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# 5: MEDIUM TERM EXPENDITURE ESTIMATES

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## BUDGET REFORM

### Objectives of budget reform

The Budget allocates funds to the departments and agencies responsible for expenditure programmes consistent with the policies and priorities of Government. Since 1994 a thorough overhaul of planning and budgeting systems has been effected. The budget reform programme seeks to enhance the efficiency and effectiveness of government's allocation of resources to achieve the goals of reconstruction and development within a sustainable macroeconomic and fiscal framework.

### Budget reform challenges

The budget reform process must deal in practical ways with the challenges of South Africa's fiscal environment:

- ◆ A co-operative governance framework, in which key policies and their implementation are managed jointly by national, provincial and local governments.
- ◆ The translation of agreed policy goals into delivery of public services.
- ◆ The need to make choices so that resources are used to maximise Government's reconstruction and development aims, meet basic needs and ensure redistribution.
- ◆ The promotion of democratic and accountable government through greater transparency and understanding of the nation's budget.
- ◆ Greater effectiveness in the management of public resources to deliver services more efficiently and fairly.

### Strengthening links between spending and service delivery

During the course of 1999 proposals for taking the budget reform process further will be published in the form of a White Paper. Building on the information currently set out in the printed *Estimate of Expenditure* and the *National Expenditure Survey* published for the first time this year, the emphasis will increasingly fall on the links between spending, service delivery and the outputs for which departments are responsible. Consistent with the broader transformation of the public service, budget reform will include greater devolution of powers in decision-making,

empowering departments to allocate resources and manage their personnel and other inputs to improve service delivery.

**Tougher expenditure controls**

Budget reform must be accompanied by a clear role for accounting officers in linking responsibilities for resources to identified services, outputs and outcomes. The Public Financial Management Bill currently before Parliament includes tougher enforcement of expenditure controls, including improved financial accounting systems, more rapid audit and stiffer penalties for over-spending or inappropriate use of funds.

**Inter-dependent reforms**

These are inter-dependent reforms, and the attainment of the objectives they embody largely depends on the success achieved in implementing each component of the reform process. For instance, if decision-makers are to be held accountable for their actions, management responsibility must be devolved to them. By the same token, devolution of decision-making requires a framework of accountability, and information systems to support decision-making.

**The medium term expenditure framework**

**Three year spending plans**

Three-year rolling budgets have now become a permanent feature of the budgetary process. The 1999 Budget is the second in which Government is publishing three-year spending plans for consideration by Parliament. In addition to providing a summary of the 1999/00 national budget appropriations, the printed *Estimate of Expenditure* and the *National Expenditure Survey* set out forward estimates of spending plans for 2000/01 and 2001/02. These are summarised below and changes relative to the estimates published in the 1998 Budget are indicated.

**Consolidated national and provincial expenditure**

The medium term expenditure framework includes the spending plans of provinces. It includes transfers to local government, extra-budgetary accounts and funds, universities and technikons, but does not include spending by these institutions financed from their own sources. It also excludes social security funds.

This chapter projects the consolidated national and provincial three-year spending plans, and sets out the distribution of government spending between social services, justice and protection functions and economic development programmes between 1995/96 and 2001/02.

**Guideline allocations for the 2000 Budget**

The forward estimates set out in the 1999 Budget provide the initial guideline allocations within which government departments will prepare next year's budget estimates.

**NATIONAL BUDGET EXPENDITURE**

**Total expenditure estimates**

The 1999 Budget provides for total expenditure of R216,8 billion, which is 6,1 per cent higher than the revised estimate of 1998/99 expenditure and 30,6 per cent of projected GDP. Expenditure is projected to increase to R247,3 billion in 2001/02, equivalent to 29,8 per cent of GDP.

Table 5.1 shows national budget expenditure for 1995/96 to 2001/02. The introduction of the provincial and local government equitable shares in 1998/99 is indicated, resulting in an offsetting reduction in the national

expenditure level. As noted in chapter 4, national expenditure still includes several conditional grant programmes that supplement provincial and local government budgets.

**Table 5.1 National budget expenditure 1995/96 to 2001/02**

R million	Outcomes		Estimate		Medium term estimates		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
National spending share	122 494	142 258	150 958	78 537	78 733	81 101	84 489
Donor-financed expenditure	123	269	170	651	750	750	750
Skills development levy-grant scheme	-	-	-	-	-	1 000	2 000
State debt costs	29 337	34 100	39 479	43 413	48 222	49 820	52 609
Provincial equitable shares <sup>1</sup>	-	-	-	81 537	86 302	92 071	96 822
Local government equitable share <sup>1</sup>	-	-	-	1 024	1 673	2 480	2 580
Contingency reserve	-	-	-	-	1 100	3 500	8 000
Recovery from pension funds <sup>2</sup>	- 1 023	- 335	-	- 870	-	-	-
<b>National budget expenditure</b>	<b>151 831</b>	<b>176 291</b>	<b>190 607</b>	<b>204 293</b>	<b>216 780</b>	<b>230 722</b>	<b>247 250</b>
<i>per cent of GDP</i>	30,5%	31,7%	31,4%	31,2%	30,6%	30,1%	29,8%
<i>per cent increase</i>		16,1%	8,1%	7,2%	6,1%	6,4%	7,2%
Extraordinary transfers <sup>3</sup>	3 073	-	-	-	-	-	-
<b>Total expenditure</b>	<b>154 902</b>	<b>176 291</b>	<b>190 607</b>	<b>204 293</b>	<b>216 780</b>	<b>230 722</b>	<b>247 250</b>

1. The provincial and local government equitable shares were introduced in 1998/99. The provincial share shown here includes a preliminary share of the amount available for improvements in conditions of service.

2. In keeping with actuarial advice, the employer's contribution to government pension funds has been reduced in recent years. The reduction was implemented through a recovery from pension funds in 1995/96, 1996/97 and 1998/99, prior to finalising agreement on the lower contribution in the relevant public service bargaining chambers.

3. Transfer to Reserve Bank Gold and Foreign Exchange Contingency Reserve Account.

### Growth in expenditure

National budget expenditure increased by 16,1 per cent in 1996/97, driven by an acceleration of reconstruction and development spending and strong growth in personnel spending. Expenditure growth slowed to 8,1 per cent and 7,2 per cent over the next two years, and is projected to increase by an average of 6,6 per cent over the MTEF period.

### Inclusion of donor-financed spending and the skills development programme

The budget framework includes provision for donor-financed spending of R750 million a year over the next three years and for expenditure of R1,0 billion in 2000/01 and R2,0 billion in 2001/02 through the envisaged skills development levy-grant scheme and the National Skills Fund.

### Debt service costs

Debt service costs in 1999/00 will be R4,8 billion higher than in 1998/99. The increase is a consequence of Government's continued need to borrow to finance a budget deficit, and it also reflects higher interest rates than anticipated over the past year. In addition, debt service costs as presently shown in the government accounts include the revaluation of maturing foreign debts due to exchange rate movements. As noted in chapter 3, this accounts for a projected R2,1 billion in state debt costs in 1999/00.

