3

Fiscal policy

The economic achievements of the past decade are reflected in the healthy state of public finances that South Africa enjoys today. The strong fiscal position provides government with the opportunity to increase its contribution to social and economic development through key reforms that modernise services and institutions, accelerate shared growth and broaden protection against income vulnerability.

A strong economic performance since 2001 has boosted revenue, enabling government to set out a broadly balanced budget over the next three years, even as spending continues to increase significantly. In combination with stable interest rates and improved budget balances, lower debt service costs provide additional fiscal resources. The budget balance moves from a surplus of 0,6 per cent in 2007/08 to a deficit of 0,4 per cent in 2009/10. The broadly balanced budget represents a considerable strengthening of public finances, providing significant fiscal space to accommodate future policy priorities and to respond to shifts in economic conditions.

Over the medium term an additional R89,5 billion is allocated to social and economic programmes, including upgrading public infrastructure and service delivery; strengthening the education, criminal justice and health systems; improving transport networks; and making further investments in the built environment.

Overview

Sustainable fiscal stance enables state to advance a broad range of programmes

Since 2001, debt service cost savings, sound policy choices and a healthy revenue performance have enabled the state to advance a broad array of social and economic programmes without burdening current and future generations with unsustainable debt.

The 2007 Budget builds on the accumulated gains of prudent fiscal management to make further contributions to economic growth and social development. Strong growth in non-interest expenditure is supported by buoyant tax revenue and debt service cost savings. Government is now contributing positively to the stock of national savings, supporting investment throughout the economy.

A budget surplus in 2007/08 provides a strong platform for government to continue to meet its commitments without fear that potential economic risks or cyclical shifts could lead to excessive budget deficits or unwelcome curtailment of expenditure programmes.

Key features of the 2007 Budget include:

- Real growth in non-interest expenditure of 7,7 per cent a year
- Revenue growth, supported by buoyant consumer demand and corporate profitability
- Additional allocations to spending of R89,5 billion over the 2006 Budget forward estimates
- Real growth in capital allocations in line with government's commitment to accelerate economic growth and deliver a successful 2010 FIFA World Cup
- Moderate corporate tax relief
- Debt service costs as a share of GDP continue to decline, from 3,0 per cent in 2006/07 to 2,1 per cent in 2009/10
- The broadly balanced budget in 2006/07 moves towards a surplus of 0,6 per cent of GDP in 2007/08.

Fiscal policy: goals, trends and targets

Key fiscal indicators are summarised in Table 3.1. These figures are based on national accounts data and are not strictly comparable with the government finance statistics figures typically used in the budget. They outline South Africa's fiscal performance since 2001 and indicate medium-term projections.

Table 3.1 Fiscal trends and projections

Calendar year	2001 – 2005		2005 – 2009
Average annual real growth			
Gross fixed capital formation			
General government[1]	5,9%		12,0%
Public corporations	13,1%		16,4%
Government consumption expenditure			
Compensation of employees	2,6%		4,7%
Goods and services	10,1%		8,8%
Fiscal year	**2001/02**	**2005/06**	**2009/10**
Percentage of GDP			
Interest on public debt	5,2%	3,7%	3,1%
General government savings	-1,1%	-0,2%	0,5%
Public sector borrowing requirement	0,5%	-0,8%	1,4%
General government tax revenue	25,6%	28,4%	28,0%

1. General government refers to the accounts of national government, provincial government and local government, the social security funds, extra-budgetary institutions, adjusted to net out flows between government institutions.

Public-sector capital formation continues to grow over medium term

In support of accelerated and shared growth, the public sector's contribution to gross fixed capital formation is projected to maintain an upward trend over the next three years. General government investment is driven by the need to modernise crucial economic and social infrastructure, transforming South Africa's productive capacity and improving basic household infrastructure. In addition, government will invest in stadiums, public transport and related infrastructure to ensure a successful 2010 FIFA World Cup.

Table 3.2 below presents an estimate of infrastructure expenditure for the public sector. Over the medium term, total infrastructure expenditure is estimated to amount to R415,8 billion, which is R6,1 billion higher than the estimate in the 2006 *Medium Term Budget Policy Statement* due to additional allocations to public transport, and water and sanitation.

Table 3.2 2007 MTEF infrastructure expenditure and estimates, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million				Revised estimate	Medium-term estimates		
National departments [1,2]	4 005	4 566	4 936	4 923	5 783	6 908	7 766
Provincial departments [2]	18 729	19 955	22 535	26 591	35 383	41 561	42 203
Municipalities	16 529	16 865	21 084	23 441	28 214	32 413	33 537
Public private partnerships [3, 4]	1 552	1 106	728	3 444	3 458	5 197	4 160
Extra-budgetary public entities	3 053	3 470	3 144	4 262	5 298	5 608	6 385
General government	**43 868**	**45 962**	**52 427**	**62 661**	**78 136**	**91 687**	**94 051**
Non-financial public enterprises	21 375	22 145	26 424	38 322	44 681	50 324	56 929
Total	**65 243**	**68 107**	**78 851**	**100 982**	**122 817**	**142 011**	**150 980**
Percentage of GDP	*5,1%*	*4,8%*	*5,0%*	*5,8%*	*6,3%*	*6,6%*	*6,3%*
GDP	*1 288 952*	*1 430 673*	*1 580 119*	*1 755 340*	*1 938 934*	*2 141 747*	*2 379 299*

1. Transfers between spheres have been netted out.
2. Includes maintenance of infrastructure assets.
3. Capital expenditure on PPPs overseen by the Treasury PPP Unit, S A National Roads Agency, Department of Public Works and at municipal level.
4. PPP's only reflect private sector contributions.

A breakdown of the key projects comprising public-sector infrastructure expenditure is provided below. The projects identified in Table 3.3 represent 72,8 per cent of infrastructure expenditure covered in Table 3.2 above.

