3

Fiscal policy

The fiscal stance presented in the 2006 Budget provides for robust growth in public services and infrastructure investment, founded on an outstanding revenue performance over the past year and the continuing strength of the financial environment. Sustained increases in expenditure on transport, education and health will support economic development, lower business costs, improve skills levels and raise living standards.

The fiscal framework provides for additional resources totalling R82 billion, and a further R24 billion to replace the RSC levies. Excluding the RSC levy transfers, non-interest expenditure will increase in real terms by 7,9 per cent in 2006/07, with an average increase of 6,4 per cent over the medium-term expenditure framework (MTEF) period. Sustained economic growth has maintained the buoyancy of government revenue. Capital spending is projected to rise strongly over the medium term.

The budget deficit is projected to increase to 1,5 per cent of GDP next year, and then to decline to 1,2 per cent in 2008/09. The low deficit reflects careful macroeconomic management during a time of strong commodity prices and high consumer demand. The public sector borrowing requirement is expected to grow from 0,6 per cent of GDP in 2005/06 to 2,4 per cent of GDP by 2008/09 as a result of public enterprises' capital expenditure programmes and an increase in the main budget deficit.

Overview

Robust consumption and investment support growth performance

In the past year the South African economy has registered a strong performance, with GDP growth of about 5 per cent expected for 2005/06. This has been supported by robust growth in consumption and credit spending, rising levels of investment and external demand. Inflation has remained relatively stable despite volatile oil prices.

The budget framework presented in this chapter continues the expansionary fiscal stance announced in the 2001 Budget. Continued buoyancy and resulting confidence in the economy once again enable a major expansion of government's social and economic programmes. At the same time, the economy is experiencing a boom in commodity prices, contributing to large capital inflows and strong consumer spending. The fiscal stance outlined here supports growth, while moderating the impact of consumption expenditure on the current account of the balance of payments, prices and the exchange rate.

Non-interest expenditure increases by R82,2 billion

Key features of the 2006 Budget include:

- Non-interest expenditure (excluding transfers to replace the RSC levies) increases by R82 billion – representing real growth of 6,4 per cent over the medium term
- Revenue grows to 26,4 per cent of GDP in 2005/06, then declines to about 26 per cent in each of the forecast years as a result of tax relief
- The main budget deficit as a percentage of GDP decreases in 2005/06 to 0,5 per cent, and is expected to average 1,4 per cent over the MTEF period ahead
- Debt service costs continue to decline as a percentage of GDP, from 3,3 per cent in 2005/06 to 2,7 per cent in 2008/09
- Strong real growth in capital allocations in line with government's commitment to supporting economic growth through infrastructure development.

Fiscal policy: goals, trends and targets

Key fiscal indicators are summarised in Table 3.1. These figures outline South Africa's fiscal performance since 2000 and list medium-term projections. With the exception of the public sector borrowing requirement, these figures are based on national accounts aggregates and are not directly comparable with the cash-based budgets used in government accounts.

Table 3.1 Fiscal trends and projections

Calendar year	**2000 – 2004**		**2004 – 2008**
Average annual real growth			
Gross fixed capital formation			
General government[1]	4,8%		10,0%
Public corporations	7,4%		15,0%
Government consumption expenditure			
Compensation of employees	1,1%		3,0%
Non-wage	13,3%		8,4%
Fiscal year	**2000/01**	**2004/05**	**2008/09**
Percentage of GDP			
Interest on public debt	5,5%	4,0%	3,5%
General government savings	-1,8%	-1,6%	0,6%
Public sector borrowing requirement	1,9%	1,7%	2,4%
General government tax revenue	25,0%	26,8%	26,5%

1. General government refers to the accounts of national government, provincial government and local government, the social security funds, extra-budgetary institutions, adjusted to net out flows between government institutions.

Policy allows state to meet expenditure commitments

Fiscal policy aims to contribute to growth and improved public services over the long term. Revenue collection and expenditure are managed in a way that safeguards government's ability to meet expenditure commitments over the course of the business cycle, while ensuring that the tax burden does not inhibit investment or participation by individuals and companies in the formal economy.

General government capital formation accelerates strongly

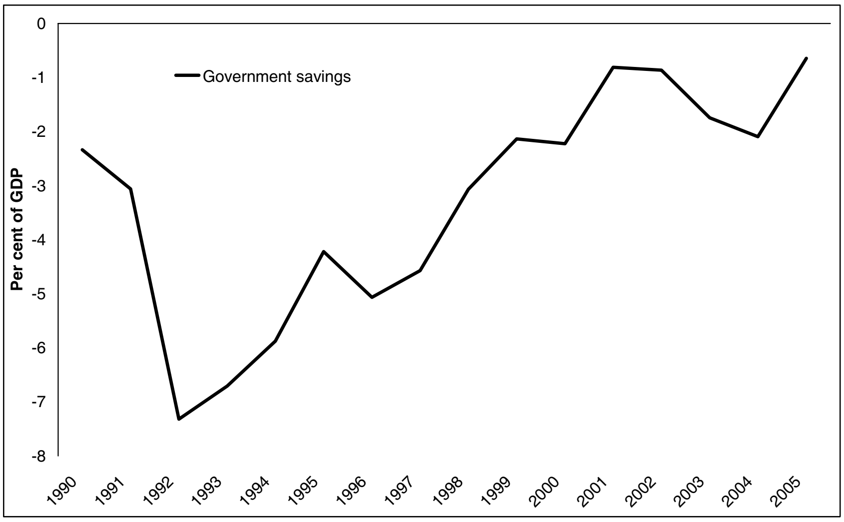
In support of accelerated and shared growth, general government capital formation will accelerate strongly, averaging real growth of 10 per cent over the next three years. Following a period of 7,4 per cent average real growth between 2000 and 2004, investment by the non-financial[1] public enterprises will increase to an average real growth rate of 15 per cent as capital spending projects are executed over the medium term.

Over the three-year period, growth in general government consumption will decelerate as a result of lower expected inflation. Compensation of employees is set to experience real growth of 3 per cent as public sector employment increases.

Dissaving should be eliminated by 2008

Increases in capital expenditure relative to current expenditure, combined with the collection of more revenue than anticipated, have led to a decline in general government dissaving, from 2,1 per cent of GDP in 2004 to 0,6 per cent in 2005, as shown in Figure 3.1. Continued strong growth in capital budgets and more stable and predictable growth in social security transfers will support this trend. It is anticipated that dissaving will be eliminated by 2008, which will provide further support to economic growth by ensuring that government contributes positively to savings within the economy.

Figure 3.1 Government savings, 1990 – 2005



Tax revenue-to-GDP ratio increased to 26,8 per cent in 2004/05

The general government tax revenue-to-GDP ratio increased from 25 per cent in 2000/01 to 26,8 per cent in 2004/05. This is mainly the result of an increase in consumption and incomes, supported by favourable cyclical factors. While economic performance has been broad-based, particularly robust growth in consumption and profits of commodity exporters have resulted in a higher revenue-to-GDP ratio. The trend is expected to moderate as household spending on durable goods recedes and commodity prices moderate.

[1] Including enterprises such as Denel, Eskom, Telkom and Transnet, but excluding public enterprises involved in financing activities, such as the Land Bank and Development Bank of Southern Africa.

