

## Medium Term Expenditure Framework

*The proposed framework for the 2001 Budget provides for real spending growth of 3,7 per cent a year, including provision for contingencies. The MTEF allows for:*

- *Increases in infrastructure spending of R8 billion between 2000/01 and 2003/04, or by 10 per cent a year, in order to protect and expand the nation's physical asset base*
- *Extra spending on the integrated justice sector of R5,2 billion, or 6,6 per cent per year over the MTEF, following strong growth over the previous three years*
- *Increases in social service expenditure – mainly by provinces – of more than R21 billion over the MTEF period, reinforced by a R4 billion increase in spending on economic services, strongly focused on skills development*
- *A doubling of the level of transfers to local government to deal with fiscal stresses, delivery of basic services and the implications of the new demarcation of municipalities.*

### Policy priorities and the budget

#### Reforming budget processes and tracking change

The overall macroeconomic and fiscal stance of Government, outlined in earlier chapters, has created increased certainty as to resources available to departments and has laid a foundation for real expenditure growth over the next three years.

*Certainty and increased expenditure*

Significant growth in expenditure further reinforces the need to ensure that spending is closely aligned to Government priorities.

*Spending and Government priorities*

In this chapter key trends are identified in government spending, both in the allocation of resources between the various spheres of government, and in expenditure on the main government priorities.

The chapter also briefly outlines key aspects of continuing budget reform. Financial reforms such as public enterprise restructuring and public private partnerships are discussed in Chapter 3. These initiatives aim to ensure that gains flow not only from increased expenditure but also through more effective and efficient spending.

## **Budget reform and service delivery improvement**

### **Progress with budget reform**

*Broad array of reform initiatives*

The budget reform process commenced in 1998/99 with the introduction of three-year rolling budgets. This mechanism has now been institutionalised and other components of budget reform introduced. Significant recent developments include:

- Refinement of the budget process to allow Government to consider priorities earlier in the budget cycle
- Introduction of a Division of Revenue workshop early in the budget process to provide a formal review of the intergovernmental financial flows, and to assess expenditure pressures in the national, provincial and local spheres of government
- Improved information on service delivery and the objectives and impact of departmental spending programmes – to be given effect at the national level through the integration of the current *Estimate of Expenditure* (The “White Book”) and the *National Expenditure Survey* into a single document
- Reform of provincial budget formats to comply with standard classification requirements and to extend service delivery information
- Monthly and quarterly reporting in-year on departmental and provincial expenditure progress
- Revised treatment of improvements in conditions of service and capital, maintenance and accommodation costs in the budget, to ensure that the full costs of programmes are transparently reflected
- Reporting on a wider array of government accounts, funds and agencies, including social security funds and local government, with more detailed presentation of consolidated accounts and off-budget liabilities.

Further reforms will seek to generate appropriate indicators of service delivery, to establish regular information flows on these indicators, and to relate this information to budget decisions. These challenges are being taken forward jointly by the Treasury and the Department of Public Service and Administration.

*Remaining challenges*

## Government priorities

As part of the 2001 Budget process, the Ministers' Committee on the Budget, the Budget Council and Cabinet have given in-depth consideration to Government priorities and medium term spending options. These deliberations have contributed to the work of the Division of Revenue workshop and the Medium Term Expenditure Committee, which is responsible for preparing proposals on the national budget for Cabinet's consideration. The expenditure projections for the next three years outlined in this chapter draw on preliminary national and provincial treasury estimates, informed by Cabinet's review of priorities.

*Review of policy priorities*

This review identified the following critical areas:

*Priorities for the medium term*

- Maintenance, rehabilitation and investment in economic and social public infrastructure
- Targeted interventions aimed at improving the efficiency of the criminal justice system
- Continued emphasis in the social services on improving the effectiveness of service delivery and strengthening the distributional impact of spending, while targeting additional expenditure at critical maintenance and operational needs
- Provision for the impact of HIV/Aids in welfare expenditure, public health and other services
- Programmes aimed at accelerating employment creation.

