3

Fiscal policy and the budget framework

Overview

Revised budget framework

Increased spending on public services

The *Medium Term Budget Policy Statement* tabled in October 1999 set out the framework for the 2000 Budget. It outlined how stronger economic growth, lower interest on state debt and buoyant state revenue allow Government to raise spending on public services by more than R7,5 billion a year in 2000/01 and beyond.

A further downward adjustment in debt costs and revised estimates of the revenue to be raised through the new skills levy enable non-interest spending to increase by R8,3 billion in the 2000 Budget.

Details of the revised spending and revenue plans are set out in this *Budget Review*, the *National Expenditure Survey*, the *Estimate of Expenditure* and the *Estimate of Revenue for the financial year ending 31 March 2001.*

Lower tax burden

The revised budget framework allows for a moderate reduction in the tax-GDP ratio over the next three years. Chapter 4 details Government's tax proposals. The 2000 Budget provides substantial relief to personal income taxpayers, while introducing a new payroll levy for skills development and training, and several further reforms to the tax structure.

Extended framework includes social security funds

The revised framework extends fiscal transparency by including the revenue and expenditure of social security funds in the consolidated national budget accounts. These include the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Funds.

The consolidated national budget accounts comprise:

- revenue and expenditure of the National Revenue Fund (the main budget)
- receipts and expenditure of the RDP Fund and foreign technical cooperation assistance to government agencies
- social security funds established by statute.

Receipts of the National Revenue Fund includes levies or charges assigned by statute to the Umsobomvu Fund, the Universal Service Agency, the National Skills Fund and sectoral education and training funds established in terms of the Skills Development Act. Transfers to these funds are treated as expenditure.

The main budget provides for expenditure of R233,5 billion in 2000/01, increasing to R266,7 billion in 2002/03. Total revenue increases to R243,6 billion in 2002/03.

Consolidated national deficit of 2,5% of GDP

The extended 2000 budget framework is summarised in Table 3.1, which provides estimates for the main budget, the RDP Fund, social security funds and consolidated national expenditure and revenue. Consolidated expenditure of R241,6 billion is projected in 2000/01, which is 27,3 per cent of GDP and 8,1 per cent more than the revised 1999/00 estimate. The consolidated national deficit is 2,5 per cent of GDP in 2000/01.

Table 3.1 National budget framework, 1998/99–2002/03

	1998/99	1999/00		2000/01	2001/02	2002/03
	Outcome	Budget	Revised	Medium-term estimate		
National Revenue Fund						
Revenue	**184 328**	**190 900**	**196 302**	**210 400**	**227 400**	**243 600**
Expenditure						
Interest on debt	42 669	46 112	44 483	46 490	49 531	50 997
Contingency reserve	–	1 100	–	2 000	4 000	8 000
Non-interest spending[1]	158 865	166 708	171 557	184 963	197 947	207 674
Total	**201 534**	**213 920**	**216 040**	**233 452**	**251 478**	**266 671**
Percentage increase	*6,1%*	–	*7,2%*	*8,1%*	*7,7%*	*6,0%*
Surplus (+)/deficit (-)	**-17 206**	**-23 020**	**-19 738**	**-23 053**	**-24 078**	**-23 071**
Percentage of GDP	*-2,3%*	*-2,8%*	*-2,4%*	*-2,6%*	*-2,5%*	*-2,2%*
RDP Fund & foreign technical cooperation						
Receipts & technical cooperation	951	750	760	800	700	700
Disbursements	876	750	760	800	700	700
Social security funds						
Revenue	7 346	–	7 914	8 638	9 495	10 332
Expenditure	5 889	–	6 733	7 368	7 993	8 569
Consolidated national budget[2]						
Revenue	**192 151**	**–**	**204 960**	**219 818**	**237 580**	**254 610**
Expenditure	**207 825**	**–**	**223 518**	**241 601**	**260 156**	**275 917**
Percentage of GDP	*27,5%*	–	*27,6%*	*27,3%*	*27,2%*	*26,6%*
Percentage increase	*6,2%*	–	*7,6%*	*8,1%*	*7,7%*	*6,1%*
Surplus (+) or deficit (-)	**-15 674**	**–**	**-18 557**	**-21 783**	**-22 576**	**-21 307**
Percentage of GDP	*-2,1%*	–	*-2,3%*	*-2,5%*	*-2,4%*	*-2,1%*
Gross domestic product (GDP)	*754 729*	*813 900*	*809 700*	*885 200*	*958 200*	*1 036 700*

1. Includes transfers to provinces and local government and to the Umsobomvu Fund, the National Skills Fund and sectoral skills development funds.

2. Flows between funds are netted out.

Fiscal policy considerations

Balance between conflicting objectives

The budget framework must balance three broad objectives:

- Reducing the overall burden of tax, so as to lower the costs of investment and job creation, and release household spending power
- Providing for Government’s social, development and infrastructural expenditure responsibilities of the State

- Lowering the budget deficit, to contribute to lower interest rates and fiscal sustainability.

Economic growth and employment creation, improved public services and an equitable distribution of income are the underlying goals of fiscal policy.

Further structural challenges for improved economic performance

Chapter 2 summarises the structural developments in the South African economy over the past decade and outlines the broad economic challenges. Increased investment, an improved saving trend, restructuring of public enterprises, stronger export performance, small business development, more effective skills development and adaptability in the labour market are among the reforms required to increase growth, create jobs and improve distribution.

Redistributive fiscal policy

Chapters 4 and 5 of this *Review* describe the considerable role of fiscal policy – tax and spending programmes – in the redistribution of income. South Africa's tax structure is progressive, and government expenditure has shifted strongly in favour of the poor.

Public policy promotes investment and jobs

Chapter 5 also reviews the contribution of the Budget to economic and infrastructural development. In addition to the spending programmes of national and provincial government, public enterprises are investing substantially in telecommunications, transport facilities, electrification and industrial infrastructure. Government policies also encourage private participation in public infrastructure programmes.

Fiscal policy aim

Increased investment and sustainable growth are supported through the following fiscal policy aims:

- Moderating the level of government consumption spending relative to GDP, including public service personnel expenditure
- Enhancing capital formation by general government and public corporations
- Reducing the level of government dissaving, in part through steady reductions in the budget deficit
- Stabilising the level of debt and reducing debt service costs
- Lowering the burden of tax on the economy, both through broadening the tax base and reducing the distorting effects of tax
- Reprioritising government expenditure to support growth, employment and income redistribution, and extending economic opportunities.

Table 3.2 summarises the main aims of Government's fiscal policy, set out in the 1999 *Medium Term Budget Policy Statement.* These fiscal indicators relate to the wider general government and public sector accounts, of which the national budget is the main part. This chapter summarises both the national budget framework and projected developments in the broader public finances.

Table 3.2 Key fiscal policy aims

Percentage of GDP	1994	1998	2002
Government consumption expenditure	20,0	20,2	19,0
General government saving	-5,9	-3,9	0,0
Interest on public debt	5,5	6,3	5,5
General government tax revenue	24,4	26,0	25,0
	1994/95	**1998/99**	**2002/03**
Public sector borrowing requirement	5,7	3,7	3,0
	1994–1998	**1998–2002**	
Gross fixed capital formation by general government (average annual real growth)	4,8	5,0	

Structural challenges

Key financial management reforms

Considerable progress has been made since 1994 in putting public sector financial management on a sound footing. Key reforms include:

- Introduction of a 3-year medium-term expenditure framework
- Establishment of cooperative intergovernmental institutions to manage budgetary and financial coordination between the national, provincial and local spheres
- Creation of the South African Revenue Service as an autonomous entity and strengthening of the tax structure and its administration
- A framework agreement for state asset restructuring
- Introduction of auction marketing arrangements as part of improved debt management
- Enactment of the Public Finance Management Act.