Table 3.3 Key capital/infrastructure expenditure estimates, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	MTEF
R million					Medium-term estimates			Total
Water (DWAF, water boards, TCTA and municipal)	4 609	4 296	5 627	7 808	8 395	9 098	9 758	**27 250**
Sanitation (municipal and DWAF)	1 565	1 368	2 297	2 926	3 028	3 180	3 339	**9 546**
Electricity (Eskom and municipal)	6 533	8 110	11 782	16 272	17 223	23 100	30 983	**71 306**
Housing (housing developments)	4 246	4 474	4 843	6 822	8 238	9 853	11 531	**29 622**
Education (school building)	1 918	2 148	2 453	3 127	3 393	3 984	4 183	**11 560**
Health (hospitals and clinics)	2 055	2 222	3 059	4 175	4 699	5 468	6 086	**16 253**
Roads (SANRAL, provincial and municipal)	11 089	10 998	13 299	15 743	18 740	20 806	22 618	**62 164**
Rail (SARCC, Gautrain and Spoornet)	2 245	2 147	4 959	12 900	15 973	15 857	14 258	**46 088**
Ports (NPA and SAPO)	1 589	2 221	2 843	3 667	7 122	5 623	3 808	**16 553**
Justice (courts)	258	270	318	268	405	443	501	**1 349**
Police	314	368	447	508	727	1 226	1 356	**3 309**
Sport & Recreation (World Cup stadiums)				600	2 700	3 800	1 300	**7 800**
Total	**36 421**	**38 622**	**51 927**	**74 816**	**90 642**	**102 437**	**109 721**	**302 801**

Investments in electricity, water and transport enhance growth potential

Capital investment programmes of the non-financial public enterprises[1] gather momentum over the medium term expenditure framework (MTEF) period. These investments, mainly in electricity generation, water resources and transport infrastructure, will complement private-sector investment and enable significant restructuring and modernisation of the economy.

Government infrastructure spending and delivery, 2004/05-2005/06

Table 3.2 estimates that the public sector will spend R415,8 billion on infrastructure over the next three years. General government outcomes and revised estimates in spending for 2004/05 and 2005/06 are shown in the table below. Revised estimates for 2005/06 show general government infrastructure expenditure of R52,4 billion.

Major infrastructure programmes, 2004/05 – 2005/06

R million	2004/05: Outcome (as at 31 March 2005)	2005/06: Adjusted Budget	Actual expenditure as at 31 March 2006	Actual expenditure as % of adjusted budget	Year-on-year growth
Integrated housing and human settlement	4 464	5 229	5 014	95,9%	12,3%
Hospital revitalisation programme	675	1 105	888	80,4%	31,6%
National roads[1]	1 824	2 225	2 186	98,2%	19,8%
Provincial roads	6 375	7 702	7 572	98,3%	18,8%
Municipal roads	2 799	4 187	3 541	84,6%	26,5%
Rail rolling stock, signalling systems etc.[1]	847	1 327	1 059	79,8%	25,0%
Electrification programme	1 015	1 176	1 125	95,7%	10,8%
School building	2 148	2 873	2 453	85,4%	14,2%

1. Public entities include South African National Roads Agency and South African Rail Commuter Corporation

In 2005/06, total housing spending reached R5 billion, and 137 659 houses were built or under construction. Expenditure is projected to increase from R6,8 billion in 2006/07 to R11,5 billion in 2009/10, an average annual increase of 19,1 per cent. This should enable the construction of more than 200 000 new houses a year for low-income families.

By the end of March 2006, eight hospitals had been completed under the hospital revitalisation programme. This includes hospitals in Piet Retief (140 beds), Calvinia (35), Colesburg (35), Swartruggens (120), Mary Theresa (248), Lebowakgomo (241), George (265) and Jane Furse (252). Another 32 hospitals are to be upgraded. Spending in this programme has improved, although spending was slow in the Free State and Northern Cape.

Provinces spent R7,6 billion or 98,3 per cent of their R7,7 billion budget on roads in 2005/06. During this period, 1 729 km of tarred provincial roads were upgraded and rehabilitated, 2 218 km of tarred roads were resealed, 2 975 km of roads were re-gravelled and 189 138 km of provincial roads were given routine maintenance. The extent of upgrading and rehabilitation varies significantly between provinces. During the same year, national government spent a total of R2,1 billion on national roads, and municipal roads expenditure reached R3,5 billion.

The South African Rail Commuter Corporation spent R1 billion on rail infrastructure in 2005/06 – an increase of 25 per cent compared with same period in 2004/05. The 2007 Budget provides an additional R1,9 billion for further support to the commuter rail turnaround strategy, and funding for projects related to the 2010 FIFA World Cup.

Some 151 297 households, 498 schools and 28 clinics received electricity connections in 2005/06 through the national electrification programme. Expenditure on this programme is budgeted to increase from R1,1 billion in 2005/06 to R2,3 billion in 2009/10 – an annual average increase of 29,0 per cent.

Education departments spent R2,4 billion on school buildings and other related infrastructure in 2005/06, building 5 222 classrooms, providing 259 schools with sanitation facilities and 987 with water.

[1] Including Denel, Eskom, Telkom and Transnet, but excluding public enterprises involved in financing activities, such as the Land Bank and Development Bank of Southern Africa.

As part of its efforts to improve service delivery, government has embarked on a long-term drive to modernise institutional capacity. The wage bill is expected to grow by 4,7 per cent a year in real terms as government invests in enhanced capacity to improve service delivery. Additional resources make provision for real salary increases for specific categories of professionals such as teachers, health workers and social workers, and for an increase in employment targeted at the criminal justice and health sectors.

Government on a long-term drive to modernise institutional capacity

Throughout the 1990s, government's contribution to national savings was negative. In the third quarter of 2006, government's savings position turned positive. Increases in capital expenditure relative to current expenditure, and a broadly balanced budget, should result in this savings position improving further over the MTEF.

Buoyed by economic conditions, tax revenue has outperformed expectations since 2003/04, and growth in general government tax revenue has consistently exceeded growth in GDP. While this has resulted in an increase in the tax-to-GDP ratio, the tax rates affecting businesses and individuals have decreased over the past decade.

Tax rates have decreased over the past decade

The tax revenue performance of the past few years is principally a result of strong economic growth. Efforts by the South African Revenue Service (SARS) to improve efficiency and administration have led to continued returns through broadening of the taxpayer base. Moreover, the tax-revenue performance in combination with other observations suggests that the full extent of structural changes in the South African economy, and economic growth itself, may not be fully captured in the economic data.

The tax revenue trend is expected to moderate as increased private-sector investment results in slower growth in corporate tax receipts and household spending moderates. The general government tax-to-GDP ratio is expected to remain at about 28 per cent of GDP.