## Increased spending in 2000/01

The Adjustments Estimate for 2000/01 adds R3,9 billion to national budget allocations. This includes:

- A reduction of R142 million in projected interest on state debt
- A transfer of R820 million to national departments and provinces to compensate for higher fuel costs and higher salary increases
- An allocation of R975 million to bring forward the payment of annual bonuses (13<sup>th</sup> cheques) in the public sector from April to the birthday month of individuals born in January, February or March

- Additional allocations of R891 million to national departments for unforeseeable and unavoidable expenditure
- An allocation of R595 million to provinces for repairing flood damage and disaster relief
- Additional transfers of R600 million to provinces
- A further R100 million for local government
- Approved rollovers of R2,1 billion out of unspent 1999/00 appropriations, partially offset by projected under-spending and savings of R2 billion in the current year.

Taking into account the provision for contingencies of R2,0 billion in the 2000 Budget, these adjustments raise the estimated expenditure level by R1,8 billion.

### Spending by type of service

Table 5.1 presents a projected breakdown of consolidated national and provincial expenditure, classified by type of service. Totals do not include the provincial finance reserves and the national contingency reserve, which will be allocated to services during the MTEF period. These estimates exclude interest on debt.

### Changes to the 2000 Budget MTEF estimates

The following are the main revisions that have been made to the 2000 Budget estimates.

*Additional allocations for education, health and welfare*

Spending in the social services increases by R1,7 billion in 2000/01 and R5,3 billion in 2002/03. This allows for average annual growth of 6,3 per cent in education, 6,7 per cent in health and 7,8 per cent in welfare services.

*Protection services increase by 6,6 per cent a year*

Additional spending on the integrated justice sector rises to R2,4 billion by 2002/03. This represents an average annual growth rate of nearly 6,6 per cent for this sector. Growth in defence expenditure reflects provision for the arms procurement programme.

*Economic services include strong growth in skills development*

Moderate increases are provided for economic services, which already grows strongly as a result of the phasing in of the skills development programme.

*Growth of 10 per cent a year in infrastructure*

Substantial additional allocations to infrastructure are projected, rising from an increase of R3,2 billion in 2001/02 to R4,7 billion in 2002/03. Infrastructure spending will grow by an average of 10 per cent per year. These allocations include provision for flood and disaster related damage.

**Table 5.1: Consolidated national and provincial expenditure by type of service**

R billion	1999/00 Outcome	2000/01 Revised	2001/02	2002/03	2003/04
			Medium term estimates		
<b>Social Services</b>					
Education	46,9	51,0	54,3	58,1	61,3
Health	24,8	27,2	29,2	31,1	33,0
Welfare	19,6	21,5	22,7	24,6	26,9
<b>Protection services</b>					
Defence and intelligence	10,7	14,0	15,6	16,8	17,9
Integrated justice system	22,6	24,8	26,6	28,5	30,0
<b>Economic services</b>	9,9	12,3	15,0	16,3	16,8
<b>Infrastructure</b>	21,4	24,1	27,1	29,7	32,0
<b>Administration</b>	11,4	12,1	13,3	13,4	14,6
<b>Total</b>	<b>167,4</b>	<b>186,8</b>	<b>203,8</b>	<b>218,6</b>	<b>232,5</b>
<b>Changes from 2000 Budget</b>					
<b>Social Services</b>					
Education		0,5	1,0	1,7	
Health		0,5	0,6	1,2	
Welfare		0,7	1,1	2,4	
<b>Protection services</b>					
Defence and intelligence		0,2	0,3	0,3	
Integrated justice system		0,5	0,7	1,2	
<b>Economic services</b>		-0,3	0,2	0,5	
<b>Infrastructure</b>		1,5	3,2	4,7	
<b>Administration</b>		0,2	0,2	0,3	
<b>Total</b>		<b>3,8</b>	<b>7,4</b>	<b>12,3</b>	

## Key departmental and spending priorities

Table 5.2 provides a breakdown of government expenditure over the medium term by service share.

Social services continue to account for the major portion of national and provincial allocations, at 53,4 per cent of non-interest expenditure. Over the MTEF, however, their share of total expenditure will decline as infrastructure and economic services spending increases. A proportion of infrastructure spending will, however, be allocated to education and health, further boosting expenditure in these sectors.

