

## Medium term expenditure estimates

*Expenditure on public services in real terms grows by 3,8 per cent a year over the next three years.*

*Over the 2001 MTEF substantial additional funds are allocated:*

- *R16 billion to provinces to strengthen social service delivery and other priority areas*
- *More than R4 billion to the justice system to increase personnel, buy vehicles and improve the salary dispensation of police*
- *R7,8 billion for new infrastructure, infrastructure maintenance and rehabilitation required in response to recent disasters*
- *More than R2 billion to key administrative services, including Foreign Affairs and the South African Revenue Services*
- *R2,6 billion to support local government and assist in restructuring.*

### Introduction

The 2001 Budget seeks to ensure that improvements in economic performance and social welfare flow from increased and better allocated expenditure.

*The budget aims to improve economic performance*

Reforms to the budget process currently underway focus on extending the scope and quality of information available for review of spending plans and options. This chapter draws on the work of the National Treasury and other departments and of provincial treasuries in monitoring spending trends, examining policy options and understanding budgetary implications. More details are provided in the *Estimate of National Expenditure* and provincial budget statements.

This chapter sets out the basic objectives of public expenditure. It outlines total expenditure and the allocation of additional funds. It summarises consolidated national and provincial expenditure, specifically the sectoral (or functional) composition of consolidated expenditure and expenditure on the inputs used in the production of public services (the economic classification of expenditure).

## **Basic objectives of public expenditure in South Africa**

*Competing needs* In formulating spending plans for the 2001 MTEF, Government has sought to ensure that expenditure is effective and sustainable by balancing as many of the competing resource needs as possible within the budget constraints determined by the economic environment and by macroeconomic policies.

*Core priorities and spending plans* Government seeks to ensure that all public expenditure advances the process of social transformation. Public spending plans revolve around the achievement of a number of broad policy objectives:

- Economic growth
- Job creation
- Equity and social development
- Strengthening the safety and justice sector.

### **Economic growth and job creation**

*Sound macroeconomic policy* Economic growth and creating employment require an appropriate set of sustainable and predictable macroeconomic policies. As described in Chapter 2, Government has adopted a policy framework aimed at improving competitiveness, reducing inflation and creating a more favourable investment environment.

*Institution building* Government has also sought to improve South Africa's economic performance by strengthening the public institutions and policy frameworks essential to the functioning of commerce and industry. This has been reinforced by the adoption of policies to encourage and support investment, particularly in the small business sector and policies that promote competition within the domestic market and that lead to enhanced productivity.

*Investment in infrastructure* In the 2001 MTEF, Government targets investment in, and the maintenance of, infrastructure, in order to reinforce the foundations on which sustainable growth is built. The purpose of infrastructure investment is to lower the costs of production, transportation, and communication and to enhance competitiveness. In implementing this investment programme, Government will also contribute directly to the creation of jobs.

*Human capital* In reinforcing longer-term growth, Government's focus is on human development, with significant resources being channelled into education and training, while also seeking to ensure that the quality of spending on the development of human capital is enhanced. Skills development will gain momentum this year as new learnership programmes are introduced and the skills strategy takes root.

### **Reducing inequality and promoting social development**

*Income support and redistribution* The largest single redistributive programme in Government is the system of social grants delivered by provincial welfare departments. These grants, including the old age, disability and child support grants, provide income support to more than 3 million South Africans

every month. These significantly reduce the impact of poverty among people living in rural areas.

In addition to these programmes, Government provides R1,5 billion per year for a range of policy relief programmes.

*Income generation projects*

Government's land redistribution and agricultural policies are also designed to ensure that rural poverty is reduced by providing access to land, investing in rural infrastructure and broadening access to markets.

*Land reform and agriculture*

Poverty reduction priorities are also evident in the provision of resources to subsidise basic services. The provision of funds for low cost housing and the subsidisation of public transport reduce the cost of these important components of household expenditure. Government is designing and implementing appropriate pricing policies for basic services which will see poor households receiving some municipal services free of charge.

*Subsidies on basic services*

Spending on public education and health services is strongly redistributive. Over the next three years investments in schools, clinics and hospitals will be strengthened and early childhood learning programmes will be prioritised.

*Human capital and poverty relief*

### **Strengthening safety and justice**

The services of the integrated justice sector (Police, Justice and Correctional Services) are critical to the quality of life of South Africans. These services include the prevention and investigation of crime, and the prosecution, punishment and rehabilitation of criminals.

*Integrated justice sector*

Raising spending capacity and improving its quality in the justice system are areas of critical concern. To the extent that crime is also a deterrent to increased investment, spending additional resources should also raise the growth and employment prospects of the economy. In addition, since crime, particularly violent crime, tends to impact disproportionately on poorer people, improving policing, justice and prisons should reduce the vulnerability of the poor.

*Fighting crime and government aims*

### **The prioritisation process**

In recent years substantial progress has been made in reforming the budget process. The objectives of this have been to:

*Objectives of budget reform*

- Enhance political oversight of the process
- Increase the link between government priorities and spending plans
- Help meet Government's service delivery objectives.

Cabinet, supported by the Ministers' Committee on the Budget (Mincombud) and the Budget Council, play a leading role in guiding the alignment of resource allocation with national priorities.

*Political oversight of budget process*

The budget process is also supported by the work of the Financial and Fiscal Commission, the advice of which plays an important role in the

*FFC recommendation n division of revenue*

final division of resources between spheres of government, as well as between the nine provinces.

*Reform of budget documentation*

Documentation reform has also strengthened the process of making expenditure decisions. Not only is more information put in the public domain, but the nature of information is also changing with an increased focus on outputs. In the 2001 Budget the *Estimates of National Expenditure*, which combines the information and analysis previously contained in the *Estimates of Expenditure* and *National Expenditure Survey*, provides information on policy developments, expenditure trends and the links between the two. The documents will assist Parliament and civil society in evaluating and debating expenditure plans.

### **Total expenditure trends**

*Strong real growth in spending over 2001 MTEF*

The new MTEF projects strong real growth in non-interest expenditure of 3,8 per cent per year over the next three years.

### **Revised estimates of main budget expenditure, 1999/00 and 2000/01**

*Downward adjustment of final 1999/00 spending*

As shown in Table 6.1, the February 2000 revised estimate of main budget expenditure for 1999/00 was R216,0 billion, about 1 per cent above the original budget estimate. The preliminary outcome for the year is R214,8 billion, 0,4 per cent above the budget estimate. Excluding the R855 million transfer to the Umsobomvu Fund, additional spending on national votes (R1,5 billion) and provincial shares (R0,3 billion) was offset by savings of R1,8 billion on state debt cost.

