of the Budget, and thereby lead to increased accountability of government to Parliament and the people. It is hoped that the Survey will provide helpful information for members of the public, legislators, civil society and journalists, as well as being a useful reference within government.

The Survey shows how government spends money, as well as how much it spends.

## Trends in national expenditure

Since 1994, extensive changes have occurred in the policies and programmes of national government. Recent research, highlighted in the Budget Review, shows how public expenditure has become better targeted on those most in need, with the poorest and the previously disadvantaged benefiting most from the policies of reconstruction and development.

This is reflected in the reprioritisation of spending programmes, aimed at delivery of more and better services to the public.

This has been assisted by the introduction of three-year planning in the 1998 Budget. This framework has enabled Government to reprioritise spending, whilst still maintaining a consistent overall framework for stable planning.

This Survey summarises how the 1999 Budget forward estimates for 2000/01 and 2001/02 have been revised, and adds new spending plans for 2002/03.

## The Medium Term Expenditure Framework

The National Expenditure Survey is concerned mainly with the spending of national government departments. This spending is planned alongside other government expenditure in the Medium Term Expenditure Framework. Table 1 shows the framework for expenditure from the National Revenue Fund. This includes: debt costs; from 1998/99, the provincial equitable share; and also funds assigned by statute from the National Revenue Fund:

- The Umsobomvu Fund is financed from the receipt of R855 million from a special charge on the proceeds of the demutualisation of Sanlam and Old Mutual in 1998 and 1999 respectively. Its main purpose is to invest in the country's young people, develop their skills potential and invigorate job creation. The Fund will come into operation in the course of 2000.
- Skills development funding is financed by a new levy on payroll, which will finance sectoral development authorities and – for the unemployed and other special needs – the National Skills Fund. The levy is payable by private sector employers at 0,5 per cent of payroll from April 2000, rising to 1 per cent in April 2001. Government departments and other public sector entities mainly financed by Government are not liable to pay the skills levy, but are required to ensure that their expenditure on education and training of employees exceeds the prescribed level of 0,5 per cent of payroll in 2000/01 and 1,0 per cent in 2001/02 and beyond.

The local equitable share appears within the Department of Provincial and Local Government's expenditure allocation. Most of the rest of the main budget is the national equitable share, which is divided between national government departments and Parliament. Some of this money is spent directly by departments whilst other funds are channelled through service delivery agencies outside the departments, including:

- public entities such as the SA Housing Fund, the National Roads Agency, Research Councils and the SABC
- provincial government, primarily in the form of conditional grants, and
- local government (primarily in the form of agency payments which local authorities use on behalf of national government).

**Table 1 Main budget expenditure 1996/97 to 2002/03**

R million	Expenditure outcome			Revised estimate	Medium-term expenditure estimate		
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
National votes and statutory amounts	142 380	151 093	78 334	84 047	90 475	97 410	102 366
<i>of which</i>							
<i>Skills development programme</i>	–	–	–	–	1 400	3 000	3 200
<i>Local government equitable share</i>	–	–	1 024	1 673	1 867	1 997	2 130
Umsobomvu Fund	–	–	–	855	–	–	–
Debt interest	33 160	38 820	42 669	44 483	46 490	49 531	50 997
Provincial equitable share	–	–	81 542	86 595	94 408	100 167	105 158
Standing appropriations	284	35	46	60	80	370	150
Contingency reserve	–	–	–	–	2 000	4 000	8 000
Recovery from pension funds	-335	–	-1 058	–	–	–	–
<b>Main budget expenditure</b>	<b>175 490</b>	<b>189 947</b>	<b>201 534</b>	<b>216 040</b>	<b>233 453</b>	<b>251 479</b>	<b>266 671</b>
<i>Percentage of GDP</i>	27,7%	27,2%	26,7%	26,7%	26,4%	26,2%	25,7%
<i>Percentage increase</i>	16,3%	8,2%	6,1%	7,2%	8,1%	7,7%	6,0%

In addition to the expenditure allocations described above, forward plans also include a contingency reserve. An amount of R2,0 billion is set aside for contingencies in 2000/01. Allocations from this reserve may be made in the Adjustments Estimate later in the year for

expenditure which emerges as unforeseen and unavoidable. The contingency reserve is R4,0 billion in 2001/02 and R8,0 billion in 2002/03.

