



A People's guide...

# BUDGET 2005

## What is the National Budget?

In February every year the Minister of Finance, Trevor Manuel, announces the Government's spending, tax and borrowing plans for the next three years.

This is called the National Budget. It describes how money raised through taxes and loans will be divided among national departments, provinces and municipalities.

Police, defence, higher education and the courts are some of the functions of the national government. The main

responsibilities of provinces are schools, hospitals, clinics and social welfare. Municipalities look after local services like water, sanitation and housing projects.

Government's spending plan for the next three years is called the Medium Term Expenditure Framework (MTEF).

## Economic growth and broad-based development



The South African economy grew by 3,7 per cent in 2004, and is set to grow by over 4 per cent a year for the next three years. The economy is growing more strongly than at any time in the past 20 years. The increase in the price of goods or inflation (CPIX) was 4,3 per cent in 2004, the lowest level in many years. This good performance of the economy will increase the number of new jobs created and provide additional money to be spent on Government service delivery and investing in communities.

upgrading informal settlements

- Building community infrastructure such as schools, clinics, roads, street lighting, sports facilities and child care centres
- Increasing the number of people who receive social grants from about 10 million in 2004 to an about 11 million in 2006

In order for the economy to grow faster, Government and state-owned enterprises will increase their investment in roads, rail, water and electricity. Economic progress also

requires more investment in health, education, training and skills. The 2005 Budget includes:

- More money for large hospitals
- Extra money for teacher salaries
- Funding of new equipment and better facilities at technical colleges
- Additional money to increase funding per student in universities.

The 2005 Budget also provides additional funding to fight crime:

- Increasing the number of police from 141 000 in 2004 to 166 000 in 2008
- Construction and maintenance of court buildings, prisons and police stations
- Improved salaries for police
- Better management of courts

Improving the services delivered by the Department of Home Affairs is also one of the priorities for the 2005 Budget. This will allow people in deep rural areas to register births and deaths and get identity documents. The budget also allocates money for peacekeeping operations of the Defence Force in Africa and for the

### Division of revenue – 2005 MTEF

R billion	2005/06	2006/07	2007/08
National departments	136,3	146,8	157,8
Provinces	209,3	229,3	248,2
Municipalities	17,2	19,7	21,5
Reserve (unallocated)	2,0	4,0	8,0
Total non-interest expenditure	364,7	399,8	435,5
% increase over previous year	13,5	9,6	8,9

African Union and Pan African Parliament.

National departments account for about 37 per cent of total expenditure. Provinces receive 58 per cent of revenue collected nationally and municipalities get 5 per cent.

### 2005 Budget at a glance

R billion	2005/06	2006/07	2007/08
Revenue	369,9	405,4	444,6
Expenditure	417,8	456,4	494,9
Deficit	48,0	51,0	50,3
% of GDP	3,1%	3,0%	2,7%
Expenditure per person*(rands)	R7,738	R 8,411	R9,091

\* excluding interest on debt

Investing in poor communities and support for pensioners, children and the disabled, are the main priorities for additional allocations in the 2005 Budget. In the past ten years, Government has been able to extend services to many more people across the country. Government's plans for the next three years include:

- Completing the land restitution programme, returning land or providing cash payments to about 250 000 people
- Increasing the number of houses built and

## Budget Highlights

### Tax proposals:

- R6.8 billion in Personal Income Tax relief, as well as the increase in the tax exemption threshold to R35 000
- Corporate Income Tax reduced to 29%
- Simplified tax system for small businesses
- Broader tax relief for medical scheme membership
- A packet of 20 cigarettes will cost 52c more, a 340 ml can of beer 5c more, wine will increase by 18c and spirits by R1.45 per 750 ml bottle
- Levies on petrol and diesel increased by 10c a litre
- Introduction of the environmental tax on electricity consumption
- Excise duties on sun protection products are eliminated