Infrastructure expenditure: estimates and trends

Total public sector infrastructure and related estimates, which include the three spheres of government, major public enterprises and extra-budgetary entities, amount to about R372 billion over the next three years. A more buoyant infrastructure expenditure policy outlook by municipalities and increased allocations from the fiscus drive these increases. The 2006 Budget allocates an additional R34 billion over baseline for capital projects over the next three years. Overall growth in expenditure has increased at an annual average of 11,4 per cent between 2002/03 and 2005/06, while the R372 billion medium-term estimate represents an average annual growth rate of 14,2 per cent.

2006 MTEF capital expenditure and infrastructure maintenance

R million	2002/03	2003/04	2004/05	2005/06 Revised estimate	2006/07 Medium-term estimates	2007/08	2008/09
National departments [1,2]	5,952	6,022	7,262	7,835	8,884	10,578	12,381
Provincial departments [2]	15,491	19,642	21,586	24,412	31,989	36,201	40,669
Municipalities	13,100	16,687	17,053	24,759	26,046	27,296	28,524
Public private partnerships [3]	849	1,552	1,106	1,594	3,776	4,776	3,672
Extra-budgetary public entities	2,854	3,053	3,470	3,650	4,116	4,521	4,927
Non-financial public enterprises	26,803	21,375	22,145	27,566	37,694	42,092	43,662
Total	**65,049**	**68,331**	**72,622**	**89,816**	**112,505**	**125,464**	**133,835**
percentage of GDP	*5.4%*	*5.3%*	*5.1%*	*5.8%*	*6.6%*	*6.7%*	*6.4%*
GDP	*1,198,344*	*1,281,438*	*1,419,991*	*1,559,580*	*1,714,528*	*1,884,866*	*2,095,911*

1. Transfers between spheres have been netted out.
2. Includes maintenance of infrastructure assets.
3. Capital expenditure on PPPs overseen by the Treasury PPP Unit, S A National Roads Agency, Department of Public Works, and at municipal level, with MIIU assistance.

The municipal infrastructure grant (MIG) is increased by R800 million and cumulatively totals R21,5 billion over the MTEF period. This grant supports basic water infrastructure, sanitation (including bucket system eradication), roads and other infrastructure. The National Electrification Programme, which helps provide electricity to low-income households, rises by R280 million, to R4,4 billion over the three-year period. A new R2,5 billion neighbourhood development partnership grant is established (see Chapter 6). Assistance amounting to R3 billion is provisionally set aside to build stadiums for the 2010 Soccer World Cup.

Funding for hospital revitalisation increases by R900 million, bringing the cumulative total to R4,1 billion over the MTEF. The provincial infrastructure grant, which funds the construction of schools, clinics, provincial roads and other infrastructure, receives R15,1 billion over the next three years.

An additional R1,7 billion is allocated for the upgrading of informal settlements, bringing national and provincial housing expenditure to R23 billion over the medium term. A further R1,1 billion is allocated for police stations and related infrastructure, and R500 million is added for new courts for improved access to justice.

Economic infrastructure expenditure includes additional allocations to the transport sector totalling R14,3 billion, with R1,9 billion for road infrastructure, R1,6 billion for passenger rail and R3,5 billion for public transport infrastructure and systems. An estimated R14 billion will be spent on the Gautrain rapid rail project over the MTEF period, with costs to be shared between the province and national government.

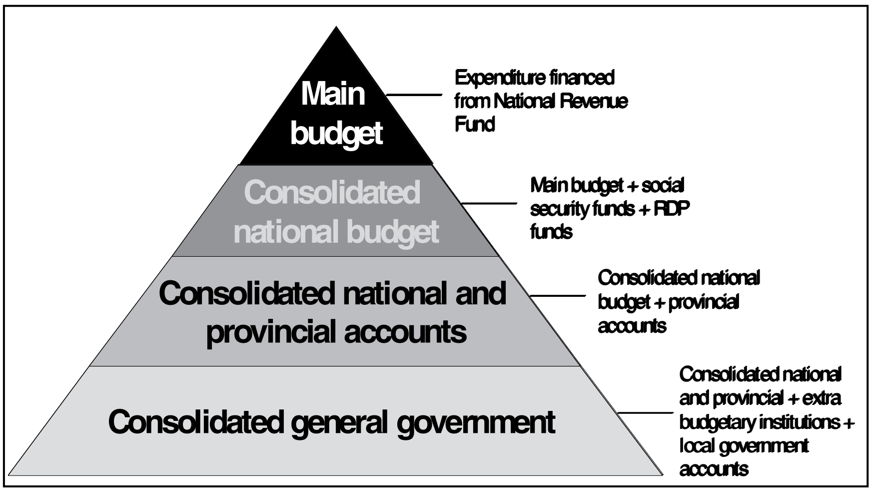
The Department of Water Affairs and Forestry is to spend nearly R4 billion on the new De Hoop dam and other dam projects and water schemes. Research and development infrastructure is supported through an additional allocation of R1,2 billion to the Department of Science and Technology, and R580 million to the Department of Public Enterprises for the pebble bed modular reactor.

Infrastructure development by public enterprises account for about a third of overall capital estimates over the medium term. Revised nominal estimates by both Eskom and Transnet are almost R50 billion and R33 billion respectively. Other major public sector projects include the TCTA Berg River Dam and the R2,5 billion pipeline from the Vaal dam to Knoppiesfontein in support of mainly Eskom and Sasol projects.

The budget framework

Figure 3.2 illustrates the different levels of government accounts. Starting with the main budget, each successive layer includes the revenue and expenditure of additional spheres of government. The main budget is composed of all expenditure financed by the National Revenue Fund, and includes transfers to other spheres of government. Consolidating the main budget with other spheres of government requires that these transfers be netted out and that additional sources of expenditure and revenue be included.

Figure 3.2 Structure of government accounts



The main budget

The main budget, set out in Table 3.2, consists of the receipts of the National Revenue Fund, and expenditure either voted by Parliament or allocated by statutory appropriation. South Africa's "budget deficit" is the difference between revenue and expenditure on the main budget.

Corporate profitability has recovered since mid-2004

As a result of the country's strong economic performance over the past year, it is expected that main budget revenue for the current year and over the MTEF period will exceed estimates presented in the 2005 Budget. Due to buoyant internal and foreign demand conditions, corporate profitability has recovered substantially since mid-2004, while vigorous consumer spending has boosted VAT receipts. In line with employment growth and annual wage increases, personal income tax receipts have increased strongly. This trajectory of economic expansion, along with improved tax compliance and administration, will provide a strong continuing boost to main budget revenue.

SACU transfers are expected to be above estimates

The total revenue of the National Revenue Fund is derived from gross tax revenue and departmental receipts, less payments to Namibia, Botswana, Swaziland and Lesotho in terms of the Southern African Customs Union (SACU) Agreement. Due to higher-than-projected customs duties and increased imports from South Africa to other members of the customs union, transfers to our SACU partners will exceed the estimates made in the 2005 Budget, reaching R19,7 billion in 2006/07, R20,3 billion in 2007/08 and R22,5 billion in 2008/09.

