

Medium term expenditure estimates

The sustained expansion of the economy and sound fiscal management allow for significant increases in expenditure in the 2005 Medium Term Expenditure Framework. Budget priorities are determined by Government's broad objectives of increasing economic growth, advancing social development and reducing inequality. Allocations are targeted at increasing social and economic infrastructure investment, providing direct income support, improving remuneration in key public services, accelerating land restitution and improving basic service delivery to the poor.

The 2005 Budget allocates an additional R74,4 billion over three years above the 2004 Budget forward estimates. Public expenditure on services grows by 9 per cent in real terms in 2005/06 and by 5,5 per cent a year over the period. Additional allocations over the MTEF include:

- *R22,3 billion to improve support the vulnerable through social security grants*
- *R6 billion to finalise rural land restitution*
- *R2 billion for the new comprehensive housing strategy and R1,7 billion for municipal infrastructure*
- *R3 billion for public transport and transport infrastructure*
- *R1 billion for the recapitalisation of Further Education and Training colleges*
- *R776 million to shore up the National Student Financial Aid Scheme*
- *R500 million for expanded capacity in water resource management*
- *R6,9 billion to improve salaries for teachers and R4,2 billion for police salaries*
- *R1,4 billion to support the African Agenda including Africa-wide peacekeeping operations.*

Government's contract with the people

In the second decade of democracy, Government is prioritising its capacity to deliver goods and services in an efficient and cost-effective manner and is looking anew at its human resources, systems and processes that support the implementation of various programmes and policies. A renewed emphasis on monitoring, linked to delivery, is evident and based on the programme of action announced in the State of the Nation address by the President.

Sequence of reforms and interlinked programmes important

These policy priorities and challenges shape the 2005 Budget. They reflect Government's commitment to expand economic activity and broaden access to opportunities while providing a social security safety net for the vulnerable. Addressing these policy objectives requires careful sequencing of reforms and more emphasis on the implementation of policies and programmes, particularly those that have a direct impact on the lives of the poor.

Medium term policy priorities

Government's priorities inform MTEF allocations

The main additional allocations in the 2005 Medium Term Expenditure Framework (MTEF) are set out in table 6.1. Further details of policy shifts and expenditure adjustments to advance Government priorities are provided in this chapter. The *Estimates of National Expenditure* presents the detailed expenditure plans of national departments while provincial and municipal budgets, summarised in the *Intergovernmental Fiscal Review*, provide further details on the allocation of public resources.

Economic development and investments

Sustained economic growth dependent on infrastructure investment

Sustained long term growth is dependent on public and private investment spending that provides a capital and technological platform for further growth and development. Economic infrastructure – including transport and logistics infrastructure, electricity generation, and appropriate telecommunications linkages – provides the backbone for economic activity. In line with Government's drive to increase capital expenditure, public entities such as Eskom and Transnet have indicated capital expenditure plans of R159 billion over the next five years.

Significant additional allocations to improve roads and public transport system

Government is implementing major investments to improve the road network and public transport system. Additional infrastructure allocations are made to upgrade strategic provincial roads taken over by the SA National Roads Agency, while improvements to the commuter rail system will include the rehabilitation of rolling stock, upgrading and extension of rail lines and investments in signalling systems. The taxi recapitalisation programme will involve the scrapping of ageing taxis and the payment of scrapping allowances to taxi owners. Public transport infrastructure, in some cases related to the 2010 soccer world cup, also receives attention.

New water infrastructure projects

New water infrastructure projects to augment the current supply – particularly for industrial users and increased agricultural consumption – will be implemented. Developments include transmission infrastructure for the expansion of the upper Vaal River supply system, and the development of the Olifants River and Groot Letaba River dam systems.

Table 6.1 2005 Budget priorities – additional allocations to selected votes

R million	2005/06	2006/07	2007/08	Total
Infrastructure				
Provincial infrastructure	–	–	1 000	1 000
SABC technological platform	100	150	150	400
Water resource infrastructure	–	150	350	500
Transport				
Public transport and 2010 transport infrastructure	500	1 000	1 500	3 000
Passenger rail infrastructure	–	100	250	350
Taxi recapitalisation	250	315	320	885
Enhancement of education, health, welfare and other functions				
Provincial equitable share adjustment	1 350	1 750	4 300	7 400
Educator remuneration	1 445	2 292	3 141	6 878
Further Education and Training colleges recapitalisation	50	500	500	1 050
National Student Financial Aid Scheme	226	200	350	776
Tertiary health care	180	180	180	540
Social workers salaries	109	116	123	348
Social security grants				
Provincial conditional grant	6 781	7 043	8 470	22 294
Basic household and municipal services				
Local government equitable share	1 000	1 150	1 500	3 650
Community infrastructure	–	1 000	2 000	3 000
Water, sanitation and other municipal infrastructure	200	500	1 000	1 700
Housing	–	500	1 500	2 000
Land reform and agricultural support				
Land restitution	1 550	2 000	2 400	5 950
Land reform	120	160	440	720
Agricultural credit scheme	150	200	250	600
Fighting crime				
Police remuneration	940	1 400	1 900	4 240
Additional police women and men	60	100	500	660
Administrative systems and services to citizens				
Home affairs - service delivery	123	235	354	712
Support for international commitments				
African union and increased foreign representation	127	147	204	477
Defence peace keeping operations	300	300	300	900
National Empowerment Fund	400	400	400	1 200
Other adjustments	66	789	2 363	3 218
Total policy adjustments	16 027	22 677	35 745	74 449

Housing and community development

Investment in municipal infrastructure provides for the extension of basic services and is a central component in the developmental strategy of Government. National Government provides transfers to municipalities to supplement own revenue and enable them to fulfil their developmental role. Over the MTEF, significant additional funds are awarded to the municipal infrastructure grant to address water and sanitation backlogs while the local government equitable share also grows apace.

Extensive additional funds to finalise land restitution provided

Over the 2005 MTEF, substantial additional allocations focus on finalising the land restitution process that will also serve as a boost to rural economies. Over the past six years, almost 80 per cent of restitution claims have been settled. Most of these claims were in the urban areas and were settled through financial compensation rather than land transfer to beneficiaries. The remaining 20 per cent of land claims will be more expensive as these include a significant number of rural claims, which usually involve larger communities and the purchase of agricultural land.

Land restitution and reform initiatives to be supported

As restitution nears completion, the funding emphasis will shift towards land reform and agricultural development. To complement the land redistribution initiative, programmes supporting farmers are designed to ensure sustainable and productive utilisation of land. Over the medium term, significant resources will be invested in improving rural farming infrastructure through the Comprehensive Agricultural Support Programme and the proposed new Micro Agricultural Finance Scheme.

New housing will contribute to sustainable communities

The rapid pace of housing delivery over the past decade often meant that provision for services that contribute towards sustainable community life, was inadequate. Housing delivery was not synchronised with the delivery of associated community services. The new direction in housing policy seeks to rectify such shortcomings and to create sustainable communities. Housing delivery will concentrate on medium-density housing in urban areas, expand rental accommodation, and increase the role of the private sector. Measures to ensure the more rapid release of urban land and the upgrading of informal settlement are also under way.

Social Services - addressing poverty and vulnerability

Social services lay the foundation for future growth through human capital development while providing direct support to the most vulnerable groups in society. Social services account for nearly 60 per cent of consolidated non-interest expenditure and the 2005 MTEF sees several further initiatives to expand access to social services, develop the efficiency of services and improve quality.

Government continues to provide a social safety net for the poor and vulnerable and significant baseline adjustments are made to accommodate continued growth of the grant system, in particular the growth of disability beneficiaries and the phasing in of payments to 11 to 13-year olds. From around 2 per cent of GDP four years ago, social grant spending will approach 3,5 per cent over the next three years. Finding the appropriate balance between social grant spending and other aspects of government services continues to be a challenge.

Key focus on improving grant administration

In an effort to improve the quality of the social security grant system, a National Social Security Agency is being established and social grant funding will, in time, shift to the national sphere. A particular focus over the next few years will be on rectifying deficiencies in the delivery of existing grants and ensuring the system's sustainability by improving the targeting of various grants.

Informal settlement upgrading

In 2004, Government launched a Comprehensive Plan for the Development of Sustainable Human Settlements that aims to upgrade all informal settlements in South Africa by 2015. This proposal is in line with the Millennium Declaration that commits all UN member states to collectively improve the lives of 100 million slum dwellers by 2015.