Public Finance Management Act

These reforms provide secure foundations for the required structural improvements in public finance over the next decade and beyond. The Public Finance Management Act is the cornerstone of this framework, setting out principles of accountability that devolve responsibility for service delivery to departmental managers. It clarifies the role and duties of accounting officers and lays the foundation for improved government accounting standards.

The Act extends to all entities under the ownership and control of the state, and will in due course lead to improved financial reporting and oversight of the wider public sector.

Future development in public finances

Future structural change in the public finances is likely to have several features:

- Restructuring of public enterprises, bringing in private capital and skills where appropriate
- Public-private partnerships in the financing of infrastructure, and joint delivery of services
- Regulatory reform, including promotion of competition and more efficient pricing policies in public utilities
- Extended international cooperation, particularly within the SADC region
- Reform of remuneration systems, including retirement funding and financing of health care benefits

- Improved financial risk management, including stricter governance, improved accounting standards and stronger oversight of the finances of public entities.

In these and other ways, public financial management promotes improved economic performance and effective and efficient public services.

Financial reform and broadening economic participation

Financial reforms also promote broader economic participation and a more equitable distribution of services and opportunities. The division of revenue between provinces and the distribution of funds to local government are both strongly redistributive in their impact. Government's approach to the pricing of public services aims to ensure a fair distribution of costs and broader access to services. The Preferential Procurement Policy Framework Act ensures that government purchases will contribute to redressing historical disadvantages in the provision of goods and services.

Against the background of a sound fiscal policy framework, the Budget finances a sustained improvement in the quality and distribution of social services and infrastructure.

The main budget

National Revenue Fund estimates, 1996/97 to 2002/03

The projected revenue of the National Revenue Fund and the division of available resources are summarised in Table 3.3. These estimates include foreign grants received through the RDP Fund up to 1998/99. With effect from 1999/00, these no longer flow through the National Revenue Fund.

Main budget revenue increase of 7,2%

Total revenue, after setting aside payments to Namibia, Botswana, Swaziland and Lesotho in terms of the South African Customs Union Agreement, is projected to increase from R196,3 billion in 1999/00 to R210,4 billion in 2000/01, an increase of 7,2 per cent. Revenue is budgeted to decline moderately as a share of GDP to 23,5 per cent in 2002/03.

Upward adjustment in skills levy projections

These projections include provision for the new skills development levy scheme, now expected to yield R1,4 billion in 2000/01 and R3,2 billion in 2002/03.

Expenditure growth of 7,5% to 2002/03

Expenditure is projected to increase from R216,0 billion in 1999/00 to R233,5 billion in 2000/01, or 26,4 per cent of GDP. Following growth of 7,2 per cent a year since 1996/97, expenditure growth is expected to average 7,3 per cent a year over the period to 2002/03.

Main budget deficit of 2,6% of GDP in 2000/01

The revised estimates indicate a budget deficit of R19,7 billion in 1999/00, which is 2,4 per cent of GDP. A deficit of R23,1 billion is projected on the main budget in 2000/01, or 2,6 per cent of GDP, falling to 2,2 per cent of GDP in 2002/03.

Table 3.3 Main budget framework, 1996/97–2002/03

R million	1996/97 Outcome	1997/98 Outcome	1998/99 Outcome	1999/00 Revised estimate	2000/01 Medium-term estimate	2001/02	2002/03
Revenue (National Revenue Fund)							
Tax revenue (gross)	147 077	165 256	185 027	199 593	213 689	230 880	247 616
Other receipts & repayments	3 667	3 304	3 966	3 906	5 107	5 153	5 322
Less: SACU transfers	-4 363	-5 237	-5 122	-7 197	-8 396	-8 633	-9 338
RDP Fund grants[1]	139	169	456	–	–	–	–
Total revenue	**146 519**	**163 492**	**184 328**	**196 302**	**210 400**	**227 400**	**243 600**
Percentage of GDP	*23,1%*	*23,4%*	*24,4%*	*24,2%*	*23,8%*	*23,7%*	*23,5%*
Percentage increase	*16,2%*	*11,6%*	*12,7%*	*6,5%*	*7,2%*	*8,1%*	*7,1%*
Expenditure							
Interest on debt[2]	35 158	38 820	42 669	44 483	46 490	49 531	50 997
Transfers to provinces[3,4]	81 215	86 542	92 594	99 376	106 037	111 810	117 057
Local government allocations[5]	2 238	1 999	2 156	2 327	2 830	3 030	3 233
Other expenditure allocations[4,6]	56 879	62 587	64 115	69 854	76 095	83 107	87 384
Contingency reserve					2 000	4 000	8 000
Total expenditure	**175 490**	**189 947**	**201 534**	**216 040**	**233 453**	**251 478**	**266 671**
Percentage of GDP	*27,7%*	*27,2%*	*26,7%*	*26,7%*	*26,4%*	*26,2%*	*25,7%*
Percentage increase	*16,3%*	*8,2%*	*6,1%*	*7,2%*	*8,1%*	*7,7%*	*6,0%*
Deficit(-)	**-28 971**	**-26 456**	**-17 206**	**-19 738**	**-23 053**	**-24 078**	**-23 071**
Percentage of GDP	*-4,6%*	*-3,8%*	*-2,3%*	*-2,4%*	*-2,6%*	*-2,5%*	*-2,2%*
Gross domestic product	*633 787*	*699 292*	*754 729*	*809 700*	*885 200*	*958 200*	*1 036 700*

1. *From 1999/00, foreign grants received in the RDP Fund for government projects do not flow through the National Revenue Fund.*
2. *Excluding revaluation of maturing foreign loans, previously included in "state debt cost"; including interest of R1 998 million in 1996/97 on provincial debt later taken over by national government.*
3. *Including conditional grants, but excluding interest on provincial debt in 1996/97 and local government grants; including transfers to National Housing Fund for provincial housing expenditure.*
4. *Recoveries from pension funds of R346 million and R1 058 million in 1996/97 and 1998/99 respectively are deducted from transfers to provinces and other expenditure allocations in proportion to provincial and national shares of total personnel spending.*
5. *Including grants to provinces for subsidising R293 town personnel and other municipal operating costs.*
6. *Including transfers to the Umsobomvu Fund, Universal Service Agency, the National Skills Fund and sectoral education and training funds, and standing appropriations.*

Revised estimates, 1998/99 and 1999/00

Table 3.4 summarises the main budget outcome for the 1998/99 year and revised estimates for 1999/00. These are discussed further in Chapters 4 and 6. Annexure B provides more detailed breakdowns of main budget revenue, expenditure and financing for these and earlier years.

Higher than budgeted personal income tax receipts

Revenue exceeded the budget estimate by R6,7 billion in 1998/99 and is expected to exceed the 1999 Budget projections by R5,4 billion. The buoyancy of personal income tax allocations remains the main source of additional revenue. Indirect taxes yielded somewhat less than the budget estimates in both years. The revised revenue estimate for 1999/00 is 6,8 per cent more than 1998/99 receipts.