Included in these figures is a share of customs and excise duties collected in the union, as well as a significant development component paid to SACU partner countries.

Table 3.2 Main budget framework, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
		Outcome		Revised estimate		Medium-term estimates	
Revenue (National Revenue Fund)							
Tax revenue (gross)	282 210	302 508	354 980	417 050	456 786	501 670	558 106
Departmental and other receipts and repayments	4 558	6 646	6 202	8 180	9 320	10 677	11 436
Less: SACU payments	-8 259	-9 723	-13 328	-14 145	-19 744	-20 344	-22 451
Total revenue	**278 508**	**299 431**	**347 854**	**411 085**	**446 362**	**492 003**	**547 091**
Percentage of GDP	*23,2%*	*23,4%*	*24,5%*	*26,4%*	*26,0%*	*26,1%*	*26,1%*
Expenditure							
State debt cost	46 808	46 313	48 851	51 160	52 049	53 324	55 716
Percentage of GDP	*3,9%*	*3,6%*	*3,4%*	*3,3%*	*3,0%*	*2,8%*	*2,7%*
Current payments[1]	52 948	57 854	63 450	72 809	82 481	89 667	96 444
Transfers and subsidies	187 496	220 104	250 826	289 353	329 319	363 582	402 077
Payments for capital assets[1]	4 273	4 439	5 414	5 653	6 376	7 601	9 030
Contingency reserve	–	–	–	–	2 500	5 000	8 000
Total expenditure	**291 524**	**328 709**	**368 541**	**418 976**	**472 725**	**519 174**	**571 268**
Percentage of GDP	*24,3%*	*25,7%*	*26,0%*	*26,9%*	*27,6%*	*27,5%*	*27,3%*
Deficit	**-13 016**	**-29 278**	**-20 687**	**-7 891**	**-26 363**	**-27 171**	**-24 177**
Percentage of GDP	*-1,1%*	*-2,3%*	*-1,5%*	*-0,5%*	*-1,5%*	*-1,4%*	*-1,2%*
Gross domestic product	*1 198 344*	*1 281 438*	*1 419 991*	*1 559 580*	*1 714 528*	*1 884 866*	*2 095 911*

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

Total tax revenue of R417,1 billion in current year

As a result of substantial increases in gross tax revenue, total tax revenue is expected to be R417,1 billion in the current year. Strong revenue growth in 2005/06 raises main budget revenue as a percentage of GDP from 24,5 per cent in 2004/05 to 26,4 per cent in 2005/06. Over the next three years main budget revenue as a percentage of GDP is expected to be broadly stable at about 26 per cent.

Real non-interest expenditure, excluding RSC levy transfers, grows strongly at an average rate of 6,4 per cent over the next three years, rising by 7,9 per cent in 2006/07, 5,9 per cent in 2007/08 and 5,4 per cent in 2008/09.

Growth in current expenditure driven by spending on justice and protection services

Growth in current expenditure is robust over the MTEF period, but particularly in the first year, driven by spending on justice and protection services, social services and central government administration. Capital expenditure continues to grow, with major projects targeted at transport and community-related infrastructure. Transfers and subsidies include many of the large capital investment projects that will be undertaken by provincial and local government, as well as social grant transfers to households.

Debt service costs as a share of GDP continue their long-term decline, freeing additional resources for productive expenditure. Lower-than-anticipated debt stock and stable interest rates result in debt service costs declining from 3,3 per cent of GDP in 2005/06 to 3 per cent in 2006/07, and to 2,7 per cent by 2008/09.

A contingency reserve is set aside for the period ahead. The reserve in the first year allows for the possibility of unforeseen, adverse economic conditions or natural occurrences that would otherwise put pressure on the budget framework. In the outer years, the reserve is partly drawn down to fund new priorities. The contingency reserve for the MTEF period is R2,5 billion in the first year, R5 billion in the second year and R8 billion in the third year.

Budget deficit of 1,5 per cent of GDP in 2006/07

As a result of the increases in revenue and the revisions to historical GDP data, the deficit as a proportion of GDP is expected to be 0,5 per cent in 2005/06, compared with the 3,1 per cent estimate presented in the 2005 Budget. Strong growth in non-interest expenditure and a decrease in the tax burden results in the deficit increasing to 1,5 per cent in 2006/07 and 2007/08, falling to 1,2 per cent in 2008/09.

Revisions to 2004/05 and 2005/06 main budget estimates

The main budget outcome for 2004/05 and the revised estimates for 2005/06 are presented in Table 3.3. These are discussed further in Chapters 4 and 7, while Annexure B provides details of main budget revenue, expenditure and financing for these and earlier years.

Table 3.3 Revised estimates of main budget revenue and expenditure, 2004/05 and 2005/06

	2004/05			2005/06			% change
R million	Budget estimate	Outcome	Deviation	Budget estimate	Revised estimate	Deviation	2004/05–2005/06
Revenue							
Direct taxes	193 968	200 063	6 095	206 333	234 350	28 017	17,1%
Indirect taxes	139 725	154 917	15 191	166 441	182 700	16 259	17,9%
Other revenue	6 590	6 202	-388	9 148	8 180	-968	31,9%
Less: SACU payments	-13 328	-13 328	–	-12 053	-14 145	-2 092	6,1%
Total revenue	**326 956**	**347 854**	**20 898**	**369 869**	**411 085**	**41 216**	**18,2%**
Expenditure							
State debt cost	50 432	48 851	-1 581	53 125	51 160	-1 965	4,7%
Current payments[1]	64 123	63 450	-673	72 193	72 809	616	14,8%
Transfers and subsidies	246 455	250 826	4 371	284 346	289 353	5 008	15,4%
Payments for capital assets[1]	5 394	5 414	20	6 155	5 653	-502	4,4%
Contingency reserve	2 500	–	-2 500	2 000	–	-2 000	0,0%
Total expenditure	**368 904**	**368 541**	**-363**	**417 819**	**418 976**	**1 157**	**13,7%**
Increase in non-interest allocated expenditure			3 718			5 122	
Deficit	**-41 948**	**-20 687**	**21 261**	**-47 950**	**-7 891**	**40 059**	

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

Revenue in 2004/05 grew by R9,9 billion above the revised estimate in the 2005 *Budget Review*, resulting in a deficit outcome for 2004/05 that is R21,3 billion lower than budgeted. The revised deficit for 2005/06 is R7,9 billion.

Estimated non-interest expenditure growth of 10,4 per cent in 2005/06

Non-interest expenditure in 2004/05 totalled R319,7 billion – R3,7 billion higher than the estimate published in the 2004 *Budget Review*. Despite underspending and savings of R3,5 billion, revised non-interest expenditure for 2005/06 is projected to be R5,1 billion higher than the estimate in the 2005 *Budget Review,* mainly due to transfers to the Road Accident Fund and Denel. Non-interest expenditure grew in real terms by 8,8 per cent in 2004/05 and is projected to grow by 10,4 per cent in 2005/06.

Debt service costs continue to decline

As a result of low debt stock, and stable international and domestic interest rates, realised debt service costs were R1,6 billion lower than estimated in 2004/05, and are expected to come in R2 billion below budget in 2005/06. Debt service costs as a percentage of GDP continued to decline over the past two years, signalling the continued sustainability of fiscal policy. Despite the decline in debt service costs, the increase in non-interest expenditure results in the revised estimate of expenditure for 2005/06 being R1,2 billion higher than the 2005 Budget estimate.

