

BUDGET 2004
A VERY GOOD BUDGET
BUT A COUPLE OF
CONCERNS

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An immediate response by

idasa

Budget Information Service

Telephone: (021) 467-5600

Fax: (021) 462-0162

Website: <http://www.idasa.org.za/bis>

Introduction

Government needs to be applauded yet again, from a pro-poor perspective, for the spending plans announced for the MTEF period 2004/05 – 2006/07 in, National Budget 2004. Even in the context of the slow-down in economic growth, and with marginal additional revenue to play with, National Treasury managed to continue the trend (begun in 2001) of further raising expenditure on government services whilst still allowing debt service costs to fall as a percentage of GDP and offering moderate tax relief (R4 billion). Government also continued to prioritise the needs of the poor in the distribution of spending. The distribution of government spending favours sectors crucial for poverty reduction and the spending plans prioritise a handful of areas that are particularly important for poverty reduction. The latter include the following.

- Job creation (for example through an expanded public works programme)
- Infrastructure
- Education (focusing on tertiary education and learner support materials)
- HIV/AIDS
- Protection services
- Social assistance

However, there are two concerns that need to be raised in relation to Budget 2004.

- The first is the small real growth over the MTEF in health expenditure (after HIV/AIDS spending has been subtracted).
- The second is the implications of government's policy stance – referred to in the President's State of the Nation Address and reflected in the Budget - to the effect that there is no need to continue the debate on how the social security net can affordably be extended to reach those millions of poor people who still have to wait for their basic constitutional socio-economic rights to be realised. It is understandable why government is hesitant to negotiate a further extension of the social security net – social assistance already absorbs so much of total government spending and there seems little space to do more without raising taxes or/and the deficit. However, the stance is insufficient in the light of the continued limited prospects for the millions of poor unemployed people to find work and the Constitutional obligation to ensure that as a society, we find ways to provide sufficient income to all people to meet basic needs.

An overview of Budget 2004 is provided below, focusing on the expansionary fiscal stance in the context of slower than expected growth, the distribution of resources and key spending initiatives for the poor. The two concerns are then presented, followed by a call for more research and debate involving civil society, government and the private sector, on what can possibly be done to ensure that sufficient income can be made available in society, to transfer to poor people through the Budget, for meeting the basic needs of the poor. It is argued that because there is little room to increase the share of social assistance within the current total fiscal envelope – social assistance already absorbs a large share of total spending and there is little space to take funds from competing priorities – the debate will have to focus on the following questions:

- Whether slightly higher economic growth in the economy can allow the deficit to be slightly increased to finance more income support to the poor
- How taxes could possibly be changed to raise further revenue for channelling to finance basic socio-economic rights for all (without undermining sustainable growth and poverty reduction in the medium to long run).

1. Overview highlighting pro-poor features

1.1 Macroeconomic policy: Downward adjustments to economic growth but still a favourable forecast

In the budget presented yesterday, not surprisingly, the real GDP growth forecast for 2003/04 was adjusted downwards, from the 2.2% predicated in the MTBPS to 1.6%. The forecast for GDP growth for the first two years of the MTEF period was also adjusted slightly downwards – from 3.5% to 3.3% and 3.8 to 3.6 % respectively. Whilst the downward adjustment is negative, the rates of economic growth predicted for the MTEF are still favourable in light of the recent economic growth performance of the economy. They are also in line with predictions of private sector economists about what real economic growth rates we can expect.

Table 1: Macro-economic forecast in Budget 2004 compared to forecast in MTBPS 2003

%	2003/04		MTEF					
			2004/05		2005/06		2006/07	
	MTBPS	Budget	MTBPS	Budget	MTBPS	Budget	MTBPS	Budget
Economic growth	2.2	1.6	3.5	3.3	3.8	3.6	4.0	4.0
CPIX inflation	5.6	5.4	5.3	5.2	5.4	5.5	5.1	4.9

Source: National Treasury 2003:32, Table 2.4 and National Treasury 2004b:53.

The inflation forecast in the budget is positive. CPIX rates were adjusted downwards compared to the rates predicted when the MTBPS was presented in November (except for a slight upward adjustment in 2005/06). From a level of just under 10% in 2002/03, 'CPIX is now firmly within the target range of 3-6 percent' (National Treasury, 2004a:11).

