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REPUBLIC OF SOUTH AFRICA**

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**Provincial Budgets 2002/03
Fourth Quarterly Expenditure and Revenue Report**

SUMMARY

The fourth quarter figures provide the first estimates of total provincial spending for the 2002/03 financial year. These figures are, however, not final, as provinces are still reconciling and closing their books, in preparation for finalising their financial statements for submission to the Auditor-General by 31 May 2003. It is therefore advisable to wait for the final figures before any definitive conclusions can be made. The National Treasury will publish the final figures in June.

The fourth quarter figures indicate that provincial year on year spending increased sharply between 2001/02 and 2002/03, confirming that spending capacity, especially on capital, improved considerably. Provinces spent R145,8 billion, or 98,7 per cent of their total revised budget of R147,7 billion. This is R23,2 billion more than the expenditure last year.

The preliminary consolidated provincial budget deficit is R3,1 billion, financed mainly from last year's rollovers and cash balances accumulated in previous years. The budget deficit is R198 million lower than the estimated projected deficit reported in the Budget Review, and R792 million higher than the projections in the 2003 Intergovernmental Fiscal Review (IGFR). The Budget Review and Intergovernmental Fiscal Review were based on 9 months and 10 months of actual figures respectively, and hence represent earlier projections.

Provinces are performing well on their capital spending compared to last year. Capital spending is R13,8 billion or 84,3 per cent of the adjusted capital budget of R16,4 billion. This is R2,5 billion or 21,8 per cent more than the expenditure at the same time last year. The bulk of the remaining R2,6 billion on capital may also be committed on projects, but the extent of such commitments are not available at this stage. This analysis is based on the statement on revenue and expenditure to be published by the National Treasury today (30 April 2003), and is available on the treasury website www.treasury.gov.za.

Highlights include:

- National government transferred R123,5 billion of the equitable share grant, and R13,5 billion in conditional grants, to provinces for the 2002/03 financial year.
- Social development expenditure increased by R8,7 billion from R23,8 billion in 2001/02 to R32,5 billion in 2002/03.

- Health expenditure of R33,2 billion is R3,5 billion higher compared to 2001/02 financial year.
- Strong growth in education capital spending. Present expenditure of R1,7 billion is R277 million higher than in 2001/02.
- Provincial own revenue is R1,3 billion higher than the R4,4 billion adjusted own revenue budget.

PROGRESS WITH IMPLEMENTATION OF THE 2002/03 BUDGET

This report on the preliminary outcome of the 2002/03 provincial budgets after a full year of spending (from 1 April 2002 to 31 March 2002) is based on their budgets as adjusted (through their Adjustments Budgets). Table 1 indicates their revised budget against expenditure and the possible under expenditure per province.

Table 1: Provincial Adjustments Budgets: Expenditure as at 31 March 2003 (Preliminary Outcome)

Province	Adjusted Budget 2002/03			Expenditure as at 31 March 2003			(Over)/ Under Expenditure	
	R'000	Current	Capital	Total	Current	Capital		Total
Eastern Cape		22 147 046	2 746 662	24 893 708	22 824 144	1 817 196	24 641 340	252 368
Free State		9 407 289	1 090 941	10 498 230	9 051 359	762 432	9 813 791	684 439
Gauteng		20 600 045	3 760 079	24 360 124	20 984 210	3 369 024	24 353 234	6 890
KwaZulu-Natal		25 764 870	3 219 077	28 983 947	26 176 297	2 765 024	28 941 321	42 626
Limpopo		17 535 032	1 605 250	19 140 282	17 311 905	1 502 224	18 814 129	326 153
Mpumalanga		9 002 277	1 001 848	10 004 125	8 845 506	930 627	9 776 133	227 992
Northern Cape		3 114 394	350 502	3 464 896	3 158 094	304 527	3 462 621	2 275
North West		10 485 681	1 034 532	11 520 213	10 574 794	942 712	11 517 506	2 707
Western Cape		13 265 027	1 551 690	14 816 717	13 075 583	1 398 330	14 473 913	342 804
Total Expenditure		131 321 661	16 360 581	147 682 242	132 001 891	13 792 096	145 793 987	1 888 254

