

Medium term expenditure estimates

Following a decade of reprioritisation of public expenditure and broadening of social and development services, this Budget takes several further steps in reinforcing infrastructure investment, job creation and improvements in social services.

The 2004 Budget allocates an additional R44,5 billion over the next three years. Government spending on public services grows in real terms by 6,5 per cent in 2004/05 and by 4,8 per cent over the next three years, demonstrating a continuing commitment to expanding opportunity and progressively narrowing the social and economic divisions of the South African landscape.

The main spending changes over the 2004 MTEF period are summarised below.

- *R1,5 billion more for provincial infrastructure grants and R1,7 billion more for municipal infrastructure, partially earmarked for labour-based public works programmes*
- *R19,7 billion more for provincial equitable share allocations, providing for growth in social grant programmes and quality improvements in health services and education, including targeted allocations for poor schools*
- *R2,1 billion more for the comprehensive response to HIV and Aids, including provision for antiretroviral treatment programmes*
- *A further R3,3 billion for the child support extension grant, to complete the extension of the grant to qualifying children under the age of 14*
- *R2,2 billion more for the local government equitable share, further supporting community development initiatives, of which R778 million is earmarked for free basic services*
- *R700 million more for land restitution and land reform, and R750 million for a new grant for agricultural support to beneficiaries of land reform programmes*
- *R1,9 billion to reinforce and expand the SA Police Service, and R475 million to streamline the justice process*
- *An additional R850 million to improve the quality of Home Affairs services, particularly in rural areas*
- *R1,1 billion additional to support peacekeeping operations in Africa, and R427 million to enhance diplomatic representation abroad.*

Measuring Government progress

Monitoring progress in public service delivery is a pre-requisite for improved budgeting and planning, and was rightly identified in the

1994 Reconstruction and Development Programme White Paper as a key public sector reform challenge in its own right.

Public policy goals need to be complemented by measures of performance

In *Towards a Ten Year Review*, Government's preliminary assessment of the record of the first decade of democracy, 82 indicators are listed and were used to develop composite measures of progress across several dimensions of growth and development. For purposes of public expenditure planning, a much larger number of indicators are needed, linked to the "measurable objectives" for each departmental programme identified in the *Estimates of National Expenditure* and provincial budget documents. Programmes can be clustered in various ways – social, economic, administrative, security-related – and these clusters, in turn, serve to address higher-level public policy goals, such as halving unemployment by 2014 – a target that emerged from the Growth and Development Summit held in June last year.

Government spending plans build on past progress

As outlined in chapters 1 and 2 of this Review, Government's policy framework and spending plans for the decade ahead build on the substantial progress made since 1994, and seek to accelerate the pace of growth and development while overcoming the divisions between "two economies" that still characterise the South African landscape. Measuring progress along the path ahead is central to the budgetary and planning reforms currently under way.

This is ongoing work, but the broad challenges that have helped shape the 2004 Budget were summarised as follows in the 2003 *Medium Term Budget Policy Statement*:

- A renewed focus on employment creation in part through an expanded public works programme
- Extending social assistance, health and education programmes administered by provinces
- An enhanced commitment to fighting HIV and Aids including a progressive roll-out of anti-retroviral drugs and supporting measures
- Further extension of social grants particularly targeting children and other vulnerable groups
- Investments in neighbourhoods and communities and further extension of free basic services and municipal infrastructure
- Expanded capacity in the safety and security sector and establishment of a new Protection and Security Services division
- Improving the quality of school education through targeted allocations directly to poor schools
- Improving core services of Home Affairs to citizens, particularly in rural areas
- A growing commitment to promote peace in Africa, and support for regional trade and development.

Accelerated growth will support broad-based development

Several of these goals relate to economic growth and job creation. Higher growth will support a process of broad-based development and the progressive realisation of the social and economic rights of South Africans. The aim is to reduce the number of people dependent on social welfare and increase the numbers that rely for their livelihood on normal participation in the economy.

Reducing poverty through appropriate income support and social security measures is also critical. As government strives to improve economic growth and broaden access to economic opportunities, it will simultaneously strengthen the social security system to reach out to larger numbers of the most vulnerable.

Government will strengthen social security system

Normal participation in the economy and broad social inclusion relies on the rule of law, combating crime and effective regulatory and administrative institutions. It also extends to the opening up of trade and creating an environment in Southern Africa, Africa and beyond for co-operation, peace and equitable inter-state relations.

Having established an encompassing framework or broad development strategy, Government sets itself objectives and targets against which progress can be assessed. The Expanded Public Works Programme, for example, aims to create a million jobs over the years ahead, through interventions that will extend into every municipality and many categories of infrastructure and service delivery.

Expanded Public Works programme to create a million jobs

Investment in infrastructure, technology advancement and industrial expansion, in partnership with the private sector, are further examples. Capital formation in the public and private sectors is targeted to expand by more than 6 per cent a year to sustain accelerated growth. Over the longer term, investment and saving need to rise from the current level of about 15 per cent of GDP to nearer 25 per cent, last achieved more than 20 years ago. Similarly, investment in education, training and skills development is essential for broad-based development. Increasing the number of registered learnerships to the targeted 500 000 by 2006 would be a substantial step forward towards this goal.

Government continues to emphasise investment in infrastructure

Over the past ten years, Government has made concerted efforts to redress poverty and inequality through a redirection of public spending towards key social and economic programmes. As illustrated in table 1.10 in chapter 1, spending on social services has grown from 44,4 per cent of general government non-interest expenditure in 1982/83 to 56,7 per cent in 2002/03. The shares allocated to social security, health and housing and water services have increased particularly strongly. The shares of spending on defence and economic services, particularly subsidies for agriculture and manufactured exports, have declined over this period.

Substantial redirection of public spending towards key social and economic programmes

Reprioritisation continues in the 2004 Budget. As in the past, this budget is the outcome of an extended planning and consultative process, overseen by Cabinet, the Ministers' Committee on the Budget and the Budget Council. It takes into account deliberations in Parliament and NEDLAC, and draws on public debate and commentary.

Budget reflects decisions of Cabinet and Provincial Executive Committees

The Growth and Development Summit held in June 2003 confirmed the main pillars of Government's development strategy and provided important inputs from business, labour and community representatives. The Summit committed these partners to work together with Government to promote higher rates of investment, to expand employment and foster people-centred development.

The GDS provided valuable input for the Budget

This chapter presents a summary of the main spending priorities of Government. It updates expenditure estimates for 2002/03 and 2003/04 and presents expenditure plans for the next three years; it also explains the main adjustments to 2003/04 expenditure. The discussion of national department allocations is followed by a brief review of consolidated national and provincial spending trends.

Medium term policy priorities

Expenditure priorities in the 2004 Budget

Expansionary fiscal stance continues in 2004/05

The 2004 Budget continues with the expansionary fiscal stance of the preceding years and further strengthens the policy commitments of the 2002 and 2003 Budgets. Notably, this Budget allows for an extension of key public services, particularly in the social sector and in areas of infrastructure. The budget prioritises services that target the poor and vulnerable groups, while advancing programmes that provide greater impetus for economic growth and broad-based development.

Government's priorities inform MTEF allocations

The main additional allocations in the 2004 Medium Term Expenditure Framework (MTEF) are set out in table 6.1. Further details of policy shifts and expenditure adjustments are provided in this chapter, the *Estimates of National Expenditure* and forthcoming provincial budget statements.

Economic and investment cluster

Infrastructure investment provides backbone of economic activity

Building upon the progress of recent years, the 2004 Budget continues to focus on infrastructure delivery both as a means of improving public services and as an impetus to economic growth. Infrastructure investment provides the backbone for economic activity and contributes to employment creation.

Expansion in rail, roads, ports and airports to address bottlenecks in logistics chain

Enhancing the efficiency of the nation's transport and logistics infrastructure remains a key challenge, and addressing the bottlenecks in the country's logistics chain – particularly in the rail network and ports – is a top priority. Government has established a national logistics task team, which will focus on measures to improve the logistics infrastructure so as to facilitate cost effective movement of goods within and beyond our borders. This will require the expansion of capacity in rail, roads, ports and airports.

The skills mismatch is a constraint on growth

The current mismatch in the supply of appropriate skills is a constraint to growth. The Human Resource Development Strategy seeks to match the supply of skills with the requirements of the economy. This involves deepening the supply of high quality skills and continuing to improve the formal education system. The performance of the twenty-five Sector Education and Training Authorities (SETAs) has been varied but recent reforms have strengthened the Minister of Labour's ability to address under-performance or administrative shortcomings.

