

## Spending priorities and public service delivery

*Medium-term spending plans are guided by South Africa's social, economic and development priorities, with the added challenge in the period ahead of preparing to host a successful FIFA World Cup in 2010.*

*An additional R80 billion is proposed to be made available for the budgets of national, provincial and local governments over the 2007 MTEF. Much of the supplementary funding will be allocated for infrastructure investment, including transport services, stadium construction and municipal facilities. Robust growth is planned for health services, education, welfare and social security, the African development agenda and continued improvements in the criminal justice system. Funds are set aside for investment in several state-owned enterprises.*

*Improved public sector administrative capacity is a requirement for ongoing service delivery improvements and sustained growth. Priority needs include engineering and municipal planning capacity, project management and financial skills. Effective training and skills development, and well-targeted mobilisation of private sector capacity, are key to meeting growth and development goals for 2010 and beyond.*

### **Better service delivery and the MTEF**

The 2007 Budget policy framework gives greater impetus to economic growth and broad-based development, through strategic economic investment, progressive improvements in social services, and a continued focus on improving government administration and service delivery.

Improving the quality of public service delivery has been a consistent theme of government's reconstruction and development policy framework, and in the transformation of public service institutions since 1994. Many challenges present themselves in achieving this aim, some relating to resource allocations, but others to the quality and effectiveness of spending itself. The 2007 MTEF pays special attention to those challenges. Account has also been taken of the need to improve

*Enhancing public service delivery remains a key priority over the 2007 MTEF*

*Progress in poverty reduction as a result of social grants and rising employment*

coordination in policy development and planning, and to build capacity to manage expenditure effectively.

Following a decade in which a comprehensive transformation of policy and public service organisation was achieved, the pace of development and service delivery has gathered momentum. Research confirms that a marked decline in poverty has taken place since 2000, due largely to the expansion of social grants and rising employment. Access to services such as electricity, piped water, sanitation and telecommunication improved substantially between 1995 and 2004, and the largest benefits are evident among the poorest households.<sup>1</sup>

*Social and development priorities underpin budget choices*

Severe social and development challenges remain to be addressed, however. Investment in people needs to be accelerated, health and social development services improved, crime prevention reinforced, job creation and community development bolstered. Government's policy priorities and related spending proposals are discussed in this chapter, while implications for the division of revenue and provincial and local government are set out in Chapter 6.

### **Revised expenditure estimates**

*Additional allocations of R80 billion proposed for 2007 Budget*

Sustained economic growth and a sound fiscal position make it possible to budget for strong increases in expenditure on priority services. Consolidated expenditure will increase from an estimated R519 billion in the current fiscal year to R704 billion in 2009/10, largely financed through the national budget. Additional allocations in the 2007 MTEF are expected to total R80 billion.

Adjustments to the 2006/07 appropriations to national votes include the following:

- R1 billion for unforeseen and unavoidable expenditure, including compensation for flood-related damage to infrastructure and losses.
- Approved rollovers of R3,4 billion arising from unspent balances in 2005/06.
- R3 billion for recapitalisation of state-owned enterprises and initial stadium construction works.
- Projected underspending and declared savings of R4,2 billion.

Details are set out in the *Adjusted Estimates of National Expenditure* for the 2006/07 year.

<sup>1</sup> Development Bank of Southern Africa, Infrastructure Barometer, 2006

The proposed revisions to three-year baseline estimates for the 2007 Budget include the following:

- R18,6 billion for the provincial equitable share
- R3,7 billion for higher education, teacher development and further education
- R3,1 billion for hospitals and social welfare services
- R12,1 billion for infrastructure associated with the 2010 FIFA World Cup
- R16,3 billion for housing, municipal services and community development
- R10,5 billion for economic infrastructure and state-owned enterprises
- R2,3 billion for industrial incentives and technology
- R3,5 billion for justice and crime prevention
- R5,9 billion for defence and foreign affairs.

Estimates of consolidated government expenditure for the MTEF period ahead are set out in Table 5.1. These projections include national and provincial departments, social security funds and various public entities. As noted in Chapter 3, real spending on public services continues to grow strongly, concentrated particularly on expanding and improving social service delivery, and investment in infrastructure.

