



**NATIONAL TREASURY  
REPUBLIC OF SOUTH AFRICA**

Enquiries: Ismail Momoniat Tel: 012-315 5165 Cell: 083 378 0333 e-mail: ismail.momoniat@treasury.gov.za

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**Provincial Budgets: Third quarter 2003/04 Budget Report**

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**SUMMARY**

Third quarter spending reports indicated that provincial spending is well on track, with provinces spending R121,4 billion, or 71,1 per cent of the R170,7 billion adjusted budget. This represents an increase of R16,9 billion or 16,2 per cent over the same period in 2002/03. Given that last quarter spending is higher than the first three quarters, provinces are expected to spend their budgets by the end of the year.

Key spending pressure is from social grants, which continue to rise rapidly. Provinces spent R30,7 billion or 75,2 per cent of the 40,9 billion adjusted budget. This represents a sharp increase of R6,9 billion or 29,2 per cent from the R23,8 billion in 2002/03 for the same period. This is mainly attributed to the rapid take-up of the Child Support and Disability Grants.

Spending on health expenditure is at 70 per cent, or R26,2 billion, which is R2,4 billion or 10 per cent higher compared to the same period in 2002/03 financial year. Education expenditure has seen strong growth at R43,5 billion (73 per cent) and is R4,5 billion (11,5 per cent) higher when compared to the same period last year.

Capital spending has also improved at R10,8 billion or 57,1 per cent of the adjusted capital budget of R18,9 billion, an increase of R2,5 billion or 30 per cent over the same period for the last year (2002/03). Capital spending on roads and public works is highest at 64,5 per cent. Provincial education departments have also greatly improved their capital spending capacity compared to last year.

Provincial own revenue collected is R4,4 billion or 81,4 per cent of the R5,4 billion adjusted own revenue budget. In addition, national government transferred R107,7 billion of the equitable share grant, and R12,2 billion in conditional grants, to provinces by 31 December 2003.

This analysis is based on the statement of revenue and expenditure published by the National Treasury on 30 January 2004, and is available on the treasury website [www.treasury.gov.za](http://www.treasury.gov.za).

## PROGRESS WITH IMPLEMENTATION OF THE 2003/04 BUDGET

This report, on the outcome of the 2003/04 provincial budgets after nine months into the financial year (from 1 April to 31 December 2003), is based on their budgets as adjusted through their Adjustments Budgets. Table 1 indicates their revised budget against which the nine-month figures are compared.

**Table 1: Provincial budgets: Expenditure as at 31 December 2003**

R thousand	Adjusted budget 2003/04			Expenditure as at 31 December 2003			Actual expenditure as % of adjusted budget
	Current	Capital	Total	Current	Capital	Total	
Eastern Cape	25 300 841	3 318 623	<b>28 619 464</b>	18 762 186	2 249 174	<b>21 011 360</b>	73,4%
Free State	10 845 970	974 431	<b>11 820 401</b>	7 692 832	624 645	<b>8 317 477</b>	70,4%
Gauteng	23 220 360	4 569 774	<b>27 790 134</b>	17 436 531	2 387 951	<b>19 824 482</b>	71,3%
KwaZulu-Natal	30 242 312	3 599 968	<b>33 842 280</b>	22 083 590	2 067 077	<b>24 150 667</b>	71,4%
Limpopo	20 330 775	1 984 738	<b>22 315 513</b>	14 093 159	1 277 716	<b>15 370 874</b>	68,9%
Mpumalanga	10 535 988	1 307 246	<b>11 843 234</b>	7 685 576	733 575	<b>8 419 151</b>	71,1%
Northern Cape	3 655 718	423 943	<b>4 079 661</b>	2 749 784	218 688	<b>2 968 472</b>	72,8%
North West	12 553 963	1 118 537	<b>13 672 500</b>	9 176 786	400 745	<b>9 577 531</b>	70,0%
Western Cape	15 199 204	1 553 278	<b>16 752 482</b>	10 988 056	801 702	<b>11 789 758</b>	70,4%
<b>Total</b>	<b>151 885 131</b>	<b>18 850 538</b>	<b>170 735 669</b>	<b>110 668 499</b>	<b>10 761 274</b>	<b>121 429 773</b>	<b>71,1%</b>

### Expenditure

- Provinces spent R121,4 billion, or 71,1 per cent of their R170,7 billion adjusted budget. This is R16,9 billion or 16,2 per cent higher than the expenditure recorded after the same period last year.