Despite the increase in the number of people in formal housing between 1996 and 2001, there was a simultaneous growth in informal housing, particularly in urban centres. It is difficult to quantify the number of households living in informal settlements because of the temporary nature of these settlements and the mobility of the populations in them. The 2001 Census shows 1,4 million households living in informal settlements – 450 000 in Gauteng alone.

The objective of the new housing policy is to facilitate upgrading by providing security of tenure, municipal engineering services, social and economic amenities and housing opportunities. This area-based development approach accommodates all households through a range of tenure and housing options. The phased approach allows for the fast-tracking of tenure arrangements and the installation of services, community participation and planning, and social amenity provision independently of each other and independently of housing delivery.

The new approach is enabled through the combination of the Housing Subsidy and Human Settlement Redevelopment Grants into a single Integrated Housing and Human Settlement Grant that is responsive to the range of interventions required to upgrade informal settlements.

Informal settlement upgrading involves making physical, social, economic, organisational and environmental improvements. Actions typically include:

- Installing or improving basic infrastructure, including roads, water reticulation, sanitation and waste collection, storm-water drainage and flood prevention, electricity, lighting and public telephones
- Removing or mitigating environmental hazards
- Constructing or rehabilitating community facilities such as crèches, sport facilities, community halls, and public open space
- Regularising tenure and improving housing
- Relocating or compensating residents dislocated by the improvements
- Improving access to health care and education, as well as social support programs to address crime and other social ills
- Enhancing income-earning opportunities through training and micro-credit; and
- Building social capital and the institutional framework to sustain improvements.

A successful example of an upgrading project is Briardene in eThekweni. While the Durban Metro was under pressure to remove the dense informal settlement adjoining Durban North, the housing department committed itself to upgrading the settlement. In order to upgrade the housing to formal structures without unduly disrupting the community, the project had to go through a complicated rollover in-situ upgrade. One of the key success factors in this project was that the construction coordinated such that households moved out of their shacks and into new houses in a single move with no need for temporary resettlement.

Additional funding is also made available to welfare services. With the strong growth in grant expenditure, developments in other welfare services have lagged behind and are due for an overhaul. Adjusting the structure of remuneration of social workers will be a first step. A re-orientation of partnerships with non-governmental organisations and an expansion of home and community-based care for those affected by HIV and Aids will also receive attention.

Social workers salaries increase

The National Health Act of 2003 commences operation in 2005/06 and consolidates primary health services at provincial level. This entails a redefinition of municipal health services with local government now only responsible for narrowly defined environmental health services. Provinces may choose to fulfil this function themselves, or assign the function to local government. As local government previously funded these services, increases in the provincial equitable share will partly address the budget need.

Primary health care becomes a provincial function

Fiscal expenditure incidence in South Africa, 1995 and 2000

In 2004, the National Treasury commissioned a study to determine the shifts in spending from rich to poor that have taken place in education, health, welfare and housing. This study calculated the incidence of public expenditure by race group, income class and urban/rural location between 1995 and 2000, and follows on a similar study that looked at the period 1993 and 1997. The study reveals considerable progress for a middle-income country in the degree of targeting. This is ascribed to a combination of broad access to social services, particularly school education for the poor, and the magnitude of the well targeted social grants system, which is unique in its size and reach among developing countries. In addition, expenditure on clinics and housing are also well targeted at the poor. Real social spending covered by this analysis increased by R15,1 billion over the period – an increase of 14 per cent per capita in social spending and a 25 per cent per capita increase for the poorest 40 per cent of households over the five year period.

Education

Since 1995 there has been a considerable shift of resources between schools, mostly linked to the shift of teachers to historically disadvantaged schools to equalise teacher pupil ratios. Overall school costs are now similarly distributed to the school going population, and equity in spending per child has almost been reached. The remaining differences are the result of better-qualified teachers in suburban schools, or arise from the mix between primary and secondary pupils, reflecting the higher enrolment of the poor in primary rather than secondary school. Higher dropout ratios, and the younger age structure of the black population are contributory factors, and as these change, the redistributive impact will improve.

Health

Within the health sector, there has been greater use of public clinics by the poor since the introduction of free clinic services, along with some reduction in use by the middle class who have shifted to private clinic services. The study found large differences in costs per inpatient day in hospitals, but no systematic variations in these costs between different catchment areas or provinces, by the level of affluence, or the race group of beneficiaries. This suggests that efficiency levels differ greatly between hospitals.

Social grants

Effective means testing has resulted in well-targeted social grants expenditure. However, the results of the study show that overall grant expenditure is not as well targeted as in 1995, perhaps because the introduction of the child support grants (CSG) initially led to a broadening of the client base. Many recipients of the CSG live in households with some other income, whereas pensioners often live with no other income source. In addition, the rollout of the CSG was initially uneven, focusing on urban areas, thereby excluding many of the poorest in rural areas from coverage. This has improved greatly since then.

Housing

The results for 2000 show a significant shift away from subsidies for first time homeowners and building of housing by the state, towards spending on housing subsidies for those without formal housing. In 2000/01, 163 114 housing subsidies were given to beneficiaries with household incomes of less than R18 000 per year, 6 746 to households with income between R18 000 and R30 000, 3 999 to those with incomes ranging from R30 000 to R42 000, and 5 to people in higher income brackets. This represents highly effective targeting of the poor in the housing sector.

Higher Education

The proportion of students accessing higher education who are black rose from 51 per cent in 1995 to 61 per cent in 2000, reflecting a moderate improvement in targeting from 1995 to 2000.

Some recent policy changes such as the broadening of the CSG, provision of free basic municipal services and school post-provisioning favouring the poor have not yet fully been reflected in the 2000 data, so spending is likely to have continued to shift in favour of the poor since 2000. Future emphasis will be on improving the equity of outcomes through improving the efficiency of social services to the poor.

Source: Fiscal incidence in South Africa, 1995 - 2000, S van der Berg, I Woolard, C Simkins.

Modernisation of tertiary health sector receives attention

In addition to the Hospital Revitalisation programme – where 10 of the original 27 on the programme will be completed over the MTEF – the health sector has prepared a plan for the modernisation of tertiary health services. Proposals for accelerating the rate of hospital revitalisation and the financial and resource implications are currently being considered. Baseline adjustments also accommodate building of capacity of the national Department of Health and strengthening its ability to support and monitor provinces and non-governmental organisations.

Changes in the economy-wide demand for labour favour skill-intensive employment and mismatches in the supply of appropriate skills in the labour force hampers economic growth. Public education and training will need to meet these demands.

Investment in education to address skills mismatch

Long term skills improvement begins with good quality school education. Government has put in place a pro-poor funding framework for schools to increase access to education. In order to enhance efficiency and improve quality, education has recently seen strong growth in operational expenditure at the public school level as well as spending on school building. However, Government still needs to give further attention to monitoring mechanisms to ensure that the funds flow in the intended way, and, crucially, to monitor the impact of funding strategies on the quality of education.

Government will monitor quality of education

Education is a highly personnel intensive service and this budget provides an additional R6,9 billion to enhance pay progression, career pathing and performance related remuneration for teachers as well as provide for the retention of teachers in the areas of maths and science.

R6,9 billion additional for salary increases to teachers

Past budgets have made substantial allocations to support the restructuring the higher education institutions and supplementing this approach, the 2005 Budget makes significant additional allocations to the National Student Financial Aid Scheme.

Significant additional allocation to NSFAS

Government recognises the weak functioning of some SETAs. Following a review of the performance of the National Skills Development Strategy and extensive consultations, the Minister of Labour tabled a new strategy for the period 2005 to 2009. This strategy will outline mechanisms to improve the performance of SETAs. Complementing this approach is the recapitalisation of Further Education and Training Colleges, which receive additional budget allocations of more than R1 billion over the MTEF.

Recapitalisation of FET colleges

Justice, crime prevention and security

The 2005 Budget significantly increases financing for Government's commitment to ensure a safe and secure environment for all citizens in South Africa.

Substantial additional funds are allocated to the Department of Safety and Security to retain skilled police personnel, improve performance based pay progression, develop systems for career pathing and attract and retain personnel with scarce skills.

Additional resources for police pay...