Table 3.4 Revised estimates of main budget revenue and expenditure, 1998/99–1999/00

R million	1998/99 Budget estimate	1998/99 Outcome	1998/99 *Deviation*	1999/00 Budget estimate	1999/00 Revised estimate	1999/00 *Deviation*	Percentage Change 1998–99
Revenue							
Direct taxes	101 384	108 977	*7 593*	111 959	118 052	*6 093*	*8,3*
Indirect taxes	77 780	76 050	*-1 730*	81 927	81 541	*-386*	*7,2*
Other revenue[1]	4 013	3 966	*-47*	4 211	3 906	*-305*	*-1,5*
Less: SACU transfers	-5 577	-5 122	*455*	-7 197	-7 197	–	*40,5*
RDP Fund grants	–	456	456	–	–	–	–
Total	**177 600**	**184 328**	***6 728***	**190 900**	**196 302**	***5 402***	***6,5***
Expenditure							
Interest on debt[2]	41 548	42 669	*1 121*	46 112	44 483	*-1 629*	*4,2*
Transfers to provinces[3]	92 458	93 335	*876*	97 296	99 376	*2 080*	*6,5*
Local government share	2 156	2 156	–	2 316	2 327	*11*	*7,9*
Other expenditure:	64 029	64 432	*403*	67 096	69 854	*2 758*	*8,4*
Current	56 828	56 311	*-516*	60 426	61 388	*961*	*9,0*
Capital[4]	7 201	8 121	*919*	6 670	8 467	*1 797*	*4,3*
Pension funds recovery	-870	-1 058	*-188*	–	–	–	–
Contingency reserve	1 000	–	*-1 000*	1 100	–	*-1 100*	–
Total	**200 321**	**201 534**	***1 213***	**213 920**	**216 040**	***2 120***	*7,2*
Deficit(-)	**-22 721**	**-17 206**	***5 515***	**-23 020**	**-19 738**	***3 282***	–

1. The 1998/99 preliminary outcome and revised estimate for 1999/00 include receipts of the demutualisation charge amounting to R279 million and R577 million respectively, which were not included in the budget estimates.

2. Excluding revaluation of maturing foreign loans, previously included in "state debt cost".

3. Including transfers to National Housing Fund for provincial housing programmes.

4. Excluding transfers to National Housing Fund. Including transfer to Umsobomvu Fund of R855 million in the 1999/00 revised estimate.

Increase in expenditure

Expenditure exceeded the budget estimates by R1,2 billion in 1998/99 and a projected R2,1 billion in 1999/00 (including provision for an R855 million transfer to the Umsobomvu Fund, not included in the budget estimates). Expenditure increased by 7,2 per cent from R201,5 billion in 1998/99 to an estimated R216,0 billion in 1999/00.

Changes to 1999/00 expenditure estimates

The revised expenditure estimates include the following changes to the 1999/00 budget estimates:

- A saving of R1,6 billion in interest on debt
- Additional transfers to provinces of R2,1 billion
- An estimated increase of R1,9 million on current and capital expenditure, including supplementary allocations to the South African Rail Commuter Corporation, the Independent Electoral Commission and local authorities for Y2K-related expenses, and an additional allocation for improvements in conditions of service.

Restructuring of state assets and the lower borrowing requirement

Debt reduction and the lower borrowing requirement achieved through state asset restructuring over the past two years significantly restricted the growth of debt interest costs on the national budget. Details of the financing of the budget are set in Chapter 5.

Changes to the medium-term framework, 2000/01 to 2002/03

Changes to the medium-term macroeconomic outlook since the 1999 Budget estimates are set out in Chapter 2. These revised projections are taken into account in adjusting the budget framework.

Changes to fiscal projections

The proposed revised framework was set out in the October 1999 *Medium Term Budget Policy Statement*. In brief (excluding RDP Fund grants):

- Projected revenue increases by R3,8 billion in 2000/01 and R5,9 billion in 2001/02, taking into account the buoyancy of revenue performance and higher economic growth.
- Interest on debt is expected to be lower than projected in the 1999 Budget.
- Total expenditure increases by R3,5 billion in 2000/01.

The 2000 Budget takes into account three further changes to the October 1999 framework:

- Projected interest on debt is reduced further, reflecting the impact of restructuring proceeds and lower interest rates.
- Receipts of the skills development levy are expected to be some R400 million more in 2000/01 than the 1999 Budget estimate and R1,0 billion more in subsequent years.
- Foreign grants to the RDP Fund are excluded from the estimates.

R8,3 billion increase in 2000/01 spending

Taking into account the drawdown on the contingency reserve among other adjustments, the revised framework allows available non-interest expenditure to increase by R8,3 billion in 2000/01 and R12,1 billion in 2001/02. The revised allocations to the national, provincial and local spheres are set out in Table 3.5.

Contingency reserve to provide for future uncertainties

The revised budget framework includes a contingency reserve of R2,0 billion in 2000/01 increasing to R4,0 billion in 2001/02 and R8,0 billion in 2002/03. This allows for allocations by the Treasury Committee in 2000/01 to meet unforeseen and unavoidable expenses, and provides a reserve in subsequent years to accommodate macroeconomic uncertainty and possible new spending priorities of the State.

Social, economic and development spending commitments

In revising the expenditure framework, Government considers both fiscal policy requirements and its wide range of social, economic and developmental responsibilities. Chapter 6 outlines changes in medium-term expenditure estimates made possible by the increased expenditure levels:

- Strengthening and modernising the justice system
- Consolidating provincial education, health and welfare services
- Maintaining public infrastructure and reinforcing safety standards on roads, public transport and public buildings
- Phasing in sectoral skills development programmes
- Responding to the challenge of HIV/Aids
- Supporting rural development, poverty relief and employment creation.

Table 3.5 Main budget medium-term estimates, 2000/01–2002/03

R million	2000/01			2001/02			2002/03
	1999 Estimate	2000 Budget	*Change to baseline*	1999 Estimate	2000 Budget	*Change to baseline*	2000 Budget
Revenue							
Direct taxes[1]	123 198	123 041	*-157*	131 085	133 673	*2 588*	143 643
Indirect taxes	87 083	90 648	*3 565*	94 234	97 208	*2 974*	103 973
Other revenue	3 876	5 107	*1 231*	4 116	5 153	*1 035*	5 322
Less: SACU transfers	-7 557	-8 396	*-839*	-7 935	-8 633	*-697*	-9 338
Total	**206 600**	**210 400**	***3 800***	**221 500**	**227 400**	***5 900***	**243 600**
Expenditure							
Interest on debt	49 754	46 490	*-3 264*	52 574	49 531	*-3 043*	50 997
Transfers to provinces[2]	103 433	106 037	*2 604*	108 256	111 810	*3 555*	117 057
Local government share	2 480	2 830	*350*	2 580	3 030	*450*	3 233
Other expenditure:[3]	70 739	76 095	*5 356*	75 055	83 107	*8 051*	87 384
Current	63 318	69 023	*5 705*	66 944	75 022	*8 078*	78 769
Capital	7 421	7 073	*-349*	8 111	8 085	*-26*	8 614
Contingency reserve	3 500	2 000	*-1 500*	8 000	4 000	*-4 000*	8 000
Total	**229 906**	**233 453**	***3 547***	**246 465**	**251 478**	***5 013***	**266 671**
Deficit	**-23 306**	**-23 053**	***253***	**-24 965**	**-24 078**	***887***	**-23 071**
Increase in non-interest allocated expenditure	–	–	*8 311*	–	–	*12 056*	–

1. Including skills development levy.
2. Including conditional grants to provinces and housing fund transfers.
3. Including transfers to the National Skills Fund and education and training funds.