*2000/01 spending slightly up on budget*

The revised estimate of expenditure in 2001/02 is R235,0 billion, 0,7 per cent above the budget estimate and 9,5 per cent more than 1999/00 spending. The main adjustments to the original budget are the following:

- Rollovers of R2,1 billion from the previous year
- Additional allocations to provinces of R1,2 billion, including R595 million for flood-damage repairs
- A further R100 million in support for local government
- Provision for salary increases and fuel costs related to higher than anticipated inflation (R820 million)
- Provision for bringing forward the date of paying of bonuses for those with birthdays during January to March (R975 million)
- Treasury Committee allocations to national departments for unforeseeable and unavoidable expenditure amounting to about R1,0 billion, of which the largest allocations went to Home Affairs for the Independent Electoral Commission, to Water Affairs and Forestry for flood damage repairs and to Foreign Affairs to compensate for the unanticipated depreciation of the rand.

At this stage, departmental savings of R1,7 billion are anticipated in 2001/02, state debt costs are expected to be R304 million less than

budgeted and disbursements of skills development funds will be R430 million below the budget estimate.

**Table 6.1 Preliminary 1999/00 expenditure outcome and 2000/01 revised estimate**

R million	Budget	1999/00		2000/01	
		Revised estimate	Preliminary outcome	Budget	Revised estimate
<b>Statutory and standing appropriations</b>					
State debt cost	46 112	44 483	44 290	46 490	46 186
Provincial equitable shares	86 302	86 302	86 595	94 408	94 408
Skills development funds	–	–	–	1 400	970
Transfer to Umsobomvu Fund		855	855		
Other statutory amounts	247	247	281	267	283
Standing appropriations	50	60	43	80	64
<b>Total</b>	<b>132 711</b>	<b>131 947</b>	<b>132 064</b>	<b>142 645</b>	<b>141 911</b>
<b>Appropriated by vote</b>					
Printed estimate	76 058	79 058	86 433	88 185	88 708
Supplementary allocations	4 051	1 051		622	
Contingency reserve	1 100			2 000	
<b>Adjustments</b>					
Approved rollovers from previous year		2 647			2 077
Additional transfers to provinces		1 489			1 195
Local government allocations		203			100
Supplementary improvements in conditions of service		250			820
Jan-Mar 13 <sup>th</sup> cheques					975
Other Treasury Committee adjustments		1 485			992
<i>Defence</i>					85
<i>Education</i>					85
<i>Foreign Affairs</i>					111
<i>Home Affairs</i>					337
<i>Social Development</i>					50
<i>Transport</i>					41
<i>Water Affairs and Forestry</i>					157
<i>Other votes</i>					126
Departmental savings		-2 090	-3 747		-1 730
<b>Total</b>	<b>81 209</b>	<b>84 093</b>	<b>82 686</b>	<b>90 807</b>	<b>93 137</b>
<b>Estimated total expenditure</b>	<b>213 920</b>	<b>216 040</b>	<b>214 750</b>	<b>233 452</b>	<b>235 048</b>
<i>Percentage increase over Budget</i>			0,4%		0,7%
<i>Percentage increase over 1999/00</i>					9,5%

### Main budget expenditure from 2001/02 to 2003/04

Main budget expenditure for 2001/02 is expected to be R258,3 billion, an increase of 9,9 per cent on the revised expenditure for 2000/01. This includes the contingency reserve of R2 billion, standing appropriations of R300 million and amounts still to be allocated to departments of R1,8 billion.

*Nearly 4 per cent real spending growth in 2001/02*

Table 6.2 sets out projected budget trends for the 2001 MTEF.

**Table 6.2 National expenditure – 1999/00 – 2003/04**

R million	1999/00	2000/01	2001/02	2002/03	2003/04	
	Outcome	Budget	Revised	Medium-term estimates		
<b>Main budget</b>						
<b>National equitable share</b>						
National departments	66 111	75 132	74 350	83 986	89 889	95 375
Grants to provinces <sup>1</sup>	12 437	11 629	12 551	13 251	14 004	15 006
Grants to local government	2 243	1 383	3 382	3 888	4 153	4 298
Standing appropriations	43	80	64	300	65	57
	<b>80 834</b>	<b>88 224</b>	<b>90 347</b>	<b>101 425</b>	<b>108 110</b>	<b>114 736</b>
<b>Provincial equitable share</b>	<b>86 595</b>	<b>94 408</b>	<b>96 186</b>	<b>104 136</b>	<b>112 560</b>	<b>120 215</b>
<b>Local government equitable share</b>	<b>2 176</b>	<b>2 330</b>	<b>2 330</b>	<b>2 618</b>	<b>3 002</b>	<b>3 551</b>
<b>Allocated expenditure</b>	<b>169 605</b>	<b>184 962</b>	<b>188 863</b>	<b>208 180</b>	<b>223 672</b>	<b>238 502</b>
Transfer to Umsobomvu Fund	855					
Interest on debt	44 290	46 490	46 186	48 138	49 651	51 022
Contingency reserve		2 000		2 000	4 000	8 000
<b>Main budget expenditure</b>	<b>214 750</b>	<b>233 452</b>	<b>235 048</b>	<b>258 318</b>	<b>277 323</b>	<b>297 524</b>
<i>Percentage change</i>			9,5%	9,9%	7,4%	7,3%

<sup>1</sup> Including transfers to the National Housing Fund

*Strong growth over MTEF*

From R258,3 billion in 2001/02, main budget expenditure is expected to increase to R277,3 billion in 2002/03 and R297,5 billion in 2003/04. This provides for an average annual growth of 8,2 per cent per year.

*Real growth positive for all spheres*

Of the different components of main budget expenditure, allocations to local government, and for skills development grow at high rates but from low bases. The national and provincial equitable shares grow more moderately but increase significantly in real terms over the period.

### **Additional allocations**

*Additional money to allocate in MTEF process*

During the budget process money above that projected in the previous budget may be allocated. Under certain circumstances, it may be necessary to reduce budget projections. However, this year additional allocations have been made.

*“New” resources allocated in terms of current priorities*

The need to allocate resources that were previously not available for allocation between the different spheres of government and between departments creates to further refine Government’s spending priorities and to ensure that the allocation of resources is optimal.