**Provision for contingencies**

An amount of R1,1 billion is set aside for contingencies in 1999/00. And is accordingly unallocated at this stage. The contingency reserve is R3,5 billion in 2000/01 and R8,0 billion in 2001/02.

**Changes in national budget expenditure estimates since the 1998 Budget**

**Revised macroeconomic projections**

As noted in the November 1998 Medium Term Budget Policy Statement, the budget framework has been revised since the publication of medium term projections in the March 1998 Budget. Lower economic growth than anticipated has required adjustments in the expenditure level for the next two years, partially offset by delaying the reduction in the budget deficit to 3,0 per cent of GDP to 2000/01.

The required downward adjustments in expenditure have mainly been accommodated in the national share in 1999/00.

**Table 5.2 Changes in national budget expenditure estimates: 1998 Budget to 1999 Budget**

R million	1997/98	1998/99	1999/00	2000/01	2001/02
<b>1998 Budgeted amounts</b>		<b>202 169</b>	<b>216 616</b>	<b>236 008</b>	
Lower pension contributions: National		- 264	- 276	- 288	
Provincial		- 606	- 644	- 672	
<b>1998 Budget estimates</b>	<b>189 192</b>	<b>201 299</b>	<b>215 696</b>	<b>235 048</b>	
<b>Adjustments in expenditure estimates</b>					
National spending share	1130	2 339	- 327	- 2 172	
<i>of which: conditional grants to provinces</i>		1 397	1 038	717	
Donor financed expenditure	170	651	750	750	
Skills development programme				1 000	
State debt costs	115	888	3222	1 820	
Provincial equitable shares <sup>1</sup>		116	- 19	- 2 162	
Contingency reserve		- 1 000	- 1 900	- 3 500	
Local government equitable share		-	- 643	- 62	
<b>1999 Budget estimates</b>	<b>190 607</b>	<b>204 293</b>	<b>216 780</b>	<b>230 722</b>	<b>247 250</b>

1. The provincial equitable share in 1998/99 was supplemented by R116 million more from the improvements in conditions of service vote than was anticipated at the time of the 1998 Budget.

**Adjustments to the budget estimates**

The 1999 Budget includes several additional changes relative to the 1998 medium term estimates, summarised in table 5.2.

- ◆ Adjustments have been made to national and provincial allocations for a reduction in the employers' contribution to pension funds from 17 per cent to 15 per cent, reflected in the 1998 Budget framework as a recovery from pension funds.
- ◆ Provision for debt interest costs has been increased relative to the 1998 Budget projections, reflecting higher borrowing costs and an adjustment to the 1999/00 deficit target.
- ◆ Contingency reserve allocations have been revised downwards.

- ◆ Provision is made for the introduction of a skills development levy-grant scheme in 2000/01, to be financed through a payroll-based levy on employers.
- ◆ The estimates now include projected spending to be financed through grants received in terms of international co-operation agreements.
- ◆ The local government equitable share has been reduced in 1999/00 to accommodate continued provincial expenditure on municipal functions in several towns.

### Revised estimate of expenditure in 1998/99

#### 1998 Budget estimate of expenditure

The March 1998 “first print” Estimate of Expenditure in 1998/99 amounted to R196,4 billion. At the time of the Budget, supplementary allocations of R4,7 billion were identified, including R3,4 billion for improvements in conditions of service. Total expenditure was expected to amount to R201,3 billion.

#### Additional spending and adjustments

The November 1998 Adjustments Estimate included the following additional appropriations:

- ◆ An increase in provision for state debt costs of R1,2 billion.
- ◆ R1,0 billion in unforeseen and unavoidable additional expenditure of national departments.
- ◆ R1,2 billion in additional allocations to provinces, including R200 million to supplement provision for school book supplies.
- ◆ R300 million in additional improvements in conditions of service of national and provincial government employees.
- ◆ R2,0 billion of expenditure rolled over from 1997/98.
- ◆ R651 million of spending financed by foreign grants or international co-operation agreements.

The November 1998 estimate of savings and under-spending on the national budget in 1998/99 was R2,1 billion.

#### Additional savings expected

The increase in state debt costs is expected to be R300 million less than indicated in the Adjustments Estimate, and departmental savings and under-spending are expected to be R364 million more than projected.

#### Standing appropriations

Standing appropriations, including claims on guarantees and subscriptions payments to the World Bank and International Monetary Fund, are expected to be R46 million in 1998/99.

#### Provision for additional expenditure

Table 5.3 sets out the preliminary outcome of the 1997/98 budget and a revised estimate of 1998/99 expenditure. The revised estimate makes provision for unanticipated expenditure not included in the 1998/99 Adjustments Estimate of up to R400 million, to be appropriated in terms of section 7(1)(b) the Exchequer Act in 1999/00, for the following:

- ◆ A further transfer to meet operating losses of the SA Rail Commuter Corporation.

- ◆ A possible transfer to the Free State province as part of a financial management agreement in terms of section 100(1) of the Constitution.

**Total expenditure increase of 7,2%**

Total expenditure in 1998/99 is expected to be R204,3 billion. This is an increase of 7,2 per cent over the preliminary expenditure outcome of R190,6 billion in 1997/98.

**Table 5.3 Preliminary 1997/98 expenditure outcome and 1998/99 revised estimate**

R million	1997/98		1998/99	
	Budget	Preliminary outcome	Budget	Revised estimate
<b>Printed Estimate (March)</b>	<b>184 033</b>	<b>184 033</b>	<b>196 399</b>	<b>196 399</b>
Supplementary allocations identified at time of budget	1 347	1 240	4 725	4 725
<b>Adjustments Estimate:</b>				
Approved rollovers from previous year		4 811		1 987
Change in state debt cost estimate		- 279		1 188
Additional transfers to provinces		2 080		1 200
Additional improvements in conditions of service		124		300
<b>Additional allocations to departments (net):</b>		<b>1 104</b>		<b>1 050</b>
<i>Special Defence Account</i>				398
<i>Independent Electoral Commission</i>				100
<i>SA Rail Commuter Corporation</i>				100
<i>SA Revenue Service</i>				195
<i>Water Affairs</i>				100
<i>Truth and Reconciliation Commission</i>				30
<i>Other adjustments (net)</i>				127
Projected savings and under-spending		- 3 958		- 2 120
Recovery from pension fund	- 400	-	- 870	- 870
Contingency reserve	1 466	-	1 000	-
<b>National votes and statutory amounts</b>		<b>189 155</b>		<b>203 859</b>
Standing appropriations	300	37	45	46
Donor financed spending		170		651
<b>Estimate of expenditure after adjustments</b>		<b>189 362</b>		<b>204 556</b>
<b>Further adjustments:</b>				
Change in state debt cost estimate		115		-300
Change in savings and under-spending		1 130		- 364
Expenditure to be appropriated in 1999/00				400
<b>National budget expenditure</b>	<b>186 747</b>	<b>190 607</b>	<b>201 299</b>	<b>204 293</b>
<i>per cent increase over Budget estimate</i>		2,1%		1,5%
<i>per cent increase over 1997/98</i>				7,2%

**1999 Budget estimates of expenditure****First print Estimate**

The “first print” Estimate of Expenditure for 1999/00 provides for expenditure of R213,8 billion, increasing to R234,9 billion in 2001/02.