Revenue trend expected to moderate over the medium term

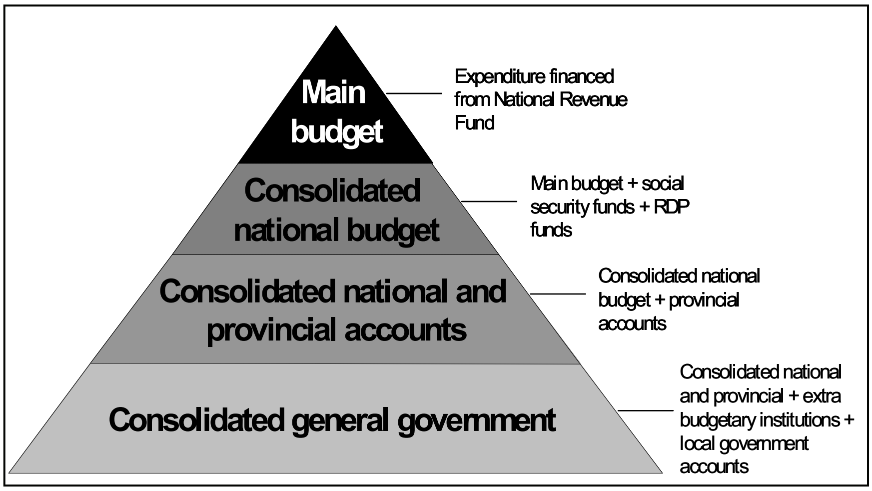
The budget framework

Government categorises its accounts according to the levels at which expenditure takes place or revenue is collected. This is a useful way to capture the extent of spending in South Africa's intergovernmental system – which includes not only national government, but also the public entities, the social security funds, provincial and local government.

Figure 3.1 illustrates the different levels of government accounts. Starting with the main budget, each successive layer includes the revenue and expenditure of additional spheres of government. The main budget is composed of all expenditure financed by the National Revenue Fund, and includes transfers to other spheres of government. Consolidating the main budget with other spheres of government requires that these transfers be netted out and that additional sources of revenue be included.

Main budget includes transfers to provincial and local government

Figure 3.1 Structure of government accounts



The main budget

The main budget consists of the receipts of the National Revenue Fund, and expenditure either voted by Parliament or allocated by statutory appropriation. It is the largest part of the consolidated national budget. South Africa's "budget balance" is the difference between revenue and expenditure on the main budget. The revised estimates for 2006/07 and the proposed MTEF framework are set out in Table 3.4.

The National Revenue Fund is made up of gross tax revenue and departmental receipts, less payments to Namibia, Botswana, Swaziland and Lesotho in terms of the Southern African Customs Union (SACU) agreement.

High commodity prices and domestic demand have boosted corporate profitability

As a result of strong economic growth, gross tax revenue is expected to outperform the 2006 Budget estimate. High commodity prices and domestic demand have boosted corporate profitability, and buoyant consumer spending has contributed to robust VAT collection. Personal income tax receipts also increased in line with growth in employment and real remuneration.

Revenue growth to slow as consumption expenditure moderates

While tax revenue is expected to grow strongly in 2007/08, the rate of acceleration is expected to slow in 2008/09 and 2009/10 as a result of increased private-sector investment and a moderation in consumption expenditure.

Transfers to South Africa's SACU partners are derived from the customs revenue pool, which has grown strongly in response to higher South African imports. While domestic consumption is expected to moderate, demand for imported capital goods will keep customs revenue and SACU transfers at relatively high levels over the next three years. A once-off adjustment payment in 2006/07 for customs revenue overruns in 2005/06 resulted in a spike in these transfers.

Table 3.4 Main budget framework, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
		Outcome		Revised estimate	Medium-term estimates		
Revenue (National Revenue Fund)							
Tax revenue (gross)	302 508	354 980	417 334	489 662	556 562	606 870	659 820
Departmental and other receipts and repayments	6 646	6 202	8 559	11 346	11 093	11 371	11 246
Less: SACU payments	-9 723	-13 328	-14 145	-25 172	-23 053	-27 075	-29 551
Total revenue	**299 431**	**347 854**	**411 748**	**475 836**	**544 602**	**591 166**	**641 515**
Percentage of GDP	*23,2%*	*24,3%*	*26,1%*	*27,1%*	*28,1%*	*27,6%*	*27,0%*
Expenditure							
State debt cost	46 313	48 851	50 912	52 178	52 916	52 967	50 915
Percentage of GDP	*3,6%*	*3,4%*	*3,2%*	*3,0%*	*2,7%*	*2,5%*	*2,1%*
Current payments[1]	58 121	63 796	71 134	80 037	91 413	99 193	109 286
Transfers and subsidies	219 891	250 548	287 702	332 707	379 897	427 013	469 119
Payments for capital assets[1]	4 384	5 346	7 012	5 693	6 647	7 026	7 981
Contingency reserve	–	–	–	–	3 000	8 000	13 000
Total expenditure	**328 709**	**368 541**	**416 760**	**470 614**	**533 873**	**594 198**	**650 301**
Percentage of GDP	*25,5%*	*25,8%*	*26,4%*	*26,8%*	*27,5%*	*27,7%*	*27,3%*
Budget balance[2]	**-29 278**	**-20 687**	**-5 012**	**5 221**	**10 728**	**-3 032**	**-8 787**
Percentage of GDP	*-2,3%*	*-1,4%*	*-0,3%*	*0,3%*	*0,6%*	*-0,1%*	*-0,4%*
Gross domestic product	*1 288 952*	*1 430 673*	*1 580 119*	*1 755 340*	*1 938 934*	*2 141 747*	*2 379 299*

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.
2. A positive number reflects a surplus and a negative number a deficit.

Government capital expenditure is growing rapidly

The main budget framework allows for real average growth of 7,7 per cent a year in non-interest expenditure. Capital expenditure is one of the fastest-growing components of government spending. In addition the education, health and the criminal justice sectors receive sizeable additions. A discussion of the spending priorities of government can be found in Chapter 7.

Debt service costs continue to fall

Debt service costs as a share of GDP continue their long-term decline, freeing additional resources for productive expenditure. Lower-than-anticipated debt stock and stable interest rates result in debt service costs declining from 3,0 per cent of GDP in 2006/07 to 2,7 per cent in 2007/08, and to 2,1 per cent by 2009/10.