Table 6.1 2004 Budget priorities – additional allocations to selected votes

R million	2004/05	2005/06	2006/07	Total
Infrastructure grants				
Provincial infrastructure grant	300	500	700	1 500
Municipal infrastructure grant	400	600	700	1 700
Enhancement of education, health, welfare and other functions				
Provincial equitable share	4 657	6 294	8 780	19 731
Health - comprehensive HIV and Aids response	373	648	1 051	2 072
Social Development - child support extension grant	250	500	2 500	3 250
Education - higher education	270	290	350	910
Basic household services, municipal services and community employment				
Local government equitable share	600	700	900	2 200
Skills development				
Skills Fund and Sector Education and Training Authorities	400	200	142	742
Land reform and agricultural support				
Land Affairs - Land restitution and land reform	–	200	500	700
Agriculture - Comprehensive agricultural support programme	200	250	300	750
Fighting crime and streamlining of justice process				
Justice and Constitutional Development	109	158	208	475
Safety and Security	349	607	921	1 877
Administrative systems and services to citizens				
Home Affairs	150	300	400	850
Support for NEPAD and international commitments				
Foreign Affairs	102	146	179	427
Defence - peacekeeping operations	500	300	300	1 100
Other adjustments	1 046	2 438	2 693	6 177
Total policy adjustments	9 706	14 131	20 624	44 461

Productivity enhancements are a critical determinant of economic growth. Technological advances, derived from research and development have helped improve growth in productivity in a number of economic sectors. Notable improvements in productivity are in the manufacturing and energy sectors and to some extent in the agricultural sector. Cabinet has approved the national research and development strategy and improved oversight of national research councils under the Ministry of Science and Technology will strengthen governance arrangements and improve the country's research capabilities.

Productivity improvement in manufacturing and energy sectors

Government's land reform strategy aims to redistribute thirty per cent of agricultural land to emerging farmers. An important component of this process is to provide adequate support to newly settled farmers. Over the 2004 MTEF, provincial agriculture departments will receive an additional R750 million through a conditional grant to support new and small-scale farmers through the Comprehensive Agriculture Support Programme.

Post-settlement support for emerging farmers

In 2003 the Minister of Finance announced that R10 billion will be allocated over five years to encourage and improve black ownership of companies in South Africa. This will advance broad-based black participation and ownership in the economy through a combination of measures that involve the National Empowerment Fund, the private

sector, and public entities. Over the next three years, R6 billion is set aside for empowerment initiatives.

Government will continue to strengthen economic regulatory framework

A sound regulatory framework helps to create a more dynamic and vibrant economy by encouraging more competitors in each sector. In sectors with little or no competition, economic regulation sets the parameters of the price-setting mechanism and can promote improved market outcomes. A unified energy sector regulator will shortly be established, and regulatory reforms are under consideration in the transport and water sectors.

Social services cluster

Focus on equity and enhanced access to services

The key challenge in the social cluster is to ensure equitable access and to enhance the quality of services. Objectives include building human capital, reducing poverty, protecting the vulnerable and building the basis for economic prosperity. The Expanded Public Works Programme, improved access to social security and measures to improve the quality of health and education are central to this challenge.

In 2004, social grant expenditure is R40 billion

The social grant system now delivers about 7,4 million grants, up from under 3 million a decade ago. The expansion of the grant system saw spending on social grants increase from R10 billion in 1993 to R40 billion in 2004. Strong growth will continue over the MTEF as provision is made for the extension of the child support grant. In coming years, inefficiencies in the grant system receive priority through initial funding for the centralisation of grant administration.

School education access has improved considerably

In education, early achievements in improving access – with near universal school enrolment for children up to grade ten and notably high enrolment rates of female learners – and securing a more equitable distribution of school resources, are being followed up by efforts to enhance efficiency and improve access to higher education through the restructuring of the higher education sector.

Nutrition programme feeds an estimated 4,5 million children

Initiatives focused on education quality are strengthened through increased support for curriculum development and implementation, particularly in the further education and training sector, and continued growth in non-personnel and capital expenditure for schools. From April 2004, the education sector has responsibility for the Primary School Nutrition Programme, feeding an estimated 4,5 million children and funded through a conditional grant to provinces.

Increased allocation for the HIV and Aids conditional grant

In 2003, Cabinet approved the Operational Plan for Comprehensive HIV and Aids Care, Management and Treatment for South Africa. Increased allocations for the HIV and Aids conditional grant to provinces provide for the roll-out of this plan that will progressively expand access to anti-retroviral treatment, while the national Department is strengthened to support and coordinate the roll-out. Recent collective bargaining agreements relating to scarce skills and rural allowances, an important initiative to ensure access to appropriate health care and attract and retain personnel in the public sector, were funded in the 2003 Budget.

The Expanded Public Works Programme (EPWP)

The EPWP is one of an array of government strategies aimed at addressing unemployment in the short to medium term. The programme attempts to bridge the gap between the formal economy and the large numbers of unskilled and unemployed people who have not yet enjoyed the benefits of economic development. As one of the initiatives agreed to at the Growth and Development Summit in June 2003, the EPWP involves creating temporary work opportunities for the unemployed, using public sector expenditure that builds on existing government infrastructure and social programmes that are known to be successful, by either deepening their labour absorption capacity or by extending it. The EPWP will cut across all spheres of government, including public entities.

Given that most of the unemployed are unskilled, the emphasis is on relatively unskilled work opportunities. These will be combined with training or education or skills development, with the aim of increasing the ability of people to earn an income once they leave the programme. The programme aims to provide employment opportunities and training to at least one million targeted unemployed people in its first five years. Work opportunities will be created in the following ways:

- Increasing the labour intensity of government-funded infrastructure projects under the leadership of the Department of Public Works
- Creating work opportunities in public environmental programmes (e.g. Working for Water) under the leadership of the Department of Environmental Affairs and Tourism
- Creating work opportunities in public social programmes (e.g. community-based care in health and social welfare and early childhood development) under the leadership of the Department of Social Development
- Developing small businesses and cooperatives, including utilising general government expenditure on goods and services to provide the work experience component of small enterprise learnership/incubation programmes under the leadership of the Department of Trade and Industry.

While the Department of Public Works will also be responsible for overall coordination of the programme, the national sector coordinating departments will be required to provide regular reports to Cabinet regarding progress with the implementation of the EPWP in each sector. As provinces and municipalities are the main delivery channels of Government, they will be the primary project implementing bodies for the EPWP but will be supported by the national departments responsible for sectoral coordination

Funds for EPWP programmes will be allocated to national departments, provinces and municipalities through the normal budgeting process.

SECTOR	ALLOCATIONS 2004/5 – 2008/9
Infrastructure	R15 billion
Environmental and cultural	R 4 billion
Social	At least R 600 million
Economic	Still to be determined

All national departments, provinces, municipalities and public entities will be required to take steps to increase the employment creation resulting from their infrastructure programmes, where technically and economically feasible. Although Government will take this approach with all of its infrastructure projects, there will be a particular focus on relatively simple infrastructure which is particularly amenable to the introduction of labour-intensive methods, and where the most additional work opportunities can be created, i.e. rural roads, local municipal roads, storm water drainage, water and sewer pipelines and rehabilitation of schools and clinics.

To make substantial inroads into the backlogs in community infrastructure, significant increases will be made over the next five years to the Municipal and Provincial Infrastructure Grants.

The workers employed on these projects will be trained in terms of the Code of Good Practice for Special Public Works Programmes. Together with the SETA's, the Department of Labour will coordinate the training and skills development aspects of the programme.

Contractors will need to be trained in the use of labour-intensive construction methods. Tend, the Department of Public Works and the Construction Education and Training Authority (CETA) will be selecting 500 emerging contractors for learnerships. Once qualified, they will be able to build and maintain these types of infrastructure using labour-intensive construction methods. Arrangements are also being made for financial institutions to provide these contractors with access to credit. Contractors are expected to undergo special National Qualifications Framework accredited training programmes in labour-intensive construction.

HIV and Aids

The 2004 Budget takes a significant step forward in financing government's programme against HIV and Aids. The comprehensive strategy is progressively being strengthened and total HIV and Aids related spending amounts to R12,3 billion over the MTEF period. This spending consists of conditional grants to the provinces via the departments of Health, Education and Social services, as well as funds allocated through the equitable share to provinces.

Over the MTEF, an additional R1,9 billion has provided to the Health HIV and Aids conditional grant to fund the treatment plan approved by Cabinet and R161 million has been allocated to the national Department of Health to fund the national component. Funding through the Health HIV and Aids grant increases from R333 million in 2003/04 to R1,6 billion in 2006/07. Voluntary counselling and testing is now widely available at 2000 sites. The mother to child prevention programme is rolled out to over 650 sites, and efforts are being made to step-up its quality. At a cost of R104 million, 358 million condoms were distributed in 2002/03 and increasing usage is demonstrated by various national behavioural surveys. The post-exposure prophylaxis programme for victims of sexual assault is funded through the conditional grant, with three provinces achieving close to full coverage.

The life skills program in schools is funded partly through the specific conditional grant to the Education sector (R128 million in 2004/05). Evidence of success includes reducing infection rates in the under 20 age group. Social Development departments are funded for various projects especially around orphan care (R70 million in 2004/05).

A range of other preventive programmes are funded such as the LoveLife, Soul City, and Lifeline projects and various NGOs. Programmes are being extended to new sites such as Trucking against Aids, the Commuters Aids project, Traditional Leaders Aids programme and Men in Partnership against Aids. Approximately 466 home-based care projects exist countrywide and half of these receive government support. South Africa is conducting a number of leading edge vaccine development research programmes along with international partners at a cost of approximately R75 million annually.

Recent slowdown in housing delivery is a major challenge

Access to low cost housing and secure accommodation is an integral part of Government's commitment to improving quality of life. This requires a sustainable housing development policy that will progressively expand access to housing opportunities. From 2004/05, the standard housing subsidy will increase from R23 100 to R25 100. Government is also moving towards delivery models that will address apartheid settlement patterns, attract private investment and respond more appropriately to a wider range of housing needs.