Table 6.3 National budget expenditure, 1997/98–2003/04

R million	Outcome			Revised estimate 2000/01	Medium-term estimates		
	1997/98	1998/99	1999/00		2001/02	2002/03	2003/04
<b>Central Government Administration</b>							
Presidency	53	67	76	81	91	99	105
Parliament	332	351	345	422	423	446	470
Foreign Affairs	1 148	1 307	1 377	1 496	1 661	1 572	1 617
Home Affairs	534	1 190	1 316	1 702	1 053	1 022	1 373
Provincial and Local Government	1 249	1 109	1 126	1 413	1 661	1 867	1 976
<b>Financial and Administrative Services</b>							
Government Communication	36	49	60	61	120	127	132
Information System							
National Treasury	6 191	8 465	9 255	9 161	10 076	10 305	10 618
Public Enterprises	44	27	36	37	130	55	58
Public Service and Administration	53	56	156	88	91	72	78
Public Service Commission	24	19	34	45	53	55	58
SA Management Development Institute	12	25	14	19	19	20	21
Statistics SA	175	95	101	197	494	256	223
<b>Social Services</b>							
Arts, Culture, Science and Technology	672	799	858	985	1 120	1 219	1 313
Education	5 975	6 470	7 112	7 635	8 209	8 556	9 043
Health	513	5 119	5 859	6 551	6 611	6 768	7 088
Housing	4 520	3 748	3 494	3 433	3 718	3 944	4 078
Social Development	145	97	400	379	191	234	198
Sport and Recreation	118	86	128	69	102	155	197
<b>Justice and Protection services</b>							
Correctional Services	3 942	5 036	5 145	5 672	6 172	6 847	7 277
Defence	11 180	10 561	10 717	13 803	15 803	16 835	17 898
Independent Complaints Directorate	14	21	24	25	27	28	30
Justice & Constitutional Development	2 210	2 439	2 793	3 012	3 694	4 027	3 966
Safety and Security	12 844	13 935	14 573	15 727	17 132	18 311	19 253
<b>Economic Services and Infrastructure development</b>							
Agriculture	978	737	676	775	775	819	918
Communications	464	842	767	483	487	443	465
Environmental Affairs and Tourism	397	414	506	757	982	1 049	1 160
Labour	634	730	866	1 677	3 602	3 868	4 123
Land Affairs	417	723	685	895	851	933	1 017
Minerals and Energy	825	672	611	604	1 206	1 463	1 224
Public Works	2 797	2 869	3 159	3 707	3 522	3 716	4 000
Trade and Industry	2 470	1 914	1 827	2 116	2 215	2 465	2 626
Transport	3 604	3 553	4 062	4 152	4 650	4 995	5 290
Water Affairs and Forestry	2 820	2 865	2 676	3 168	3 279	3 106	3 309
<b>Subtotal: National votes</b>	<b>67 390</b>	<b>76 388</b>	<b>80 834</b>	<b>90 347</b>	<b>100 220</b>	<b>105 677</b>	<b>111 202</b>
<i>Plus: Amounts still to be allocated</i>					1 205	2 433	3 534
<b>Votes &amp; statutory amounts</b>	<b>67 390</b>	<b>76 388</b>	<b>80 834</b>	<b>90 347</b>	<b>101 425</b>	<b>108 110</b>	<b>114 736</b>
<i>Plus:</i>							
Contingency reserve					2 000,0	4 000,0	8 000,0
Umsobomvu Fund			855,0				
Interest on debt	38 820	42 669	44 290	46 186	48 138	49 651	51 022
Provincial equitable share	81 883	81 542	86 595	96 186	104 136	112 560	120 215
Local government equitable share	1 854	1 975	2 176	2 330	2 618	3 002	3 551
Recoveries from pension fund		(1 158,0)					
<b>National expenditure</b>	<b>189 947</b>	<b>201 416</b>	<b>214 750</b>	<b>235 048</b>	<b>258 318</b>	<b>277 323</b>	<b>297 524</b>

Table 6.3 indicates how the revenue available at the national level has been allocated to departments for the next three years. The discussion below focuses on changes to the 2000 Budget baseline allocations.

*Source of additional allocations and use*

*Additional amount available for 2001/02 to 2003/04*

Between the publication of the 2000 Budget and the finalisation of the 2001 MTEF, a number of changes have been made to the macroeconomic projections underpinning the original estimates of the level of resources available for 2001/02 and 2002/03. These have resulted in additional resources available for allocation. Table 6.4 sets out a summary of the amounts available.

*Sources of additional money*

These additional resources are made up of the funds released by the drawdown of the baseline contingency reserve, higher growth and inflation projections and a reduction in the projected costs of servicing public debt.

*Inflation and policy adjustment*

As some of the additional resources derive from higher inflation projections, some allocations have been made to all departments in order to maintain the real value of their baseline allocations. The rest of the resources are available to increase spending on service delivery and policy changes. Table 6.4 therefore distinguishes between the allocation of funds to departments based on “policy changes” (which reflect the relative priorities of spending needs) and those made to offset the impact of higher inflation (the “inflation adjustment”).

*“Baseline” for 2003/04*

For budget planning purposes, the baseline for 2003/04 allowed for growth in all budgets by 4,5 per cent relative to the previous year.

**Table 6.4 Additional allocations available for the 2001 MTEF**

R million	2001/02	2002/03	2003/04 <sup>1</sup>
<b>Inflation adjustment</b>			
<i>National</i>	1 352	1 605	2 066
<i>Provincial</i>	1 421	1 999	2 303
<i>Local</i>	69	105	130
<b>Sub-total</b>	<b>2 842</b>	<b>3 709</b>	<b>4 499</b>
<b>Policy and other changes</b>			
<i>National<sup>2</sup></i>	2 520	3 504	4 529
<i>Provincial</i>	2 625	5 394	7 892
<i>Local</i>	444	857	1 265
<b>Sub-total</b>	<b>5 589</b>	<b>9 755</b>	<b>13 686</b>
<b>Infrastructure and flood damage allocations</b>			
<i>National</i>	700	883	1 220
<i>Provincial</i>	1 100	1 650	2 200
<i>Local</i>	–	–	–
<b>Sub-total</b>	<b>1 800</b>	<b>2 533</b>	<b>3 420</b>
<b>Total</b>			
<i>National</i>	4 572	5 992	7 815
<i>Provincial</i>	5 146	9 043	12 395
<i>Local</i>	513	962	1 395
<b>Total</b>	<b>10 231</b>	<b>15 997</b>	<b>21 605</b>

<sup>1</sup> The assumed baseline is equal to 2002/03 baseline plus 4,5 per cent

<sup>2</sup> Includes R600 million a year on the budget of the Department of Mineral and Energy Affairs relating to the restructuring of the funding of electrification.

As is evident from table 6.4, a total of R10,2 billion, R16,0 billion and R21,6 billion was available for allocation in the 2001 MTEF, above the previously-published baselines and the growth trend assumed for planning purposes. Of this, 23 per cent was allocated to offset the impact of the higher inflation projections, with the remainder allocated for policy-related changes.

*Additional allocations amount to R10,2 billion, R16,0 billion and R21,6 billion*

The additional allocations include an amount of R600 million per year for electrification. This does not reflect additional or new spending but rather a change in financing source as Eskom previously funded this programme. As Eskom starts to pay dividends and tax to Government in 2001/02, this programme will be financed on the national budget.

*R1,8 billion electrification funding shift*

#### *Allocations to the different spheres*

The national, provincial and local spheres of Government provide different services, so that the allocation of resources between the spheres also reflects the prioritisation of different services.

Because provinces spend roughly 85 per cent of their funds on the social services (education, health and welfare) increased allocations to provinces reflect an intention to strengthen these services. These funds will, however, also be used to fund other sectors (such as transport infrastructure) on which spending has not been adequate in recent years.