*Spending on public services continues to grow strongly in real terms*

**Table 5.1 Consolidated government expenditure by type of service, 2005/06 – 2009/10**

	2005/06	2006/07	2007/08	2008/09	2009/10	Average annual growth 2006/07 – 2009/10
	Outcome	Revised	Medium-term estimates			
<b>R billion</b>						
<b>Social services</b>	<b>229,2</b>	<b>262,4</b>	<b>295,7</b>	<b>329,1</b>	<b>359,5</b>	<b>11,1%</b>
Education	83,6	92,1	103,3	113,0	123,7	10,3%
Health	49,7	54,8	61,0	66,7	73,4	10,2%
Welfare and social security	71,4	80,0	88,2	97,3	106,0	9,8%
Housing and community development	24,5	35,4	43,1	52,0	56,3	16,7%
<b>Protection services</b>	<b>73,6</b>	<b>78,6</b>	<b>86,9</b>	<b>93,9</b>	<b>101,6</b>	<b>8,9%</b>
Defence and intelligence	27,0	27,3	29,7	31,8	34,4	8,0%
Justice, police and prisons	46,6	51,3	57,2	62,1	67,2	9,4%
<b>Economic services and infrastructure</b>	<b>71,6</b>	<b>87,0</b>	<b>103,9</b>	<b>114,0</b>	<b>129,5</b>	<b>14,2%</b>
Water and related services	11,4	13,3	14,0	15,3	16,8	7,9%
Agriculture, forestry and fishing	9,0	10,8	14,0	13,9	14,8	11,2%
Transport and communication	26,5	34,1	42,8	48,3	56,5	18,4%
Other economic services	24,7	28,9	33,1	36,5	41,5	12,8%
<b>Administration</b>	<b>29,8</b>	<b>34,6</b>	<b>39,2</b>	<b>43,7</b>	<b>47,1</b>	<b>10,8%</b>
<i>of which: Local government equitable share</i>	9,6	18,1	20,7	23,8	29,4	17,7%
<b>Total</b>	<b>404,2</b>	<b>462,7</b>	<b>525,8</b>	<b>580,7</b>	<b>637,7</b>	<b>11,3%</b>
Interest	55,5	56,1	57,5	58,0	56,6	0,3%
Contingency reserve	–	–	2,2	6,0	10,0	
<b>Consolidated expenditure</b>	<b>459,7</b>	<b>518,8</b>	<b>585,4</b>	<b>644,6</b>	<b>704,3</b>	<b>10,7%</b>

### 2010 FIFA World Cup

Nine South African cities have been designated to host 2010 FIFA World Cup matches: Cape Town, Nelson Mandela, eThekweni, Mbombela, Polokwane, Rustenburg, Tshwane, Johannesburg and Mangaung. Critical dates include the following:

December 2006:	Stadiums and transport infrastructure planning complete
January 2007:	New stadium and supporting infrastructure construction commences
September 2008:	FIFA inspection team reviews state of readiness
December 2008:	Construction work on selected stadiums complete
June 2009:	South Africa hosts Confederations Cup
December 2009:	Stadiums and supporting infrastructure complete
June 2010:	FIFA World Cup

The bulk of national government's proposed financial contribution is for the construction of five new stadiums, upgrading of five existing stadiums and installation of transport-related supporting infrastructure in host cities. Allocations announced in the 2006 Budget included R3 billion for stadium construction and R2,4 billion for supporting transport infrastructure. An additional R9,5 billion is proposed in the 2007 MTEF, half of which goes to stadiums and the balance to supporting infrastructure, raising the total contribution from the national fiscus to R14,9 billion.

The budget will also include provision for cultural and social cohesion events leading up to and during the competition, communication infrastructure improvements, emergency health and disaster management services and improved services at ports of entry, and an increase in security personnel and arrangements to ensure the safety of visitors and participants.

*Interest on government debt declining as share of expenditure*

Interest on debt is projected to fall from 15,2 per cent of consolidated expenditure in 2002/03 to 8,0 per cent in 2009/10. Following growth of 13,7 per cent a year between 2002/03 and 2006/07, consolidated non-interest expenditure is budgeted to grow by 11,3 per cent a year over the next three years.

## Medium-term policy priorities

### Accelerated infrastructure investment

*Government infrastructure investment is growing strongly*

More rapid infrastructure investment has been a cornerstone of South Africa's growth and development strategy for over a decade. There have been lags in implementation and challenges in the coordination of infrastructure planning and delivery responsibilities, but the pace of government investment has increased markedly since 2001 and continues to grow strongly.