**Improvements in conditions of service**

The national budget includes an amount of R3,0 billion reserved for improvements in conditions of service in 1999/00. Of this amount, R2,1 billion is provisionally included in the provincial equitable share of R86,3 billion shown in table 5.1. The improvements vote provides for public service salary increases of between 5,0 and 5,5 per cent in July 1999.

**Conditional grants**

As explained in chapter 4, the national budget also includes conditional grants to provinces of R8,8 billion in 1999/00, of which R5,4 billion is on the national Health vote.

Table 5.4 sets out the 1999/00 to 2001/02 “first print” estimates and additional amounts included in the medium term budget framework.

**Table 5.4 National budget medium term expenditure estimates**

R million	1999/00	2000/01	2001/02
Printed Estimate (February 1999)	213 829	224 162	234 900
Standing appropriations <sup>1</sup>	50	60	100
Supplementary allocations:			
Provision for border posts	51	50	
Poverty relief and infrastructural employment	1 000	1 200	1 500
Skills development programme		1 000	2 000
Donor financed expenditure	750	750	750
Contingency reserve	1 100	3 500	8 000
<b>Total expenditure</b>	<b>216 780</b>	<b>230 722</b>	<b>247 250</b>

*1. Claims on guarantees, subscriptions to the International Development Association and the International Bank for Reconstruction and Development and valuation payments to the International Monetary Fund.*

**Supplementary amounts**

The following supplementary amounts have been set aside for allocation to departments later in the year:

- ◆ R51 million in 1999/00 and R50 million in 2000/01 for improvement of border posts, to contribute to improved customs administration and border policing.
- ◆ R1,0 billion in 1999/00, increasing to R1,5 billion in 2001/02, for poverty relief and infrastructural employment programmes.

**Poverty relief and employment**

Poverty relief and infrastructural employment allocations will include:

- ◆ The “working for water” programme of the Department of Water Affairs and Forestry.
- ◆ Developmental welfare projects co-ordinated by the Department of Welfare.

- ◆ The community based public works programme of the Department of Public Works.
- ◆ Nutrition and health-related projects of the Department of Health.
- ◆ Investment in rural infrastructure by the Department of Agriculture.
- ◆ Support for the skills development strategy of the Department of Labour.
- ◆ Various initiatives arising from the 1998 Jobs Summit.

**Donor financed expenditure**

Total expenditure on the budget is expected to include about R750 million a year over the next three years financed through grants associated with international co-operation agreements. A further R400 million in spending by foreign donors is expected to be routed directly to projects or beneficiaries.

**Skills development levy-grant programme**

With effect from 2000/01, expenditure will include the new skills development levy-grant programme. Eighty per cent of funds collected will be channelled to sectoral education and training authorities to support industrial training schemes. Twenty per cent of receipts will accrue to the National Skills Fund for support of training for the unemployed and other special training needs. Expenditure will be recorded as a direct charge on the National Revenue Fund to the credit of the National Skills Fund and sectoral education and training authorities.

**National budget votes: medium term expenditure estimates**

**Spending by national departments**

Table 5.5 sets out national budget expenditure for 1995/96 to 2001/02, broken down by national department vote. Table 5.6 indicates changes since the 1998 Budget estimates, average growth in spending over the past three years and projected growth to 2001/02. The tables also show:

- ◆ Debt service costs, which are a direct charge to the Revenue Fund.
- ◆ The provincial and local government equitable shares introduced in 1998/99.
- ◆ Provision for contingencies and standing appropriations.

**Adjustments to departmental allocations**

Departmental allocations in 1998/99 included amounts rolled over from the previous year, allocations for improvements in conditions of service and other supplementary allocations or adjustments. For comparability with the medium term estimates for 1999/00 to 2000/01, several further adjustments are made to the 1998/99 preliminary estimates:

- ◆ Spending on capital works undertaken by the Department of Public Works is allocated to the departments on whose behalf projects are undertaken.
- ◆ Preliminary projections of savings and under-spending on each vote are taken into account.
- ◆ Projected expenditure outcomes are adjusted for the reduction in the employer's contribution to pension funds to 15 per cent.

Details of these adjustments are set out in table 3 of annexure B.



**Departmental spending growth**

Spending trends since 1995/96 reflect substantial reprioritisation on the national budget.

- ◆ Strong growth has occurred on the Constitutional Development, Housing and Water Affairs votes, reflecting key RDP housing and infrastructure investment programmes.
- ◆ Education spending has increased markedly, accommodating both improved funding of higher education and support for provincial education management.
- ◆ Expenditure on Justice and Correctional Services have increased rapidly.
- ◆ The Home Affairs budget has increased to accommodate the costs of the Independent Electoral Commission.

In addition, the Health vote increased by R5,0 billion in 1998/99 as conditional grants for central hospital and other provincial health services were shifted from the main provincial transfers on the Finance vote.

**Declines in Agriculture, Defence and Trade and Industry**

Expenditure on Agriculture, Defence and Trade and Industry declined between 1995/96 and 1998/99, reflecting the phasing down of subsidies to agriculture, curtailment of defence programmes and the phasing out of the general export incentive scheme, amongst other factors.

**Changes in the budget framework**

The expenditure proposals set out in the 1999 Budget reflect various changes since the forward estimates published in March 1998.

- ◆ The budget framework has been adjusted for lower growth in the economy, resulting in downward adjustments in most departmental allocations.
- ◆ Higher debt service costs are now anticipated, mainly accommodated by drawing on the contingency reserve.
- ◆ The local government share in 1999/00 has been reduced and a corresponding conditional grant to provinces has been included on the Constitutional Development vote for municipal services still provided by provinces.
- ◆ Increased allocations for poverty relief and employment creation have been made.

**Spending growth 1998/99 to 2001/02**

Over the next three years, expenditure trends will be more balanced, but reprioritisation will continue to favour justice and security functions and social services moderately.

**Slower growth in debt service costs**

Debt service costs are expected to grow more slowly than overall expenditure over the next three years, reflecting the outcome of Government's deficit reduction programme.