Despite differences between the individual years, over the course of the 2001 MTEF, the division of the new allocations between the three spheres of Government sees the national sphere receive 38 per cent, the provincial sphere 56 per cent and the local sphere 6 per cent.

*56 % of all new allocations go to provinces*

Within the categories of new spending, the inflation adjustments are somewhat biased towards the national sphere, reflecting the greater impact of exchange rate movements on the budgets of national departments. The division of the dedicated infrastructure allocation, which includes monies for repairing flood-related damage to infrastructure, on the other hand, is heavily biased towards the provincial sphere, which will receive 64 per cent of all these funds.

*Policy and infrastructure allocations favour provinces*

#### *Supplementary infrastructure allocations*

Supplementary amounts of R7,8 billion are set aside for infrastructure investment and maintenance and rehabilitation of flood-damaged facilities over the next three years. These allocations will largely go to provinces, and will significantly boost spending on social and economic infrastructure in rural areas and historically neglected communities.

Allocations to provinces for repairs to flood-damaged roads, bridges and other facilities amount to R1,5 billion over the MTEF period and are included as a conditional grant programme on the Treasury vote. A total of R300 million is available for flood-related expenditure of national departments, of which R115 million is included in the Water Affairs and Forestry vote in 2001/02 for repair of bulk water systems.

*Repairs to flood-damaged facilities*

Amounts of R85 million in 2001/02 and R100 million in 2002/03 have yet to be allocated.

*Allocation for provincial infrastructure*

Of the R6,3 billion available over the next three years for supplementary infrastructure projects, R3,75 billion will go to provinces on a 2:1 “matching grant” basis – that is, the grants will contribute two-thirds of project spending. Cabinet has agreed to the following indicative allocations:

- Provincial road construction and maintenance – R1,5 billion
- School building (provincial) – R1,5 billion
- Health facilities (provincial) – R510 million
- Rural development projects (provincial) – R240 million.

*National department projects*

Preliminary infrastructure allocations to national departments over the MTEF period include:

- Rural water supply and sanitation projects – R580 million
- Refurbishment of SA Rail Commuter Corporation rolling stock – R100 million
- Completion of the Lubombo road by the SA National Roads Agency – R50 million
- Support for development of emergency call centres by the Communications Department – R80 million
- Infrastructure investment in support of industrial development – R390 million
- Construction, rehabilitation and maintenance of police stations, courts and prisons – R863 million.

The supplementary infrastructure allocations are not included in the Appropriation Bill or *Estimates of National Expenditure* at this stage. It is anticipated that expenditure over the first year of the programme will include about R500 million on provincial projects and R500 million by national departments. Allocations for the 2001/02 year will be included in the Adjustments Estimate later in the year.

*Allocations to the national sphere*

Table 6.5 reflects the additional allocations made to the various national departments in order to effect policy changes, increase expenditure on existing programmes or implement new spending programmes. As with table 6.4 above, the additional allocation amounts are calculated on the assumption that the budgets for 2003/04 will have grown by 4,5 per cent above the baseline allocations for 2002/03.

*Justice system receives bulk of new allocations*

About 43 per cent of the additional allocations to national departments go to the justice and protection cluster, with Safety and Security, Justice and Constitutional Development and Correctional Services receiving 38 per cent. These figures may rise when the allocation of the infrastructure money is made.

*Large increases to economic cluster*

Economic services and infrastructure development are allocated the second largest share of additional allocations, of which 24 per cent goes to the Department of Mineral and Energy Affairs. This reflects a

change in the funding of electrification following the transformation of Eskom's tax-paying status.

Financial and administrative services receive 15 per cent of the new allocations, with most of this (11,5 per cent) being allocated to the National Treasury. This will largely be used to improve the administration of the tax system in South Africa.

*SARS receives allocations to improve tax administration*

The central government administration departments receive 11 per cent of the new allocations, with the bulk of allocations going to the Department of Foreign Affairs and the Department of Home Affairs.

Although social services receive the lowest proportion of the additional resources, the allocation of additional resources to the provinces, where nearly 90 per cent of this cluster's expenditure is incurred, will result in the allocation of additional resources to these important functions.

*Provincial allocations will ensure social services growth*

## **Allocations to national departments**

Details of the policy and service delivery related changes funded in the 2001 Budget are set out in the *Estimates of National Expenditure*. The main increases go to:

*Allocations by department*

- *Safety and Security* – for increasing the number of police officers, improving their salaries and raising capital expenditure
- *Justice and Constitutional Development* – payment of TRC reparations, increasing the capacity of the prosecution service and special investigations and transforming the provision of legal assistance through the Legal Aid Board
- *Correctional Services* – operational operational costs associated with the increase in prisoner numbers and the construction of additional prison accommodation
- *SA Revenue Service* – for organisational reengineering and improving tax administration
- *Secret Services* – for increasing capacity for the prevention and investigation of crime, as well as the maintenance of state security
- *Water Affairs and Forestry* – to support restructuring of Government's forestry activities and for repayments on the Maguga Dam on the Komati River
- *Defence* – for the purchase a long-range aircraft to be used by the Presidency and, in the third year, to cover the estimated shortfall on the strategic defence package baseline allocation in that year
- *Foreign Affairs* – expansion of the activities of the Department in recent years, greater than projected depreciation of the rand and, in 2001/02, the hosting of international events
- *Public Enterprises* – to finance the initial public offering of Telkom
- *Transport* – for improving the public transport system