Supplementary defence allocations

The expenditure projections include supplementary allocations to the Defence vote of R2,8 billion and R3,9 billion in 2000/01 and 2001/02 to meet additional expenditure on arms procurement contracts.

Umsobomvu Fund

Fund to invest in young people

The creation of the Umsobomvu Fund was announced in the 1998 Budget. The Fund is financed through a special charge on the proceeds of the demutualisation of Sanlam and Old Mutual in 1998 and 1999 that yielded R855 million. Its main purpose is to invest in young people, develop their skills potential and invigorate job creation.

Established as Section 21 company

The Fund has been established as a Section 21 (non-profit) company, with a 7-member Board, comprising an executive director and six non-executive members nominated from four government departments, the Youth Commission and the private sector. The Fund will come into operation in the course of 2000.

Skills development funding

A new approach to financing education and training

Developing skills is a responsibility Government shares with its social partners. Its new approach to skills development reaches a milestone this year, with the commencement of a levy-grant scheme for financing education and training. This follows an extensive review of South Africa’s skills needs and financing options. The National Economic Development and Labour Council negotiated the framework details, including establishing sectoral education and training authorities and introducing a skills development levy on private sector remuneration.

Levy income to go to National Skills Fund and sectoral training authorities

The levy takes effect in April 2000 at a rate of 0,5 per cent, to be collected by the SA Revenue Service as part of employers' monthly PAYE returns. The rate increases to 1,0 per cent in April 2001. The skills development levy is payable by private sector employers who are, in turn, entitled to draw on the funds of sectoral training authorities to recover approved education and training expenses. Eighty per cent of receipts will accrue to these agencies and 20 per cent will go to the National Skills Fund to support special training needs and training for the unemployed.

Skills levies included in main budget

The skills levy will be collected as revenue in the National Revenue Fund. Transfers to sectoral authorities and the National Skills Fund are direct charges to the National Revenue Fund in terms of the Skills Development Levies Act and will be administered by the Department of Labour.

Prescribed training expenditure by government departments

Government departments and other public sector entities mainly financed by government are not liable to pay the skills levy. However, their expenditure on education and employee training has to be at least 0,5 per cent of payroll in 2000/01 and 1,0 per cent in 2001/02 and beyond.

Estimates of skills development expenditure are set out in Table 3.6.

Table 3.6 Expenditure on skills development, 1999/00–2002/03

	1990/00	2000/01	2001/02	2002/03
R million	**Budget**	**Medium-term estimate**		
Department of Labour				
Human resource development programme[1]	406	274	186	197
Skills development levy programme				
Sectoral skills funds	–	1 120	2 400	2 560
National Skills Fund	–	280	600	640
Government training expenditure				
National departments[2]	427	464	287	300
Provinces[3]	–	335	704	740
Total	**833**	**2 473**	**4 177**	**4 437**

1. *Including the National Skills Authority, the Fund for the Training of Unemployed Persons, supplementary transfers to the National Skills Fund and employment counselling and placement services.*
2. *Departmental estimates of budgeted training expenditure in 1999/00 and 2000/01; 1 per cent of personnel spending thereafter.*
3. *Expenditure of 0,5 per cent of personnel spending in 2000/01 and 1,0 per cent thereafter.*

International development cooperation

Foreign assistance of R750 million a year

Since 1994, South Africa has benefited from an increasing flow of foreign grants and technical cooperation. These now include some 30 international cooperation agreements and account for annual flows of about R750 million in assistance to the government. In addition, foreign support of the non-governmental development community and emerging businesses is substantial.

RDP Fund grants and in-kind technical support

Foreign assistance comprises both grants to finance government projects, channelled through the Reconstruction and Development Programme (RDP) Fund, and in-kind technical or project assistance, directly financed by foreign aid offices.

Table 3.7 summarises current and projected foreign grants and technical cooperation spending.

Table 3.7 RDP Fund grants and foreign technical cooperation, 1996/97–2002/03

R million	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
					Medium-term estimate		
RDP Fund							
Receipts	143,2	242,6	531,4	350	400	400	400
Disbursements	138,7	168,8	456,2	350	400	400	400
Technical cooperation							
Estimated expenditure	300	340	420	410	400	300	300
Total foreign assistance	**443,2**	**582,6**	**951,4**	**760**	**800**	**700**	**700**

RDP Fund grants excluded from main budget

Between 1994/95 and 1998/99, foreign assistance to provided to government departments through the RDP Fund was subject to exchequer regulations. Following extensive consultation with cooperation partners, the RDP Fund Amendment Act of 1998 provides for management of projects in terms of technical cooperation agreements, rather than the regulations governing state revenue. With effect from 1999/00, RDP Fund transfers to departments are managed in separate accounts and do not flow through the exchequer.

Wide range of development projects supported

International project funding supports a range of development programmes, including labour market skills training, housing development, rural schools electrification, the working for water project and water supply schemes, education curriculum workshops, support for Mozambican refugees, assistance to the Truth and Reconciliation Commission and the Human Rights Commission, trade and investment, rural heritage settlements, small business advice, public service capacity building and promotion of good governance.

Foreign donors have provided over R3,0 billion in grants and technical cooperation since 1994, mainly to the Departments of Labour, Housing, Health, Minerals and Energy, Water Affairs and Forestry, Education, Justice and Trade and Industry.

Social security funds

South Africa’s principal social security benefits – means-tested old age grants, disability payments and family and child maintenance grants – are financed out of general revenue appropriated for these programmes in the annual provincial Welfare votes.

Social security funds provide welfare benefits financed by mandatory contributions

Several other social programmes rely on mandatory levies or taxes. Social security funds provide prescribed income maintenance or welfare benefits and are financed by earmarked levies or compulsory contributions by employees or employers. South Africa's four social security funds provide relief or compensation in the event of unemployment, injuries or death as a result of road accidents or work-related injuries or death.

Instruments of social and income security policy

These programmes are by design self-funding, with both their revenue flows and spending appropriated by separate statute or regulations, and not in the annual budget votes. These financial flows are nonetheless part of the wider public finances and are important instruments of Government's social and income security policies.

The social security funds are summarised in Table 3.8 and discussed briefly below.

Table 3.8 Social security funds, 1996/97–2002/03

R million	1996/97 Outcome	1997/98 Outcome	1998/99 Outcome	1999/00 Revised estimate	2000/01 Medium-term estimate	2001/02	2002/03
Unemployment Insurance Fund							
Revenue	2 342	2 773	3 005	3 305	3 590	3 948	4 343
Expenditure	2 270	2 773	2 762	3 239	3 341	3 667	3 980
Compensation funds							
Revenue	1 684	1 791	2 050	2 084	2 325	2 518	2 655
Expenditure	1 079	1 037	1 145	1 311	1 724	1 902	2 051
Road Accident Fund							
Revenue	1 553	1 917	2 291	2 524	2 722	3 029	3 335
Expenditure	1 286	1 545	1 981	2 184	2 303	2 424	2 538
Total: social security funds							
Tax revenue	4 767	5 665	6 217	6 717	6 887	7 584	8 318
Non-tax revenue	812	817	1 129	1 197	1 750	1 911	2 014
Total revenue	**5 579**	**6 482**	**7 346**	**7 914**	**8 638**	**9 495**	**10 332**
Total expenditure	**4 635**	**5 356**	**5 889**	**6 733**	**7 368**	**7 993**	**8 569**
Surplus(+)/deficit(-)	**945**	**1 126**	**1 457**	**1 180**	**1 270**	**1 502**	**1 763**

Unemployment Insurance Fund

Income maintenance for the unemployed

The Unemployment Insurance Act of 1966 provides for mandatory contributions by employers and employees to fund short-term income replacement in the event of unemployment, short-term sickness, death, maternity or adoption of a child.

