3

Fiscal policy and the budget framework

The 2002 Budget extends the growth-oriented fiscal stance of last year's budget, providing for strong real increases in spending and further cuts in taxes to boost economic growth.

Public spending on services increases by 4,1 per cent a year in real terms over the next three years. The deficit widens moderately to 2,1 per cent of GDP in 2002/03. Debt service costs will decline to 4,1 per cent of GDP by 2004/05.

Building on the consolidation of the public finances since 1996 and a robust revenue performance, Government is able to respond positively to the social and economic needs of the country – long-term growth and job creation.

Fiscal policy continues to prioritise investment in growth – by addressing the infrastructure challenge, by enhancing Government's capacity to deliver services, and by investing in the development of South Africa's skills base.

Overview

Fiscal policy aims to promote growth and development

At a time of global economic uncertainty and considerable volatility, fiscal policy remains robust and decidedly growth oriented. Within a framework of declining debt service costs and a moderation in levels of taxation, Government is able to boost public spending, especially on poverty alleviation, the development of human capital and physical infrastructure and on extending basic municipal services.

Although growth has slowed, strong revenue performance and sound debt management have resulted in lower public borrowing and lower interest costs, releasing resources for public spending.

Following consolidation of public finances, focus shifts to reinforcing growth and social spending

From 1996 to 2000, fiscal policy concentrated on consolidating the South African public finances, in particular addressing an unsustainable budget deficit.

The 2001 Budget saw a shift in focus, with both tax reforms and spending increases directed at reinforcing growth.

The fiscal framework that underpins the 2002 Budget aims to:

- Increase the resources available for social spending, with particular emphasis on responding to poverty and vulnerability
- Provide for increased investment in infrastructure, focusing on extending service delivery and economic opportunities to poor communities
- Ensure sustainable real increases in government spending by maintaining a check on the level of debt service payments
- Reduce tax rates for all, with substantial relief to low- and middle-income earners, to reduce the costs of employment and boost consumer spending.

Real non-interest spending growth of 4,1 per cent a year

Real non-interest expenditure across national and provincial government will grow at an annual average rate of 4,1 per cent over the course of the MTEF period. In nominal terms, non-interest spending rises from R256 billion in 2002/03 to R298 billion in 2004/05.

Deficit of 2,1 per cent of GDP in 2002/03

Increased expenditure on the main budget is financed through moderate revenue growth and a deficit of 2,1 per cent of GDP in 2002/03, decreasing to 1,7 per cent in 2004/05.

Debt service costs to fall to 4,1 per cent of GDP

Debt service costs decline from 4,8 per cent of GDP in 2001/02 to 4,1 per cent in 2004/05, thus releasing about R10 billion for additional spending.

This chapter deals first with Government's fiscal policy stance, followed by a review of the national budget framework, main budget estimates and consolidated government accounts. Key initiatives to boost sustainable growth and development are also summarised.

Fiscal policy and the South African economy

Fiscal policy provides a balanced framework for growth and development

Fiscal policy impacts on the economy through two channels, the effects of which require careful balancing. It first seeks to achieve desired social and developmental outcomes through the balanced allocation of government resources. At the same time, Government's aggregate revenue, borrowing and spending plans have important impacts on the macroeconomy, which in turn provides a framework for growth and social development.

Since 1994 there has been a significant realignment in the public finances of South Africa. Public borrowing has been reduced, long-term interest rates have come down and debt service costs have declined as a percentage of GDP, releasing resources for social spending. Significant trends are set out in table 3.1, and elaborated below.

Moderation in government consumption since 1994

General government consumption expenditure, which is total current non-interest spending less transfers (such as social security payments), declined from over 20 per cent of GDP in 1994 to 18,0 per cent of GDP in 2000. Over the next three years, this ratio should stabilise at between 18 and 19 per cent of GDP as Government steps up employment in critical areas such as policing and health care.

Turnaround in general government contribution to capital formation

General government's contribution to *gross fixed capital formation* turned around in the five years from 1995, reversing a long-term investment decline. Investment by the non-financial public enterprises is expected to drive total fixed capital formation in the public sector in the years ahead.

Dissaving falls to 0,8 per cent of GDP

Government dissaving continued to decline last year as capital spending gathered momentum and a strong revenue performance reduced the budget deficit. Based on the first three quarters of 2001, government dissaving fell to 0,8 per cent of GDP. Government is well on track to meet its commitment to eliminate dissaving by 2003.

Debt service costs continue to decline

The proportion of GDP spent by the public sector on *interest payments* has declined steadily. Due to reduced borrowing, privatisation proceeds and significant debt and cash flow restructuring, interest costs have declined from 6,2 per cent of GDP in 1999 to an estimated 5,5 per cent in 2001.

PSBR of 0,5 per cent of GDP in 2001/02

Driven mainly by the reduction in the national budget deficit, the *public sector borrowing requirement* has decreased from 5,7 per cent of GDP in 1994/95 to 0,5 per cent of GDP in 2001/02. Although partially offset by anticipated privatisation proceeds, increased investment by public entities and local government is expected to raise the PSBR to about 1,7 per cent of GDP in the years ahead.

Table 3.1 Key fiscal indicators – 1995–2004

Percentage of GDP	**1995**	**1999**	**2000**	**2001[1]**	**2004**
Government consumption expenditure	18,3	18,4	18,0	18,1	18,3
General government saving	-4,2	-2,3	-2,3	-0,8	0,0
Interest on public debt[2]	5,9	6,2	5,8	5,5	5,0
General government tax revenue	24,1	27,0	26,1	26,8	26,0
	1995/96	**1999/00**	**2000/01**	**2001/02**	**2004/05**
Public sector borrowing requirement	5,0	0,6	0,9	0,5	1,7
Main budget deficit	4,5	2,0	2,0	1,4	1,7
	1990-1994		**1995-1999**		**2000-2004**
Gross fixed capital formation by general government (average annual real growth)	-8,6		4,2		5,1

1 2001 figures are based on three quarters of data.

2 Including amortisation of discount.

Foreign borrowing remains within prudent limits

In the course of 2001/02 and 2002/03, Government's *foreign borrowing* dominates its financing strategy. This contributes both to diversification of the public debt portfolio and reduction of the net open forward position of the SA Reserve Bank. While the ratio of foreign debt to GDP is expected to increase from 3,5 per cent of GDP in 2000/01 to about 7,5 per cent of GDP in 2004/05, this remains well within prudent limits.

The budget framework

Consolidated general government includes the main budget, social security funds, extra-budgetary agencies, provinces and local authorities

The *Budget Review* presents government revenue and expenditure at a number of levels of aggregation:

- The *consolidated national budget* includes the collective revenue and expenditure of the main budget, the RDP Fund (including foreign technical cooperation) and the social security funds. The consolidated national budget is set out in table 3.2, with the finances of the RDP Fund and foreign technical cooperation, and of the social security funds, set out in tables 3.3 and 3.4, respectively.
- The largest part of the consolidated national budget is the *main budget*, which comprises the revenue and expenditure attributed to the National Revenue Fund[1]. The main budget is set out in table 3.5.
- Table 3.8 sets out the *consolidated expenditure of the national and provincial governments*, and includes the expenditure of revenue transferred to provinces from national government and provincial own revenue.
- The *consolidated general government account* is set out in table 3.9. This aggregates the revenue and expenditure of the main budget, the social security funds, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities.
- The *public sector borrowing requirement* (*PSBR)*, which is set out in table 3.10, is derived from the consolidated general government deficit, the financing requirements of non-financial public enterprises, extraordinary expenditure items and the proceeds of the restructuring of state owned enterprises.