*Social services account for 53,4 per cent of total non-interest spending*

Over the next three years allocations to protection services, infrastructure and economic services will increase, while allocations to the social services and administration will fall as shares of the total.

**Table 5.2: Service shares and growth**

	1999/00	2000/01	2001/02	2002/03	2003/04	2000/01 to 2003/04
Per cent	Outcome	Revised	Medium term estimates			Average annual growth
<b>Social Services</b>	<b>54,5%</b>	<b>53,4%</b>	<b>52,1%</b>	<b>52,1%</b>	<b>52,1%</b>	
Education	28,0%	27,3%	26,7%	26,6%	26,3%	6,3%
Health	14,8%	14,5%	14,3%	14,2%	14,2%	6,7%
Welfare	11,7%	11,5%	11,1%	11,2%	11,6%	7,8%
<b>Protection services</b>	<b>19,9%</b>	<b>20,7%</b>	<b>20,7%</b>	<b>20,7%</b>	<b>20,6%</b>	
Defence and intelligence	6,4%	7,5%	7,7%	7,7%	7,7%	8,7%
Integrated justice system	13,5%	13,3%	13,0%	13,0%	12,9%	6,6%
<b>Economic services</b>	<b>5,9%</b>	<b>6,6%</b>	<b>7,4%</b>	<b>7,5%</b>	<b>7,2%</b>	<b>11,0%</b>
<b>Infrastructure</b>	<b>12,8%</b>	<b>12,9%</b>	<b>13,3%</b>	<b>13,6%</b>	<b>13,8%</b>	<b>10,0%</b>
<b>Administration</b>	<b>6,8%</b>	<b>6,5%</b>	<b>6,5%</b>	<b>6,1%</b>	<b>6,3%</b>	<b>6,6%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>7,6%</b>

### **Integrated justice system**

*Increased allocations* Significant additional allocations of R0,5 billion in 2000/01, R0,7 billion in 2001/02 and R1,2 billion in 2002/03 will be spent on the departments that make up the integrated justice system, namely Correctional Services, Justice and the South African Police Service (see table 5.1).

*Continued prioritisation* These additional allocations reflect a continued prioritisation of the integrated justice system. Historically, increases in spending on this cluster have significantly exceeded growth in the rest of government, with allocations growing at an annual rate of over 9,5 per cent a year between 1996/97 and 2000/01.

*Focus on improved co-ordination and special projects* Government's focus in the integrated justice system has been on increasing efficiency, enhancing inter-departmental co-operation and reviewing previous strategies. The latter, for instance, has led to the implementation of 'Operation Crackdown.'

*Improved personnel remuneration* In addition, Government has sought to address some of the issues underlying low levels of morale by providing resources for the improvement of remuneration levels.

*Directorate Special Operations* Allocations to the recently established Directorate of Special Operations (the 'Scorpions') have also been strengthened.

The present additional allocations are intended to assist the integrated justice system to overcome current resource constraints. They target the following priorities: *New allocations*

- Renewing the SAPS vehicle fleet and upgrading the SAPS's physical infrastructure
- Improving the efficiency of the courts by investing in infrastructure and providing more resources for prosecution services
- Providing bridging finance for the Legal Aid Board as it moves towards a public defender system
- Relieving pressures on the operational spending of the Department of Correctional Services through the provision of resources for the provision of more prison space.

The Defence budget provides for the full purchase costs of the arms modernisation programme negotiated in 1999, including provision for the effect of exchange rate depreciation on prices. The export credit facilities through which the arms procurements are financed are accounted for as part of the provision for interest and debt managed by the National Treasury. *Full costs of arms procurement*

### **Social services**

The social service departments are entrusted with the crucial responsibility of building and protecting South Africa's human capital, enhancing living standards and thus providing the basis for sustained economic growth and development. *Role of basic social services*

The key components of the sector are school and higher education, primary health care and hospital services, as well as means-tested welfare transfers to certain categories of the poor.