Expanded Public Works programme to offer jobs and skill training

Adding to the focus on building human capital and income support to the vulnerable, the Expanded Public Works Programme will focus directly on job creation and integrating an increasing proportion of South Africans into the labour market. These are also key objectives of the skills development strategy and labour market services of the Department of Labour, which receives additional funding for service delivery and for follow-up actions to implement agreements of the Growth and Development Summit.

Justice, Crime Prevention and Security Cluster

Key focus is to create an integrated and efficient CJS sector

Ensuring a safe and secure environment is important in enhancing the quality of life of citizens. Key challenges within the cluster are to increase the capacity of law enforcement agencies and build an efficient integrated criminal justice sector across all departments, with the aim of reducing the unacceptably high level of crime. The cluster

is also involved in activities that support government's foreign policy initiatives, particularly on the African continent.

Over the MTEF period, the main priorities of this cluster relate to court case-flow management, infrastructure planning, management of prisoner overcrowding and integrated justice sector IJS information systems and business re-engineering. Safety and Security, Justice, Social Development and Correctional Services are co-operating on the implementation of the Child Justice Bill and improving services to vulnerable groups.

Criminal justice system support to vulnerable groups

Safety and Security

Since 1999, SAPS has improved its services to victims of crime, sexual offences and violence - particularly women and children through the Victim Empowerment Programme. The SAPS, together with the Department of Social Development, have developed an officer-training programme to institutionalise victim empowerment and to sensitise officers to ensure that they treat victims professionally. Furthermore, SAPS is currently involved in a multi-stakeholder initiative aimed at developing an anti-rape strategy and implementing child justice initiatives nationwide.

Justice and Constitutional Development

Over the 2004 MTEF, the Department of Justice has set aside R494 million to implement or improve the quality of the following programmes and policies that focus on vulnerable groups:

Sexual Offences Courts - A Sexual Offences Court Blueprint has been developed for the establishment of these courts. Currently there are 26 dedicated Sexual Offences Courts that have been established and an additional 24 regional courts are equipped to hear cases relating to sexual offences. Over the MTEF period, an additional R35 million is allocated to facilitate the establishment of another 60 Sexual Offences Courts.

Family Courts - Family Courts consist of the Maintenance, Divorce, Domestic Violence and Children's Courts. Following a successful pilot of these family courts in five sites around the country, R35 million is provided over the 2004 MTEF to roll them out nationally. This programme is motivated by the need to protect the integrity of the family as a fundamental unit in society through the effective provisioning of easily accessible and specialised justice services to families in cases of family disputes.

Extending the role of Family Advocates to Family Courts - The appointment of Family Advocates will be extended to all family courts and their roles will be aligned with the functions of these courts. They will work to protect the best interests of the most vulnerable, for example, minors and dependent children in cases of divorce and maintenance, as well as in children's courts.

Appointment of Intermediaries and Family Counsellors - The role of permanently employed intermediaries and family counsellors is to provide victim support during trial periods. This is to address the current lack of intermediary support that results in the withdrawal of cases and further traumatisation of victims. About R30 million is allocated over the MTEF for the appointment of 40 intermediaries and 40 family counsellors.

Maintenance clerks and officers in maintenance courts - To ensure prompt payment of maintenance, 56 maintenance investigators have been appointed in hotspot maintenance courts and five family courts. Investigators assist with the tracing of defaulting parents liable for maintenance. Currently, 69 out of the 80 envisaged maintenance prosecutor positions in the National Prosecuting Authority have been filled. The roll-out plan anticipates the appointment of 571 maintenance clerks over the next three years.

Legal Aid Board - To provide legal aid to the indigent and legal representation to those entitled to it in terms of the Constitution. R1,2 billion has been allocated over the MTEF period for this purpose.

Correctional Services

An enhanced focus on rehabilitating offenders was implemented in 2002. This has been prioritised in order to reduce re-offending rates and ultimately crime and to ensure that offenders are reintegrated successfully into society. Significant progress has been made under this programme and the key outputs in 2002/03 include: the establishment of 12 training centres aimed at equipping offenders with basic technical skills and business skills; 21 500 offenders were involved in education programmes and 16 000 in training programmes, 87 000 received social work services while 81 000 participated in individual religious care sessions. On average 25 000 offenders per day were productively occupied with work.

Government has initiated a strong focus on policing communities. The South African Police Service sector policing strategy, where sector managers are assigned to small areas, has been rolled-out in about 828 police stations. In the 145 police stations that have been identified as having particularly high levels of crime, SAPS have implemented additional measures through increased police visibility, more patrols, and community involvement.

25 400 new police personnel to be recruited by March 2007

The new sector-based policing strategy is labour intensive and requires significant additional personnel and vehicles. By the end of March 2007, an additional 25 400 entry-level constables and 11 800 civilian personnel will have been recruited. To provide the operational environment for the enlarged personnel complement, additional funds are provided for general equipment including the expansion of the vehicle fleet.

Core services in Department of Justice are targeted for improvement

The Department of Justice and Constitutional Development continues to face challenges related to finalising an increasing number of new court cases. Provision has been made for the appointment of additional personnel in key areas. The current focus is on re-engineering core departmental services, including the implementation of a new financial management system and programmes to support vulnerable groups. The Department continues to implement temporary measures such as Saturday and Additional Courts to ease case backlogs.

SAPS to assume protection of strategic areas

The SAPS has established a new Protection and Security Services Division, which is responsible for protecting prominent people as well as policing of strategic facilities, buildings and areas. Projects approved for piloting in 2003/04 and 2004/05 are the Beit bridge land border post, Johannesburg International airport, Durban harbour, Cape Town train station and all High Courts.

Rehabilitation programmes as means to reduce re-offender rates

A complementary strategy for promoting safer communities is the rehabilitation and skills programmes of the Department of Correctional Services. These programmes are expected to reduce re-offending rates and to facilitate the reintegration of released prisoners into their communities. For the 2004 Budget, additional funds have been allocated for restructuring the Parole and Remission Boards to expand community participation.

Governance and administration

Government to address scarce skills in public service

The Governance and Administration cluster is focused on the challenge of improving the quality of service delivery. In the spirit of Batho Pele, Government is pursuing public administration reform founded on respect for citizens' rights, courteous and efficient service delivery, modernisation of systems and honest, accountable governance. Strengthening capacity for more effective service delivery will also require addressing scarce skills across the public service, particularly at a professional and technical level.

Core administrative services provided to remote areas

Public service delivery is in many instances dependent on the core services provided by the Department of Home Affairs to citizens. Thus improving the coverage and efficiency of these core services is a

priority for the cluster. To broaden access to services, the Department is deploying 67 fully equipped mobile offices to under-served rural communities. In addition, key investments have been made to computerise regional offices and to upgrade systems in general.

A major project in this regard is the Home Affairs National Identification System (HANIS), which aims to provide electronic image identification and information system for profiling the South African population to accurately identify the beneficiaries of government services. Linked with the Automated Fingerprint Identification System, HANIS will culminate into a fully integrated biometric database for citizens, visitors, refugees, residents and illegal foreigners.

More generally, the Governance and Administration cluster is promoting the use of administrative support systems to improve service delivery. The e-government initiative is an IT solution to integrate service delivery while broadening access. The e-Gateway project, part of the e-government initiative, will provide a 24-hour window for accessing certain government services. This initiative will provide access to information on government services and will be disseminated through media, the Post Office and the Multi-Purpose Community Centres.

e-Gateway to provide 24 hour access to certain services

Beyond investing in IT systems, Government will have to build and strengthen institutions for good governance and establish effective accountability systems to strengthen financial management. This is particularly important at the provincial and local government levels where most basic services are delivered.

The cluster is also involved in putting in place systems to respond to disasters. In 2002, the Department of Provincial and Local Government introduced the Disaster Management Act (No. 57 of 2002), which provides for a national policy and the integration of disaster management activities across the three spheres of government so that a uniform approach can be adopted nationally. A Disaster Management Centre has been established and is in the process of developing the disaster management framework to implement the Act. The Department of Provincial and Local Government has taken a lead role in coordinating efforts to mitigate the effects of the drought in 2003/04.

International Relations, Peace and Security

South Africa's re-entry into international relations has posed both new opportunities and challenges for the country. As a full member of the international community, South Africa is playing a leading role both on the African continent and more broadly amongst the developing nations. In pursuit of NEPAD's "common human values", the International Relations, Peace and Security cluster is promoting international cooperation and multilateralism at the regional, continental and global levels.

South Africa plays a leading role in Africa and developing countries

On the African continent, South Africa seeks to promote peaceful relations and regional stability as necessary prerequisites for

Significant commitment to peacekeeping in Africa

accelerated economic growth and human development. One of the main interventions over the past three years has been the deployment of peacekeeping operations in countries affected by conflict. South Africa has played a pivotal role in resolving conflicts in the Democratic Republic of Congo (DRC) and Burundi. Peace support and/or conflict resolution has also been rendered to a more limited extent in Rwanda, Liberia, Ethiopia and Eritrea.