**Table 5.5 National budget expenditure: 1995/96 to 2001/02**

R million	1995/96	1996/97	1997/98	1998/99 <sup>1</sup>		1999/00	2000/01	2001/02
	Audited outturns		Estimate	Prelim. Estimate	Adjusted estimate	Medium term estimates		
President	19	27	27	32	32	33	34	36
Executive Dep President	8	19	26	48	48	36	38	38
Dep President (Minority Party)	10	7						
Parliament	281	345	332	349	349	342	377	397
Agriculture	812	794	977	738	736	658	700	720
Arts, Culture, Science & Techn.	507	533	648	834	834	845	907	958
Central Economic Adv. Serv.	6	7						
Statistics SA	81	372	175	96	96	143	203	208
Communications				863	862	779	663	547
Constitutional Development	1 189	562	1 111	2 121	2 121	1 528	956	1 048
Correctional Services	2 749	3 425	3 962	5 207	5 179	5 059	5 862	6 213
Defence	11 620	10 984	11 171	10 323	10 258	10 677	10 949	11 381
Education	4 165	5 319	5 975	6 699	6 698	7 028	7 474	7 928
Environmental Affairs & Tourism	326	356	383	406	404	469	496	661
Finance	74 024	87 654	89 431	7 272	7 262	6 175	5 770	5 606
<i>of which: SARS</i>		1 107	635	1 704	1 695	1 889	1 751	1 760
<i>Post office losses</i>		572	464					
<i>Transfers to provinces</i>	71 996	84 092	84 428					
Foreign Affairs	1 062	1 133	1 149	1 400	1 398	1 276	1 174	1 187
Health	1 291	656	512	5 537	5 536	5 940	6 243	6 379
Home Affairs	384	434	534	1 226	1 222	1 322	962	763
Housing	987	2 070	4 520	3 748	3 748	3530	3 323	3 581
Independent Complaints Direct.			14	23	23	24	25	26
Justice	1 405	1 772	2 211	2 396	2 382	2 545	2 808	2 952
Labour	504	649	633	780	775	825	867	911
Land Affairs	161	277	417	755	752	693	847	889
Minerals and Energy	743	734	825	676	675	615	572	592
Promoting the RDP	563							
Public Enterprises	22	20	44	29	29	31	14	14
Public Service and Administ.	5	45	53	40	39	53	54	56
Public Service Commission	63	23	24	28	27	51	53	54
Public Works	2 202	2 457	2 821	2 835	2 832	2 875	3 115	3 240
Govt Commun. & Information	54	58	36	60	59	49	51	52
SA Management Develop. Instit.		10	12	17	16	18	18	19
SA Police Service	9 818	11 635	12 849	13 877	13 766	14 534	15 079	15 642
Sport and Recreation	63	55	118	94	94	101	55	57
State Expenditure	991	1 134	1 066	1 171	1 170	1 181	1 282	1 340
<i>of which: Secret Services</i>	714	831	764	800	800	850	850	850
Trade and Industry	2 960	3 232	2 470	2 242	2 241	2 065	2 215	2 291
Transport	2 999	3 130	3 604	3 402	3 402	3 497	3 868	4 329
Water Affairs and Forestry	1 200	2 357	2 820	2 920	2 915	2 498	2 597	2699
Welfare	67	67	145	259	259	137	139	73
<i>Plus:</i>								
Amounts still to be allocated				639	639	1 051	1 250	1 500
Donor funded spending						750	750	750
Skills development scheme							1 000	2 000
Accounting adjustment	121	-111						
<b>Votes &amp; statutory amounts</b>	<b>123 461</b>	<b>142 242</b>	<b>151 093</b>	<b>79 143</b>	<b>78 879</b>	<b>79 433</b>	<b>82 791</b>	<b>87 139</b>
<i>Plus:</i>								
State debt costs	29 337	34 100	39 479	43 413	43 413	48 222	49 820	52 609
Provincial equitable share				81 537	80 931	86 302	92 071	96 822
Local government share				1 024	1 024	1 673	2 480	2 580
Standing appropriations	56	284	35	46	46	50	60	100
Contingency reserve						1 100	3 500	8 000
Recovery from pension fund	- 1 023	- 335		- 870				
<b>National budget expenditure</b>	<b>151 831</b>	<b>176 291</b>	<b>190 607</b>	<b>204 293</b>	<b>204 293</b>	<b>216 780</b>	<b>230 722</b>	<b>247 250</b>

Source: Auditor General; Department of State Expenditure; Department of Finance calculations

1. 1998/99 preliminary estimates are adjusted for the reduction in the employer's pension contribution, for purposes of comparison with subsequent years.

Table 5.6 National budget expenditure: changes from 1998 Budget and growth in spending

R million	1998/99 adjustments			1999/00 Changes to medium term estimates	2000/01	Average growth	
	Rollovers	Donor- financed	Other			95/96- 98/99	98/99- 00/01
President	1		-1	-1	-1	18,9%	3,4%
Executive Dep President	2	13	-1	-2	-3	79,1%	-7,7%
Dep President of the Minority Party							
Parliament	1		-3	-33	-87	7,5%	4,4%
Agriculture	15	13	-50	-68	-33	-3,2%	-0,7%
Arts, Culture, Science & Technology	54		1	63	101	18,0%	4,7%
Central Economic Advisory Service							
Statistics SA		3	-2	39	87	5,9%	29,4%
Communications	1	32	-59	-137	-228	0,0%	-14,1%
Constitutional Development	139	5	-39	596	-154	21,3%	-20,9%
Correctional Services	1	2	-122	-310	-275	23,5%	6,3%
Defence		3	288	210	-17	-4,1%	3,5%
Education	81	79	-9	-239	-530	17,2%	5,8%
Environmental Affairs and Tourism	4	4	-5	50	52	7,5%	17,8%
Finance	200	8	1 095	281	-11	-53,9%	-8,3%
<i>of which: SARS</i>			-34	78	-87		1,3%
<i>Post office losses</i>							
<i>Transfers to provinces</i>							
Foreign Affairs	47		21	40	10	9,6%	-5,3%
Health	37	148	-137	308	159	62,5%	4,8%
Home Affairs	44		87	387	96	47,1%	-14,5%
Housing	150	15	-47	-212	-322	56,0%	-1,5%
Independent Complaints Directorate	1		-6	-2	-2		4,5%
Justice		96	9	9	11	19,2%	7,4%
Labour	17	2		-196	-438	15,5%	5,5%
Land Affairs	101	56	-90	-163	-118	67,2%	5,7%
Minerals and Energy	7	21		-22	-26	-3,2%	-4,3%
Promoting the RDP				14	-2	8,6%	-20,4%
Public Enterprises				-8	-7	100,0%	12,4%
Public Service and Administration	11	2	-31	22	22	-24,2%	25,6%
Public Service Commission			-1				
Public Works	271	8	-263	-127	42	8,8%	4,6%
Govt Communication & Information	15		-3	-2	-3	3,0%	-4,4%
SA Management Develop. Instit.	1	11	-10	2	2		5,0%
SA Police Service		8	-169	27	-85	11,9%	4,4%
Sport and Recreation	11	5	-4	48	-1	14,2%	-15,7%
State Expenditure	26		-86	-83	-2	5,7%	4,6%
<i>of which: Secret Services</i>						3,8%	2,1%
Trade and Industry	527	1	-656	-317	-230	-8,9%	0,7%
Transport	81		74	-232	-153	4,3%	8,4%
Water Affairs and Forestry	62	151	115	24	-37	34,4%	-2,5%
Welfare	50	2	-188	-42	60	57,0%	-34,4%
Plus:				0	0		
Amounts still to be allocated	30		610	-249	-50		32,9%
Donor funded spending				750	750		
Skills development programme					1 000		
Accounting adjustment							
<b>National votes &amp; statut. amounts</b>	<b>1 987</b>	<b>685</b>	<b>317</b>	<b>423</b>	<b>-421</b>	<b>-13,9%</b>	<b>3,4%</b>
Plus:							
State debt costs			888	3 222	1 820	14,0%	6,6%
Provincial equitable share			116	-19	-2 162		6,2%
Local government share				-643	-62		36,1%
Standing appropriations			1			-6,5%	29,5%
Contingency reserve			-1 000	-1 900	-3 500		
Recovery from pension fund							
<b>National budget expenditure</b>	<b>1 987</b>	<b>685</b>	<b>323</b>	<b>1 084</b>	<b>-4 326</b>	<b>10,4%</b>	<b>6,6%</b>