In the overview of the macroeconomic outlook of the economy, *the Budget Review 2004* acknowledges the extent of the unemployment challenge that still needs to be reversed.

1.2 Fiscal policy: Real increases in spending with marginally more revenue and slight downward adjustments to deficits

'Economic growth in 2003 lagged somewhat behind our expectations, but we are nonetheless able to steer a course that builds on the spending and tax plans announced in previous years, and we can take several significant steps forward in progressively meeting the social and economic development challenges before us....The framework for the 2004 Budget is, again, able to provide additional resources to spend on our priorities' (National Treasury, 2004a:3&13).

Since 2001, after a period (1996-2000) of attention to paying off debt and building institutional capacity for spending, fiscal policy became more expansionary. This expansionary stance was particularly evident in the plans for spending presented for the MTEF 2004/05-2006/07 when MTBPS 2003 was tabled. The MTBPS announced real increases in government spending of 4.4% per year over the MTEF (despite a tight revenue position), financed by pushing up deficits.

The spending, revenue and deficit plan for the MTEF 2004/05, presented in Budget 2004 is illustrated below, together with that presented in the MTBPS 2003.

Table 2: Main budget framework presented in the MTBPS 2003 and in Budget 2004

R billion	2003/04		2004/05		MTEF		2006/07	
	MTBPS	Budget	MTBPS	Budget	2005/06	Budget	MTBPS	Budget
Total revenue	299.9	300.3	325.7	326.9	357.8	360.2	391.0	394.0
Deficit	-31.6	-31.3	-41.8	-41.9	-45.4	-44.3	-44.3	-45.0
% of GDP	-2.6	-2.6	-3.2	-3.1	-3.1	-3.0	-2.8	-2.8
Total expenditure	331.5	331.6	367.5	368.9	403.1	404.6	435.3	439.0

Source: National Treasury, 2003:37 and National Treasury, 2004b:59

As can be seen from Table 2, despite a less favourable economic growth environment emerging since November 2003, the Main Budget Framework is still slightly more favourable than that presented in November. Revenue and expenditure have been adjusted slightly upwards for all years. The deficit has been adjusted slightly downwards for 2004/05 and 2005/06.

The total main budget revenue estimate for 2003/04 has been revised slightly upwards to R300,3 billion, which is R0,4 billion more. The total main budget revenue estimate for 2004/05 is R1,3 billion higher than the estimate published in the MTBPS and National Treasury now expects to collect R327 billion in revenue in the upcoming fiscal year. Revenue estimates for 2005/06 and 2006/07 have been adjusted upwards by R2.5 billion in 2005/06 to R360 billion and by R3 billion in 2006/07 to R394 billion. Total expenditure for 2003/04 has been adjusted upwards by .1 billion, for 2004/05 by 1.4 billion, for 2004/05 by 1.5 billion and for 2006/07 by 3.7 billion.

Table 3 below illustrates the favourable real growth¹ in spending (total and per capita) generated by the main budget framework presented in Budget 2004.

Table 3: Real growth in government spending after debt service costs (total and per capita²) as reflected in main budget framework

Percentage	2003/04	2004/05	2005/06	2006/07
Total real growth	11.0	6.3	4.4	3.3
Per capita real growth	9.7	5.4	3.6	2.8

Source: National Treasury 2004b:59 and Dorrington et al. 2002.

The framework allows for an increase in average real growth in total government spending over the MTEF period of 4.6%, an increase of .02% above that predicted in the MTBPS. Whilst the rate of expansion of total government spending facilitates real increases over time, as Table 3 reveals, real spending on a per capita basis, falls over time.

1.3 Tax proposals

In the Budget government once again granted tax relief to income earners, although modest in comparison with previous years. Personal income tax relief of R4 billion has

¹ For all the conversions from nominal to real values in this document we used the GDP inflation rates supplied by National Treasury in the Budget (Budget Review 2004:53, Table 2.8) and 2003/04 as a base year. The exception is for the conversion of the value of the grants, which was based on CPIX data supplied in the same place in the Budget Review.