In subsequent Budgets, the contingency reserves for these later two years may be drawn down in order to accommodate macroeconomic changes, meet unexpected contingencies or fund new government priorities. The increase in the size of the reserve over time reflects greater uncertainty about events and circumstances further into the future.

### **Changes in total spending**

In total, main budget spending grew by 16,3 per cent in 1996/97, driven by an acceleration of reconstruction and development spending and strong growth in personnel expenditure.

Since 1996/97 growth has been steadier, at between 6,0 per cent and 8,2 per cent a year. The average growth over the next three years, 1999/00 to 2002/03, is 7,3 per cent, compared to 7,2 per cent over 1996/97 to 1999/00, which was also a period of higher inflation.

As detailed in the 1999 Medium Term Budget Policy Statement, higher than forecast revenue and reduced debt interest costs have allowed an increase in spending. Compared with the 1999 Budget, national votes and statutory amounts have been increased by R6,0 billion in 2000/01 and by R8,4 billion in 2001/02.

### **Main spending trends**

The period 1996/97 to 1999/00 shows some significant trends in reprioritisation, notably:

- Health has grown by R5,4 billion because of the introduction of conditional grants to provide more equitable and effective funding of provincial health services. Grants support provision of tertiary services by provinces, health professional training, hospital building and reorganisation. This R5,4 billion change reflects alteration in the method of funding, as well as policy choices.
- South African Police Service provision has grown by R3,0 billion, Correctional Services by R1,8 billion and Justice by R0,9 billion, reflecting the priority Government places on fighting crime.
- Education has grown by R1,9 billion: R1,4 billion has gone to higher education and R0,4 billion to general and further education and training.
- Housing has grown by R1,5 billion to fund Government's national capital subsidy programme for housing.
- The Trade and Industry allocation has fallen by R1,4 billion as Government has phased out the general export incentives and regional development schemes.

### **Changes in national votes and statutory amounts since the 1999 Budget**

The key increases in departments' medium term estimates since the 1999 Budget are as follows:

- Defence spending increases by R2 818 million in 2000/01 and R3 892 million in 2001/02 to fund the strategic defence procurement package. The Department has also found savings within its existing allocation to contribute towards the package's cost.
- Finance spending increase by R1 284 million in 2000/01 and R1 568 million in 2001/02. Grants to local government and provinces have increased by R789 million in 2000/01 and R640 million in 2001/02. Grants to other bodies have risen by R462 million and R573 million, mainly in respect of increased support for the South African Revenue Service to ensure that it continues to be increasingly effective in tax collection continues to strengthen.
- Projected expenditure on the Labour vote rises by R309 million in 2000/01 and R811 million in 2001/02. This is because of an increase of R400 million and R1 000 million in projected

revenue and expenditure under the Skills development programme, partially offset by reductions in the Labour vote in view of this new initiative.

