

Policy priorities and public service delivery

South Africa's development challenge is not limited to more rapid growth – it is also about broadening participation and accelerating the pace of social advancement.

The 2006 Budget proposals give greater impetus to social development and public service delivery, continuing the strong focus on reducing poverty and extending basic services to all South Africans. Additional support targets a wide range of expanded programmes in housing, education, health, skills development, social security, justice and fighting crime.

Government recognises the need to moderate consumption expenditure and ensure that investment enjoys priority in the allocation of available resources. A structural acceleration of growth, if it is to be sustained and shared by all, must rest on both broad-based capital formation and efficient public service delivery. Major public infrastructure investments are planned for the period ahead, and initiatives to improve the quality and efficiency of public administration are being strengthened.

South Africa's main "network industries" – transport, communications, water and energy supply – confront a series of complex strategic challenges with long-term consequences for growth and development. Several investment programmes, industrial policy initiatives and regulatory reforms aim to ensure that both infrastructure capacity and improved economic performance underpin accelerated economic growth and rising living standards.

African development and peacekeeping initiatives, as part of government's broad international efforts to encourage peace and security, receive further support over the period ahead.

Shared growth: medium-term policy priorities

Growth, economic participation and social development

South Africa's economic and social policies flow from the democratic values and respect for human dignity enshrined in the Constitution. Through the annual budget, Government seeks to ensure that social and economic rights are progressively realised, that the legacy of historical injustice is redressed, and that future generations will enjoy the fruits of broad-based development and robust economic growth.

In keeping with leading international approaches to development, Government's growth strategy focuses both on physical investment

Budget reflects progressive implementation of social, economic rights

The growth challenge includes addressing historical barriers to broad-based development

and on human capital. It fosters a climate for robust and sustained investment in productive capacity, and it promotes investment in people's skills and well-being.

But circumstances differ from one country to another, and South Africa's development strategy and priorities must also take account of the post-apartheid landscape. This includes historically fragmented governance arrangements, barriers to black land and business ownership, highly uneven education and training systems, and inefficient spatial planning and infrastructure networks. The policy framework summarised in this chapter seeks to overcome the barriers to growth embedded in this inherited legacy, and to open up opportunities that have historically been denied to the majority of South Africans.

As outlined in Chapter 2, South Africa's economic performance has steadily improved over the past five years, and a coordinated initiative aimed at sustained annual growth of 6 per cent or more is under way. However, there are sharp divisions between the modern economy and marginalised communities, between formal employment and the insecurity of the unemployed, between rich and poor.

Causes of unemployment include spatial fragmentation and skills shortfalls

The causes of unemployment are embedded in both the physical and sectoral structure of the economy, shaped for so long by barriers to urbanisation and modernisation, and the distribution of skills and human capability, also held back for decades by apartheid policy and structures.

Economic growth has accelerated since 2001 from about 3 per cent a year to just below 5 per cent, raising the pace of job creation to about 350 000 a year at present. The widening social security net now provides income support to 10 million people. Basic water, sanitation, housing and electricity services contribute significantly to poverty reduction. The policy framework outlined below builds on these foundations, while highlighting several more complex challenges to be addressed if the momentum of growth and development is to be sustained and reinforced.

Medium-term budget priorities

Sustained growth depends on capital formation and efficient service delivery

The 2006 Budget presents a series of proposals to accelerate and deepen social development and public service delivery over the period ahead. Government is mindful of the need to moderate consumption expenditure and ensure that investment enjoys priority in the allocation of available resources. A structural acceleration of growth, if it is to be sustained and shared by all, must rest on both capital formation and efficient public service delivery.

This chapter provides brief summaries of key social and economic development policy initiatives that extend over the MTEF period.

- A core priority is to strengthen education and improve performance of the labour market. Investing in people and ensuring that skills development complements employment creation are critical platforms on which to build future prosperity.

Table 6.1 2006 Budget priorities – additional MTEF allocations

R million	2006/07	2007/08	2008/09	Total
Provincial equitable share	3 511	9 517	17 853	30 881
<i>includes school education, health care, welfare services, provincial roads, agriculture and economic development</i>				
Education, health and welfare				
Higher education and recapitalisation of FET institutions	350	750	1 300	2 400
Revitalisation of hospitals and forensic pathology services	340	554	657	1 551
Social grants and SA Social Security Agency administration	660	910	1 090	2 660
Housing and community development				
Housing grants	800	1 200	1 500	3 500
Municipal infrastructure, transport and water schemes	1 180	1 470	3 100	5 750
Community libraries, cultural institutions, sports promotion	170	428	843	1 441
Neighbourhood development partnerships	50	950	1 500	2 500
Soccer World Cup infrastructure	400	1 000	1 600	3 000
Economic infrastructure investment				
National roads and rail rehabilitation	600	1 100	1 800	3 500
Gautrain rapid rail link	3 241	2 151	1 736	7 128
Industrial development zones and other infrastructure	445	790	1 050	2 285
Industrial development, science & technology				
Research and Development	285	430	640	1 355
Pebble Bed Modular Reactor & NECSA	650	120	110	880
Tourism promotion	20	60	100	180
Regulatory capacity	199	187	214	600
Justice and crime prevention				
Courts administration and capacity	350	550	900	1 800
SA Police Service infrastructure and personnel	509	962	2 095	3 566
International relations and defence				
Military skills development	100	200	300	600
Defence modernisation, IT and infrastructure	691	940	1 430	3 061
Foreign Affairs capacity and African Renaissance Fund	229	320	367	916
Public administration capacity				
Maintenance and investment in government accommodation	988	1 095	1 198	3 281
Municipal equitable share & Project consolidate	563	730	967	2 260
National Treasury - SARS & financial management systems	420	680	840	1 940
Statistics SA	168	123	274	565
Other adjustments	1 389	1 789	3 073	6 251
Less: Infrastructure announced in 2005 & savings	-2 922	-3 669	-5 102	-11 693
Total policy adjustments	15 386	25 337	41 435	82 158

- Alongside an expanded income security net, shared growth must also involve targeted welfare services and stronger partnerships with non-governmental welfare organisations. Addressing the impact of HIV and AIDS, care of child-headed households and appropriate management of children in conflict with the law are among the social service priorities.
- Housing delivery needs to be accelerated, together with municipal capacity building, and investment by both the public and the private sectors to improve the quality of life in poor neighbourhoods.
- Economic infrastructure upgrades will include new power generation capacity, rehabilitation and expansion of road and rail

Focus on social security, housing, infrastructure and industrial development

transport networks, improved water resource management and modernisation of communications.

