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Overview of the 2000 Budget

Budget highlights

A strong recovery of the economy and healthy trends in the public finances enable Government to lower taxes while increasing spending on critical social needs. The Budget aims to reinforce economic growth while strengthening public investment in security, social development and skills training. Highlights of this year's Budget are outlined below.

Stronger economic growth and lower inflation projected

On the economy:

- Growth in GDP of 3,5 per cent is expected in 2000, remaining above 3,0 per cent over the medium term.
- After declining in 1999, investment in productive infrastructure is expected to grow by about 5 per cent a year over the next three years.
- Price inflation will continue to slow, reinforced by agreement between the Government and the Reserve Bank on an inflation target for 2002.

Personal income tax cuts and tax base broadening

On tax:

- Personal income tax rates are lowered, putting R9,9 billion back in the hands of taxpayers.
- Tax relief for non-profit organisations is extended.
- A lower tax rate of 15 per cent on the first R100 000 of income of small businesses is introduced.
- A skills levy takes effect on 1 April, raising R1,4 billion for education and training of workers.
- The tax base will be broadened and made more fair by closing income tax loopholes and taxing capital gains and foreign-sourced income.

Increased allocations to spending priorities and lower interest on debt

On the spending proposals:

- The Budget framework is extended to include the social security funds.
- Increased allocations are made for fighting crime and improving the courts, modernising the Defence Force, improving hospitals and schools, combating HIV/Aids and for local government elections.
- Lower interest rates and state asset restructuring proceeds bring debt service costs down by R3,3 billion in 2000/01.
- Budget reforms are introduced to improve value for money and the quality and scope of services delivered by the public sector.

Budget documentation

Budget Speech and other budget documents

The *Budget Speech* delivered by the Minister of Finance in the National Assembly is the central statement of budget policy and outlines the key spending plans and tax proposals. Alongside the Speech, the Minister tables several budget documents in the Assembly:

- The *Budget Review* provides an overview of economic developments and medium term budget projections, together with a statistical and other annexures.
- The *National Expenditure Survey* details the spending plans of national departments. A chapter on each department reviews its past expenditure and spending plans in the context of its policies, key activities and service delivery outputs.
- The *Estimate of Expenditure for the year ending 31 March 2001* sets national departments' spending plans before Parliament for the budget appropriations to be voted.
- The *Estimate of Revenue for the year ending 31 March 2001* is the estimate of the anticipated revenue to be raised in 2000/01 before taking account of the Minister's tax proposals.
- The *Division of Revenue Bill* divides nationally raised revenue between the national, provincial and local spheres of government. Chapter 7 of the *Review* outlines the background to the division, and Annexure E is the formal memorandum that supports the Bill.

Supplementing these more formal budget papers, the *People's Guide* is a single-sheet summary of the Budget, which is distributed in newspapers and via Post Offices. Published in six languages – English, Afrikaans, Setswana, Tshivenda, isiXhosa and isiZulu – the *Guide* aims to make the Budget more accessible.

Explanatory notes are also provided on the expenditure votes and various other matters. This year these include a discussion document on the proposed capital gains tax.

Guide to the Budget Review

Budget Review contents

Chapter 2 of the *Review* outlines the prospects for the economy and structural changes since 1990. The fiscal framework for the Budget is set out in Chapter 3 and tax policy and administration are covered in Chapter 4. Chapter 5 reviews Government's programme of debt and cash management, as well as the management and restructuring of its corporate assets. Government's expenditure plans are set out in Chapter 6 while the division of revenue and provincial and local government finances are reviewed in Chapter 7. Several annexures provide detailed statistics and explanatory notes.

Economic policy and outlook

Transformation of the economy

Since 1990, the South African economy has been significantly transformed, particularly after the transition to democracy in 1994. Economic growth recovered, capital inflows resumed and business and consumer confidence increased.

Strength of the economy proved

The East Asian crisis of 1998 led to deep declines in economic activity in several emerging economies, continuing into 1999. Financial market volatility led to a slowdown in South African growth, but its impact was muted by prudent fiscal and monetary policy responses and sound financial institutions. A strong economic recovery is now underway and economic growth of over 3 per cent a year is projected in this Budget.

