
5. THE MEDIUM TERM EXPENDITURE FRAMEWORK

MEDIUM TERM BUDGET PLANNING

The Medium Term Expenditure Framework (MTEF) sets out three-year spending plans of the national and provincial governments. It aims to ensure that budgets reflect Government's social and economic priorities and give substance to Government's reconstruction and development commitments. The MTEF is one of the most important reforms of the budgetary process this Government has introduced.

Benefits of the MTEF The benefits of the medium term expenditure framework are:

- ◆ allocation of resources to priority services;
- ◆ more efficient planning and management;
- ◆ a framework within which policy proposals can be assessed;
- ◆ more transparency in government;
- ◆ a reduction in roll-overs; and
- ◆ a clear demonstration of how fiscal targets will be met.

Transformation and reprioritisation Medium term planning is essential for the transformation of South African society. Transformation requires the reprioritisation of resources in favour of the previously disadvantaged, providing access to basic services where it was not provided before. The Reconstruction and Development Fund was created in 1994/95 to promote reprioritisation. RDP programmes have since been fully integrated into the budgets of provinces and national departments. The MTEF supports this ongoing reprioritisation while providing stability and certainty within the budget process.

Political choices Because resources are limited, Government has to make choices about the relative priorities of different services. These are political and social choices. In the past, the budgetary process was largely technical, giving political office bearers insufficient opportunity to shape spending plans. The MTEF changes this. It articulates choices systematically and comprehensively by linking the

amount of funds spent on a service with the quality and quantity of the service provided. Government is able to assess the costs and benefits of competing priorities and policies. The MTEF enhances the transparency of the budget process and budget documentation so that policy goals and resource allocation are clearly set out. In this way it empowers Government to determine priorities and deliver change.

Efficiency improvements

Improved efficiency is fundamental to the delivery of more and better services to South African society. Government will not have transformed South Africa until it has delivered better housing, sound education, basic health care, a welfare support network for those who have no other means of support, proper roads to underpin the economy and effective protection against crime. To achieve this, substantial efficiency improvements in service delivery are required. The MTEF provides an initial analysis of the efficiency of service delivery and indicates areas which demand more attention. By linking inputs to outputs, the MTEF makes it the responsibility of both national and provincial departments to demonstrate the efficiency with which South Africa's scarce resources are employed.

Rolling budgets

The MTEF initiates a process of rolling three-year budgets. The projections published in this year's Budget Review will be revised in the course of 1998 after taking into account new information and policy priorities. This year's three-year allocations will be the starting point for that process, and departments will therefore have agreed spending trajectories within which to plan. Future policy proposals will need to be budgeted for within the resource envelopes implied by the MTEF. Enabling departments to enter into forward commitments without committing the entire amount in the first year of a proposed project should reduce the need to carry unspent balances from one year to the next.

Adherence to budgets

Once Parliament has voted on the budget allocations for the year ahead, they become law and it becomes the responsibility of the Accounting Officers, appointed by political office-bearers, to ensure that the budgets are adhered to. Divergence from the agreed allocations is both illegal and tantamount to flouting the democratic decision-making process.

Only Parliament has the power to agree to additional spending. This principle will be enforced by the proposed Treasury Control Bill to be introduced in Parliament this year, which will replace the ten Exchequer Acts that govern provincial and national financial management.

Departments will be expected in future to frame their policy proposals within their three-year allocations and requests for additional funds will be deferred and considered together in the subsequent budget process so that a comprehensive and informed assessment of priorities can take place.

Intergovernmental financial relations

The 1997/98 fiscal year has seen the introduction of the intergovernmental financial system prescribed by the new Constitution. Each sphere of government is responsible for drawing up a budget which reflects its priorities and which comes within the overall budgetary envelope. The tool for implementing and coordinating the new intergovernmental financial system is the MTEF. It provides both an analytical and operational framework for the new financial system and facilitates coordination and communication between the stakeholders.

MTEF SECTORAL TEAMS

Sectoral teams were established at the MTEF conference in August 1997 and formed the basis for the cooperative planning and policy analysis of the MTEF process. The teams focused on six expenditure areas: education, health, welfare, criminal justice, defence and personnel management. The aims of the MTEF sectoral teams were to:

- ◆ analyse the budget submissions to improve understanding of the implications for services of the proposed budgets;
- ◆ develop a simple model of spending, linking expenditure, unit costs and outputs;
- ◆ produce a menu of policy choices and an understanding of the implications for service provision of increases or decreases in budget allocations;
- ◆ make recommendations on the programme structure of the vote in question; and
- ◆ in the case of health, education and welfare, look into the possibility of, and reach agreement on, the amount and structure of conditional grants.

MTEF process

The MTEF process began in May 1997 when Cabinet adopted a set of “indicative allocations” for the nine provinces and national government. The allocations were based on the macroeconomic projections made at that time, together with a proposed revenue sharing model, drawing on recommendations from the Financial and Fiscal Commission. A reserve was set aside at the beginning of the process to enable Government to meet contingencies and specific policy priorities without compromising the proposed budgets of other services. The provincial and national departments compiled draft MTEFs consisting of three-year costings of their policies and programmes. These spending proposals were put to the Minister of Finance and Cabinet for consideration. Through the prioritisation of programmes, these bids for funds were brought within the overall budget constraint before compiling the final MTEF.

MTEF sectoral teams

Six MTEF sectoral teams brought national and provincial officials together to examine expenditure options and policy implications. The analysis produced by these teams informed the MTEF submissions to Cabinet. By providing an assessment of the implications of the proposed budgets, Cabinet was empowered to make informed decisions about the allocation of resources and was able to ensure that resources were directed at the identified priorities.

Several high priority initiatives were identified in finalising the budgets. Funds were then directed at these priority commitments. For example:

- ◆ R200 million for the improvement of financial management and quality enhancement in provincial education departments, increasing to R600 million by 2000/01;
- ◆ R2 800 million to be transferred to the provinces in recognition of the need to support the transformation of education, health and welfare services; a further R2 600 million is available in 1999/00 and R2 400 million in

2000/01; together with the education funds, this represents an additional R3 000 million for the provinces in each of the next three years;

- ◆ R500 million for labour-based poverty relief programmes and non-governmental organisations in 1998/99;
- ◆ R100 million for the hospital rehabilitation programme, increasing to R500 million by 2000/01;
- ◆ R300 million to be dedicated to the integrated projects of the criminal justice system for each year of the MTEF;
- ◆ a further R100 million to be used to upgrade the social security information systems; and
- ◆ a R300 million allocation for additional investment in South Africa's infrastructure, increasing to R800 million in 2000/01.

By targeting these programmes Government demonstrates its commitment to the reconstruction and development of South Africa. These programmes address the challenges facing the provision of basic services in South Africa: the lack of financial and personnel management in the education sector; improving the welfare systems; creating jobs for the poor; and rehabilitating hospitals to ensure the effective and efficient delivery of health services to all. These reflect the priority Government attaches to ensuring that everyone has access to basic services.