Budget balance improves to a surplus

The sustained economic and revenue performance allows for a budget surplus of 0,6 per cent of GDP in 2007/08. The budget balance is expected to move to a deficit of 0,4 per cent of GDP by 2009/10 as revenue growth slows.

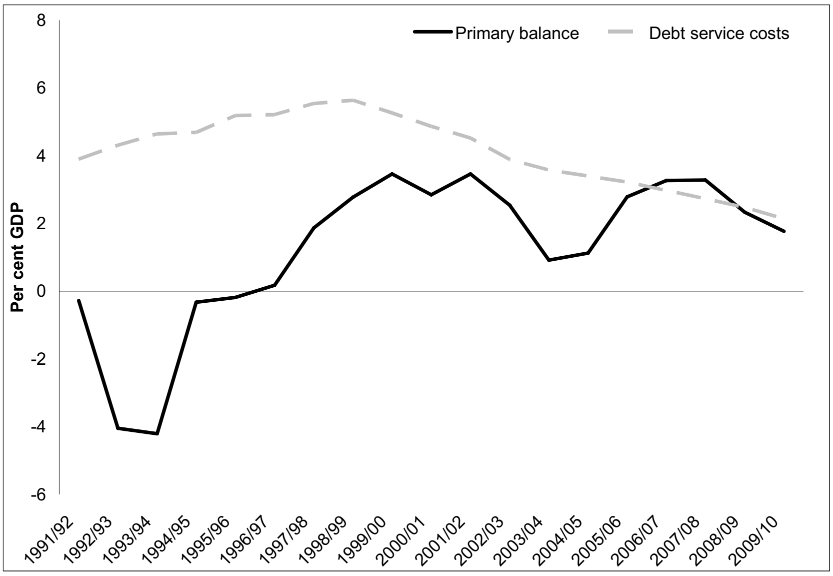
Contingency reserve is set aside

A contingency reserve is set aside for each of the next three years. In the first year, the reserve allows for the possibility of unforeseen and unavoidable expenditure, such as responses to natural disasters or programmes announced in the Budget but not yet appropriated, including capital allocations to state-owned enterprises. In the outer years, the reserve is partly drawn down to fund new priorities, which also allows for capital allocations to state-owned enterprises upon approval of business plans. The contingency reserve for each year of the MTEF period is R3 billion, R8 billion and R13 billion, respectively.

Government spending is sustainable

The primary balance measures the difference between revenue and non-interest expenditure. It is an important indicator of sustainability. A positive balance shows that revenue covers expenditure, before taking into account debt service costs, while a negative balance indicates that government is borrowing to finance debt service costs.

Figure 3.2 Primary balance, 1991/92-2009/10



Revisions to 2005/06 and 2006/07 main budget estimates

The main budget outcome for 2005/06 and the revised estimates for 2006/07 are presented in Table 3.5. These are discussed further in Chapters 4 and 8, while Annexure B provides details of main budget revenue, expenditure and financing over a longer time span.

Debt service cost savings of R2,2 billion in 2005/06

The revenue outcome for 2005/06 was R41,9 billion above the budgeted estimate. Total expenditure was R1 billion lower than the budgeted estimate. The lower expenditure outcome is largely due to savings on debt service costs of R2,2 billion. The budget balance for 2005/06 was a deficit of R5 billion.

The budget balance for 2006/07 has been revised from a deficit of R26,4 billion to an estimated surplus of R5,2 billion. The anticipated surplus is the outcome of significant upward revisions to the revenue estimate. Strong growth in tax revenue results in main budget revenue being R29,5 billion above the Budget estimate. SACU payments were also revised upwards, mainly as a result of an adjustment payment for a customs revenue overrun in 2005/06.

Table 3.5 Revised estimates of main budget revenue and expenditure, 2005/06 and 2006/07

R million	2005/06 Budget estimate	2005/06 Outcome	2005/06 Deviation	2006/07 Budget estimate	2006/07 Revised estimate	2006/07 Deviation	% change 2005/06–2006/07
Revenue							
Direct taxes	206 333	236 330	29 997	252 058	280 880	28 823	18,9%
Indirect taxes	166 441	181 004	14 563	204 729	208 782	4 054	15,3%
Other revenue	9 148	8 559	-589	9 320	11 346	2 026	32,6%
Less: SACU payments	-12 053	-14 145	-2 092	-19 744	-25 172	-5 428	78,0%
Total revenue	**369 869**	**411 748**	**41 878**	**446 362**	**475 836**	**29 474**	**15,6%**
Expenditure							
State debt cost	53 125	50 912	-2 213	52 049	52 178	129	2,5%
Current payments[1]	72 193	71 134	-1 059	82 922	80 037	-2 885	12,5%
Transfers and subsidies	284 346	287 702	3 356	328 878	332 707	3 828	15,6%
Payments for capital assets[1]	6 155	7 012	857	6 376	5 693	-683	-18,8%
Contingency reserve	2 000	–	-2 000	2 500	–	-2 500	0,0%
Total expenditure	**417 819**	**416 760**	**-1 059**	**472 725**	**470 614**	**-2 111**	**12,9%**
Increase in non-interest allocated expenditure			3 154			260	
Budget balance[2]	**-47 950**	**-5 012**	**42 938**	**-26 363**	**5 221**	**31 585**	

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.

2. A positive number reflects a surplus and a negative number a deficit.

Changes to medium-term forward estimates

Non-interest expenditure increases by R89,5 billion

The 2007 Budget adjusts the forward estimates from the 2006 Budget for 2007/08 and 2008/09 to take account of changes in the economic environment and government priorities, and adds projections for 2009/10. The main changes to the budget framework are set out in Table 3.6 and summarised below:

- Tax revenues remain strong in line with the economic outlook
- Debt-service costs are reduced as a result of the stable interest rate outlook and lower debt stock
- Non-interest expenditure increases by R89,5 billion, resulting in real growth of 7,7 per cent across the medium term
- A budget surplus of R10,7 billion in 2007/08 declines to a deficit of R3,0 billion in 2008/09 and R8,8 billion in 2009/10