² To convert spending data into per capita data we have used Dorrington et al's estimates of the size of the population. See the reference at the end of the document.

been proposed, with 60% of the tax relief benefiting taxpayers earning less than R150 000 per year. The main components of the personal income tax relief is the increase of the tax threshold by 7,4% to R32 222 (the tax threshold for taxpayers age 65 and over has been increased to R50 000, up from R47 222) and the adjustment of tax brackets across the entire spectrum.

Domestic interest and dividend exemptions have been increased from R10 000 to R11 000 for taxpayers under 65, and from R15 000 to R16 000 for taxpayers 65 years and older. This is of special significance for pensioners living off their interest income.

The exempt threshold for transfer duty (payable when buying property) has been increased from R140 000 to R150 000, benefiting low-income house buyers. Stamp duties on mortgage bonds have also been removed.

A number of indirect taxes have been increased, with increases in the “sin taxes” on tobacco and alcohol expected to contribute R1,5 billion more to revenue collection in 2004/05. The proposed increase of 10 cents per litre in the general fuel levy on petrol and diesel will raise approximately R900 million in additional revenue. Ad valorem duties on a range of products including recorded music, clocks and watches have been removed.

1.4 The distribution of spending

1.4.1 The distribution across functions and sectors

In the Appendix, three tables are provided that are useful for understanding how different functions and sectors have been prioritised in the spending plans for the MTEF announced in the Budget.

- The first shows real growth in total consolidated provincial and national government spending across functions and sectors (Table A1).
- The second shows real growth in per capita consolidated provincial and national spending across functions and sectors. (Table A2).
- The third shows how the shares of sectors and functions in consolidated national and provincial spending will rise over the MTEF. (Table 4.3)

The information on annual average real growth over the MTEF period shows that the economic services, and social services function, in that order, have been prioritised in the distribution of total spending. With regard to sector prioritisation, the priorities are mining, manufacturing and construction, welfare and other economic services. If we focus on the first year of the MTEF, other priorities, in addition to welfare and mining are housing, fuel and energy, agriculture and health.

The share of the social services is to rise from 50.5% in 2003/04 to 50.8% in 2006/07. Within social services, education's share decreases from 19.9% in 2003/04 to 18.8% in 2006/07. Welfare's share rises from 14.6% in 2003/04-16.5% in 2006/07. Health's share decreases from 11.3% in 2003/04 to 11.0% in 2006/07.

1.4.2 The division of revenue

The division of revenue once again prioritises local and provincial government. National government's share falls from 38.9% in 2003/04 to 37.4% in 2006/07; Provincial government's rises from 56.8 to 58%; Local government's rises from 4.4% to 4.6%. This is in line with the Budget's prioritisation of basic and social services in the distribution of allocations: provinces have the primary responsibility for financing and implementing social services (including health, welfare and education aside from higher education) and local government has the responsibility for basic services and a large portion of infrastructure spending.

1.4.3 Key spending initiatives for the poor announced in the budget

In line with the spending plans announced in the MTBPS, the following spending areas, which are beneficial for poverty reduction, are prioritised in the budget.