Hosting the 2010 FIFA World Cup provides a catalyst for investment in economic infrastructure, while also creating opportunities for tourism promotion, sports development and voluntary community participation.

*Substantial funding proposed for stadiums and transport infrastructure*

In the 2007 Budget, government will propose significant funding for stadium development and transport-related supporting infrastructure in the World Cup host cities. Funding will also contribute to addressing backlogs in infrastructure and sport facilities, to be used as practice grounds, in several disadvantaged communities.

### Transport and water infrastructure investments

**Gautrain:** The Gautrain rapid rail link project involves about 80 km of railway lines and 10 stations. Commuter services will be operated on both the Johannesburg-Tshwane spine and on the link between Sandton and Rhodesfield in Kempton Park. A separate, dedicated train service will be operated between Sandton and OR Tambo International Airport. The estimated initial daily passenger load is 130 000 people.

Designed in part to relieve congestion on the main highway linking Johannesburg and Tshwane, the Gautrain will also serve as a catalyst for realignment, densification and more rapid growth of residential development and employment creation in a core economic hub.

Construction has commenced and phase 1, which includes the link between the airport and Sandton and the route between Sandton and Midrand, is expected to be completed within 45 months. It is estimated that the Gautrain will create about 58 800 direct jobs and substantial indirect income, trade, engineering capacity building and other benefits.

**King Shaka Airport and Dube Tradeport:** The King Shaka International Airport will be an integrated passenger and freight airport without the significant constraints associated with Durban International Airport. The passenger terminal will cater for both domestic and international travel. Initial capacity will allow for 4 million passengers per year, with opportunities for expansion. The runway will accommodate the latest large aircraft. The project includes an industrial development area as well as a cyber port and a cyber village. The project is expected to cost nearly R2 billion over the next 3-4 years. The tendering process now underway moves the Dube Tradeport initiative from planning to implementation. It is expected that the airport component of the project will be complete by 2010. The tender evaluation process and the appointment of a turnkey contractor are expected to be finalised by the end of 2006.

**De Hoop Dam:** A new dam is planned in the Olifants River Catchment, one of the poorest areas in South Africa. Development in this area has been hampered by lack of water. With the steep rise in the world platinum demand several new mines have been established in the area, and the water from the new dam will support mining requirements, and broader economic development and job creation in the region. It is anticipated that construction will begin in April 2007.

**Vaal River Eastern Sub-System Augmentation Project:** The Vaal River Eastern Augmentation Project is financed and implemented by the Trans Caledon Tunnel Authority. The estimated cost is R2,5 billion, to be repaid within 20 years of completion. The scheme is being implemented to meet the growing water demands of heavy industry, primarily Eskom and Sasol, in the Mpumalanga highveld region. Construction has begun and the project should be operational by October 2007.

Now that economic growth has accelerated, it is increasingly evident that deficiencies in transport systems constrain development and industrial progress, and hamper urban and residential development. The challenges facing the commuter rail system are particularly acute: trains are often late, security is poor and there are safety concerns. Ageing signalling systems and deteriorating rolling stock contribute to unreliable, inadequate service.

*Growth requires better transport systems*

The consolidation of the South African Rail Commuter Corporation and Metrorail into a single structure was completed in May 2006, but building more effective commuter rail services is a major challenge. The 2006/07 Adjustments Budget includes financial assistance for restructuring commuter rail, and additional allocations of R1,1 billion over the MTEF period are planned.

Improved maintenance of road networks – national, provincial and local – is also a key requirement for accelerated economic growth. National roads are set to benefit from an increase of more than R1 billion in maintenance and rehabilitation spending, and infrastructure allocations to provinces will

*Investment in roads set to accelerate*

include earmarked amounts for maintenance and surfacing of rural access roads. Another R5,5 billion is proposed for transfers to local government for investment in public transport.

### **Skills development for economic growth**

#### *Education quality improvements prioritised*

Education remains the largest category of government spending, and is the key to sustaining long-run growth and reducing inequality. 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. Initiatives in progress are focused on expanding the resources allocated to schools and further education institutions, and on addressing institutional and managerial challenges, along with curriculum reform.