**Table 6.5 Additional allocations to national departments**

R million	2001/02	2002/03	2003/04 <sup>1</sup>	Total
<b>Central Government Administration</b>				
<i>Presidency</i>	3,0	5,0	6,0	14,0
<i>Parliament</i>	10,0	12,0	15,0	37,0
<i>Foreign Affairs</i>	189,3	183,1	165,3	537,6
<i>Home Affairs</i>	70,0	80,0	381,0	531,0
<i>Provincial and Local Government</i>	5,0	9,0	12,0	26,0
<b>Sub-total</b>	<b>277,3</b>	<b>289,1</b>	<b>579,3</b>	<b>1 145,6</b>
<b>Financial and Administrative Services</b>				
<i>Gov. Communication &amp; Information Systems</i>	55,0	56,0	58,0	169,0
<i>National Treasury</i>	292,5	385,0	562,0	1 239,5
<i>Public Enterprises</i>	78,9	7,0	8,0	93,9
<i>Public Service and Administration</i>	7,0	12,0	15,0	34,0
<i>Public Service Commission</i>	–	–	–	–
<i>SA Management Development Institute</i>	–	–	–	–
<i>Statistics SA</i>	1,2	10,0	15,0	26,2
<b>Sub-total</b>	<b>434,6</b>	<b>470,0</b>	<b>658,0</b>	<b>1 562,6</b>
<b>Social Services</b>				
<i>Arts, Culture, Science and Technology</i>	38,0	63,5	66,0	167,5
<i>Education</i>	30,0	95,0	150,0	275,0
<i>Health</i>	21,0	40,0	59,0	120,0
<i>Housing</i>	–	50,0	80,0	130,0
<i>Social Development</i>	50,0	55,0	45,0	150,0
<i>Sport and Recreation</i>	5,0	5,0	5,0	15,0
<b>Sub-total</b>	<b>144,0</b>	<b>308,5</b>	<b>405,0</b>	<b>857,5</b>
<b>Justice and Protection Services</b>				
<i>Correctional Services</i>	80,0	217,5	343,3	640,8
<i>Defence</i>	200,0	100,0	200,0	500,0
<i>Independent Complaints Directorate</i>	0,4	0,6	0,8	1,8
<i>Justice and Constitutional Development</i>	342,3	524,5	299,3	1 166,1
<i>Safety and Security</i>	531,0	836,0	961,0	2 328,0
<b>Sub-Total</b>	<b>1 153,7</b>	<b>1 678,6</b>	<b>1 804,4</b>	<b>4 636,7</b>
<b>Economic Services and Infrastructure</b>				
<i>Agriculture</i>	20,0	40,0	65,0	125,0
<i>Communications</i>	3,0	4,0	5,0	12,0
<i>Environmental Affairs and Tourism</i>	47,0	40,0	55,0	142,0
<i>Labour</i>	(180,0)	(165,0)	(99,0)	(444,0)
<i>Land Affairs</i>	–	–	40,0	40,0
<i>Minerals and Energy</i>	600,0	600,0	600,0	1 800,0
<i>Public Works</i>	20,0	80,0	180,0	280,0
<i>Trade and Industry</i>	(100,0)	50,0	100,0	50,0
<i>Transport</i>	30,0	130,0	200,0	360,0
<i>Water Affairs and Forestry</i>	140,8	64,0	36,0	240,8
<b>Sub-total</b>	<b>580,8</b>	<b>843,0</b>	<b>1 182,0</b>	<b>2 605,8</b>
Standing appropriations	-70	-85	-100	-255
<b>Total</b>	<b>2 520,4</b>	<b>3 504,2</b>	<b>4 528,7</b>	<b>10 553,2</b>

<sup>1</sup> The assumed baseline is the 2002/03 baseline plus 4,5 per cent.

- *Parliament* – for continued transformation of the legislature over the medium-term
- *Home Affairs* – for the Independent Electoral Commission in 2003/04 and also for filling vacant posts, upgrading border posts and to strengthen service delivery
- *Social Development* – strengthening delivery of social grants through upgrading and replacing the payment system, designing a new Welfare Payment and Information Service and supporting provincial delivery
- *Environmental Affairs and Tourism* – expansion of land under conservation, institutional reform related to key functions such as the Weather Bureau, and for the Earth Summit in 2002
- *Agriculture* – for building capacity in agricultural risk management, including border control, disaster management and veterinary services
- *Government Communication and Information Systems* – to coordinate an international marketing and mobilisation campaign.

In addition to the above additional allocations to national departments, a number of conditional grants to provinces and local government have been introduced or enlarged. National transfers to local government are increased on baseline by 15 per cent, 28 per cent and 41 per cent over the three MTEF years. Capacity-building grants to local government, including a Restructuring Grant and a Local Government Support Grant increase by 30 per cent, 65 per cent and 70 per cent above baseline. Capital transfers (such as for the Consolidated Municipal Infrastructure) also increase substantially above baseline.

*Strong increase in local government grants above baseline*

Conditional grants to provinces increase above baseline by R1,5 billion in 2001/02 and R2,0 billion in 2002/03. This includes the projected share of the infrastructure allocation going to provinces and some other smaller grants, and partial funding for the completion of the Pretoria Academic Hospital (Health), and continued piloting of Early Childhood Development (Education).

*Increase in provincial grants*

The policy adjustments outlined above generally reflect strong steps to strengthen the integrated justice sector, economic and infrastructure services and administrative functions, such as revenue collection, public enterprise restructuring and foreign diplomatic relations.

*Policy adjustments focus on justice system, economic services and administration*

## **Trends in consolidated national and provincial expenditure**

Consolidated national expenditure consists of main budget expenditure plus foreign donor aid and expenditure of the social security funds. These include the compensation funds, the Road Accident Fund and the Unemployment Insurance Fund. Consolidated national expenditure is set to increase from R267,1 billion in 2001/02 to R307,1 in 2003/04.

*Consolidated national expenditure*

## Consolidated national and provincial expenditure

Consolidated national and provincial expenditure is comprised of consolidated national expenditure and provincial spending from own revenue. This spending total increased by an annual average 6,3 per cent per year over the three years to 2000/01. This was slightly above the average annual inflation rate. Over the next three years growth is much stronger, rising from R245,6 billion in 2000/01 to R310,3 billion in 2003/04. Excluding interest payments, expenditure in real terms is expected to grow by an average 3,8 per cent per year over the MTEF.

In addition to the increase in real expenditure over the MTEF there will also be shifts in the composition of expenditure, reflecting government priorities and policy choices.

Table 6.6: Consolidated national and provincial spending by function, 1997/98 – 2003/04

R million	1997/98	2000/01	1997/98 - 2000/01	2001/02	2002/03	2002/03	2000/01– 2002/03
	Estimated Outcome	Revised estimate	Ave. growth %	Medium-term estimates			Ave. growth %
<b>Protection Services</b>	<b>31 214</b>	<b>40 975</b>	<b>9,5%</b>	<b>45 778</b>	<b>49 220</b>	<b>52 031</b>	<b>8,3%</b>
Defence and intelligence	12 009	15 242	8,3%	17 308	18 428	19 595	8,7%
Police	12 967	16 421	8,2%	17 833	19 056	20 060	6,9%
Prisons	3 977	5 987	14,6%	6 474	7 163	7 615	8,3%
Justice	2 261	3 325	13,7%	4 163	4 574	4 761	12,7%
<b>Social Services</b>	<b>99 230</b>	<b>116 577</b>	<b>5,5%</b>	<b>126 242</b>	<b>135 444</b>	<b>144156</b>	<b>7,3%</b>
Education	44 997	52 764	5,5%	58 509	62 178	66 355	7,9%
Health	23 001	27 195	5,7%	29 649	31 480	33 572	7,3%
Welfare	23 640	30 412	8,8%	31 627	34 058	35 957	5,7%
Housing and community development	6 978	5 186	-9,4%	5 304	6 420	6 813	9,5%
Other social services	614	1 020	18,4%	1 153	1 308	1 459	12,7%
<b>Economic Services</b>	<b>18 123</b>	<b>19 589</b>	<b>2,6%</b>	<b>22 646</b>	<b>24 409</b>	<b>25 574</b>	<b>9,3%</b>
Water schemes, related services	2 469	3 051	7,3%	3 293	3 385	3 708	6,7%
Fuel and energy	479	207	-24,4%	187	427	169	-6,6%
Agriculture, fishing and forestry	3 682	4 499	6,9%	4 753	4 999	5 344	5,9%
Mining, manufacturing and construction	1 087	1 401	8,8%	2 023	2 142	2 258	17,3%
Transport, communication	7 315	7 609	1,3%	8 650	9 667	10 216	10,3%
Other economic services	3 091	2 822	-3,0%	3 739	3 789	3 879	11,2%
<b>General government services and unallocated expenditure</b>	<b>17 020</b>	<b>22 276</b>	<b>9,4%</b>	<b>25 046</b>	<b>26 795</b>	<b>28760</b>	<b>8,9%</b>
Interest	38 820	46 186	6,0%	48 138	49 651	51 022	3,4%
<b>Subtotal: Votes and statutory amounts</b>	<b>204 407</b>	<b>245 603</b>	<b>6,3%</b>	<b>267 850</b>	<b>285 518</b>	<b>301 542</b>	<b>7,1%</b>
Contingency reserves				2 523	4 378	8 766	
<b>Consolidated expenditure</b>	<b>204 407</b>	<b>245 603</b>	<b>6,3%</b>	<b>270 373</b>	<b>289 896</b>	<b>310 307</b>	<b>8,1%</b>