The consolidated national government budget

The consolidated national budget is summarised in table 3.2. It consists of the finances of the National Revenue Fund (table 3.5), the RDP Fund and receipts and disbursements through foreign technical cooperation (table 3.3) and the social security funds (table 3.4).

Expenditure increases strongly over next three years

The consolidated national budget provides for strong increases in expenditure, rising to R297,4 billion in 2002/03, and R345,4 billion in 2004/05. The deficit on the consolidated budget in 2001/02 narrows over the previous year by 0,7 percentage points, driven by an exceptionally strong revenue performance on the main budget.

Gains of last year's revenue performance will extend into the MTEF period

This additional revenue paves the way for a lower government borrowing requirement, thus reducing the burden of debt service payments on expenditure in future years. Interest on debt will decrease from 4,8 per cent of GDP in 2001/02 to 4,1 per cent in 2004/05.

---

[1] Until 1998/99 the main budget included foreign grants received through the RDP Fund. From 2000/01 the main budget includes the skills development levy and transfers of skills funds to sector education and training authorities.

Table 3.2 Consolidated national budget framework, 2000/01–2004/05

	2000/01	2001/02		2002/03	2003/04	2004/05
R million	**Outcome**	**Budget**	**Revised**	**Medium-term estimates**		
National Revenue Fund (main budget)						
Revenue	**215 592**	**233 438**	**248 447**	**265 217**	**288 708**	**313 211**
Expenditure						
Interest on debt	46 321	48 138	47 515	47 503	49 845	52 434
Percentage of GDP	*5,1%*	*4,9%*	*4,8%*	*4,4%*	*4,2%*	*4,1%*
Contingency reserve	–	2 000	–	3 300	5 000	9 000
Allocated expenditure[1]	187 621	208 180	215 075	237 106	256 386	273 128
Total	**233 942**	**258 318**	**262 590**	**287 909**	**311 231**	**334 561**
Percentage increase	*8,9%*	*9,9%*	*12,2%*	*9,6%*	*8,1%*	*7,5%*
Surplus (+)/deficit (-)	**-18 350**	**-24 880**	**-14 143**	**-22 692**	**-22 523**	**-21 350**
Percentage of GDP	*-2,0%*	*-2,5%*	*-1,4%*	*-2,1%*	*-1,9%*	*-1,7%*
RDP Fund & foreign technical cooperation						
Receipts & technical cooperation	1 028	800	967	800	800	800
Disbursements	924	750	600	700	750	750
Social security funds						
Revenue	7 084	8 404	8 614	9 558	9 953	10 288
Expenditure	7 390	8 017	8 182	9 114	9 639	10 223
Consolidated national budget[2]						
Revenue	**223 687**	**242 642**	**257 404**	**275 236**	**299 191**	**324 129**
Expenditure	**242 239**	**267 058**	**270 748**	**297 384**	**321 350**	**345 364**
Percentage of GDP	*26,6%*	*27,1%*	*27,3%*	*27,5%*	*27,3%*	*27,0%*
Percentage increase	*9,1%*	*9,6%*	*11,8%*	*9,8%*	*8,1%*	*7,5%*
Surplus (+) or deficit (-)	**-18 552**	**-24 443**	**-13 344**	**-22 148**	**-22 159**	**-21 235**
Percentage of GDP	*-2,0%*	*-2,5%*	*-1,3%*	*-2,0%*	*-1,9%*	*-1,7%*
Gross domestic product	*910 500*	*987 200*	*990 000*	*1082 800*	*1178 900*	*1277 500*

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

2 Flows between funds are netted out.

RDP Fund and international foreign development cooperation

Foreign assistance of R800 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 R800 million in assistance to the government.

In addition to support to Government, foreign support to the non-governmental development community and emerging businesses is substantial. Foreign support is set to continue at current levels for the foreseeable future.

Alignment of foreign grants with RDP priorities strengthened

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 3.3 summarises current and projected foreign grants and technical cooperation spending.

Since the introduction of the three-year budgeting process, Government has sought to align donor funding with the nation's priorities, and to make better use of limited resources while ensuring long-term sustainability beyond the phase of foreign support.

Table 3.3 RDP Fund grants and foreign technical cooperation, 1998/99–2004/05

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
R million				**Estimate**	**Medium-term estimates**		
RDP Fund							
Receipts	531	451	628	667	500	500	500
Disbursements	456	327	524	300	400	450	450
Technical cooperation							
Estimated expenditure	420	410	400	300	300	300	300
Total foreign assistance	**951**	**861**	**1 028**	**967**	**800**	**800**	**800**

Mirroring the evolution of public policy in South Africa, the focus in development cooperation has shifted from support for policy and strategy development towards strengthening actual service delivery, with a strong emphasis on poverty reduction.

Support for NEPAD

South Africa's commitment to strengthened regional and African development will also be supported by means of increased foreign support to the New Partnership for Africa's Development (NEPAD).

Social security funds

Social security funds receive dedicated taxes or contributions

Funding for social security benefits is derived from two sources. South Africa's principal social security benefits - the old age grants, disability payments and family and child grants - are financed out of general revenue appropriated for these programmes in provincial social development votes. In addition to these programmes, four social security funds - the Unemployment Insurance Fund (UIF), Workman's Compensation Fund, Mines and Works Compensation Fund and the Road Accident Fund - are maintained through mandatory levies and taxes.

Short-term income for the unemployed

The Unemployment Insurance Fund (UIF) provides for short-term income replacement in the event of unemployment, short-term sickness, death, maternity or adoption of a child.

Compensation for occupational injuries

The Workman's Compensation Fund and the Mines and Works Compensation Fund pay compensation for injuries, disease or death in the course of employment. Funds are raised through an assessed levy on companies.

Compensation to road accident victims

The Road Accident Fund pays compensation to victims of road accidents caused by third parties. In July 2001 the Road Accident Fund Amendment Act was passed to authorise the fund to make contributions to road safety projects such as the *Arrive Alive* campaign and other programmes approved by the Minister of Transport.

Combined deficit turns to surplus in 2001/02

In aggregate, the four social security funds are projected to run a combined surplus of R432 million in 2001/02. This turnaround, from a deficit of R306 million in 2000/01, is due mainly to an increase in transfers to the UIF from the main budget.

Surpluses in the UIF and Compensation funds

The Compensation Funds ran an estimated surplus of R647 million in 20001/02 and are projected to run surpluses of between R500 million and R700 million per year over the MTEF period. The UIF will continue to run small surpluses over the period.

Road Accident Fund deficits to shrink over long term

The Road Accident Fund ran a deficit of R311 million in 2000/01, expected to widen to R585 million this year. An increase in the fuel levy portion that goes to the Fund and administrative and legislative changes are set to narrow this deficit to about R242 million in 2002/03.