The bulk of these services are provided by provincial departments of education, health and welfare, with policy-making, co-ordination and monitoring centred at the national level. The sector will therefore benefit from the increasing proportion of revenue allocated to the provinces. *Provincial responsibility for service delivery*

The social services allocations grew strongly following the democratic elections in 1994, and have now slowed as infrastructure, economic development and protection functions gather momentum. Nonetheless, current projections show real growth in this sector over the next three years.

After managing the integration of highly fragmented delivery systems, and expanding access to services after 1994, health and education departments were confronted with rapidly growing salary bills subsequent to the 1996 wage agreements, as well as the challenge of improving efficiencies and quality of service delivery. *Challenges to improve efficiency and quality*

### **The Grootboom Case**

On 10 October 2000, the Constitutional Court handed down a judgement in the matter of *The Government of the RSA and others v Irene Grootboom and others*.

Irene Grootboom was one of a number of people who approached the Cape of Good Hope Provincial Division of the High Court for an order requiring government to provide them with adequate basic shelter or housing until they obtained permanent accommodation. They had been evicted from land which they had illegally occupied and had had their building materials destroyed, leaving them homeless.

The High Court refused their claim to the right of access to adequate housing, but granted them the alternative relief which they sought, which was the right of their children to shelter. The High Court reasoned further that the best interests of the children required that they be sheltered with their parents.

The Constitutional Court upheld Government's appeal against this order. The Court held that the High Court's reasoning "produces an anomalous result" in that (1) it obliges the state to provide rudimentary shelter to children and their parents on demand if the parents cannot provide such shelter; (2) the obligation was held to exist independently of, and in addition to, the obligation of the state to take reasonable legislative and other measures to provide access to housing; and (3) it obliged the state to provide shelter irrespective of the availability of resources.

The Court declared, however, that the state has to devise and implement, within available resources, a comprehensive and co-ordinated programme that would progressively realise the right of access to adequate housing. It further declared that this programme must include reasonable measures to provide access to people without land or a roof over their heads, and who live in intolerable conditions or crisis situations.

The Constitutional Court made it quite clear that the socio-economic rights enshrined in the constitution are justiciable and should, within available resources, be realised. This judgement is likely to prove important in the policy-making and budget-allocation process of the national, provincial and local spheres of government. For this reason, government departments, including the National Treasury, have to plan and budget strategically to realise these socio-economic rights

Government is in agreement with the underlying philosophy of the judgement which, in effect, requires immediate action to improve the lot of the most vulnerable of South Africa's citizens.

Government is currently reviewing policies that give effect to the constitutional imperative to ensure the progressive realisation of socio-economic rights. In addition, government has devoted increased resources to some programmes – such as the Disaster Relief Fund – which aim to address the immediate needs of the poorest communities.

### *Expenditure and efficiency in education and health*

Projected expenditure trends show that the health and education sectors have contained remuneration expenditure. Gains in efficiency and quality will be facilitated through strong growth in non-personnel expenditure.

Provision is made in the national budget for the continued piloting of early childhood development initiatives, which generate large efficiency gains in the education system. These sectors will also benefit from larger allocations for infrastructure spending.

### *Welfare expenditure*

Welfare budgets will continue to face pressures as a result of annual inflation-related adjustments to grant values, the phasing in of the Child Support Grant and continued expansion in access to other grants. After an initially slow take-up, numbers of people in receipt of the child support grant have started growing rapidly, and are currently in excess of 500 000. Increased provision has been made on the national budget to support the



improvement of the welfare grant payment system, the Welfare Payment and Information Service.

HIV/Aids will present an immense challenge to the social service sectors in coming years. Demand for services, especially in health and welfare, will increase substantially as a result of increased morbidity, household disruption and increased poverty among households. In addition, the supply of services will be constrained by the impact of the disease on the productivity and availability of suitable qualified and experienced personnel. *HIV/Aids and the social services*

Social policies, institutional structures and budgets face a period of considerable adaptation as health, welfare and education services respond to the challenges of HIV/Aids.