Putting children first The MTEF also reflects the priority Government accords to children's needs - national and provincial budgets reflect that:

- ◆ free health care is provided to pregnant women and children under six years;
- ◆ the primary school nutrition programme, which reaches an estimated 4,9 million children and aims to improve education quality by enhancing learning capacities in primary school;
- ◆ a child support grant is to be introduced, refocusing social security in favour of the needs of poor children; and
- ◆ a national early childhood development pilot project has been launched as a first step towards implementing a compulsory reception year throughout South Africa.

Focus on gender The Department of Finance has been part of a pilot project which aims to integrate gender analysis into the budgetary process. This project builds on the work that has already been done by the two Women's Budget Project reports. The Department of Finance has incorporated some of this analysis into this Budget Review. This has involved cooperation with Central Statistics and several other departments. Government envisages that the data and analysis that has been collated for the purposes of this publication will contribute to a wider and more systematic, gender disaggregated, data collection and analysis process.

The 1998 MTEF process

The 1998 MTEF will build on the co-operative process that has been established between the national and provincial line departments and treasuries, the Departments of Finance and State Expenditure and the Financial and Fiscal Commission. Valuable contributions were also made by the NEDLAC fiscal and monetary chamber in the areas of health and education. The Financial and Fiscal Commission, in conjunction with the United Nations Development Programme (UNDP) and the United Nations International Children's Fund (UNICEF), published a report on *Public Expenditure on Basic Social Services* earlier this year which will make a significant contribution to the 1998 MTEF process. This communication and cooperation between the different departments, sectors and institutions is fundamental to the operation of the new intergovernmental system and the spirit of cooperative government.

BUDGET REFORM

The introduction of the Medium Term Expenditure Framework is a cornerstone of a broader process of budget reform in which Government is engaged.

Challenges

Government's budget reform agenda must address the challenges of:

- ◆ a decentralised fiscal framework, where 60 per cent of public spending occurs in the provinces, within a policy framework determined in part by national government;
- ◆ the translation of policy goals into delivery of public services;
- ◆ the need to make choices between priorities so that resources are used to maximise Government's reconstruction and development aims;
- ◆ the need for greater transparency and public understanding of the nation's budget;
- ◆ the quest for greater efficiency in the management of public resources to deliver services more effectively and fairly; and
- ◆ enhancing the partnership between government and the private sector to improve service delivery and quality.

Budget Reform is an ongoing process which must reach into all levels of the public service to improve management, budgeting and service delivery.

Budget Reform White Paper

Government will publish a White Paper on Budget Reform later this year. The conceptual foundations of the proposals will be:

- ◆ greater devolution of decision-making, empowering departments to allocate resources and manage their personnel and other inputs to improve services;
- ◆ improved accountability, through greater transparency, an improved link between inputs and outputs, clearer roles for accounting officers, and service delivery targets;

- ◆ tougher enforcement of controls, including improved financial accounting systems; and
- ◆ more rapid audit and tougher penalties for overspending or inappropriate use of funds.

Improvements in conditions of service

One of the major reform initiatives, brought about and fostered through the MTEF process has focused on the management and financial aspects of personnel. Improved human resource management is an important mechanism to improve the delivery of services. Currently, managers have little flexibility over personnel, as key factors such as wage rates and promotions are largely determined by rules over which they have little control.

Personnel costs are by far the largest single item of government spending, accounting for some 40 per cent of the total. It is therefore crucial that personnel costs are controlled. Government has decided to change the treatment of the Vote: Improvement of Conditions of Service, which is currently negotiated nationally yet has a substantial impact on provincial expenditure, so that it becomes part of departmental and provincial budgets. This decentralisation will occur in the third year of the current MTEF (2000/01) to ensure that there is sufficient capacity within departments and provinces to participate meaningfully in the wage bargaining process.

Decentralisation of the improvements vote will improve the transparency of the three year budgets and will give public service managers an incentive to take greater responsibility for the control of personnel costs.

Financial management capacity

Budget reform must be accompanied by significant improvements in financial management capacity. The MTEF published today sets aside R100 million for 1998/99 to invest in financial management capacity in national and provincial governments. The introduction of greater accountability and tougher penalties for mismanagement will encourage greater demand for financial management skills.

THE CONSOLIDATED MTEF

Total spending

Consolidated national and provincial spending in 1997/98 is estimated at R196,3 billion. Of this, approximately R94,0 billion was provincial expenditure; the remainder was spent by national government or on behalf of national government. Total spending in 1997/98 is estimated to have increased by some 7,5 per cent compared to 1996/97. This relatively moderate increase follows an 18,3 per cent increase in spending in 1996/97, in part because of the rolling forward of unspent balances from 1995/96 and significant salary improvements.

Spending trends Spending is projected to decline as a share of national income from 32,9 per cent of GDP in 1996/97 to 29,6 per cent in 2000/01. However, the real level of resources going into public services and the real level of services are increasing. There has been rapid growth in spending in recent years, and the rate of growth is expected to be more moderate in the immediate future. But over the three years of the MTEF, expenditure is expected to grow by 7¼ per cent in real terms. With continued

reprioritisation between and within votes, and improved efficiency Government will be able to meet its reconstruction and development commitments within the overall spending framework.

Table 5.1 Consolidated National and Provincial Spending: 1995/96 to 2000/01

R billion	Outcome		Preliminary	MTEF Projections		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Total spending	154,4	182,7	196,3	205,2	219,8	239,6
- as % of GDP	31,1%	32,9%	32,0%	30,7%	29,9%	29,6%
- % growth		18,3%	7,5%	4,5%	7,1%	9,0%
less debt service costs	31,3	34,3	39,6	43,0	45,3	48,1
Total non-interest spending	123,1	148,4	156,7	162,2	174,5	191,5
- as % of GDP	24,8%	26,7%	25,6%	24,2%	23,8%	23,7%
- % growth		20,5%	5,6%	3,5%	7,6%	9,7%
GDP inflation rate	8,2%	8,5%	8,5%	6,0%	5,5%	5,0%
GDP (R billion)	497,3	556,0	613,0	669,3	734,3	809,6

Source: Department of State Expenditure; Provincial Treasuries; Department of Finance calculations

The MTEF projections show consolidated non-interest expenditure stabilising at around 24 per cent of GDP. Just under 60 per cent of total non-interest spending is in the provinces.

SUMMARY OF MTEF ESTIMATES

The national Budget MTEF estimates are set out in chapter 6. Provinces are responsible for preparing their own medium term spending plans, given their shares of nationally raised revenue and their own other resources. Provincial budgets are not tabled until after the national budget, and hence only preliminary projections of provincial spending are available. Based on these preliminary projections, the tables below set out functional and economic breakdowns of budgets from 1995/96 to 1997/98 and for the MTEF period.

Functional breakdown of consolidated spending

Table 5.2 below sets out a functional breakdown of national and provincial budgets.

Reprioritisation

Government has made substantial progress in the reprioritisation of spending towards social services and crime prevention activities. Social services budgets have increased significantly from R73,9 billion in 1995/96 to R88,6 billion in 1997/98. Budgeted spending on police, prisons and justice has similarly increased over this period.