- The South African Police Service receives an additional allocation of R360 million in 2000/01 and R744 million in 2001/02 to implement fast-track programmes to improve performance, set up information technology infrastructure and improve basic policing and social crime prevention activities.
- The Home Affairs budget increases by R317 million in 2000/01 and R206 million in 2001/02 to accommodate additional expenditure by the Independent Electoral Commission on the 2000 municipal elections, and to finance introduction of the new Home Affairs National Identification System.
- Justice receives an increase of R172 million in 2000/01 and R294 million in 2001/02 to accommodate the newly established Directorate of Special Operations, known as the Scorpions, and the National Directorate of Public Prosecutions. Within this amount, R186 million is earmarked for modernisation programmes targeted towards improving effectiveness in the integrated justice sector.
- Transport receives an additional allocation of R225 million in 2000/01 and R147 million in 2001/02. The key spending change is an increase in subsidy for the operating budget of the South African Rail Commuter Corporation. Provision is also made for R25 million in 2000/01 and R50 million in 2001/02 for the Lubombo Spatial Development Initiative road project.
- The Foreign Affairs vote increases by R152 million in 2000/01 and R197 million in 2001/02 largely to compensate for exchange losses.
- Statistics SA receives an additional R279 million in 2001/02. This will support the upcoming population census.
- The Department of Provincial and Local Government has an increase of R120 million in 2000/01 and R172 million in 2001/02. This reflects growth in the Department's finance for local government in the form of conditional grants and the Consolidated Municipal Infrastructure Programme.
- Environmental Affairs and Tourism receives additional spending of R142 million in 2000/01 and R88 million in 2001/02 to help promote South Africa as a top international tourist destination.

The key decreases all stem from restructuring of financing and operations. They are:

- Water Affairs and Forestry expenditure falls by R75 million in 2000/01 and R121 million in 2001/02 due to savings from the restructuring of Government forestry activities.
- The Communications vote falls by R196 million in 2000/01 and R69 million in 2001/02. This is mainly because the Post Office now makes a surplus and so no longer requires subsidy. It also reflects a reduced subsidy to the SABC.
- The Correctional Services allocation declines by R74 million in 2000/01 and R196 million in 2001/02. This is because the Department is now acquiring two new prisons through public-private partnerships in which up-front capital expenditure is replaced by later payments which are linked to the service provided by the private sector partner.

## 2000 Budget estimates of expenditure

Table 3 sets out the 2000/01 to 2001/02 "first print" estimates and additional amounts included in the medium-term budget. The Printed Estimate is *Estimate of Expenditure for the year ending 31 March 2001*, the formal document put before the National Assembly and setting out the provision it will be asked to approve.

**Table 2 Main budget medium term expenditure estimates – 2001/02 to 2002/03**

R million	2000/01	2001/02	2002/03
<i>"First print" Estimate (February 2000)</i>			
To be voted	88 187	93 166	97 636
Statutory amounts:			
State debt cost	46 490	49 531	50 997
Provincial equitable shares	94 408	100 167	105 158
Skills development funds	1 400	3 000	3 200
Other	266	273	280
<b>Total: first print estimate</b>	<b>230 751</b>	<b>246 137</b>	<b>257 271</b>
Supplementary allocations:			
Unallocated poverty relief and Jobs Summit programmes	547	847	950
HIV/Aids programme	75	125	300
Standing appropriations <sup>1</sup>	80	370	150
Contingency reserve	2 000	4 000	8 000
<b>Main budget expenditure</b>	<b>233 453</b>	<b>251 479</b>	<b>266 671</b>
<i>Change to 1999 Budget estimate</i>	<i>3 547</i>	<i>013</i>	

<sup>1</sup>Claims on guarantees, subscriptions to funds of the World Bank and International Monetary Fund and provision for adjustments to statutory amounts.

The 2000 Budget includes R1,2 billion in 2000/01 for poverty relief and Jobs Summit initiatives, increasing to R1,5 billion thereafter. Of these amounts, R547 million, R847 million and R950 million remain to be allocated. Provision is also made for a special allocation of R75 million in 2000/01, R125 million in 2001/02 and R300 million in 2002/03 to finance an effective and integrated response to HIV/Aids. The broad focus of this provision will be on children and the youth, as they are the most vulnerable and affected section of the population.