### **Economic services and infrastructure**

Increased social services and personnel expenditure have implied limited growth in expenditure on the economic services in the period up to 2000/01. This trend will be reversed, with strong increases in spending on economic services up to 2003/2004. This reflects the need to maintain and expand economic infrastructure and to build skills in the economy. *Strong growth in economic services expenditure*

The Skills Development Levy came in to effect on April 2000 at 0,5 per cent of payroll, and will increase to 1 per cent in subsequent years. Projected revenue in 2000/01 is R1,4 billion, increasing to R3,0 billion in 2001/02. *Skills development*

Twenty per cent of revenue will flow to the National Skills Fund for training of the unemployed and disadvantaged groups. The balance will be set aside to fund the operations costs of the 27 Sectoral Education and Training Authorities and for the provision of accredited training by employers.

As a result of the removal from 2001 of the tax exemption that Eskom currently enjoys, and agreement on a dividend policy, Government will subsidise the national electrification programme through the Minerals and Energy vote. *Electrification*

The national electrification programme aims to achieve universal access to basic electricity services. Current estimates identify a backlog of 3,2 million households, 17 000 rural schools and 1 000 rural health clinics. The preliminary budget framework sets aside R600 million a year to take the electrification programme forward.

While restructuring of the forestry sector is ongoing, progress has been slower than expected, necessitating the allocation of additional but declining funds to this function over the MTEF. *Forestry restructuring*

Given the logic of three-year budgeting, planning and implementation constraints and the need for reasonable phasing *Stronger adjustments in outer years*

in of sizeable new commitments, the economic services see more substantial increases in the outer years of the MTEF, particularly in 2003/04.

This will allow the strengthening and expansion of the programmes of the departments of Agriculture, Environmental Affairs and Tourism, Public Works and Transport in particular. The impact will be felt on basic services to households as well as transport infrastructure.

Government recognises that passenger transport is an important public good, and will continue to conduct transport policy in this light. As part of this commitment, Government will allocate funds for the recapitalisation of the taxi industry.

### **Administrative Services**

*Additional allocations for elections, foreign affairs and SARS*

While there is a clear need to improve efficiency in the central administrative services, certain key functions require strengthening over the MTEF.

Additional provision has been made for the next general election with an additional allocation to the Independent Electoral Commission in 2003/04. The greater role that South Africa is playing in Africa and the rest of the world necessitates additional allocations to the Department of Foreign Affairs. Additional amounts have been allocated to strengthen the reforms underway at the South African Revenue Service, which are expected to enhance its revenue collection capacity further.

### **Poverty relief, Job Summit commitments and HIV/Aids**

*Poverty relief*

Since 1998, Government has set aside a special allocation to address poverty directly, and to assist departments in refocusing service delivery on the poor.

After an initial allocation of R800 million, this allocation will reach R1,5 billion in 2001/02. Particular target groups are the rural poor, women, youth and the disabled. Although hampered by underspending in initial years, a number of key outputs have been successfully delivered. These include infrastructure and service to poor communities, short-term and long-term jobs, and training and support for the development of SMMEs.

*Job Summit projects*

After the Job Summit in 1998 a portion of the poverty relief allocation was utilised to fund the commitments made by Government at the Summit. These include housing development, Social Plan activities and local economic development initiatives.

Given limited capacity to spend the allocation fully, and urgent needs arising from natural disasters at the beginning of 2000, nearly R230 million of the poverty relief allocation was

channelled to disaster relief. An outline of programmes funded in 2000/01 is provided in table 5.3.

Government's broader poverty relief strategy and the specific allocation for poverty relief are supplemented by a number of dedicated funds and agencies. These include the Umsobomvu Fund, the National Development Agency (NDA) and, more recently, the National Lottery Distribution Fund.

**Table 5.3: Poverty relief and Jobs Summit allocations 2000/01**

Department	Programme	Allocation R million
Agriculture	Land care, water and veld management	35,0
Arts, Culture, Science and Technology	Investing in culture and agricultural processing	30,0
Environmental Affairs and Tourism	Local tourism development, tourism infrastructure and waste management	99,0
Health	Nutrition and household security project	7,0
Housing	Rental stock housing development	—**
Labour	Social plan projects in response to large scale retrenchments	3,4
Provincial Affairs and Local Government	Local economic development and social plan research	78,0
Public Works	Community based public works projects	249,0
Water Affairs and Forestry	Working for Water and community water supply projects programme	351,0*
Welfare	Income generating projects	120,0
Disaster relief	Contribution to disaster relief	227,6
<b>Total</b>		<b>1 200,0</b>

\*Includes R60 million for integrated projects jointly managed with the Department of Agriculture (R30 million) and the Department of Environmental Affairs and Tourism.