NEPAD and AU are primary vehicles for cooperation

More broadly, the African Union and NEPAD have become the primary vehicles for cooperation on the African continent. Through these institutions, South Africa is advancing the principles of democracy and respect for international law. South Africa is now actively involved in the process of setting up the operational mechanisms to achieve NEPAD's objectives. The African Peer Review Mechanism, the Pan-African Parliament, the Court of Justice and the Early Warning System within the Peace and Security Council are amongst these initiatives.

Increasing co-operation between developing countries around trade and development issues

Beyond the steps taken to promote peace and stability on the continent and globally, South Africa has taken an active lead in galvanising the interests of developing countries in the areas of trade and development. A key challenge is to bridge the South-North divide on issues such as trade, and to strengthen South-South co-operation. The establishment of the G-South, comprising South Africa, Brazil and India, with the intention of strengthening South-South relations, is a priority. Similarly, growing cooperation with regional bodies in Asia and the Caribbean is expected to contribute to increased trade and cultural ties.

South Africa marketed as premier tourist destination and financial centre for Africa

In line with Government's development strategy, the IRPS cluster is working to project a positive international image of South Africa. Together with the International Marketing Council, the cluster is helping to implement a marketing and branding strategy for the country to attract foreign visitors and promote the country as a premier tourism and investment destination and as a financial centre for Africa.

Division of nationally raised revenue

Division of revenue between the three spheres of government is the result of policy deliberations

Section 214 of the Constitution requires that nationally raised revenue be divided equitably between national, provincial and local government. The division of revenue takes account of the requirements of sub-section 214(2) (a) to (j) and the Financial and Fiscal Commission's recommendations. It is the outcome of Government's policy deliberations where key decisions are made on the appropriate balance of expenditure options. Parliament annually passes the Division of Revenue Bill and approves the allocation of funds. An explanatory memorandum to the Bill is included as Annexure E of the *Budget Review*.

Division between spheres: 2000/01 – 2006/07

Table 6.2 presents the main budget trends of Government over the 2004 MTEF and the preceding four years, excluding social security funds and other extra-budgetary accounts. Expenditure for 2004/05 is R368,9 billion, an increase of 11,2 per cent over the revised estimates for 2003/04. After interest payments and provision for a contingency reserve, the remaining funds in the National Revenue Fund are divided between the three spheres.

Main budget expenditure for 2004 is R368,9 billion – a growth of 11,2 per cent

Table 6.2 Main budget expenditure, 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
		Outcome		Revised	Medium-term estimates		
National departments	73 178	87 705	99 091	110 494	120 597	131 047	139 677
Provinces	108 899	121 099	136 925	161 476	181 130	199 704	216 344
<i>Equitable share</i>	98 398	107 460	123 457	144 743	159 971	173 852	186 392
<i>Conditional grants</i>	10 501	13 638	13 468	16 733	21 158	25 853	29 953
Local government	5 536	6 520	8 706	12 390	14 245	15 916	17 091
<i>Equitable share</i>	2 415	3 184	4 187	6 350	7 678	8 643	9 365
<i>Conditional grants</i>	3 121	3 336	4 519	6 039	6 568	7 272	7 726
Total allocations	187 613	215 324	244 721	284 359	315 972	346 667	373 112
<i>Percentage increase</i>	10,1%	14,8%	13,7%	16,2%	11,1%	9,7%	7,6%
Contingency reserve	–	–	–	–	2 500	4 000	8 000
Non-interest expenditure	187 613	215 324	244 721	284 359	318 472	350 668	381 113
State debt cost	46 321	47 581	46 808	47 326	50 432	53 986	57 945
Main budget expenditure	233 934	262 905	291 529	331 685	368 904	404 654	439 058
<i>Percentage increase</i>	8,9%	12,4%	10,9%	13,8%	11,2%	9,7%	8,5%
Percentage shares							
<i>National departments</i>	39,0%	40,7%	40,5%	38,9%	38,2%	37,8%	37,4%
<i>Provinces</i>	58,0%	56,2%	56,0%	56,8%	57,3%	57,6%	58,0%
<i>Local government</i>	3,0%	3,0%	3,6%	4,4%	4,5%	4,6%	4,6%

For the 2004/05 financial year, the allocation to national, provincial and local government is R316,0 billion, growing to R373,1 billion in 2006/07. Since 2001/02, there has been a steady decline in the revenue share going to national government, with a concomitant increase in the shares of provincial and local government; this trend continues over the 2004 MTEF. By 2006/07, transfers to provinces will constitute 58,0 per cent and local government 4,6 per cent of allocated non-interest expenditure.

Provincial share rises to 58 per cent of allocated expenditure

The contingency reserve for the budget year allows for the possibility that funds might be required for unforeseen and unavoidable expenditure, such as natural disasters and other emergencies. These funds are allocated to the three spheres and their departments through the mid-year adjustment process, where Parliament and provincial legislatures enact the Adjustment Appropriations Bills. The contingency reserve rises from R2,5 billion in 2004/05 to R8 billion in 2006/07. In 2004/05, further drought relief interventions, possible spending on the taxi recapitalisation process and further contributions to the critical infrastructure programme may also be funded from the reserve.

Changes to the 2003 Budget estimates

Over the MTEF total additional allocation are R44,5 billion

Compared with the forward estimates in the 2003 Budget, the additional allocations over the MTEF period total R44,5 billion, with an additional R9,7 billion available next year. (For budget planning purposes, the baseline for 2006/07 was projected to be a 6 per cent growth on 2003 forward estimates for 2005/06). Table 6.3 indicates the additional spending over the 2003 estimates.

Table 6.3 Additional allocations in the 2004 MTEF

R million	2003/04	2004/05	2005/06	2006/07 ¹	Total
National departments	1 876	3 248	4 951	6 023	14 221
Provinces	2 504	5 458	7 880	13 001	26 340
Equitable share	2 357	4 657	6 294	8 780	19 731
Conditional grants	147	802	1 587	4 221	6 609
Local government	–	1 000	1 300	1 600	3 900
Equitable share	–	600	700	900	2 200
Conditional grants	–	400	600	700	1 700
Total	4 380	9 706	14 131	20 624	44 461

Strong growth in additional allocation for provincial conditional grants – largely due to social grants

The additional expenditure – also termed “above baseline” allocations – comprises R5,4 billion for provinces, R3,2 billion for national departments and R1,0 billion to local government in 2004/05. The provincial and local spheres receive relatively larger shares of the additional amount since key priority functions are delivered by these spheres.

Revised estimates of expenditures: 2002/03 and 2003/04

Table 6.4 shows the main budget revised allocations for 2003/04 and the preliminary expenditure outcome for 2002/03.

Preliminary outcome for 2002/03 main budget is R3,6 billion more than original estimate

Whereas last year’s revised estimate for 2002/03 was R3,8 billion above the budget estimate, the preliminary outcome is R291,5 billion, or R3,6 billion (1,3 per cent) above the original total. National departmental saving and under expenditure is estimated at R1,3 billion.

2003/04 revised estimate R2,3 billion less than main budget – mainly due to reduced state debt cost

For 2003/04, the revised estimate for main budget expenditure is R331,7 billion which is R2,3 billion less than the original budget estimate of R334,0 billion. In the mid-year adjustments, the main budget expenditure was adjusted downwards by R2,5 billion - mainly due to reduced state debt costs and a saving on national departments expenditure.

Adjustment budget allocated a further R2,4 billion in 2003/04

In mid-year adjustments for 2003/04, provinces received an additional allocation of R2,4 billion. The main changes approved by Parliament in the 2003 Adjustments Budget were as follows:

- Roll-overs of R1,1 billion
- Unforeseen and unavoidable expenditure of R2,8 billion
- Savings and under-expenditure of R1,8 billion

- R250 million to the Departments of Water Affairs and Forestry, Provincial and Local Government, and Agriculture for disaster management including R190 million for drought relief.

The amount for drought relief was subsequently augmented by a further R250 million due to the intensification of adverse conditions. At this point, state debt is now estimated to be R3,6 billion less than budgeted due to lower interest rates and a stronger currency. National departmental savings and under expenditure is projected to be R1,0 billion.

State debt cost R3,6 billion lower than budgeted

Table 6.4 Preliminary 2002/03 expenditure outcome and 2003/04 revised estimate

R million	2002/03			2003/04		
	Budget	Revised estimate	Preliminary outcome	Budget	Adjustments	Revised estimate
Direct charges to the National Revenue Fund						
State debt cost	47 503	47 250	46 808	50 986	-3 660	47 326
Provincial equitable shares	119 452	123 457	123 457	142 386	2 357	144 743
<i>Unforeseeable and unavoidable expenditure</i>					2 100	
<i>Inflation adjustments</i>					257	
Skills development funds	2 950	2 950	3 259	3 600	100	3 700
Other statutory amounts	324	324	350	351	-12	340
Standing appropriations	65	30	30	35	11	46
Total	170 294	174 011	173 904	197 359	-1 204	196 154
Appropriation by vote						
Main appropriation	113 615	113 615		133 607		
Supplementary allocations	700	700				
Contingency reserve	3 300			3 000	-3 000	
Adjustments						
Approved rollovers from previous year		1 238			1 080	
<i>National departments</i>		1 108			820	
<i>Transfers to provinces</i>		14			20	
<i>Transfers to local government</i>		116			240	
Unforeseeable and unavoidable expenditure		1 439			2 786	
<i>National departments</i>		1 219			2 499	
<i>Transfers to provinces</i>		197			127	
<i>Transfers to local government</i>		22			160	
Other adjustments						
<i>Inflation adjustments</i>		1 394			151	
<i>Self financing expenditure</i>		173			423	
<i>Savings identified by departments</i>		-38			-1 800	
<i>Food relief</i>		400			-	
<i>Drought relief</i>		-			250	
Total appropriated	117 615	118 920	118 920	136 607	-110	136 497
Underspending and savings		-1 109	-1 295			-966
Total expenditure	287 909	291 823	291 529	333 965		331 685
<i>Percentage increase over Budget</i>			1,3%			-0,7%
<i>Percentage increase over 2002/03</i>						13,8%

Appropriations from the National Revenue Fund: 2000/01 – 2006/07

There are two ways that expenditure can be charged to the National Revenue Fund – direct charges prescribed by statute or in terms of certain agreements, and spending charged against a budget vote in terms of an appropriation act.