Contributions to the Unemployment Insurance Fund (UIF) are levied on both employers and employees at a rate of 1,0 per cent of wage earnings. Currently, all employees earning R93 288 or less must contribute and are covered, except government employees, seasonal workers, informal sector employees and domestic workers. Benefits may be claimed at an income replacement rate of 40 per cent for a maximum of six months.

Current deficit of UIF

The financial position of the Fund has weakened in recent years, reflecting the persistent unemployment problem in the economy and sluggish growth in contribution flows.

Reform of UIF administration and benefits

Following the recent review of the Fund, the Minister of Labour will table legislation this year to strengthen its administration, target benefits more effectively and extend coverage.

Compensation funds

Compensation for injury at work

Compensation for injuries, disease or death in the course of employment is currently governed by three Acts falling under the responsibility of the Ministers of Labour, Minerals and Energy, and Health respectively. Government proposes to replace these with a single occupational health and safety statute, under the Minister of Labour's charge.

The compensation funds are financed through assessed contributions by employers and provide cover for medical and hospital costs, compensation for disablement as a result of occupational injuries or disease and survivor benefits in the event of death.

Road Accident Fund

Losses associated with road accidents

Compensation of "third party" victims of motor vehicle accidents has been mandated by statute since 1942. Third party cover was initially financed through annual premiums payable by vehicle owners to insurance companies in a regulated competitive environment. The Road Accident Fund is now a single statutory agency financed through a levy on petrol and diesel fuel. The RAF levies are currently 14,5 cents per litre of petrol and 10,3 cents per litre of diesel fuel. The Fund pays compensation for wrongful loss or damage through road accidents caused by other persons. The Fund covers disability, death, medical costs, funeral expenses, loss of income and general damages for pain and suffering.

Fund runs current surplus, but accumulated actuarial deficit

The Road Accident Fund has recorded a substantial cash flow surplus in recent years. However, its claims process is lengthy and frequently involves two or more years of legal dispute between accidents and settlements. Taking into account potential liabilities from unsettled claims, the Road Accident Fund has an actuarial deficit estimated at R11,1 billion.

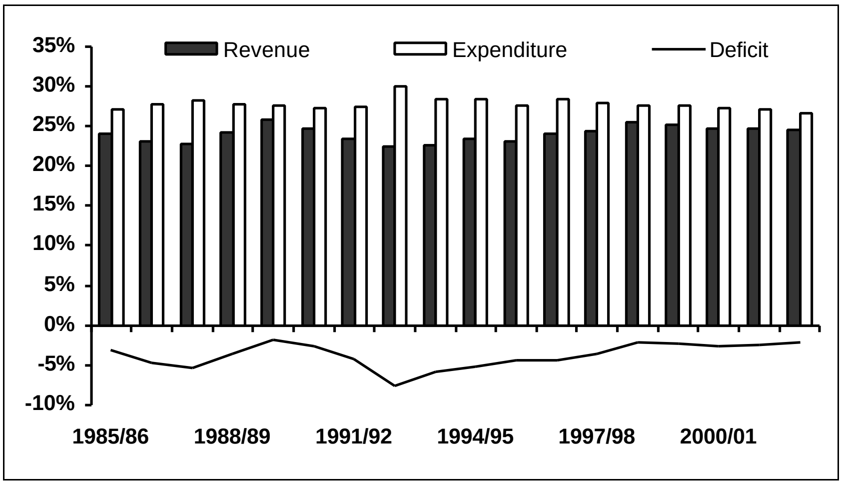
Consolidated general government accounts

Trends in the consolidated national budget

Table 3.1 above provides estimates of revenue, spending and the overall deficit of the consolidated national budget, comprising the National Revenue Fund, foreign grants and technical cooperation and the statutory social security funds.

Figure 3.1 depicted longer term trends in these aggregates relative to GDP. These exclude extraordinary payments and receipts.

Figure 3.1 National revenue, expenditure and deficit, 1985/86–2002/03



Expenditure increased from 27 per cent of GDP in 1985/86 to reach 30 per cent in the early 1990s. National budget revenue fell to 22,4 per cent of GDP in 1992/93, bringing the consolidated national deficit to 7,5 per cent of GDP.

During the second half of the 1990s, expenditure stabilised relative to GDP, while revenue continued to strengthen. The revised budget framework envisages a moderate easing of the tax burden over the next three years, and both revenue and expenditure fall somewhat as a share of GDP.

Figure 3.2 Distribution of national expenditure, 1985/86–2002/03

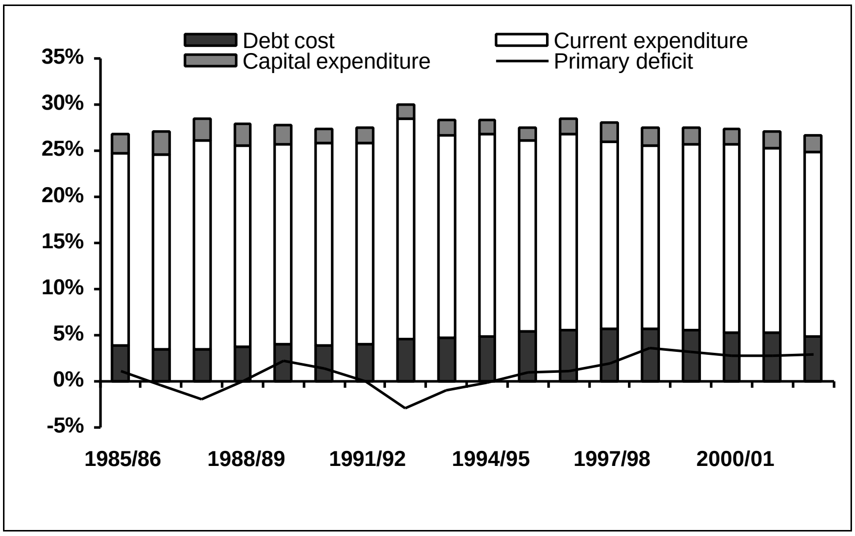


Figure 3.2 illustrates the changing distribution of national budget expenditure. Interest on debt has taken up a rising share of total expenditure, while capital expenditure has declined. The reduction in the budget deficit in the last five years has stabilised the rising interest trend, permitting a recovery of growth in spending on services and

infrastructure. Also shown in Figure 3.2 is the primary surplus (revenue less non-interest expenditure), which has stabilised at about 3 per cent of GDP.

Consolidated national and provincial government

The Medium-term Expenditure Framework outlined in Chapter 6 comprises the national budget and the expenditure plans of the nine provinces. This year social security funds are included in the framework for the first time. Provincial expenditure is financed by the provincial equitable share of national revenue, several conditional grants from the national budget, as well as provincial own revenue. Details are provided in Chapter 7.

Table 3.9 summarises the consolidated national and provincial budget framework and provides estimates of the trend in real non-interest expenditure.