Changes to medium-term forward estimates

In keeping with forecast, tax revenue will remain buoyant

The 2006 Budget adjusts the forward estimates from the 2005 Budget for 2006/07 and 2007/08 to take account of changes in the economic environment, and adds projections for 2008/09. The main changes to the budget framework are set out in Table 3.4 and summarised below:

Table 3.4 Main budget medium-term estimates, 2006/07 – 2008/09

	2006/07			2007/08			2008/09
R million	2005 Forward estimate	2006 Budget	Change to baseline	2005 Forward estimate	2006 Budget	Change to baseline	2006 Budget
Revenue							
Direct taxes	232 472	252 058	19 586	254 186	279 198	25 012	314 155
Indirect taxes	181 682	204 729	23 047	199 540	222 472	22 932	243 951
Other revenue	6 846	9 320	2 474	7 068	10 677	3 609	11 436
Less: SACU payments	-15 573	-19 744	-4 172	-16 151	-20 344	-4 193	-22 451
Total revenue	**405 427**	**446 362**	**40 935**	**444 643**	**492 003**	**47 360**	**547 091**
Percentage of GDP	*23,6%*	*26,0%*		*23,6%*	*26,1%*		*26,1%*
Expenditure							
State debt cost	56 603	52 049	-4 554	59 381	53 324	-6 057	55 716
Current payments[1]	78 579	82 481	3 902	84 873	89 667	4 795	96 444
Transfers and subsidies	310 906	329 319	18 413	335 984	363 582	27 598	402 077
Payments for capital assets[1]	6 305	6 376	71	6 656	7 601	944	9 030
Contingency reserve	4 000	2 500	-1 500	8 000	5 000	-3 000	8 000
Total expenditure	**456 393**	**472 725**	**16 332**	**494 894**	**519 174**	**24 280**	**571 268**
Percentage of GDP	*26,6%*	*27,6%*		*26,3%*	*27,5%*		*27,3%*
Deficit	**-50 966**	**-26 363**	**24 603**	**-50 251**	**-27 171**	**23 080**	**-24 177**

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

- In keeping with the revised economic forecast, tax revenues remain at buoyant levels
- Debt service costs are reduced as a result of the favourable interest rate outlook and lower debt stock
- Non-interest expenditure increases by R106,2 billion, of which R24 billion is allocated to replace the RSC levies

- Deficit projections rise to R26,4 billion in 2006/07 and R27,2 billion in 2007/08, declining to R24,2 billion in 2008/09.

National government transfers compensate for removal of RSC levy

The RSC levies will be abolished on 30 June 2006. For local governments to meet their obligations, particularly in terms of poverty alleviation and social and economic development, it is important to maintain existing levels of revenue. In support of this national government will provide compensating transfers to the relevant municipalities. The current budget framework contains new allocations for this purpose of R7 billion in 2006/07, R8 billion in 2007/08 and R9 billion in 2008/09. While main budget expenditure increases by these amounts, overall (general government) levels of expenditure are not affected, as this is a change in the source of financing of existing local government expenditure.

Removal of RSC levies amounts to effective tax relief of R24 billion

The removal of this levy is effectively tax relief amounting to R24 billion over the three-year period. However, this reduction in the overall tax burden is not reflected in the main budget revenue line because the levy was collected at municipal level and did not form part of the National Revenue Fund.

The consolidated national government budget

The consolidated national budget presents the extent of expenditure that falls within the national sphere. It supplements the finances of the National Revenue Fund, set out in the main budget framework, with receipts and expenditure of the RDP Fund, international development assistance grants, and the accounts of the social security funds. The consolidated national budget framework is set out in Table 3.5.

Surpluses on the UIF and Compensation Funds

Due to surpluses on the Unemployment Insurance Fund (UIF) and the Compensation Funds, the deficit of the consolidated national government budget is lower than that of the main budget. The deficit rises from 0,1 per cent of GDP in 2005/06 to 1,2 per cent in 2006/07 and 2007/08, before declining to 0,9 per cent in 2008/09. More detailed breakdowns of revenue and expenditure generated through international cooperation agreements and the social security funds are set out in Tables 3.6 and 3.7 respectively.

For 2005/06, total foreign assistance in support of various government projects is expected to be R1,6 billion, and will average at that level annually over the medium term. Foreign technical assistance remains an important part of efforts by government and non-governmental organisations to address the urgent social and developmental challenges facing South Africa.

Table 3.5 Consolidated national budget framework, 2004/05 – 2008/09

	2004/05	2005/06		2006/07	2007/08	2008/09
R million	Outcome	Budget	Revised	Medium-term estimates		
National Revenue Fund (main budget)						
Revenue	**347 854**	**369 869**	**411 085**	**446 362**	**492 003**	**547 091**
Expenditure						
State debt cost	48 851	53 125	51 160	52 049	53 324	55 716
Percentage of GDP	*3,4%*	*3,5%*	*3,3%*	*3,0%*	*2,8%*	*2,7%*
Contingency reserve	–	2 000	–	2 500	5 000	8 000
Non-interest allocations[1]	319 690	362 694	367 816	418 176	460 850	507 552
Total expenditure	**368 541**	**417 819**	**418 976**	**472 725**	**519 174**	**571 268**
Percentage increase	*12,1%*	*12,9%*	*13,7%*	*12,8%*	*9,8%*	*10,0%*
Deficit	**-20 687**	**-47 950**	**-7 891**	**-26 363**	**-27 171**	**-24 177**
Percentage of GDP	*-1,5%*	*-3,1%*	*-0,5%*	*-1,5%*	*-1,4%*	*-1,2%*
RDP Fund and foreign technical co-operation						
Receipts and technical co-operation	1 634	1 500	1 624	1 550	1 550	1 550
Expenditure	1 597	1 300	1 254	1 350	1 350	1 350
Social security funds						
Revenue	14 346	16 430	19 812	19 274	20 561	21 923
Expenditure	10 817	12 060	13 352	14 288	16 017	17 199
Consolidated national budget[2]						
Revenue	**363 830**	**387 783**	**429 817**	**467 182**	**514 110**	**570 560**
Expenditure	**380 951**	**431 162**	**430 878**	**488 359**	**536 536**	**589 813**
Percentage of GDP	*26,8%*	*28,2%*	*27,6%*	*28,5%*	*28,5%*	*28,1%*
Percentage increase	*12,2%*	*12,7%*	*13,1%*	*13,3%*	*9,9%*	*9,9%*
Deficit	**-17 121**	**-43 379**	**-1 060**	**-21 177**	**-22 427**	**-19 253**
Percentage of GDP	*-1,2%*	*-2,8%*	*-0,1%*	*-1,2%*	*-1,2%*	*-0,9%*
Gross domestic product	*1 419 991*	*1 528 633*	*1 559 580*	*1 714 528*	*1 884 866*	*2 095 911*

1. Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.
2. Flows between funds are netted out.