Expenditure

- Provinces spent R145,8 billion, or 98,7 per cent of their total revised budget of R147,7 billion. This is R23,2 billion more than the expenditure at the same time last year.
- Personnel expenditure is R74,0 billion or 50,7 per cent of total provincial spending.
- Provinces have budgeted R117,9 billion for social services, which include spending on education, health and social development¹. Spending on social services is at R118,4 billion or 0,4 per cent higher than the adjusted budget.
 - **School Education:** Education expenditure is at R52,7 billion or R119 million higher than the adjusted budget of R52,5 billion. This is largely due to Eastern Cape overspending its personnel budget by R573 million. Education spending is R5,8 billion higher than the 2001/02 financial year. The education budget is largely personnel driven and expenditure on personnel is R45,7 billion or 2,5 per cent higher than the adjusted budget of R44,6 billion.
 - **Health:** Health expenditure is R33,2 billion or R211 million more than the adjusted budget of R33 billion. Health spending is R3,5 billion higher than the 2001/02 financial year.

¹ It should be noted that education, health and social development expenditure is by department, and not functional expenditure classification as presented in the Budget Review.

- **Social Development:** Provinces spent R32,5 billion or R145 million more than the adjusted budget of R32,4 billion. This represents a massive increase over the R8,7 billion compared to spending in 2001/02. The reason for this is the acceleration in the take-up of the Child Support and Disability Grants, as well as payment of approximately R1 billion of the R2 billion social grant arrears (transferred on the last day of the previous financial year) during the 2002/03 financial year.

Table 2: Expenditure on Social Services (Preliminary Outcome)

Social Services R'000	Adjusted Budget 2002/03	Expenditure as at 31 March 2003	Expenditure as percentage of Budget
Education	52 539 975	52 659 219	100.2%
Health	33 024 685	33 236 182	100.6%
Social Development	32 360 229	32 505 021	100.4%
Total	117 924 889	118 400 422	100.4%

Capital

- Capital expenditure for the year is R13,8 billion or 84,3 per cent of the capital budget. This is a significant improvement on last year, as provinces have spent R2,5 billion more compared to last year, representing an increase of 21,8 per cent on capital spent last year.
- The extent of underspending on capital cannot be assessed at this stage, as the share of the remaining R2,6 billion may also be committed and not paid out due to the multi-year nature of capital projects.
- Provinces with the highest proportion of capital spending are Limpopo, North West, Western Cape and Mpumalanga who each spent more than 90 per cent of their adjusted capital budgets, with the lowest being Eastern Cape and Free State at just under 70 per cent. In absolute terms, the highest capital expenditure is in Gauteng at R3,4 billion, followed by KwaZulu-Natal (R2,8 billion), Eastern Cape (R1,8 billion) and Limpopo (R1,5 billion). Capital spending in all provinces increased sharply compared to 2001/02.

Table 3: Provincial Capital Expenditure (Preliminary Outcome)

Province	2002/03 Adjusted	Expenditure as	% Actual vs.	2001/02 Actual
	Budget	at 31 March 2003	Budget	
	R'000	R'000	%	R'000
Eastern Cape	2 746 662	1 817 196	66.2%	1 161 606
Free State	1 090 941	762 432	69.9%	702 245
Gauteng	3 760 079	3 369 024	89.6%	2 265 988
KwaZulu-Natal	3 219 077	2 765 024	85.9%	2 946 816
Limpopo	1 605 250	1 502 224	93.6%	1 278 865
Mpumalanga	1 001 848	930 627	92.9%	864 518
Northern Cape	350 502	304 527	86.9%	270 746
North West	1 034 532	942 712	91.1%	690 435
Western Cape	1 551 690	1 398 330	90.1%	1 145 880
Total	16 360 581	13 792 096	84.3%	11 327 099

The biggest provincial capital budgets are for public works, roads and transport. These departments are performing the best, having spent their entire budget of R4 billion. The

spending compares well with the full-year spending of R3,1 billion 2001/02. Between provinces, the lowest spending is Northern Cape (88 per cent), whilst Eastern Cape recorded 125 per cent².

Table 4: Capital Expenditure: Public Works, Roads and Transport

Province	2002/03 Adjusted Budget	Expenditure as at 31 March 2003	% Actual vs. Budget	2001/02 Actual
	R'000	R'000	%	R'000
Eastern Cape	488 317	614 252	125.8%	326 754
Free State	281 576	253 247	89.9%	194 937
Gauteng	582 380	699 299	120.1%	417 235
KwaZulu-Natal	816 412	800 404	98.0%	793 583
Limpopo	405 695	400 448	98.7%	353 817
Mpumalanga	344 909	347 115	100.6%	344 846
Northern Cape	159 101	140 065	88.0%	126 927
North West	232 953	224 175	96.2%	143 240
Western Cape	712 706	649 977	91.2%	363 105
Total	4 024 049	4 128 982	102.6%	3 064 444

1) Some public works capital expenditure reports include some health and education capital spending, e.g. Western Cape and Gauteng.