SAPS will upgrade security at identified government installations and ports of entry and exit, improve policing at strategic facilities and create a conducive climate for the country to host major international events such as the 2010 Soccer World Cup. Pilot projects will commence at Beit Bridge land border post, Cape Town Metro Rail, Durban Harbour, Johannesburg International Airport and at all High Courts. An additional 9 090 police officers will be recruited for this purpose over the next three years.

...and more police to be hired

In the 2005 Budget, the Department of Justice and Constitutional Development receives additional funds to improve court

Improved court efficiency

administration and security, appoint additional personnel, and rehabilitate old and dilapidated court facilities. Access control and security at courts will be improved to minimise escapes from custody and protect court personnel.

Enhanced focus on rehabilitation of offenders

A key priority of the Department of Correctional Services over the next five years will be to deliver services according to the principles of the new White Paper on Corrections which puts the emphasis on the reduction of repeat offences through the rehabilitation of offenders. Additional funds are allocated to implement programmes in this regard and for the continuous expansion of prison capacity.

Peacekeeping operations across Africa

South Africa's involvement in initiatives aimed at promoting peace and regional stability continues to require assistance from the Department of Defence. Close to 2 900 members of the South African National Defence Force are deployed in peacekeeping operations in seven different countries affected by conflict. The two largest deployments are to Burundi and the Democratic Republic of Congo, and negotiations to deploy peacekeeping forces to the Sudan are currently being finalised. Short term interventions include active involvement in humanitarian assistance and intergovernmental cooperation on training initiatives and crime prevention operations.

Stronger rand leads to cost reduction for Strategic Armament Procurement Package

Under the Strategic Arms Procurement Programme, four Corvettes have already been delivered to South Africa and the delivery schedule for 2005 includes a submarine, as well as a substantial portion of the light utility helicopters and trainer aircraft order. The appreciation of the rand against major currencies in 2004 has resulted in a further downward adjustment of R3,1 billion in the anticipated cost of the Strategic Armament Procurement Package from R48,7 billion to R45,6 billion.

Police, Teacher and Social Workers salaries

The 2005 Budget has increased allocations for personnel related expenditure to improve the conditions of employment for selected public servants.

As crime prevention continues to be one of Government's key priorities, improving the budget allocation for police personnel became a principal driver of allocations over the medium term. R660 million has been provided over the MTEF to improve the capacity of police personnel, funding an additional 9 090 officers. An additional R4,2 billion has been allocated over the medium term to facilitate the implementation of an improved remuneration structure for the police service, with the aim of retaining scarce skills and addressing crucial personnel related issues of career pathing and pay progression. This should have a positive impact on the level of safety and security of all citizens.

The 2005 Budget also allocates an additional R6,9 billion for improving the level of remuneration of educators, and the creation of an environment conducive to teaching. This additional allocation is added to the provincial equitable share and will also be used to target the following key areas, the exact details of which are still being formulated:

- Creating new school grading norms for principals' posts
- Introducing incentives to encourage educators to teach in certain schools where provinces find it difficult to employ and retain qualified staff
- Providing performance rewards for the best performing principals and teachers
- Providing support staff in schools serving households in disadvantaged communities

The Department of Social Development and the Department of Public Service Administration have jointly redesigned the job description and grading structure for social workers. Over the MTEF, R109 million, R116 million and R123 million have been included in the provincial equitable share to implement the improved salary dispensation.

Governance and administration

The quality of public sector delivery affects the growth of the economy and employment as well as the quality of life of people. The public sector needs to develop smarter ways of delivering services, and also improve the monitoring and evaluation of service delivery in areas of recognised weakness. Government services are delivered by a number of spheres, but citizens should be able to receive seamless services across Government. To achieve this objective, greater emphasis needs to be placed on cooperative governance and the alignment of planning regimes between national, provincial and local governments.

Government has initiated the development of a national monitoring framework to improve understanding of the socio-economic impact of policies and to expand existing monitoring processes. Funds originally allocated for Census 2006 will partly be redirected to assist in this regard.

Government is concerned about the quality of public sector delivery

Renewed focus on monitoring

International relations, peace and security

Over the past few years, South Africa has become increasingly involved in regional and international affairs. In some areas on the African continent, the main challenge has been promoting peace and security. Emphasis is also placed on regional economic integration, while the African Union and NEPAD will clearly remain central to South African foreign policy. The next phase of the African agenda will see the formation of tangible programmes and initiatives to give effect to the African Union's programme commitments.

Looking further afield, South Africa will continue to champion the interests of developing countries in the areas of trade, development, and reform of the international financial architecture. A key challenge is to bridge the North-South divide on issues such as trade, and to strengthen South-South cooperation. Expanding trade relationships with other emerging markets is part of the country's growth strategy.

The role that South Africa plays in regional and international affairs continues to deepen. There is a drive to forge partnerships with other key countries in the developing world and secure a place for development issues on the global agenda. South Africa is working closely with the countries of Africa, Asia and Latin America to develop common positions in promoting South-South and North-South cooperation to increase trade, investment and development opportunities. As part of the India, Brazil, South Africa (IBSA) Trilateral Commission, South Africa is a key player in presenting developing world perspectives at global forums and institutions.

Africa remains a critical focal point for South Africa's international relations. South Africa has actively participated in the establishment of the African Union, the Pan African Parliament that ensures the participation of Africa's people in governance, and the Peace and Security Council that prevents, manages and resolves conflicts on the continent. South Africa played a decisive role in establishing the key structures of NEPAD. Attention is now shifting to implementing

Regional stability is essential for development and growth

Interests of developing countries should top trade agenda

Strong collaborative ties are being forged across the developing world

NEPAD key to foreign affairs agenda

NEPAD's development programmes in the areas of infrastructure, information communication technologies, and agriculture. South Africa will also be reviewed in terms of the African Peer Review Mechanism. Deepening regional economic integration in Southern Africa remains a key objective.

Division of nationally raised revenue

Government policy priorities determine the division of revenue

The Constitution requires that an Act of Parliament should prescribe the division of nationally raised revenue between national, provincial and local government. The equitable division of revenue must take into account recommendations from the Financial and Fiscal Commission, and criteria stipulated in sub-section 214(2) of the Constitution. Within the framework of these requirements, the annual Division of Revenue Bill is the outcome of Government's policy deliberations on expenditure priorities for the period ahead. An explanatory memorandum on the Bill is included as *Annexure E* of this *Budget Review*.

Division between spheres: 2001/02 – 2007/08

Main budget expenditure for 2005 is R418 billion – growth of 12,6 per cent

Table 6.2 presents the division of revenue over the MTEF period and the preceding four years. This framework covers appropriations from the National Revenue Fund, and thus excludes social security funds and other extra-budgetary accounts, but includes state debt cost. For 2005/06, total expenditure of R417,8 billion is divided among the three spheres of government, after making provision for a contingency reserve and paying interest on state debt.

Non-interest government expenditure for 2005/06 is R364,7 billion, and over the MTEF it grows by 10,6 per cent a year to R435,5 billion. Excluding the unallocated contingency reserve, national departments receive 37,6 per cent, provinces 57,7 per cent and local government 4,7 per cent of the amount available for allocations in 2005/06.

Contingency reserve set aside for unanticipated events

Over the MTEF, the contingency reserve rises from R2 billion in 2005/06 to R8 billion in 2007/08. These funds are unallocated and are held in reserve for unforeseen and unavoidable expenditure, such as natural disasters and other emergencies, severe economic occurrences and for spending announced by the Minister but not appropriated at the time of the Budget. Through the mid-year adjustment process – the Adjustment Appropriations Bill - Parliament and the various Provincial Legislatures enact the appropriation of the funds. In ensuing budgets, portions of the contingency reserve in the MTEF are drawn down for new policy priorities.

