



**NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA**

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**Provincial Budgets 2003/04
Expenditure and Revenue Report for the Second Quarter**

SUMMARY

The second quarter figures indicate that provincial year on year spending increased sharply between 2002/03 and 2003/04, confirming that spending capacity of provinces is improving. Provinces spent R77,9 billion, or 47,2 per cent of their total annual budget of R165,2 billion, which represents an increase of R10,2 billion over the same period in 2002/03.

Provinces are performing well on their capital spending compared to last year. Capital spending is recorded at R6,3 billion or 35,1 per cent of the capital budget of R17,9 billion, an increase of R1,1 billion or 21,2 per cent over the same period in 2002/03. The bulk of the remaining R11,6 billion on capital may also be committed on projects. This analysis is based on the statement of revenue and expenditure published by the National Treasury on 30 October 2003, and is available on the treasury website www.treasury.gov.za.

Highlights include:

- National government transferred R71,2 billion of the equitable share grant, and R7,7 billion in conditional grants, to provinces to date for the 2003/04 financial year.
- Social development expenditure increased sharply by R4,5 billion from R15,5 billion in 2002/03 to R20 billion in 2003/04 which could mainly be attributed to the extension of the Child Support Grant and higher growth in the Disability Grant.
- Health expenditure of R16,9 billion is R1,3 billion higher compared to the same period in 2002/03 financial year.
- Strong growth in education capital spending. Present expenditure of R1 billion is R394 million higher than the same period last year.
- Provincial own revenue is R2,9 billion or 56,9 per cent of the R5,1 billion own revenue annual budget, perhaps indicating that the budgeted amount is somewhat conservative.

PROGRESS WITH IMPLEMENTATION OF THE 2003/04 BUDGET

This report on the implementation of the 2003/04 provincial budgets after six months of the financial year, is based on their budgets as published in 2003/04 Provincial Budget Statements.

Table 1 indicates actual expenditure against budget and the actual expenditure as a percentage of the budget.

Table 1: Provincial budgets: Expenditure as at 30 September 2003

R thousand	Annual budget 2003/04			Expenditure as at 30 September 2003			Actual expenditure as % of budget
	Current	Capital	Total	Current	Capital	Total	
Eastern Cape	25 442 461	2 490 074	27 932 535	11 935 975	1 541 261	13 477 236	48.2%
Free State	10 293 114	762 452	11 055 566	5 064 950	197 542	5 262 492	47.6%
Gauteng	22 007 693	5 021 963	27 029 656	11 248 617	1 391 082	12 639 698	46.8%
KwaZulu-Natal	28 953 741	3 954 548	32 908 289	14 405 044	1 203 842	15 608 886	47.4%
Limpopo	19 599 444	1 773 406	21 372 850	9 154 907	680 096	9 835 004	46.0%
Mpumalanga	10 311 332	1 050 425	11 361 757	5 028 391	442 233	5 470 624	48.1%
Northern Cape	3 518 900	371 903	3 890 803	1 791 546	122 280	1 913 826	49.2%
North West	12 181 036	1 021 668	13 202 704	5 926 407	245 671	6 172 078	46.7%
Western Cape	14 986 913	1 426 899	16 413 812	7 114 023	453 052	7 567 075	46.1%
Total	147 294 634	17 873 338	165 167 972	71 669 859	6 277 060	77 946 919	47.2%

Expenditure

- Provinces spent R77,9 billion, or 47,2 per cent of their total budget of R165,2 billion. This is R10,2 billion more than the expenditure at the same time last year.
- Personnel expenditure of R39 billion (48,1 per cent of the personnel budget) also represents 50 per cent of total provincial spending. This component of expenditure is likely to rise faster in the second half of the financial year due to salary adjustments, which took effect in July 2003.
- Provinces have budgeted R133,3 billion for social services, which include spending on education, health and social development¹. Spending on social services is at R64,8 billion or 48,6 per cent of the budget.
 - **School Education**: Education expenditure is recorded at R27,9 billion or 47,5 per cent of the budget of R58,8 billion and is R2,5 billion higher compared to the same period of the 2002/03 financial year. With education budget being largely personnel driven, expenditure on personnel is R24,1 billion or 48,9 per cent of the R49,3 billion personnel budget.
 - **Health**: Health expenditure to date is at R16,9 billion or 46 per cent of the budget of R36,7 billion. Health spending is R1,3 billion (8,2 per cent) higher compared to the first half of the 2002/03 financial year.
 - **Social Development**: Provinces spent R20 billion or 53 per cent of the budget of R37,8 billion representing an increase of R4,5 billion over the same period in 2002/03. This is mainly the result of acceleration in the take-up of the Child Support and Disability Grants as well as payments of Social Grant Arrears. The trend suggests that provincial social development budgets will come under pressure, and may have to be adjusted upwards in the coming months.