## Functional distribution of consolidated national and provincial expenditure

The functional classification of expenditure provides an indication of the distribution of spending on different sectors or types of services provided by Government.

Table 6.6 shows that the share of social and economic services declined somewhat between 1997/98 and 2000/01, with protection services and general government services increasing their shares. The real decline in social services was, however, slight and followed a rapid rise in social sector expenditure in 1996/97. This had led to substantial overspending at a provincial level and had resulted in a need to cut back services and repay debt. The provincial debt problem has now been resolved, allowing provinces to address neglected infrastructure and other needs.

*Relative importance to 2001/02*

The increased importance of protection services, especially the integrated justice sector, is in line with Government priorities. The increase in general government services can be related to the provision of increased access to administrative functions. In addition, local and national elections and the 1996 Census absorbed substantial funds.

*Priority to integrated justice sector*

All sectors share in the real growth of expenditure over the next three years. The most rapid growth over this period is in economic services. This is influenced by the on-budget allocation for electrification, but is also the result of the strong recovery of capital and infrastructure spending, correcting for the period of relative neglect.

*Strong real growth in all sectors to 2003/04*

Some sector-specific and policy issues are discussed below.

## Policy choices

### *Justice and protection*

The Justice and Protection Services cluster is made up of the departments involved in the Integrated Justice System (Safety and Security, Justice and Constitutional Development, Correctional Services and the Independent Complaints Directorate), the intelligence services (National Intelligence Agency and South African Secret Services) and the Department of Defence. These departments are responsible for preventing and investigating crime, prosecuting and adjudicating cases, punishing and rehabilitating criminals and the maintenance of the security of the Republic.

*Composition and aim of sector*

These spending programmes reflect Government's commitment to expanding the capacity of the integrated justice sector by injecting additional resources into it. In addition, Government is committed to changing the way in which the cluster and its components work, so as to optimise its impact on crime levels. To this end a number of policies are being implemented:

*Policy adjustments in justice sector*

- The SAPS has identified those police stations in which the bulk of all crime is reported and is concentrating its resources and managerial capacity in those areas.

- The SAPS is restructuring the specialised units in the Detective Services in order to help strengthen the work done at a police station level.
- The Department of Justice and Constitutional is establishing specialised courts in which prosecutors and magistrates develop expertise in the handling of complicated cases, while also becoming more victim- and witness-friendly.
- The Department of Correctional Services is putting in place the capacity to engage in the electronic monitoring of parolees and probationers, facilitating an increase in the efficiency of the Community Corrections programme.
- The operation of prosecutors and courts is being redesigned and strengthened.
- The Legal Aid Board is developing a system of public defenders in order to replace the less efficient Judicare system currently in place.
- The cluster as a whole is investing in the creation of a set of technological solutions which will harmonise the work of its various components, leading to efficiency gains and increased effectiveness.

### Defence

#### Defence share stabilising

After large real declines in defence expenditure since 1994, the last three years saw an increase in the Defence share of consolidated expenditure to over 6 per cent procure military equipment. The programme provides for acquisition of four corvettes, three submarines, 30 light utility helicopters, 24 trainer aircraft and 28 fighter aircraft.

The strategic arms procurement programme amounting to US\$4,8 billion (R30,3 billion in 1999 prices) was approved by Cabinet on 15 September 1999, and will extend over 12 years. Actual expenditure will be affected by inflation-related contract price escalation and exchange rate movements. Currently, the total expenditure on the programme is projected as follows:

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	
R million	2 849	4 220	5 078	5 828	5 533	5 793	
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Total
R million	4 712	3 635	2 863	1 194	1 041	1 027	43 776

### Social services

#### Key role of social services

The large social services departments (Education, Health, Welfare and Housing) play a key role in developing and safeguarding South Africa's human resources. Developments in these sectors are therefore critical to ensuring better living standards for citizens as well as improving the growth potential of the country. The social

services remain the largest share of consolidated expenditure at a projected 56,2 per cent of total non-interest expenditure in 2003/04.

Increased funding flows to provinces, as outlined in Chapter 7, will allow for increased funding of social services, which comprise the bulk of provincial spending.

*Increased provincial allocations support social services*

Substantial positive developments are taking place in the different social service sectors. In health and education the turnaround in personnel expenditure trends allows for increased spending on complementary inputs. Greater inputs in learner support materials in education, and medicines in health, will substantially boost the effectiveness of training and health care. Skills development will be supported by the implementation of sectoral training plans, and the introduction of learnerships financed through the skills levy.

*Increased spending on complementary inputs and skills training*

### *Education*

Additional allocations of R21 million, R52 million and R88 million on the national budget will facilitate the continued piloting of early childhood development programmes in anticipation of significant expansion of this initiative. By reducing the age of first contact with children, and improving readiness for school, early childhood development has the potential to enhance the effectiveness of the schooling system. Policy documents on early childhood development and on the education of learners with special needs are currently being finalised.

*Early childhood development*

Piloting of an innovative school-building programme in rural areas will receive funding from the 2001/02 allocation for poverty relief, guided by the newly established physical planning section of the national department. Additional allocations have also been made for strengthening the current *Ikhwelo* programme supporting adult basic education in rural areas.

*School building and literacy*

### *HIV/Aids*

The HIV/Aids epidemic represents a major threat to development prospects and the quality of life of many South Africans. Public finances will be impacted through the increased need for medical services, expanding provincial health expenditure and the increased cost of delivering social services as a result of the loss of qualified staff.

*The impact of Aids*

Increased funding is being provided for Aids prevention programmes both on the budget of the national Department of Health, and the special allocation for the integrated prevention strategy. The Government Aids Action Plan on the budget of the national department provides for R111 million, R116 million and R119 million over the MTEF period, while the integrated programme introduced in 2000/01 receives R125 million, R300 million and R304,5 million. These allocations will increase as capacity is strengthened for the implementation of prevention programmes. The importance of increased cooperation with the private sector and non-governmental organisations is recognised.