Source: Auditor General; Department of State Expenditure; Department of Finance calculations

## Policy changes and programme allocations

### Changes in departmental allocations

In preparing the 1999 Budget, the 1998 forward estimates were the initial ‘baseline’ allocations for each department for 1999/00 and 2000/01. Preliminary allocations for the third year were based on the 2000/01 allocations, adjusted for inflation. The deliberations of the Medium Term Expenditure Committee and the Ministers’ Committee on the Budget accordingly focused on changes in departmental allocations relative to the 1998 Budget projections, taking into account shifts in policies and priorities, service delivery trends and possible savings from efficiency gains, amongst other considerations. Reprioritisation between programmes within the guideline allocation to a department remains a responsibility of the relevant Minister and head of department.

In finalising the 1999 Budget, Cabinet approved various changes to the baseline departmental allocations. Relevant policy developments, changes in programme allocations and reprioritisation within departmental votes are discussed in the *National Expenditure Survey*. Notable adjustments to programme allocations include the following:

- ◆ R45 million more a year for Arts, Culture, Science and Technology, mainly for support for innovative applied scientific research projects.
- ◆ An additional R230 million over three years for Statistics SA to prepare for the 2001 census.
- ◆ An additional R50 million a year for Environmental Affairs and Tourism to support international tourism marketing, in partnership with the private sector.
- ◆ R157 million a year more on the national Health vote, mainly to expand the immunisation programme, support vaccine production and to supplement Government’s HIV action plan.
- ◆ An additional R250 million for the Independent Electoral Commission on the Home Affairs vote.
- ◆ An addition of nearly R300 million to the Special Defence Account.
- ◆ An increase of R120 million a year in the technology enhancement programme of the Trade and Industry vote.

## Spending reductions

Reduced allocations include:

- ◆ Human resource development on the Labour vote, in view of the introduction in 2000/01 of the separate skills development levy-grant financing arrangement.
- ◆ Investment support and trade facilitation on the Trade and Industries vote, in view of the rationalisation of export incentives and slower than anticipated participation in regional industrial development initiatives.
- ◆ Phasing out of the subsidisation of postal services on the Communications vote.
- ◆ Provision for land reform implementation on the Land Affairs vote in 1999/00 and 2000/01, as the full momentum of spending on these initiatives is only expected to be reached in the following year.

- ◆ Capital works on the Correctional Services vote, taking into account the implications for the budget of asset procurement and operating partnerships envisaged for the construction of several new prisons by the private sector.

### National government expenditure trends

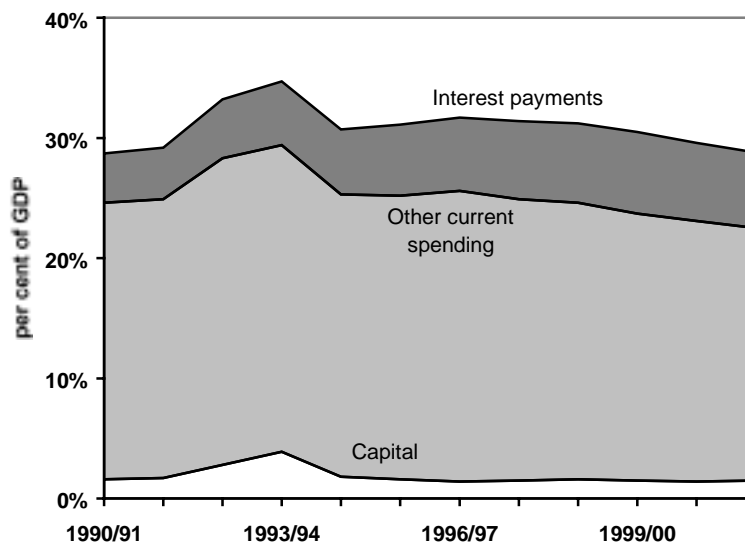
#### Composition of national government expenditure

In addition to national budget expenditure, Government has from time to time met off-budget liabilities through extraordinary payments. Transfers of government stock to the Gold and Foreign Exchange Contingency Reserve Account at the Reserve Bank in settlement of losses incurred mainly through forward cover transactions have been made on several occasions. Transfers to the Government Employees Pension Fund to supplement its funding level and compensate for costs associated with early retirement offers are similarly regarded as extraordinary expenditure. Details are included in tables 4 and 5 of annexure B.

#### Trends in composition of expenditure

Figure 5.1 illustrates the changing composition of national government expenditure since 1989/99, including extraordinary transfers. Total expenditure is about 30 per cent of GDP, of which interest on debt takes up about one-fifth. Interest on debt has increased as a share of spending, whereas capital spending has remained stable in recent years. Capital spending was higher in earlier years in which extraordinary capital expenditure items were recorded.

Figure 5.1 Composition of national government expenditure



## CONSOLIDATED NATIONAL AND PROVINCIAL EXPENDITURE

### Composition of consolidated expenditure

Table 5.7 provides a breakdown of consolidated national and provincial spending over the period 1995/96 to 2001/02.

**Table 5.7 Consolidated national and provincial spending: 1995/96 to 2001/02**

R billion	Outcomes			Estimate	Medium term estimates		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
<b>National spending (excl. debt service costs)</b>	<b>50,6</b>	<b>57,8</b>	<b>65,2</b>	<b>70,1</b>	<b>73,1</b>	<b>78,0</b>	<b>82,7</b>
of which: local government share				1,0	1,7	2,5	2,6
per cent increase		14,2%	12,7%	7,6%	4,3%	6,6%	6,0%
<b>Provincial spending (excl. debt service costs)</b>	<b>74,6</b>	<b>89,4</b>	<b>94,8</b>	<b>94,0</b>	<b>96,8</b>	<b>102,1</b>	<b>106,9</b>
of which: local government transfer	2,3	2,2	2,0	1,1	0,6		
per cent increase		19,9%	6,1%	-0,9%	3,1%	5,5%	4,6%
<b>Less: recovery from pension funds</b>	<b>-1,0</b>	<b>-0,3</b>	<b>0,0</b>	<b>-0,9</b>			
<b>Consolidated non-interest spending</b>	<b>124,2</b>	<b>146,9</b>	<b>160,0</b>	<b>163,2</b>	<b>170,0</b>	<b>180,1</b>	<b>189,6</b>
per cent of GDP	25,0%	26,4%	26,4%	25,0%	24,0%	23,5%	22,9%
per cent increase		18,3%	8,9%	1,9%	4,2%	6,0%	5,2%
<b>Debt service costs (national and provincial)</b>	<b>30,7</b>	<b>36,1</b>	<b>40,0</b>	<b>43,8</b>	<b>48,5</b>	<b>50,1</b>	<b>52,8</b>
<b>Reserve</b>					<b>1,1</b>	<b>3,5</b>	<b>8,0</b>
<b>Consolidated expenditure</b>	<b>154,8</b>	<b>183,0</b>	<b>200,0</b>	<b>207,0</b>	<b>219,6</b>	<b>233,7</b>	<b>250,3</b>
per cent of GDP	31,1%	32,9%	32,9%	31,7%	31,0%	30,5%	30,2%
per cent increase		18,2%	9,3%	3,5%	6,1%	6,4%	7,1%

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

**Consolidated spending estimates**

Consolidated spending comprises national and provincial expenditure, after netting out transfer payments between the two spheres.