**Table 3 Main budget expenditure by department 1996/97 to 2002/03**

R million	Outcome			Revised estimate	Medium-term estimate		
	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Presidency	54	53	65	86	84	87	92
Parliament	345	332	351	349	416	407	426
Agriculture	820	977	739	702	724	721	722
Arts, Culture, Science, & Technology	533	648	818	889	956	1 057	1 176
Communications	572	464	842	814	467	478	432
Correctional services	3 425	3 962	5 243	5 198	5 788	6 017	6 514
Defence	10 984	11 171	10 439	10 728	13 767	15 272	16 491
Education	5 319	5 975	6 470	7 174	7 482	7 936	8 246
Environmental Affairs & Tourism	356	383	414	540	637	750	755
Finance	87 222	88 996	7 282	8 225	7 072	7 174	7 620
<i>Of which South African revenue Services</i>	<i>1 107</i>	<i>1 225</i>	<i>1 934</i>	<i>1 889</i>	<i>2 198</i>	<i>2 310</i>	<i>2 480</i>
<i>Transfer to provinces and local government</i>	<i>84 232</i>	<i>85 956</i>	<i>4 001</i>	<i>3 995</i>	<i>2 862</i>	<i>2 710</i>	<i>2 770</i>
Foreign Affairs	1 133	1 149	1 418	1 478	1 325	1 384	1 352
Government Communication and Information Systems	58	36	49	57	61	64	70
Health	656	513	5 127	6 092	6 304	6 443	6 576
Home Affairs	434	534	1 206	1 387	1 295	970	925
Housing	2 070	4 520	3 748	3 527	3 333	3 601	3 755
Independent Complaints Directorate		13	21	22	25	26	27
Justice	1 772	2 211	2 392	2 694	2 981	3 247	3 377
Labour	649	633	739	885	2 177	3 722	3 964
Land Affairs	277	417	721	679	843	886	964
Minerals and Energy	734	825	672	617	578	585	829
Provincial and Local Government	562	1 111	3 137	3 452	3 559	3 803	4 017
<i>Of which: Local government equitable share</i>	<i>-</i>	<i>-</i>	<i>1 024</i>	<i>1 673</i>	<i>1 867</i>	<i>1 997</i>	<i>2 130</i>
Public Enterprises	20	44	27	38	45	50	47
Public Service and Administration	45	53	56	158	85	83	59
Public Service Commission	23	24	19	32	51	52	54
Public Works	2 457	2 821	2 567	2 945	3 445	3 537	3 761
SA Management Development Institute	10	12	25	14	18	19	20
SA Police Service	11 635	12 849	13 980	14 651	15 457	16 386	17 173
Sport and Recreation	55	118	86	139	58	57	59
State Expenditure	1 134	1 065	1 159	1 153	1 300	1 423	1 498
<i>Of which Secret services</i>	<i>822</i>	<i>768</i>	<i>800</i>	<i>850</i>	<i>883</i>	<i>923</i>	<i>960</i>
Statistics SA	372	175	95	144	239	487	242
Trade and Industry	3 232	2 470	1 914	1 795	2 204	2 264	2 332
Transport	3 130	3 604	3 553	4 116	4 094	4 476	4 699
Water Affairs and Forestry	2 358	2 820	2 865	2 815	2 642	2 699	2 765
Welfare	67	145	97	367	342	276	77
Plus:							
Unallocated poverty relief and Jobs Summit programmes					547	847	950
HIV/Aids programme					75	125	300
Accounting adjustments	-131	-28		89			
National votes and statutory amounts	142 380	151 093	78 334	84 048	90 474	97 410	102 366
Plus:							
Umsobomvu Fund				855			
Debt interest	33 160	38 820	42 669	44 483	46 490	49 531	50 997
Provincial equitable share			81 542	86 595	94 408	100 167	105 158
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Recovery from pension funds	-335		-1 058				
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Source: Auditor-General; Department of State Expenditure; Department of Finance calculations.

## Explanatory notes

Each departmental chapter follows the same format.

### Aim

The aim of the department is set out.

### Policy developments

Major policy developments are explained.

### Expenditure estimates

The main expenditure changes, whether in the total departmental allocation, or between programmes, are described. This section also explains change in the department's programme structure.