Table 3.6 Main budget medium-term estimates, 2007/08 – 2009/10

R million	2007/08 2006 Forward estimate	2007/08 2007 Budget	2007/08 Change to baseline	2008/09 2006 Forward estimate	2008/09 2007 Budget	2008/09 Change to baseline	2009/10 2007 Budget
Revenue							
Direct taxes	279 198	319 130	39 932	314 155	350 209	36 054	381 511
Indirect taxes	222 472	237 432	14 960	243 951	256 661	12 711	278 308
Other revenue	10 677	11 093	416	11 436	11 371	-65	11 246
Less: SACU payments	-20 344	-23 053	-2 709	-22 451	-27 075	-4 624	-29 551
Total revenue	**492 003**	**544 602**	**52 599**	**547 091**	**591 166**	**44 075**	**641 515**
Percentage of GDP	*25,4%*	*28,1%*		*25,5%*	*27,6%*		*27,0%*
Expenditure							
State debt cost	53 324	52 916	-408	55 716	52 967	-2 749	50 915
Current payments[1]	90 167	91 413	1 246	97 244	99 193	1 949	109 286
Transfers and subsidies	364 082	379 897	15 815	402 877	427 013	24 135	469 119
Payments for capital assets[1]	6 601	6 647	46	7 430	7 026	-404	7 981
Contingency reserve	5 000	3 000	-2 000	8 000	8 000	–	13 000
Total expenditure	**519 174**	**533 873**	**14 699**	**571 268**	**594 198**	**22 930**	**650 301**
Percentage of GDP	*26,8%*	*27,5%*		*26,7%*	*27,7%*		*27,3%*
Budget balance[2]	**-27 171**	**10 728**	**37 899**	**-24 177**	**-3 032**	**21 145**	**-8 787**

1. Excludes conditional grants to provinces and local government, which are included in transfers and subsidies.
2. A positive number reflects a surplus and a negative number a deficit.

The consolidated national government budget

The consolidated national budget consists of the finances of the main budget, the RDP Fund (into which South Africa's international development assistance grants flow) and the accounts of the social security funds. The consolidated national budget framework is set out in Table 3.7..

Significant surpluses on the UIF and Compensation Funds

Due to significant positive balances on the Unemployment Insurance Fund (UIF) and Compensation Funds, the consolidated national budget balance is higher than that of the main budget throughout the three-year period.

Both the UIF and Compensation Funds are expected to run surpluses due to healthy revenue growth and stable claims trends. These positive balances are forecast to be sustained over the medium term, supported by economic growth and related gains in employment. Expenditure at the Road Accident Fund (RAF) is expected to exceed revenue until 2009/10, when it is projected that the finances of the fund will be broadly balanced. A fuller discussion of the social security funds can be found in Chapter 6.

Table 3.7 Consolidated national budget framework, 2005/06 – 2009/10

R million	2005/06 Outcome	2006/07 Budget	2006/07 Revised	2007/08	2008/09	2009/10
				Medium-term estimates		
National Revenue Fund (main budget)						
Revenue	**411 748**	**446 362**	**475 836**	**544 602**	**591 166**	**641 515**
Expenditure						
State debt cost	50 912	52 049	52 178	52 916	52 967	50 915
Percentage of GDP	*3,2%*	*3,0%*	*3,0%*	*2,7%*	*2,5%*	*2,1%*
Contingency reserve	–	2 500	–	3 000	8 000	13 000
Non-interest allocations[1]	365 848	418 176	418 436	477 957	533 231	586 386
Total expenditure	**416 760**	**472 725**	**470 614**	**533 873**	**594 198**	**650 301**
Percentage increase	*13,1%*	*13,4%*	*12,9%*	*13,4%*	*11,3%*	*9,4%*
Budget balance[2]	**-5 012**	**-26 363**	**5 221**	**10 728**	**-3 032**	**-8 787**
Percentage of GDP	*-0,3%*	*-1,5%*	*0,3%*	*0,6%*	*-0,1%*	*-0,4%*
RDP Fund and foreign technical cooperation						
Receipts and technical cooperation	1 624	1 550	1 550	1 550	1 550	1 550
Expenditure	1 254	1 350	1 350	1 350	1 350	1 350
Social security funds						
Revenue	19 846	19 274	18 871	21 107	23 701	26 258
Expenditure	12 302	14 288	13 932	15 377	16 959	19 121
Consolidated national budget[3]						
Revenue	**430 505**	**467 182**	**496 248**	**567 249**	**616 407**	**669 312**
Expenditure	**427 603**	**488 359**	**485 887**	**550 590**	**612 497**	**670 762**
Percentage of GDP	*27,1%*	*28,5%*	*27,7%*	*28,4%*	*28,6%*	*28,2%*
Percentage increase	*12,2%*	*14,2%*	*13,6%*	*13,3%*	*11,2%*	*9,5%*
Budget balance[2]	**2 902**	**-21 177**	**10 361**	**16 659**	**3 910**	**-1 450**
Percentage of GDP	*0,2%*	*-1,2%*	*0,6%*	*0,9%*	*0,2%*	*-0,1%*
Gross domestic product	*1 580 119*	*1 714 528*	*1 755 340*	*1 938 934*	*2 141 747*	*2 379 299*

1. *Includes transfers to provinces and local government, the National Skills Fund and sectoral skills development funds.*
2. *A positive number reflects a surplus and a negative number a deficit.*
3. *Flows between funds are netted out.*

Consolidated government accounts and the public sector borrowing requirement

Classification provides insight into distribution of funds

Table 3.8 summarises the consolidated expenditure of government. The table is arranged by economic classification, providing insight into how expenditure is distributed within the economy. (Transfers to municipalities and departmental agencies for capital expenditure purposes are recorded as transfers, not as capital spending.)

The consolidated government account includes national, provincial and social security fund expenditure, along with spending by various public entities and government business enterprises. A list of all entities included in the consolidation is included in Annexure D, along with an explanation of the consolidation process.

Table 3.8 illustrates the following trends:

- Real non-interest expenditure grows at an average rate of 7,4 per cent over the MTEF period

- Capital expenditure grows at an average of 15,9 per cent in real terms
- Transfers to municipalities for both current and capital expenditure programmes grow at an average rate of 11,8 per cent in real terms

Transfers to households grow by 5,9 per cent in real terms.