#### *Funding for no-fee schooling proposed for 40 per cent of learners by 2007*

Progress has been made in expanding access to education, including the phasing in of no-fee schools in 2006. This funding reform is targeted at 40 per cent of pupils by 2007. Funding to the National Student Financial Aid Scheme has steadily increased, contributing to better access of disadvantaged students to higher education. Last year considerable allocations were made for recapitalisation of FET colleges. The 2007 Budget will allocate funding for an FET bursary and student loan programme to support access of disadvantaged students to vocational education opportunities.

#### *Teacher upgrading and curriculum development under way*

Upgrading the competence and professional qualifications of teachers is crucial to education and human development over the longer term. A teacher development programme is under way, aimed at upgrading the qualifications of existing teachers to meet the requirements of the new curriculum – especially mathematics literacy and life orientation – as well as leadership and management skills of school principals. Additional allocations are also anticipated for learning support materials and improved school facilities in provincial education budgets, targeted at the poorest 60 per cent of schools.

#### **Critical technical skills for a growing economy**

As a consequence of accelerated economic growth, demand for planning, industrial and engineering skills has rapidly outpaced supply. The joint initiative for priority skills acquisition, led by the Deputy President aims to identify priority skills and support appropriate interventions to address these needs. Early results of this initiative include proposals for expanding professional engineering training and renewal of apprentice training arrangements; improved coordination between employers, industry organisations, government departments and education institutions; mobilisation of private sector expertise; and review of immigration restrictions.

Allocations for both higher education and further education and training will also be stepped up in the 2007 Budget.

The Department of Education will implement a new R700 million bursary scheme for prospective educators over the MTEF period, through the National Student Financial Aid Scheme, targeted at 1 800 student teachers in fields such as mathematics, science, technology and the foundation phase. The first 900 students are expected to complete a one-year post-graduate diploma in 2007/08.

*New bursary programme for trainee teachers*

The 2007 Budget framework also increases subsidies for higher education institutions to cater for growth in student enrolment, and infrastructure development at some of the merged campuses.

Mindful of the challenge of basic literacy as both a human right and a contributor to social cohesion in a fragmented society, the Department of Education plans to initiate a mass adult literacy programme in 2007/08 through partnerships with non-governmental organisations, adult basic education centres and volunteers.

*Adult literacy programmes to be expanded*

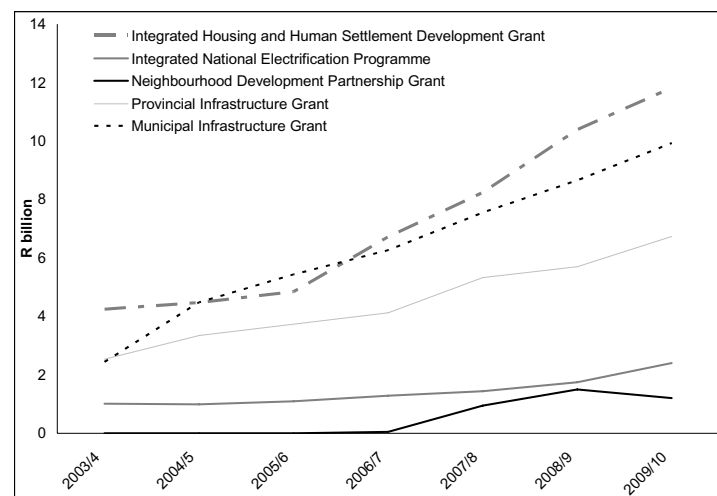
### Urban development and infrastructure investment

The built environment entails the extension and utilization of infrastructure to meet the needs of people and the economy.

Government funding has contributed to the construction of 2,1 million houses since 1994. Over the period ahead, housing investment will continue to grow strongly, supported by the integrated housing and human settlement grant, for which some R30,5 billion has been set aside over the next three years. The grant provides for low-income housing as well as mechanisms to support the rapid growth of jointly financed housing stock targeted at lower middle-income markets.

Provincial and municipal infrastructure grants will also grow strongly over the 2007 MTEF, with provincial grants allocated mainly to roads, schools, health facilities and provincial public works. Since 1994 about 4,7 million homes have been electrified. The integrated national electrification grant grows at 23,2 per cent over the MTEF and amounts to R5,6 billion over the next three years.