Table 5.2 Consolidated national and provincial expenditure: functional breakdown:1995/96 to 2000/01

R billions	Budgets			MTEF projections			Average real growth for MTEF
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	
Protection services:	25,1	28,1	29,6	33,0	35,2	37,8	2,8%
Defence	11,6	11,8	10,7	11,0	11,6	12,3	-0,8%
Justice	1,6	1,7	2,0	2,5	2,7	3,0	9,5%
Police	9,3	11,4	13,1	14,1	15,1	16,0	1,5%
Prisons	2,7	3,1	3,9	5,4	5,8	6,4	12,3%
Social services:	73,9	81,4	88,6	102,1	107,1	114,4	3,2%
Education	34,6	39,2	40,3	46,8	49,2	52,2	3,4%
Health	16,1	18,5	20,2	25,1	26,4	28,1	5,8%
Social security and welfare	15,2	16,4	18,4	19,8	20,7	22,2	0,9%
Housing	3,0	1,6	4,2	3,9	4,3	4,3	-3,9%
Other	5,1	5,7	5,5	6,5	6,5	7,5	5,0%
Economic services:	17,5	19,5	18,9	17,1	18,6	20,6	-2,5%
Water schemes, related services	1,4	2,2	1,9	1,9	2,0	2,3	1,2%
Fuel and energy	0,2	0,2	0,2	0,1	0,1	0,1	-9,9%
Transport, communication	7,3	7,7	7,3	6,5	7,0	7,7	-3,5%
Agriculture, forestry, fishing	3,5	4,4	4,5	4,3	4,5	4,9	-2,3%
Mining	0,2	0,3	0,3	0,3	0,3	0,3	-1,4%
Manufacturing	0,8	1,0	1,1	0,6	0,6	0,6	-20,6%
Regional development	0,9	0,7	0,9	0,7	0,7	0,7	-10,2%
Other	3,3	3,2	2,8	2,6	3,2	3,8	4,7%
General admin, other	10,8	13,5	13,2	9,0	10,7	11,7	-9,0%
Interest	29,5	34,6	38,6	43,0	45,3	48,1	2,0%
Reserve	1,3	0,5	1,3	1,0	3,0	7,0	
Total Budget Expenditure	158,1	177,6	190,2	205,2	219,8	239,6	2,4%

Source: Central Statistics ; Department of Finance projections

1995/96 to 1997/98

These increased budgets were funded to a large extent through substantial savings in the defence budget, which has been reduced from R11,6 billion in 1995/96 to R10,7 billion in 1997/98. Spending on economic services and general administrative functions has also declined over this period, although to a lesser extent.

1997/98 to 2000/01

Reprioritisation of budgets will continue over the period of the MTEF. Table 5.2 above sets out the projected budgets (in nominal terms) for the main functions, together with the average annual real growth rate over the MTEF

period. Spending on social services is projected to increase at an average of 3,2 per cent a year in real terms, with spending in health increasing by 5,8 per cent and education by 3,4 per cent a year. Government is therefore giving substance to its commitment to provide basic services for all.

New priorities

The safety of South Africans remains a priority for Government. Spending on prisons increases by 12,3 per cent per annum over the three years and on justice by 9,5 per cent a year. Economic services, general administrative functions and to a lesser extent defence, decline over this period. This leaves less room for shifting funds between budgets. Increased levels of service provision can therefore no longer be achieved only through reprioritisation between votes, but will depend on reprioritisation and efficiency savings within votes.

Economic breakdown of consolidated spending

Table 5.3 below sets out an projected economic breakdown of consolidated national and provincial budgets.

Capital spending

Investment in infrastructure, particularly addressing backlogs in previously disadvantaged areas, is a priority for Government and is crucial for the achievement of its reconstruction and development aims. As noted above, Government has committed substantial amounts to a number of infrastructure development programmes over the next three years.

The estimates in table 5.3 reflect lower capital spending to accommodate rising pressures on current spending within the provincial budgets in 1998/99 and 1999/00. Although the MTEF estimates do not show a strengthening of capital spending.

There are a number of reasons to think that the overall trend is more favourable:

- ◆ Public private partnership projects and capital programmes of parastatals are increasingly replacing the direct spending on infrastructure on budgets.
- ◆ Government has retained a reserve on the budget that will in due course be allocated to services, including some capital spending.
- ◆ There has been underspending on capital programmes in recent years. The capital budgets for the future are the result of more careful and realistic examination of budgets, and are therefore more realistic.

Over time, this improved transparency and realistic budgeting should help to protect capital spending and enable Government to give it greater priority.

Personnel spending

As the projections for investment show, Government is experiencing increasing pressure from rising personnel spending. This is a largely a result of the realignment of pay levels which have resulted in a 30 per cent increase in personnel budgets over the last two years. Personnel spending is projected to continue to increase over the period of the MTEF, but at a less rapid pace than in previous years.

Improvements in conditions of service

For the MTEF period, provisional estimates of improvements in conditions of service are included in the allocations. In 1998/99, an amount of R3 375 million has been set aside as to be voted in the Supplementary Estimate. The actual distribution will reflect the outcome of negotiations in the public sector bargaining councils. For the subsequent years, the MTEF estimates provide for improvements in conditions of service in line with projected inflation.

The management of personnel is discussed more fully in section 5.5.6 below. To the extent that personnel spending can be moderated, more funds will be released for capital investment and service delivery.

Table 5.3 Consolidated national and provincial expenditure: economic breakdown: 1995/96 to 2000/01

R billion	Budgets			MTEF projections			Average real growth for MTEF
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	
Current:	143,7	162,9	174,1	189,8	201,7	216,2	1,9%
Personnel	56,7	67,6	73,8	83,3	89,1	94,3	2,9%
Other goods and services	20,6	23,6	24,5	24,1	25,5	28,1	-0,9%
Interest	29,5	34,6	38,5	43,0	45,3	48,1	2,0%
Current transfers	23,4	24,2	24,7	24,4	25,7	27,7	-1,6%
Current transfers to local government	13,4	12,8	12,5	15,0	16,1	18,2	7,3%
Capital:	13,1	14,2	14,8	14,4	15,1	16,3	-2,1%
Acquisitions of fixed assets, stock, land	8,8	10,1	9,4	8,4	8,7	9,5	-4,8%
Capital transfers, loans, advances	0,7	0,7	1,5	1,1	1,1	1,2	-12,8%
Capital transfers to rest of government	3,5	3,4	4,0	4,9	5,4	5,7	6,8%
Reserve	1,3	0,5	1,3	1,0	3,0	7,0	
Total consolidated budget expenditure	158,1	177,6	190,2	205,2	219,8	239,6	2,4%

1. Source: Central Statistics; Department of Finance projections

Reserve

Public expenditure projections over three years are inherently more uncertain than those that extend only a year ahead. There will be changes to macroeconomic conditions and prices; there will be changes to policies; and there may be unforeseen emergencies and spending pressures. A contingency reserve is included within the spending total, but not allocated to particular programmes, to cater for these risks. The amount set aside increases from R1 billion in 1998/99 to R7 billion in 2000/01.

Conclusion

Government has made substantial progress in reprioritising funds between sectors - from defence, industrial subsidies and administrative functions, to social services and crime prevention. Capital budgets are lower, but more realistic and projected to increase. To increase spending on social services

and infrastructure will require further efficiency savings and reprioritisation within sectors.