Direct charges are expenditure commitments prescribed by law, such as the constitutionally required provincial equitable share, salaries for the judiciary and political office bearers, subscription and guarantees payable under approved international agreements, transfer of skills development levy receipts to the SETAs and the National Skills Funds, and state debt costs. These charges do not require separate Parliamentary appropriation.

Voted amounts are expenditure limits for departmental programmes, broken down by economic classification and authorized by Parliamentary approval of an *Appropriation Bill*. The *Estimates of National Expenditure* that accompanies the main annual Appropriation provides more details. Table 6.5 presents the direct charges and voted appropriations from the National Revenue Fund. The table also shows actual amounts spent for the voted funds, and aggregate unspent balances.

Allocations to National Departments

The discussion and tables below summarise allocations to national departments for the forthcoming three years and changes to the 2003 Budget baseline estimates. The changes to the baseline accommodate additional allocations for policy purposes, shifts of function between votes and inflation-related or other adjustments to cost estimates. The allocations include conditional grants to provinces and municipalities as these amounts also reside on national departmental votes.

Table 6.5 Main budget appropriation, 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04 Revised	2004/05	2005/06	2006/07
	Outcome				Medium-term estimates		
Direct charges to the National Revenue Fund							
State debt cost	46 321	47 581	46 808	47 326	50 432	53 986	57 945
Provincial equitable share	98 398	107 460	123 457	144 743	159 971	173 852	186 392
Skills development funds	902	2 541	3 259	3 700	4 300	4 500	4 700
Other statutory amounts	301	335	350	340	375	398	422
Standing appropriations	39	294	30	46	34	22	23
Total	145 960	158 211	173 904	196 154	215 113	232 758	249 482
Appropriation by vote							
Main appropriation	86 496	96 709	113 615	133 607	151 291	167 896	181 575
Adjustments	4 252	9 504	5 119	2 890	–	–	–
Contingency reserve	–	–	–	–	2 500	4 000	8 000
Total	90 748	106 213	118 734	136 497	153 791	171 896	189 575
Savings and underspending	-2 774	-1 520	-1 109	- 966	–	–	–
Total expenditure	233 934	262 905	291 529	331 685	368 904	404 654	439 058

Further details on policy developments, programme objectives and service delivery targets can be found in the *2004 Estimates of National Expenditure*, which presents detailed spending tables per department together with an indication of expected outputs and outcomes.

Central government administration services

The Presidency receives an additional R38 million over baseline over the MTEF period, taking total allocations to R175,8 million in 2004/05, R190,9 million in 2005/06 and R205,2 million in 2006/07. The additional funds largely go to enhanced management capacity and administrative support. The National Youth Commission receives an increase of R1 million per year over the MTEF period.

Additional allocations to the Presidency vote supports enhanced capacity for research

Parliament's budget is set to grow by an additional R112 million allocated for 2004/05, R101 million for 2005/06 and R121 million for 2006/07, accommodating improvements in services to members and upgrading of facilities. Total allocations, including direct charges, increase from R785 million in 2004/05 to R885 million in 2006/07.

Foreign exchange fluctuations impact on the *Foreign Affairs* vote, affecting about 65 per cent of its annual allocations. The allocations to Foreign Affairs in this budget include downward adjustments because of the strengthening of the rand, together with several additional allocations to expand foreign diplomatic capacity, upgrade IT systems and meet the costs of special projects.

The rand fluctuation impacts on the Foreign Affairs budget

Additional adjustments to the *Home Affairs* baseline amount to R154 million in 2004/05, R305 million in 2005/06 and a reduction of R148 million in 2006/07. The reduction in the outer year is due to a reduction in the funding of the Independent Electoral Commission after providing for the 2005 local government elections. In 2004, additional allocations will fund expenditure for the computerisation and upgrading of offices, the appointment of additional personnel and deployment of some 67 mobile units in remote rural areas.

Home Affairs additional allocations to expand core service delivery

The *Provincial and Local Government* vote receives a substantial adjustment to its baseline, R2,3 billion, R2,8 billion and R3,7 billion over the MTEF. The increases are mainly to the equitable share or conditional grant allocations for local government, and include shifts of funds from several other votes and previously unallocated poverty relief allocations, incorporated into the Municipal Infrastructure Grant. Increases in the equitable share are in support of the continued roll-out of free basic services.

Additions to local government share on DPLG vote

Additional allocations to the *Public Works* vote during the MTEF period amount to R375 million, R426 million and R511 million. Property management, which includes leasing office accommodation and official quarters, municipal services, rates and taxes and maintenance on state owned property is the spending pressure. About R120 million is set aside for construction projects over the next three years. To cater for the costs of setting up and operating a special unit that will co-ordinate the Expanded Public Works Programme, the Department receives a total allocation of R38 million over the period.

Special unit will coordinate Expanded Public Works Programme

Table 6.6 Central government administration: expenditure by vote, 2000/01 – 2006/07

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Outcome			Revised estimate	Medium-term estimates		
R million							
Appropriation by vote							
The Presidency	91	101	139	151	173	189	203
Parliament	267	270	312	456	588	613	664
Foreign Affairs	1 435	1 995	2 339	2 260	2 486	2 699	2 904
Home Affairs	1 646	1 120	1 367	2 053	2 273	2 690	2 381
<i>Independent Electoral Commission</i>	768	100	211	641	503	724	320
Provincial and Local Government	3 648	4 653	6 557	9 462	12 851	14 371	15 914
<i>Local government equitable share</i>	2 415	3 184	4 187	6 350	7 678	8 643	9 365
<i>Conditional grants to local government</i>	929	1 160	1 907	2 561	4 628	5 393	6 187
<i>Conditional grants to provinces</i>	150	163	293	298	261	44	46
Public Works	3 570	3 705	4 202	4 652	4 820	5 144	5 512
<i>Conditional grants to local government</i>	374	357	260	262	–	–	–
	10 657	11 843	14 917	19 035	23 191	25 706	27 578
Statutory appropriations							
The Presidency	1	2	2	2	2	2	2
Parliament	150	162	173	183	197	208	221
Total	10 808	12 007	15 091	19 220	23 390	25 916	27 801
Changes to baseline							
The Presidency				1	8	13	17
Parliament				12	112	101	121
Foreign Affairs				17	-11	10	54
Home Affairs				82	154	305	-148
<i>Independent Electoral Commission</i>				–	25	60	-384
Provincial and Local Government				63	2 251	2 841	3 693
<i>Local government equitable share</i>				7	600	945	1 205
<i>Conditional grants to local government</i>				1	1 605	1 856	2 438
<i>Conditional grants to provinces</i>				27	–	–	–
Public Works				185	375	426	511
<i>Conditional grants to local government</i>				3	–	–	–
				360	2 890	3 696	4 247
Statutory appropriations							
The Presidency: Salary of the President and Deputy President				–	–	–	–
Parliament: Members' remuneration				–	–	–	–
Total				360	2 890	3 696	4 247

Financial and administrative services

Pay of Community Officers at Multi-Purpose Community Centres to be upgraded

Due to revisions to the *Government Communication and Information System* mandate, the budget allocations to this vote are increased to strengthen staff capacity, improve service delivery and contribute to the international marketing of South Africa. The adjustments include provision for costs associated with the Presidential inauguration and 10th anniversary celebrations, and allowances for staff at the new Multi-Purpose Community Centres.

Poverty relief allocations

Special poverty relief allocations were first made in 1997/98 for special employment programmes. In 1998/99 these allocations were broadened to include a focus on temporary poverty relief, and extended in 1999/00 to include commitments of Government at the Presidential Job Summit.

Programmes funded through this source complement other key poverty alleviation interventions such as social security grants and the delivery of basic services to communities like education, health, welfare, housing, water and sanitation, electricity, waste removal and municipal roads.

Since the special poverty relief allocation was a short-term intervention, an independent review was undertaken to help determine which programmes would continue to receive funding from 2004/05 onward. The review examined both the efficiency (spending patterns, financial controls, speed of disbursement, monitoring and evaluation systems) and effectiveness (targeting, appropriateness of projects, impact of projects) of spending.