Table 3.6 RDP Fund grants and foreign technical cooperation, 2002/03 – 2008/09

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
R million		Outcome		Revised estimate	Medium-term estimates		
RDP Fund							
Receipts	1 143	1 088	1 034	974	900	900	900
Disbursements	1 306	1 090	997	604	700	700	700
Surplus (+) / Deficit (-)	**-163**	**-2**	**37**	**370**	**200**	**200**	**200**
Technical cooperation (in kind)	600	600	600	650	650	650	650
Total foreign assistance	**1 743**	**1 688**	**1 634**	**1 624**	**1 550**	**1 550**	**1 550**

Social security funds

Composition of social security funds and overall trends

South Africa's contributory and non-contributory social security mechanisms aim to alleviate poverty or provide temporary income support. The non-contributory components make up the greater part of the social security system and amount to R52 billion in 2005/06, R57,7 billion in 2006/07 and R68,3 billion by 2008/09. These social assistance transfers are funded from general revenues, voted to the Department of Social Development.

The means-tested cash benefits of the various grants target the poor. The following grants are available: old age pension; disability grants; child support grants, foster care; care dependency; war veterans; and grant in aid. The South African Social Security Agency has been established to centralise the grants payment system, promoting greater efficiency and improved service delivery as responsibility is removed from the provinces.

Complementing these programmes are the contributory social security funds that provide conditional income support to contributing employers, employees and road users. These include the UIF, the Compensation Funds and the Road Accident Fund (RAF). These funds are financed through mandatory levies and taxes.

Social security funds to run joint surplus of R6,5 billion in 2005/06

The social security funds are expected to run a combined surplus of R6,5 billion in 2005/06, representing an increase of 83 per cent compared to the previous financial year. This reflects substantial cash surpluses at the UIF and Compensation Funds and a R2,7 billion fiscal injection to support the ailing RAF. The overall balance of the social security funds is expected to remain in surplus over the forecast period.

Table 3.7 Social security funds, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
		Outcome		Revised estimate	Medium-term estimates		
Unemployment Insurance Fund							
Revenue	4 546	5 895	6 774	7 583	8 336	9 140	9 996
Expenditure	2 470	2 577	2 941	3 573	4 060	4 614	5 244
Compensation funds							
Revenue	3 497	3 781	2 948	3 938	4 265	4 507	4 756
Expenditure	2 789	2 413	2 300	3 163	3 062	3 220	3 396
Road Accident Fund							
Revenue	3 264	3 894	4 624	8 291	6 673	6 913	7 171
Expenditure	3 575	4 413	5 576	6 616	7 167	8 182	8 559
Total: Social security funds							
Tax revenue	9 600	11 941	12 969	14 888	16 645	17 583	18 578
Non-tax revenue	1 606	1 618	1 373	2 220	2 626	2 974	3 341
Grants received	101	10	4	2 704	4	4	4
Total revenue	**11 307**	**13 570**	**14 346**	**19 812**	**19 274**	**20 561**	**21 923**
Total expenditure	**8 834**	**9 403**	**10 817**	**13 352**	**14 288**	**16 017**	**17 199**
Surplus	**2 473**	**4 167**	**3 529**	**6 460**	**4 986**	**4 544**	**4 723**

Unemployment Insurance Fund

The UIF provides short-term income relief to contributing employees in the event of unemployment, maternity or adoption of a child, illness and death. The UIF experienced persistent deficits during the last decade but began implementing a successful turnaround strategy in 2001.

UIF is in a sound financial position for the next decade

In 2004/05, the fund ran a cash surplus of R3,8 billion. Revenue collected increased by 14,9 per cent from R5,9 billion in 2003/04 to R6,8 billion in 2004/05. The third actuarial valuation in March 2005 indicated that, in terms of cash flow, the fund is in a sound financial position for the next 10 years. It also required the fund to set up reserves amounting to R8,7 billion. By the end of March 2005, the fund had accumulated R10,2 billion in reserves, with R9,8 billion being invested in the Public Investment Corporation.

Three measures of fiscal sustainability

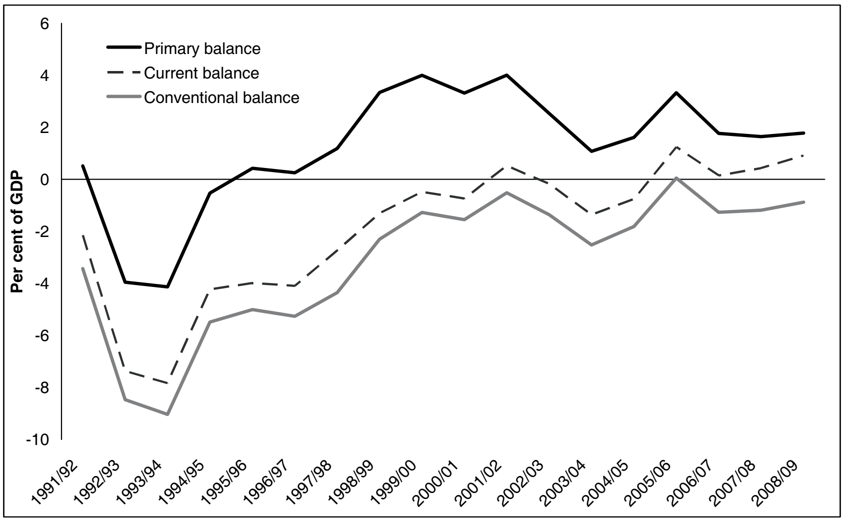
Following a period of consolidation between 1997 and 2000, South Africa's fiscal policy entered an expansionary phase in 2001. While real non-interest expenditure has grown strongly over the past five years, the main budget deficit and debt service costs have declined substantially as a percentage of GDP. This has released substantial resources to expand the social security net and improve public service delivery.

The chart below presents three measures of fiscal sustainability at the consolidated national, social security funds and provincial level.

The conventional deficit is the difference between revenue and expenditure. It shows the extent to which government must borrow from domestic and international financial markets to meet its total spending commitments. Since 1993/94, the conventional balance improved from a deficit of 9 per cent of GDP to a balanced position in 2005/06. Strong real growth in non-interest expenditure and tax relief in 2006/07 result in the balance deteriorating marginally before improving again towards the end of the MTEF.

The primary balance measures the difference between revenue and non-interest expenditure. It shows the extent to which revenue covers expenditure, before taking into account finance costs. The table below shows that substantial progress has been made from a deficit of 4 per cent of GDP in 1992/93 to a primary surplus since 1995. The primary balance is expected to remain positive in the period ahead. The convergence between the conventional and primary balances since 1999/00 is indicative of declining debt service costs as a percentage of GDP.

The current balance measures the difference between current revenue and current expenditure. A negative number for this measure shows that government is borrowing to finance current expenditure, while a positive number shows that borrowing is for capital purposes only. Following the progress registered between 1993/94 and 2001/02 in turning this measure from a large deficit to a surplus, it is expected that the current fiscal stance will result in the surplus continuing to grow. It is anticipated that government will begin to contribute positively to savings by 2008/09.



Compensation Funds

The Compensation Funds support employees who experience loss of income as a result of injuries, death or disease in the course of employment. Funds are raised through assessed levies on companies.