\*\*Full allocation for 1999/00 of R75 million rolled over

The Umsobomvu Fund is a Section 21 Company funded from a special charge on the demutualisation of Sanlam and Old Mutual. Its objective is to invest in young people, develop their skills potential and invigorate job creation. The proceeds of the special charge yielded R855 million. The Fund is expected to be operational in early 2001.

The National Development Agency (NDA) was established in 1998 to provide support to non-governmental development and service organisations and to channel funding to these organisations. The NDA is funded from an initial transfer from the Independent Development Trust (R100 million) and an allocation of R90 million on the vote of the National Treasury in 2000/01. These amounts will be supplemented by an estimated R100 million of donor funding from the European Union over the next few years.

### Aids prevention initiatives

Implementation of the integrated HIV/Aids prevention programme at national and provincial level has already started and focuses on four interrelated aspects:

- The rolling out of a focused life-skills programme in primary and secondary schools
- Improving access to voluntary counselling and testing
- Piloting alternative models of care for those infected
- A community outreach programme.

The distribution of funds between the components is outlined below.

**Table 5.4 Special allocation for an integrated, preventative HIV/Aids programme for 2000/01**

Programme	Allocation R million
Rolling out life-skills training related to HIV/Aids in schools	39,0
Expanding access to voluntary counselling and testing	20,2
Piloting alternative modes of care	13,0
Community outreach	2,7
<b>Total</b>	<b>75,0</b>

### *The National Lottery*

The National Lottery has accumulated substantial funds which will be allocated to a range of organisations through the National Lottery Act. Distribution agencies will allocate the funds to charities and organisation involved in reconstruction and development, as well as in the arts, culture and the environment.

### *HIV/Aids prevention*

Allocations for Aids prevention programmes and for piloting special care programmes are critical. These will reduce the rates of infection and develop alternative and more affordable care.

In addition to allocations on national and provincial budgets, Government introduced in 2000/01 a special allocation to promote the development of more integrated prevention strategies. R75 million has been set aside for this purpose in 2000/01. The allocation increases to more than R300 million in 2003/04. The programme is managed by the departments of Health, Education and Welfare.

### **Expenditure by economic type**

Table 5.5 summarises consolidated national and provincial spending by economic type.

### **Personnel**

### *Downward trend in personnel expenditure*

Between 1996/97 and 1998/99 personnel expenditure rose steadily as a percentage of total non-interest spending. In 1999/00 it stood at more than 50 per cent of total expenditure.

However, its share will decrease to about 49 per cent in 2000/01. Further declines are predicted over the three years following this.

**Table 5.5: Consolidated national and provincial spending by economic type**

R billion	1999/00 Outcome	2000/01 Revised	2001/02	2002/03	2003/04
	Medium term estimates				
<b>Current Expenditure</b>	<b>152,8</b>	<b>170,0</b>	<b>181,0</b>	<b>193,5</b>	<b>204,8</b>
Personnel	85,5	91,9	96,5	103,0	108,9
Transfer payments	41,3	48,4	51,7	54,9	58,0
Goods and supplies	26,0	29,8	32,9	35,5	37,9
<b>Capital expenditure</b>	<b>14,6</b>	<b>16,8</b>	<b>22,7</b>	<b>25,1</b>	<b>27,7</b>
Acquisition of assets	7,5	7,0	9,3	10,1	10,8
Transfer payments	7,0	9,8	13,4	15,0	16,9
<b>Total</b>	<b>167,4</b>	<b>186,8</b>	<b>203,8</b>	<b>218,6</b>	<b>232,5</b>
<b>Changes from 2000 Budget</b>					
<b>Current Expenditure</b>		<b>2,8</b>	<b>3,5</b>	<b>6,4</b>	
Personnel		1,7	2,1	3,6	
Transfer payments		0,7	0,4	0,9	
Goods and supplies		0,4	1,0	1,9	
<b>Capital expenditure</b>		<b>1,0</b>	<b>3,8</b>	<b>5,9</b>	
Acquisition of assets		0,2	1,6	2,2	
Transfer payments		0,8	2,3	3,7	
<b>Total</b>		<b>3,8</b>	<b>7,4</b>	<b>12,3</b>	

In the *2000 Budget Review* Government set the stabilisation of personnel budgets as a specific objective. The purpose of this objective is to free up resources for capital and other non-personnel spending.