Education departments have spent 73 per cent or R1,7 billion of their budget. This level of spending exceeds the full-year spending of R1,4 billion in 2001/02. The spending in Free State (38,9 per cent) is relatively low, whilst Mpumalanga, North West, Northern Cape, Eastern Cape and Western Cape all record over 85 per cent spending.

Table 5: Capital Expenditure: Education

Province	2002/03 Adjusted Budget	Expenditure as at 31 March 2003	% Actual vs. Budget	2001/02 Actual
	R'000	R'000	%	R'000
Eastern Cape	401 257	367 042	91.5%	186 888
Free State	255 497	99 329	38.9%	104 434
Gauteng	521 186	326 863	62.7%	190 578
Kw aZulu-Natal	504 715	290 854	57.6%	538 701
Limpopo	248 364	191 536	77.1%	103 490
Mpumalanga	149 685	154 071	102.9%	92 171
Northern Cape	14 941	38 502	257.7%	1 320
North West	135 356	153 765	113.6%	53 259
Western Cape	42 058	37 527	89.2%	111 424
Total	2 273 059	1 659 489	73.0%	1 382 265

Health departments have spent 86,8 per cent or R2,2 billion of their budget. This level of spending is at the same level in 2001/02. Between provinces, the lowest share of spending is in North West, Eastern Cape and Northern Cape with Gauteng recording the highest share at 122,1 per cent.

² Some of the public works reports contain some of the capital spending for education and health. This is the case in Western Cape and Gauteng, hence the "overspending" in Gauteng. The monthly reports are not always fully reconciled when submitted for publication. The financial statements produced by 31 May 2003 will reconcile such spending to the correct departments.

Table 6: Capital Expenditure: Health

Province	2002/03 Adjusted Budget R'000	Expenditure as at 31 March 2003 R'000	% Actual vs. Budget %	2001/02 Actual R'000
Eastern Cape	541 715	294 340	54.3%	231 662
Free State	48 239	43 642	90.5%	98 028
Gauteng	469 101	572 622	122.1%	529 587
Kw aZulu-Natal	827 519	763 557	92.3%	783 785
Limpopo	291 368	291 964	100.2%	224 874
Mpumalanga	94 470	90 387	95.7%	47 990
Northern Cape	49 212	34 427	70.0%	34 211
North West	207 494	107 823	52.0%	112 105
Western Cape	60 104	48 654	80.9%	189 186
Total	2 589 222	2 247 416	86.8%	2 251 428

Expenditure in housing is R3,8 billion or 75,9 per cent of the adjusted budget of R5 billion. The Eastern Cape classified its spending on housing as current and, if corrected, the level of spending on housing will be much higher than reflected. The other provinces, except Northern Cape, show spending of above 85 per cent.

Table 7: Capital Expenditure: Housing

Province	2002/03 Adjusted Budget R'000	Expenditure as at 31 March 2003 R'000	% Actual vs. Budget %	2001/02 Actual R'000
Eastern Cape	795 526	19 803	2.5%	303 398
Free State	375 876	328 171	87.3%	280 830
Gauteng	1 302 740	1 116 373	85.7%	804 145
KwaZulu-Natal	878 365	759 711	86.5%	672 220
Limpopo	449 969	436 830	97.1%	429 671
Mpumalanga	306 368	298 201	97.3%	362 550
Northern Cape	105 091	76 797	73.1%	77 715
North West	379 892	372 922	98.2%	336 913
Western Cape	404 840	384 984	95.1%	329 124
Total	4 998 667	3 793 792	75.9%	3 596 566

Revenue

- Provincial own revenue is R1,3 billion higher than the R4,4 billion adjusted own revenue budget.
- The higher level of revenue collected compared to budgeted revenue is an indication of provinces being conservative in their revenue projections in their initial budgets, as the R4,4 billion adjusted budget is still less than the R4,9 billion actually collected in the previous year (2001/02).
- National government transferred R123,5 billion of the equitable share grant, and R13,5 billion in conditional grants, to provinces for the 2002/03 financial year.
- In total, including provincial own revenue, provincial revenue at the end of the financial year is R142,7 billion or R16,3 billion higher than in 2001/02.