Key reforms introduced to improve financial sustainability of funds

Recent and future measures taken by Government to move the social security funds toward financial sustainability include:

- Tabling of the Unemployment Insurance Fund Bill, which broadens the revenue base of the Fund and structures benefits to suit the changing needs of the labour market.
- The Unemployment Insurance Contributions Bill, which deals with the collection of unemployment insurance contributions from employers and consolidates collection mainly under SARS administration.
- Setting aside of R1,4 billion over three years on the Department of Labour vote to assist the UIF to improve its financial position and reform its administrative operations.
- Appointment of a commission of inquiry into the Road Accident Fund, the recommendations of which – due in June 2002 - will help map out a strategy for the return of the fund to financial sustainability. To date a number of administrative reforms have been put in place, including a high-level investigation by the Scorpions Unit into fraud and abuse in the Fund.
- A 2 cent increase in the portion of the fuel levy that goes to the Road Accident Fund, to 18,5 cents a litre, as of 3 April 2002.

Table 3.4 Social security funds, 1998/99–2004/05

R million	1998/99 Outcome	1999/00 Outcome	2000/01 Outcome	2001/02 Revised estimate	2002/03	2003/04	2004/05
					Medium-term estimates		
Unemployment Insurance Fund							
Revenue	2 876	2 778	2 831	3 914	3 892	3 964	4 037
Expenditure	3 370	3 201	3 359	3 544	3 711	3 897	3 983
Compensation funds							
Revenue	1 688	1 937	1 910	2 071	2 238	2 429	2 544
Expenditure	1 121	1 140	1 376	1 424	1 732	1 772	1 884
Road Accident Fund							
Revenue	2 304	2 361	2 344	2 628	3 429	3 560	3 707
Expenditure	2 037	2 294	2 655	3 213	3 671	3 970	4 356
Total: social security funds							
Tax revenue	6 298	6 426	6 492	7 333	8 600	9 125	9 571
Non-tax revenue	553	634	575	656	620	558	547
Grants received	17	16	18	624	339	270	170
Total revenue	**6 868**	**7 076**	**7 084**	**8 614**	**9 558**	**9 953**	**10 288**
Total expenditure	**6 528**	**6 635**	**7 390**	**8 182**	**9 114**	**9 639**	**10 223**
Surplus(+)/deficit(-)	**341**	**441**	**- 306**	**432**	**444**	**314**	**65**

The main budget

National Revenue Fund estimates, 1998/99-2004/05

Table 3.5 sets out the projected revenue of the National Revenue Fund and the division of available resources.

Total revenue excludes transfers to SACU partners

Total revenue of the National Revenue Fund is derived from tax and other non-tax receipts less payments to Namibia, Botswana, Swaziland and Lesotho in terms of the Southern African Customs Union (SACU) Agreement. Foreign grants received in the RDP Fund were included in revenue up to 1998/99, and are now excluded from the main budget.

Revenue to stabilise over MTEF period

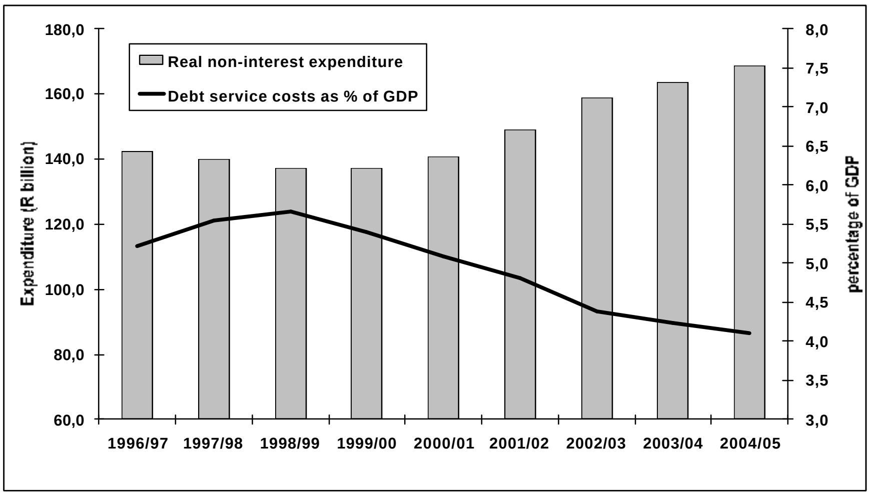
Revenue after deducting SACU payments is projected to total R248,4 billion in 2001/02 or 25,1 per cent of GDP. Over the MTEF, main budget revenue is projected to remain stable at 24,5 per cent of GDP, allowing for further tax relief this year.

Main deficit of 2,1 per cent of GDP for 2002/03

The strong revenue performance in 2001/02 is the main reason that the deficit of 1,4 per cent of GDP is below the original budget estimate. In 2002/03, the deficit widens to 2,1 per cent of GDP before falling back to 1,7 per cent in 2004/05, opening the way for strong expenditure increases in the next three years.

Figure 3.1 illustrates the trend of strong real increases in non-interest expenditure, accompanied by lower debt service costs.

Figure 3.1 Real non-interest spending and debt service costs as percentage of GDP 1996/97 to 2004/05



Expenditure comprises statutory and voted amounts

The expenditure of the National Revenue Fund is divided into non-discretionary statutory appropriations, and expenditure appropriated by vote.

Statutory appropriations include:

- State debt costs – mainly interest payments on domestic and foreign debt obligations
- Provincial equitable share transfers, governed by section 213 of the Constitution and the annual Division of Revenue Act

- Transfers of skills development levy receipts to the National Skills Fund and sectoral education and training authorities
- Salaries of members of Parliament and judges
- Standing appropriations in terms of specific agreements, including claims on guarantees and subscription payments to certain international organisations.

Debt costs discussed in chapter 5 and provincial finance in chapter 7

Debt management and the assumptions underlying projected state debt costs are discussed in chapter 5. Chapter 7 and annexure E explain the principles behind the provincial equitable share allocations. A more extensive discussion of skills development funding is set out in the third part of this chapter.

After statutory appropriations, the resources of the National Revenue Fund are voted by Parliament to the national departments, provinces and local governments, and through transfer payments to various government agencies and non-governmental organisations.