Reduced crime, strengthened diplomacy, improved public administration

- Industrial development, investment in science and technology, and employment creation will receive additional support. Initiatives promoting small business development and more effective economic regulation are aimed in part at bridging the divide between the formal and informal economies.
- Reducing crime, improving the performance of courts and security services, and improving traffic management and enforcement remain key priorities.
- South Africa continues to extend and deepen its diplomatic presence on the African continent and participation in various international forums. Defence modernisation and military skills development are boosted over the period ahead.
- Public administration reform is now strongly focused on building local government capacity, training and organisational reforms are under way across the public service, together with investment in improved government accommodation and information systems.

Additional allocations flow from broad policy commitments

Flowing from these broad policy commitments, the 2006 Budget proposals include additional allocations for the spending programmes and priorities summarised in Table 6.1. Policy considerations underlying these expenditure proposals are discussed in more detail below, together with the anticipated medium-term expenditure trends.

Government priorities are reflected in the functional breakdown of expenditure

Consolidated government expenditure

A functional classification of consolidated government expenditure is set out in Table 6.2. This takes into account consolidated national, provincial and social security fund expenditure, as published in previous years, and also spending by various public entities and government business enterprises. These include 22 sector education and training authorities, the research councils and SA Bureau of Standards, water boards and the Water Services Trading Account, the South African National Roads Agency, the Post Office, the Airports Company, the State Information Technology Agency, the Trans-Caledon Tunnel Authority and various other entities. Explanatory notes on the consolidation are provided in Annexures B and D. A list of all entities included in the consolidation is found in Table D.1.

Although local government and some public entities are not accounted for in these aggregates, the projections provide a broader indication than has previously been published of the functional breakdown of general government expenditure and the anticipated trends in consolidated spending over the medium term.

A growing share of non-interest expenditure for social and economic services

Since 2002/03 there has been a rise in the share of social and economic services in total non-interest expenditure. Interest on debt has fallen from 15,3 per cent of consolidated expenditure in 2002/03 to a projected 9,7 per cent in 2008/09. Consolidated non-interest expenditure increased at an annual average of 13,5 per cent between 2002/03 and 2005/06 and is budgeted to grow by 11,6 per cent a year over the next three years.

Table 6.2 Consolidated government expenditure by function, 2005/06 – 2008/09

R million	2005/06	2006/07	2007/08	2008/09	Average annual growth	
	Revised estimate	Medium-term estimates			2002/03–2005/06	2005/06–2008/09
Protection services	74 057	79 630	85 578	91 570	10,4%	7,3%
Defence and intelligence	27 043	27 246	28 062	29 448	8,0%	2,9%
Police	30 315	33 859	37 024	40 049	13,1%	9,7%
Prisons	9 984	10 900	12 058	12 748	9,0%	8,5%
Justice	6 715	7 625	8 434	9 325	11,2%	11,6%
Social services	229 856	262 060	290 013	318 664	14,9%	11,5%
Education	83 574	92 112	101 257	110 348	10,5%	9,7%
Health	48 770	54 533	59 022	63 897	11,4%	9,4%
Social security and welfare	73 128	80 615	88 319	96 825	20,8%	9,8%
Housing	7 806	9 220	11 202	12 260	11,6%	16,2%
Community development	16 577	25 581	30 214	35 334	31,5%	28,7%
Economic services	71 751	84 954	94 049	103 580	12,8%	13,0%
Water schemes and related services	11 386	13 822	12 846	13 585	5,7%	6,1%
Fuel and energy	2 824	3 204	3 540	3 940	17,9%	11,7%
Agriculture, forestry and fishing	8 956	11 490	13 019	13 852	17,0%	15,6%
Mining, manufacturing and construction	2 306	2 503	2 673	2 900	22,1%	7,9%
Transport and communication	26 502	33 269	39 519	43 625	11,7%	18,1%
Other economic services	19 777	20 666	22 453	25 678	15,8%	9,1%
General government services and unallocable expenditure	29 258	33 973	36 968	40 805	12,4%	11,7%
Allocated expenditure	404 921	460 618	506 608	554 619	13,5%	11,1%
Interest	55 728	55 748	56 964	59 596	3,9%	2,3%
Contingency reserve	–	2 500	5 000	8 000		
Consolidated expenditure ¹	460 649	518 866	568 572	622 215	12,1%	10,5%

1. Consisting of national, provincial, social security funds and selected public entities. Refer to Annexure D for a detailed list of entities included.

Within the protection services cluster, expenditure on defence and intelligence declines as a share of the total, as outlays on the special defence procurement programme are phased down, while strong growth is anticipated in police and justice functions.

Social services account for 56,9 per cent of allocated expenditure in 2006/07. Education remains the single largest category of spending, followed by social assistance grant programmes and social welfare services. Over the next three years, housing and investment in community development will expand by 16,2 per cent and 28,7 per cent a year respectively, signalling Government's renewed focus on improving the quality of life in underserved residential neighbourhoods.

Within the economic services cluster, spending on transport infrastructure is the largest category and will continue to grow strongly over the period ahead, together with further investment in water schemes and related services. Spending on "other economic services", including environmental services and tourism promotion, labour market services, skills development and various multi-purpose programmes, has also increased sharply since 2002/03 and will continue to expand in real terms.

Education remains the largest category of spending

Budget provides strong support for transport infrastructure

Infrastructure investment makes up a steadily growing share of general government expenditure. But the greater part of public sector capital formation is undertaken and financed by state-owned enterprises, without recourse to tax revenue. Anticipated investment expenditure by public sector corporations is outlined in Chapter 3, and more details of national and provincial spending plans are set out in Chapter 7.

Education remains the largest category of spending

Investing in people and meeting skills needs

Education remains the largest category of government spending, accounting for 20,0 per cent of allocated expenditure in 2006/07. Strong growth in occupational training activities financed through the National Skills Fund and sector education and training authorities (SETAs) is also anticipated over the MTEF period.