Table 6.2 Main budget expenditure, 2001/02 – 2007/08

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Revised estimate	Medium-term estimates		
State debt cost	47 581	46 808	46 313	48 901	53 125	56 603	59 381
Non-interest expenditure	215 324	244 721	282 349	321 212	364 694	399 790	435 513
Percentage increase	14,8%	13,7%	15,4%	13,8%	12,9%	9,1%	8,0%
Total expenditure	262 905	291 529	328 662	370 113	417 819	456 393	494 894
Percentage increase	12,4%	10,9%	12,7%	12,6%	12,9%	9,2%	8,4%
Contingency reserve	–	–	–	–	2 000	4 000	8 000
Division of available funds							
National departments	87 705	99 091	108 459	121 101	136 262	146 800	157 817
Provinces	121 099	136 873	161 494	185 354	209 273	229 282	248 236
Equitable share	81 670	93 827	110 004	122 426	134 706	146 757	157 678
Conditional grants	39 429	43 046	51 490	62 928	74 567	82 525	90 558
Local government	6 520	8 759	12 396	14 757	17 159	19 708	21 461
Equitable share	3 184	4 187	6 350	7 678	9 643	10 515	11 371
Conditional grants	3 336	4 572	6 045	7 080	7 516	9 193	10 090
Total	215 324	244 722	282 349	321 212	362 694	395 789	427 513
Percentage shares							
National departments	40,7%	40,5%	38,4%	37,7%	37,6%	37,1%	36,9%
Provinces	56,2%	55,9%	57,2%	57,7%	57,7%	57,9%	58,1%
Local government	3,0%	3,6%	4,4%	4,6%	4,7%	5,0%	5,0%

Additional allocations to 2004 Budget estimates

Table 6.3 summarises additional spending allocations for the 2005 Budget. Over the MTEF, an additional R74,4 billion is allocated, of which R16,0 billion will be available in 2005/06. For budget planning purposes, departmental baseline allocations for 2007/08 are calculated based on 5,0 per cent growth on baseline allocations for 2006/07. A large portion of the additional allocations is for social grants while significant capital and infrastructure allocations are made, mainly in the second and third years of the MTEF, to provide adequate time for planning.

For 2005/06, the ‘above baseline’ allocations consist of R5,3 billion for national departments, R9,5 billion for provinces and R1,2 billion for local government.

Over the MTEF total additional allocations are R74,4 billion

Table 6.3 Additional allocations in the 2005 MTEF

R million	2004/05	2005/06	2006/07	2007/08 ¹	Total
National departments	1 520	5 287	8 111	12 282	25 680
Provinces	4 242	9 540	12 916	20 963	43 419
Equitable share	847	2 579	5 100	8 937	16 616
Conditional grants	3 395	6 961	7 816	12 025	26 803
Local government	477	1 200	1 650	2 500	5 350
Equitable share	–	1 000	1 150	1 500	3 650
Conditional grants	477	200	500	1 000	1 700
Total	6 240	16 027	22 677	35 745	74 449

1. The assumed baseline for 2007/08 is the 2006/07 baseline plus 5 per cent.

Revised estimates of expenditures: 2003/04 and 2004/05

On an annual basis, the main budget is revised based on in-year adjustments to departmental budgets. These adjustments take into account savings, unforeseen and unavoidable expenditures, rollovers, personnel adjustments, self-financing expenditure and other specified additional allocations. Table 6.4 presents the revised expenditure estimates for 2003/04 and 2004/05, and the preliminary expenditure outcome for 2003/04.

Table 6.4 Preliminary 2003/04 expenditure outcome and 2004/05 revised estimate

R million	2003/04			2004/05		
	Budget	Revised estimate	Preliminary outcome	Budget	Adjustments	Revised estimate
Direct charges to the National Revenue Fund						
State debt cost	50 986	47 326	46 313	50 432	-1 531	48 901
Provincial equitable shares	142 386	144 743	144 743	159 971	4 112	164 084
<i>Unforeseeable and unavoidable expenditure</i>					3 265	
<i>Inflation adjustments</i>					847	
Skills development funds	3 600	3 700	3 777	4 300	–	4 300
Other statutory amounts	915	903	915	963	12	975
Standing appropriations	35	46	28	34	10	44
Total	197 922	196 717	195 776	215 700	2 603	218 304
Appropriation by vote						
Main appropriation	133 043	133 043		149 704	-12	
Adjustments						
Approved rollovers from previous year		1 080			1 988	
<i>National departments</i>		820			1 761	
<i>Transfers to provinces</i>		20			30	
<i>Transfers to local government</i>		240			197	
Unforeseeable and unavoidable expenditure		2 786			1 648	
<i>National departments</i>		2 499			1 648	
<i>Transfers to provinces</i>		127			–	
<i>Transfers to local government</i>		160			–	
Other adjustments		-976			-383	
<i>Inflation adjustments</i>		151			–	
<i>Self financing expenditure</i>		423			165	
<i>Savings identified by departments</i>		-1 800			-1 129	
<i>National Empowerment Fund</i>		–			150	
<i>Drought relief</i>		250			430	
	133 043	135 933	135 933	149 704	3 241	152 944
Contingency reserve	3 000			2 500	-2 500	
Unallocated	–			1 000	-1 000	
Underspending and savings		-966	-3 047			-1 135
Total	136 043	134 967	132 886	153 204	-259	151 809
Total expenditure	333 965	331 685	328 662	368 904		370 113
<i>Percentage increase over Budget</i>			-1,6%			0,3%
<i>Percentage increase over previous year</i>			12,7%			12,6%

For 2003/04, the 2004 Budget revised estimate of expenditure was R331,7 billion, while the preliminary outcome of expenditure is expected to be lower at R328,7 billion. Continued under-expenditure by departments suggests that further work is required to align planning processes with budget requests.

In 2003/04, revised estimates is R3 billion lower than adjusted budget

The revised estimate for expenditure in 2004/05 is R370,1 billion, 0,3 per cent more than the budget of R368,9 billion. The upward revision in spending takes into account savings on the strategic arms procurement package due to the improved strength of the rand. Approved rollovers increase to nearly R2 billion and are linked to the slow ability to implement capital projects.

Net savings in mid-year adjustments

In the mid-year adjustments for 2004/05, provinces received additional allocations of R4,1 billion. Changes approved by parliament included rollovers of nearly R2 billion, savings and underspending of R1,1 billion, unforeseen and unavoidable expenditure of R1,6 billion, of which R500 million was for the Department of Trade Industry in support of the development of the pebble bed modular reactor, and R687 million for the Department of Public Works, largely for the settlement of municipal rates and services charges. Additional funds of R430 million for drought relief were allocated to the Departments of Water Affairs and Forestry, Provincial and Local Government and Agriculture.

Provinces received an additional R4,1 billion in 2004/05 adjustment budget

Appropriations from the National Revenue Fund: 2001/02 – 2007/08

Appropriations against the National Revenue Fund are either direct charges as provided for in the Constitution, the Public Finance Management Act or other legislation, or allocations by vote set out in the annual Appropriation Bill.

Table 6.5 Main budget appropriation, 2001/02 – 2007/08

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Revised estimate	Medium-term estimates		
Direct charges to the National Revenue Fund							
State debt cost	47 581	46 808	46 313	48 901	53 125	56 603	59 381
Provincial equitable share	81 670	93 827	110 004	122 426	134 706	146 757	157 678
Skills development funds	2 541	3 259	3 777	4 300	5 000	5 600	6 000
Other statutory amounts	829	874	915	975	1 060	1 121	1 177
Standing appropriations	294	30	28	44	22	23	24
Total	132 915	144 798	161 037	176 645	193 913	210 104	224 260
Appropriation by vote							
Main appropriation	122 499	143 245	167 782	193 468	221 406	240 289	259 134
Adjustments	9 010	4 781	2 890	1 135	–	–	–
Contingency reserve	–	–	–	–	2 000	4 000	8 000
Total	131 510	148 026	170 671	194 602	223 406	244 289	267 134
Savings and underspending	-1 520	-1 295	-3 047	-1 135	–	–	–
Total expenditure	262 905	291 529	328 662	370 113	417 819	456 393	494 894

Direct charges provide for the provincial equitable share, salaries for the judiciary and political office bearers, subscriptions and guarantees payable under international agreements, transfer of skills development levy receipts to the Sector Education and Training Authorities and the National Skills Funds, and state debt costs.

Allocations to National Departments

ENE presents detailed allocations to national departments

The discussion and tables below summarise allocations to national departments for the forthcoming three years and changes to the 2004 Budget baseline estimates. The changes reflect the additional expenditure for policy shifts, acceleration of service delivery programmes and increased personnel remuneration. Conditional grants to provinces and municipalities are also included as these amounts are incorporated in national departmental votes. The annual *Estimates of National Expenditure* presents detailed spending tables per department together with an indication of service delivery targets and expected outputs and outcomes.

As part of reform initiatives aimed at deriving greater efficiencies in state-owned enterprises, these entities have been reclassified in terms of their commercial activities. Public entities that function as business enterprises will be paying VAT, but those entities that provide public goods will be exempted from VAT for such services. Baseline adjustments in transfers to all entities reflect the new VAT regime.