SECTORAL REVIEWS

Drawing on the work of the MTEF sectoral teams, brief reviews follow on the challenges facing six sectors: education, health, welfare, criminal justice, defence and personnel management. The discussions include an analysis of spending trends and assessment of the critical issues, together with some remarks on the way forward for each sector.

Education

Education is a right guaranteed by the Constitution, and the foundation of South Africa's economic and social development. Sustainable growth in a competitive international environment depends on a skilled, well-educated work force.

Table 5.4 Education spending estimates and enrolment numbers

R billion	Medium Term Expenditure Framework					
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
National spending	4,165	5,319	6,098	6,498	7,268	8,005
Provincial spending	29,352	36,573	38,680	38,870	40,746	42,238
Total national and provincial spending	33,517	41,892	44,778	45,368	48,014	50,243
- per cent growth	-	25%	7%	4%	6%	5%
School enrolment estimates	-	12 048 937	12 466 100	12 859 000	13 277 800	13 728 200

Source: *Education and Manpower Development, 1996: Strauss, van der Linde, Plekker, Strauss*
Provincial and national spending estimates

Spending trends

Table 5.4 above sets out estimated total expenditure on national and provincial education. These figures differ from table 5.2 in that the figures for the past are estimated outcomes, rather than budgets, and that they concentrate on the votes of the national and provincial education departments, rather than all spending by Government on education.

Spending by education departments in 1997/98 is estimated to be R44,8 billion. The education system accommodates about 12,5 million learners, one third of the total population, and employs one in three civil servants. Although there is a sizeable and growing private school and college sector, and fees contribute to the running costs of many public schools, three quarters of education is paid for by the government. At 26,6 per cent of non-interest spending, education is the largest single component of government spending.

A marked increase in education spending occurred between 1995/96 and 1996/97. Spending is estimated to have increased by 25 per cent, with

personnel spending rising by 36 per cent. The increase in personnel was the result of:

- ◆ a 12 per cent increase in average salaries;
- ◆ a 5 per cent increase in the number of personnel; and
- ◆ major increases in “other remuneration” and severance payments (around R1 billion).

Increases of this order in a component of public spending of the size of education personnel, must inevitably lead to distortions in expenditure patterns in subsequent years. While provincial education spending increased by a further 6 per cent in 1997/98, this was taken up by a 10 per cent rise in personnel spending. As a consequence, non-personnel expenditure declined significantly in absolute terms in 1997/98.

Education spending is projected to increase at a rate of between 4 and 6 per cent a year over the MTEF period, broadly in line with anticipated inflation.

The increase in education spending over the next three years is however predominantly in the national education vote - that is, university and technikon funding. The national vote increases by 7 per cent in 1998/99, followed by further increases of 10 per cent and 7 per cent in the following two years. The increased spending on higher and tertiary education reflects the improved access to and rising demand for higher education. Because of the very substantial increases which have occurred in recent years, provincial education spending increases further by a more modest average of 3 per cent for the three MTEF years.

PROGRESSIVE EDUCATION POLICIES

Education policies are designed to redress the inheritance of race-based inequality in education provision, to build a new and unified national system based on equity, redress, a progressive increase in quality, relevance to the country's agenda for development in the 21st century, and improved management and governance.

Policies and programmes which address educational rights, redress and equity include adult basic education and training, education of learners with special needs, the norms and standards for schools funding, and redress initiatives flowing from the schools register of needs. Early childhood development is also an important element in achieving educational equity. Government conducted an audit in 1997 of the distribution of early childhood programmes offered and institutions and organisations involved. A national pilot project has also been launched and will target 70 000 of South Africa's most disadvantaged learners. An agreement has been reached with the European community to provide further support to this project. This represents the first step towards implementing a compulsory reception year throughout South Africa.

Policies and programmes aimed at improving management and governance include the teaching and service campaign, preparation of guidelines for school governance, and education management development programmes. A three year campaign, aimed at promoting a culture of learning, teaching and service at all learning institutions, was launched by the President in February 1997. The campaign addresses issues of discipline, application, involvement of parents and community support of schools, crime prevention in education institutions, and community ownership of the education process through partnerships with the provincial departments of education.

Programmes focused on quality improvements include Curriculum 2005, in-service education of teachers, and a science, technology, engineering and mathematics project.

Challenges to the system: funding

Within the overall education funding constraint, there remain considerable inequalities in the distribution of funding between provinces and institutions. This is being addressed through the introduction of an equitable revenue sharing formula for provincial funding, discussed in Chapter 4.

Government is addressing inequities in funding between the various educational institutions within the provinces. Public schools range from historically well-resourced suburban institutions to sparsely equipped and overcrowded rural and township classes. Although provincial departments do not meet all the running costs of historically privileged schools, they nonetheless account for disproportionately high spending per learner. Government is examining more equitable policies for subsidising private schools and financing colleges, specialised schools and early childhood learning. A framework to govern school fees has been introduced, with the aim that suburban schools carry some of the costs currently met by the taxpayer, while at the same time ensuring that fees may not be set at unaffordable levels.

Administrative capacity

The delivery of effective and efficient education has been delayed by a lack of administrative capacity. Progress is being made in provincial education departments on the consolidation of management systems relating to information, personnel and finance.

The National Department of Education has been allocated R200 million in 1998/99 for quality improvements in the delivery of education and to address the problem of financial management in the provinces. These funds will contribute to the establishment of an Education Management Development Institute which will strengthen school administration. Other training programmes, quality indicators and assessment tools are being developed with the aim of improving the quality of education provided in South Africa. The funds will also contribute to the introduction of Curriculum 2005 in schools.

Personnel management and expenditure

The biggest challenge identified by the education sectoral team is in the provisioning and funding of personnel. As personnel expenditure comes to over 90 per cent of provincial education spending, the achievement of equity in funding is inextricably linked to staff levels in schools. Redeployment of teachers has proved difficult to implement. Agreements reached in the Education Labour Relations Council had significant financial implications and have stretched the management capacity of provincial departments. Enrolment growth, the need to address backlogs in facilities and improving teacher qualifications have contributed to sharp increases in overall education spending. It is important that quality improvements should not be threatened by excessive personnel costs.

Supplementary allocation

Government has identified education as one of its top priorities. Taking into account the findings of the sectoral review, part of the supplementary allocations to provincial governments for the MTEF period will be distributed between the provinces by means of the education share of the equitable shares formula. Government envisages that much of these funds will go to meeting the shortfalls in provincial education budgets, and seeking long-term solutions in the form of financial and personnel management systems and quality improvements through the introduction of policies such as Curriculum 2005.