HIV/AIDS

- Budget 2004 provides an increased allocation to the Department of Health for HIV/AIDS. This allocation includes funding of R1.9 billion to provinces for the roll out of the anti-retroviral treatment (ARV) programme. R90 million was allocated in the Adjusted Estimates for 2003/04, while R300million is allocated for 2004/05, R600million for 2005/06 and R1billion for 2006/07. In addition, an amount of R161million is given to the national department "to provide adequate oversight of the treatment programme, the national department receives an additional R161 million" (Budget Review 2004: 138).
- The HIV/AIDS overall Health Conditional Grant (including the ARV allocations) increases massively from R334million in 2003/04 to R782million in 2004/05 and again to R1.1billion in 2005/06 and R1.6billion in 2006/07. This represents real increases of 123%, 38%, and 32% over the MTEF period. However, the majority of these increases are due directly to the new ARV allocations.
- The HIV/AIDS Lifeskills Conditional Grant to the Department of Education has decreased from R132million in 2003/04 to R129million in 2004/05. This represents a real decrease of 7%. In the two outer years of the MTEF (2005/05 and 2006/07), the lifeskills grant increases in nominal terms from R129million to R136million and R144million respectively. However, this represents no increase in real terms for 2005/06, and only an increase of 1% in 2006/07.
- The HIV/AIDS Community and Home Based Care Conditional Grant to the Department of Social Development increases nominally by R4million to R70million in 2004/05, which is only a 1% increase in real terms. Further, in 2005/06 and 2006/07 the allocations increase to R74million and R79million respectively, in nominal terms. These equate to no real increase for 2005/06 and only a 2% real increase for 2006/07.
- The National HIV/AIDS Directorate in the Department of Health, after subtracting the conditional grants which get sent to the Provincial Departments of Health, will receive R430million in 2004/05, R410million in 2005/06 and R441million in 2006/07. The MTBPS 2003 indicated that a total amount of R12billion was to be allocated to HIV/AIDS activities over the MTEF. However, it must be stressed

that these figures include funds which are to be sent via the Equitable Share (ES) to provinces.

Job creation

An expanded public works programme (EPWP) is one of the main ways in which job creation is to be addressed. The allocations for the EPWP in the MTEF 2004/05 announced in the Budget are particularly positive in light of the continued need for creating jobs for poor people. The latest Labour Force Survey from Statistics South Africa (March 2003) reveals the extent of the problem of unemployment. Using the unofficial definition of unemployment, 31% (or about 5 million people) are unemployed. Using the expanded definition, 42% (or about 8 million people) are unemployed.

The way in which the programme is to be implemented is through four sectors: infrastructure, environment and culture, social and economic. The allocations over a five year period are R15 billion for infrastructure, R4 billion for environment and culture and at least R600 million for social. The allocations for the economic sector are still being determined. The Department of Public Works is to play a co-ordinating function and it seems from the Budget that for this 2004/05, R10 million has been allocated, R13 million for 2005/06 and R15 million for 2006/07.

Social assistance

Social assistance is critical for helping the millions of people that are still living in poverty (estimates indicate around 22 million) and staying true to the Constitutional obligation to realise everyone's basic socio-economic rights. Government has made rapid progress in expanding income support to those in need – primarily through rolling out social assistance via various programmes – in the first ten years of democracy. It has recently been estimated that with effective implementation of the current social assistance and public works programmes, about half of those in need of income support will be able to access income from the state (either through a grant or a job). However, the current gaps in coverage that remains implies that just over 10 million people will still be without recourse to the state for income support, even though they will have insufficient income to meet basic needs.

The spending plans announced in the Budget illustrate government's continued prioritisation of income support to the poor in the allocation of the total spending envelope. As already highlighted above, welfare (of which social assistance spending is the majority) already absorbs a high proportion of consolidated provincial and national spending. Consolidated national and provincial welfare spending is to rise from 14.% in 2003/04 rising to 16.5% in 2006/07. The percentage of social assistance in provincial budgets is already large and will rise further in the near future to support increases in the value of grants and changes in the demographic profile of the population. The following are positive highlights in the spending on welfare announced in Budget 2004.

- More allocated for social grants to finance increases in values (from April 1 2004) that were announced in the Budget:
In the Budget, the Minister announced that the Child Support Grant will increase to R170; this translates into a real increase to R162 (of only 1%). The Old Age

Pension will increase to R740, as well as the Care Dependency and Disability Grants; this translates into an increase into R703 in real terms (of only 0.49%).