The uneven quality of schooling, weaknesses in education administration, differentiated qualifications and salaries of teachers, and inadequacies in skills development programmes have to be addressed as part of South Africa's strategy for sustained growth and poverty reduction. Initiatives in progress are focused both on expanding the resources allocated to schools and further education institutions, and on addressing institutional and managerial challenges and critical curricular reform needs.

Higher education funding

The 2006 Budget adds a further R2 billion in funding for higher education institutions, providing for annual average growth of 9,3 per cent over the 7-year period since 2002/03, and a total higher education allocation of R11,8 billion in 2006/07. The additional resources are mainly used for an increase in the block grants to institutions, and to provide for infrastructure development at some of the merged campuses.

National Student Financial Aid Scheme (NSFAS)

Funds available to the NSFAS increased to nearly R1,2 billion in 2005, of which government contributed R864 million. This enabled about 114 000 academically able students who would otherwise be unable to afford to pursue higher education studies to do so. The NSFAS has improved the recovery of loans to reach a level of more than R20 million per month. This allowed for R300 million to be re-injected into the scheme during 2005. The entity is currently developing a new allocations formula in line with higher education needs and transformation imperatives for the equitable distribution of funds. Government's contribution to the NSFAS over the next three years amounts to R3,2 billion, of which approximately 7 per cent is earmarked for teacher education programmes.

Support for further education and training colleges

Over the MTEF period, R1,9 billion is proposed for the recapitalisation of further education and training (FET) colleges. The 50 multi-campus institutions offer a variety of vocational education programmes.

In 2005/06, the Department of Education completed work to inform the distribution of the allocation. This included a database of skills and human resource development reports, a database of all programmes offered at public FET colleges, an audit of infrastructure at 223 campus sites and a survey of equipment and information technology availability and utilisation.

A connectivity project will be implemented early in the recapitalisation process. This will provide a network relay between campuses for data transfer, e-mail and internet usage, support for an information management system and capacity for e-learning functions.

The recapitalisation programme will complement the broader FET college sector plan, which addresses the mission and location of colleges, and the funding framework, and identifies reforms needed to enhance their contribution to skills development.

It has been agreed that schools serving low-income communities should no longer charge fees. Implementation will be phased in by provincial education departments once the required school-level data and systems are in place. Increased provincial equitable share allocations include additional resources for these schools, further expansion of enrolment of grade R (preschool) learners, improved facilities and resources for special needs education, improved monitoring and evaluation of general education, and implementation of the new curriculum for grades 10-12. A national qualification for school principals has been introduced, along with an advanced certificate in mathematics, science and technology education.

Low-income schools to be provided with increased funding

Substantial allocations are made in the 2006 Budget for recapitalisation of further education institutions, investment in critical teaching skills and the *Dinaledi* initiative aimed at creating centres of excellence in maths and science at 400 high schools.

The Department of Labour also proposes to develop an employment services system to assist both work seekers and employers, enhance the occupational alignment of skills development programmes and improve the functioning of the labour market. An integrated and interactive database will be in place by March 2007.

Employment services to assist work seekers

Social security, health and community services

The extension of the child support grant to qualifying children between the ages of 11 and 14 was completed in 2005/06, bringing the estimated number of child support grant recipients at the end of 2005 to more than 7 million. Income support to poor families through the old age grant, disability grants, foster care and child support grants has been the fastest-growing category of government expenditure since 2001, and now amounts to 3,4 per cent of GDP.

More than 7 million receive child support grants

Investment in health services

Improving access to primary health care services is a central policy priority. Over 700 new clinics have been built; user fees have been removed at primary care level, patient visits increased from 80 million to 100 million over the past four years, and primary health care expenditure has increased by more than R3 billion in real terms during this period.

The 2006 Budget expands the hospital revitalisation programme. This involves the physical upgrading or replacement of entire hospitals, with subcomponents for medical equipment, hospital management and quality improvement. An additional R900 million is added to the grant over the medium term, and the previous hospital management and quality improvement grant will be phased into this programme. This will raise national budget support for improvements in provincial hospitals from R1,2 billion in 2005/06 to R2 billion in 2008/09.

Over the next three years 46 hospitals will receive support. The programme includes the complete upgrading of Chris Hani Baragwanath Hospital, construction of two new district hospitals in Soweto, completion of the three rural regional hospitals in the Western Cape, two new 250-bed hospitals in KwaMashu and four replacement hospitals in Limpopo. The larger projects will not be completed within this MTEF period. Although under-expenditure is anticipated in the 2005/06 year, steps are being taken to progressively strengthen programme and project management, and address obstacles to delivery.

In addition, the number of personnel in the health sector is being progressively increased (by 12 240 over the past year). Regional hospitals that offer specialist medical, surgical, obstetric and paediatric services will be strengthened so that each has at least a minimum number of medical specialists. Increased attention will be given to day surgery and improving outpatient care to improve efficiency.

New national agency to administer social grants

In 2006 the South African Social Security Agency will take over responsibility for the administration of social grants from provinces. Funding has been provided for investment in improved administrative systems, an inspectorate and an appeals capacity with the Department of Social Development. Reviews have been undertaken of the application of the means test and of the definition of disability for free health care and disability grants, which will assist in improving administrative fairness.

Additional initiatives over the period ahead are focused on the social development and welfare needs of vulnerable groups. Recently enacted legislation requires progressive extension of services to older persons, improved protection of children, and appropriate management and care of children in conflict with the law. These are far-reaching reforms, with implications both for provincial social development services and several national departments. Strong growth in provincial spending on welfare services is anticipated over the period ahead.

Home and community based services to be expanded

Following the realignment of salaries in the health sector, employment of health staff has increased by 12 240 since March 2004. A phased expansion of employment in several areas of basic social service delivery is also in progress. Supplementary funding has been allocated to provinces for expanding home- and community-based care services, along with support for early childhood development programmes. More funding has been set aside for encouraging greater local participation in sports.

Expanded public works and employment programmes

Government's expanded public works and employment programmes aim to create 1 million work opportunities for the unskilled, marginalised unemployed over five years. At least 40 per cent of jobs are targeted for women, 30 per cent for youth and 2 per cent for disabled workers. In its first year, a total of 3 734 projects were registered for the expanded public works programme, involving expenditure of R3,24 billion and creation of 176 000 net work opportunities (i.e., additional jobs to those that would have been created if the projects had been undertaken through machine-intensive methods).