Table 3.5 Main budget framework, 1998/99–2004/05

R million	1998/99 Outcome	1999/00 Outcome	2000/01 Outcome	2001/02 Revised estimate	2002/03 Medium-term estimates	2003/04	2004/05
Revenue (National Revenue Fund)							
Tax revenue (gross)	184 664	200 641	220 274	252 205	268 506	291 863	316 392
Other receipts & repayments	4 462	4 719	3 714	4 447	4 970	5 600	6 100
RDP Fund grants[1]	456	–	–	–	–	–	–
Less: SACU transfers	-5 577	-7 197	-8 396	-8 205	-8 259	-8 755	-9 280
Total revenue	**184 005**	**198 162**	**215 592**	**248 447**	**265 217**	**288 708**	**313 211**
Percentage of GDP	*24.4%*	*24.1%*	*23.7%*	*25.1%*	*24.5%*	*24.5%*	*24.5%*
Percentage increase	*12.6%*	*7.7%*	*8.8%*	*15.2%*	*6.7%*	*8.9%*	*8.5%*
Expenditure							
Statutory appropriations							
State debt cost	42 669	44 290	46 321	47 515	47 503	49 845	52 434
Provincial equitable share	84 342	89 095	98 398	107 460	119 452	128 466	137 089
Skills development funds	–	–	902	2 750	2 950	3 150	3 370
Other[2,3]	280	1 179	340	621	389	500	426
Appropriated by vote							
Current expenditure[4]	64 174	71 473	77 897	90 635	97 301	104 667	110 229
Capital expenditure	9 951	8 713	10 085	13 609	17 014	19 603	22 014
Contingency reserve	–	–	–	–	3 300	5 000	9 000
Total expenditure[5]	**201 416**	**214 750**	**233 942**	**262 590**	**287 909**	**311 231**	**334 561**
Percentage of GDP	*26.7%*	*26.2%*	*25.7%*	*26.5%*	*26.6%*	*26.4%*	*26.2%*
Percentage increase	*6,0%*	*6.6%*	*8.9%*	*12.2%*	*9.6%*	*8.1%*	*7.5%*
Deficit(-)	**-17 411**	**-16 588**	**-18 350**	**-14 143**	**-22 692**	**-22 523**	**-21 350**
Percentage of GDP	*-2.3%*	*-2.0%*	*-2.0%*	*-1.4%*	*-2.1%*	*-1.9%*	*-1.7%*
Gross domestic product	*753 829*	*821 144*	*910 500*	*990 000*	*1082 800*	*1178 900*	*1277 500*

1 From 1999/00, foreign grants received in the RDP Fund do not flow through the National Revenue Fund.
2 Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund).
3 Includes a transfer to the Umsobomvu Fund of R855 million in 1999/00.
4 Includes conditional grants to provinces and local government. (Prior to the introduction of the provincial equitable share in 1998/99, voted amounts included the full transfers to provinces.)
5 A recovery from pension funds of R1 158 million in 1998/99 in lieu of the negotiated reduction in the employer's contribution is deducted from total expenditure.

Contingency reserve provides for unforeseen expenditure and new priorities

An unallocated contingency reserve is also set aside over the MTEF period within the overall projected expenditure envelope. In the first year the contingency reserve makes provision for unforeseen and unavoidable expenditure. It also cushions the fiscus against changes in the macroeconomic environment and from adverse natural and climatic events. In preparing future budgets, part of the contingency reserve is drawn down to accommodate new spending pressures and priorities.

Reserve is increased this year to accommodate effects of inflation

This year, the contingency reserve is larger than in previous years. A reserve of R3,3 billion is set aside for 2002/03, R5 billion for 2003/04 and R9 billion for 2004/05. This is in order to cater for the effects of inflation on departmental budgets - in particular through the higher costs of CPIX-linked public sector salaries, and other items affected by rapid price and exchange rate changes, such as fuel and certain imported equipment.

Revisions to 2000/01 and 2001/02 estimates

Table 3.6 summarises the main budget outcome for 2000/01 and the revised estimates for 2001/02. These are discussed further in chapters 4 and 6. Annexure B provides details of main budget revenue, expenditure and financing for these and earlier years.

Table 3.6 Revised estimates of main budget revenue and expenditure, 2000/01–2001/02

	2000/01			2001/02			% change
R million	**Budget estimate**	**Outcome**	***Deviation***	**Budget estimate**	**Revised estimate**	***Deviation***	**00/01–01/02**
Revenue							
Direct taxes	123 041	127 877	*4 836*	134 871	152 802	*17 931*	*19.5%*
Indirect taxes	90 648	92 396	*1 748*	101 937	99 403	*-2 534*	*7.6%*
Other revenue	5 107	3 714	*-1 393*	4 835	4 447	*- 388*	*19.7%*
Less: SACU transfers	-8 396	-8 396	*- 0*	-8 205	-8 205	*–*	*-2.3%*
Total	**210 400**	**215 592**	***5 192***	**233 438**	**248 447**	***15 009***	***15.2%***
Statutory appropriations							
State debt cost	46 490	46 321	*- 169*	48 138	47 515	*- 623*	*2.6%*
Provincial equitable share	96 620	98 398	*1 778*	106 261	107 460	*1 200*	*9.2%*
Skills development funds	1 400	902	*- 498*	2 800	2 750	*- 50*	*–*
Other[1]	347	340	*- 7*	604	621	16	*–*
Appropriated by vote							
Current expenditure[2]	75 615	77 897	*2 281*	83 324	90 635	*7 311*	*16.4%*
Capital expenditure[2]	10 980	10 085	*- 895*	15 191	13 609	*-1 582*	*34.9%*
Contingency reserve	2 000	–	*-2 000*	2 000	–	*-2 000*	*0.0%*
Total expenditure	**233 452**	**233 942**	***490***	**258 318**	**262 590**	***4 272***	***12.2%***
Deficit(-)	**-23 052**	**-18 350**	***4 702***	**-24 880**	**-14 143**	***10 737***	
Increase in non-interest allocated expenditure			*2 659*			*6 895*	

1 Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund).

2 Includes conditional grants to provinces and local government.

Revenue to exceed 2001/02 budget estimate by R15 billion

Revenue exceeded budget estimates in both 2000/01 and 2001/02, by R5,2 billion and R15,0 billion respectively. These revenue over-runs are derived primarily from increases in receipts from company taxes, driven in particular by strong performance in the resources sector, especially the platinum group metals.

Revised spending estimates take account of adjustments and projected underspending

Expenditure in 2000/01 exceeded the 2001 Budget estimates by R490 million. Spending for 2001/02 is now estimated to exceed the 2001 Budget estimate by R4,3 billion. Additional expenditure includes R6 billion in unforeseen and unavoidable expenditure voted in the Adjustments Estimate in November 2001, payments of R2 billion on social security backlogs, and R130 million to fund South Africa's involvement in Burundi. This is off-set by the R2 billion contingency reserve, anticipated foreign grants for the Burundi mission and about R1,9 billion of projected underspending.

Budget deficit of R14,1 billion in 2001/02

The R18,4 billion deficit in 2000/01 was R4,7 billion lower than anticipated, while the R14,1 billion deficit in 2001/02 is R10,7 billion lower than anticipated at the time of the 2001 Budget. These revisions arise mainly from the exceptionally strong revenue performance.

Changes to MTEF estimates since the 2001 Budget

Revised framework takes account of changes to economic outlook

Changes to the medium-term macroeconomic outlook since the 2001 Budget are set out in chapter 2. These and other factors have been taken into account in revising the medium-term framework for the 2002 Budget, broadly in line with the projections set out in the *2001 Medium Term Budget Policy Statement*.

These revised estimates of main budget revenue and expenditure between 2002/03 and 2004/05 are set out in table 3.7. The main changes are summarised below:

Revenue forecasts raised substantially

- Main budget revenue forecasts have been set above the levels projected at the time of the 2001 Budget by R12,4 billion in 2002/03 and R15,6 billion in 2003/04. This takes into account the strong revenue performance in 2001/02, lower than anticipated transfers to South Africa's SACU partners and higher inflation.

Debt service costs revised downwards…

- The stronger revenue performance contributes to lower deficits, a lower borrowing requirement, and therefore lower than anticipated debt service costs. Debt service costs will fall below the levels projected in the 2001 Budget by R2,1 billion in 2002/03 and R1,2 billion in 2003/04.