*HIV/Aids prevention*

*Care and treatment for Aids patients* Government has decided to expand the research sites on Nevirapine treatment with regard to mother to child transmission of HIV/Aids. The HIVNET 012 Nevirapine regimen will initially be implemented at two facilities per province, where large numbers of deliveries take place.

*HIV/Aids and basic services* Confronting HIV/Aids requires effective basic social service provision. The country requires an effective education system to lead prevention programmes, an efficient and flexible health system to take care of treatment and an effective social safety net to deal humanely with the disruption to households and increased poverty. Compared with most developing countries, South African systems provide a solid base for confronting the disease. The challenge is to expand resources to those institutions that bear the increased burden of Aids, and provide appropriate kinds of services.

#### *Health and social development*

*Reform of delivery system* In both the health and social development departments, projects are underway to improve service delivery and provide increased value for money. In health a National Planning Framework to guide decision-making is being finalised, while plans to implement a new Welfare Payment and Information Service are well advanced.

Current rapid growth in access to the child support grant is widening the social safety net significantly and offering a first line of protection for Aids orphans.

#### *Poverty relief and income generating projects*

*Poverty relief funding of R1,5 billion a year* In addition to broader poverty-related social programmes, the special poverty relief programme of approximately R1,5 billion a year will continue over the next three years. As outlined in Table 6.7, the bulk of programmes funded combine income generation, especially for poor rural people, with some additional objective such as protection of water resources, erecting useful community infrastructure, waste management and training.

R120 million not allocated to departments for poverty relief projects has been made available and will be voted in the Adjustments Estimate for specific issues that have arisen. These include amounts for the Department of Water Affairs for water and sanitation projects in rural areas in KwaZulu-Natal and to the Department of Agriculture to compensate subsistence farmers affected by foot-and mouth disease.

#### **Economic breakdown of consolidated spending**

*Focusing on inputs* A review of the economic breakdown of expenditure indicates changes in the nature of Government spending, suggesting a greater emphasis on the long-term growth of capacity in public sector service delivery through a focus on capital and investment expenditure.

**Table 6.7: Poverty relief and Job Summit allocations**

R million	2001/02	2002/03	2003/04
<b>Agriculture:</b> Landcare; Food security programme	35	35	50
<b>Arts, Culture, Science and Technology:</b> Agricultural production and processing; Investing in culture	55	48	64
<b>Education:</b> Adult basic education and training; Rural school building programme	73	74	114
<b>Environmental Affairs and Tourism:</b> Integrated Waste Management Campaign; Local tourism infrastructure; Tourism product development; Coastal development; SDI projects	175	240	300
<b>Health:</b> Nutrition and household food security projects	10	12	15
<b>Housing:</b> Rental housing project	75	75	-
<b>Labour:</b> Social plan technical support facility; employment services; Skills development	10	-	-
<b>Provincial and Local Government Affairs:</b> Social plan implementation; Local Economic Development Fund	79	102	120
<b>Public Works:</b> Community based public works	274	274	274
<b>Social Development</b> projects	50	100	71
<b>Sport and Recreation</b> facilities	40	90	130
<b>Transport:</b> Road upgrading and maintenance	94	100	100
<b>Water Affairs and Forestry:</b> Working for Water; Community water supply and sanitation; SDI projects	410	350	330
Short-term funding	120	-	-
<b>Total available</b>	<b>1 500</b>	<b>1 500</b>	<b>1 568</b>

### *Capital and infrastructure spending*

One of the most important spending adjustments of the past few years, is the shift of Government's expenditure towards investment in infrastructure. In recent years Government expenditure on current, operational costs, especially remuneration, consumed too great a proportion of the budget, and was growing too rapidly, to be sustainable. In effect, the public 'plant and equipment' essential to the delivery of services and the promotion of economic growth was being allowed to decay.

In order to correct this, spending plans will be directed towards investing in and maintaining the infrastructure essential to the economy and to the delivery of public services.

This shift, which stimulates economic activity in key sectors of the economy. It also reflects Government's awareness that the promotion of productivity gains in the public service entails the provision of appropriate equipment. In re-equipping the public sector, Government is also making the modernisation of its processes possible by adopting more technologically advanced solutions. This is reflected, for instance, in the programme to modernise and computerise aspects of the integrated justice system.

*Shifting to expanding the economy and broadening opportunities*

*Strong growth of capital expenditure*

Table 6.8 indicates that after increasing by only R0,6 billion over the previous three-year period (1997/98 to 2000/01), capital expenditure is expected to increase by R11,4 billion over the next three years. As a result, capital expenditure as a share of consolidated expenditure increases from 8,7 per cent of non-interest spending to about 10,2 per cent.

Three sets of allocations have recently boosted capital and infrastructure spending:

- Allocations for infrastructure rehabilitation due to flood-related damage totalling R1,5 billion.
- An allocation of R6,3 billion over the next three years specifically for infrastructure spending.
- An additional allocation of R2,4 billion over the medium term to local government, which plays a key role in the operation, maintenance and expansion of residential, social and economic infrastructure.

The allocation of these amounts between departments will be finalised in the Adjustments Estimates later this year.

*Provincial capital spending to increase*

The improving financial situation of provinces also contributes to the strengthening of capital expenditure. This will be used both for improving economic infrastructure, such as provincial roads, and for social infrastructure such as schools, hospitals and clinics.

These allocations are in addition to the existing large capital expenditure programmes:

- The Consolidated Municipal Infrastructure Programme, funded on the budget of the Department of Provincial and Local Government, which increases from R1,0 billion in 2001/02 to R1,4 billion in 2003/04
- The Community Water Supply and Sanitation Programme which implements approved water supply and sanitation projects to communities and increases from R822 million in 2001/02 to R835 million in 2003/04
- Programmes for hospital rehabilitation and the redistribution of central hospital services which increase to R741 million in 2003/04 from R576 million in 2000/01
- The annual allocation of R600 for electrification
- Transfers from the Department of Transport to the National Roads Agency which increase from R701 million in 2000/01 to R1,3 billion in 2003/04.

*Innovative approaches to infrastructure spending*

At the local level, various proposals are being considered to delineate more clearly the institutional responsibilities for infrastructure investment, and to simplify fiscal mechanisms used to support municipal infrastructure. In addition, work is being done to encourage innovation in the funding and management of capital projects through public-private partnerships.

While public-private partnerships will not necessarily lead to additional capital expenditure, they should lead to greater efficiency as private sector expertise is utilised in the planning process and in the operation and maintenance of buildings and equipment. In addition, a key objective of such partnerships is to shift some of the risks to the private sector.

*Public-private partnerships*

Examples of partnership projects in place or under finalisation are the building of two new maximum security prisons by the Department of Correctional Services, and the procurement of equipment for the Nkosi Albert Luthuli Central Hospital in KwaZulu-Natal. Frameworks, regulations and support have been put together at national, provincial as well as local level, to ensure responsible and informed use of this institutional alternative.