Expenditure by the Compensation Funds is estimated to increase from R2,3 billion in 2004/05 to R3,2 billion in 2005/06 as a result of efforts to address payment backlogs and increased medical service costs. However, with these backlogs addressed in 2005/06, expenditure is expected to be relatively stable while revenue continues to grow. This results in the Compensation Funds' surplus growing from R775 million in 2005/06 to R1,4 billion in 2008/09.

Compensation Funds continue to maintain surpluses

Road Accident Fund

The RAF, funded out of a dedicated fuel levy on petrol and diesel sales, provides benefits to victims of road accidents caused by third parties for bodily injuries, loss of income or loss of financial support following the death of a principal income earner.

The RAF's fuel levy revenue has increased steadily from R3,3 billion in 2002/03 to R5,5 billion in 2005/06. This increase is driven by annual increases of 5 cents per litre in the fuel levy in 2004/05 and 2005/06 and increased fuel sales as a result of the growing number of vehicles on the roads. In 2005/06, in addition to fuel levy revenue, the RAF will receive a once-off transfer payment of R2,7 billion from the fiscus. This transfer is to address a liquidity crisis resulting mainly from the scheduled payments to claimants, and also to repay debt associated with the diesel rebate due to SARS. This raises total revenue to R8,3 billion for 2005/06.

RAF still ailing despite consistent growth in revenue

Despite growth in revenue, the RAF has not been able to keep pace with the growing number of claims. As a result, the claims backlog has grown from about R15,4 billion in 2002/03 to an estimated R25,3 billion in 2005/06. Since 2002/03, the number of road accidents has increased and the RAF has increased its capacity to settle claims. As a result the RAF's expenditure has repeatedly outstripped revenue. Persistent and escalating deficits reached R952 million in 2004/05. In 2005/06 the RAF is expected to have a surplus as a result of the transfer payment from the fiscus, but deficits are expected to persist over the medium term.

In 2005/06 the Minister of Transport appointed a new board and CEO for the RAF and a turnaround strategy has been developed. This strategy is based on improving operational efficiency, reducing operational costs, and eliminating fraud and corruption. The RAF Amendment Act (2005) will limit claims for future loss of income and general damages to reduce fund's exposure in the future, but the anticipated savings will not be realised until 2007/08.

Turnaround strategy being implemented at RAF

Consolidated government accounts and the public sector borrowing requirement

Table 3.8 summarises the consolidated expenditure of government. The table is arranged by economic classification, providing insight into how expenditure is distributed within the economy. Transfers to municipalities for capital expenditure purposes are recorded as transfers to municipalities and not as capital spending.

The consolidated government account includes national, provincial and social security fund expenditure, as published in previous years, and spending by various public entities and government business enterprises. A list of all entities included in the consolidation is included in Annexure D, along with an explanation of the consolidation process.

Table 3.8 Consolidated government expenditure, 2002/03 – 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
		Outcome		Revised estimate		Medium-term estimates	
Current payments							
Compensation of employees	119 085	130 336	140 965	155 920	174 743	188 964	202 049
Goods and services	48 888	56 301	61 737	73 763	81 610	90 406	101 360
Interest and rent on land	49 866	49 857	52 446	55 769	55 750	56 965	59 597
State debt cost	*46 808*	*46 313*	*48 851*	*51 160*	*52 049*	*53 324*	*55 716*
Financial transactions in assets and liabilities	168	193	842	49	–	–	–
Total current payments	**218 008**	**236 688**	**255 990**	**285 500**	**312 103**	**336 335**	**363 005**
Real growth [1]		*2,9%*	*3,9%*	*7,1%*	*4,9%*	*3,1%*	*2,8%*
Transfers and subsidies [2]							
Municipalities	11 178	15 671	17 633	20 743	29 693	34 169	39 630
Departmental agencies and accounts	15 005	16 074	15 000	19 256	24 466	23 915	24 900
Universities and technikons	8 008	8 964	9 972	10 795	11 645	12 521	13 509
Public corporations and private enterprises	9 900	11 630	14 208	19 025	17 504	19 792	22 832
Foreign governments and international organisations	702	818	709	940	1 031	1 145	1 263
Non-profit institutions	4 063	5 341	5 734	6 294	8 056	9 438	10 730
Households	42 949	53 445	63 444	74 155	83 225	92 385	100 469
Total transfers and subsidies	**91 806**	**111 943**	**126 701**	**151 208**	**175 620**	**193 364**	**213 334**
Real growth [1]		*15,5%*	*8,8%*	*14,6%*	*11,4%*	*5,3%*	*5,1%*
Payments for capital assets							
Buildings and other fixed structures	10 375	12 041	12 927	16 463	21 577	26 392	29 394
Machinery and equipment	5 241	5 522	6 592	6 697	6 630	7 025	7 944
Cultivated assets & land and subsoil assets	175	171	113	340	219	214	222
Software and other intangible assets	1 137	1 198	596	441	217	242	316
Total payments for capital assets	**16 928**	**18 932**	**20 228**	**23 940**	**28 642**	**33 874**	**37 876**
Real growth [1]		*6,0%*	*2,7%*	*13,6%*	*14,8%*	*13,2%*	*6,5%*
Unallocated	–	–	–	–	**2 500**	**5 000**	**8 000**
Consolidated expenditure [3]	**326 741**	**367 562**	**402 919**	**460 649**	**518 866**	**568 572**	**622 215**
Consolidated non-interest expenditure [3]	**277 031**	**317 865**	**350 554**	**404 921**	**463 118**	**511 608**	**562 619**
Percentage of GDP	*23,1%*	*24,8%*	*24,7%*	*26,0%*	*27,0%*	*27,1%*	*26,8%*
Real growth [1]		*8,7%*	*6,0%*	*10,9%*	*9,7%*	*5,7%*	*4,8%*

1. *Deflated using the CPIX deflator.*
2. *Including capital transfers.*
3. *Including national contingency reserve.*

Table 3.8 illustrates the following trends:

- Real non-interest expenditure of consolidated government grows at an average rate of 6,7 per cent over the MTEF period

- Consolidated government capital expenditure grows at an average of 11,4 per cent in real terms
- Transfers to municipalities for both current and capital expenditure programmes grow at an average rate of 19,3 per cent in real terms
- Transfers to households grow by 5,8 per cent in real terms, illustrating government's continued commitment to provide targeted income support to the poor and vulnerable.

Focus on key infrastructure sectors

The table below summarises estimates of infrastructure expenditure by sector across the spheres of government and relevant public entities. The table focuses on particular sectors comprising about 68 per cent of the R372 billion total estimated public sector infrastructure-related spending over the MTEF, and does not attempt to provide a complete breakdown of public sector capital formation.