Table 3.9 Consolidated national and provincial revenue and expenditure, 1996/97–2002/03

	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
R million	**Outcome**	**Outcome**	**Outcome**	**Revised estimate**	**Medium-term estimate**		
National revenue[1]	152 079	169 954	191 656	204 200	219 018	236 880	253 910
Provincial own revenue	4 089	3 458	3 374	3 640	3 630	3 896	4 164
Consolidated revenue	**156 168**	**173 412**	**195 031**	**207 840**	**222 647**	**240 776**	**258 074**
Percentage of GDP	*24,6%*	*24,8%*	*25,8%*	*25,7%*	*25,2%*	*25,1%*	*24,9%*
Percentage increase	*16,0%*	*11,0%*	*12,5%*	*6,6%*	*7,1%*	*8,1%*	*7,2%*
Goods and services	97 535	104 455	106 786	113 060	120 761	128 191	135 081
Subsidies and transfers	44 303	46 762	46 480	51 436	58 164	62 555	65 727
Interest	35 158	38 820	42 669	44 483	46 490	49 531	50 997
Current expenditure	176 997	190 037	195 936	208 979	225 414	240 277	251 804
Capital expenditure	10 875	14 520	15 115	14 585	15 662	17 494	18 452
Contingency reserve					2 000	4 000	8 000
Consolidated expenditure[2]	**188 156**	**204 592**	**211 097**	**223 624**	**243 425**	**262 490**	**278 823**
Percentage of GDP	*29,7%*	*29,3%*	*28,0%*	*27,6%*	*27,5%*	*27,4%*	*26,9%*
Percentage increase	*19,2%*	*8,7%*	*3,2%*	*5,9%*	*8,9%*	*7,8%*	*6,2%*
Consolidated non-interest expenditure	**152 998**	**165 772**	**168 428**	**179 141**	**196 935**	**212 959**	**22 826**
Percentage increase	*20,3%*	*8,3%*	*1,6%*	*6,4%*	*9,9%*	*8,1%*	*7,0%*
Real non- interest expenditure[3]	**142 034**	**142 090**	**134 268**	**135 399**	**141 123**	**145 513**	**148 562**
Percentage increase	*11,6%*	*0,0%*	*-5,5%*	*0,8%*	*4,2%*	*3,1%*	*2,1%*
Consolidated deficit(-)	**-31 988**	**-31 180**	**-16 067**	**-15 783**	**-20 778**	**-21 714**	**-20 749**
Percentage of GDP	*-5,0%*	*-4,5%*	*-2,1%*	*-1,9%*	*-2,3%*	*-2,3%*	*-2,0%*
Gross domestic product	*633 787*	*699 292*	*754 729*	*809 700*	*885 200*	*958 200*	*1 036 700*

1. Excluding foreign technical cooperation. Including social security funds.

2. Including transfer to Umsobomvu Fund in 19 99/00. opl

3. Deflated using the GDP deflator to constant 1996/97 prices.

Projected growth in real non-interest spending

Consolidated expenditure grew strongly in 1996/97 as expenditure on new development priorities accelerated and public sector remuneration levels increased markedly. Real non-interest spending subsequently declined up to 1998/99 and is projected to grow by an average of 2,8 per cent a year over the next three years.

The consolidated national and provincial budget deficit has been reduced from an estimated 5,0 per cent of GDP in 1996/97 to 1,9 per cent in 1999/00.

Consolidated general government accounts

General government includes extra-budgetary agencies and local government

In addition to the activities of national and provincial government departments, various government functions are promoted through extra-budgetary agencies, funds and accounts. The consolidated general government comprises national and provincial departments, social security funds, various extra-budgetary institutions and agencies, and local government.

Table 3.10 sets out the 1998/99 revenue and expenditure of the consolidated general government, for each of the three spheres of government and other funds and accounts.

Consolidated general government revenue and grants amounted to R223,1 billion in 1998/99, or 29,6 per cent of GDP, while consolidated expenditure was R240,9 billion. The consolidated general government financing requirement of R16,0 billion was 2,1 per cent of GDP, and well below the average of nearly R30 billion over the past four years.

Declining general government deficit

Figure 3.3 illustrates the trend in general government revenue, expenditure and the resulting deficit since 1991/92, and projections to 2002/03, in constant 1995 prices.

Figure 3.3 Consolidated general government revenue and expenditure

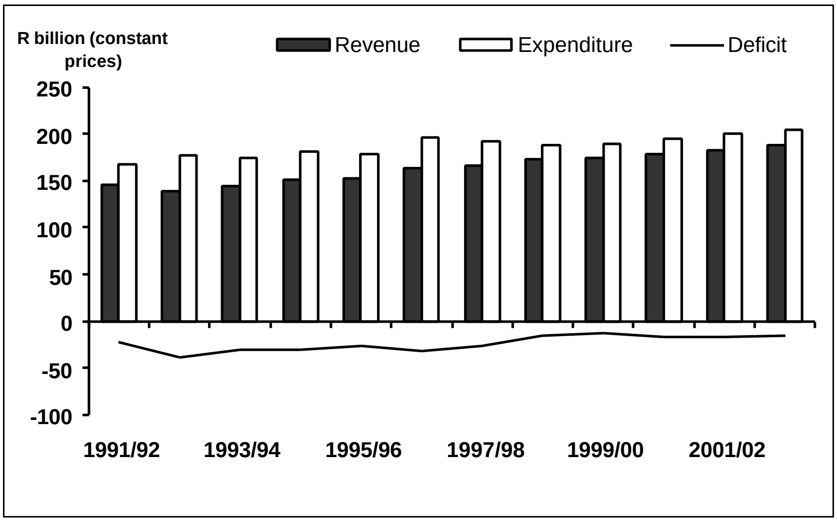


Table 3.10 Consolidated accounts of the general government, 1998/99

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities	Consolidated general government[3]
Tax revenue	179 450	6 217	996	144	9 192	195 999
Non-tax revenue	4 394	1 112	2 344	8 233	9 903	25 986
Total current revenue	183 844	7 329	3 340	8 377	19 095	221 985
Capital revenue	27	–	34	80	488	629
Total revenue	**183 871**	**7 329**	**3 374**	**8 457**	**19 583**	**222 614**
Percentage of total	*82,6%*	*3,3%*	*1,5%*	*3,8%*	*8,8%*	*100%*
Grants received[4]	456	17,2	94 467	10 337	6 510	456,2
Total revenue and grants	**184 328**	**7 346**	**97 841**	**18 794**	**26 093**	**223 071**
Goods and services	37 460	480	68 886	16 014	17 958	140 797
Interest	42 669	73	–	416	1 389	44 547
Subsidies and transfers[5]	114 379	5 336	21 220	624	454	33 262
Current expenditure	194 509	5 889	90 106	17 054	19 801	218 606
Capital expenditure	8 083		6 994	3 164	6 586	22 249
Total expenditure	**202 592**	**5 889**	**97 100**	**20 218**	**26 387**	**240 855**
Net lending	-2 822	–	–	359	694	-1 769
Total expenditure and net lending	**199 748**	**5 889**	**97 100**	**20 577**	**27 081**	**239 064**
Percentage of total	*83,6%*	*2,5%*	*40,6%*	*8,6%*	*11,3%*	*100%*
Financing requirement(-)	**-15 420**	**1 457**	**740**	**-1 783**	**-988**	**-15 993**
Percentage of GDP	*-2,0%*	*0,2%*	*0,1%*	*-0,2%*	*-0,1%*	*-2,1%*

1. *Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the South African Reserve Bank.*
2. *Including universities and technikons.*
3. *Transfers between spheres of government are netted out.*
4. *RDP Fund grants are included in the main budget. Grants received by other spheres are transfers from the main budget or from provinces to local authorities.*
5. *Including subsidies and transfers to other spheres of government.*

General government dissaving

For national accounts purposes, saving by the consolidated general government is defined as current income minus current expenditure, including the surplus/deficit of general government business enterprises, consumption of fixed capital and inventory valuation adjustments. For 1998/99 general government dissaving amounted to R25,1 billion, or 3,0 per cent of GDP.