Targeting lower inflation

To reinforce economic confidence and lower inflation expectations, the Government and the Reserve Bank have agreed to introduce a formal inflation target. This does not necessarily imply a change in monetary policy, but aims to improve public understanding of South Africa's inflation aims and how the Bank will act to effect them. This helps create a virtuous circle of low inflation expectations and, consequently, low inflation. The measure of inflation that will be targeted is CPIX, which is the usual consumer price index, but excluding mortgage costs as these are directly linked to interest rates.

Exchange controls relaxation

A further reduction in exchange controls this year is made possible by the strength of capital inflows.

International trade and finance

Greater openness and increased trade

During the transformation of the 1990s, the economy has become more open to trade and capital flows, and exports and imports have both grown strongly. South Africa's trade relations have diversified considerably in recent years, including rapid growth in exports to sub-Saharan Africa and significant expansion into Asian and American markets.

Exports and imports expected to grow

Real exports are projected to grow by over 5,0 per cent a year for the next three years. With the recovery in economic growth, imports will also grow strongly and the current account is expected to remain in deficit. South Africa's improved economic prospects and greater openness to trade and investment should continue to ensure sufficient foreign capital inflows to finance the deficit.

Foreign investment needed to supplement domestic savings

Exchange controls have been substantially removed and many firms have restructured into fully international groups. Foreign direct investment is expected to grow considerably over the next five years and portfolio inflows should also remain strong. This is important because personal saving in South Africa remains weak. Relative to GDP, South Africa saves significantly less than most comparable nations and foreign investment is, therefore, crucial to economic growth.

Transforming the public sector

Public sector restructuring

Government's economic goals include restructuring the public sector and refocusing its resources. New regulatory initiatives, competition policy and restructuring of state enterprises are aimed at stimulating investment and expanding employment through gains in efficiency.

Public sector expenditure as a share of GDP has stabilised over the 1990s, with the medium-term goal being to lower government consumption expenditure from about 20 per cent of GDP to 19 per cent in 2002. Stronger growth in public sector capital formation is projected, reinforced by the investment and service delivery programmes of restructured public utilities. This transformation is accompanied by a new approach to competition policy and independent regulation of utilities to create a more competitive economic environment.

Employment and the structure of production

Employment trends and training needs

Chapter 2 also reviews the available evidence of a significant decline in formal sector employment. Since 1994 the economy's capacity to absorb non-farm formal sector labour has deteriorated, despite continued economic growth. Labour costs have risen faster than capital costs, leading to a structural shift towards more capital-intensive investment, particularly in manufacturing industries. This has changed employment patterns, leading to increased high-skill employment while lower-skilled jobs have been lost.

Income distribution and unemployment

South Africa has achieved a substantial redistribution of income between racial groups over the course of the last decade. However, inequality and poverty remain severe, reinforced by the weak employment creation trend.

Sectors of the economy

The chapter also reviews the changing structure of production. The agricultural sector remained static during the 1990s. Mining's share of GDP has declined, but platinum, coal and iron-based materials have grown in importance relative to gold.

Manufacturing productivity has increased, but the largest increases in production were in the services sector, especially finance, communications and tourism. Retail and wholesale trade growth has been steady.

Macroeconomic projections

Macroeconomic forecast

Growth of over 3,0 per cent a year is projected over the next three years, supported by both final consumption expenditure and a recovery of fixed capital formation. Consumer price inflation of 5,5 per cent is projected for 2000/01, falling to 4,7 per cent in 2002/03.

Table 1.1 Summary of macroeconomic projections

	1999/00	2000/01	2001/02	2002/03
Gross domestic product (R billion)	809,7	885,2	958,2	1 036,7
Real GDP growth (%)	1,7	3,6	3,2	3,3
Consumer price inflation	4,0	5,5	5,2	4,7

Fiscal policy and the budget framework

Government's fiscal policy aims to:

- Reduce the burden of tax, to encourage investment and release household spending power
- Provide for the social, developmental and infrastuctural spending responsibilities of the State
- Reduce the budget deficit, contributing to lower interest rates and fiscal sustainability.