Capital/infrastructure expenditure estimates in key sectors

Sector	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	MTEF
R million					Medium-term estimates			Total
Water (DWAF, water boards, TCTA & municipal)	4 966	5 038	4 531	6 039	7 422	6 176	5 706	19 304
Sanitation (municipal & DWAF)	782	1 565	1 368	2 297	2 422	2 494	2 606	7 522
Electricity (Eskom & municipal)	6 427	7 294	8 981	13 233	18 018	18 719	21 310	58 047
Housing (national, provincial & municipal	5 828	5 206	5 185	8 398	9 594	11 075	11 746	32 415
Education infrastructure (provincial)	1 046	1 610	2 277	2 481	3 022	3 351	3 894	10 267
Health (provincial)	4 501	4 901	5 030	6 381	6 744	7 425	8 087	22 255
Roads (SANRAL, provincial & municipal)	9 079	11 175	10 810	13 851	16 310	22 079	24 791	63 180
Rail (SARCC & Spoornet)	1 891	2 245	2 147	4 465	5 090	6 321	6 380	17 791
Ports (NPA & SAPO)	1 659	1 589	2 221	2 843	5 244	5 172	4 268	14 684
Courts (national)	271	244	245	253	980	851	831	2 662
Police infrastructure (national)	257	314	368	447	498	708	1 188	2 394
Prisons (national)	164	204	100	235	398	451	570	1 419

Over the medium term, estimated expenditure in the water sector, which includes dams, bulk pipelines, reticulation, and treatment plants, amounts to just over R19 billion. Compared to the three previous years (from 2002/03), the sanitation aggregate estimate more than doubles, to R7,5 billion.

The electricity sector is projected to spend R58 billion over the MTEF period, growing at an average annual rate of about 17 per cent and driven by Eskom power generation, transmission and distribution project and household electrification projects at municipal level.

Housing sector expenditure is expected to be R32 billion, with a growth rate of about 12 per cent over the next three years. Aggregate spending on schools and other education infrastructure reaches R10 billion with an average annual growth rate of about 16 per cent. Hospitals, clinics and other health capital add up to R22 billion over the MTEF period, growing by 8 per cent a year.

Estimated expenditure on roads over the next three years is R63 billion, with an average annual growth rate of more than 21 per cent. Passenger and freight rail investments total R18 billion (excluding Gautrain), while investment in ports and port operations infrastructure is expected to be R15 billion.

Protection services expenditure on courts, police stations, prisons and associated infrastructure is expected to total R6,5 billion over the next three years, with high growth rates of between 34 and 49 per cent in each of the sectors. These numbers exclude defence infrastructure and acquisitions.

Compensation for employees remains the largest component of current expenditure. The government wage bill grows from R155,9 billion in 2005/06 to R202,1 billion in 2008/09. This is due to an expansion of employment in priority areas such as health care, justice and policing; moderate wage increases (cost of living adjustments); and personnel reforms such as the introduction of the Government Employees' Medical Scheme.

Commitment to stabilising wage bill

The three-year wage agreement signed in 2004 has contributed to stabilising salary expectations in government, with remuneration adjustments linked to inflation expectations, while also allowing for moderate real wage increases. Government is committed to stabilising the wage bill, while ensuring that service delivery improves through appropriate compensation.

The consolidated general government account

The consolidated general government account represents the full extent of the revenue and expenditure of all levels of government. These estimates are made by aggregating the revenue and expenditure of the main budget, the social security funds, technical cooperation accounts, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities. Flows between institutions are simultaneously netted out. The consolidated general government account for 2004/05 is set out in Table 3.9.

Table 3.9 Consolidated accounts of general government, 2004/05[1]

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Current receipts	347 173	14 342	6 088	8 997	73 458	**450 057**
Tax receipts (net of SACU)	*341 652*	*12 969*	*3 525*	*167*	*21 443*	***379 757***
Non-tax receipts	*5 520*	*1 373*	*2 562*	*8 830*	*52 015*	***70 300***
Sales of capital assets	682	–	57	837	58	**1 634**
Total own account receipts	**347 854**	**14 342**	**6 145**	**9 834**	**73 516**	**451 691**
Percentage of total	*77,0%*	*3,2%*	*1,4%*	*2,2%*	*16,3%*	***100,0%***
Transfers received[4]	1 634	4	137 920	39 727	17 939	**1 634**
Total receipts	**349 488**	**14 346**	**144 065**	**49 561**	**91 455**	**453 325**
Current payments	113 100	1 358	114 204	40 194	84 613	**353 469**
Compensation of employees	*41 447*	*637*	*87 644*	*15 148*	*25 168*	***170 044***
Goods and services	*22 083*	*721*	*26 330*	*23 192*	*55 356*	***127 682***
Interest	*48 851*	*–*	*10*	*442*	*1 524*	***50 827***
Other current payments	*718*	*-0*	*220*	*1 412*	*2 565*	***4 915***
Transfers and subsidies[5]	250 826	9 447	17 531	4 772	–	**86 986**
Payments for capital assets	6 212	11	10 198	3 470	15 231	**35 123**
Total payments	**370 138**	**10 817**	**141 933**	**48 436**	**99 844**	**475 577**
Percentage of total	*77,8%*	*2,3%*	*29,8%*	*10,2%*	*21,0%*	***100,0%***
Surplus (+) / Deficit (-)	**-20 650**	**3 529**	**2 132**	**1 125**	**-8 389**	**-22 253**
Extraordinary payments	-9 787	–	–	–	–	**-9 787**
Extraordinary receipts	2 492	–	–	–	–	**2 492**
Financing requirement (-)	**-27 945**	**3 529**	**2 132**	**1 125**	**-8 389**	**-29 547**
Percentage of GDP	*-2,0%*	*0,2%*	*0,2%*	*0,1%*	*-0,6%*	***-2,1%***

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

Consolidated general government deficit in 2004/05 of 1,6 per cent of GDP

In 2004/05, general government raised R451,7 billion, or 31,8 per cent of GDP, in revenue. Of this, 77,0 per cent was collected by national government. General government expenditure in 2004/05 totalled R475,6 million, representing 33,5 per cent of GDP. Of this, 31,4 per cent and 22,1 per cent was at provincial and local government level respectively. The consolidated general government deficit is the sum of the deficits of all the spheres and extra-budgetary institutions and accounts. In 2004/05, the consolidated general government deficit was 1,6 per cent of GDP.

It is expected that consolidated general government revenue will begin to adjust in 2006/07 due to the elimination of the RSC levies. Abolition of these levies reduces the overall tax burden on the economy by about R7 billion in 2006/07, R8 billion in 2007/08 and R9 billion in 2008/09.

The public sector borrowing requirement

Increase in capital investment drives borrowing requirement

The public sector borrowing requirement set out in Table 3.10 includes the consolidated general government deficit and the financing requirement of the non-financial public enterprises.