The review confirmed that a number of key outputs have been delivered through the special poverty relief allocation despite being hampered by under spending in the initial years. Projects contributed significantly to:

- The creation of new infrastructure (stream-crossings, rural access roads, taxi ranks, markets stalls, boreholes, ventilated improved pit latrine toilets, canals, sports fields, craft factories, fencing, community centres).
- Rehabilitation of infrastructure (regraveling of roads, school buildings, bridges, clinic upgrading).
- Increased services to communities (waste removal, crèches, removal of alien vegetation, soil conservation, wetland rehabilitation)
- Income generating activities and support for the development of SMME's in communities (tourism related activities like food services points and crafts; infrastructure related activities like welding, brick making, carpentry and service related activities like bakeries, poultry farms, sewing groups).

All projects created short term and permanent jobs and provided training ranging from vocational training to business skills, life skills, literacy and numeracy.

Where programmes contributed to the core functions of the department, illustrated their usefulness in alleviating poverty, were sustainable and contributed towards the efficient functioning of the intergovernmental system, funding has been integrated with the normal departmental allocation as indicated in the table below.

Department	Programmes	2004/05	2005/06	2006/07
R million				
Agriculture	Land care	60	64	68
Arts and Culture	Investing in culture	75	83	91
Environmental Affairs and Tourism	Coastal management, waste management, tourism infrastructure and product development	356	381	404
Science and Technology	Agricultural processing projects	45	47	53
Sport and Recreation South Africa	Building for sport and recreation	137	7	9
Water Affairs and Forestry	Working for water	400	424	449
Total		1 073	1 006	1 074

Where programmes were functions of a different sphere, the funding has been moved to the relevant sphere using existing funding mechanisms. Over the 2004 MTEF, the following adjustments have been made:

- Additional allocations to the Provincial Infrastructure Grant of R172 million, R175 million and R179 million
- Additional allocations to the Municipal Infrastructure Grant of R417 million, R580 million and R614 million

The six national poverty relief programmes and portions of the infrastructure grants are now part of the Expanded Public Works Programme.

Over the MTEF, the provincial infrastructure grant totals R11 billion

The main expenditure items on the *National Treasury* vote are infrastructure transfers to provinces, local government restructuring and financial management grants, provision for civil and military pensions and post retirement medical benefits, funding for the SA Revenue Service and provision for Secret Services. Adjustments over the medium term make provision for increases in infrastructure transfers to provinces.

Table 6.7 Financial and administrative services: expenditure by vote, 2000/01 – 2006/07

R million	2000/01	2001/02 Outcome	2002/03	2003/04 Revised estimate	2004/05	2005/06	2006/07 Medium-term estimates
Appropriation by vote							
Government Communication and Information System	66	123	152	179	203	209	223
National Treasury	6 698	8 165	9 847	12 279	13 942	14 587	15 618
<i>South African Revenue Service</i>	2 529	2 863	3 502	3 792	4 603	4 748	5 033
<i>Secret Services</i>	890	983	1 329	1 771	2 117	2 080	2 223
<i>Conditional grants to provinces</i>	970	1 824	1 950	2 534	3 348	3 731	4 118
<i>Conditional grants to local government</i>	275	290	305	750	541	549	549
Public Enterprises	34	196	210	88	76	79	80
Public Service and Administration	85	99	138	170	127	149	162
Public Service Commission	43	53	57	64	73	78	83
South African Management Development Institute	19	23	31	42	41	37	40
Statistics South Africa	205	898	359	294	504	653	1 357
	7 149	9 556	10 794	13 116	14 965	15 793	17 563
Statutory appropriations							
State debt cost	46 321	47 581	46 808	47 326	50 432	53 986	57 945
Provincial equitable share	98 398	107 460	123 457	144 743	159 971	173 852	186 392
Total	151 868	164 597	181 059	205 185	225 369	243 631	261 899
Changes to baseline							
Government Communication and Information System				2	11	2	3
National Treasury				507	526	751	951
<i>South African Revenue Service</i>				–	–	–	–
<i>Secret Services</i>				3	62	100	124
<i>Conditional grants to provinces</i>				–	472	675	879
<i>Conditional grants to local government</i>				223	- 1	- 23	- 57
Public Enterprises				28	12	11	8
Public Service and Administration				12	–	5	10
Public Service Commission				–	4	4	4
South African Management Development Institute				–	2	2	2
Statistics South Africa				1	68	72	741
				550	623	847	1 720
Statutory appropriations							
National Treasury: State debt cost				-3 660	-2 647	-1 084	- 429
National Treasury: Provincial equitable share				2 357	4 658	6 295	8 782
Total				- 753	2 634	6 058	10 073

The *Public Enterprises* vote receives baseline adjustments of R12 million, R11 million and R8 million. These funds will be used to increase capacity in the areas of policy development and business planning, performance monitoring, restructuring of state-owned enterprises and administration. These baseline allocations include amounts of R6,9 million, R5,6 million and R0,4 million to fund two trusts that were established to manage Telkom shares on behalf of employees and former employees of Telkom.

Enhanced capacity in Public Enterprises

The *Public Service and Administration* vote receives moderate baseline adjustments of R15 million for the two outer years to increase internal capacity in order to strengthen provincial intervention measures, such as those implemented in the Eastern Cape during 2003/04.

Over the medium term, *Statistics South Africa* will focus on improving the quality of statistical data. Additional allocations make provision for improving the quality of key economic and social statistics. A substantial baseline adjustment of R741 million in 2006/07 will fund the 2006 Census.

Stats SA receives R741 million for 2006 Census

Social services

The Investing in Culture programme – previously funded from the special poverty relief allocation – is now included in the baseline allocation to the *Arts and Culture* vote. Further baseline adjustments made for the Department include additional allocations for social cohesion and justice projects (R23 million), the national heritage inventory audit (R29,5 million) and an increase in financial assistance to the Pan South African Language Board (R8 million). In 2005/06, the Freedom Park project will be completed and the reduction in baseline reflects the conclusion of capital funding.

Freedom Park project to be completed by 2005/06

On the *Education* vote, there is an increase in the provision for the restructuring of higher education institutions a further R1,0 billion is allocated over the MTEF period to bring total allocations for restructuring to R1,8 billion. The National Student Financial Aid Scheme will receive an additional R50 million in 2006/07. The Department's operational costs receive an addition of R160 million over the medium term, which includes R60 million for implementing the Revised National Curriculum Statement and R50 million for writing and implementing of the new Further Education and Training (FET) curriculum. The Department assumes responsibility for the management and monitoring of the Primary School Nutrition Programme from 1 April 2004, which was previously funded on the health vote.

A further R1 billion allocated for higher education restructuring

Analysis of the *Health* vote needs to take into consideration the shift of the Primary School Nutrition Programme to the education vote. After adjusting for this function shift, Health receives an additional R1,9 billion over the MTEF for the HIV and Aids conditional grant to provinces to fund the comprehensive response to HIV and Aids, including the roll-out of antiretroviral treatment. To provide adequate oversight of the treatment programme, the national Department

R1,9 billion additional allocation to HIV and Aids grant

receives an additional R161 million. It also receives additional allocations for strengthening regulation of the pharmaceutical industry, addressing backlogs in assistive devices such as wheelchairs and upgrading the Medical Bureau for Occupational Diseases building.

Table 6.8 Social services: expenditure by vote, 2000/01 – 2006/07

R million	2000/01	2001/02 Outcome	2002/03	2003/04 Revised estimate	2004/05	2005/06	2006/07 Medium-term estimates
Appropriation by vote							
Arts and Culture	399	443	593	926	1 142	1 202	1 081
Education	8 070	8 616	9 314	10 585	11 345	12 107	13 007
<i>Conditional grants to provinces</i>	743	809	936	1 144	961	1 048	1 243
Health	6 155	6 224	7 059	7 696	8 788	9 626	10 458
<i>Conditional grants to provinces</i>	5 518	5 472	6 300	6 711	7 655	8 486	9 228
Labour	732	1 397	1 283	1 054	1 192	1 289	1 382
Science and Technology	583	701	802	1 068	1 276	1 515	1 651
Social Development	472	2 328	639	2 100	4 548	7 848	10 291
<i>Conditional grants to provinces</i>	55	2 020	58	1 654	4 108	7 362	9 774
Sport and Recreation South Africa	70	101	172	228	286	181	209
<i>Conditional grants to local government</i>	–	36	84	123	132	–	–
<i>Conditional grants to provinces</i>	–	–	–	–	9	24	39
	16 482	19 811	19 863	23 658	28 577	33 770	38 078
Statutory appropriations							
Labour	902	2 541	3 259	3 700	4 300	4 500	4 700
Total	17 383	22 352	23 122	27 358	32 877	38 270	42 778
Changes to baseline							
Arts and Culture				–	71	81	-108
Education				702	860	946	1 176
<i>Conditional grants to provinces</i>				701	584	649	819
Health				-691	-452	-279	-41
<i>Conditional grants to provinces</i>				-703	-538	-318	-104
Labour				-237	-100	71	90
Science and Technology				38	123	152	205
Social Development				148	323	579	2 585
<i>Conditional grants to provinces</i>				100	250	500	2 500
Sport and Recreation South Africa				3	179	67	89
<i>Conditional grants to local government</i>				–	132	–	–
<i>Conditional grants to provinces</i>				–	9	24	39
				-38	1 004	1 617	3 996
Statutory appropriations							
Labour: Skills development				100	400	200	142
Total				62	1 404	1 817	4 138

UIF on healthy footing, decrease in government support

The decrease in the *Labour* vote in 2003/04 and 2004/05 stems from the withdrawal of R250 million and R150 million allocated to the Unemployment Insurance Fund by Cabinet due to the healthy surplus position of the Fund. The increase in the allocations take account of new responsibilities arising out of the Growth and Development Summit, which include monitoring of progress in implementation and

a commitment by Labour to train one thousand registered learners. The Labour vote also receives R113 million to strengthen institutional capacity to enhance implementation of various regulations and guidelines.