An extended budget framework

Spending raised by R8,3 billion

Stronger economic growth, lower interest on state debt and buoyant revenue collection enable Government to raise spending on public services by more than R8,3 billion a year in 2000/01 and beyond. In addition, the 2000 Budget provides substantial relief to taxpayers, mainly for lower income groups.

Scope of the budget extends to social security funds

The national budget framework now includes the social security funds. These include the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Funds, which are financed through dedicated taxes or charges. The consolidated budget also includes foreign grants to the RDP Fund and technical cooperation in support of development projects.

Incorporating all these elements into the budget framework improves transparency and accountability, giving a clearer picture of tax and spending.

Provision for contingencies

As in the past, the budget includes a contingency reserve to provide for unanticipated expenditure and macroeconomic uncertainty.

Table 1.2 The consolidated national budget framework

R billion	1999/00	2000/01	2001/02	2002/03
National Revenue Fund				
Revenue	196,3	210,4	227,4	243,6
Expenditure	216,0	233,5	251,5	266,7
Main budget deficit(-)	-19,7	-23,1	-24,1	-23,1
Percentage of GDP	*-2,4%*	*-2,6%*	*-2,5%*	*-2,2%*
RDP Fund & foreign technical cooperation				
Receipts	0,8	0,8	0,7	0,7
Social security funds				
Revenue	7,9	8,6	9,5	10,3
Expenditure	6,7	7,4	8,0	8,6
Consolidated national budget				
Revenue	205,0	219,8	237,6	254,6
Expenditure	223,5	241,6	260,2	275,9
Deficit(-)	-18,6	-21,8	-22,6	-21,3

The wider public finances

Chapter 3 also includes data on the wider public finances, including provinces, extra-budgetary institutions, local authorities, and the borrowing of non-financial public corporations. It presents a summary of the government accounts, indicating the improved trend in consolidated revenue, expenditure and financing requirements. The overall public sector borrowing requirement is expected to be 2,7 per cent of GDP in 2000/01.

Incidence of tax and spending

Government contributes significantly to redistribution, both in the incidence of taxes and in the distribution of social spending. Since 1994, Government spending has been notably redirected towards the poor, with significant progress towards more racial equity. Chapters 4 and 6 of the *Budget Review* illustrate the distributional impact of taxes and spending, respectively. This is supplemented by information on departmental services in the *National Expenditure Survey*, which includes notes on policy developments and trends in departmental programmes and activities.

Skills development

Recognising the importance of productivity and employment, Government has instituted a national programme of skills creation, funded through a R1,4 billion levy on payroll in 2000/01, increasing to R3,0 billion in 2001/02. Sectoral education and training authorities will oversee industrial training and a National Skills Fund will train the unemployed. The Umsobomvu Fund will also begin activities this year, focusing on the employment and training needs of young people.

Structural challenges

Key reforms of the public finances since 1994 include the introduction of a 3-year medium-term expenditure framework, new arrangements for financing provinces and local government and the creation of an autonomous SA Revenue Service. These reforms are secure foundations for the structural challenges of the future.

Financial management reforms

The Public Finance Management Act sets out a framework for modernising the financial management of national and provincial departments, government agencies and public enterprises. The framework will enable managers to manage, but will hold them accountable. It will require timely provision of reliable financial information and minimise waste and corruption.

Public-private partnerships

Government is implementing a strategic framework for delivering some public services through innovative public-private partnerships. This will improve service delivery to the public, transferring to private contractors the risks that they are better able to manage. Under this approach, payment to the private party is linked to satisfactory service delivery, creating strong incentives to ensure that public money procures the best possible public services. A specialised PPP Unit is being established in the Treasury to assist departments in implementing public-private partnerships.