Expenditure includes transfer payments by national departments or provinces to local authorities or other government bodies. It includes interest on debt, but not debt redemption's (and thus excludes estimated repayments of debt by provinces out of their "finance reserve" allocations, for example).

**Trends in consolidated expenditure**

Total spending increased by 18,2 per cent in 1996/97 and 9,3 per cent in 1997/98, bringing consolidated expenditure up from 31,1 per cent to 32,9 per cent of GDP.

**National spending growth**

National spending growth has been bolstered by accelerating delivery in housing, water services and other RDP programmes. Expenditure growth has now slowed, as capacity backlogs have been eliminated and spending has reached the levels accommodated in the national budget.

**Provincial spending trend**

Provincial spending increased by 19,9 per cent in 1996/97, putting provincial budgets under severe pressure in the following year. As discussed in chapter 4, provinces faced a rising debt problem in 1997/98,

leading to curtailment of capital spending and non-core functions and strict control of personnel expenditure over the past year.

Provinces have brought spending under control in 1998/99, permitting moderate growth to be accommodated over the next three years.

**Spending growth  
1998/99 to 2001/02**

Consolidated expenditure is projected to grow at an average of 6,5 per cent a year over the 1998/99 to 2001/02 period. Slower future growth in spending reflects the generally improved inflation outlook in the economy.

**Non-interest spending  
growth**

Excluding debt service costs and the contingency reserve, consolidated expenditure is projected to grow by 5,1 per cent a year from R163,2 billion in 1998/99 to R189,6 billion in 2001/02, compared to average growth of 9,5 per cent over the past three years. Consumer price inflation is expected to average 4,7 per cent over the next three years.

## **TRENDS IN CONSOLIDATED EXPENDITURE**

Details of policy developments and the breakdown of national departments' expenditure since 1995/96 and plans for the next three years are set out in the National Expenditure Survey introduced this year.

Based on these estimates and preliminary projections of provincial expenditure, the tables below summarise the functional and economic breakdowns of consolidated spending for the 1995/96 to 2001/02 period.

### **Functional distribution of expenditure**

Table 5.8 sets out a functional breakdown of consolidated national and provincial spending over the 1999/00 to 2001/02 period, together with estimates for 1995/96 and 1998/99.

**Reprioritisation of  
spending**

These estimates illustrate the reprioritisation of government expenditure since 1995/96 and projected shifts in spending priorities over the next three years.

Government is increasing the share of spending allocated to social services, justice and prisons and water services. Defence and intelligence functions, agriculture, forestry and fishing and support for mining, manufacturing and construction are declining somewhat relative to total expenditure.

- ◆ Spending on defence and intelligence services fell by 1,8 per cent a year between 1995/96 and 1998/99, and is projected to increase by 2,5 per cent a year over the next three years.
- ◆ Prisons and justice functions account for growth of over 20 per cent a year since 1995/96, reflecting the impact of increasing prisoner numbers and improved prison standards, and the extension of spending on civil justice and human rights functions. Prisons and justice will grow by 5,8 per cent and 6,3 per cent a year over the MTEF period.

**Table 5.8 Consolidated national and provincial spending by function 1995/96 to 2001/02**

R million	Outcome	Estimate	Av. growth 95/96 to 98/99	Medium term estimates			Av. Growth 98/99 to 00/01
	1995/96	1998/99		1999/00	2000/01	2001/02	
<b>Protection Services:</b>	<b>26 673</b>	<b>34 276</b>	<b>8,7%</b>	<b>35 494</b>	<b>37 222</b>	<b>38 918</b>	<b>4,3%</b>
Defence & intelligence	12 292	11 642	-1,8%	12 010	12 065	12 547	2,5%
Police	10 192	14 435	12,3%	15 284	15 970	16 610	4,8%
Prisons	2 752	5 565	26,5%	5 381	6 197	6 597	5,8%
Justice	1 437	2 634	22,4%	2 818	2 989	3 164	6,3%
<b>Social services:</b>	<b>70 294</b>	<b>98 814</b>	<b>12,0%</b>	<b>103 708</b>	<b>110 185</b>	<b>115 648</b>	<b>5,4%</b>
Education	34 214	46 347	10,6%	48 532	51 560	54 087	5,3%
Health	16 078	23 220	13,0%	24 036	26 337	28 324	6,8%
Welfare	14 737	19 262	9,3%	19 817	20 718	21 606	3,9%
Housing & community development	4 402	8 534	24,7%	9 855	9 930	9 932	5,2%
Other social services	863	1 451	18,9%	1 469	1 640	1 699	5,4%
<b>Economic services:</b>	<b>16 218</b>	<b>19 333</b>	<b>6,0%</b>	<b>18 876</b>	<b>20 293</b>	<b>21 510</b>	<b>3,6%</b>
Water schemes, related services	1 157	2 521	29,7%	2 404	2 890	3 045	6,5%
Fuel and energy	29	52	22,1%	35	51	62	6,1%
Agriculture, forestry, fishing	2 975	3 460	5,2%	3 563	3 336	3 658	1,9%
Mining, manufacturing, construction	1 250	1 562	7,7%	1 514	1 664	1 675	2,4%
Transport, communication	7 203	8 271	4,7%	8 154	8 875	9 116	3,3%
Other economic services	3 604	3 467	-1,3%	3 207	3 478	3 954	4,5%
<b>General administration</b>	<b>10 992</b>	<b>10 760</b>	<b>-0,7%</b>	<b>11 901</b>	<b>12 415</b>	<b>13 482</b>	<b>7,8%</b>
<b>Interest</b>	<b>30 661</b>	<b>43 813</b>	<b>12,6%</b>	<b>48 522</b>	<b>50 070</b>	<b>52 789</b>	<b>6,4%</b>
<b>Reserve</b>				<b>1 100</b>	<b>3 500</b>	<b>8 000</b>	
<b>Consolidated expenditure</b>	<b>154 837</b>	<b>206 996</b>	<b>10,2%</b>	<b>219 602</b>	<b>233 685</b>	<b>250 347</b>	<b>6,5%</b>

- ◆ Police services grew by 12,3 per cent a year over the past three years and are projected to grow by 4,8 per cent a year for the next period.
- ◆ Education expenditure has increased by 10,6 per cent a year since 1995/96, mainly accounted for by increasing numbers of learners in the school system. Education grows by 5,3 per cent a year over the MTEF period.
- ◆ Health services have been extended considerably, including construction of over 600 clinics since 1994. Health expenditure increased by an average of 13,0 per cent over the last three years and is projected to grow by 6,8 per cent a year.