- Allocations to finance the roll out of the extended child support grant (CSG) programme:
In the 2003 National Budget,, government announced an increase in the age eligibility for the CSG. The age was raised to children under 9 in April 2003/04, to those under 11 in April 2004/05 and to those under 14 in April 2005/06. The CSG programme is being financed through two mechanisms: the provincial equitable share and the child support extension conditional grant. The spending plans announced in the MTBPS for the MTEF 2004/05 included new allocations to the provincial equitable share for the roll-out of the extended CSG programme. They also included the addition of R2.5 billion (for 2006/07) to the child support extension conditional grant, to provide for additional beneficiaries (National Treasury 2003:66,79). No further allocations to the CSG conditional grant were made in the 2004 National Budget. The rise in the provincial equitable share is partly for financing the higher value of CSG payments implied by the increase in the value of the grant.
- The National Department of Social Development sees real growth over the medium term at an average of 6%. This is largely to finance finalisation of the Social Assistance Bill, the South African Social Security Bill, implementation of the extension of the CSG, research projects on child headed households and the social impact of the CSG.
- Allocations for the establishment of the National Social Security Agency increases by 452% since Budget 2003, from R6.1 million in 2003/04 to R33.6 million for this year (2004/05). The allocation for the agency for 2005/06 is R46.4 million and R50.1 million (2006/07). The average nominal growth between 2004/05 and 2006/07 is 23% (National Treasury, 2004c: 503). The allocations are specifically to: improve the administration and payment of grants; strengthen management and administrative capacity in the national department to establish the agency and oversee it and, replace the information and payment system (Socpen).

Protection services

The protection offered through the departments of Safety and Security and Justice and Constitutional development is critical for poor women and children, as they are most vulnerable to crime. The recognition of women and children's vulnerability has increased within these departments and protection services are prioritised in the MTBPS 2003 and Budget 2004 spending plans.

Within the MTBPS 2003, protection services received prioritisation as government recognised crime prevention as a core priority. The allocations for Justice, Police and Prisons are R39.7billion for 2004/05, R43.2billion for 2005/06 and RR46.1billion for 2006/07. With regard to policing, emphasis was placed on increasing personnel by 3000 over the MTEF, expanding the number of vehicles and updating IT infrastructure. With regard to justice, attention was given to modernising the criminal justice system and prioritising services to vulnerable groups, with specific emphasis on the implementation

of the Child Justice Bill, Children's Bill, roll out of sexual offences courts and appointment of maintenance officers as well as family advocates and counsellors.

- Budget 2004 indicates increases to the baseline allocations (made in the MTBPS 2003) for both Justice and Constitutional Development and Safety and Security. The Department of Justice and Constitutional Development receives an additional R109million in 2004/05, R158million in 2005/06 and R208million in 2006/07. Safety and Security receives additional increases of R349 million, R607million and R921million over the MTEF. These additions are attributed to those areas outlined within the MTBPS 2003, namely, personnel increases, modernisation of IT infrastructure and support to vulnerable groups.
- It is noteworthy that specific attention is given to the way in which the protection services offered through the departments of Safety and Security, and Justice and Constitutional development pay attention to vulnerable groups. The department of Justice and Constitutional Development has set aside R494million over the 2004 MTEF to provide services for vulnerable groups which includes the roll-out of sexual offences courts, and extension of family advocates to family court. It is not possible to discern from the budget the exact allocation given for services such as the roll-out of sexual offences courts, and it is concerning that no mention was made to funds being set aside for the implementation of the Sexual Offences Bill.
- Within Budget 2004, the department of Safety and Security reports that they will increase their personnel by 16200 over the MTEF – this will be in addition to the replacements needed because of staff turnover.

Infrastructure

In 2001 government began to prioritise increasing infrastructure investment. Infrastructure has been pushed in all subsequent budgets, the Budget 2004 being no exception. Unfortunately the Budget Review provides insufficient information to accurately portray the planned rate of expansion in infrastructure spending.

The lack of comprehensive figures seems to relate to weaknesses in provinces' budget formatting and reporting and the general inadequacy in local government budgets. The only comprehensive figures that are available cover national department infrastructure expenditure, including all national infrastructure transfers to provincial and national government, although even these figures were not reflected adequately in the *Budget Review*. They have to be derived from individual department entries in the *Estimates of National Expenditure* (National Treasury, 2004c) and conversations with National Treasury officials.

Table 4 aims to provide an indication of the extent of prioritisation of infrastructure spending. It provides information, on the total infrastructure spending by national departments, including all transfers to provinces and local government. It also illustrates the real growth rates in the allocations for the MTEF period and compares them to the real growth in non-interest national government sphere infrastructure spending over the MTEF as proposed in the budget and gathered from National Treasury and the *National Estimates of Expenditure* (National Treasury 2004c).