International financial cooperation

South Africa is extending its involvement in regional and international financial coordination. This includes promotion of trade and investment in the SADC region, a review of the SA Customs Union and engagement with the leading industrial countries and major emerging economies as a member of the new G20 group of nations.

Revenue issues and tax proposals

The 2000 Budget contains the most extensive tax reforms introduced in democratic South Africa. Like other fiscal reforms, they aim to build an open and competitive economy and to promote the objectives of reconstruction and development.

Income tax reform

Reduced rates of tax on individuals

Government is returning R9,9 billion a year to taxpayers, mainly at low and middle-income levels. Individuals will now pay 18 per cent of each R1 of taxable income up to R35 000, rising to 42 per cent on income in excess of R200 000. The tax payable on taxable income of R30 000 will fall by 19,6 per cent and by 12,5 per cent on taxable income of R50 000. Taxpayers over 65 will pay no tax on income below R36 538.

Middle and upper-income earners also receive some relief. Taxpayers with income between R50 000 to R200 000 will have their tax liability reduced by about 10 per cent. The liability of taxpayers with taxable income in excess of R200 000 a year is reduced by about 8 per cent.

Interest income exemption raised

The first R2 000 a year of interest income is currently exempt from income tax. This exemption will be raised to R3 000 a year, and R4 000 a year for taxpayers aged over 65.

Residence-based taxation

South African income tax is primarily source-based; that is, tax is largely levied on income from a source within South Africa's jurisdiction, irrespective of whether it was earned by a resident or non-resident. The income tax system will be fundamentally transformed to a residence-based income tax as from 1 January 2001.

Foreign source dividends

From Budget Day, dividends accruing to South African residents from sources outside the Republic will be taxed as ordinary income. The South African Revenue Service has issued a document outlining the details of this proposal, which will yield additional revenue of some R200 million a year.

Graduated company tax rate for small businesses

The capacity of the small business sector to create jobs is especially important, given the high rate of unemployment. A graduated company rate structure is therefore proposed for small businesses. A clearly defined set of small and medium enterprises, especially in production activities, will benefit from lower rates as from the new tax year. Only 15 per cent company tax will be levied on their first R100 000 of taxable income, down from 30 per cent.

Non-profit organisations will benefit from further tax relief. Tax deductibility of donations is to be extended to pre-primary schools, children's homes and organisations focused on HIV/Aids or care for the aged.

Capital gains tax

Recognising its advantage in protecting the integrity of the personal and corporate income tax bases, Government plans to introduce a tax on realised capital gains. In order to avoid unnecessary uncertainty, it is proposed that the tax should apply to gains made after 1 April 2001. The interim period will allow further research and international consultation, and draft legislation will be made available for comment by all interested parties prior to final implementation. Proposed features of the tax are highlighted in Chapter 4 and set out in more detail in a separate discussion document.

Changes in indirect taxes

The increase in excise duties are as follows:

- Tobacco excise duties will be increased to maintain the benchmark of 50 per cent total tax incidence. This implies a 10 per cent real increase in cigarette duty, with higher increases for other forms of tobacco.

- Excise duties on alcohol, with the exception of sorghum beer, will be raised by 5,5 per cent, in line with inflation. Sorghum beer and flour duties will remain unchanged.
- Duty on soft drinks and mineral waters will be reduced by a third, from 12,0 cents to 8,0 cents per litre.
- The fuel levy goes up by 5c a litre on petrol and 3c a litre on diesel.

Airport departure tax

In line with international practice, a tax on international air travel of R100 per departure will be imposed as from 1 August 2000.

Diesel fuel taxation

Diesel fuel tax bears heavily on the fishing industry and coastal shipping. These industries will therefore receive a diesel tax rebate from 1 May 2000.

Revenue estimate after tax proposals

Table 1.3 summarises the revenue effects in 2000/01 of the 2000 Budget tax proposals.

Table 1.3 Summary of tax proposals

R billion		2000/01
Revenue estimate before tax proposals		215,7
Efficiency gains		3,1
Personal income tax adjustments	-9,9	
Increase in interest income exemption	-0,2	
Increase in tobacco & alcohol duties	0,7	
Increase in fuel levy	0,7	
Other tax changes (net)	0,2	
Tax proposals		-8,5
Revenue estimate after tax proposals		**210,4**

Asset and liability management

Chapter 5 details the management of state debt and state assets, including cash management and custodianship of state-owned enterprises.