Public sector borrowing requirement

Sustainable fiscal stance

Government has substantially reduced the overall public sector borrowing requirement (PSBR) since 1996/97. This contributed to lower inflation, a stronger balance of payments and lower borrowing costs for government, the private sector and households.

Consolidated borrowing requirement

The public sector borrowing requirement includes the consolidated general government deficit and the financing requirements of non-financial public enterprises. It takes into account extraordinary expenditure items and the proceeds from the restructuring of state enterprises. Table 3.11 summarises these balances since 1996/97 and provides projections to 2002/03.

Table 3.11 Public sector borrowing requirement, 1996/97–2002/03

R million	1996/97 Outcome	1997/98 Outcome	1998/99 Outcome	1999/00 Revised estimate	2000/01 Medium-term estimate	2001/02	2002/03
Main budget							
Main budget deficit	28 971	26 456	17 206	19 738	23 053	24 078	23 071
Extraordinary payments	–	–	936	1 485	2 200	–	–
Extraordinary receipts	-1 603	-2 947	-2 722	-6 900	-5 000	-6 000	-10 000
Financing requirement	**27 368**	**23 509**	**15 420**	**14 323**	**20 253**	**18 078**	**13 071**
Social security funds	-945	-1 126	-1457	-1 180	-1 270	-1 502	-1 502
Provinces	3 490	5 815	-740	-1 919	-1 004	-855	-558
Extra-budgetary institutions	1 109	1 406	1 783	1 500	2 000	2 000	2 000
Local authorities & local government enterprises	767	801	988	800	1 200	1 400	1 500
General government deficit	**31 789**	**30 405**	**15 993**	**13 523**	**21 179**	**19 121**	**14 510**
Percentage of GDP	5,0%	4,3%	2,1%	1,7%	2,4%	2,0%	1,4%
Non-financial public enterprises[1]	-408	1 132	6 912	1 200	3 000	3 500	4 000
Public sector borrowing requirement	**31 381**	**31 537**	**22 905**	**14 723**	**24 179**	**22 621**	**18 510**
Percentage of GDP	5,0%	4,5%	3,0%	1,8%	2,7%	2,4%	1,8%
Gross domestic product	*633 787*	*699 292*	*754 729*	*809 700*	*885 200*	*958 200*	*1 036 700*

1. Due to classification and timing differences, these estimates do not correspond fully with the Reserve Bank's estimates of the public sector borrowing requirement.

2. Public corporations and central government enterprises.

Extraordinary payments and receipts

The net borrowing requirement of the National Revenue Fund is affected by extraordinary payments and receipts from the restructuring of state assets and liabilities. Extraordinary receipts in 1999/00 amount to R6,9 billion, mainly associated with the conversion of the South African Special Risks Insurance Association (Sasria) into a public entity.

Debt take-over and state asset restructuring proceeds

Anticipated extraordinary additions to government debt amount to R1,5 billion in 1990/00 and R2,2 billion in 2000/01. In 1999/00, a stock issue of R152 million was made to the Closed Pension Fund, to settle an obligation relating to the pensions of former political office-bearers. In addition, Government is assuming a share of the pension-related debt of Transnet, thereby facilitating the partial privatisation of South African Airways. Loan liabilities of some R2,2 billion will be taken over from the South African Rail Commuter Corporation in 2000/01, and it will no longer exercise borrowing powers on its own account. After R5,0 billion in projected receipts from the restructuring of state assets, the net borrowing requirement of the main budget is expected to amount to R20,3 billion in 2000/01, or 2,3 per cent of GDP.

Deficit estimates exclude provision for forward cover losses

These estimates do not include provision for the losses incurred by the Reserve Bank as a result of foreign exchange forward market operations since 1997. In the financial turbulence of 1998/99, losses amounting to some R14,4 billion or 1,9 per cent of GDP, were recorded on the Gold and Foreign Exchange Contingency Reserve Account. It is expected that this balance will have fallen to R10,2 billion by the end of March 2000. These are government liabilities although not yet incorporated into loan debt.

Increased borrowing by public enterprises

In 1998/99 public corporations and central government enterprises recorded a deficit of an estimated R6,9 billion to cover both operating losses and investment requirements. This includes the borrowing of Eskom, Telkom and the Transnet group of companies to purchase new aircraft and telecommunications equipment, among other significant investment initiatives. Borrowing by public enterprises is expected to be considerably lower in 1999/00, and to increase to between R3,0 billion and R4,0 billion a year in 2000/01 and beyond.

PSBR of 2,8% of GDP in 2000/01

The proceeds of state asset restructuring contribute significantly to reducing the net borrowing requirement. The 1999/00 PSBR is expected to fall to R14,7 billion, or 1,8 per cent of GDP. The PSBR is projected to be 2,7 per cent of GDP in 2000/01, falling to 1,8 per cent in 2002/03.

Transforming public finances

Structural transformation of the public finances

Since 1994, several major reforms have been undertaken in the structure and organisation of South Africa’s public finances:

- The introduction of a 3-year medium-term expenditure framework has brought greater certainty to the budget process and strengthened the links between policy priorities and the government’s longer term spending plans.
- Budgetary and financial cooperation between the national, provincial and local spheres is now overseen by the statutory Budget Council, the Budget Forum and several supporting technical committees. The Financial and Fiscal Commission plays an important independent role in reviewing and advising on intergovernmental financial relations.
- Following the creation of the SA Revenue Service as an autonomous agency, tax administration has been transformed, information systems modernised and audit and debt recovery capacity strengthening.
- Public enterprises have benefited from new leadership, focused service delivery commitments and renewed investment, including a restructuring programme involved strategic investment partners or private sector ownership. The restructuring of state assets will gain momentum over the medium term, involving both improved corporate governance and further private investment.
- Debt management has been put on a sounder footing, in part through the introduction of auction marketing arrangements for government securities and several successful foreign bond issues.

- The Public Finance Management Act was passed by Parliament in 1999, laying a new foundation for financial accountability in the public sector.

Over the next decade and beyond, South Africa's public finances will change shape as these initiatives take effect and as government responds to new challenges. Some aspects of this transformation are outlined below.

Public Finance Management Act

Last year, Parliament passed the Public Finance Management Act (PFMA), which sets out a framework for modernising the financial management of national and provincial departments, government agencies and public enterprises.

The PFMA's aims

The Act will enable managers to manage – but will hold them accountable. It will require more timely provision of reliable financial information, and help eliminate waste and corruption.

The Act emphasises:

- regular financial reporting
- healthy internal controls of expenditure
- independent audit and supervision of control systems
- improved accounting standards and training of financial managers
- greater emphasis on outputs and performance, backed by…
- …increased accountability at all levels.

Implementation of the PFMA

Much work on implementation has already been done. Updated treasury instructions will be phased in this year, providing a framework of agreed principles and accounting requirements to guide financial and other managers. While the old regulations emphasised procedural compliance, the PFMA aims to promote accountability for service delivery.