Table 4: Real growth in the total national sphere infrastructure budget as compared to the real growth in various total expenditures

R bn	2003/04	2004/05	2005/06	2006/07	Real growth 2003/04 to 2004/05	Real average annual growth 2003/04 to 2006/07
National infrastructure expenditure (including all national infrastructure transfers)	16.5	19.8	21.3	22.46	13.9%	5.4%
Consolidated national and provincial spending (excluding contingency reserve and interest)	304.14	333.331	365.401	392.399	4.0%	3.3%

Source: *National Treasury, Personnel communication and National Treasury, 2004b:144 and 129 and own calculations and National Treasury, 2004c.*

What is required to facilitate monitoring of prioritisation of infrastructure spending is better data in the Budget documents on infrastructure spending of provinces and local government funded from equitable share and own revenue.

Education

Budget 2004/05 strongly emphasizes human resources development, in particular education. Priorities are higher education, learner support materials and the primary school feeding scheme.

- This year the National Education budget has grown by 1.89% in real terms from 2004/05. A programme demonstrating substantial growth is the General Education Programme. Over 80% of the National Education budget is allocated to the Higher Education Programme indicating its importance in the Education system. This year an additional R1 billion has been allocated to assist further overhauling of the higher education system.
- Provincial education budgets are expected to grow by 8.4% in 2004/05, mainly to provide for Learner support material (LSM) and school infrastructure.
- The Primary School Nutrition conditional grant has increased by 17% since last year and is expected to demonstrate an annual average nominal growth rate of 16% over the rest of the MTEF. As of 1 April this year, the Education Department will be responsible for the PSNP (previously this programme was implemented by the provincial health departments).

Basic services

National resources going to local government are meant to support municipalities to extend service infrastructure in poor areas and the ongoing operation of these services by supplementing the resources that this sphere is able to raise through taxes and user charges. One of local government's key tasks is to implement government policies on basic service provision. This includes deciding on the phasing of extension, the physical location of services, the level of service (at or above the national minimum standards), and putting in place local funding arrangements that are able to sustain them.

Budget 2004 prioritises the extension of basic municipal services to the poor. This is reflected in real growth over the MTEF in resources allocated to the local government equitable share and infrastructure grants being significantly above the average growth of national resources going to all spheres of government. As can be seen in table 5 below, between 2003/04 to 2006/07, the LGES is projected to grow at a real rate of 8.1% and the infrastructure grants at 7.5%, as against a national average for 3.9% for all resources.

Table 5: Division of revenue highlighting local government's equitable share and infrastructure grants

R000 000 nominal	2003/04	2004/05	2005/06	2006/07	2003/04- 2004/05	An. Av. MTEF
National	110494	120597	131047	139677	3.6%	2.6%
Provincial	161476	181129	199705	216345	6.4%	4.6%
Equitable Share	144743	159971	173852	186392	4.9%	3.3%
Conditional Grants	16733	21158	25853	29953	20.0%	15.3%
Local Government	12390	14245	15916	17091	9.1%	5.7%
ES and related	7352	8536	9578	10355	10.2%	6.4%
Infrastructure	4137	4986	5589	5987	14.3%	7.5%
Current transfers	901	723	749	749	-23.9%	-10.2%
Total	284360	315971	346668	373113	5.4%	3.9%

National Treasury, 2004b: Table 7.7:164 and Table 6.2:129.

2. Concerns

Government must be commended for a sterling performance in using available revenue and expenditure to advance the interests of the poor. However, as referred to above, the spending plans announced in the Budget and policies reflected in the Budget raise two particular concerns in light of the context of poverty and unemployment in South Africa and socio-economic rights enshrined in the Constitution.

2.1 Insufficient growth in spending on health

Positive real growth in consolidated national and provincial health expenditure, including the HIV/AIDS allocations, has been projected at an annual average of 2.9% for the MTEF. The small size of the increase becomes more noticeable when the HIV/AIDS allocations are removed: the real increase for 2004/05 drops from 1.8% to 0.8% and the annual average real growth drops to 2.1%.