Table 3.8 Consolidated government expenditure, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
		Outcome		Revised estimate	Medium-term estimates		
Current payments							
Compensation of employees	131 700	142 011	155 454	172 316	193 819	211 210	229 584
Goods and services	62 239	69 015	79 400	90 626	102 338	114 464	129 082
Interest and rent on land	50 103	52 230	54 373	55 288	56 120	57 218	55 849
State debt cost	*46 313*	*48 851*	*50 912*	*52 178*	*52 916*	*52 967*	*50 915*
Financial transactions in assets and liabilities	1 110	1 488	1 161	1 024	1 336	1 254	1 969
Total current payments	**245 152**	**264 743**	**290 388**	**319 254**	**353 613**	**384 146**	**416 484**
Real growth [1]		*3,8%*	*5,3%*	*4,8%*	*5,5%*	*3,8%*	*3,7%*
Transfers and subsidies [2]							
Municipalities	14 672	17 457	20 288	30 820	37 814	45 440	49 413
Departmental agencies and accounts	15 422	15 107	18 790	22 517	23 717	25 051	25 140
Universities and technikons	8 869	10 433	11 083	12 529	13 648	15 026	16 408
Public corporations and private enterprises	11 964	12 554	17 229	20 046	21 176	21 230	24 638
Foreign governments and international organisations	796	688	853	982	943	990	1 018
Non-profit institutions	5 745	7 036	8 083	10 521	12 861	15 841	16 954
Households	53 032	62 022	72 176	82 530	93 167	103 282	112 537
Total transfers and subsidies	**110 499**	**125 297**	**148 503**	**179 945**	**203 326**	**226 861**	**246 107**
Real growth [1]		*9,0%*	*13,8%*	*15,5%*	*7,7%*	*6,6%*	*3,8%*
Payments for capital assets							
Buildings and other fixed structures	12 077	12 753	16 540	21 343	29 280	35 835	41 981
Machinery and equipment	5 613	6 264	8 078	7 677	9 243	9 718	10 238
Cultivated assets & land and subsoil assets	187	82	403	251	748	133	218
Software and other intangible assets	1 040	976	2 229	607	923	859	895
Total payments for capital assets	**18 916**	**20 075**	**27 250**	**29 878**	**40 195**	**46 545**	**53 332**
Real growth [1]		*2,0%*	*30,3%*	*4,5%*	*28,2%*	*10,7%*	*9,6%*
Contingency reserve	**–**	**–**	**–**	**–**	**3 000**	**8 000**	**13 000**
Consolidated expenditure [3]	**374 568**	**410 116**	**466 141**	**529 077**	**600 134**	**665 553**	**728 923**
Consolidated non-interest expenditure [3]	**324 465**	**357 886**	**411 767**	**473 789**	**544 013**	**608 335**	**673 073**
Percentage of GDP	*25,2%*	*25,0%*	*26,1%*	*27,0%*	*28,1%*	*28,4%*	*28,3%*
Real growth [1]		*6,0%*	*10,5%*	*9,7%*	*9,4%*	*6,9%*	*5,9%*

1. Deflated using the CPIX deflator.
2. Including capital transfers.
3. Including national contingency reserve.

Compensation of employees remains the largest component of current expenditure. The government wage bill grows from R172,3 billion in 2006/07 to R229,6 billion in 2009/10. This is due to an expansion of employment in priority areas such as health care, justice and policing; real wage increases for specific categories of professionals; and personnel reforms such as the introduction of the Government Employees' Medical Scheme.

Government to expand employment in health care, justice and policing

The three-year wage agreement signed in 2004 contributed to the stabilisation of personnel costs in government, with remuneration adjustments linked to inflation expectations, while allowing for moderate real wage increases. A new agreement will be negotiated in 2007.

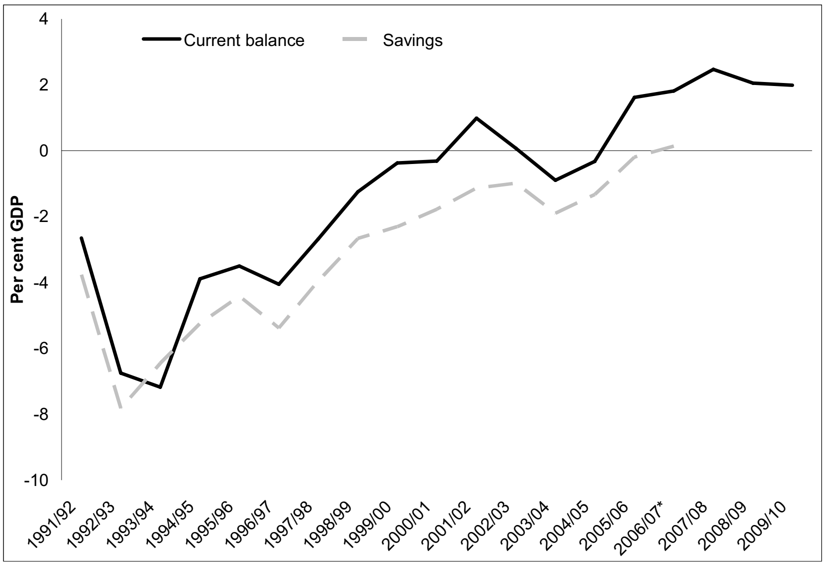
New wage agreement to be negotiated in 2007

Figure 3.3 below shows the current balance and government savings. The current balance measures the difference between current revenue and current expenditure in cash terms, and is a good indicator of the impact of government finances on savings. A negative number for this measure shows that government is borrowing to finance current expenditure while a positive number shows that borrowing is for capital only. The current balance is presented on a cash basis at the consolidated government level – the broadest level for which the *Budget Review* presents forecasts. Savings is a national accounts measure that also takes into account depreciation of capital assets.

Following a significant improvement in the current balance since 2004/05, the current balance is expected to be broadly stable at about 2 per cent of GDP. This shows that borrowing is being utilised to finance capital expenditure and is expected to be positive for government savings.

Borrowing is being utilised to finance capital expenditure

Figure 3.3 Consolidated government current balance, 1991/92-2009/10



**Savings for 2006/07 represent only two quarters of seasonally adjusted and annualised data.*

The consolidated general government account

The consolidated general government account represents the full extent of the revenue and expenditure for all levels of government. These estimates are made by aggregating the revenue and expenditure of the main budget, the social security funds, technical cooperation accounts, the provinces, extra-budgetary institutions (including universities and technikons) and local authorities. Flows between institutions are simultaneously netted out. The consolidated general government account for 2005/06 is set out in Table 3.9.