The neighbourhood development partnership grant, introduced in the 2006 Budget, will see its first technical assistance allocations made this year and capital grants from 2007. It is aimed at developing community infrastructure within townships, informal settlements and other low-income housing estates to attract commercial development. Over 60 municipalities submitted 243 applications in response to the first call for proposals, and 35 qualifying projects have been identified, with a total anticipated investment of R4,8 billion including government and private sector contributions.



## **Sustainable livelihoods, urban development and planning**

*Progressive investment in improving residential neighbourhoods*

A substantial increase is planned over the period ahead in spending on housing, water, sanitation, electrification and basic municipal services. This aims to provide the infrastructure for community and social services in underserved neighbourhoods, reshape dysfunctional settlements, eradicate the bucket sanitation system and provide amenities that support social cohesion.

*Housing development to be extended through mobilisation of private finance*

The comprehensive plan for the development of sustainable human settlement aims to accelerate the delivery of housing through more streamlined municipal and residential development planning, government financial assistance and mobilisation of financial sector resources. Implementation over the decade ahead will involve the upgrading of informal settlements, the development of a greater range of housing options, greater mobilisation of credit in support of housing construction and the secondary housing market, and more sustainable, mixed-use neighbourhoods that are integrated into existing settlements.

Further details are provided in Chapter 6 of developments in financing municipal infrastructure and services, focused strongly on extending services in low-income neighbourhoods and improving local government planning, technical capacity and financial management over the MTEF period ahead.

## **Industrial development and economic transformation**

*Support for small enterprise development and strengthened R&D capacity*

Government support for economic development includes investment in economic infrastructure, targeted industrial incentive schemes, the promotion of small enterprise development to support broader participation in the economy and attract job-creating investments, and strengthening of capacity in scientific and technological R&D.

### **Square Kilometre Array**

Government is setting aside funding for a 10 per cent investment in the world's largest radio telescope project, the Square Kilometre Array.

The telescope will be a major addition to international scientific infrastructure, with a surface of 1 million square metres, composed of many small antennas. The signals received by these antennas will be combined using advanced electronic and computing systems to form a deep image of the cosmic radio sky.

Should South Africa be successful in its bid for this international project, dish construction, digital signal processing and other construction contracts worth about R5 billion could be allocated to South African consortiums. Additional benefits would include positioning South Africa as a leading astronomy and fundamental physics research centre, attracting leading scientists and engineers, and creating a platform for specialised participation in the global knowledge economy.



The Department of Science and Technology is addressing skills shortages through various initiatives to upgrade science and engineering skills, particularly among youth. The target is to increase the current number of full-time researchers from 17 000 to 23 000 by 2008.

Additional funds have been recommended to fast-track the capitalisation of the National Empowerment Fund. A wide array of government initiatives now provide direct and indirect support to black economic empowerment, including equity finance, training, management support, partnerships and social investment projects. The business process outsourcing and offshoring sector, with large-scale job creation potential, is a priority for government support. The first phase of an incentive scheme will be initiated during 2006/07.

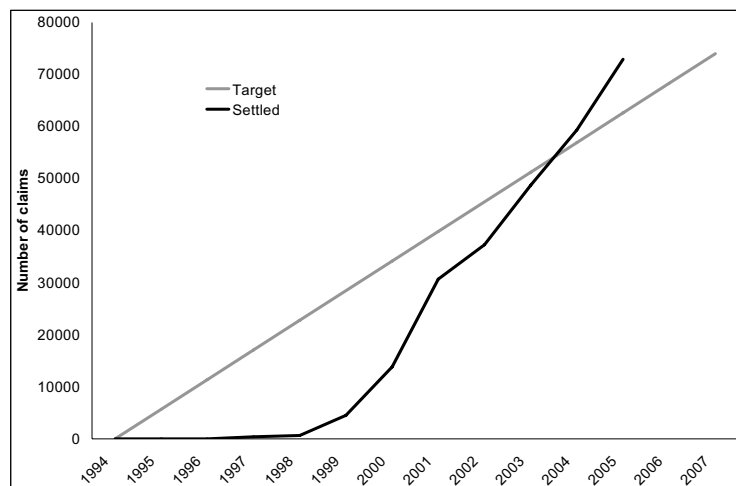
*Allocations for National Empowerment Fund and business process outsourcing*

Additional funding for the Film and TV Production Incentive scheme is anticipated over the period ahead due to the success of the programme in attracting large-budget films from abroad. International film producers spend significant amounts of money in South Africa. Between March 2005 and July 2006 the programme supported the production of 16 international films that attracted spending estimated at R662 million in South Africa on cast and crew, set construction, equipment rental, accommodation, catering and travel. The scheme also provides valuable economic, employment and skills development opportunities for the domestic film production industry.