The *Science and Technology* vote receives R145 million for the Agricultural Processing Programme that was previously funded from the special poverty relief allocation. Baseline adjustments include funding for the implementation of the National Research and Development Strategy (NRDS) including the establishment of a National Energy Research Institute. Funds for the NRDS include allocations to the various science councils funded by the Departments of Agriculture, Health, Minerals and Energy, Science and Technology and Trade and Industry. Science councils also receive additional allocations.

National Energy Research Institute will be established

Sport and Recreation South Africa receives an allocation of R135 million over the medium term to pilot the establishment of a National Sport Academy and to improve mass participation in sport and recreation. An additional amount of R47 million makes provision for the loveLife Games – previously funded by the Department of Health – to be administered by the Department from April 2004. The 2004/05 allocation includes R132 million as a once-off allocation for building and upgrading sport and recreation facilities. An amount of R21 million is also allocated for sport promotion, facility management and training.

National Sports Academy to improve participation in sport

The *Social Development* vote receives an allocation of R180 million for the establishment of the National Social Security Agency along with an Inspectorate for Social Security and for strengthening the strategic and organisational capacity of social security programmes. A new conditional grant introduced in 2003/04 to meet the costs of extending the means-tested child support grant to children up to their 14th birthday, sees a steep increase over the 2004 MTEF period as a result of the anticipated growth in beneficiary numbers. Total expenditure for the extension of the child support grant, HIV and Aids conditional grant and the food relief programme rises from R4,1 billion in 2004/05 to R9,8 billion in 2006/07.

R21,2 billion for conditional grants for child support, HIV and Aids and food relief

Justice and protection services

The revised allocation for the *Correctional Services* vote is the net result of additional amounts and reduced capital works allocations because of slow progress on the capital projects. The main pressure on the Correctional Services budget is the growth in the average daily offender population. Revised Remission and Parole Boards are constituted and will have associated personnel costs. In total, the *Correctional Services* vote receives over R8,4 billion for 2004/05, R9,0 billion for 2005/06 and R9,6 billion for 2006/07. A large portion of this allocation covers staff remuneration including significant overtime payments.

new Remission and Parole Boards to be established

The main spending pressure in the *Defence* vote arises from participation in peace support operations in the Democratic Republic

Strengthening of the rand yields substantial savings

of the Congo and Burundi, and the acquisition of the Rooivalk helicopter. The strengthening of the Rand against major currencies in 2003 resulted in a downward adjustment to the total cost of the strategic armaments procurement programme. Savings amount to R832,2 million and R747,4 million in the first two years. The reduction to baseline in the third year of the MTEF is largely the consequence of phasing down of scheduled payments on the strategic procurement programme. Additional allocations amounting to R1,1 billion over three years are made for peace-keeping operations.

Justice additional allocation to expand court services

Major expenses within the *Justice and Constitutional Development* vote relate to the provision of court services, prioritisation of services to vulnerable groups, personnel expenditure and the building and maintenance of courts. Future implementation of legislation, such as the Child Justice Bill, Children's Bill, and the Superior Court Bill also place pressure on departmental spending. Baseline adjustments rise from R109 million in 2004/05 to R208 million in 2006/07.

Table 6.9 Justice and protection services: expenditure by vote, 2000/01 – 2006/07

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Outcome			Revised estimate	Medium-term estimates		
R million							
Appropriation by vote							
Correctional Services	5 475	6 549	7 068	7 500	8 408	9 035	9 627
Defence	13 932	16 045	18 836	19 905	20 257	22 124	22 361
Independent Complaints Directorate	26	27	32	37	42	47	50
Justice and Constitutional Development	2 738	3 762	4 310	4 384	5 054	5 420	5 786
Safety and Security	15 597	17 670	19 714	21 968	24 510	26 838	28 727
	37 768	44 053	49 959	53 794	58 271	63 464	66 551
Statutory appropriations							
Justice and Constitutional Development	150	171	175	155	177	188	199
Total	37 917	44 224	50 134	53 949	58 448	63 651	66 750
Changes to baseline							
Correctional Services				-177	-37	-24	26
Defence				-145	-232	-409	-1 524
Independent Complaints Directorate				-	1	2	3
Justice and Constitutional Development				-163	109	158	208
Safety and Security				83	349	607	921
				-402	190	335	-366
Statutory appropriations							
Justice and Constitutional Development: Judges' salaries				-12	-	-	9
Total				-414	190	335	-357

Over the MTEF, the SAPS will receive R1,9 billion additional funding

Within the *Safety and Security* vote, supplementary amounts of R349 million, R607 million and R921 million over the medium term are allocated to the Department to recruit additional police personnel, establish the new Protection and Security Services Division, continue modernising and expanding the vehicle fleet, upgrade IT systems, and secure the 2004 elections. The changes to baseline also include inflation-related cost adjustments. The total allocations for the 2004 MTEF period are R24,5 billion in 2004/05, R26,8 billion in 2005/06, and R28,7 billion in 2006/07.

Economic services

Baseline adjustments totalling R1,1 billion on the *Agriculture* vote include the Comprehensive Agricultural Support Programme (CASP) – a provincial grant for post-settlement support to farmers. These initiatives are aimed at providing support to the beneficiaries of the Land Redistribution for Agricultural Development (LRAD) programme. The National Regulatory Services programme receives an additional allocation to reduce the risk of animal and plant diseases through regulation and effective control of the movement of people and animals across national borders. The total allocation to the *Agriculture* vote over the MTEF is R1,3 billion, R1,4 billion and R1,5 billion.

Post settlement support to new farmers allocated R750 million

Additional allocations to the *Communications* vote include provision for the development of a viable funding strategy for the proposed regional television services. The total allocation to ICASA rises from R141 million in 2004/05 to R155 million in 2006/07. Transfers and subsidies average 73 per cent of the vote over the MTEF period. These include the subsidy to the Post Office, which covers operational losses and assist in meeting its social obligations to roll-out infrastructure and services in under-serviced areas. Total expenditure on the *Communications* vote is estimated at R875 million in 2004/05, R915 million in 2005/06 and R971 million in 2006/07.

Total changes to baseline on the *Environmental Affairs and Tourism* vote amount to R1,6 billion over the MTEF period. The main component of this amount is a shift in poverty relief programmes previously funded through the special poverty relief allocation. The Tourism Enterprise Programme initiated in 2000 has proved to be successful at assisting small and medium enterprises and job creation and receives R74 million. The Department also received R20 million a year, funded through a levy on plastic bags, to promote the recycling of plastic bags. The total allocation to this vote increases from R1,6 billion in 2004/05 to R1,8 billion in 2006/07. At R1,1 billion in 2004/05, transfer payments constitute a significant part of the Department's budget. These go to organisations promoting tourism (R342 million), managing national parks and gardens (R239 million), fisheries (R169 million) and poverty relief projects (R340 million).

Tourism Enterprise programme set to continue

Overall, the *Housing* vote receives an allocation of R4,8 billion in 2004/05, R5,2 billion in 2005/06 and R5,5 billion in 2006/07. Most of these funds are for the housing subsidy, which is transferred as a grant to provinces for the purposes of delivering subsidised housing to qualifying households. With the closure of the South African Housing Trust, all outstanding liabilities have been transferred to the National Treasury and claims against these liabilities are now made as direct charges against the National Revenue Fund. The money previously budgeted for these liabilities has now been surrendered resulting in a decline from the 2003 Budget forward estimates of R191 million in 2004/05, R174 million in 2005/06 and R183 million in 2006/07.