- Demographics** In planning infrastructure and the future provision of education services Government also takes account of South Africa's demographic transition. The size of the school-age population has reached its peak and is now declining. There are also significant shifts of learners, from rural to urban areas, from townships to suburban schools and from informal settlements into townships. The proportion of learners in primary schools is steadily falling, while enrolment in secondary schools and demand for tertiary education opportunities must be expected to grow for the foreseeable future.
- Higher education** Universities and technikons are funded in terms of an agreed subsidy formula, based on student numbers, enrolment growth, research outputs and a range of related cost parameters. This is the largest component on the budget of the National Department of Education, and contributes the bulk of the public funding received by these institutions. The MTEF will provide universities and technikons with greater certainty in their budgets.
- New framework for higher education** Following recommendations in the report of the Commission into Higher Education, a new public funding framework is envisaged, intended to create more equitable student access, improved quality of teaching and research, increased student progression and graduation rates, and greater responsiveness to social and economic needs. It will have the following main elements: a simplified mechanism for allocating general purpose, block funding to institutions on a rolling three year basis, and the provision of earmarked funds to achieve specific purposes, including targeted redress of inequities in access and capacity. It is envisaged that earmarked funding will increase substantially at the expense of formula funding. This will enable funds to be allocated according to needs and identified purposes, rather than on the grounds of student enrolment numbers only.

Health

Table 5.5 Health spending estimates

R billion	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
National and provincial spending	17,066	21,159	22,504	22,792	24,500	26,059
- per cent growth rate		24%	6%	1%	7%	6%

Number of clinics built between April 1994 and September 1997: 493

Number of Academic Health Service Complexes, regional and district hospitals in April 1997: 441

Source: National Department of Health

Budget figures from Department of State Expenditure and provincial treasuries

Spending trends As in education, the main increase in health spending came in 1996/97 when spending increased by 24 per cent on the previous year, from R17,066 billion to R21,159 billion. Provincial health expenditure increased by an unprecedented 29 per cent. This was largely the result of a realignment in remuneration of health personnel. In addition, the clinic building programme, which to date has seen the building of 493 clinics, the strengthening of primary health care and the elimination of charges at clinics contributed to increasing health expenditure.

A further increase of 8 per cent in provincial health spending is expected in the current financial year, bringing estimated spending on the health sector in

1997/98 to R22,504 billion. This will increase at around 6 per cent a year for the next three years, more or less in line with inflation. Budgets that increase faster than inflation, especially in the provinces, are not affordable in view of the steep increase in health expenditure in the previous and current financial years' spending.

Primary health care

Government believes that improved quality and access to primary health care is the most effective and cost-efficient approach to addressing the health needs of all South Africans. The delivery of primary health care services is the top priority in national health policy. This approach implies a health system that is led by primary health care services, based on an integrated district health system. The district based health care system will facilitate both increased equity and efficiency in health services management, as well as increased community participation and responsiveness to the needs of patients and communities.

All South Africans have the right of access to public primary health care services on equal terms. These services are provided free of charge although there is a charge for prescribed medicines for those who can afford to pay.

The principle of equal access to primary health care services requires the equalisation of geographical access and quality of services throughout the country. Government has made significant progress. The clinic building programme has seen the building of 493 clinics since 1994, thereby increasing access to a further 5 million people. To address the problem of unequal access across the country, the Department of Health has brought in foreign doctors who work in otherwise underserved rural areas.

Government's goal is to increase the average number of publicly provided primary health care consultations per person from an estimated 1,8 visits a person a year in 1992/93 to 2,8 by the year 2000 and to 3,5 over the following five years.

Redistribution of resources

Given the budget constraint, the prioritisation of primary health care services implies a shift in resources within and between provinces from tertiary health care hospitals to district health services. This implies a rationalisation of tertiary hospital services. Progress has also been made on the redistribution of health resources between provinces.

There is also an intention to decentralise district health system to local government. A number of issues about the definition, accountability and financing of these services still have to be finalised.

Under the new Constitution, provinces are allocated an equitable share of revenue and must budget for the provision of services, such as health, themselves. National coordination and planning of health services is achieved through the Provincial Health Restructuring Committee (PHRC) and the MINMEC which meet regularly to discuss health policy issues.

Hospital rehabilitation Following a comprehensive audit of health facilities in South Africa, the national Department of Health proposes to initiate a long-term hospital rehabilitation programme. It will rehabilitate those hospitals and institutions identified in the audit as urgently requiring attention. The project will also help achieve inter- and intra-provincial equity in the quality of services provided. The programme has been allocated R100 million in 1998/99, increasing to R500 million in 2000/01.

NATIONAL HEALTH POLICIES AND PROGRAMMES

Termination of pregnancy:

With effect from February 1997, women have legal access to termination of pregnancy services. Together with other reforms, this has contributed both to reduced numbers of unsafe abortions and significant improvements in reproductive health services available to women.

Clinic upgrading and building programme:

The Government's clinic upgrading and building programme earned a nomination as one of three candidates for the national productivity award of 1997. The programme brings primary health services to communities outside a 5km radius of a clinic and also adds residential units and improved facilities to existing clinics. 493 new clinics have been built or initiated since 1994.

HIV/AIDS campaign:

To coordinate the efforts of government as a whole in reducing the incidence of HIV infection, inter-departmental and inter-Ministerial committees were established in 1997. A campaign to move beyond awareness and to change behaviour has been launched. In an effort to target children, life skills education programmes were launched in all provinces on World AIDS Day 1997 in conjunction with Education departments. 8 013 secondary school teachers received training in life skills education in 1997/98.

Tuberculosis:

One of the most important causes of death and suffering in South Africa is the high rate of tuberculosis. A strategy aimed at achieving an 85 per cent cure rate of new smear-positive patients has been introduced, requiring health staff to supervise treatment directly. Satisfactory pilot projects have been conducted in Mpumalanga and the Western Cape, but progress is regrettably slow in many provinces.

Immunisations:

In an effort to eradicate polio and reduce the transmission of measles, the Department of Health embarked on a mass immunisation campaign in 1995. National coverage in 1997 was estimated to be 80 per cent for both of these diseases.

Affordable medicines:

The enactment of the Medicines and Related Substances Control Act, the Pharmacy Act and the Medical, Dental and Supplementary Health Services Act represent significant milestones in making medicines affordable. Greater competition is now possible in the pharmaceutical industry, more extensive use of generic alternative medicines is encouraged and regulations have been passed aimed at limiting undesirable marketing and pricing practices. Medicine prescriptions for primary care purposes in the public sector are now governed by an essential drugs list and progress has been made on the lists for second and third level care.

To ensure the prioritisation of primary health care services within provinces there will need to be a redistribution of resources from tertiary care hospitals to regional and district health services.

THE CONVERSION OF HILLBROW HOSPITAL TO A COMMUNITY HEALTH CLINIC

In keeping with national health policy promoting the redistribution of health resources from the tertiary facilities to regional and district level care, the Gauteng Health Department has converted Hillbrow Academic Hospital and several smaller hospitals into community health centres.

The proximity of Hillbrow Hospital to the more modern Johannesburg General Hospital meant that it had become largely redundant. The conversion to a community health centre focused mainly on reducing the number of hospital beds in the central Wits region, resulting in an estimated recurrent saving of around R40-50 million a year. Health personnel from the hospital were redeployed to other hospitals. This served two purposes. The personnel assisted hospitals in central Johannesburg to absorb the increased clinical load which could no longer go to Hillbrow Hospital. The additional personnel also contributed to the implementation of the Department's structural transformation plan which envisages equity in staffing levels between the types of hospitals i.e. tertiary, regional and district level hospitals. This is an example of how health services can be reprioritised to ensure universal access to primary health care services.