Expanded public works and employment programmes cover four priority sectors:

- Infrastructure projects – Funds are allocated through the municipal infrastructure grant and the provincial infrastructure grants. Activities include maintenance of low-volume roads, trenching, storm water drains and sidewalks.
- Environmental programmes – Initiatives include the Working for Water and Working on Fire projects, and a wide range of local environmental improvement efforts.
- Social service programmes – Projects include partnerships with non-governmental organisations for home-based community care and early childhood development, expanded employment of community health workers through local clinics and hospitals.
- Income-generating activities – Economic sector projects include food security projects, arts and crafts, agro-processing and local call centres.

Funds for these programmes are allocated to national departments, provinces and municipalities through the normal budgeting process, with support for labour-intensive methods and appropriate technical and administrative oversight.

The 2006 Budget provides substantially increased allocations for investment in hospital facilities, boosting health personnel numbers and improving emergency medical services. Primary health care services will be further strengthened, together with environmental

health services under municipal administration. Several national health care initiatives will also be reinforced, including a coordinated response to multiple-drug resistant tuberculosis, interdepartmental coordination to address water and vector-borne diseases, and further reinforcement of HIV and AIDS prevention and treatment programmes. An estimated 112 000 patients were enrolled for anti-retroviral therapy by December 2005, and good progress has been made in reducing the incidence of malaria.

Housing and neighbourhood development

Government has adopted a comprehensive plan for sustainable human settlements – building on the established housing subsidy programme, extending further support for social housing initiatives and accelerating the upgrading of informal settlements. Over the next three years R23 billion will be spent on the integrated housing settlement grant, contributing to over 500 000 new or improved housing units. Investment in municipal roads and transport facilities, electrification, water services and sanitation will also receive additional funds. In keeping with the objectives of the expanded public works programme, labour-intensive approaches will be adopted in many of these activities.

Comprehensive plan for sustainable human settlements receives major new funding

In recognition of the rapid pace of urbanisation, particularly in faster-growing coastal cities, special attention has been given to the enhancement of institutional capacity at local government level. Deficiencies in municipal planning and project management are acknowledged constraints. More rapid progress will depend in part on improved professional and technical capacity, sound financing arrangements and stronger management systems.

Progress with land restitution

Progress in the settlement of land restitution claims up to the end of January 2006 is as follows:

There were 79 696 claims lodged with the National Land Claims Commission, of which 68 730 claims have been settled, benefiting 186 862 households. Some 1 007 247 hectares have been restored to claimants at a total cost of R2,2 billion. In addition, more than R2,3 billion has been paid out as financial compensation to urban claimants.

Of the 68 730 claims settled, 18 749 were for land restoration on which development took place in both urban (15 060) and rural (3 689) areas. About 12 per cent of claims settled were rural and 88 per cent were urban. The outstanding urban claims are prioritised for settlement by 2006/07. The remaining rural claims (7 000) are scheduled for settlement by March 2008. The Department of Land Affairs has allocated grants amounting to R677 million for the planning and development of the land delivered to the claimants.

The Financial Sector Charter creates substantial new opportunities for bridging South Africa's economic divide. Its point of departure is that lasting foundations for social and community development need to be built on the joint mobilisation of public and private sector resources. Against a background in which housing the poor was presumed to be a state responsibility, community development was a bureaucratic function and business activity in low-income neighbourhoods was left to the informal sector, this is largely new territory. It requires new thinking, new policies, new project designs and new institutions.

Financial Sector Charter creates opportunities to bridge economic divide

Neighbourhood development partnership grant

In support of the development of sustainable human settlements, a new grant for neighbourhood development projects will be introduced in 2006, with a budget of R2,5 billion over the MTEF period.

The new programme will support partnership projects that mobilise private and public sector investment in the construction of new and improved community facilities, including public parks and recreational spaces; transport facilities such as bus stops, taxi ranks and pedestrian links; buildings for government administrative, welfare and social services; trading facilities and infrastructure for lease or development as commercial premises; and buildings or structures for community purposes. Its aim is to accelerate improvements in living conditions and economic activity in townships and under-served residential neighbourhoods.

The programme will include technical assistance to help municipalities design these projects. This assistance will be targeted to identify potential sites for node development; assess the need for community facilities; undertake feasibility studies and project design and costing; tender for private partners and arrange co-funding; and obtain the necessary planning and building plan approvals.

In keeping with the principles of the Financial Sector Charter, Government seeks to support co-financing of transformational local infrastructure investment through this initiative. The neighbourhood development partnership grant will be administered by a new unit in the National Treasury, supported by an advisory committee of both public and private sector specialists.

Rural communities need income-generating growth and development

The goal is that low-income urban neighbourhoods and informal settlements should, over time, attract investment and improvements that create vibrant residential environments, business opportunities, employment and greater social cohesion. Similarly, in underdeveloped rural communities, infrastructure and services need to be accompanied by income-generating growth and development. Investment in housing stock, backed by appropriately designed lending arrangements, can be well-targeted to the poor both directly and indirectly, including promotion of secondary housing markets.

Alongside reform of the housing policy framework, there is a compelling case for raising the level of government investment in housing and related infrastructure considerably over the decade ahead.

Multiple aspects of community development

More rapid progress in community development has several complementary aspects:

- Mobilising Financial Sector Charter resources through effective infrastructure investment, housing and community partnerships
- Strengthening city and district planning departments
- Integrating government investment in social, community and administrative services into local development plans
- Encouraging private sector and non-governmental participation in small business support and local economic development
- Stepping up housing support and related infrastructure investment.

Economic infrastructure investment

Infrastructure development underpins improved living conditions, job creation

Infrastructure development underpins improved residential living conditions, expanded industrial investment and job creation. There are also investment requirements and regulatory challenges to address in the main “network industries” – transport, communications, water and energy supply. These sectors involve various government agencies, state-owned enterprises and private sector undertakings, and their

development is partly dependent on appropriate cost-recovery through tariffs and other charges.

There are several constraints to more rapid infrastructure development.

After two decades of relative stagnation, the construction industry is straining to meet demand in several respects. Engineering expertise has been depleted, project management capacity is under stress and there is upward pressure on prices. With steady growth in business, these supply constraints will ease over time, although major projects may need to draw to some extent on imported engineering capacity.