*Production incentives boost development of local film and television industry*

### Land reform and land restitution

The implementation of the land restitution and land reform programmes are supported through allocations to the Department of Land Affairs. The department's overall expenditure more than tripled between 2002/03 and 2005/06, from R1,1 billion to R3,9 billion. The land restitution programme is nearing completion, and a total of 72 927 claims have been settled, or 92 per cent of the cases lodged. Spending on restitution is expected to decrease from R3,4 billion in 2006/07 to R2,5 billion in 2008/09. As the land restitution programme is phased out, spending on land reform is expected to increase. Under the land redistribution for agricultural development programme, 152 445 ha of land have been delivered to 8 687 beneficiaries. To fast-track delivery, a proactive land acquisition strategy will be implemented in the current financial year.



Source: Department of Land Affairs

### **Coega project update**

Government has invested over R1 billion in bulk infrastructure at the Coega industrial development zone. This has seen the development of major road infrastructure linking the Port Elizabeth port, Coega and the Port of Ngqurha, as well as sewer, water and stormwater facilities. In the current financial year R350 million is being spent on infrastructure in and around Coega.

More than 30 potential international investors are in negotiations with the Coega Development Corporation (CDC). By mid-October of this year, Coega had signed lease agreements with nine investors to a total value of R3 billion. In addition, Canadian-based aluminium company Alcan intends to invest in the \$2,5 billion aluminium smelter at Coega, and is expected to sign an energy deal with Eskom in the near future. The aluminium smelter is expected to attract other foreign investment to the Eastern Cape and will significantly contribute to employment creation and social equity, with an estimated 6 000 people required in the construction, and 1 000 people in operations.

The first phase of the development of the Port of Ngqurha adjacent to Coega has been completed and the port will be ready for operation toward the end of 2008. Transnet has recently announced a further R2,5 billion investment into the second phase of the development of the new deepwater port. The first ship is expected to dock at the container terminal in 2008.

### **Social security and health**

*Social Security Agency established*

The social security and welfare environments have undergone substantial policy and organisational reforms in recent years. All payments of social transfers to households have been consolidated at the national level within the South African Social Security Agency, while provincial social development departments are strengthening and refocusing their social welfare responsibilities. This is discussed further in Chapter 6.

*Improved remuneration for health sector personnel*

The 2007 health sector budget will include provision for a new remuneration dispensation for health professionals to be phased in over the medium term. This aims to retain skills and reward experience in hospitals and clinics. The number of health workers employed in the public sector has increased by 16 000 over the past two years and will be stepped up by a further 30 000 over the next five years.

Addressing backlogs in the health service will help alleviate bottlenecks and improve efficiencies through reduced patient waiting time and average length of hospital stay.

*Additional funding for hospital revitalisation, emergency health care, and HIV and Aids programme*

The hospital revitalisation programme has received significant funding in previous budgets and is anticipated to receive additional funding of R1 billion over the three-year period ahead, complemented by an increase in the provincial equitable share for increases in health personnel and emergency medical services. Government's comprehensive HIV and Aids prevention, care, treatment and nutrition programme will continue to be strengthened. As of July 2006, about 178 000 people were benefiting from the HIV and Aids treatment programme at 192 treatment sites – and this number will be expanded over the MTEF.

### Management of monies in trust

The management of funds of third parties has been a longstanding challenge. The Department of Justice and Constitutional Development receives approximately R1,7 billion in trust monies per year, consisting of child maintenance and court fines, through its 530 lower court cash halls. Problems associated with these funds include widespread fraud and corruption. This is a largely paper-based transaction environment short of business and basic IT systems, prone to human error, and lacking security for protection of funds and staff.

Field research in the Elliotdale district of the Eastern Cape showed that beneficiaries would prefer to receive maintenance monies in their bank accounts rather than at the courts. A banking solution was shown to be workable in the most rural areas.