Financial management of state assets

A protocol on corporate governance issued in 1996 provides the point of departure for normalising the financial accounts and tax and dividend policies of state-owned enterprises. Its principles will be incorporated into regulations issued in terms of the Public Finance Management Act.

Dividend payments to the exchequer

Eskom and the Development Bank will in due course become taxpayers and make dividend payments to the state as shareholder. During 1999, the Central Energy Fund consolidated its accounts and paid a first dividend to the exchequer.

Asset restructuring

Government is adopting an integrated programme for restructuring state assets, under the leadership of the Public Enterprises Ministry. The restructuring of the larger public utilities – Telkom, Eskom, Denel and Transnet – will receive priority.

Restructuring proceeds of R6,9 billion have been raised in 1999/00, mainly flowing from the conversion of Sasria into a state-owned company. This has significantly contributed to lowering interest on debt. Proceeds of R5,0 billion are anticipated in 2000/01.

Debt management

More active debt management

The South African bond market has matured considerably, creating opportunities for reducing risks and debt service costs through more active debt management. In 2000, an inflation-linked bond will be introduced and options for managing financial risks will be explored.

Financing of 1999/00 budget deficit

In addition to the budget deficit of R19,7 billion, Government has financed further obligations of R1,5 billion, mainly in debt relating to Transnet Pension Fund shortfalls attributable to South African Airways. The borrowing requirement has been financed as follows:

- Proceeds from asset restructuring R6,9 billion
- Short-term loans (net financing) R3,0 billion
- Domestic long-term loans (net) R5,0 billion
- Foreign loans (net) R3,6 billion
- Change in cash balances R2,7 billion

Discount on issue of government bonds

Long-term loans were issued at a discount amounting to an estimated R3,2 billion, compared with R6,2 billion in 1998/99.

The projected net borrowing in domestic government bonds in 2000/01 is R10,1 billion. Foreign borrowing of US$1,0 billion is anticipated. Of this amount, US$300 million will finance the export credit components of the defence procurement programme.

Total state debt

Total government loan debt (net of cash balances) is expected to be R398,3 billion at 31 March 2000, or 45,0 per cent of GDP, projected to fall to 42,0 per cent of GDP by the end of 2002/03.

Debt costs

Forecast state debt costs are shown in Table 1.4 below.

Table 1.4 Projected state debt costs, 1999/00–2002/03

R billion	1999/00	2000/01	2001/02	2002/03
Interest	44,3	46,4	49,5	50,9
Domestic debt	42,9	44,6	47,0	47,9
Foreign debt	1,4	1,8	2,5	3,0
Management cost	0,2	–	–	–
Cost of raising loans	–	0,1	0,1	0,1
Total state debt cost	**44,5**	**46,5**	**49,5**	**51,0**

Contingent liabilities

Chapter 5 includes a statement of liabilities and financially related assets, including unfunded commitments and other contingent liabilities. These include liabilities relating to public service medical schemes, government pension funds, the Multilateral Motor Vehicle Accident Fund and guarantees to various institutions. Government is also liable for losses incurred as a result of the forward market operations of the Reserve Bank.

Credit rating

During the past year, several international credit rating agencies have acknowledged the positive political and economic developments in the country by confirming the investment grade status of South Africa's domestic and foreign debt.

Medium-term expenditure estimates

Budget reflects government priorities

The Budget reflects the nation's social and development priorities and Government's commitment to deliver better services to all. The medium term expenditure framework enables Government to reprioritise spending and ensure that policy choices are affordable.

Budget includes provision for skills funds

The 2000 Budget provides for expenditure of R233,5 billion, divided equitably between national, provincial and local government, after allocations for debt service costs and a contingency reserve. The estimates include provision for the allocation of skills funds to the National Skills Fund and sectoral education and training agencies. Government departments are required to budget for their corresponding expenditure on training.