Upgrading commuter rail infrastructure

South Africa's commuter rail system faces urgent challenges. There are about 2,2 million passenger trips per day on this network, which comprises 3 115 kilometres of track and associated assets, such as power and signalling systems, 478 stations and more than 4 000 coaches.

Trains are often late, security is poor and there are safety concerns. Ageing signalling and track infrastructure and deteriorating rolling stock contribute to the service delivery challenges. The low fare structure contributes less than a third of total costs, requiring government subsidies to cover the balance of operating expenses and capital expenditure. Capital costs in this sector are substantial: a new coach costs R12 million, and refurbishment and upgrading costs range from R2,2 million for a standard coach to R4,7 million for a motor coach.

The 2006 Budget allocates an additional R1,6 billion to the Department of Transport for passenger rail infrastructure over the MTEF. The table below shows the government subsidies, totalling R11,5 billion over the next three years, with particularly strong growth in allocations for capital investment.

Capital and operational subsidy allocations

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
R million					Medium-term estimates		
Capital subsidy	691	665	655	688	1 030	1 516	2 018
Operational subsidy	1 386	1 679	1 873	2 156	2 152	2 259	2 485
Total	2 077	2 344	2 529	2 845	3 181	3 775	4 503

The South African Rail Commuter Corporation (SARCC), an agency of the Department of Transport, has responsibility for ensuring that rail commuter services are provided in the public interest, and is the custodian of commuter rail assets. Metrorail, a division of Transnet, operates the train service on behalf of the SARCC.

Over the past two years SARCC has upgraded 868 coaches at a total cost of about R1,6 billion. In 2006/07 SARCC plans to refurbish more than 500 coaches at a cost of about R2,5 billion. Other infrastructure projects to be undertaken over the medium term include improvements to signalling and telecommunications (amounting to R4 billion by 2007/08). Railway police are being reintroduced, along with closed-circuit television monitoring at stations, and these are to be rolled out nationally by the South African Police Service and SARCC respectively.

A consolidation of the three passenger rail entities (SARCC, Metrorail and Shosholoza Meyl) into a single structure has begun. A national commuter rail plan will lay the foundation for optimising public transport modes in metropolitan areas and refocus passenger rail into higher-capacity corridors, ensuring a more sustainable service, improved operations and revenue and proper maintenance of assets.

Broader participation and empowerment in the construction industry must also be achieved. The building and construction sector provides substantial opportunities for empowerment and new business development, but it is also important to retain and fully employ existing professional and specialised capacity. A key element in the policy response to the infrastructure development challenge is the strengthening of engineering faculties and accelerating student enrolment in engineering and technical fields.

*Empowerment needed
in construction
industry*

Gautrain

The Gautrain Rapid Rail Link, scheduled to begin operation in 2010, is intended to provide a reliable and convenient alternative to the increasingly congested roads connecting Tshwane, Johannesburg and Johannesburg International Airport.

Gautrain is a project of the Gauteng provincial government, registered as a public private partnership (PPP) because its construction and initial operation will be undertaken by a private concessionaire.

In August 2004, the cabinet recognised the project as one of national significance, to be funded on a 50:50 cost-sharing basis between the Gauteng province and national government. An amount of R7,1 billion of the national share is allocated over the next three years. The total development cost to government of the Gautrain project, which takes into account the outcome of public consultations in terms of the National Conservation Act and other regulatory obligations, is R20,0 billion in 2005 prices, with a further R2,4 billion investment to be made by the private sector concessionaire.

This initiative will provide new impetus to the social and industrial development of South Africa's economic heartland, while serving as a catalyst for further modernisation of both public transport and regional planning frameworks. About 93 000 job opportunities are expected to be created during the construction and commissioning phase; an estimated R5 billion in additional economic output will be injected into Gauteng during construction; and 54 000 people will be employed in the operation and maintenance of the system.

Gautrain is procured as a PPP in accordance with National Treasury regulations. It is a fixed-price contract, within which the private party must deliver the full train service on time, on budget and to the stringent international standards set in the agreement, along with strong black economic empowerment requirements. All cost overruns and delays, in both the development and operating periods, are for the private party's account. Risk associated with anticipated versus actual ridership is shared between the private party and government.

Technical progress in the communications sector has made it possible to reduce costs significantly and extend access to basic telephony, radio, television and internet-based communication through market growth. South Africa has diversified radio and television broadcasting and seen rapid growth of cellular telephony and internet services following partial liberalisation, and Telkom's fixed-line service will face competition in the coming year. A rapid expansion of broadband data network availability is planned for the period ahead.

Communications regulatory environment still evolving

Several aspects of the regulatory environment have yet to be resolved. For several reasons – not least its contribution to rapid education progress and to creating growth opportunities for other service sector industries – increased competition and lower costs in the communications sector will bring sizeable social and economic benefits to business, government, civil society and households.

R100 billion to be invested in electricity generation over next decade

In the energy sector, there have also been cost-reducing technology advances, but on the other hand there are the cost-raising consequences of oil and gas price trends, and of more stringent environmental standards. Investment of about R100 billion over the next decade in electricity generation capacity is planned, to be shared between Eskom and independent power producers, and work is in progress on a nuclear reactor design with potential for global use. In addition, a comprehensive restructuring of the electricity distribution sector is under way.

Urgent infrastructure challenges face electricity sector

Several other pressing issues need to be addressed. There are signs that parts of the electricity reticulation infrastructure are in serious disrepair. There is also an urgent need to accelerate substitution of safer and more efficient energy sources than the widely used paraffin

and coal or wood-burning stoves for household heating and cooking. In all of these areas there are important regulatory and pricing issues to address, in addition to long-term planning and project management challenges. There are also various options to explore for mobilising private sector capacity in support of public investment, project management and technology change.

Water infrastructure and services are also undergoing considerable restructuring – transfer of responsibility for local and regional services to municipalities, on the one hand, and consolidation of the main bulk infrastructure systems in a national water utility on the other. Over time, water charges may need to rise somewhat in real terms in drier parts of the country, but there is also scope for better demand management and systems productivity improvements.