The rate of real growth in consolidated national and provincial health spending is insufficient in light of the need for spending on more staff and equipment to improve health services and facilitate effective rolling out of key programmes (such as ARVS and the programme to prevent transmission of HIV from mother to child). The greatest challenge to the launch of an ARV programme is the massive infrastructure, personnel, and training requirements in the public health sector

The insufficient prioritisation of health spending is reflected not only in the size of the real growth in consolidated national and provincial spending (after HIV/AIDS has been removed). It is also reflected in the size of real growth in health conditional grants (after

subtracting the HIV/AIDS grant). Health conditional grants (excluding HIV/AIDS grant) increase by only 0.9% on average in real terms over the MTEF as opposed to the average of 5.6% when HIV/AIDS conditional grant is included. The problem is most notable when only 2004/05 allocations are considered. Between 2003/04 to 2004/05 the rate of growth for conditional grants, including the HIV/AIDS grant is 8.2%. Excluding the grant, the increase is only 2.3%. The HIV conditional grant increases by 123%

2.2 The millions that will still wait for realisation of basic socio-economic rights

The Constitution, the cornerstone of our democracy, obliges South Africa to develop an institutional and development framework that facilitates the meeting of basic needs for all. This commitment is reflected in the socio-economic rights given to everyone in the Bill of Rights, which are designed to ensure that no one has too little income and insufficient access to basic and social services to live a decent life (life of dignity).

The Budget, by supporting growth and employment creation and financing expanded roll-out of basic and social services to the poor, *will help* towards the fulfilment of the basic socio-economic rights afforded everyone in the Constitution. However, we must not lose sight of the fact that once the applause on the Budget has died down, millions of people (around 10 million and including about 8 million unemployed), will still be struggling to meet basic needs, will have limited prospects for a job and have no recourse to the state for income support.

In his State of the Nation address, President Mbeki made it clear that government is of the opinion that in the second decade of democracy, the key challenge that remains for eradicating poverty, relates to implementation of *existing* policy. This implies that contrary to the suggestions of the Taylor Committee of Inquiry into developing a comprehensive social security system for South Africa, we do not need to focus debate on whether and how social assistance and fiscal policy (including tax and deficits) can possibly be adjusted to channel more resources to the millions of poor people still without income to meet basic needs. This policy stance towards further extending the social security net was echoed in the Budget Speech. This stance we believe is problematic. We need to acknowledge that with the current size of the total revenue available for spending, and rate of economic growth, Treasury, and provinces, have little extra room to manoeuvre allocations in order to finance more spending on social assistance. However, this must not translate into government advocating a closure of the debate over how the economic growth and policy environment can be changed to ensure that in the spirit of the Constitution, people still waiting for economic growth to benefit them, do have recourse to the state for income support. Government should lead research and discussion on how to develop a more comprehensive system of social assistance that does not compromise the ability to generate sustainable poverty reduction through economic growth and private sector employment creation. In this regard, questions to focus on will include:

- Can the deficit be pushed slightly upwards without compromising sustainable development?
- Is there room for changing tax to make more room for spending on the basic rights of the poor?

Appendix

Table A1: Real growth in consolidated provincial and national expenditure by function and sector, 2003/04-2006/07

Real percentage growth	2003/04 - 2004/05	2004/05 - 2005/06	2005/06 - 2006-07	Av.An MTEF
Protection Services	2.9%	2.7%	-0.2%	1.8%
Defence and intelligence	-2.1%	2.5%	-3.3%	-1.0%
Police	5.3%	3.6%	1.7%	3.5%
Prisons	6.1%	1.8%	1.3%	3.0%
Justice	8.7%	1.5%	1.4%	3.9%
Social Services	5.2%	4.1%	2.5%	3.9%
Education	3.1%	1.3%	0.9%	1.8%
Health	1.8%	4.9%	1.9%	2.9%
Welfare	10.4%	7.6%	5.4%	7.8%
Housing	6.4%	5.2%	-1.2%	3.5%
Community development	6.2%	0.6%	0.8%	2.5%
Economic Services	4.2%	5.3%	3.4%	4.3%
Water schemes, related services	0.0%	4.7%	1.2%	2.0%
Fuel and energy	3.1%	7.7%	-4.7%	2.0%
Agriculture, fishing & forestry	1.6%	5.4%	5.0%	4.0%
Mining, manufacturing and construction	29.3%	9.4%	8.1%	15.6%
Transport & communication	1.0%	3.4%	2.2%	2.2%
Other economic services	8.8%	7.0%	5.6%	7.1%
General Government services and unallocable expenditure	-3.1%	2.6%	2.2%	0.6%
Allocated expenditure	4.0%	3.9%	2.1%	3.3%
Interest	1.1%	1.5%	2.0%	1.5%
Contingency reserve		51.7%	90.1%	
Total consolidated expenditure	4.3%	3.9%	2.9%	3.7%