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.

Table 2: Summary of provincial social services expenditure as at 30 September 2003

R thousand	Annual budget	Actual expenditure as at 30 Sep 2003	Actual expenditure as % of budget	Expenditure as at 30 Sep 2002 (Section 32: 30 Oct 2002)
Education	58 796 667	27 914 254	47.5%	25 436 074
Health	36 713 734	16 889 564	46.0%	15 604 596
Social Development	37 797 946	20 036 194	53.0%	15 502 325
Total	133 308 347	64 840 012	48.6%	56 542 995

Capital

- Capital expenditure to date is R6,3 billion or 35,1 per cent of the capital budget. This is a significant improvement, as provinces have spent R1,1 billion more, an increase of 21,2 per cent compared to the same period last year.
- Typically, capital expenditure will most likely be spent in the last two months of the financial year.
- The province with the highest proportion of capital spending is the Eastern Cape, which spent almost 62 per cent of its capital budget. It should be noted that the Housing budget is incorrectly classified as current expenditure and will be adjusted in their provincial 2003 Adjustments Estimate.
- The lowest level of capital spending is by North West (24 per cent), Free State (25,9 per cent) and Gauteng (27,7 per cent). In absolute terms, the highest capital expenditure is in Eastern Cape at R1,5 billion, Gauteng at R1,4 billion, followed by KwaZulu-Natal at R1,2 billion.
- Capital spending has increased sharply in all provinces except in Free State, North West and the Western Cape compared to the same period in 2002/03.

Table 3: Summary of provincial capital expenditure as at 30 September 2003

R thousand	Annual budget	Actual expenditure as at 30 Sep 2003	Actual expenditure as % of budget	Expenditure as at 30 Sep 2002 (Section 32: 30 Oct 2002)
Eastern Cape	2 490 074	1 541 261	61.9%	845 305
Free State	762 452	197 542	25.9%	287 247
Gauteng	5 021 963	1 391 082	27.7%	1 189 579
KwaZulu-Natal	3 954 548	1 203 842	30.4%	973 352
Limpopo	1 773 406	680 096	38.3%	474 257
Mpumalanga	1 050 425	442 233	42.1%	352 010
Northern Cape	371 903	122 280	32.9%	116 987
North West	1 021 668	245 671	24.0%	367 209
Western Cape	1 426 899	453 052	31.8%	573 842
Total	17 873 338	6 277 060	35.1%	5 179 788

The biggest provincial capital budgets are for Public Works, Roads and Transport. These departments are performing the best, having spent R1,9 billion or 39,7 per cent of the R4,7 billion 2003/04 annual budget. The spending compares well with the spending of R1,8 billion during the same period in 2002/03. Between provinces, the lowest spending is the Northern Cape with only 28,8 per cent of their budget spent, whilst the highest is recorded by the North West at 60,2 per cent.

Table 4: Provincial capital expenditure: Public works, roads and transport as at 30 September 2003

R thousand	Annual budget	Actual expenditure as at 30 Sep 2003	Actual expenditure as % of budget	Expenditure as at 30 Sep 2002 (Section 32: 30 Oct 2002)
Eastern Cape	884 177	444 043	50.2%	305 461
Free State	192 958	87 482	45.3%	104 383
Gauteng	706 946	238 253	33.7%	393 011
KwaZulu-Natal	1 096 323	362 475	33.1%	306 013
Limpopo	528 743	189 413	35.8%	117 019
Mpumalanga	273 706	127 208	46.5%	164 812
Northern Cape	97 483	28 031	28.8%	72 529
North West	204 256	122 941	60.2%	63 473
Western Cape	726 578	269 336	37.1%	227 524
Total	4 711 170	1 869 182	39.7%	1 754 225

Education departments have spent 33,4 per cent or R1 billion of their capital budget. This level of spending exceeds the half-year spending of R630 million (62,6 per cent) in 2002/03. Spending in KwaZulu-Natal (15,1 per cent) and Northern Cape (26 per cent) are relatively low, whilst Free State (50,4 per cent) and Mpumalanga (46,2 per cent) have seen a good improvement in spending. In absolute terms, Gauteng has a substantial increase in spending (R228,2 million) as compared to the same period in 2002/03.