Government has been able to make significant progress in implementing this policy:

- Salary increases for the past two years have been in line with inflation
- Total expenditure is growing faster than inflation
- The size of the civil service has decreased by over 2 per cent over the past two year.

Early in 2000, Cabinet adopted a remuneration policy for the public service. This remuneration policy sought to align civil service remuneration and optimal service delivery through a balance of inflation-linked salary increases, incentives for good performers, reform of the promotions process in the civil service and enhancement of the ability of the civil service to recruit and retain skilled professionals.

*New remuneration policy*

*Wage settlements*

These objectives are substantially embodied in the 1999 and 2000 salary settlements. The settlements provide for:

- A salary increase averaging 6,5 per cent for all employees
- The abolition of near-automatic rank and leg promotions in June 2001
- Allowing sectors to negotiate their own pay progression systems to provide incentives for good performers
- An increase in paid maternity leave from three months to four months
- A restructuring of the leave system.

For the 2001 Budget, departments will again be requested to budget for salary increases in line with inflation.

**Capital and infrastructure spending**

*Increasing infrastructure spending*

Adjustments in the budgeting procedures are being made to increase funding available for infrastructure spending.

Table 5.5 shows that total capital expenditure is projected to grow from R16,8 billion in 2000/01 to R27,7 billion in 2003/04 – an increase of nearly 18 per cent per year. The rate of acquisition of physical assets will increase significantly in 2000/01, driven in particular by flood reconstruction and rehabilitation. Capital expenditure is set to grow to 12 per cent of consolidated non-interest expenditure by 2003/04. Allocations for infrastructure rehabilitation as a result of disasters stand at nearly R1 billion in 2000/01.

This increase in capital and infrastructure spending is driven by a number of considerations:

- The deteriorating condition of public infrastructure – including buildings, roads, and rail rolling stock – and the escalating cost of rehabilitating or replacing this asset base, has become a growing concern. The problem is particularly acute in the provincial and local spheres where budgetary and capacity constraints have led to marked reductions in infrastructure spending.
- Institutional weaknesses have led to inefficiencies, underspending and slower than anticipated delivery in areas where funds were allocated.
- The recent floods and other disasters have added to the urgency of rehabilitating the infrastructure and road network
- The labour-intensive nature of infrastructure maintenance, and the important role that infrastructure plays in facilitating sustainable long-run growth.

*Local Government infrastructure*

Local government performs a key role in the operation, maintenance and expansion of residential, social and economic

infrastructure. Considerable progress has been made in rehabilitating and extending access to residential service access, partly through grant financing from the national level. Notwithstanding this progress, institutional problems and fiscal stresses have in some cases led to unsustainable investment, erosion of the infrastructure and large backlogs.

Various proposals are being explored to more clearly delineate the institutional responsibilities for infrastructure investment, to simplify the fiscal mechanisms used to support municipal infrastructure investment, to improve the manner in which accountability is exercised over the use of funds, and to improve the performance of local governments in meeting their development mandate.

### Spending by sphere of government

Table 5.6 shows revised projected spending by national and provincial government and the national budget allocation to local government.