Table 3.9 Consolidated accounts of general government, 2005/06[1]

R million	Main budget	Social security funds	Provinces	Extra-budgetary institutions[2]	Local authorities[3]	Consolidated general government
Current receipts	410 831	17 133	7 259	17 747	78 717	**531 687**
Tax receipts (net of SACU)	*403 189*	*15 357*	*4 448*	*127*	*25 157*	***448 278***
Non-tax receipts	*7 642*	*1 776*	*2 811*	*17 619*	*53 560*	***83 409***
Sales of capital assets	917	–	116	79	72	**1 184**
Total own account receipts	**411 748**	**17 133**	**7 375**	**17 826**	**78 789**	**532 871**
Percentage of total	*77,3%*	*3,2%*	*1,4%*	*3,3%*	*14,8%*	***100,0%***
Transfers received[4]	1 624	2 713	153 782	37 604	19 788	**1 624**
Total receipts	**413 372**	**19 846**	**161 156**	**55 430**	**98 577**	**534 495**
Current payments	122 673	1 886	127 935	44 800	86 490	**383 784**
Compensation of employees	*45 573*	*724*	*95 128*	*21 740*	*27 126*	***190 292***
Goods and services	*25 874*	*1 161*	*32 667*	*22 774*	*55 147*	***137 624***
Interest	*50 912*	–	*1*	*278*	*1 662*	***52 852***
Other current payments	*315*	–	*138*	*8*	*2 555*	***3 016***
Transfers and subsidies[5]	287 702	10 380	20 654	5 717	–	**110 565**
Payments for capital assets	7 639	36	12 591	2 254	20 309	**42 830**
Total payments	**418 014**	**12 302**	**161 180**	**52 772**	**106 799**	**537 179**
Percentage of total	*77,8%*	*2,3%*	*30,0%*	*9,8%*	*19,9%*	***100,0%***
Budget balance[6]	**-4 642**	**7 544**	**-23**	**2 658**	**-8 222**	**-2 684**
Extraordinary payments	-4 554	–	–	–	–	**-4 554**
Extraordinary receipts	6 905	–	–	–	–	**6 905**
Financing requirement (-)	**-2 291**	**7 544**	**-23**	**2 658**	**-8 222**	**-333**
Percentage of GDP	*-0,1%*	*0,5%*	*0,0%*	*0,2%*	*-0,5%*	***0,0%***

1. Due to classification differences and other adjustments, these estimates do not correspond fully to the government finance accounts published by the Reserve Bank.
2. Including universities and technikons.
3. Including the net financing requirement of local government enterprises.
4. RDP Fund grants are included in the main budget. Grants received by other spheres are transfers from the main budget or from provinces to local authorities.
5. Including transfers and subsidies to other spheres of government.
6. A positive number reflects a surplus and a negative number a deficit.

General government expenditure in 2005/06 totalled R537 billion

In 2005/06, general government raised R532,9 billion, or 33,7 per cent of GDP, in revenue. Of this, 77,3 per cent was collected by national government. General government expenditure in 2005/06 totalled R537,2 billion, representing 34 per cent of GDP. Of this expenditure, 30 per cent and 19,9 per cent took place at provincial and local government levels respectively. The consolidated general government deficit is the sum of the deficits of all the levels of government and extra-budgetary institutions and accounts. In

2005/06, the consolidated general government budget balance was in balance.

The public sector borrowing requirement

Public sector recorded a cash surplus in 2006/07

The public sector recorded a cash surplus in 2006/07, mainly due to the strengthening of the main budget balance and the cash surpluses of the non-financial public enterprises.

Over the medium term, infrastructure and capital expenditure at all levels of government will accelerate, and part of this will be financed through the capital markets. Both Transnet and Eskom have taken steps to improve their balance sheets to be able to finance part of their capital programme from borrowings.

Despite import content, capital programme boosts productive capacity

While government's capital programme will have significant import content, it represents investment in productive capacity and contributes to strengthening the long-term growth and export potential of the economy.

Table 3.10 Public sector borrowing requirement[1], 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
		Outcome		Revised estimate		Medium-term estimates	
Main budget balance	**29 278**	**20 687**	**5 012**	**-5 221**	**-10 728**	**3 032**	**8 787**
Extraordinary payments	7 443	9 787	4 554	4 207	400	–	–
Extraordinary receipts	-1 598	-2 492	-6 905	-3 342	-1 250	-1 250	-1 250
Financing requirement	**35 123**	**27 982**	**2 661**	**-4 356**	**-11 578**	**1 782**	**7 537**
RDP Fund	2	-37	-370	-200	-200	-200	-200
Social security funds	-3 546	-5 372	-7 544	-4 939	-5 730	-6 742	-7 137
Provinces	2 874	-2 123	23	214	282	-1 342	-2 874
Extra-budgetary institutions	-1 249	-1 126	-2 658	-2 852	-2 019	-1 918	-2 014
Local authorities	5 116	8 388	8 222	8 510	10 769	12 191	13 523
General government borrowing	**38 320**	**27 713**	**333**	**-3 624**	**-8 477**	**3 771**	**8 834**
Percentage of GDP	*3,0%*	*1,9%*	*0,0%*	*-0,2%*	*-0,4%*	*0,2%*	*0,4%*
Non-financial public enterprises	-8 582	-5 754	-12 348	-7 796	13 620	20 954	23 472
Public sector borrowing requirement	**29 738**	**21 959**	**-12 015**	**-11 420**	**5 144**	**24 725**	**32 306**
Percentage of GDP	*2,3%*	*1,5%*	*-0,8%*	*-0,7%*	*0,3%*	*1,2%*	*1,4%*
Gross domestic product	*1 288 952*	*1 430 673*	*1 580 119*	*1 755 340*	*1 938 934*	*2 141 747*	*2 379 299*

1. A negative number reflects a surplus and a positive number a deficit.

Extraordinary receipts in 2006/07 are estimated to increase to R3,3 billion

Extraordinary payments in 2006/07 reflect a partial payment of R3,8 billion in respect of government's Saambou Bank liability carried forward from 2005/06. Extraordinary receipts in 2006/07 are estimated to total R3,3 billion, mainly due to special dividends from Telkom and the Airports Company of South Africa. For each year of the MTEF, provision is made for R1,3 billion in premiums on loan issues and proceeds from the agricultural debt account. A more detailed discussion of extraordinary receipts and payments is presented in Chapter 5.

Eskom infrastructure investment

Eskom is in the process of revising its capital investment plans. The table below reflects Eskom's estimates at the time of the *2006 Medium Term Budget Policy Statement*.