Central Government and Administrative Services

Additional allocations to Presidency support monitoring capacity

The Presidency is allocated an additional R24 million in 2005/06, R25 million in 2006/07 and R27 million in 2007/08 for electronic communication, strengthened internal policy capacity, improved efficiency in document management and to support the South African Chapter on African Renaissance. The National Youth Commission is also accommodated within this allocation.

Parliament's allocation is increased by R64 million, R85 million and R100 million over the MTEF. These funds will go towards expanding capacity in the Secretary's Office, the National Assembly and the National Council of Provinces Division; strengthening the oversight role of Committees through improving research capacity and implementing various projects to improve internal services. A major cost driver in future years will be the implementation of the proposed language policy.

Quality of Home Affairs services to be turned around

The services rendered by the *Department of Home Affairs* are central to giving citizens access to basic benefits and other government services. The Department's turnaround strategy is supported with additional amounts of R283 million, R247 million, and R321 million for the re-engineering of business and workflow processes. Service delivery will be strengthened through the appointment of additional personnel, acquisition of vehicles, roll out of mobile units and implementation of birth registration and permanent citizenship campaigns. Funding is also allocated for transforming the

immigration branch and for combating fraud and corruption. The *Independent Electoral Commission* receives R160 million, R12 million and R63 million, primarily to support the local government elections in 2005/06.

Table 6.6 Central government administration: expenditure by vote, 2001/02 – 2007/08

R million	2001/02	2002/03 Outcome	2003/04	2004/05 Revised estimate	2005/06	2006/07	2007/08
					Medium-term estimates		
Appropriation by vote							
The Presidency	101	139	143	176	213	229	241
Parliament	270	312	409	576	677	749	797
Foreign Affairs	1 995	2 339	2 129	2 481	2 595	2 917	3 168
Home Affairs	1 120	1 367	1 952	2 195	2 973	2 627	2 820
<i>Independent Electoral Commission</i>	100	211	641	527	884	332	399
Provincial and Local Government	4 653	6 557	9 441	13 137	15 581	18 489	20 203
<i>Local government equitable share</i>	3 184	4 187	6 350	7 678	9 643	10 515	11 371
<i>Grants to local government</i>	1 160	1 959	2 593	4 943	5 636	7 654	8 501
<i>Grants to provinces</i>	163	241	260	220	–	–	–
Public Works	3 705	4 202	4 682	5 514	5 554	5 960	6 578
<i>Grants to local government</i>	357	260	262	–	–	–	–
	11 843	14 917	18 756	24 078	27 593	30 970	33 807
Statutory appropriations							
The Presidency	2	2	2	2	2	2	2
Parliament	162	173	183	209	208	221	232
Total	12 007	15 091	18 941	24 289	27 804	31 193	34 041
Changes to baseline							
The Presidency				3	24	25	27
Parliament				-12	64	85	100
Foreign Affairs				-5	145	190	261
Home Affairs				-79	283	247	321
<i>Independent Electoral Commission</i>				24	160	12	63
Provincial and Local Government				286	1 210	1 654	2 526
<i>Local government equitable share</i>				–	1 000	1 150	1 500
<i>Grants to local government</i>				274	200	500	1 000
<i>Grants to provinces</i>				–	–	–	–
Public Works				694	408	446	788
<i>Grants to local government</i>				–	–	–	–
				887	2 134	2 647	4 022
Statutory appropriations							
The Presidency: Salary of the President and Deputy President				–	–	–	–
Parliament: Members' remuneration				12	–	–	–
Total				899	2 134	2 647	4 022

Recommended additional allocations to the *Department of Foreign Affairs* amount to R145 million, R190 million and R261 million over the three years of the MTEF. The strengthening of the rand against major currencies provides savings to the Department. The bulk of the additional funds go towards consolidating the African Agenda which includes support for the Pan African Parliament; contributions to the African Union's budget, expanding representation in Africa and abroad and modernising the department's ICT systems.

Funds support the African Agenda focus in Foreign Affairs

Local government receives substantial additional allocations

The *Department of Provincial and Local Government* receives substantial additional allocations of R5,4 billion over the MTEF period. These increases are mainly for the Local Government Equitable Share (R3,7 billion) and the Municipal Infrastructure Grant (R1,7 billion). Additional funds also support the establishment of a dedicated unit to coordinate the implementation of the Municipal Infrastructure Grant (MIG). Two Commissions are established — one on Claims and Disputes relating to Traditional Leadership and the other on the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities. The Municipal Demarcation Board also receives an additional R12,6 million for increased activity linked to the local government elections.

Government to overhaul property management

Government owns an extensive portfolio of property and land that is not utilised optimally. A comprehensive management framework to maximise the value of state property will be developed. Options for restructuring ownership of assets and decentralising control over property management will also be considered. Additional amounts of R408 million, R446 million and R788 million are recommended for the *Department of Public Works*, in part to support the payment of the municipal services and rates debt on government buildings and to upgrade land ports of entry. Further renovations to Parliament buildings require R23 million in 2005/06 while amounts of R69 million, R71 million and R110 million are allocated to address the general maintenance backlog in government buildings.

Financial and administrative services

GCIS to meet the requirements of the Promotion of Access to Information Act

To meet the requirements of the Promotion of Access to Information Act, the *Government Communications and Information System's* vote receives R40 million, R29 million and R28 million, above baseline. Additional personnel costs for the appointment of learners under the Learnership programme are also accommodated.

Provincial infrastructure grant is increased

Additional funds recommended for the *National Treasury* amount to R77 million in 2006/07 and R1,1 billion in 2007/08 to accommodate mandatory transfers to Swaziland in terms of the Common Monetary Area Agreement and to gradually increase the baseline of the Financial Intelligence Centre. In the third year of the MTEF, R1 billion is allocated to the provincial infrastructure grant. The *National Treasury* vote also includes local government restructuring and financial management grants, provision for civil and military pensions and post retirement medical benefits, and provision for Secret Services. Due to a change in the VAT Act, funding for the SA Revenue Service is reduced by R1,6 billion and this is reflected in the limited increases of the Treasury baseline. This change in the allocation to SARS will have no material effect on their funding. The historic baseline of the provincial equitable share is also adjusted to take account of the shift of social security grants to the Department of Social Development.

An additional R5 million for the *Department of Public Enterprises* is recommended for 2007/08 to strengthen internal capacity. In addition, the Department receives R13 million in 2005/06 to reimburse Alexkor.

The additional allocations to the *Department of Public Service and Administration* are R19 million, R15 million and R14 million. These funds will be used to facilitate the implementation of the restricted medical scheme for public servants and to phase in the establishment of planning, monitoring and evaluation capacity within the department.

DPSA to develop restricted medical scheme for public servants

Table 6.7 Financial and administrative services: expenditure by vote, 2001/02 – 2007/08

R million	2001/02	2002/03 Outcome	2003/04	2004/05 Revised estimate	2005/06	2006/07	2007/08
					Medium-term estimates		
Appropriation by vote							
Government Communication and Information System	123	152	179	203	249	251	262
National Treasury	8 165	9 847	12 094	13 802	13 991	15 069	16 813
<i>South African Revenue Service</i>	2 863	3 502	3 792	4 603	4 254	4 510	4 735
<i>Secret Services</i>	983	1 329	1 771	2 117	2 080	2 223	2 334
<i>Grants to provinces</i>	1 824	1 950	2 534	3 348	3 731	4 118	5 324
<i>Grants to local government</i>	290	306	705	586	549	549	549
Public Enterprises	196	210	84	75	92	80	89
Public Service and Administration	99	138	155	134	168	177	184
Public Service Commission	53	57	64	72	82	89	93
South African Management Development Institute	23	31	37	41	57	59	57
Statistics South Africa	898	359	281	365	691	881	779
	9 556	10 794	12 893	14 692	15 330	16 605	18 277
Statutory appropriations							
State debt cost	47 581	46 808	46 313	48 901	53 125	56 603	59 381
Provincial equitable share	81 670	93 827	110 004	122 426	134 706	146 757	157 678
Total	138 807	151 429	169 211	186 019	203 161	219 965	235 336
Changes to baseline							
Government Communication and Information System				–	40	29	28
National Treasury				- 140	- 1	77	1 067
<i>South African Revenue Service</i>				–	- 494	- 524	- 550
<i>Secret Services</i>				–	–	–	–
<i>Grants to provinces</i>				–	–	–	1 000
<i>Grants to local government</i>				45	–	–	–
Public Enterprises				- 1	13	- 1	5
Public Service and Administration				8	19	15	14
Public Service Commission				- 1	4	6	6
South African Management Development Institute				–	18	17	13
Statistics South Africa				- 139	38	- 476	- 646
				- 273	131	- 334	486
Statutory appropriations							
National Treasury: State debt cost				- 1 531	- 861	- 1 342	- 1 461
National Treasury: Provincial equitable share				847	2 579	5 100	8 937
Total				- 957	1 849	3 424	7 962

Additional amounts of R4 million, R6 million and R6 million are recommended for the *Office of the Public Service Commission*. These funds will be used to build capacity to register and investigate complaints and grievances lodged according to the Public Service Commission Act, upgrade IT infrastructure and support anti-corruption initiatives.