Changes to spending allocations

Changes to allocations

Significant adjustments from the 1999 Budget include:

- Allocations to the SA Police to improve information systems and extend crime prevention activities
- Provision for the new Directorate of Special Operations and the National Directorate of Public Prosecutions
- Increases in the Defence budget to provide for the strategic equipment procurement programme
- Increased allocations to the SA Revenue Service to enhance tax collection systems
- Increased provision for post-retirement medical scheme contributions
- An increased allocation to the Independent Electoral Commission for the municipal elections
- A supplement to the transport vote for the operating expenditure of the SA Rail Commuter Corporation
- Provision for the costs of the next census
- Increased allocations for international tourism marketing
- Lower allocations to Communications in view of the phasing out of the Post Office subsidy
- Reductions in the Correctional Services vote as expenditure on building prisons has been partially translated into longer term commitments associated with public-private partnership prison contracts
- Reduced expenditure on government forests associated with the forestry restructuring process.

HIV/Aids allocation

The 2000 Budget also includes a special allocation for an HIV/Aids strategy.

Consolidated expenditure trends

Consolidated expenditure growth of 7,5% a year

The medium term expenditure framework comprises the consolidated spending of national and provincial government over the next three years, including the social security funds. Consolidated expenditure is expected to grow by an average 7,6 per cent a year over the MTEF period, following growth of 5,9 per cent a year over the previous three years.

Table 1.5 illustrates the functional distribution of allocated expenditure and the growth trends.

Table 1.5 Consolidated expenditure growth

R billion	1999/00	2000/01	Average growth 1996/97–1999/00	Average growth 1999/00–2002/03
Education	47,8	50,7	4,3	5,7
Health and welfare	49,6	53,2	6,6	5,7
Housing & other social services	5,2	4,8	12,9	2,2
Police, prisons & justice	21,8	23,4	10,2	6,2
Defence & intelligence	10,7	13,7	-0,9	15,5
Water, agriculture & forestry	5,9	6,1	8,2	3,3
Transport, communication & other economic services	13,2	14,5	-2,4	10,8
General administration	25,8	28,2	5,8	7,0
Total (excl. debt costs & contingency reserve)	**180,0**	**194,7**	**5,2**	**6,8**
Personnel remuneration	91,7	96,9	6,2	5,2
Other current expenditure	73,7	82,1	4,3	8,6
Interest on debt	44,5	46,5	8,2	4,7
Capital spending	14,6	15,7	10,3	8,2
Contingency reserve	–	2,3	–	–
Total expenditure	**224,5**	**243,4**	**6,1**	**7,5**

Growth in defence and economic services

Education, health, welfare and other social services take up about 56 per cent of non-interest allocations in 2000/01, and are projected to grow steadily over the MTEF period. After declining in previous years, defence spending increases sharply to 2002/03 to accommodate the procurement of new equipment. Transport, communications and other economic services also grow strongly after a period of decline.

Provision for contingencies

The consolidated projections indicate growth of 5,2 per cent a year in personnel remuneration and 8,6 per cent a year in other current expenditure. Capital spending grows by 8,3 per cent a year. The budget framework includes a contingency reserve and other unallocated amounts of R2,3 billion in 2000/03, increasing to R8,6 billion in 2002/03.

Provincial and local government finance

Provinces and municipalities receive transfers from the national Budget in line with constitutional requirements.

The division of revenue is summarised in Table 1.6.

Table 1.6 The division of revenue, 1999/00–2002/03

R billion	1999/00	2000/01	2001/02	2002/03
National allocation	69,0	76,1	83,1	87,4
Provincial allocations	99,4	106,0	111,8	117,1
Equitable share	86,6	94,4	100,2	105,2
Conditional grants	12,8	11,6	11,6	11,9
Local government allocation	2,3	2,8	3,0	3,2
Total to be shared	**170,7**	**185,0**	**197,9**	**207,7**

Provincial finances

Horizontal division between provinces

The formula governing the division of the equitable share between provinces has been modified slightly. As explained in Annexure E:

- the economic activity component has been updated
- taking into account expenditure trends in social services, the weights of the health and education components have been increased.