*Water sector
undergoing
restructuring*

National Water Resource Infrastructure Agency

Current arrangements governing the development, augmentation, operations, maintenance and rehabilitation of water resources infrastructure, and its regulation, are inadequate. The Department of Water Affairs and Forestry currently performs all these functions.

Government has decided to establish a consolidated water utility to deal with the development, operations, maintenance and rehabilitation of water resources infrastructure. The Department of Water Affairs and Forestry will retain both the economic and safety regulatory functions.

The rationale for devolving water resource infrastructure management to an agency is that raw water is a strategic and scarce resource with social and economic attributes, supplied on a monopolistic basis in the absence of an effective market mechanism. The sustainable supply of raw water depends on revenue generated on a full cost recovery basis. Water infrastructure management has to operate on a business-like footing, on the strength of an independent balance sheet, a long-term operational mandate and an appropriate risk management framework. The development of water infrastructure requires substantial capital investment, financed primarily through cost recovery from users, rather than taxpayers, on the basis of an economically sound water tariff system.

The agency will be a statutory corporation, mandated and accountable for operational management of national water resources infrastructure through its own legislation, a shareholder agreement and the National Water Resources Strategy. Government will provide oversight. The development of any major new water resources infrastructure scheme will require a specific project mandate. The agency will come into operation on 1 April 2008.

The water sector will undergo a broader regulatory overhaul, with associated environmental oversight. Water infrastructure and services involve important long-term planning, financing and tariff-setting issues, particularly given South Africa's circumstances of relative water scarcity and competing social and economic water needs.

*A regulatory overhaul
is planned for the water
sector*

Ensuring that infrastructure policy, planning and project management do not impede social and economic development involves, in sum, several complementary strategic priorities:

- Improved research, analysis and network systems planning, supported by expanded professional and technical training
- Sector-specific policy reforms and institutional restructuring in the transport, communications, energy and water sectors – and effective coordination between national, provincial and local authorities

- Improved regulatory oversight, including promotion of competition where appropriate, and oversight of tariff setting and demand management
- Accelerated investment in infrastructure and related services, supported by sound long-term planning, mobilisation of technology advances and improved project management capacity.

Industrial development and the regulatory environment

Business needs to identify areas in which it can be globally competitive

More rapid economic growth requires that South African businesses identify products and production techniques in which they can achieve comparative advantage in global markets. It also requires a favourable investment environment and sound regulatory arrangements, and the development of a more systematic industrial policy.

The state provides a legal framework that governs property rights and promotes sound labour relations. Policy and regulatory arrangements promote good corporate governance, encourage research and development, provide for spatial planning and protect intellectual property. Government provides several industrial support programmes, promotes trade opportunities, encourages foreign direct investment, fosters skills development and oversees immigration policies. Successful industrial policy design and implementation depend also on effective consultation and collaboration between the public and private sectors.

Growth initiative aims to reduce constraints to economic development

These are intricate and difficult aspects of economic development, and are undertaken in various ways in different countries. South Africa's current economic growth initiative aims to focus attention on those aspects that are either holding back development potential unnecessarily, or have the potential to open up new opportunities. Special attention has to go to creating employment opportunities and broadening black economic participation.

Small business support initiatives receive new attention

Initiatives focused on small business development and broadening economic participation enjoy priority in the 2006 Budget. These include investment in facilities for informal traders, improving access of small businesses to finance, skills development programmes, land reform and stepped-up support for emerging farmers. Several tax threshold adjustments and administrative reforms will also contribute to a more favourable environment for small enterprise development.

Science and technology – investing in future opportunities

South Africa seeks to strengthen its own research and technology capacity, while also strengthening international partnerships.

Pebble bed modular reactor (PBMR)

The PBMR is a high-temperature, closed-cycle gas turbine power conversion system that promises to provide an efficient and safe nuclear power generation alternative. Government will own 51 per cent of the total equity in the project, including shares held by the Industrial Development Corporation and Eskom, with the balance held by both local and international investment partners.

During the initial feasibility stage (up to June 2004) R1,45 billion was spent on the development of the PBMR technology and the design of the demonstration power plant and pilot fuel plant. Allocations of R600 million and R580 million were made in 2004/05 and 2005/06, and a further R580 million is budgeted for 2006/07.

The project is organised into three stages:

- Design, verification and testing: By December 2006 work on the remaining technology and design issues is expected to be finished, the environmental impact assessment and nuclear licensing processes will be completed, and contracts for plant component supply and construction ready for final decision
- Manufacturing, construction and cold commissioning: construction of the demonstration plant is expected to be completed by June 2010
- Fuel load and nuclear testing, leading to full commercial operation by December 2012.

Large telescopes

In the past 12 months, two major telescopes have gone into operation in South Africa: the Southern African Large Telescope (SALT) – the most powerful optical telescope in the southern hemisphere – and the High Energy Stereoscopic System – the most powerful gamma ray telescope in the world. The Karoo Array Telescope will also be developed.

SALT was designed and built at the South African Astronomical Observatory in Sutherland. The Department of Science and Technology contributed about a third of the total US\$36 million finance cost, with partners in Europe, the United States and New Zealand contributing the balance.

Satellite development

The Department of Science and Technology is taking the lead in a satellite development project – part of a three-year integrated capacity-building initiative for the aerospace industry. The intention is to increase satellite engineering capacity and launch South Africa's second micro satellite.

Several key projects have been identified for the period ahead:

- Development of a biofuels industry
- Improved coordination of national, provincial and local spatial and economic development planning
- Repositioning of the industrial policy framework to include coherent and synchronised sectoral initiatives and targets
- Lowering the costs of telecommunications and other information network services
- Building and growing a business process outsourcing and “offshoring” industry
- Accelerating tourism growth and associated business promotion
- Promoting R&D, in part through targeted science and technology expenditure.

Considerable progress has been made over the past decade in building economic regulatory capacity. South Africa has an effective competition authority and labour relations institutions, independent bodies to oversee parts of the energy, transport and communications

Work underway on regulatory impact assessments

sectors, and an environmental impact assessment framework. Work is in progress on regulatory impact assessments. Further evolution of regulatory institutions, and ensuring that they promote development without unduly inhibiting enterprise, is an integral part of the economic growth agenda.