…contributing to higher non-interest expenditure

- Total expenditure increases by R10,6 billion in 2002/03 and R13,7 billion in 2003/04 over the 2001 Budget forward estimates. Due to lower debt service costs, non-interest expenditure exceeds the 2001 forward estimates by R13,4 billion in 2002/03 and R17,9 billion in 2003/04.
- Higher total expenditure includes a higher contingency reserve than in previous MTEF cycles, in order to provide for the effects of unanticipated inflation on departmental and provincial budgets.

Table 3.7 Main budget medium-term estimates, 2002/03–2004/05

R million	2002/03 2001[3] Forward Estimate	2002/03 2002 Budget	2002/03 *Change to baseline*	2003/04 2001[3] Forward Estimate	2003/04 2002 Budget	2003/04 *Change to baseline*	2004/05 2002 Budget
Revenue							
Direct taxes	147 174	159 175	*12 001*	161 383	175 170	*13 787*	191 640
Indirect taxes	109 786	109 331	*- 455*	117 708	116 693	*-1 015*	124 752
Other revenue	5 018	4 970	*- 48*	5 195	5 600	*405*	6 100
Less: SACU transfers	-9 127	-8 259	868	-11 165	-8 755	2 410	-9 280
Total	**252 851**	**265 217**	***12 366***	**273 122**	**288 708**	***15 586***	**313 211**
Statutory appropriations							
State debt cost	49 651	47 503	*-2 148*	51 022	49 845	*-1 177*	52 434
Provincial equitable share	114 588	119 452	*4 864*	122 244	128 466	*6 222*	137 089
Skills development funds	3 000	2 950	*- 50*	3 200	3 150	*- 50*	3 370
Other[1]	382	389	*7*	389	500	*112*	426
Appropriated by vote							
Current expenditure[2]	87 591	97 301	*9 710*	92 171	104 667	*12 496*	110 670
Capital expenditure[2]	18 112	17 014	*-1 098*	20 499	19 603	*- 896*	21 573
Contingency reserve	4 000	3 300	*- 700*	8 000	5 000	*-3 000*	9 000
Total expenditure	**277 324**	**287 909**	***10 585***	**297 524**	**311 231**	***13 707***	**334 561**
Deficit	**-24 473**	**-22 692**	***1 780***	**-24 402**	**-22 523**	***1 879***	**-21 350**
Increase in non-interest allocated expenditure			*13 434*			*17 884*	

1 Salaries of Members of Parliament, salaries of judges and standing appropriations (claims on guarantees and subscriptions to funds of the World Bank, African Development Bank and International Monetary Fund).

2 Includes conditional grants to provinces and local government .

3 Adjusted for reclassification of some capital transactions now included in current expenditure .

Chapter 6 outlines the medium-term expenditure allocations by vote, and provides an analysis of the functional and economic breakdown of national and provincial spending.

Consolidated government accounts and the PSBR

National and provincial consolidated expenditure

Consolidated spending on public services includes social security funds and provinces

Table 3.8 summarises the consolidated national and provincial budget framework and provides estimates of the trend in real non-interest expenditure. It accounts for revenue and expenditure over and above that of the National Revenue Fund, principally through the RDP Fund, social security funds and provincial expenditure financed by provincial own revenue.

Provincial expenditure is financed by the provincial equitable share of national revenue, several conditional grants from the national budget and provincial own revenue. Details of provincial government finance are set out in chapter 7.

Real spending on services grows at 4,1 per cent a year

Real non-interest expenditure across national and provincial government will grow at an annual average rate of 4,1 per cent over the course of the MTEF. An in-depth analysis of the distribution of this expenditure is set out in chapter 6.

Table 3.8 Consolidated national and provincial expenditure, 1998/99–2004/05

R million	1998/99 Outcome	1999/00 Outcome	2000/01 Outcome	2001/02 Revised estimate	2002/03	2003/04	2004/05
					Medium-term estimates		
Revenue							
National and provincial	**194 785**	**210 122**	**228 201**	**262 020**	**279 339**	**303 639**	**328 936**
Expenditure							
National expenditure	208 347	222 106	242 239	270 748	297 384	321 350	345 364
Less: State debt cost	42 669	44 290	46 321	47 515	47 503	49 845	52 434
Less: Transfers to provinces	93 457	99 263	108 904	121 206	132 420	142 844	152 363
Non-interest spending[1,2]	72 220	78 554	87 014	102 027	117 462	128 661	140 568
Provincial expenditure	96 324	99 742	110 213	122 399	138 189	147 567	157 096
Consolidated expenditure[3]	**211 214**	**222 586**	**243 547**	**271 941**	**303 154**	**326 072**	**350 097**
Percentage of GDP	*28,0%*	*27,1%*	*26,7%*	*27,5%*	*28,0%*	*27,7%*	*27,4%*
Consolidated non-interest expenditure[3]	**168 544**	**178 296**	**197 227**	**224 426**	**255 651**	**276 228**	**297 664**
Percentage of GDP	*22,4%*	*21,7%*	*21,7%*	*22,7%*	*23,6%*	*23,4%*	*23,3%*
Percentage increase	*1,8%*	*5,8%*	*10,6%*	*13,8%*	*13,9%*	*8,0%*	*7,8%*
Real non- interest	**190 877**	**188 856**	**193 755**	**207 008**	**221 092**	**226 333**	**233 073**
Real increase in non-interest spending[4]	*-5,1%*	*-1,1%*	*2,6%*	*6,8%*	*6,8%*	*2,4%*	*3,0%*
Consolidated deficit	**-16 429**	**-12 464**	**-15 346**	**-9 921**	**-23 815**	**-22 433**	**-21 162**
Percentage of GDP	*-2,2%*	*-1,5%*	*-1,7%*	*-1,0%*	*-2,2%*	*-1,9%*	*-1,7%*
Gross domestic product	*753 829*	*821 144*	*910 500*	*990 000*	*1082 800*	*1178 900*	*1277 500*

1 Including transfers to local government and extra-budgetary institutions.

2 Including transfer of R855 million to Umsobomvu Fund in 1999/00.

3 Including national contingency reserve and provincial finance reserves.

4 Deflated using the CPIX deflator to constant 2000 prices.

The consolidated general government account

In addition to the activities of national, provincial and local government, various government functions are promoted through extra-budgetary agencies and accounts.

About 23 per cent of general government spending is outside the national and provincial budgets

Table 3.9 breaks down consolidated general government revenue and expenditure into its various components.

It shows government expenditure outside of the national and provincial spheres of over R63,4 billion in 2000/01, or 22,6 per cent of total consolidated government expenditure. This additional expenditure is divided between extra-budgetary institutions – including regulatory, research and licensing boards, universities and technikons and cultural institutions – and local government.

General government financing requirement of 2 per cent of GDP

Of the total consolidated general government expenditure for 2000/01, R260,4 billion is financed through tax revenue and grants, fees and charges, leaving a financing requirement of R18,6 billion, or 2 per cent of GDP.