Additional funds for SAMDI organisation capacity

An additional R18 million, R17 million and R13 million are recommended for the *South African Management Development Institute* (SAMDI) to strengthen organisational capacity in line with their turnaround strategy. A further R2,0 million, R2,1 million, R2,2 million for Financial Management Training is shifted from the National Treasury vote.

R2 billion saving on 2006 Census partly redirected to improve quality of general statistics

With the cancellation of the 2006 Census, *Statistics South Africa's* vote is reduced by about R2 billion and these funds are removed from their baseline. However, additional allocations of R246 million, R408 million and R283 million are made to support an improvement in the quality of the general economic and household statistics as well as the new Community Survey that replaces the Census.

Social services

Capital expenditure of R190 million at Freedom Park postponed

Due to delays in the construction of the Freedom Park monument, capital expenditure has been delayed and changes to the baseline of the *Department of Arts and Culture* include a decrease of R190 million in 2005/06. These funds will be reallocated in 2006/07 (R130 million) and 2007/08 (R60 million). The savings in 2005/06 is offset by additional allocations of R70 million partly to fund the management of Robben Island Museum as a World Heritage Site and for hosting the 29th Session of the World Heritage Committee in 2005. Total additional allocations in the outer years of the MTEF are R146 million and R82 million. These allocations are to support the offices of the Minister and Deputy Minister and service newly developed international partnerships and projects. In recognition of the sound performance by the *Pan South African Language Board*, additional funds of R1 million and R2 million in the outer years of the MTEF are recommended.

R1 billion to recapitalise FET colleges and NSFAS funding also set to increase

Amounts of R285 million, R714 million and R874 million are allocated to the national *Department of Education*. Amounts of R500 million are allocated in each of the outer years of the MTEF as conditional grants to provinces to fund the recapitalisation of Further Education and Training Colleges, while the remaining funds will be used to increase the level of funding to students who receive financial assistance from the National Student Financial Aid Scheme. The Department also receives R10 million, R15 million and R20 million to improve an education management information systems that will streamline and integrate the flow of education information from school level upwards.

Management capacity in Health receives attention

An additional R199 million, R200 million and R204 million is given to the national *Department of Health*. These funds are to improve internal capacity to manage provincial grants – particularly the hospital revitalisation grant – and to strengthen health promotion programmes. The National Tertiary Health Services grant receives an additional R180 million a year to support academic health centres. Funds allocated to improve labour inspectorate.

The additional amounts allocated to the *Department of Labour* are R18 million, R43 million and R50 million. These funds will be used to enhance service delivery through the development and

implementation of a fully-fledged call centre. Additional funds are also allocated to accelerate the learnership and internship initiatives and funds are allocated to improve the labour inspectorate. .

In 2005/06, responsibility for the financing of social grants will be centralised at the national level and the budget of the *Department of Social Development* changes significantly with the shift of the social security grants to the national sphere. Before the National Social Security Grants Agency is fully functional, these funds will be allocated to provincial social development departments as conditional grants. Grant allocations also take the increases in the value of the grants into account. Further additional allocations of R126 million, R160 million and R190 million are made to the Department for the establishment of the agency and to improve grant administration. Provincial conditional grants for home and community-based care for people affected by HIV and Aids are increased by R64 million, R60 million and R60 million over the MTEF.

Social grants centralised at national level and Social Security Grants Agency to be established

Growth in the disability and care dependency grants

Growth in Disability and Care Dependency grants has exceeded that of other grant programmes, placing significant pressure on provincial budgets. Between December 2001 and end 2004, the beneficiaries for the two programs grew from 711 495 to 1 385 935, with associated annual costs rising from R4,9 billion to over R11,9 billion. A study was commissioned by National Treasury and the Department of Social Development to investigate the causes of this unexpected increase in the take-up of grants.

The findings suggest that possible causes include changes in the application process, increases in numbers suffering from chronic diseases such as Aids, improvements in the opportunities for disabled people to access and apply for the grant, particularly in remote rural areas, equalisation in the number of women who are availing themselves of the benefit and higher incidence of fraud.

Over the past three years, the Eastern Cape has experienced a 76 per cent increase in the number of beneficiaries accessing the disability and care dependency grants. However, this has been coupled with an apparent increase in the number of cases of fraud and ineligible people accessing the grants. This prompted the provincial social development department to develop a multifaceted approach to protecting the integrity of the system by restricting access to the grants to only those eligible for them. This approach resulted in significant savings in 2004/05, and involved:

- Conducting a forensic audit of all disability and care dependency files to identify all ineligible recipients and those whose status needs to be reviewed
- Developing guidelines in conjunction with medical professionals to assist practitioners in assessing the degree of disability of an applicant
- Creating a registry of medical professionals that are authorised to conduct the assessments and have been provided with training on the use of the new guidelines
- Reviewing the cases of approximately 80 000 temporary grant recipients who continued to receive payments beyond the period they were originally eligible for. The department established a new set of procedures that comply with court rulings for terminating temporary grants
- Commissioning a new Management Information System for social grants to enable them to closely monitor key programme indicators and to identify and address problems at an early stage.

The success of these measures has prompted other provinces, notably KwaZulu-Natal and Free State, to replicate them in an attempt to improve their disability grants system. The national department of social development has created a special disability management initiative to assist provinces in their efforts by sharing best practices and providing technical assistance to improve policies.

Hosting the 2010 Soccer World Cup holds large potential benefits for the country but also some significant risks. Government remains committed to fund a proportion of the stadium infrastructure requirements, and once these requirements have been finalised allocations will be reflected in the 2006 Budget. A critical priority is

for Government to put in place coordinating mechanisms and dedicated capacity to prepare for 2010. Additional amounts of R23 million, R23 million and R22 million are allocated to *Sports and Recreation South Africa* to establish a dedicated programme management unit to deal with Government's role in the 2010 World Cup. These funds will also support the incorporation of the Sports Commission into the Department, establish the office of the deputy Minister and promote organised school sport.

Table 6.8 Social services: expenditure by vote, 2001/02 – 2007/08

R million	2001/02	2002/03 Outcome	2003/04	2004/05 Revised estimate	2005/06	2006/07	2007/08
					Medium-term estimates		
Appropriation by vote							
Arts and Culture	443	593	905	1 015	1 083	1 234	1 225
Education	8 616	9 314	10 543	11 395	12 397	13 726	14 536
<i>Grants to provinces</i>	809	936	1 136	991	1 048	1 743	1 805
Health	6 224	7 059	7 672	8 715	9 825	10 658	11 185
<i>Grants to provinces</i>	5 472	6 300	6 746	7 655	8 666	9 408	9 870
Labour	1 397	1 283	1 012	1 217	1 314	1 431	1 508
Social Development	28 118	30 269	36 845	46 222	56 549	61 887	66 877
<i>Grants to provinces</i>	27 810	29 688	36 392	45 766	55 932	61 205	66 139
Sport and Recreation SA	101	172	223	294	204	232	242
<i>Grants to local government</i>	36	84	122	134	–	–	–
<i>Grants to provinces</i>	–	–	–	9	24	39	41
	44 900	48 690	57 202	68 858	81 372	89 169	95 573
Statutory appropriations							
Labour: Skills development	2 541	3 259	3 777	4 300	5 000	5 600	6 000
Total	47 441	51 950	60 979	73 158	86 372	94 769	101 573
Changes to baseline							
Arts and Culture				-127	-139	146	82
Education				50	285	714	874
<i>Grants to provinces</i>				30	–	500	500
Health				-73	199	200	204
<i>Grants to provinces</i>				–	180	180	180
Labour				26	18	43	50
Social Development				16	6 971	6 856	9 095
<i>Grants to provinces</i>				–	6 845	6 696	8 905
Sport and Recreation South Africa				8	23	23	22
<i>Grants to local government</i>				2	–	–	–
<i>Grants to provinces</i>				–	–	–	–
				-101	7 356	7 982	10 327
Statutory appropriations							
Labour: Skills development				–	500	900	1 065
Total				-101	7 856	8 882	11 392

Justice and protection services

Correctional Services White Paper reform direction supported through additional allocations

Additional allocations of R200 million, R333 million and R866 million are recommended for the *Department of Correctional Services* for the appointment of additional personnel, the implementation of aspects of the White Paper on Corrections, additional infrastructure requirements and the implementation of a 7-day working establishment in the third year of the MTEF.