Table 5: Provincial capital expenditure: Education as at 30 September 2003

R thousand	Annual budget	Actual expenditure as at 30 Sep 2003	Actual expenditure as % of budget	Expenditure as at 30 Sep 2002 (Section 32: 30 Oct 2002)
Eastern Cape	437 107	193 425	44.3%	180 228
Free State	120 359	60 691	50.4%	29 286
Gauteng	777 273	323 253	41.6%	95 030
KwaZulu-Natal	1 015 626	153 608	15.1%	158 101
Limpopo	302 133	118 847	39.3%	50 463
Mpumalanga	206 006	95 073	46.2%	45 295
Northern Cape	26 036	6 778	26.0%	901
North West	145 002	58 552	40.4%	55 427
Western Cape	37 471	13 864	37.0%	15 198
Total	3 067 013	1 024 091	33.4%	629 929

Health departments have spent 29,7 per cent or R835 million of their capital budget. This level of spending is similar to the level experienced during 2002/03. Between provinces, the lowest share of spending is in Gauteng (8,2 per cent), Northern Cape (13,3 per cent), North West (15,6 per cent) and Western Cape (18,3 per cent). The highest spending is recorded by Eastern Cape with R239,8 million or 47,9 per cent, a significant increase compared to the same period in 2002/03.

Table 6: Provincial capital expenditure: Health as at 30 September 2003

R thousand	Annual budget	Actual expenditure as at 30 Sep 2003	Actual expenditure as % of budget	Expenditure as at 30 Sep 2002 (Section 32: 30 Oct 2002)
Eastern Cape	500 399	239 819	47.9%	146 232
Free State	43 749	12 231	28.0%	26 969
Gauteng	624 109	50 872	8.2%	175 838
KwaZulu-Natal	815 748	314 560	38.6%	234 165
Limpopo	285 227	123 082	43.2%	86 859
Mpumalanga	170 724	36 181	21.2%	34 216
Northern Cape	79 523	10 557	13.3%	6 988
North West	187 311	29 149	15.6%	35 350
Western Cape	99 646	18 241	18.3%	16 127
Total	2 806 436	834 692	29.7%	762 744

Table 7 shows capital expenditure in Housing at R1,3 billion or 34,1 per cent of the capital budget of R3,9 billion. The level of spending has slowed down relatively and has also fallen slightly by R134 million compared to the same period last year.

Out of an average of 8 provinces, excluding Eastern Cape where the budget is classified incorrectly, provinces spent R 1 billion or 27,1 per cent of the budget. The incorrectly classified budget for Eastern Cape will be adjusted in their 2003 Adjustments Estimate. Given the audited underspending of R821,6 million last year, it appears that a similar trend will be repeated this year.

Table 7: Provincial capital expenditure: Housing as at 30 September 2003

R thousand	Annual budget	Actual expenditure as at 30 Sep 2003	Actual expenditure as % of budget	Expenditure as at 30 Sep 2002 (Section 32: 30 Oct 2002)
Eastern Cape	17 605	281 556	-	162 991
Free State	355 978	15 219	4.3%	120 460
Gauteng	1 048 510	261 940	25.0%	318 342
KwaZulu-Natal	804 405	325 164	40.4%	244 991
Limpopo	452 397	140 055	31.0%	126 952
Mpumalanga	313 412	159 351	50.8%	100 854
Northern Cape	137 858	70 048	50.8%	33 327
North West	377 620	2 268	0.6%	187 801
Western Cape	438 182	91 613	20.9%	185 812
Total	3 945 967	1 347 215	34.1%	1 481 530

Revenue

- Provincial own revenue is recorded at R2,9 billion or 56,9 per cent of the 2003/04 budget compared to R2,4 billion for the same period last year.
- National government transferred R71,2 billion of the equitable share grant, and R7,7 billion in conditional grants, to provinces to date.
- In total, including provincial own revenue, provincial revenue at the end of the second quarter is R81,8 billion or 18,8 per cent higher than in 2002/03.