Table 3.9 Consolidated accounts of general government, 2000/01[1]

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Tax revenue (net of SACU)	211 877	6 492	1 277	20	13 735	233 402
Non-tax revenue	3 704	575	3 168	6 596	12 163	26 206
Total current revenue	215 582	7 067	4 445	6 616	25 898	259 608
Capital revenue	10	0	69	657	33	769
Total revenue	**215 592**	**7 067**	**4 514**	**7 273**	**25 931**	**260 377**
Percentage of total	*82,8%*	*2,7%*	*1,7%*	*2,8%*	*10,0%*	*100%*
Grants received[4]	1 028	18	108 904	22 096	4 909	1 028
Total revenue and grants	**216 620**	**7 084**	**113 418**	**29 369**	**30 840**	**261 405**
Goods and services	*44 949*	*742*	*78 788*	*18 892*	*19 237*	*162 608*
Interest	*46 321*	*25*	*336*	*137*	*2 148*	*48 967*
Subsidies and transfers [5]	*134 084*	*6 610*	*23 447*	*9 748*	*2 054*	*40 017*
Current expenditure	225 354	7 378	102 571	28 777	23 439	251 592
Capital expenditure	10 085	13	7 642	2 301	8 858	28 898
Total expenditure	**235 439**	**7 390**	**110 213**	**31 078**	**32 297**	**280 490**
Net lending	- 573	–	–	–	59	- 514
Total expenditure and net lending	**234 866**	**7 390**	**110 213**	**31 078**	**32 356**	**279 976**
Percentage of total	*83,9%*	*2,6%*	*39,4%*	*11,1%*	*11,6%*	*100,0%*
Surplus / (Deficit)	**-18 246**	**- 306**	**3 206**	**-1 709**	**-1 516**	**-18 571**
Extraordinary payments	-2 297					-2 297
Extraordinary receipts	2 984					2 984
Financing requirement(-)	**-17 560**	**- 306**	**3 206**	**-1 709**	**-1 516**	**-17 885**
Percentage of GDP	-1,9%	0,0%	0,4%	-0,2%	-0,2%	-2,0%

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 Excluding local government enterprises

4 Transfers between spheres of government are netted out. 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.

The public sector borrowing requirement

The public sector borrowing requirement includes the consolidated general government deficit and the financing requirements of the non-financial public enterprises. It takes into account extraordinary expenditure items and the proceeds from the restructuring of state enterprises.

Table 3.10 summarises these balances since 1998/99 and provides projections to 2004/04.

PSBR to rise to 1,7 per cent of GDP in 2004/05

The PSBR has been reduced significantly since 1998/99, falling from 3,5 per cent of GDP in 1998/99 to 0,5 per cent of GDP in 2001/02. These trends are driven primarily by a reduced main budget deficit, the inflow of extraordinary receipts, reflecting the proceeds of the restructuring of state-owned enterprises, and consistently strong surpluses posted by the non-financial public enterprises from 1999/00.

Due to increased capital expenditure, particularly by the non-financial public enterprises, the PSBR is expected to increase over the next three years to about 1,7 per cent of GDP.

Table 3.10 Public sector borrowing requirement[1], 1998/99–2004/05

R million	1998/99 Outcome	1999/00 Outcome	2000/01 Outcome	2001/02 Revised estimate	2002/03	2003/04	2004/05
					Medium-term estimates		
Main budget							
Main budget deficit	17 411	16 588	18 350	14 143	22 692	22 523	21 350
Extraordinary payments	936	1 485	2 297	2 075	1 571	–	–
Extraordinary receipts	-2 758	-7 238	-2 984	-4 721	-12 000	-5 000	-5 000
Financing requirement	**15 589**	**10 835**	**17 664**	**11 496**	**12 263**	**17 523**	**16 350**
RDP Fund	- 75	- 124	- 104	- 367	- 100	- 50	- 50
Trading accounts	–	–	–	–	–	–	–
Social security funds	- 341	- 441	306	- 432	- 444	- 314	- 65
Provinces	- 566	-3 559	-3 206	-3 423	1 667	275	- 73
Extra-budgetary institutions	2 214	2 562	1 709	1 202	961	673	606
Local authorities & local government enterprises	988	-2 086	-2 316	- 748	972	1 020	3 255
General government deficit	**17 809**	**7 187**	**14 053**	**7 728**	**15 319**	**19 127**	**20 022**
Percentage of GDP	*2,4%*	*0,9%*	*1,5%*	*0,8%*	*1,4%*	*1,6%*	*1,6%*
Non-financial public enterprises[2]	8 775	-2 183	-5 592	-2 315	- 463	324	1 134
Public sector borrowing requirement	**26 584**	**5 004**	**8 461**	**5 414**	**14 856**	**19 451**	**21 157**
Percentage of GDP	*3,5%*	*0,6%*	*0,9%*	*0,5%*	*1,4%*	*1,6%*	*1,7%*
Gross domestic product	*753 829*	*821 144*	*910 500*	*990 000*	*1082 800*	*1178 900*	*1277 500*

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.

Investing in growth - key budget priorities, progress and challenges

This chapter concludes by outlining some of the ways in which fiscal policy seeks to address Government's key challenges.

Sustainable growth requires investment in infrastructure, capacity and skills

Investing in growth means reinforcing services that contribute to expanding the production frontier of the economy. It means enhancing the capacity of government to spend resources efficiently and effectively. And it means investing in the capacity of ordinary South Africans to take part in, and benefit from economic growth.

Government is taking a number of steps to meet these priorities. These include steps to meet the infrastructure challenge effectively, enhancing the effectiveness of the execution of government spending decisions, and measures to upgrade the South African skills base.

Meeting the infrastructure challenge

Boosting spending on public infrastructure is a key element in Government's social and economic policy framework and is a major priority of the 2002 Budget.

Infrastructure underpins economic development

Infrastructure supports development because it creates favourable conditions for production and consumption, because it facilitates economic diversification, and because it provides access for people to services and opportunities.

Components of South Africa's infrastructure development

Establishing the policy framework

South Africa's infrastructure development framework is clearly articulated in several broad infrastructure policies. These include the Spatial Guidelines for Infrastructure Investment and Development (SGIID), several infrastructure sector White Papers, other policy statements, and the programme of Spatial Development Initiatives. At the local government level, which takes responsibility for most service delivery to households, the Municipal Infrastructure Investment Framework (MIIF), and the action plan for the Consolidated Municipal Infrastructure Programme (CMIP) provide planning and financing frameworks for the roll-out of infrastructure for service delivery.

Establishing the expenditure framework

Planning, implementation and monitoring of infrastructure expenditure requires both an effective system of public financial management, and an infrastructure delivery strategy embodied in a series of specific procedures in the Government budgeting and planning process.

The introduction of the MTEF and the Public Finance Management Act provide a sound framework for the implementation of government spending decisions. This is described in greater detail in the final section of this chapter.

This year will see the incorporation of a framework for infrastructure budgeting into the annual planning and budget allocation process. It will provide for:

- Strengthened evaluation criteria and decision processes
- Enhanced joint decision making across spheres of government
- Greater coordination with the budget process
- More effective oversight of infrastructure priorities
- Simple and accessible monitoring, evaluation and reporting procedures.

Leveraging resources

Measures to leverage all available resources towards infrastructure development include the appropriate restructuring of state owned enterprises, and the incorporation of private sector expertise and finance into infrastructure development, both through public private partnerships (PPPs), and tapping capital markets for public sector infrastructure development. Plans for the restructuring of South Africa's state owned enterprises is set out in the Policy Framework for the Accelerated Agenda for the Restructuring of State Owned Enterprises. While tapping private sector finance for municipal infrastructure development through a municipal bond market has a considerable way to go, special purpose intermediaries, in particular the DBSA and the Infrastructure Finance Corporation (INCA) have set important precedents.