Support for the business process outsourcing industry

Business services have experienced strong global growth in recent years. The business process outsourcing industry (including IT and technical services, call centre services, financial accounting and administration, human resource functions and data conversion) is a priority for government given its considerable job creation potential.

Drawing on research conducted in collaboration with the Business Trust and the South African call centre industry, government is developing a support programme for business process outsourcing. Measures under consideration include:

- Enhancing the benefits of the learnership allowance to lower the costs of training and expand the skills pool required to sustain the industry
- A funding mechanism to assist in the start-up costs of new activities
- The development of techno-parks through PPP arrangements.

An initial amount of R70 million has been allocated for the 2006/07 financial year for the development of the business process outsourcing sector support programme.

Police, the courts and traffic enforcement

Crime prevention and public security are core government responsibilities.

Focus on reduction of contact crime by 7-10 per cent a year

Government aims to reduce contact crime by 7 to 10 per cent a year, through concentrating law enforcement operations in identified priority areas, reducing the number of illegal firearms and improving safekeeping of legal firearms, combating substance abuse, and implementing a range of social crime prevention measures targeted at the most vulnerable groups.

Progress is being registered in the criminal justice system. In 2004/05 the percentage of cases referred to court and concluded increased for all categories of crime. In addition, government's response to organised crime, corruption and fraud has been reinforced.

A new reserve police service

A new reserve police service is being formed, for which an additional R265 million is allocated over the MTEF period. The Department of Safety and Security will appoint approximately 30 000 reserve members over the next three years. The new service is intended to enhance rural safety and security. Active participation of communities will contribute to social cohesion and broadening of the capacity of the security forces.

The new system will provide for the introduction of a rank structure and remuneration. The planned rotational basis may not exceed seven days per month per reservist. There are approximately 30 000 active SAPS reservists and it is envisaged that over time the new reserve service will be drawn from this pool and the present 50 000 South African National Defence Force commando members. It is intended that reserve service levels should be steadily increased over the years ahead.

Reservists will be utilised in four categories: functional policing; support services; specialised support functions (such as doctors, social workers and pilots); and rural and urban safety. Reservists undergo an outcomes-based in-service training programme to enhance their skills and competencies. Reserve members will also be recruited, trained and deployed to form a decentralised capacity for the area crime combating units at police station level, sector policing and other specialist functions, including financial management.

Re Aga Boswa

The Department of Justice and Constitutional Development receives an additional R1,3 billion over the next three years for enhancing court capacity, and R500 million for improved access to the courts and justice services. A new court management model to enhance administrative capacity is being phased in through a programme called Re Aga Boswa (in Sotho, “we are rebuilding”).

Re Aga Boswa introduces professional court managers who assume day-to-day responsibility for the management and running of courts, allowing magistrates and judges to use their time more effectively. The programme will also develop an effective court information management system, and devolve budgetary and decision-making powers to the courts. Implementation of the new model has resulted in the phasing out of regional offices, with their capacity and resources redirected to the courts. A 2003 pilot model in KwaZulu-Natal yielded clear benefits for the judicial system. The model has since been extended to all provinces. Completion of the next phase of the programme will benefit 417 courts nationwide.

The table below shows that in recent years the department has succeeded in increasing the number of cases diverted for alternative resolution outside of the criminal justice system – mainly as referrals to social workers in the Department of Social Development. Increases are also evident in respect of the conviction rate. Re Aga Boswa will focus court management on case flow, particularly on increasing the number of cases finalised.

Number	2002/03	2003/04	2004/05
Cases diverted	14,809	17,937	18,981
Cases finalised	405,503	393,307	378,405
Cases where verdict is guilty	330,728	328,271	320,938
Conviction rate	81.6%	83.5%	84.8%
Monthly average outstanding cases	182,218	179,392	187,288

Note: These statistics exclude maintenance cases and traffic offences.

Strengthening of the criminal justice system has several interrelated aspects, including improved coordination between departments, improved case flow management, modernisation of information and communication technology systems, reducing the numbers of awaiting trial and awaiting sentence prisoners. Security at railways, borderlines and ports of entry and exit is being stepped-up.

The 2006 Budget provides for the appointment of approximately 800 additional prosecutors as well as salary alignment with job content. The SAPS plans to increase employment from 148 970 in 2004/05 to 178 910 in 2008/09, contributing further to both visible sector policing and improved crime detection.

The 2006 Budget makes provision for construction and operation of four new prisons at Rietvlei, Port Shepstone, East London and Paarl towards the end of the MTEF period. In addition, four prisons are already planned for 2006/07. More effective management of personnel will be achieved through phasing in a seven-day establishment. Progress is also being made in developing and implementing rehabilitation services for prisoners and parolees.

Four new prisons will help alleviate overcrowding

Progress has also been made in building dedicated capacity to improve road traffic management and law enforcement, and to streamline the administration and adjudication of road traffic offences. Rapid growth in the number of vehicles and the unacceptably high numbers of serious accidents and deaths on the roads highlight the importance of this aspect of public safety and order.

The cost of road accidents

On average, 30-35 people die on South African roads each day, another 20 are permanently disabled and 100 are seriously injured. In 2005 there were 11 616 fatal accidents, a 10,9 per cent increase on the 2004 total. The CSIR has estimated that road accidents have an overall annual cost equivalent to R38 billion.

In 2004/05 the Road Accident Fund spent R5,5 billion in settling the claims of road accident victims, and the accumulated claims backlog rose to an estimated R24 billion.

Driver behaviour and vehicle fitness contribute to most road accidents, and these factors can only be mitigated through consistent and rigorous road traffic management.

The implementation of road traffic management initiatives is largely the responsibility of provinces and municipalities as mandated by the National Road Traffic Amendment Act (1999). National government's role is to support road traffic management and safety by setting policy and legislation, developing road traffic information systems and promoting innovative road traffic practices and technology.

The Department of Transportation has established the Road Traffic Management Corporation and the Road Traffic Infringement Agency, which are mandated to support and coordinate road traffic management. The Road Traffic Management Corporation began operating in 2005, and its immediate priorities include coordinated and targeted campaigns to reduce accidents, better training for traffic law enforcement officers, improving accident and traffic information, and better regulation of drivers' licenses and vehicle roadworthiness.