### Additional spending over the next 3 years includes:

- R22,3 billion for social grants
- R6,5 billion more for land restitution
- R3,7 billion more for housing sanitation and municipal infrastructure investment
- R3 billion for community infrastructure
- R4 billion for roads and improved transport systems, including the 2010 World Cup
- R1 billion for further education colleges and R776 million for National Student Financial Aid Scheme
- R7 billion more for teachers' salaries
- R4.2 billion for improving police salaries
- R600 million for increasing police numbers

## Social grants to reach 11 million people

Government is committed towards fighting poverty and improving the lives of the most vulnerable. Social grants, which include the old age pension, disability grant, foster care grant and the child support grant, contribute directly towards improving the lives of those who do not benefit from an income from work.

The child support grant, introduced in 1998 for children under the age of seven, will be extend-

ed to children until they reach the age of 14 years in 2005. This will bring the total number of grant beneficiaries to over 11 million and expenditure to over R55 billion.

In April 2005 the child support grant will go up by R10 to R180 a month, and the pension and disability grants will rise by R40 to a maximum of R780 a month.

Administrative reforms are under way to ensure that people who are entitled to grants receive them, and that those who are not entitled to the grants are excluded.



## Partnership for Community Investment

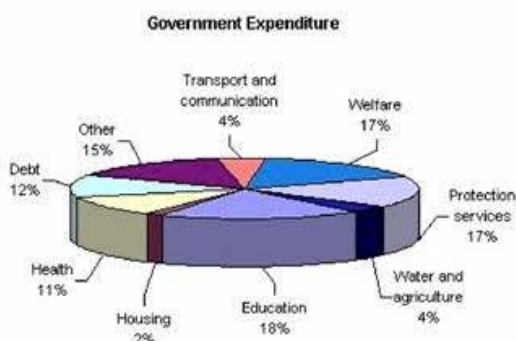
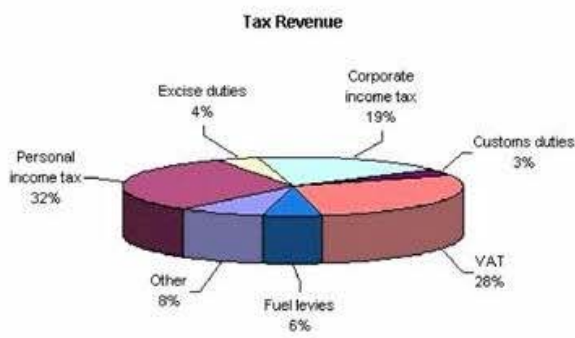
In 2003, Minister Manuel announced an amnesty for those who declared that they took money out of the country illegally in the past. A tax was imposed on these funds and this should raise about R3 billion. Government has decided to allocate the proceeds of this tax to a Community Investment programme in partnership with municipalities, the private sector and community organisations.

These funds will contribute to improved community services and protection services, investment in sports and recreation facilities, small business opportunities and local economic development, upgrading of

townships, informal settlements and rural villages.

By promoting community participation and local business development, the Community Investment Partnership seeks to broaden empowerment and improve living conditions in historically disadvantaged areas.

In addition, the 2005 Budget provides a further R2 billion for housing programmes, R1.2 billion to replace bucket sanitation systems with improved sanitation and R0.5 billion more for municipal infrastructure investment.



## Finalisation of land restitution claims

The return of land or provision of compensation to those who were dispossessed or forcibly removed through the apartheid Group Areas Act is expected to be completed over the next three years. A total of 79 696 claims have been recorded, of which over 72 per cent have been settled.

Many of the outstanding claims involve rural communities and

large numbers of households. These restitution settlements will bring money and infrastructure into rural villages, in addition to restoring land rights to the rightful owners.

Linked to the restitution programme, Government provides agricultural support to emerging farmers and contributes to improved land use and productivity.

The 2005 Budget makes available an additional R6,5 billion for land restitution, bringing the total spent since 1994 to R14 billion.