- ◆ Welfare services and social grants account for growth of 9,3 per cent a year since 1995/96 and increase by 3,9 per cent a year over the next three years.
- ◆ Expenditure on housing, municipal infrastructure and water schemes has increased by over 24 per cent a year, and will continue to grow steadily over the MTEF period.
- ◆ Spending on agriculture, industry, transport and communication have grown by between 4,7 and 7,7 per cent a year since 1995/96. Spending on these economic functions is projected to grow modestly over the next three years.
- ◆ General administration spending fell by 0,7 per cent a year between 1995/96 and 1998/99, partly as a result of the rationalisation of former regional administrations. Spending on administrative functions is projected to grow by 7,8 per cent a year over the MTEF period.

**Further reprioritisation and efficiency gains**

Government has implemented a substantial reorientation of expenditure since 1994, giving effect to reconstruction and development priorities and policy commitments.

Shifts in the distribution of spending will be more moderate over the next few years. Infrastructure and development programmes have gained considerable momentum and spending trends now closely match budgeted allocations. The emphasis in extending and improving service delivery will increasingly fall on better organisation and management within departments and gains through improved efficiency and more effective delivery of services. In taking forward the nation's economic and social development commitments, the emphasis is now on improved service delivery within the broad structure of spending priorities Government has agreed in the 1999 MTEF.

**Integrated justice services**

As part of the 1998 budget programme, an inter-departmental review of the integrated justice sector (justice, police and prisons) was conducted.

**Strong growth of integrated justice spending**

It was noted that these functions have increased their share of national government spending from 7 per cent to 10 per cent over the past decade, with annual average expenditure growth of 8 per cent in real terms. Nonetheless, departments have experienced budget over-runs largely attributable to rapid growth in personnel expenditure.

**Cost pressures in the justice system**

In addition to personnel cost pressures, the provision for legal aid, commissions and other rights-related agencies on the budget of the Department of Justice and the phasing in of higher standards of accommodation and rehabilitation in prisons have contributed to rising spending.

Government recognises that to improve performance in controlling crime, several key choices have to be made:

- ◆ Reorientation of expenditure from real wage increases towards investment in capital, equipment and training;

- ◆ Moderation of the level and growth rate of expenditure on legal aid and rights commissions in favour of improved court management and prosecutorial efficiency; and
- ◆ Maintaining affordable standards at which prisoners are accommodated with a view to reducing overcrowding within a sustainable accommodation plan.

**Modernisation and streamlining of the law process**

Projects are underway to update the technology in use in the justice system and to enhance the efficiency of the courts. High risk prisoners are being held in more secure facilities and substantial improvements have been effected in 18 prisons. The use of electronic monitoring promises to contribute to more cost-effective management of parolees. An extensive programme of modernisation and streamlining of the SA Police Service has been initiated.

**Education**

**Focus on personnel issues and financial management**

Building on the work of the 1997 review team, the 1998 MTEF review of education focused on personnel issues, school and district management and options for balancing the pressures of remuneration growth and non-personnel needs of the education system.

Extending and improving learning opportunities is a long-term challenge for which sound financial management is clearly requisite for success.

**Post provisioning and personnel redeployment**

Considerable progress has been made over the past year in association with the organised teaching profession in addressing the challenges facing provincial schooling. New arrangements for personnel post provisioning and redeployment have been agreed, contributing significantly to managing education spending and resource allocation.

**Further education and training**

A White Paper and Bill on further education were introduced in 1998. Proposals have been tabled for introducing innovative vocationally oriented projects in colleges or senior secondary schools, in association with industry training bodies, employers and employees.

In the longer term, a new funding framework is needed for further education and training institutions, comprising a formula funding of programmes, earmarked funding for specified priorities and capacity building, student financial aid and greater recovery of income from students and employees.

The financing arrangements for the skills development strategy will significantly add to the resources available for industrial training and education over the medium term.

**Health services**

**Focus areas**

Provincial health departments have made significant progress since 1994 in extending services into under-served communities. A comprehensive reorientation of health services and policy is under way. In contributing to this transformation, the 1998 MTEF review of health spending devoted particular attention to the financing and management of hospital services, with a view to strengthening revenue-raising capacity and improving service delivery.

**Hospital revenue** Further work is in progress on revenue collection by hospitals and options for putting hospital accounts and financing on a sounder footing. Proposals have been tabled for dealing with cross-border billing where patients are officially referred for services other than central hospital services, and where provincial health departments provide services on behalf of other departments.

**Health conditional grants** Conditional grants have become a significant feature of the current intergovernmental budget framework. Recognising the complexity and importance of these financing arrangements, it is agreed that an expert working group should be established to explore further refinements of the grants. It is agreed that the present grants should be retained over the current MTEF period.

**Hospital construction and maintenance** Following the nation-wide health facilities audit, funds have been set aside in the national health vote for a countrywide hospital rehabilitation programme. The programme is expected to gather momentum over the next three years.

### **Welfare and social security**

**Broad range of support for the poor** Over 3 million South Africans are direct beneficiaries of social grants provided by Government. The grants are an important source of livelihood for a large proportion of poor households, especially when taking into account the dependants of those who are direct beneficiaries of the social grants.

**Managing social grants programmes** The central challenge for the welfare sector is to manage growth of expenditure on social security entitlement programmes while strengthening the funding of discretionary and developmental welfare services.

Considerable work has been devoted to evaluating trends in social grants payments and improving information systems and financial management of social security.

**Refocusing of programmes** A re-orientation of programmes and resources is underway, including support for developmental income-generating programmes, re-prioritising towards more effective programmes, an emphasis on early intervention and prevention rather than residential care and promotion of family-centred and community-based programmes for children, youth and people with disabilities.

Government provides funding to non-governmental organisations involved in developmental welfare programmes as part of the poverty relief initiative.

### **Economic breakdown of consolidated spending**

Table 5.9 sets out an economic classification of projected consolidated national and provincial spending.