A table sets out expenditure by programme, showing outcomes for 1996/97 to 1998/99, the preliminary outcome for 1999/00 and the medium-term expenditure estimate for 2000/01 to 2002/03. The preliminary outcome has been estimated by the Department of Finance and does not imply a change in the amount voted to the department from figures previously published in the final print "Blue Book" *Estimate of Expenditure for the year ending 31 March 2000* and the subsequent Adjustments Estimate for 1999/00.

The spending figures for 2000/01 are those which are laid before Parliament in the first print "White Book" *Estimate of Expenditure for the year ending 31 March 2001*. The medium-term expenditure estimates for 2001/02 and 2002/03 will form the basis for planning the 2001 Budget, when the medium-term estimates will be extended further to 2003/04.

To ensure comparability, where programme structure has changed in recent years, expenditure has where possible been reallocated according to the new programme structure for all years.

A second table sets out the department's expenditure according to economic classification. This is based on the international standards for classification of Government Financial Statistics (GFS) developed by the International Monetary Fund. At present, government expenditure in South Africa is more commonly classified according to a system of "standard items" which is not internationally recognised and is somewhat archaic. The economic classification used here has largely been derived by converting standard items information into broad GFS classifications. More detail on government accounts and the GFS can be found in Annexure D of the *Budget Review*.

In the economic classification tables, spending is first classified as either:

- current; or
- capital.

Capital expenditure is spending on assets which will be productive for more than one year. This includes maintenance which will extend the useful life of an asset. Current expenditure is expenditure which is not capital. Spending on defence assets, except those which are residential in nature, is also conventionally classified as current.

- Within current expenditure, the spending is broken down further into three categories:
- Personnel: spending on the remuneration of employees, including salaries, wages, and other benefits.
- Transfer payments: transactions in which a department passes on money to another institution or to an individual for final spending. Examples include conditional grants to provinces. For a

transfer to be classified as current it must not be specifically tied to use for acquiring a capital asset.

- Other: all current expenditure which is not on personnel and is not a transfer. It includes spending by a department on goods and services.

Capital expenditure is divided between:

- Transfer payments: transactions in which a department passes on money to another institution or to an individual for them to use specifically for capital expenditure on assets, to compensate recipients for damage or destruction of capital assets, or to increase their financial capital. An example would be a grant to a province for it to build a hospital.
- Acquisition of capital assets: capital expenditure in which the department acquires an asset for itself. For example, a department buying a building.

## **Programmes**

The chapter then reviews each departmental programme in turn. These include tables comparing the allocations for 1999/00 to 2001/02 in the 1999 Budget with those for 2000/01 to 2002/03 in the present Budget.

Three figures are presented for 1999/00:

- a 1999 Budget estimate figure from the Blue Book
- an adjusted appropriation, which incorporates any modification made in October 1999's Adjustment Estimate
- as noted above, a preliminary outcome estimated by the Department of Finance.

Major changes since the last Budget are explained.

Programme 1 is always Administration, which includes spending on the Ministry and senior management of the department, and central corporate services. For other programmes, a table of key activities and outputs is included to give a concise presentation of the purpose of the programme and the public services it supports.

The remainder of each programme review discusses significant developments in the programme, related policy issues and trends in service delivery.

Following the programme reviews, the final part of each chapter discusses the public entities for which the department is responsible. Examples of these entities include the National Roads Agency, Telkom, Eskom, the South African Housing Fund and the Unemployment Insurance Fund. Often these bodies, rather than the department itself, are the front-line deliverers of services to the public.

The information presented on such bodies varies along with the nature and the financial and service significance of the body. In general, more emphasis is given to entities which are primarily funded by taxation, whether transferred from the National Revenue Fund (for example the Independent Electoral Commission) or paid directly to the body itself (for example, the Unemployment Insurance Fund). The aim is to provide key financial and service delivery information to provide a thorough account of how taxpayers' money is spent to serve the public.