The restructuring of state assets provides greater opportunity for foreign investment in parastatals and significant amounts have already been invested in the recapitalisation of Telkom, the Airports Company and South African Airways. Government policy is therefore bringing in significant private sector investment.

*Restructuring of state assets and private sector investment*

#### *Personnel expenditure*

The increase in capital expenditure has been made possible partly through success in reversing the recent trend in personnel expenditure. After increasing rapidly to 47,5 per cent of non-interest spending in 2000/01, personnel expenditure is set to fall to 42,2 per cent of total spending in 2003/04. The remuneration of employees is set to grow by an average of 5,8 per cent a year between 2000/01 and 2003/04.

*Stabilisation of growth in personnel expenditure*

The slowdown in personnel growth is largely due to a moderation in annual wage settlements and a reduction in numbers of personnel. Personnel numbers in the civil service have declined by more than 2 per cent over the last two years, while annual salary increases have been in line with inflation.

*Reasons for stabilisation*

The 2000 wage settlement further strengthens the trend of moderating growth in Government's wage bill. In addition to agreement on an average salary increase of 6,5 per cent for all employees, agreement was also reached on abolishing near-automatic rank and leg promotions in June 2001.

*2000 Wage settlement*

The stabilisation in the growth of personnel expenditure will also enable additional spending on key inputs which have been under substantial pressure in recent years. This is especially true for key provincial services where spending on textbooks and other learner support material in education, and on medicines and related inputs in health, is set to grow strongly over the next three years. This will facilitate increased effectiveness in these sectors.

*Room for spending on complementary inputs*

**Table 6.8 Economic classification of consolidated national and provincial spending, 1997/98 – 2003/04**

R million	1997/98	2000/01	1997/98 – 2000/01	2001/02	2002/03	2003/04	2000/01- 2001/02
	Estimated Outcome	Revised estimate	Ave. % growth	Medium-term estimates			Ave. % growth
<b>Goods and services</b>	<b>105 237</b>	<b>124 106</b>	<b>5,7%</b>	<b>135 479</b>	<b>142 461</b>	<b>149 749</b>	<b>6,5%</b>
Remuneration of employees	78 487	92 376	5,6%	98 905	104 170	109 302	5,8%
Other goods and services	26 550	31 730	6,1%	36 575	38 291	40 446	8,4%
<b>Interest</b>	<b>38 820</b>	<b>46 186</b>	<b>6,0%</b>	<b>48 138</b>	<b>49 651</b>	<b>51 022</b>	<b>3,4%</b>
<b>Current transfers</b>	<b>30 369</b>	<b>36 397</b>	<b>6,2%</b>	<b>37 656</b>	<b>40 050</b>	<b>42 445</b>	<b>5,3%</b>
Subsidies to business enterprises	6 164	6 764	3,1%	6 745	7 302	7 742	4,6%
Non-financial public enterprises	2 269	2 198	-1,0%	2 311,3	2 433	2 520	4,7%
Public financial Institutions	67	13	-42,4%	45	48	50	56,7%
Government departmental enterprises	3 608	4 390	6,8%	4 211	4 679	5 031	4,6%
Private business	220	163	-9,5%	178	143	143	(4,4%)
Transfers to households	24 098	29 467	6,9%	30 779	32 616	34 566	5,5%
Transfers to foreign countries & international credit institutions	107	166	15,8%	132	132	137	(6,2%)
<b>Current transfers to other Government institutions &amp; funds</b>	<b>15 514</b>	<b>23 813</b>	<b>15,4%</b>	<b>27 518</b>	<b>29 513</b>	<b>31 794</b>	<b>10,1%</b>
Transfers to social security funds	-	-	-	-	-	-	-
Transfers to universities and technikons	4 632	6 450	11,7%	6 882	7 252	7 629	5,8%
Transfers to extra-budgetary agencies	7 691	13 486	20,6%	16 281	17 426	18 928	12,0%
Transfers to local authorities	3 192	3 878	6,7%	4 356	4 836	5 236	10,5%
<b>Total current expenditure</b>	<b>189 940</b>	<b>230 501</b>	<b>6,7%</b>	<b>248 792</b>	<b>261 675</b>	<b>275 009</b>	<b>6,1%</b>
<b>Capital expenditure</b>							
Acquisition of fixed assets, stock and land	6 385	7 259	4,4%	8 254	9 892	10 668	13,7%
Capital transfers, loans, advances	8 082	7 843	-1,0	10 804	13 952	15 865	26,5%
<b>Total capital expenditure</b>	<b>14 467</b>	<b>15 102</b>	<b>1,4%</b>	<b>19 058</b>	<b>23 843</b>	<b>26 532</b>	<b>20,7%</b>
<b>Subtotal: Votes and statutory amounts</b>	<b>204 407</b>	<b>245 603</b>	<b>6,3%</b>	<b>267 850</b>	<b>285 518</b>	<b>301 541</b>	<b>7,1%</b>
Contingency reserve				2 523	4 378	8 766	
<b>Consolidated expenditure</b>	<b>204 407</b>	<b>245 603</b>	<b>6,3%</b>	<b>270 373</b>	<b>289 896</b>	<b>310 307</b>	<b>8,1%</b>

*Transforming the civil service*

In addition to stabilising wage expenditure, Government has been focusing on transforming the public service in order to establish a more effective, efficient and productive labour force. A number of initiatives, all identified in the remuneration policy adopted by Cabinet early in 2000, have been implemented:

- A review will be undertaken of wage progression systems in the civil service in order to ensure a link with performance.
- Substantial spending will be devoted to training and participation in the Sector Education and Training Authorities. Training by departments from 2001/02 may not be less than 1 per cent of personnel expenditure. Total expenditure by national departments, in addition to the government spending on pre-service training, is estimated at more than R550 million in 2001/02.

- The introduction of the Senior Management Service is aimed at attracting, retaining and motivating good senior managers in the civil service.
- The Presidential Strategic Leadership Development Programme, launched by the Minister for Public Service and Administration in July 2000, will strengthen leadership skills in the public sector.
- The leave system is being restructured to prevent abuse.

The signing of a framework agreement between labour and Government at the Public Sector Job Summit earlier this year has further strengthened the process of transformation. Parties agreed that the transformation and restructuring of the public service must seek to protect and create quality employment within the public service, deliver efficient services and enhance productivity.

*Public Sector Job Summit*

## **Conclusion**

Strong real growth of 3,8 per cent per year in resources available for spending on services will strengthen service delivery in all functional areas of government expenditure over the next three years

While all sectors and spheres benefit from real growth, expenditures at the national and provincial level reflect the high priority of crime prevention and infrastructure investment. Real growth on provincial budgets allows for a reinforcement of social service provision and increases in rural development and economic services.

In addition to spending growth, several initiatives are in place to enhance the efficiency of government spending. The 2001 Budget provides significant improvements in the quality and reach of public services.