Over the MTEF, Housing budget is R15,5 billion – mostly transfers for housing subsidies

Table 6.10 Economic services and infrastructure: expenditure by vote, 2000/01 – 2006/07

R million	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	Outcome			Revised estimate	Medium-term estimates		
Appropriation by vote							
Agriculture	723	871	917	1 234	1 306	1 485	1 632
<i>Conditional grants to provinces</i>	18	28	24	36	227	290	345
Communications	456	1 128	885	1 635	875	915	971
ICASA	108	117	149	138	141	144	155
Environmental Affairs and Tourism	747	1 064	1 363	1 466	1 623	1 651	1 754
Housing	3 329	3 721	4 213	4 524	4 849	5 172	5 484
<i>Conditional grants to provinces</i>	3 047	3 322	3 907	4 355	4 589	4 868	5 160
Land Affairs	770	976	1 077	1 655	1 788	2 180	2 598
Minerals and Energy	592	1 233	1 853	1 791	1 934	2 070	1 937
<i>Conditional grants to local government</i>	–	–	225	230	248	258	–
Trade and Industry	2 160	2 016	2 393	2 695	2 848	3 024	3 214
Transport	4 099	4 937	5 710	6 289	6 759	7 125	7 585
<i>Conditional grants to local government</i>	22	38	40	9	–	–	–
Water Affairs and Forestry	3 042	3 483	3 681	4 639	3 302	3 542	3 631
<i>Conditional grants to local government</i>	1 515	1 454	1 699	2 103	1 019	1 073	991
Total	15 919	19 430	22 092	25 928	25 286	27 164	28 805
Changes to baseline							
Agriculture				162	291	365	445
<i>Conditional grants to provinces</i>				-2	227	290	345
Communications				792	8	7	9
ICASA				10	6	7	9
Environmental Affairs and Tourism				53	487	535	571
Housing				-255	-191	-174	-183
<i>Conditional grants to provinces</i>				–	–	–	–
Land Affairs				16	–	200	500
Minerals and Energy				-17	48	66	-188
<i>Conditional grants to local government</i>				-10	3	–	-273
Trade and Industry				20	4	7	16
Transport				131	308	308	358
<i>Conditional grants to local government</i>				–	–	–	–
Water Affairs and Forestry				553	-352	-411	-560
<i>Conditional grants to local government</i>				165	-787	-898	-1 099
Total				1 454	603	903	969

Land reform and restitution receives an additional R700 million, over the MTEF

The core programmes of Land Reform and Restitution under the *Land Affairs* vote each receive an additional allocation of R350 million for the two outer years. The Land Redistribution for Agricultural Development (LRAD) programme is the main cost driver in the Land Reform programme. In the Land Restitution programme, government continues with its commitment to spend R5 billion over the period 2002/03 to 2006/07. Total expenditure within the Land Affairs vote is estimated to rise from R1,8 billion in 2004/05 to R2,6 billion in 2006/07.

The main expenditure items on the *Minerals and Energy* vote are the Integrated National Electrification Programme and transfers to various institutions. In 2006/07, the electrification programme shifts to the Department of Provincial and Local Government to be administered as part of the Municipal Infrastructure Grant.

The *Trade and Industry* vote receives an additional R27 million over the MTEF, which will be distributed to its Science Councils – South African Bureau of Standards and Council for Scientific and Industrial Research. For 2004/05, approximately 77 per cent of the department's budget allocation of R2,8 billion comprises transfer payments to its various agencies. New and expanded activities will be financed from the Department's savings generated through reprioritisation of funds, efficiencies and synergies.

New and expanded activities in DTI funded from departmental savings

The *Transport* vote receives a total of R6,8 billion, R7,1 billion and R7,6 billion over the MTEF period. Roads and public transport are the two major spending items. The Department is responsible for transfers amounting to R4,7 billion to the South African National Roads Agency for the planning, development, upgrading and maintenance of national roads. Public transport spending is mostly for commuter rail and bus services and R14,8 billion has been allocated to public transport over the MTEF period. An additional allocation of R200 million, R250 million and R300 million has been made for provincial roads to be incorporated into the national road network. Further funding has also been made available for the development of a new National Land Transport Information System – R50 million in 2004/05 – and a further R50 million a year for the Arrive Alive information and awareness campaign to compensate for withdrawal of its funding from the Road Accident Fund.

Over the MTEF, Transport transfer R4,7 billion to SANRAL for national roads and a further R14,8 billion to commuter rail and bus services for public transport subsidies

The reduction in baseline allocations on the *Water Affairs and Forestry* vote is due to the shift of funds for water services projects to the Municipal Infrastructure Grant on the Provincial and Local Government vote. After adjusting for this function shift, additional allocations will be focused on developing water infrastructure and for regulation of water resources and services. Total allocations for this vote amount to R4,8 billion in 2004/05, R3,5 billion in 2005/06 and R3,6 billion in 2006/07.

Water service projects incorporated into MIG

Consolidated national and provincial expenditure

Consolidated national and provincial expenditure comprises national and provincial spending, together with expenditure of the social security funds and the RDP Fund. Consolidated expenditure is projected to increase by 9,3 per cent a year over the next three years. In real terms, non-interest spending increased by 5,4 per cent a year between 2000/01 and 2003/04 and non-interest allocations increase by an average of 3,3 per cent a year over the MTEF period ahead.

Growth in consolidated spending projected to be 9,3 per cent, over the next three years

Functional distribution of consolidated expenditure

The functional distribution illustrates service delivery priorities

Table 6.11 presents the functional distribution of expenditure – also called a government purpose classification. The table is designed to indicate the broad structure of government spending, and provides a summary of the functional distribution of consolidated national and provincial expenditure. National expenditure is based on the allocations set out in the *Estimates of National Expenditure*, together with estimates of social security spending, while provincial estimates are based on preliminary data received from provincial treasuries.

Social expenditure is largest share of the budget

At 59,0 per cent of allocated non-interest expenditure, social services remain the largest component of the budget, with economic services and protection services contributing 14,8 and 19,0 per cent respectively. Notable trends include the following:

- Social services remain the largest category of spending. Within social services, education continues to consume the largest share at 22,8 per cent of non-interest allocations.
- Social welfare is one of the fastest growing categories with growth of 13,6 per cent a year over the next three years. This reflects the extension of the child support grant, and future increases in the values of social assistance payments.

Table 6.11 Consolidated national and provincial spending by function, 2003/04 – 2006/07

R million	2003/04	2004/05	2005/06	2006/07	Average annual growth	
	Revised estimate	Medium-term estimates			2000/01–2003/04	2003/04–2006/07
Protection Services	58 327	63 247	68 555	71 966	12,7%	7,3%
Defence and intelligence	22 366	23 089	24 966	25 401	13,4%	4,3%
Police	23 127	25 669	28 048	30 000	12,2%	9,1%
Prisons	7 899	8 834	9 485	10 105	10,9%	8,6%
Justice	4 936	5 655	6 056	6 460	15,6%	9,4%
Social Services	177 330	196 686	215 975	232 804	14,9%	9,5%
Education	69 824	75 862	81 086	86 074	10,9%	7,2%
Health	39 677	42 586	47 138	50 522	12,1%	8,4%
Welfare (incl. social security)	51 486	59 936	68 019	75 429	21,6%	13,6%
Housing	5 652	6 339	7 034	7 309	11,5%	8,9%
Community development	10 691	11 962	12 698	13 471	30,1%	8,0%
Economic Services	45 000	49 411	54 914	59 725	23,4%	9,9%
Water schemes, related services	5 832	6 150	6 796	7 235	19,3%	7,4%
Fuel and energy	2 264	2 461	2 795	2 803	51,5%	7,4%
Agriculture, fishing and forestry	6 636	7 109	7 905	8 732	16,8%	9,6%
Mining, manufacturing and construction	1 506	2 053	2 370	2 694	8,6%	21,4%
Transport and communication	16 285	17 329	18 897	20 319	21,2%	7,7%
Other economic services	12 476	14 311	16 149	17 942	32,4%	12,9%
General government services and unallocable expenditure	23 483	23 987	25 956	27 903	15,7%	5,9%
Allocated expenditure	304 140	333 331	365 401	392 399	15,6%	8,9%
Interest	47 326	50 432	53 986	57 945	0,7%	7,0%
Contingency reserve	–	2 500	4 000	8 000		
Consolidated expenditure	351 466	386 263	423 387	458 344	13,1%	9,3%

- In the economic services, fuel and energy expenditure increased markedly – 51,5 per cent between 2000/01 and 2003/04 – reflecting the roll-out of the electrification programme through the Department of Minerals and Energy.
- The reduction in growth in the water schemes and related services is due to the consolidation of the waters services grant into the Municipal Infrastructure Grant.
- Transport and communication remains the largest sub-component within the economic services cluster – reflecting the importance of investment in roads infrastructure and subsidisation of road and rail commuter services in national and provincial budgets.
- Other economic services grow strongly, mainly because this category includes skills development spending and transfers to local government for municipal infrastructure and related services.
- Protection services continue to grow at 7,3 per cent a year. The slowdown in Defence expenditure is linked to the phasing down of payments on the armaments procurement programme in 2006/07.
- Spending on justice grows strongly, including improvements in courts and related services.
- After growing rapidly in the last three years, spending on general administration functions, including home affairs, foreign affairs and the revenue service, increases more moderately over the MTEF period ahead.

Chapter 7 includes further details on spending by function of provinces, and also describes the role of national grants in supporting municipal services and infrastructure investment.

Tables 5 and 6 of Annexure B set out more detailed accounts of the economic and functional breakdown of consolidated national and provincial expenditure.

Conclusion

Since 1994, the new Government has responded to the enormous challenges of development and public service delivery by progressively extending and improving government programmes in the context of an evolving Constitutional order and intergovernmental fiscal system.

Many more South Africans have been given access to housing, clean running water, primary health care, schooling and access to the courts. Through a substantial reorientation in public spending, Government has focused on reconstruction and development priorities, while addressing a comprehensive range of social, economic, administrative, safety and security-related and international responsibilities. The 2004 Budget provides for reinforcement of services in all these areas.

The Budget provides for a progressive extension of public services

Improved quality of spending remains a key to further progress

Having established a firm foundation for accelerated growth and broad-based development, Government recognises the need to focus on improved implementation and expenditure management, particularly in the development of the social security system, improvement in the quality of education and health services and in delivering infrastructure. The 2004 Budget invests in people, supports infrastructure investment and fights poverty through targeted income support.