International relations, peace and security

Diplomatic efforts continue to emphasise African peace and development

South Africa's international engagement is organised around four themes: consolidation of the development agenda for Africa, cooperation between developing nations, improved global governance and strengthening of bilateral relations. Particular priority goes to work in Africa, including support for the African Union (AU) and its long-term goal of political and economic integration.

South Africa now has 116 missions in 102 countries, including representation in 37 countries in Africa. In the context of Government's growth strategy, investment promotion and expanding market access for South African exports and tourism are key foreign relations priorities.

The New Partnership for Africa's Development (NEPAD) has been given impetus by support of the G8 leading industrial countries for the Africa Action Plan and the establishment of the Africa Partnership Forum to address difficulties in project implementation. The 2006 Budget includes further allocations to the African Renaissance Fund for targeted development projects, as well as support for African regional and multilateral institutions. The African Peer Review Mechanism review of South Africa should be completed during 2006.

Strengthening support for the African Union Peace and Security Council

South Africa will continue to deepen its support for the AU Peace and Security Council, which became operational in December 2003. It aims to establish an African standby force by 2010, made up of five stand-by brigades, one in each region of the AU, supported by an early warning system with national and regional components, and a Peace Fund to support the activities of the Peace and Security Council.

Military skills development

The SANDF operates a voluntary two-year military skills development system (MSDS). The MSDS has two goals: to enhance the SANDF's mission readiness through annual intakes of young, fit and healthy members, representative of South Africa's population; and to provide development opportunities for young people. An additional R600 million is allocated to skills development over the three-year period.

The majority of MSDS recruits are matriculated school leavers between the ages of 18 and 22. Annual intake has increased from 1 817 in 2003 to 4 304 in January 2006 – bringing the accumulated intake to approximately 10 per cent of the SANDF's current force strength.

The MSDS forms the first career stage in the SANDF's new service system. In their first year of training, all MSDS members undergo basic training before going on to formative training – either as officers or as junior leaders in the non-commissioned officers' cadre – and functional training in specialist combat, technical or support areas. The second year of MSDS service is devoted to continued specialist functional training and operational utilisation. This includes training for pilots and navigators, naval combat officers, divers, fire fighters, catering personnel, communications personnel, VIP drivers and medical orderlies.

Participants may also take up tertiary studies at the Military Academy in Saldanha. To date, 359 MSDS officers have completed the Certificate in Military Studies. The majority of MSDS recruits have been found suitable for further contract appointment into the SANDF on completion of their training programmes.

The African Renaissance and International Cooperation Fund aims to enhance cooperation between South Africa and other countries, particularly African states, through the promotion of good governance, humanitarian assistance, human resources development and conflict resolution. The fund has contributed to the peace process in Burundi, a pre-election public support programme and post-conflict reconstruction and development in the Democratic Republic of the Congo, and monitoring the Zimbabwean elections.

The 2006 Budget also provides for further modernisation of the South African National Defence Force (SANDF), investment in military infrastructure and strengthening of the military skills development system. The SANDF has actively participated in a range of peacekeeping operations on the African continent.

Budget funds SANDF modernisation programme

Public administration reform

Economic growth that is not accompanied by improved productivity and more effective public service delivery will inevitably lose momentum, and is unlikely to contribute to balanced and equitable development. Public administration reform has several aspects to it: improved human resource management, governance and accountability arrangements, use of management information systems and effective coordination across government departments, agencies and levels of administration.

A more efficient public service is important for economic growth

Administrative capacity at the local government level is a critical priority over the medium term. Under the auspices of the Department of Provincial and Local Government, 136 municipalities are under special review through Project Consolidate. Initiatives aimed at strengthening both national and provincial support for improved municipal governance, performance and accountability include a major training and capacity-building drive over the next five years, and recruitment of skilled expertise.

Support for local government capacity building

Local government capacity building

Several initiatives are in progress to improve local level service delivery and management capacity.

- Project Consolidate provides hands-on support to identified municipalities, focused on five key performance areas: municipal transformation and institutional development, financial viability, basic service delivery and infrastructure, local economic development, and good governance.
- In April 2005, service delivery facilitators were deployed to 20 Project Consolidate municipalities to assist in addressing critical service delivery, local governance and billing-related challenges. Important lessons from this initiative will be carried forward into work in other municipalities in 2006.
- A national capacity-building framework for local government was adopted in 2004. A web-based capacity assessment tool was developed to assist municipalities to determine their capacity requirements, with associated timeframes and budgetary allocations. It was piloted in four district municipalities in Mpumalanga and Limpopo and developments are underway to extend it to all municipalities. Financial and infrastructure management training has been provided to employees from selected municipalities and an accredited course on local government has been developed. Good progress was also made in assisting municipalities with the development of asset management plans.
- The integrated sustainable rural development programme and the urban renewal programme include targeted support for improved local service delivery management. A programme of economic development support for the key urban and rural development nodes has commenced, in partnership with the Business Trust. It will lead in due course to targeted development interventions, based on economic profiles of each nodal area.
- Since mid-2005, the entire Cabinet has been engaged in a municipal *izimbizo* campaign of interaction with elected municipal representatives, senior local government officials and ward committee members. Specific action plans to address the challenges in over 100 Project Consolidate municipalities have flowed from these consultations, for implementation in 2006.
- A financial management support program for municipalities was established in 2001. It includes the secondment of 30 experienced international advisors to local municipalities to support the piloting of budget reforms, a financial management support grant linked to an internship training programme in economics and finance, and support for the implementation of the Municipal Financial Management Act.
- The community development worker programme established in 2003 is well under way, and it is foreseen that a total of 2 840 community development workers will be deployed by March 2006.

Harmonisation of public service employment arrangements across the three levels of government remains a central reform objective. The phasing in of a new affordable medical scheme arrangement for the public service, known as the Government Employees Medical Scheme, has begun. A policy paper on a unified public service has been prepared and implementation plans are being developed. Initiatives aimed at common standards for governance, financial management and corporate structure of public entities are also under way.

Treasury to put in place a new integrated financial management system

The National Treasury is taking the lead in developing an integrated financial management system to replace the present accounting, supply chain management and personnel systems in use by national and provincial departments.

The Department of Public Service and Administration has initiated work on scarce skills and managerial challenges in the public service, with particular attention to housing administration, education, health and justice. Implications for management systems, performance evaluation, remuneration and skills development will be reviewed in the year ahead.