Conditional grants

Increased primary health services within a modestly growing budget implies a reduction in expenditure on tertiary and regional hospitals. The sectoral team identified the national importance of some of the services provided in central referral hospitals and professional training centres. These include supra-regional services which are of benefit beyond a province's boundaries, highly specialised services which are concentrated mainly in the ten central hospitals and serve the whole country, and the academic teaching functions of hospitals and nursing colleges which increase the cost of providing health services. The sectoral team agreed that these services should have access to sufficient funding to provide a minimum level of service. Drawing on recommendations of the sectoral teams, Government has introduced several conditional grants in 1998/99, aimed at:

- ◆ stabilising the funding of these services so that realistic budgeting is possible;
- ◆ ensuring that services which are of benefit beyond the boundaries of a province are sufficiently funded to provide an agreed minimum level of service; and
- ◆ enabling national planning and coordination of specialised referral services, thereby contributing to the transformation of the health system.

Three conditional grants have been introduced this year:

- ◆ **the health professional training and research grant**, amounting to R1,060 billion in 1998/99, which compensates provinces for the additional costs associated with providing academic training and carrying out research;

- ◆ **the central hospital services grant**, amounting to R3,021 billion in 1998/99, which seeks to contribute to the costs incurred by provinces which provide specialised and other referral services; and
- ◆ **a redistributive grant**, amounting to R53 million in 1998/99, to facilitate the redistribution of tertiary services to those provinces where they are not currently provided.

Based on recommendations of the sectoral team, the total amount allocated to these three conditional grants is R4,134 billion in 1998/99. Further work is in progress on the design and determination of these grants for future years.

The national Budget also includes conditional grants to subsidise the construction of a new regional hospital in Umtata and the Durban Academic hospital.

Policy issues

There are several policy issues which will be more fully explored during the 1998 MTEF process. These include:

- ◆ the potential contribution of preferred provider agreements between central hospitals or provincial health departments and medical schemes or employers, as a way of securing an increased flow of revenue from insured patients to public hospitals;
- ◆ the strengthening of hospital administration and cost recovery from fee-paying patients;
- ◆ the possible introduction of social health insurance;
- ◆ the scope for improved cost-efficiency through out-sourcing of services and better procurement management;
- ◆ the contribution of savings associated with the new drugs policy;
- ◆ scope for savings through personnel management reforms, the proposed community service programme for medical trainees and improved use of part-time and contractual employees;
- ◆ further scope for partnerships with private sector health providers and medical schemes; and
- ◆ improved coordination with the Medical Services of the SANDF and public sector medical schemes.

The increasing pressure that the expanding primary health care system imposes on provincial budgets, and the need to complement primary services with well-functioning district hospitals and referral facilities, emphasise the importance of strengthening the financing and management of the hospital sector. One aspect of this process is the decentralisation of hospital management as outlined by the Hospital Strategy Project. Options for improved cost recovery from private patients, stronger financial management, partnerships with private health providers and medical schemes and reforms consistent with improving access to and quality of hospital care are currently being explored by the Department of Health.

Welfare and social security

Mission statement The mission of the national and provincial welfare departments is to serve and build a self-reliant nation in partnership with all stakeholders through an integrated social welfare system which maximises its existing potential, and which is equitable, sustainable, accessible, people-centred and developmental.

Table 5.6 Welfare spending trends

R billion	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Total national and provincial spending	13,853	15,589	17,589	18,877	19,964	21,212
- per cent growth		13%	13%	7%	6%	6%
Estimated no. of beneficiaries ¹	2 547 683	2 744 522	2 965 629	3 031 297	3 053 060	3 089 547

1. Projection based on 1997/98 beneficiary numbers;

Budget figures from Department of State Expenditure and provincial treasuries

Spending framework Spending on welfare and social security in 1997/98 is estimated at R17,589 billion. This is a 13 per cent increase in spending on the year before and follows an equally large increase in spending from 1995/96 to 1996/97. The increase is the result of improved uptake of social grants, as backlogs relating to the previous dispensation have been addressed, and an increase in the grants. Spending for the years 1998/99 to 2000/01 is projected to keep pace with inflation.

Welfare system The welfare function is made up of social security, comprising statutory grant payments in terms of several specific entitlement programmes, and welfare services, which include support for developmental partnerships between government, community organisations and the private sector, and a range of community-oriented activities of the national and provincial welfare departments.

MAIN SOCIAL GRANT TYPES

	Beneficiaries (August 1997)	Maximum value of monthly grant (August 1997)
◆ Old age pensions	1 742 253	R 470
◆ War veteran grants	11 495	R 470
◆ Disability grants	754 830	R 470
◆ Maintenance - child	222 715	R 135
◆ Maintenance - parent	177 884	R 430
◆ Foster care grants	42 917	R360
◆ Care dependant grants	3 815	R470
◆ Grant-in-aid	9 720	R 80

Social security currently accounts for the major portion of consolidated welfare spending. The Department of Welfare aims to increase the proportion of the budget going to welfare services, with particular emphasis on those activities promoting people-centred, sustainable social development.

Child maintenance grant

The current child maintenance grants go to single parents with insufficient means to support dependent children. This programme has been unfairly applied in the past, in effect excluding people from black rural areas. Extending the present maintenance grant scheme to all potential qualifying parents and children would not be affordable. Government has therefore resolved to phase out this programme and replace it with a new child support grant, to be introduced this year.

The grant of R100 per child per month will be paid to the primary caregivers of children under 7 years, subject to an agreed means test. This represents a major policy shift, signalling Government's intention to support children in poverty, particularly in rural areas, who have not benefited from maintenance grants in the past.

The introduction of the child support grant programme and phasing out of existing maintenance grants are a joint undertaking of the national and provincial welfare departments. Implementation details are currently being finalised.

Pensions

It is expected that old age pensions will require R12,0 billion by 2000/01 because of the increased take-up of grants for the elderly. These estimates do not take account of possible savings through improved system management and combating fraud.

The on-budget provision of old age pensions is unique for a country of South Africa's level of development. It has proved a very effective and efficient means of reaching the poor and supporting South African society. Pensioners frequently support children and grandchildren, particularly in rural areas, so that targeting of transfers to the elderly also effectively targets children.

Disability grants

Similarly, disability grants have grown strongly in numbers in recent years. Currently about 2 per cent of the population receive disability grants. Government recognises that the criteria of assessment for the award of the disability grants are in need of review. An investigation is underway to assess the requirements of the disabled sector and make recommendations.

Social assistance and welfare services

In keeping with Government's commitment to putting the needs of children first, social assistance and welfare services focus strongly on the transformation of the child and youth care system. These include services for abused and neglected children, probation services and diversion programmes for juvenile offenders, and community-based care for children with disabilities and HIV/AIDS orphans. Pilot programmes for unemployed women with children under the age of five have been introduced and will be replicated in all provinces.