Table 3.10 Public sector borrowing requirement[1], 2002/03 – 2008/09

R million	2002/03	2003/04 Outcome	2004/05	2005/06 Revised estimate	2006/07	2007/08 Medium-term estimates	2008/09
Main budget							
Main budget deficit	13 016	29 278	20 687	7 891	26 363	27 171	24 177
Extraordinary payments	7 971	7 443	9 787	8 871	–	–	–
Extraordinary receipts	-8 168	-1 598	-2 492	-6 497	-1 700	-1 450	-1 450
Financing requirement	**12 820**	**35 123**	**27 983**	**10 265**	**24 663**	**25 721**	**22 727**
RDP Fund	163	2	-37	-370	-200	-200	-200
Social security funds	-2 473	-4 167	-3 529	-6 460	-4 986	-4 544	-4 723
Provinces	3 177	2 909	-2 132	-1 822	557	-35	-768
Extra-budgetary institutions	-1 108	-1 249	-1 126	-1 630	-1 596	-1 453	-1 206
Local authorities and local government enterprises	6 139	5 116	8 388	9 185	10 057	11 013	12 059
General government deficit	**18 719**	**37 734**	**29 547**	**9 167**	**28 496**	**30 502**	**27 888**
Percentage of GDP	*1,6%*	*2,9%*	*2,1%*	*0,6%*	*1,7%*	*1,6%*	*1,3%*
Non-financial public enterprises[2]	-4 882	-8 582	-5 754	930	12 046	13 008	21 529
Public sector borrowing requirement	**13 837**	**29 152**	**23 793**	**10 097**	**40 542**	**43 510**	**49 417**
Percentage of GDP	*1,2%*	*2,3%*	*1,7%*	*0,6%*	*2,4%*	*2,3%*	*2,4%*
Gross domestic product	*1 198 344*	*1 281 438*	*1 419 991*	*1 559 580*	*1 714 528*	*1 884 866*	*2 095 911*

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

2. Public corporations and central government enterprises.

Eskom infrastructure investment

Eskom's revised 5-year capital expenditure plan includes R49,7 billion to be spent over the MTEF period. The 5-year estimate has been revised to R98 billion from the previously published R110 billion. Overall, however, capacity in electricity generation will be increased due to the recommissioning of previously mothballed power plants. Major projects include the return to service of the Camden (R1,5 billion), Grootvlei (R3 billion) and Komati (3,6 billion) power-stations. The Kriel power station refurbishment is expected to cost R1,1 billion over the 5-year expenditure plan.

Eskom Holdings capex

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	5 yr plan
Generation	5 582	10 228	9 089	11 026	14 320	17 009	61 672
Transmission	1 093	1 630	2 876	3 143	3 271	1 653	12 573
Distribution	3 589	3 056	3 557	3 506	3 657	3 957	17 733
Corporate	437	405	348	354	349	348	1 804
Other	–	35	57	364	1 282	2 678	4 416
Total funded by Eskom	**10 701**	**15 354**	**15 927**	**18 393**	**22 879**	**25 645**	**98 198**

Other electricity generation projects include open cycle gas turbine projects in Atlantis and in Mossel Bay, which together amount to R2 billion and will be completed by 2007 and 2010 respectively. Also over five years, an investment of R4 billion is expected for the combined cycle gas turbine plants at Saldanha and Coega. Two major hydroelectric pump storage projects that are in progress are Braamhoek (R200 million budgeted for 2006/07) and Steelport (R50 million in 2006/07), with a further R5 billion and R1,5 billion to be spent on the respective projects over the next five years. Eskom will also be a partner on the Inga River hydroelectric project in the Democratic Republic of Congo, with budgeted expenditure of R1,6 billion over 5 years.

Transnet infrastructure investment

Transnet is in the process of revising its infrastructure plan as part of its broader corporate plan. The table reflects Transnet's best estimates at the time of the *2005 Medium Term Budget Policy Statement*. Transnet reports that, except for the widening and deepening of the entrance channel to the Durban Harbour, all major projects within the previous corporate plan have commenced.

Transnet Capex

R million	2005/06	2006/07	2007/08	2008/09	Total
Spoornet	3 777	3 880	4 429	4 352	12 660
NPA	1 727	3 671	4 152	3 571	11 394
SAPO	1 116	1 573	1 020	697	3 290
Petronet	–	132	161	1 338	1 631
Total core business	**6 620**	**9 256**	**9 762**	**9 958**	**28 975**
SAA	853	506	2 307	507	3 320
Other	692	180	134	134	448
Total for Transnet	**8 164**	**9 942**	**12 202**	**10 598**	**32 743**

Investments by Transnet in 2005/06 include capacity expansion on the Orex line and Coal Line. Further investments are targeted to improve port efficiencies, including: additional berths; expansion of the multipurpose terminal at Richards Bay; Durban's Pier 1 conversion for containers; reconstruction of Island View; Cape Town container terminal expansion; and the purchase and commissioning of port superstructure. The construction of the multi-product petroleum pipeline has begun and is on track, as are other projects to address bottlenecks in the logistics chain. Feasibility studies on additional projects are under way.

From relatively high levels in 2003/04, the public sector borrowing requirement as a percentage of GDP declined in 2004/05 due to a reduction in the main budget deficit. A lower financing requirement in 2005/06 is expected to reduce the borrowing requirement further to

0,6 per cent of GDP. Over the medium term, infrastructure and capital expenditure at all levels of government is expected to accelerate, and part of this will be financed through greater claims by the public sector on capital markets. It is expected that this borrowing increase will translate into greater economic growth as a result of investment in productive capacity.

Extraordinary receipts make provision for premiums on bonds issued

Extraordinary receipts make provision in 2005/06 for premiums on bonds issued of R1,5 billion and a R200 million transfer from the agricultural debt account. Over the medium term, provision is made for higher premiums on loan issues, while 2006/07 also contains foreign exchange amnesty proceeds and special dividends from Eskom and Telkom.

No provision is made at this stage for proceeds from the restructuring of state-owned enterprises. Looking ahead, the focus will remain on their profitability – with a view to ensuring that they are able to deliver on infrastructure and service commitments that will contribute to economic development.

No extraordinary payments anticipated over the medium term

Extraordinary payments in 2005/06 include the final issuance of bonds to the Reserve Bank in terms of the Gold and Foreign Exchange Contingency Reserve Account Defrayal Act (2003), and R4,3 billion relating to the settling of the Saambou Bank contingent liability. No extraordinary payments are anticipated over the MTEF period.

A more detailed discussion of extraordinary receipts and payments is presented in Chapter 5.

Public private partnerships

PPPs enhance public sector infrastructure and service delivery

While capital budgets at all levels of government are showing strong real growth, public private partnerships (PPPs) are an additional mechanism to provide public goods, services and infrastructure. Governments worldwide are undertaking large projects in partnership with the private sector. While not a substitute for government capital spending, PPPs offer an alternative means to develop infrastructure, housing and other public requirements. The Gautrain rapid rail link is one example of a recent PPP venture, and follows a series of toll roads, hospitals, government buildings and tourism initiatives that have attracted significant amounts of private sector investment.

Up to five new PPP projects will reach financial closure in first half of 2006/07

In 2005, the PPP unit of the National Treasury approved four feasibility studies, nine procurement documents and two value-for-money reports. It is expected that up to five PPP projects will reach financial closure in the first half of the 2006/07 financial year.

Significant PPP projects in process include the creation of an independent power producer to enhance the national electricity supply, Gautrain and the Munitoria office accommodation project for the city of Tshwane.

The table below shows the total project value of the 22 of the 51 projects under consideration for which comprehensive feasibility studies have been completed. Outer year estimates are expected to rise as more projects are approved for PPP consideration. These numbers exclude national toll roads undertaken by the Roads Agency.

Table 3.11 PPP Project capital value by sector[1]

Sector	2006/07	2007/08	2008/09
R million	Medium-term estimates		
Health care	247	59	9
Transport	5 633	6 196	4 314
Other infrastructure	293	590	295
Serviced accommodation	1 632	811	–
Information technology	155	362	–
Total	**7 960**	**8 018**	**4 618**

1. Includes government capital contributions.