Phased implementation and systems development

The Act comes into effect when the new financial year begins on 1 April 2000. However, some of its provisions will be phased in later, and financial training and systems development are long-term projects.

A high-level committee of key Directors-General will oversee the implementation process. It will be advised by a reference group that includes representation from Parliament's Finance and Public Accounts committees, and from the wider financial community, including the Auditor-General and private sector accountants.

Empowering accounting officers and managers

The Act includes strong provisions against mismanagement of public money and assets. But initially the main emphasis will be on empowering departments, not on taking punitive action. The goal is to transform and modernise public finance management as quickly as possible, deliver better value for money and improve public services.

Pilot departments

The Treasury will work closely with several national and provincial departments to implement pilot programmes to ensure the best possible structures, systems and training. The lessons learnt over six to 12 months will be disseminated to other departments to facilitate the implementation of the Act in these departments.

Chief Financial Officers

Pilot departments will each appoint a chief financial officer with a role similar to that of a finance director in a private sector company. Reporting directly to the Director-General, the officer will be responsible for the department's financial management, financial controls and budgeting. Chief financial officers in larger departments will be chartered accountants with appropriate experience. Over time, all departments will be required to have chief financial officers in their top management teams.

Budgeting for personnel costs

Change in budgeting for salary increases

This year, Government will change the way it budgets for salary increases to improve comparability across time and encourage increased focus on personnel costs. Previously, Government budgeted separately for increases in basic salaries for public servants, in an Improvements in Conditions of Service (ICS) vote. Once salary negotiations were concluded, this amount was distributed to provinces and departments in the Adjustments Estimate.

In the context of enhanced departmental accountability, the medium-term expenditure framework and more predictable inflation, this approach is no longer appropriate. It had several disadvantages:

- Budgetary transparency was undermined as the full costs of delivering services were not reflected in the expenditure estimates.
- Budget estimates could not properly be compared with past expenditure as personnel costs were not fully reflected in the estimates taken to Parliament.
- The responsibility of departmental managers to take full account of personnel spending was weakened.
- The ICS vote unduly constrained the collective bargaining process, putting the focus on the distribution of a set amount rather than on the broader structure of remuneration and personnel development.

Departments to budget for full cost of personnel

In the 2000 Budget, departmental and provincial allocations include the full costs of personnel, including provision for annual inflation-related salary adjustments. In preparing their expenditure estimates, departments must take into account improvements in conditions of service, in addition to other factors affecting personnel expenditure. These include changes in staff numbers, overtime pay, promotions, merit or other performance-related payments and increased take-up of other benefits such as the home owners' allowance and subsidisation of medical scheme membership.

Change in budgeting

This change in budgeting significantly improves the consistency and completeness of the *Estimates of Expenditure.* It enhances the role of departmental accounting officers in managing personnel costs, and in supporting Government's mandating team in the public service collective bargaining process.

The Public Service Coordinating Bargaining Chamber will remain the central forum for negotiating conditions of service for the national and provincial public service.

Public-private partnerships

The Government has adopted a strategic framework for delivering some public services through innovative public-private partnerships (PPPs). This will improve service delivery to the public by transferring to private contractors the risks which they are better placed to manage. For example, a PPP for a building would transfer to the private sector the risk that construction might not be completed on time. This approach creates strong incentives and helps to ensure that public money is well spent on delivering public services.

Bringing private finance and risk-taking into public service delivery

A public-private partnership involves a contractual arrangement between a government department or agency and a private sector partner. The private sector partner agrees to provide the government with agreed services or administrative functions, and also assumes the associated risks.

The partnership can be funded from service tariffs or user charges, a departmental budget, or through a combination of the two. Whatever the method of payment, it is contractually linked to agreed service delivery standards.

PPPs reward performance

The benefits of public-private partnerships lie in connecting payment to the private sector partner to its performance. The private partner has a strong incentive to manage the project well, which ensures that Government and users do not pay for under-performance.

Operationally, partnerships can provide efficiency gains and more customer-oriented services. It can also enhance the department’s focus and accountability by identifying a project’s key deliverables and performance measures.

A good partnership will:

- for departments, be affordable, and viable, and contribute to departmental objectives
- for users, result in accessible, affordable services that meet acceptable quality standards
- for private sector partners, adequately reward the risks undertaken
- for society, promote goals such as social quality, economic empowerment, efficient utilisation of scare resources and protection of the environment.

PPPs in progress

Current public-private partnership transactions include two new prisons to be built in terms of asset procurement and operating partnership (APOP) contracts, the reconstruction of the N4 road linking Gauteng and Maputo, and the further development of the N3 national road between Heidelburg and Cedara.

A strategic framework for PPPs

The strategic framework Government has adopted will support national and provincial government departments in identifying, procuring and implementing PPPs. (The Municipal Service Partnerships Policy has a similar role for local government.) Treasury regulations will be promulgated to provide a proper framework in which a wide variety of PPPs can be developed.

A Public-Private Partnerships Unit will be established in the Treasury to take this work forward and to provide support to departments as they develop PPP projects. It will also ensure that the PPPs which are developed are affordable and soundly structured.

International financial relations

SADC cooperation on finance and investment

Substantial challenges lie ahead in the regional and international financial environment. Since assuming responsibility for coordinating the SADC Finance and Investment Sector in 1995, the Department of Finance has provided leadership through chairing of the Ministerial Committee and the Committee of Senior Treasury Officials. Through the auspices of the SADC Finance and Investment Sector Coordinating Unit (FISCU), the Department has also played an important role in various sectoral initiatives, including the development of a SADC Finance and Investment Protocol. The primary focus areas of the protocol are investment, development finance, macro-economic convergence and central banking.

The Department of Finance has also taken the lead in SADC cooperation in tax policy and administration, which is increasingly important for sustained industrial and trade development. Other areas receiving attention include the highly indebted poor countries (HIPC) initiative, commercial banking, adherence to international accounting and auditing standards and the development and interaction of stock exchanges within the SADC region.

Revised SA Customs Union agreement under discussion

The Southern African Customs Union is currently South Africa's most significant regional partnership. It provides for substantial fiscal transfers to Botswana, Lesotho, Swaziland and Namibia out of a common revenue pool. The South African government is currently negotiating with its partners in the Customs Union for a revised, fair arrangement for the allocation of customs and excise duties within the union. These negotiations focus on allocation of excise duties and customs revenue, the consideration of a development component, the implementation date for a new revenue sharing arrangement, the administration of the pool and transitional arrangements. All efforts are being made to conclude negotiations on institutional and policy arrangements during the course of 2000.

Relations with the African Development Bank

In 1996, the African Development Bank, in consultation with South Africa, prepared the first Country Strategy Paper for South Africa. The lending strategy focuses on three sectors – provincial and municipal infrastructure, medium scale enterprises in the private sector and multinational projects for the promotion of regional integration. During the course of 2000 the strategy will be reviewed, taking into account South Africa's development priorities. South Africa is a contributor to the Bank's African Development Fund, through with resources are made available to the poorest countries in Africa on highly favourable terms.

Increased participation in multilateral financial relations

Within the wider international community, South Africa continues to promote more robust dialogue between industrial and developing nations. The Ministry of Finance has participated actively in the formation in September 1999 of the G20, comprising both the leading industrial countries and major emerging economies, as a new forum for consultation on international financial and economic developments. The G-20 will complement the debate within the principal committees and consultative forums of the International Monetary Fund and the World Bank. It will also focus on new issues and challenges to the international financial environment in the 21st century.