Social development

The social development approach to the delivery of social welfare services and social security aims for coordinated, integrated and targeted poverty eradication programmes within government, while building the capacities and assets of the poor, in close partnership with organisations of civil society.

Income generating projects

The Department of Welfare has launched a new programme of support for income generating projects, aimed at women, children and youth, and drawing on funds set aside for poverty relief programmes. A two-fold strategy has been agreed between the national Department of Welfare and its provincial counterparts, drawing on the resources of some 2 000 non-governmental organisations.

Budgeting for welfare services and social security

Cabinet has approved that social security should be established as a national system, over which policy matters be agreed at the national level. However, provinces manage these services and provision is currently made for welfare spending programmes on provincial budgets.

Government recognises the importance of locating financial and managerial responsibilities together in the assignment of responsibilities for social security and welfare services. For the purposes of the 1998/99-2000/01 MTEF, it was agreed that provinces should retain full responsibility for the budgeting for welfare services and social security. The provincial equitable shares formula takes account of estimated social security commitments. There will be no provision on the national budget for these programmes.

The amalgamation of the various social grants data systems has provided a powerful management tool for ensuring that only legitimate beneficiaries receive social grants. Government has allocated R100 million for each of the next two years for the integration and upgrading of social security information systems. It is anticipated that this process will yield significant savings.

Criminal justice system

An effective criminal justice system is essential to protect the rights and freedom of individuals enshrined in the Constitution. It is also a precondition of economic growth and prosperity.

Table 5.7 Spending on Police, Justice and Correctional services: 1996/97-2000/01

R billion	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Police	9,785	10,462	12,799	13,709	14,498	15,181
Justice	1,283	1,556	2,154	2,173	2,407	2,658
Correctional services	2,599	2,854	3,580	4,493	4,934	5,397
Integrated projects of the criminal justice sector				300	300	300
Total	13,666	14,872	18 533	20,376	21,839	23,236
- per cent growth		9%	25%	12%	7%	6%

Budget figures from Department of State Expenditure

Budget allocations

Spending on Police, Justice and Correctional Services accounted for R18,533 billion of government spending in 1997/98. This was a 25 per cent increase in spending compared with 1996/97 levels, and spending will increase by a further 12 per cent in 1998/99 to R20,675 billion.

The police vote increased by 22 per cent in 1997/98, largely as a result of substantial increases in the police salary levels. Increases for the next three years will be broadly in line with inflation.

Correctional services have increased by 10 per cent and 25 per cent over the last two years. Spending will rise by a further 26 per cent in 1998/99 to address the pressure on the budget which has resulted from a rapidly rising intake of prisoners over recent years. Prisons will continue to receive substantial spending increases in 1999/00 and 2000/01 to ensure that budgets remain in line with the level of service required.

The average yearly increase in the Justice budget from 1995/96 through to 2000/01 is 13 per cent. This reflects the rapidly expanding case load faced by the courts and the need to improve the flow of cases through the justice system.

Shortcomings in the criminal justice system

One of the shortcomings of the criminal justice system has been its inability to operate as an integrated whole. This is essential if offenders and cases are to move through the system at least cost to the taxpayer. For example, the workload of the criminal courts, correctional services and welfare services (in respect of probation, rehabilitation, diversion and youth care) are driven primarily by activities of the Police.

In order to plan and coordinate the criminal justice system more effectively, several initiatives have been launched:

- ◆ the MTEF sectoral team began a process addressing the challenges and issues facing the criminal justice cluster in a coordinated and integrated manner;
- ◆ Government has dedicated R300 million for each of the following three years to initiate integrated projects of the criminal justice sector; and
- ◆ programmes such as the national crime prevention strategy have been introduced to specifically deal with problems related to the integration and communication of these three departments.

National crime prevention strategy

The national crime prevention strategy is a programme designed in part to re-engineer the criminal justice system in order to make it more effective in crime prevention. The focus is therefore more on prevention than on being reactive to crime. The strategy involves the re-engineering of the whole criminal justice system, and includes attention to the design of the human environment to enable it to enhance crime prevention, the physical design of buildings and other facilities, and the education system.

In taking forward the work of the criminal justice work team, the focus of these initiatives will fall on a limited number of key activities:

- ◆ pro-active policing which consumes about 50 per cent on the SAPS budget (R5.4 billion);
- ◆ investigations which consumes about 20 per cent of the SAPS budget (R2.2 billion);
- ◆ lower courts which hear 80 per cent of all criminal cases;

- ◆ high courts which hear 20 per cent of criminal cases; and
- ◆ secure detention, community corrections and rehabilitation which absorb approximately 77 per cent of the Correctional Services budget.

Cost saving measures Potential cost-savings measures that have been identified are:

- ◆ diversion of persons from the criminal justice system;
- ◆ improvements in court and real time management;
- ◆ better case management;
- ◆ improving the flow-through of unsentenced prisoners awaiting trial;
- ◆ community corrections;
- ◆ joint training of personnel;
- ◆ rehabilitation of offenders to combat recidivism (repeat offenders);
- ◆ integrated criminal justice management; and
- ◆ electronic monitoring of offenders.

The MTEF spending plans include several major investments in improved management and information systems, such as the SAPS automated fingerprint identification system, which will increase the effectiveness of investigations and decrease the costs and time associated with delays in investigations and trials.

Defence

Table 5.8 Trends in defence spending: 1995/96 - 2000/01

R billion	1989/90	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Personnel spending	-	4 534	5 312	5 333	5 757	5 964	6 034
Other spending	-	6 987	4 603	5 347	4 202	4 523	4 953
Total defence spending	9 937	11 521	9 915	10 680	9 959	10 487	10 987
- defence spending as per cent of GDP	4,0%	2,3%	1,8%	1,7%	1,5%	1,4%	1,4%
- personnel spending as per cent of defence spending	-	39%	54%	50%	58%	57%	55%
Personnel estimates	81 703	100 198	103 395	101 371	95 503	88 715	76 615

The reduction in defence spending in the 1990s has been possible due to the decline in domestic political and social disorder associated with the political transition and the end to regional conflicts.

Spending for the next three years will increase from R9,959 billion in 1998/99 to R10,987 billion in 2000/01. This will bring defence spending in 2000/01 to 1,4 per cent of GDP.

Despite the decline in spending, there has been an expansion in the size of the force in recent years as a result of the integration of the SADF and the former non-statutory forces. Expenditure reduction has been achieved through substantial cutbacks in defence procurement and capital spending.

The Government has undertaken a Defence Review aimed at setting strategic objectives and long-term goals for force design and transformation.

The sectoral work team addressed the issue of personnel spending, linked the overall size of the defence budget to questions of force design, and identified areas for increased cost savings and improved budgetary transparency.

Trends in Defence spending

In 1989/90 defence spending amounted to R9,937 billion, 4 per cent of GDP. Total permanent personnel (excluding national service men) numbered 75 469, accounting for 19 per cent of total budget expenditure, while operational and capital spending accounted for 37 per cent and 44 per cent of the total budget. By 1995/96 the defence budget amounted to 2,3 per cent of GDP, while personnel numbers had increased to 100 198. This meant that approximately 39 per cent of the budget was spent on personnel, leaving 61 per cent for both operational and capital spending. By 1997/98 personnel spending had increased to 50 per cent of the total defence budget.