Government's facilitative role

Effective regulation of prices, norms and standards, appropriate competition policy, and a responsive legislative and judicial environment are all essential for the effective delivery of infrastructure, by both the private and public sector. Revised regulatory structures have already been established in most infrastructure sectors, notably in the electricity sector, under the National Electricity Regulator (NER), and telecommunications sector, under the Independent Communications Authority of South Africa (ICASA). As increased private participation is introduced into these sectors, the role of the NER and ICASA will be to ensure that the benefits of increased competition are passed on to the consumer in the form of a higher quality service at a lower price.

Infrastructure output elasticities of between 0,2 and 0,3

Studies on the association between infrastructure development and growth in South Africa yield output elasticities of between 0,2 and 0,3 on public sector infrastructure stock[2]. In other words, every 10 per cent increase in the stock of public infrastructure capital is associated with an increase in output of between 2 and 3 per cent.

Indicative levels of infrastructure expenditure can be derived from aggregate levels of capital expenditure at all three levels of government, the infrastructure-related components of public private partnerships (PPPs), and levels of investment recorded for extra-budgetary and non-financial public enterprises, as well as through the identification of key infrastructure programmes in all these spheres.

Public entities play key role in infrastructure investment

A large part of Government infrastructure investment is undertaken by entities operating outside the main budget framework. These include rail, air and harbour services, national road maintenance, water and electricity supply, and telecommunications. In many such cases, public entities retain revenue for investment, borrow funds directly on the capital markets, or raise finance from lending institutions.

Quantifying the total infrastructure expenditure by public authorities presents a number of methodological problems, including the aggregation of infrastructure expenditure with other non-current expenditure within the term 'capital expenditure', difficulties in pricing PPP-related infrastructure spending, data weaknesses and inconsistent reporting formats across different spheres of government.

Table 3.11 sets out broad trends indicative of public sector infrastructure development in South Africa. It includes capital spending by national, provincial and local government, infrastructure expenditure financed off-budget though PPPs and investment by extra-budgetary institutions and non-financial public enterprises.

Government capital expenditure points to steady progress in infrastructure spending

It shows steady increases in capital expenditure by the three spheres of government, rising from R20,0 billion in 1998/99 to R38,9 billion in 2004/05 – an annual average growth rate over the period of 11,7 per cent per year. This capital expenditure includes allocations earmarked specifically for infrastructure programmes – through the supplementary allocations in the 2001 and 2002 budgets, and conditional grants to provincial and local government. Further details are provided in chapters 6 and 7, and in the *Estimates of National Expenditure*.

Significant contributions from state owned enterprises

A significant portion of capital expenditure within the public sector takes place outside of the national and provincial departmental budgets. Extra-budgetary agencies, PPPs, and the expenditure of non-financial public enterprises account on average for 45 per cent of public sector capital expenditure over the MTEF period. The expenditure of the four large state owned enterprises – Telkom, Eskom, Transnet and Denel - accounts for the greater part of this spending.

---

[2] Coetzee and Le Roux (1998), "Does Public Infrastructure affect Economic Growth" and Development Bank of Southern Africa (1998), *Infrastructure: a Foundation for Development.*

Table 3.11 Infrastructure related public expenditure

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
	Outcome	Outcome	Preliminary estimates		Medium-term estimates		
R million							
National departments[1]	5 016	3 921	3 191	6 293	8 124	9 191	9 435
Provincial departments	6 380	6 211	7 642	9 630	12 765	14 308	15 792
	1998-99	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
	estimated outcome		**Preliminary estimates**		**Medium-term estimates**		
Municipalities	8 600	10 300	13 700	11 700	12 402	13 084	13 672
Public private partnerships[2]	755	638	572	830	966	2 846	2 226
Extra-Budgetary institutions	2 015	2 005	2 351	2 592	2 818	3 143	3 380
Non-financial public enterprises[3]	26 073	17 404	16 442	18 582	20 622	22 998	24 730
Total	48 084	39 842	43 325	48 797	56 731	62 724	67 008
percentage GDP	6,4%	4,9%	4,8%	4,9%	5,2%	5,3%	5,2%
GDP	*753 829*	*821 144*	*910 500*	*990 000*	*1 082 800*	*1 178 900*	*1 277 500*

1 Capital transfers to the provincial and municipal level netted out.

2 Capital expenditure on PPPs overseen by the Treasury PPP Unit, South African National Roads Agency, Department of Public Works, and at municipal level, including those with the assistance of the MIIU.

3 Capital expenditure of public corporations, central government enterprises, local government enterprises, and national government business enterprises.

PPP infrastructure spending to reach R2,8 billion

Departments, provinces, municipalities and government agencies are making increasing use of PPPs to deliver on infrastructure commitments, with PPP-facilitated infrastructure expenditure projected to rise three-fold over the MTEF. Annual infrastructure roll-out through PPPs is expected to reach R2,8 billion by 2003/04.

MIIU and Treasury PPP Unit provide technical and policy support to municipalities and departments

In recent years two units have been created to provide support to Government in the design, facilitation and execution of PPPs. The Municipal Infrastructure Investment Unit (MIIU) based at the DBSA assists at local government level, while the Treasury's PPP Unit oversees national and provincial compliance with Treasury regulations governing PPPs in terms of the Public Finance Management Act.

National and provincial PPPs value R4,7 billion to date

PPPs undertaken at national and provincial level include the non-medical services for Albert Luthuli Hospital, management of the Northern Province vehicle fleet, three eco-tourism projects, the Universitas and Pelenomi hospital co-location project and the Mangaung and Louis Trichard prisons. A further 27 potential projects are in various stages of planning. The value of national and provincial PPPs already implemented stands at over R4,7 billion.

Over 21 municipal PPPs

At municipal level over 21 PPPs have been concluded to date, including Nelspruit's and the Dolphin Coast's water and sanitation services, Pretoria Airport and the Kelvin Power Joint Ventures. PPPs facilitated by the MIIU have a net present value of R3,3 billion.

SANRA PPP investment of R16,5 billion

The South African National Roads Agency (SANRA) was established in 1998 as an independent statutory company to maintain and develop South Africa's roads. PPPs undertaken by SANRA to date include the N3 Cedera-Heidelberg Road, The Maputo Corridor and the Platinum highway, with five further PPP concessions planned over the course of the MTEF, with a total value of R16,5 billion.

Key public sector infrastructure programmes

Major infrastructure programmes undertaken by national departments include:

- The electrification programme of DME is funded at R900 million per year
- The Integrated Justice Sector Cluster will spend a total of R699 million between 2000/01 and 2004/05, primarily on IT infrastructure as part of the e-Justice programme.

Provincial infrastructure expenditure is widely dispersed across schools, hospitals and clinics, roads and other minor works. In the first three quarters of 2001/02, provinces spent:

- R430 million on provincial roads in KwaZulu-Natal
- R287 million on housing projects by the North West provincial government
- R110 million by the Gauteng government in the education sector.