**Table 5.9 Economic classification of consolidated expenditure: 1995/96 to 2001/02**

R billion	Outcome	Estimate	Av. growth 95/96 to 98/99	Medium term estimates			Av. Growth 98/99 to 00/01
	1995/96	1998/99		1999/00	2000/01	2001/02	
<b>Current spending</b>	<b>146 851</b>	<b>193 075</b>	<b>9,6%</b>	<b>204 293</b>	<b>214 724</b>	<b>225 422</b>	<b>5,3%</b>
Personnel	57 891	81 811	12,2%	86 489	90 693	94 967	5,1%
Other goods and services	20 210	23 756	5,6%	25 219	26 820	28 167	5,8%
Interest	30 661	43 813	12,6%	48 522	50 070	52 789	6,4%
Subsidies	7 486	6 942	-2,5%	6 882	7 423	7 509	2,7%
Transfers to households	17 659	19 963	4,2%	20 392	20 714	21 742	2,9%
Current transfers to rest of government	12 945	16 789	9,1%	16 789	19 005	20 249	6,4%
<b>Capital spending</b>	<b>7 986</b>	<b>13 921</b>	<b>20,4%</b>	<b>14 209</b>	<b>15 461</b>	<b>16 924</b>	<b>6,7%</b>
Acquisition of fixed assets, stock, land	5 139	7 509	13,5%	7 965	8 864	9 250	7,2%
Capital transfers, loans, advances	1 083	1 193	3,3%	1 105	1 243	1 673	11,9%
Capital transfers to rest of government	1 764	5 219	43,6%	5 139	5 354	6 001	4,8%
<b>Reserve</b>				<b>1 100</b>	<b>3 500</b>	<b>8 000</b>	
<b>Consolidated expenditure</b>	<b>154 837</b>	<b>206 996</b>	<b>10,2%</b>	<b>219 602</b>	<b>233 685</b>	<b>250 347</b>	<b>6,5%</b>

**Current and capital spending**

Current expenditure has grown by 9,6 per cent a year since 1995/96, and is projected to increase by 5,3 per cent a year over the next three years. Capital spending has grown by 20,4 per cent a year, and is budgeted to grow by a further 6,7 per cent a year to 2001/02.

**Interest on debt**

Consolidated interest on debt, including provision for provincial debt service costs, is expected to increase from R43,8 billion in 1998/99 to R52,8 billion in 2001/02. Debt interest accounts for 22,1 per cent of expenditure in 1999/00, projected to fall to 21,1 per cent in 2001/02.

**Current transfers**

Transfers to households are mainly social grants to the elderly, disabled people and others who qualify for means-tested grants. Subsidies for welfare institutions and various non-governmental organisations are also included.

Growth of spending on welfare transfers has been moderate over the past three years, reflecting the reorientation of social security and welfare services and progress in reducing fraud and misuse of the system.

Transfers to the rest of government include subsidies for higher education institutions, transfers to museums and various other government bodies, and operating grants and the equitable share of revenue allocated to local authorities. Steady growth in current transfers is anticipated.

**Reserve**

Public expenditure projections over three years are inherently uncertain. As the past year has demonstrated, unforeseen economic shocks or

natural disasters can impact on the budget. A contingency reserve is included within the spending total, unallocated at this stage, to cater for these risks. The amount set aside increases from R1,1 billion in 1999/00 to R8 billion in 2001/02.

### **Personnel expenditure**

Personnel spending growth averaged 12,2 per cent a year between 1995/96 and 1998/99, growing particularly sharply in 1996/97. Remuneration of employees accounts for over half of non-interest spending.

#### **Pressure on provincial budgets**

Personnel-intensive functions such as education and police services came under considerable budgetary pressure as a result of the general realignment of public service salaries in 1996. Within provincial budgets, personnel spending increased from 53,1 per cent of 1995/96 spending to 59,2 per cent of expected 1998/99 expenditure.

#### **Personnel management reform**

Trends in personnel spending and related personnel management issues came under scrutiny in the 1997 and 1998 budget programmes, resulting in several recommendations on possible reform measures.

Government recognises that greater devolution of personnel responsibilities to departmental heads is required and that the transformation of public service delivery depends on dynamic and adaptable employment practices.

#### **Redundancy management**

The 1998 personnel spending review also makes proposals relating to redundancy management, aimed at assisting the downsizing of some government activities while minimising the impact on employees affected. It is noted that the medium term planning and budgeting framework provides an ideal context for reviewing and revising staffing levels without undue disruption.

#### **Improvements in conditions of service**

The medium term expenditure allocations to national departments and provinces include provision for improvements in conditions of service. For the 1999/00 year, salary adjustments will again be appropriated on the improvements in conditions of service vote, for distribution between departments and provinces later in the year. The 1999 Budget includes R3,0 billion for improvements in conditions of service, which will provide for salary adjustments in July 1999 averaging between 5,0 and 5,5 per cent.

The distribution of funds for salary improvements will depend on the outcome of negotiations in the public sector bargaining councils.

### **Capital spending**

Capital spending includes direct investment in buildings equipment and other durable assets and capital transfers, mainly to housing funds, municipalities and other government agencies.

#### **Increased capacity to spend available funds**

Although budgeted allocations for capital spending have not increased significantly since 1995/96, actual spending has grown strongly. In the early years of RDP investment programmes, spending lagged well behind budget allocations.

Departmental capacity has since been established, and housing, water and municipal infrastructure programmes, amongst others, have contributed to the evolution of smaller-scale contracting for government construction and development projects. The momentum of government capital spending is expected to be maintained over the MTEF period.

**Review of infrastructure spending**

The 1998 budget programme included a review of infrastructure investment spending. The review noted that South Africa lags behind comparable countries in investing in household infrastructure, including housing, water and sanitation and bulk urban services. Government is also mindful of the critical role of improved communications infrastructure in enhancing the efficiency of the economy, and the importance of an appropriate balance between investment in new physical infrastructure and maintenance of existing assets.

Over the MTEF period, increasing allocations are made for hospital rehabilitation, maintenance of the national roads network and maintenance of government buildings, amongst other commitments.

Government spending on capital works is supplemented by substantial investments by public corporations in electrification, telecommunications and transport infrastructure and equipment. In addition, private investment in several major public sector projects or partnerships brings both finance and enhanced technical capacity to South Africa's infrastructure development programmes.

## **CONCLUSION**

**Changing policies and programmes**

Since 1994, extensive changes have been effected in the policies and programmes of Government. New legislation has been enacted, comprehensive policy reviews have been undertaken, co-operative governance structures have been created to take forward the intergovernmental framework established by the Constitution and a major reprioritisation of spending programmes has taken place.

**Reprioritisation**

The overview set out above indicates the extent of redistribution of resources between functions that has been implemented over the last three years, and indicates trends planned for the next three years. Government has reprioritised resource allocation – away from defence, industrial subsidies and administrative functions, in favour of social services and crime prevention. Capital spending on development programmes has increased strongly.

**Steady increases in spending**

Over the next three years, overall spending will grow more slowly than in the past, consistent with the lower rate of inflation in the economy that has been achieved. Steady increases in Government's priority spending programmes is planned, while moderate declines are envisaged in other areas. Within the constraints of a sound financial and fiscal framework, Government will continue to address basic needs, attack poverty, contribute to employment creation, promote industrial development and invest in physical infrastructure.

**Medium term planning and service delivery**

The Medium Term Expenditure Framework sets out clearly Government's spending plans. Further budget reform initiatives will extend this information to include more transparent accounting for the

services delivered by spending departments and the efficiency with which public resources are employed.

Responsible allocation of the public resources affordable to our growing economy, improved personnel management, intelligent use of new technologies and creative partnerships with other stakeholders are amongst the vehicles through which Government seeks to deliver expanded and improved services to all South Africans.