**Table 5.6: Consolidated expenditure by sphere of government**

R billion	1999/00 Outcome	2000/01 Revised	2001/02	2002/03	2003/04	2000/01- 03/04 Average annual growth
			Medium term estimates			
National spending (excl. conditional grants)	67,1	76,1	85,0	90,5	95,9	8,0%
Provincial spending	100,2	110,7	118,8	128,1	136,6	7,2%
Local government share	3,0	3,8	4,5	5,2	5,9	15,3%
<b>National &amp; provincial non-interest spending</b>	<b>170,4</b>	<b>190,6</b>	<b>208,3</b>	<b>223,8</b>	<b>238,3</b>	<b>7,7%</b>
Social security funds	6,7	7,9	8,3	8,8	9,2	
Debt service costs	44,3	46,3	48,7	50,0	51,5	
Unallocated reserves	0,0	0,5	3,0	5,1	9,2	
Umsobomvu Fund	0,9					
<b>Total</b>	<b>222,3</b>	<b>245,4</b>	<b>268,3</b>	<b>287,7</b>	<b>308,2</b>	
<b>Changes from 2000 Budget</b>						
National spending		1,4	3,2	4,8		
Provincial spending		2,4	4,1	7,5		
Local government share		0,1	0,5	0,9		
<b>National &amp; provincial non-interest spending</b>		<b>3,9</b>	<b>7,8</b>	<b>13,2</b>		

Consolidated national and provincial non-interest expenditure increases by R3,9 billion in 2000/01. This is funded from the draw down of the contingency reserve, lower debt service costs and increased revenue. Of the additional R3,9 billion, 62 per cent is allocated to provinces and 36 per cent to national

government. The additional expenditure will be used for unforeseen and unavoidable expenditure (related primarily to the impact of disasters and the local government elections) and to compensate for those salary and inflation adjustments that exceed levels anticipated in the 2000 Budget.

*Share of spending by sphere*

Table 5.7 provides a breakdown of expenditure by share of total expenditure. Mainly as a consequence of the additional defence expenditure, national government's share of the total will increase from 39,4 per cent in 1999/2000 to 40,8 per cent in 2000/01. The provincial share, however, recovers from 2001/02, reaching 57,3 per cent of the total in 2003/04.

**Table 5.7: Consolidated expenditure shares and growth**

	1999/00	2000/01	2001/02	2002/03	2003/04
per cent	Outcome	Revised	Medium term estimates		
National spending (excluding conditional grants)	39,4%	39,9%	40,8%	40,4%	40,2%
Provincial spending	58,8%	58,1%	57,0%	57,2%	57,3%
Local government equitable share plus conditional grants	1,8%	2,0%	2,2%	2,3%	2,5%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

*Additional expenditure in 2000/01*

The allocation to local government will rise by more than 15 per cent per year, in recognition of the financial pressures that they have experienced, and the implications of the municipal demarcation process.

The shift of expenditure to provinces and local government is an indication of the increasing role that these spheres of government play in providing services.

*Reserves to be allocated*

Funding already allocated to the different spheres will increase by 7,7 per cent per year over the next three years. This is a 2,5 per cent real increase per year. This spending will be further boosted in coming years by distribution of the national contingency reserve and provincial reserves. An estimate of the distribution of these reserves between spheres is not yet available.

### **Social security funds**

In order to provide a complete picture of government expenditure the 1999 Budget reported on the revenues and expenditure of the social security funds - the Unemployment Insurance Fund (UIF), compensation funds, and the Road Accident Fund.

*Review of social security funds in progress*

These funds are financed through employee and employer contributions and, in the case of the Road Accident Fund, an



earmarked proportion of the fuel levy. Processes are in place to ensure the soundness of these funds and the activities that they undertake. These involve steps to integrate the compensation funds and their activities, legislative changes in the case of the UIF, and a Commission of Enquiry in the case of the Road Accident Fund.

## **Conclusion**

Budget restraint over the last 5 years, reduction of the debt burden, and improved efficiencies in revenue collection allow for strong expenditure growth over the next three years within the framework of a sound and sustainable fiscal policy stance.

The increases in expenditure are spread widely over government functions but strengthens key government priorities, particularly the integrated justice sector, infrastructure development and the provision of social services.

While the social service sectors will benefit from growing allocations to the provincial sphere and the recovery of infrastructure spending, much improved discipline in personnel expenditure will provide for sizeable increases in expenditure on complementary inputs, improving both quality and outcomes.

Continuing budget and service delivery reform in government will further enhance the impact of substantial real increases in expenditure.