The *Department of Defence* receives a further R791 million, R944 million and R1,3 billion for the disposal of ammunition and the integration of the newly acquired equipment into the navy. An additional R300 million a year is allocated for peace support operations in the Democratic Republic of Congo, Burundi and Sudan. Further increases in the third year are for the repair and maintenance of Defence facilities.

R900 million additional funds to Defence for peace keeping in Africa

The *Department of Justice and Constitutional Development* receives substantial additional allocations of R288 million, R484 million and R676 million to support effective and efficient court management and for the modernisation of the justice system in order to improve conviction rates. Dedicated funding for court security is also provided. In future, compensation of magistrates will constitute a direct charge on the National Revenue Fund and will no longer be appropriated.

Greater efficiency in court management practices supported

Improving the Criminal Justice System

Safety and Security

In support of Government's focus on preventing and combating crime, the Department of Safety and Security plans to increase the number of police officers from 139 023 in 2003/04 to approximately 165 850 by end of March 2008. This represents a 19 per cent increase in personnel numbers and brings the total number of additional personnel to 26 827 over a five year period. The Department will focus on employing entry-level constables to improve sector policing and provide security at certain strategic areas and installations. Civilians will also be employed to perform administrative tasks to release police officials to focus on preventing and combating crime.

Justice and Constitutional Development

Over the 2005 MTEF, the Department of Justice and Constitutional Development has set aside R697 million to improve court efficiency and appoint additional personnel in key areas. Forty additional magistrates will be appointed and approximately 1 000 vacancies will be filled at court level to enhance management capacity and administrative support. Funds will also be utilised to appoint additional personnel to speed up prosecutions.

The Department will maintain its focus on improving access to courts by building more court facilities, and it is envisaged that at least two Community Courts will be established per province to address area-specific crime problems, ensure speedy and effective justice, and make people feel safer in their own communities. The Hatfield model, utilising a multi-agency and community partnership approach, will be used to rollout these courts. Furthermore, provision has been made for the additional rollout of Sexual Offences Courts to address more effectively the incidence of sexual offences perpetrated against woman and children.

Funds have also been set aside for the implementation of a Charter and Minimum Standards on Services for the Victims of Crime that was developed in compliance with the Constitution and the United Nations Declaration of Basic Principles of Justice for Victims of Crime and Abuse of Power.

Correctional Services

The 2005 Budget makes available additional allocations to the Department of Correctional Services to finance the start-up and operational cost associated with four new correctional centres in 2006/07, implement the White Paper on Corrections, appoint approximately 7 000 additional personnel and meet the cost of providing three meals per day to incarcerated offenders. Accommodation capacity will increase by 12 000 bed spaces and result in a moderate reduction in the projected rate of prison overcrowding by the end of March 2008.

Substantial additional amounts of R1,6 billion, R2,3 billion and R3,3 billion are allocated to the *Department of Safety and Security* to increase police remuneration and to address issues pertaining to the retention of scarce skills, pay progression and career pathing. Significant additional allocations are also made to appoint more police personnel.

Additional R5,5 billion to increase police salaries and appoint more police

The additional allocations for the *Independent Complaints Directorate* of R3 million, R6 million and R8 million and are primarily to increase staff numbers to handle a higher case load.

Table 6.9 Justice and protection services: expenditure by vote, 2001/02 – 2007/08

R million	2001/02	2002/03 Outcome	2003/04	2004/05 Revised estimate	2005/06	2006/07	2007/08
					Medium-term estimates		
Appropriation by vote							
Correctional Services	6 549	7 068	7 387	8 457	9 234	9 960	10 974
Defence	16 045	18 836	19 826	19 412	22 459	22 588	22 152
Independent Complaints Directorate	27	32	37	42	50	56	61
Justice and Constitutional Development	3 268	3 786	4 018	4 467	5 072	5 599	6 046
Safety and Security	17 670	19 714	21 968	24 573	28 457	31 006	33 452
	43 559	49 435	53 236	56 951	65 272	69 209	72 685
Statutory appropriations							
Justice and Constitutional Development: Judges' salaries	665	699	730	764	850	898	943
Total	44 224	50 134	53 966	57 716	66 122	70 106	73 628
Changes to baseline							
Correctional Services				50	200	333	866
Defence				-846	791	944	1 271
Independent Complaints Directorate				–	3	6	8
Justice and Constitutional Development				–	288	484	676
Safety and Security				63	1 619	2 279	3 289
				-733	2 900	4 047	6 109
Statutory appropriations							
Justice and Constitutional Development: Judges' salaries				–	–	–	–
Total				-733	2 900	4 047	6 109

Economic services

Programmes that support agricultural production receive additional funds

The *Department of Agriculture* receives additional allocations of R200 million, R300 million and R450 million to support the Agricultural Black Economic Empowerment initiative and the Micro Agriculture Financing Scheme. The Comprehensive Agricultural Support Programme is a key initiative to improve the effectiveness of Land Redistribution for Agricultural Development programme and improve rural economies, but the pace of delivery by this programme has been slower than expected and additional allocations are only made in the third year.

Funds allocated to improve the technological platform of the SABC

The total additional allocations to the *Department of Communications* amount to R103 million, R158 million and R163 million to provide funds for the recapitalisation of the SABC, the regulatory authority ICASA and to provide support to the office of the Deputy Minister.

The development of tourism businesses supported

Additional allocations of R53 million, R99 million and R189 million are made to the *Department of Environmental Affairs and Tourism*, mainly to support growth enhancing interventions including tourism marketing and promotion, business enterprise development and for key tourism infrastructure projects in conservation areas managed by SANParks and for the Marion island base.

Additional amounts of R21 million, R571 million and R1,6 billion are allocated to the *Department of Housing*. This allocation includes R500 million and R1,5 billion in the outer years as a conditional grant to provinces for the Integrated Housing and Human Settlement Grant that supports the implementation of the Comprehensive Plan for the Development of Sustainable Human Settlements. Funding will also be directed towards institutional reform, capacity building for the accreditation of municipalities to take over the administration of housing programmes and to settle Government's liability on the Servcon portfolio of properties.

Additional R2 billion to implement the new direction in housing policy

The *Department of Land Affairs* receives substantial additional allocations of R1,7 billion, R2,2 billion and R2,9 billion over the MTEF. These funds go primarily towards accelerating the Land Restitution programme. Fast tracking labour tenants claims, the implementation of the Communal Land Rights Act and the State Land Administration Act also receive support.

Over the MTEF, Land Affairs receive R6 billion additional to finalise land restitution

Additional amounts of R35 million, R35 million and R38 million go to the *Department of Minerals and Energy* to support infrastructure improvement at the SA Nuclear Energy Corporation and to expand organisational structure. In 2006/07, the national electrification programme shifts to the Department of Provincial and Local Government's Municipal Infrastructure Grant.

The Integrated National Electrification programme will be incorporated into the MIG in 2006/07

The *Department of Science and Technology* receives additional funds of R32 million, R60 million and R211 million to phase in the establishment of the International Resources Leveraging Fund and to investigate the option of using a public private partnership for the establishment of a Science Museum. Additional funds also include R18 million, R48 million and R201 million that will be transferred to Science Councils to invest in research and development infrastructure, cross cutting science and technology frontier programmes as well as substantially augmenting human resource development in key areas of science, engineering and technology. These funds were previously reflected on the budget of other oversight departments.

The development of human resource in key areas of science, engineering and technology receives support

Additional amounts of R400 million per year are recommended for the *Department of Trade and Industry* to support government's broad based BEE objectives encompassing the National Empowerment Fund's (NEF) work programme. More work will be done in the coming months on the kinds of products that will be financed through this allocation, and before the expenditure can commence, the DTI, the NEF and the National Treasury will have to reach final agreement.