The Management of Monies in Trust Public Private Partnership project was initiated to provide solutions. Funding allocated to this project amounts to more than R300 million rand over the medium term. A new system should be implemented by December 2007.

### Justice, crime prevention and policing

Government is committed to ensuring a safe and secure environment that enhances the quality of life and promotes economic activity. Targets have been set to reduce the incidence of contact crimes by 7-10 per cent annually over the 2004-2014 period.

*Reducing crime is a government priority*

Increasing the number of policing personnel continues to be a priority. Further allocations proposed over the medium term build on significant increases over the previous two years. Additional funding is intended for approximately 8 000 police officials and 2 000 civilians in police employment, modernisation and expansion of infrastructure, and ensuring appropriate security during the 2010 FIFA World Cup.

*Expansion in police employment under way*

Additional allocations are under consideration to improve the administration of justice, including funds to retain staff and increase personnel in the National Prosecuting Authority, the Legal Aid Board, the Special Investigating Unit, the judiciary and the magistracy. The justice college programme is being aligned to the needs of the judiciary and training will be stepped up throughout the justice environment. Funding is proposed for the construction of new high courts in Mpumalanga and Limpopo.

*Additional allocations for justice sector*

With a view to enhancing the safety inside and outside of correctional facilities, additional funding is proposed for the implementation of a master information systems plan to improve staffing, and to provide X-ray scanners and access control systems at all prisons over the next six years. Funding has also been set aside for prison construction and expansion projects.

*Improved prison security and safety planned*

The Department of Correctional Services is piloting projects aimed at improving rehabilitation of sentenced offenders, and

separately managing awaiting-trial detainees. Plans and financial models are under consideration.

*Defence equipment modernisation to include transport aircraft*

The Department of Defence is implementing an equipment modernisation programme, and it also seeks to achieve a younger personnel profile in the years ahead. Significant funding is proposed over the three-year period for strategic acquisitions – specifically the acquisition of eight A400M transport aircraft, and replenishing of munitions in 2009/10.

*Military skills development in progress*

The South African National Defence Force (SANDF) plans to bring an additional 700 young recruits into its Military Skills Development System, joining the 3 000 already enrolled. Supplementary allocations allow the SANDF to continue to meet its commitments to participate in a range of African Union and United Nations-mandated peacekeeping operations in Africa.

### **Governance and administration**

*Public sector management to be improved and new systems to be implemented*

Improving the quality of public service delivery in national, provincial and local government remains a central goal of public policy. Critical reforms in the period ahead include several system-wide initiatives, such as the modernisation of financial management practices, and more targeted interventions focused on dysfunctional institutions or programmes.

Projects to be prioritised over the 2007 MTEF period include:

- Investment in planning, project management and technical capacity in municipalities
- Development of the integrated financial management system, which will replace outmoded systems and contribute to improved budgeting, expenditure monitoring and reporting
- Implementation of a new policy and systems for managing ill-health, incapacity leave and early retirement
- Continued systems modernisation and improved customs administration by the South African Revenue Service
- Development of disaster management and coordination units in local authorities
- Organisational and service delivery reform, improved information systems and financial management reforms in the Department of Home Affairs.

*Improved statistical services*

Additional resources are also anticipated for Statistics South Africa over the spending period to provide for more frequent surveys of employment and job-creation dynamics, expanded regional offices and resources for the 2011 Census.

Additional resources are also proposed to improve the monitoring and evaluation capacity in the expanded public works programme. The expanded public works programme continues to draw significant numbers of people into productive work accompanied by training, within the framework of government's infrastructure maintenance, environmental protection and social service programme priorities. Labour-based road construction will be accelerated over the period ahead through additional funding of provincial access roads, and work opportunities in home-based care and early childhood development have also been prioritised.

*Expanded employment on rural access roads and welfare services*

As announced in the 2006 Budget, expenditure relating to administrative accommodation has been devolved to national departments, with the Department of Public Works continuing to provide accommodation services on an agency basis. Between R4 billion and R5 billion has been devolved from Public Works to client departments over the MTEF, and a property management trading entity had been established to improve transparency and oversight of the national government property portfolio.