The Defence Review proposes a reversal of this trend of increasing personnel and operating expenditure, to allow for increased capital expenditure. The Review therefore proposes that personnel levels be cut by approximately 30 000 to 70 000 by 2000/01. This would reduce personnel expenditure to 40 per cent and operating expenditure to 30 per cent of the total defence budget, allowing capital expenditure to increase to 30 per cent of the budget, a level last achieved in 1993/94.

Functions of the SANDF

The Constitution sets out the functions for which the South African National Defence Force (SANDF) may be employed. In addition to protection against military threats, these include:

- ◆ regional peace-keeping;
- ◆ land and sea border patrol;
- ◆ support to the South African Police; and
- ◆ disaster relief.

Improved budgeting

Defence has undertaken a detailed costing of its force design and operational requirements. This exercise will be repeated for the support side of the Defence Force, recognising that significant cost savings could be achieved on these functions. As highlighted by the Auditor General, more efficient inventory control could also play a part in achieving savings and cost-effective use of resources.

Implications of MTEF allocation

The MTEF allocations to the SANDF will stabilise and bring greater certainty to defence spending. Once the envisaged personnel restructuring has been undertaken, a phased enhancement of equipment and capital resources of the armed forces will be able to be accommodated within the expenditure envelope.

Personnel management

The reprioritisation of budgets requires the reallocation of personnel. Rigidities and inefficiencies in personnel management practices represent a potential obstacle to reprioritisation of the budget and the transformation of the public service.

Table 5.9 Trends in personnel budgets

	1996/97	1997/98	1998/99	1999/00	2000/01
National personnel budgets			26,1	28,8	31,0
Provincial personnel budgets			57,2	60,3	63,3
Total personnel spending	67,6	73,8	83,3	89,1	94,3
- nominal per cent growth	19,2%	9,1%	12,9%	6,9%	5,8%
- real per cent growth	9,8%	0,6%	6,5%	1,4%	0,8%
- per cent of total non-interest spending	45,6%	47,1%	51,4%	51,0%	49,2%

Trends in personnel spending

Over the past five years, spending on wages and salaries has risen from 42 per cent of non-interest spending to close to 50 per cent in 1997/98. International comparisons suggest that government expenditure on wages is a substantially higher proportion of the budget than other middle-income economies.

Given that such a large share of public spending is absorbed by personnel costs, it is essential that public sector pay should be well-managed and kept under central control. Within the total affordable level of spending, increases in salaries and personnel numbers reduce the funds available to invest in infrastructure and improve service levels.

The budget projections indicate an increase in the real wage bill of 6,5 per cent in 1998/99, followed by real reductions in the total wage bill in the subsequent two years. Over the three years as a whole, the real wage bill is expected to increase by 4,2 per cent, and to decline as a share of total spending from 51,4 per cent to 49,2 per cent.

Personnel management vision

Personnel management includes not only administration but the long-term management of human resources and investment in people. Within the public service, greater attention needs to be given to resource planning, career management and performance evaluation.

Government is increasingly moving away from central regulation and control of personnel policies. New legislation is being introduced which accepts the increasing need to devolve greater autonomy and responsibility for the control and management of personnel resources from the centre to line departments, in line with overall budgetary requirements. This will enable agencies to allocate resources more efficiently and flexibly, to respond rapidly to the needs of the services they deliver, and to reallocate resources from services which are being scaled down to the nation's new priorities.

An efficient public service requires appropriate incentives. Government's wage policy must balance the costs of an effective, adequately skilled and motivated labour force against other demands on government. Government's objective is to ensure that public sector pay enhance efficiency and services by giving incentives for improved performance.

Public sector employment should not be seen primarily as a cost. Public services are often labour-intensive. Improvements in the quantity and quality of service delivery depend crucially on recruiting, retaining and motivating public servants and managing them to produce high quality services. Personnel management reform is therefore a fundamental prerequisite for the transformation of the public service.

Public service regulations

The Department of Public Service and Administration (DPSA) has tabled proposals for negotiation on new public service regulations. The intention is to eliminate unnecessary and inefficient regulations, simplify necessary regulation and related procedures and lower the cost of regulatory compliance.

DPSA is leading the process of modernisation of human resource management in the public service so that it can deal in an integrated way with:

- ◆ managing and rewarding good performance and dealing with poor performance across the public service; and
- ◆ selection, motivation and development of people.

This represents a radical overhaul of the personnel management system. It will empower political and administrative heads of departments to make decisions about the organisation and staffing of their organisations, within their total budget. It will give them more flexibility to allocate resources to where they are needed.

Improving budgeting for personnel

Budgeting for personnel costs has been greatly improved by the completion of the PERSAL system, which now covers all national and provincial government employees. This provides a comprehensive data source to enable the government to model the effects on individuals, particular departments and provinces, and the public service as a whole, of alternative public sector pay systems and rates.

In the past, personnel budgets drawn up by departments and provinces have been framed on the assumption of constant wage rates. The cost of pay increases has been carried on a separate vote, Improvement of Conditions of Service, which has been allocated to departments during the course of the financial year.

This system creates a number of problems. It does not sufficiently involve national and provincial service providers in judgements about the level of pay increases that are needed to recruit, retain and motivate high quality staff. It disempowers managers from taking responsibility for their personnel budget and the trade-off between their personnel and other expenditure. It makes it difficult to compare medium term budget projections between different services, since non-pay inflation must be accommodated within budgets, but personnel cost inflation is handled separately.

From 2000/01, the costs of improvements in conditions of service will be vested on the individual votes of departments and provinces. Central bargaining will continue, in keeping with the framework established by the Labour Relations Act, but the Government team will be mandated by budget holders who will take cognisance of the effect on their services of the pay increases that are proposed. Between now and 2000/01, the Department of

Public Service and Administration will work with departments and provinces to ensure that they have the capacity to take on this responsibility.

CONCLUSION

The Medium Term Expenditure Framework initiated a process for transforming the annual, incremental and *ad hoc* budgetary process to a system of transparent, effective and efficient multiyear budgets. By linking inputs to outputs the MTEF creates an environment conducive to more effective policy planning. This ensures that Government's policy priorities are met within the country's overall financial framework.

Moving to a new system of budgeting and public finance management brings with it an inevitable degree of uncertainty and confusion. A successful transition to this new system will require the focus, time and support of all spending agencies and spheres of government. The MTEF will be developed and extended over time to ensure that Government has the necessary tools to deliver its policy priorities effectively.

The 1999 MTEF (1999/00 - 2001/02) will build on the baselines provided by this year's MTEF. Any adjustments to priorities and programmes which are agreed by Government will be reflected as changes from the base, thereby ensuring that the trade-offs between programmes, additional resource requirements and efficiency savings become an explicit part of the budget process. In future, inputs will be evaluated against outputs delivered. The MTEF will facilitate this process and ensure that policies are developed within the available resources. The introduction of the MTEF represents a significant improvement in South Africa's budget system. It ensures transparency, stability and links spending plans to Government's political priorities. It is the tool by which Government delivers its reconstruction and development objectives.