Over the next three years, the NEF receives R400 million per year

The *Department of Transport* receives additional amounts of R477 million, R659 million and R1,3 billion over the MTEF period to initiate the taxi recapitalisation programme and to support public transport services and infrastructure. The success of the taxi recapitalisation project, which receives an additional R250 million, R315 million and R320 million, depends on improved law enforcement and robust administrative systems to manage the scrapping of taxis and payments to taxi owners. The large additional allocation of R500 million in 2007/08 is for the upgrading of national roads. The two outer year allocations include R100 million and

R250 million for passenger rail safety. Downward adjustments are made to the Department's budget because of the change in the treatment of VAT in public entities.

Table 6.10 Economic services and infrastructure: expenditure by vote, 2001/02 – 2007/08

R million	2001/02	2002/03 Outcome	2003/04	2004/05 Revised estimate	2005/06	2006/07	2007/08
					Medium-term estimates		
Appropriation by vote							
Agriculture	871	917	1 177	1 449	1 685	1 932	2 163
<i>Grants to provinces</i>	28	24	66	344	290	345	462
Communications	1 128	885	837	1 669	1 018	1 129	1 182
<i>Independent Communica-tions Authority of SA</i>	117	149	138	187	144	160	172
Environmental Affairs and Tourism	1 064	1 363	1 432	1 622	1 723	1 873	2 051
Housing	3 721	4 213	4 554	4 824	5 192	6 053	7 368
<i>Grants to provinces</i>	3 322	3 907	4 355	4 589	4 868	5 660	6 918
Land Affairs	976	1 077	1 608	2 032	3 882	4 815	5 637
<i>Grants to provinces</i>	–	–	–	6	8	8	–
Minerals and Energy	1 233	1 853	1 797	1 833	2 118	1 065	1 120
<i>Grants to local government</i>	–	225	245	251	258	–	–
Science and Technology	1 004	1 100	1 390	1 631	1 987	2 183	2 441
Trade and Industry	1 713	2 096	2 336	3 270	3 076	3 240	3 382
Transport	4 937	5 710	6 223	6 734	7 602	8 243	9 265
<i>Grants to local government</i>	38	40	9	–	–	–	–
Water Affairs and Forestry	3 483	3 681	4 182	3 823	3 557	3 801	4 183
<i>Grants to local government</i>	1 454	1 699	2 109	1 166	1 073	991	1 040
Total	20 132	22 894	25 538	28 887	31 839	34 335	38 792
Changes to baseline							
Agriculture				143	200	300	450
<i>Grants to provinces</i>				117	–	–	100
Communications				794	103	158	163
<i>Independent Communications Authority of SA</i>				46	–	5	10
Environmental Affairs and Tourism				-1	53	99	189
Housing				-25	21	571	1 611
<i>Grants to provinces</i>				–	–	500	1 500
Land Affairs				244	1 702	2 217	2 909
<i>Grants to provinces</i>				–	–	–	–
Minerals and Energy				-102	35	35	38
<i>Grants to local government</i>				3	–	–	–
Science and Technology				6	32	60	211
Trade and Industry				769	400	400	400
Transport				-25	280	446	1 078
<i>Grants to local government</i>				–	–	–	–
Water Affairs and Forestry				521	15	170	370
<i>Grants to local government</i>				148	–	–	–
Total				2 325	2 841	4 456	7 419

Additional R500 million goes towards water resource management

The Department of Water Affairs and Forestry is the custodian of approximately 300 large dams throughout South Africa that require ongoing rehabilitation and maintenance. Additional amounts of R15 million, R170 million and R370 million are recommended for the department. The bulk of these additional funds will go towards investment in water resources infrastructure, mainly to promote dam

safety. The possibility of establishing a National Water Resource Infrastructure Agency is also being investigated and going forward, a different business model for the development, operation and maintenance of water resource infrastructure will separate the regulatory function from operations. Strengthening the regulatory function of the department is also provided for.

Consolidated national and provincial expenditure

The consolidated national and provincial expenditure consists of national and provincial spending, interest on state debt, statutory allocations, as well as social security funds such as the Road Accident Fund and Unemployment Insurance Fund. Over the next three years, consolidated expenditure increases by an annual average of 9,7 per cent.

Growth in spending projected to be 9,7 per cent a year

Table 6.11 Consolidated national and provincial spending by function, 2004/05 – 2007/08

R million	2004/05	2005/06	2006/07	2007/08	Average annual growth	
	Revised estimate	Medium-term estimates			2001/02–2004/05	2004/05–2007/08
Protection services	63 532	71 974	76 352	80 335	10,0%	8,1%
Defence and intelligence	22 471	25 363	25 694	25 462	8,5%	4,3%
Police	26 438	30 496	33 182	35 799	11,6%	10,6%
Prisons	8 814	9 715	10 472	11 532	8,6%	9,4%
Justice	5 810	6 400	7 004	7 543	10,8%	9,1%
Social services	202 586	224 307	247 222	267 549	16,3%	9,7%
Education	76 571	81 996	89 538	96 733	11,3%	8,1%
Health	42 828	48 067	52 383	56 111	11,6%	9,4%
Welfare (incl. social security)	63 532	72 728	80 537	87 386	25,5%	11,2%
Housing	7 059	7 261	8 629	9 781	17,2%	11,5%
Community development	12 595	14 254	16 135	17 539	27,6%	11,7%
Economic services	49 534	55 571	62 454	69 886	17,2%	12,2%
Water schemes, related services	5 738	6 336	7 547	8 486	13,2%	13,9%
Fuel and energy	2 330	2 723	2 858	3 114	20,9%	10,1%
Agriculture, fishing and forestry	7 541	9 757	11 218	12 617	16,0%	18,7%
Mining, manufacturing and construction	1 729	2 195	2 324	2 448	17,2%	12,3%
Transport and communication	18 009	19 533	21 854	24 869	15,3%	11,4%
Other economic services	14 186	15 026	16 653	18 353	22,0%	9,0%
General government services and unallocable expenditure	26 301	28 337	29 438	31 503	14,0%	6,2%
Allocated expenditure	341 953	380 189	415 466	449 274	14,9%	9,5%
Interest	48 901	53 125	56 603	59 381	0,9%	6,7%
Contingency reserve	–	2 000	4 000	8 000		
Consolidated expenditure	390 854	435 314	476 069	516 655	12,7%	9,7%

Table 6.11 provides a summary of the functional distribution of allocated national and provincial expenditure. It presents the distribution of expenditure on government services and indicates the broad structure of government spending. National expenditure is based on the allocation to Votes as detailed in the *Estimates of National Expenditure*, while provincial expenditure is based on an

assessment on preliminary data received from provincial Treasuries. Provincial budgets will be tabled within a two-week period following the tabling of the national budget.

Chapter 7 provides more details on provincial spending and tables 5 and 6 in *Annexure B* set out detailed accounts of the economic and functional breakdown of consolidated national and provincial expenditure. The following main trends are notable:

- Social services remain the largest category of spending. Within social services, education is the largest component and at 18,8 per cent continues to receive the largest share of the Budget.
- The strong average annual growth in welfare of 25,5 per cent between 2001/02 and 2004/05 reflects the growth in the number of beneficiaries, increases in the value of grants and higher spending of the Road Accident Fund. At 16,7 per cent, spending on social security is now the second largest component of the Budget.
- Future and historical growth rates in the economic services are above the average consolidated growth rate and reflects the emphasis placed on supporting for economic growth, mainly through increased infrastructure spending.
- Protection services constitute 16,5 per cent of the consolidated budget. Expenditure on police prisons and justice grow rapidly, while the slowdown in defence spending is linked to the phasing down of spending on the strategic armament procurement package.
- After strong growth of 14,9 per cent a year between 2001/02 and 2004/05, expenditure on general government services such as home affairs, foreign affairs, revenue collection and statistical services is set to grow at a more moderate pace.

Conclusion

The policy challenges for the next decade are clear. Some of the more urgent issues include creating more work opportunities, fighting poverty and inequality, reducing levels of crime, and extending basic services and infrastructure to marginalised communities including provision of decent housing and agricultural land. Improving the quality of education and health services, and promoting regional peace and development are ongoing priorities. The 2005 Budget focuses on these key areas.