Major infrastructure programmes undertaken at municipal level include:

- City of Johannesburg expenditure of R267 million for a new bus fleet
- Ekurhuleni Metro Council expenditure of R237 million on housing projects
- Ethekwini Metro Council expenditure of R779 million on its Electricity for All projects.

Public infrastructure expenditure undertaken outside the main budget includes the expenditure of non-financial public institutions (at both national and local government level), extra budgetary institutions, and a range of public private partnerships.

Key investments under way, or to be undertaken by non-financial public institutions, include:

- The construction of a deep water bulk port in the Eastern Cape, at a cost of R2,7 billion over four years
- Upgrading of Durban Harbour's container handling capacity at a cost of R1,3 billion over the next three years
- Electrification programmes of over R1,1 billion over the MTEF period
- Expenditure of over R800 million on refurbishment of power stations and the return of mothballed power stations to use over the next three years
- Expenditure on expansion and modernisation of the entire telecommunications network of R50,1 billion by the end of Telkom's 5-year exclusivity period.

Among the key public private partnership programmes under way, or under review, are:

- The 'platinum highway' toll road concession linking the N4 north of Pretoria with Botswana with an estimated value of R2,5 billion
- Industrial development zones for Coega, Richards Bay and East London
- A proposed gas pipeline between Mozambique and South Africa
- A high-speed rail link between Johannesburg and Pretoria at an estimated cost of R7 billion.

Measures to enhance the quality of expenditure

Three broad sets of measures that Government has taken to improve the quality of government expenditure are noted below: overhauling the public financial management system, targeted initiatives to optimise the execution of spending decisions, and maximising cost-efficiency on government personnel expenditure.

Overhaul of public financial management systems

Since 1994 Government has undertaken significant reform of the structure and organisation of South Africa's public finances. This includes:

- The introduction of the three-year medium term expenditure framework
- A fundamental overhaul of the system of inter-governmental finances (for more details, see chapter 7 and annexure E)
- The creation of the Financial and Fiscal Commission, and the Budget Council and Budget Forum to co-ordinate budgetary and financial policy across spheres
- The introduction of a framework to ensure financial accountability at all levels of government, in the form of the Public Finance Management Act and the Municipal Finance Management Bill.

Progress continues to be made in implementing the PFMA. In the last year this includes the following:

Ongoing implementation of the PFMA…

- Output and service delivery information for each departmental programme, now published in the *Estimates of National Expenditure*
- Workshops to ensure that departments are able to compile annual financial statements by no later than two months after the end of the financial year, as required by the PFMA and Treasury Regulations
- Treasury guidelines to ensure that departments are able to compile three-year strategic plans consistent with departmental budgets
- A survey by the Institute for Public Finance and Auditing into the skills level of finance practitioners, the results of which have formed the basis for a training framework
- The compilation of a set of detailed normative measures for financial management in the public service.

… supported by measures to improve expenditure decisions

The broad expenditure management systems provided for in the PFMA are complemented by a range of targeted initiatives to enhance the execution of expenditure decisions. At departmental level these include the financial and managerial capacity-building programmes of the DPSA (set out in Vote 10 of the *Estimates of National Expenditure*); and at provincial and local level, the financial and managerial capacity building programmes of the Department of Provincial and Local Government (Vote 5).

Most recent measures include:

- The introduction of set formats in the Treasury Regulations and Public Service Regulations for the definition of departmental strategic plans
- The appointment of hospital managers and their designation as accounting officers in 10 pilot sites
- The development of a financial management training programme by the National Treasury, the South African Management Development Institute and the Institute for Public Finance and Auditing.

Effective delivery of services and execution of policy depend not only on improving managerial capacity, but on skills and commitment across the public service. The 2001 public service salary agreement links salary increases to CPIX inflation, assuring public servants of moderate real earning improvements while providing greater certainty regarding personnel spending trends.

Service delivery depends on skills and commitment

Over the MTEF period, Government's personnel policy will focus on measures to improve service delivery. These will include the employment of additional staff in the health and policing sector, renewed skills development, measures to reduce surplus employees in overstaffed departments and broader organizational development.

Additional personnel in key service areas

Financing skills development

Government's Human Resource Development Strategy, launched in April 2001, provides a framework for the development of South Africa's skills base. It is a cross-departmental initiative that focuses on:

Human Resource Development Strategy launched

- Building the foundations for human resource development
- Improving the supply of high quality skills
- Increasing employer participation in lifelong learning
- Supporting employment growth through industrial policies, innovation, research and development.

The strategic goals, outputs and delivery indicators for the programmes that give form to Government's human resource strategy can be found in chapters of the *Estimates of National Expenditure* dealing with the Departments of Trade and Industry, Public Service and Administration, Labour, Education and Arts, Culture, Science and Technology.

Fiscal policy instruments play an important role in giving substance to this strategy. These include the skills development levy, through which new sectoral training authorities are financed, programmes of the Umsobomvu Fund, and the new learnership incentive.

Fiscal support for human development includes the skills levy and a new tax incentive

Details of the implementation of the learnership incentive – which entails tax allowances to employers that fund learnerships for employees – are set out in chapter 4.

The skills development programme

The skills development levy – which entails a 1 per cent tax on company payroll - was introduced in 2000/01, at an initial rate of 0,5 per cent. The levy serves to channel resources to sectoral education and training authorities (SETAs) and the National Skills Fund, charged with addressing the training needs of those within, and outside of the formal labour market respectively.

In 2000/01, R721 million was raised for the SETAs and R180 million for the National Skills Fund. For 2001/02, the projected revenue from this tax has been revised marginally downwards from R2,80 billion to R2,75 billion.

R2,75 billion raised for SETAs and National Skills Fund in 2001/02

Since the introduction of the levy, emphasis has been placed on building SETA capacity and establishing systems to evaluate company training plans. With these frameworks in place, the education and training authorities have now begun to develop sector skills plans, and transfer resources to companies that are implementing skills development programmes consistent with prescribed requirements.

The Umsobomvu Fund

The Umsobomvu Youth Fund was established in January 2001, capitalised by revenue from the demutualisation of Old Mutual and Sanlam.

Umsobomvu Fund focuses on youth training and support

Initiatives undertaken in the first year of the Fund's operation include:

- The creation of pilot youth advisory centres to provide economic and life skills information and counselling support
- The launching of Community Youth Service programmes, emphasising 'on-the-job' skills training
- The establishment of 'school-to-work' pilot programmes aimed at developing professional skills in scarce human resources.

This year the fund will launch initiatives to provide young entrepreneurs, chiefly in the small business sector, with enterprise/business advisory support and funding.

Conclusion

Sustainable growth needed to reduce poverty

Sustainable growth and development are necessary to achieve a progressive reduction in poverty and a bridging of the gap between rich and poor. Growth depends crucially on the maintenance of a sound macroeconomic and fiscal stance, and improved investment in human development and physical infrastructure.

Growth and poverty reduction are promoted through enhanced partnerships, with civil society and the private sector, and with continental and international partners within the framework set out in the New Partnership for Africa's Development.

2002 Budget supports enhanced partnership for sustainable development

Over the next three years, fiscal policy will support these objectives by increasing the resources available for programmes that contribute towards poverty alleviation, skills development, infrastructure expansion and job creation, while strengthening Government's capacity to lead the development process.