Source: National Treasury, 2004b:144

Table A2: Real growth in per capita consolidated national and provincial spending by function and sector, %, 2003/04-2006/07

Percentage real growth - per capita	2003/04 - 2004/05	2004/05 - 2005/06	2005/06 - 2006-07	Av.An MTEF
Protection Services	2.0%	2.0%	-0.7%	1.1%
Defence and intelligence	-2.9%	1.7%	-3.7%	-1.6%
Police	4.4%	2.8%	1.2%	2.8%
Prisons	5.2%	1.0%	0.8%	2.3%
Justice	7.8%	0.7%	0.9%	3.1%
Social Services	4.3%	3.3%	2.0%	3.2%
Education	2.2%	0.6%	0.4%	1.1%
Health	1.0%	4.1%	1.4%	2.2%
Welfare	9.5%	6.8%	4.9%	7.1%
Housing	5.5%	4.4%	-1.7%	2.7%
Community development	5.3%	-0.1%	0.4%	1.8%
Economic Services	3.3%	4.6%	2.9%	3.6%
Water schemes, related services	-0.8%	4.0%	0.7%	1.3%
Fuel and energy	2.3%	6.8%	-5.1%	1.3%
Agriculture, fishing & forestry	0.8%	4.6%	4.5%	3.3%
Mining, manufacturing and construction	28.2%	8.6%	7.6%	14.8%
Transport & communication	0.1%	2.6%	1.7%	1.5%
Other economic services	7.9%	6.2%	5.1%	6.4%
General Government services and unallocable expenditure	-3.9%	1.8%	1.7%	-0.1%
Allocated expenditure	3.1%	3.1%	1.6%	2.6%
Interest	0.2%	0.7%	1.6%	0.8%
Contingency reserve		50.5%	89.2%	
Total consolidated expenditure	3.4%	3.1%	2.4%	3.0%

National Treasury, 2004b:144 and Dorrington et.al 2002 and own calculations..

Table 4.3: Percentage division of consolidated national and provincial spending by sector and function

Percentage share	2003/04	2004/05	2005/06	2006/07
Protection Services	16.6	16.4	16.2	15.7
Defence and intelligence	6.4	6.0	5.9	5.5
Police	6.6	6.6	6.6	6.5
Prisons	2.2	2.3	2.2	2.2
Justice	1.4	1.5	1.4	1.4
Social Services	50.5	50.9	51.0	50.8
Education	19.9	19.6	19.2	18.8
Health	11.3	11.0	11.1	11.0
Welfare	14.6	15.5	16.1	16.5
Housing	1.6	1.6	1.7	1.6
Community development	3.0	3.1	3.0	2.9
Economic Services	12.8	12.8	13.0	13.0
Water schemes, related services	1.7	1.6	1.6	1.6
Fuel and energy	0.6	0.6	0.7	0.6
Agriculture, fishing & forestry	1.9	1.8	1.9	1.9
Mining, manufacturing and construction	0.4	0.5	0.6	0.6
Transport & communication	4.6	4.5	4.5	4.4
Other economic services	3.5	3.7	3.8	3.9
General Government services and unallocable expenditure	6.7	6.2	6.1	6.1
Allocated expenditure	86.5	86.3	86.3	85.6
Interest	13.5	13.1	12.8	12.6
Contingency reserve	0.0	0.6	0.9	1.7
Total consolidated expenditure	100.0	100.0	100.0	100.0

National Treasury, 2004b:144.

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