*Government accommodation budgets allocated to national departments*

The Special Investigating Unit provides professional forensic investigating and litigation services to all state institutions and has achieved notable successes in combating maladministration, fraud and corruption, and in protecting state assets and public funds. An additional amount of R130 million has been recommended over the MTEF to strengthen the unit's forensic auditing capacity.

*Strengthened forensic audit capacity for Special Investigating Unit*

### **International relations, peace and security**

South Africa's international engagements are organised around four themes: consolidation of the development agenda for Africa, cooperation between developing nations, improved global governance and strengthening bilateral relations. The interests of the African continent are central to South Africa's foreign policy, including support for the African Union and New Partnership for Africa's Development programmes.

*International agenda focused on Africa*

South Africa will shortly take its place as a non-permanent member of the United Nations Security Council for a two-year period. Another major responsibility will be taken on next year, when South Africa becomes the chair of the Group of Twenty (G20). This is a forum of the seven most industrialised countries and 13 developing economies. It promotes open and constructive discussion between finance ministers and central bankers from industrial and emerging-market countries on key issues related to global economic stability.

*South Africa to chair the G20*

*Improved coordination of African development initiatives proposed*

Additional allocations to the African Renaissance Fund are proposed over the medium term, together with improvements in its management and coordination between various government departments involved in regional and African initiatives.

Acquisitions and improvements in the foreign properties of the Department of Foreign Affairs will continue. Upgrading of ports of entry receives additional resources to facilitate the efficient movement of persons and goods across South Africa's border with neighbouring countries, and to prepare for an increase in visitors at the time of the 2010 FIFA World Cup.

### Consolidated expenditure

*Strong growth in capital spending, steady growth in personnel costs, goods and services*

An economic classification of projected government expenditure, set out in table 5.2, illustrates strong growth in capital spending and transfers to municipalities, alongside steady growth in personnel costs, goods and services and transfers to households and other institutions. Over the MTEF period ahead, the declining share of state debt cost continues to contribute to real growth in resources for improved and expanded public service delivery.

**Table 5.2 Consolidated government expenditure by economic classification, 2005/06 – 2009/10**

	2005/06	2006/07	2007/08	2008/09	2009/10	Average annual growth
	Outcome	Revised	Medium-term estimates			2006/07 – 2009/10
<b>R billion</b>						
<b>Current payments</b>	<b>283,7</b>	<b>309,0</b>	<b>341,0</b>	<b>367,4</b>	<b>394,9</b>	<b>8,5%</b>
Compensation of employees	153,9	170,9	191,1	205,4	225,1	9,6%
Goods and services	74,3	82,0	92,4	104,0	113,2	11,3%
Interest and rent on land	55,5	56,1	57,5	58,0	56,6	0,3%
State debt cost	50,9	52,6	53,8	54,1	52,4	-0,1%
<b>Transfers and subsidies</b>	<b>150,0</b>	<b>179,0</b>	<b>204,4</b>	<b>229,0</b>	<b>248,9</b>	<b>11,6%</b>
Municipalities	21,8	30,8	38,7	47,6	51,9	19,0%
Departmental agencies and accounts	20,2	24,0	26,1	26,8	28,6	6,1%
Universities and technikons	10,7	11,7	12,8	14,0	15,3	9,3%
Public corporations and private enterprises	17,7	20,6	23,6	25,9	29,5	12,8%
Foreign governments & international organisations	0,8	0,9	1,2	1,4	1,5	16,3%
Non-profit institutions	6,9	8,2	9,5	11,1	12,1	13,6%
Households	71,9	82,8	92,5	102,3	110,1	9,9%
<b>Payments for capital assets</b>	<b>26,0</b>	<b>30,8</b>	<b>37,8</b>	<b>42,2</b>	<b>50,6</b>	<b>18,0%</b>
Buildings and other capital assets	18,0	23,0	30,0	33,2	39,8	20,1%
Machinery and equipment	8,0	7,8	7,8	9,0	10,7	11,2%
<b>Total</b>	<b>459,7</b>	<b>518,8</b>	<b>583,2</b>	<b>638,6</b>	<b>694,3</b>	<b>10,2%</b>
Contingency reserve	–	–	2,2	6,0	10,0	
<b>Consolidated expenditure</b>	<b>459,7</b>	<b>518,8</b>	<b>585,4</b>	<b>644,6</b>	<b>704,3</b>	<b>10,7%</b>