The bulk of Eskom's investment is channeled towards improving electricity generation capacity to meet demand. Expenditure at the end of the first nine months of the 2006/07 amounted to R10,7 billion. The return-to-service stations at Camden (R5,2 billion), Grootvlei (R4,7 billion) and Komati (R6,1 billion) were re-commissioned. Of these power stations, Camden already has four units that are commercially operational, with an additional unit coming on line at the end of March 2007.

Eskom capital expenditure[1], 2006/07 – 2010/11

R million	2006/07	2007/08	2008/09	2009/10	2010/11	Total
Generation	9 862	8 945	13 977	20 106	23 986	76 876
Transmission	1 630	2 875	3 143	3 271	1 653	12 572
Distribution	3 056	3 557	3 506	3 657	3 962	17 738
Corporate	405	348	364	349	348	1 814
Other	35	57	364	1 282	2 678	4 416
Total funded by Eskom	**14 988**	**15 782**	**21 354**	**28 665**	**32 627**	**113 416**

1. The above table represents Eskom's R97 billion capital expenditure plan as measured in nominal terms.

Other generation projects include the open cycle gas turbine projects in Mossel Bay and Atlantis (with a combined cost of R3,5 billion), each of which should have two units operating before winter 2007. Eskom is also planning to double the capacity of its proposed 2 250-MW "Project Alpha" base-load facility. In order to improve transmission capacity, Eskom has completed the Platinum Basin project (R1,3 billion) and is due to complete the strengthening of the Cape Western Grid (R1,1 billion) later this year. A further 1 450 kilometres of transmission lines, to the southern and western Cape, are also due to be upgraded over the next two years. As of 31 December 2006, expenditure amounting to R3 billion had been directed to refurbish, strengthen and maintain the reliability of the distribution network.

Transnet infrastructure investment

Transnet is currently revising its capital investment plans. The table below reflects Transnet's estimates at the time of the 2006 *Medium Term Budget Policy Statement*. The five-year total has been revised upwards from the 2006 *Budget Review,* from R32,7 billion to R64,7 billion.

Transnet capital expenditure, 2006/07 – 2010/11

R million	2006/07	2007/08	2008/09	2009/10	2010/11	Total
Spoornet	7 253	6 991	6 822	5 367	5 038	**31 471**
NPA	1 964	4 353	4 268	3 395	4 044	**18 024**
SAPO	1 703	2 769	1 355	413	326	**6 566**
Petronet	266	503	1 291	2 038	860	**4 958**
Other[1]	554	596	715	840	965	**3 670**
Total core business	**11 740**	**15 212**	**14 451**	**12 053**	**11 233**	**64 689**

1. Includes Transwerk, Protekon and corporate services.

Investments by Transnet aim to expand rail and ports capacity. The Sishen-to-Saldanha iron ore line and the Richards Bay coal line are both being expanded at a total estimated cost of R4,9 billion. Expenditure to improve efficiencies at ports includes the Cape Town container terminal expansion (R1,8 billion); a container terminal at the Port of Ngqura, and making the port operational (R4,8 billion); and the expansion of Durban's Pier 1. The widening of the Durban harbour entrance channel is expected to start in 2008.

Public private partnerships

PPPs create opportunities for private investment in public infrastructure

Over the past decade, government has sought to expand partnerships with the private sector through mutually beneficial contractual arrangements. Public private partnerships (PPPs) recognise that private parties have a comparative advantage in delivering certain services, and can do so more efficiently than government, if the incentives are structured appropriately. PPPs provide an additional mechanism to deliver public goods, services and infrastructure on the explicit understanding that risk is transferred to the private party for an agreed annual fee paid during the concession period.

There are now 17 PPPs in operation

Agreements for six PPP projects were finalised in 2006/07 and a further two are expected in the first half of 2007/08. There are now 17 PPPs being implemented. These include the Gautrain, the Department of Transport's car fleet management agreement with seven participating departments, Inkosi Albert Luthuli hospital in Durban and the vaccine production PPP, which has commissioned formulation and quality-control facilities in Cape Town and Port Elizabeth.

After 2011/12, Gautrain's costs will be covered by operating revenue

After many years of planning and negotiations, the Gautrain reached financial close in January 2007. This is Africa's largest PPP project. The project has a 54-month development period, although the first part of the 80km high-speed commuter rail system will be operating by June 2010. Over the MTEF, national and provincial government each contribute R8,8 billion, and the private sector contribution amounts to R2,1 billion. During the development phase (2006/07—2011/12) the total project cost to government, excluding land and contract management fees, amounts to R22,6 billion. After 2011/12 the project will move into the operational phase and costs will be covered by operating revenue.

Six municipal PPPs are registered with National Treasury

There are six municipal PPPs registered with the National Treasury in the areas of solid waste management, commercial property development and water services. The National Treasury's PPP unit will issue guidelines for municipal PPPs early in 2007.

As part of improving contract management throughout government, the contract management plans and systems for PPP projects that are under way will be reviewed, with assistance given to the implementing departments where necessary.

Feasibility studies have been completed for 52 projects

Table 3.11 shows the total value of 23 of the 52 projects under consideration for which comprehensive feasibility studies have been completed. Outer-year estimates are expected to rise as more projects are approved for PPP consideration. These numbers exclude national toll roads undertaken by the National Roads Agency.

Table 3.11 PPP Project capital value by sector[1]

Sector	2007/08	2008/09	2009/10
R million	Medium-term estimates		
Health care	116	45	4
Transport	7 169	6 194	4 860
Other infrastructure	3	1 333	1 330
Serviced accommodation	641	2 270	1 162
Information technology	37	37	37
Total	**7 966**	**9 879**	**7 393**

1. Includes government capital contributions.

Conclusion

Fiscal stance balances investment with long-term requirements

South Africa's fiscal stance balances the need to encourage investment in services and infrastructure with the long-term priority of raising household income and savings. It provides a buffer against economic volatility and creates the space to consider the kind of long-term reforms now under consideration with regard to the social security system.

Demand for capital goods increases public-sector borrowing

Public-sector borrowing is expected to grow over the next three years, driven by demand for capital goods. Large-scale public investment will expand the capacity of both government and the economy. Government savings have improved significantly over the last three years, and the continuation of this development, combined with significant growth in capital expenditure, will contribute to the acceleration of economic growth.