Provincial allocations include conditional grants

In addition to their equitable share of revenue, provinces receive conditional grants from national votes for central hospital services, medical training and research, hospital rehabilitation, financial management and an integrated nutrition programme, amongst others. The Housing Fund subsidy programme is included as a conditional grant to provinces for the first time this year.

Improved provincial finances

As detailed in the 1999 *Intergovernmental Fiscal Review*, provincial budgets and accounts have shown aggregate surpluses since 1998/99, reflecting substantial improvements in provincial finances. Provinces are repaying accumulated debt and can begin to address pressing social and developmental service delivery needs.

Provincial spending growth

Provincial spending is projected to rise from R101,1 billion in 1999/00 to R108,4 billion in 2000/01 and by an average of 5,9 per cent a year over the next three years. Provinces plan to run surpluses over the next three years in order to repay overdrafts and other debt. The equitable share and conditional grants account for about 96 per cent of provincial revenue.

Social services

Social services are the biggest element of provincial expenditure and spending on these programmes has grown steadily, taking up an increasing share of available resources. Over the next three years, however, provinces plan to shift the balance somewhat in favour of roads, agriculture and other functions. Social services will remain over 80 per cent of provincial spending.

Personnel spending

The share of personnel spending declines moderately over the period, as provinces plan to strengthen other operating expenditure.

Infrastructure

Provincial budgets suggest that capital spending will grow to address infrastructural investment and maintenance requirements. Several provinces have set aside funds for infrastructure projects from unallocated reserves. In addition, the Department of Finance will administer a supplementary infrastructure grant to provinces in 2000/01.

Capital spending looks set to grow by about R1 billion in 2000/01, and at around 5 per cent a year thereafter.

Local government

Increased budget allocations to municipalities

Local governments face serious financial challenges. Many are burdened by poor management, cumbersome administrative and budgeting systems, inefficient service delivery, disproportionate wage bills, non-payment for services and high levels of poverty among residents. A concerted attempt by Government to assist municipalities in addressing the challenges of transformation is reflected in the 2000 Budget. It increases provision for local government by R350 million in 2000/01 and R450 million in 2001/02. This brings the total allocation to municipalities to R2,8 billion in 2000/01, increasing to R3,2 billion in 2002/03.

Municipal spending growth limit of 5%

The limit on increases in municipal spending will be set at 5 per cent for the local government financial year July 2000 to June 2001. This will be complemented by systematic reform and capacity building to ensure realistic financial projections and to maintain fiscal discipline amid the elections and amalgamation of municipalities.

Municipal budgets

Municipal operating budgets for July 1999 to June 2000 totalled R44,4 billion, with additional capital budgets of R13,7 billion. The main sources of revenue were electricity, water and sewage charges, which raised around R20,7 billion.

R293 towns

In 1994 the personnel administering former homeland R293 towns were transferred to provinces, with the intention to transfer these to local government. This process has been slower than anticipated. Government has set 31 August 2000 as a cut-off date for transfers, providing an incentive to local government to receive such staff. Appropriate funding will follow the actual location of these personnel in local or provincial government.

Conditional grants

The local government support grant provides for a range of management support and capacity-building initiatives. It will be increased to R150 million in 2000/01. Two new grants will be introduced:

- a restructuring grant to assist with the reorganisation of local government amounts to R300 million in 2000/01
- an additional financial management and capacity-building grant.

Equitable share

The equitable share transfers to local government will be R1,9 billion in 2000/01, R2,0 billion in 2001/02 and R2,1 billion in 2002/03.

Conclusion

The 2000 Budget provides for substantially increased spending on defence, public safety, skills development, infrastructure investment, the fight against HIV/Aids and Government’s social and economic development priorities. It lowers the overall tax burden, especially for low-and middle-income households. It maintains a sound balance between revenue and spending, contributing to the improved outlook for the broader economy.