**Table 2: Summary of provincial social services expenditure as at 31 December 2003**

R thousand	Adjusted budget	Actual expenditure as at 31 Dec 2003	Actual expenditure as % of adjusted budget	Expenditure as at 31 Dec 2002 (Section 32: 30 Jan 2003)
Education	59 541 746	43 451 572	73,0%	38 969 049
Health	37 384 958	26 164 802	70,0%	23 776 602
Social Development	40 883 194	30 740 583	75,2%	23 795 335
<b>Total</b>	<b>137 809 898</b>	<b>100 356 957</b>	<b>72,8%</b>	<b>86 540 987</b>

- Provinces have budgeted 81 per cent of their budget (or R137,8 billion) for social services, which include spending on education, health and social development<sup>1</sup>. Spending on social services after three quarters of the year is at R100,4 billion or 72,8 per cent of the adjusted budget.
  - School Education:** Education expenditure is recorded at R43,5 billion or 73 per cent of the adjusted budget of R59,5 billion and is R4,5 billion or 11,5 per cent higher compared to the same period during the 2002/03 financial year. With education budget being largely personnel driven, expenditure on personnel is R37,1 billion or 74,9 per cent of the R49,6 billion adjusted personnel budget.
  - Health:** Health expenditure to date is at R26,2 billion or 70 per cent of the adjusted budget of R37,4 billion. Health spending has increased by R2,4 billion (10 per cent) compared to the same period in 2002/03.

<sup>1</sup> 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 R30,7 billion or 75,2 per cent of the 40,9 billion adjusted budget, representing an increase of R6,9 billion or 29,2 per cent 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 due to the higher-than-anticipated number of beneficiaries. The trend indicates that that provincial social development budgets may come under some pressure in the coming months.
- Personnel expenditure of R59,8 billion (73,5 per cent of the budgeted personnel expenditure) also represents 49,3 per cent of total provincial spending.

## Capital

- Capital expenditure<sup>2</sup> after nine months is R10,8 billion or 57,1 per cent of the capital budget. This is a significant improvement on last year, as provinces have spent R2,5 billion (30 per cent) more compared to the same period last year, when provinces had spent 50,9 per cent.
- The provinces with the highest proportion of capital spending are the Eastern Cape, spending 67,8 per cent, Limpopo spending 64,4 per cent and Free State spending 64,1 per cent of their adjusted capital budget. The lowest level of capital spending is recorded by North West, spending 35,8 per cent of its adjusted budget.
- In absolute terms, the highest capital expenditure is in Gauteng at R2,4 billion, followed by Eastern Cape at R2,2 billion, and KwaZulu-Natal at R2,1 billion.
- Capital spending has increased sharply in all provinces except in North West and Western Cape as compared to the same period in 2002/03. The Eastern Cape has significantly improved its spending capacity as spending has increased by R930,8 million or 70,6 per cent over the same period during 2002/03.
- It is difficult to assess what the projected out-turn will be on capital spending, including any underspending. Typically, most capital spending has a slow uptake in the first part of the year, and tends to be underestimated as some provincial departments do not reconcile their suspense accounts (eg North West housing department). For all these reasons, capital spending rises rapidly in the last quarter. Reporting, planning and project management reforms are in the process of being implemented to improve the reporting on capital, to ensure a more even flow of payments between the four quarters. However, these reforms will take at least three years to implement to all 116 provincial departments.

**Table 3: Summary of provincial capital expenditure as at 31 December 2003**

R thousand	Adjusted budget	Actual expenditure as at 31 Dec 2003	Actual expenditure as % of adjusted budget	Expenditure as at 31 Dec 2002 (Section 32: 30 Jan 2003)
Eastern Cape	3 318 623	2 249 174	67,8%	1 318 407
Free State	974 431	624 645	64,1%	443 533
Gauteng	4 569 774	2 387 951	52,3%	1 757 729
KwaZulu-Natal	3 599 968	2 067 077	57,4%	1 606 513
Limpopo	1 984 738	1 277 716	64,4%	891 128
Mpumalanga	1 307 246	733 575	56,1%	602 240
Northern Cape	423 943	218 688	51,6%	197 484
North West	1 118 537	400 745	35,8%	522 689
Western Cape	1 553 278	801 702	51,6%	935 132
<b>Total</b>	<b>18 850 538</b>	<b>10 761 274</b>	<b>57,1%</b>	<b>8 274 855</b>

<sup>2</sup> It is not clear to what proportion of the capital spending numbers are transfers, and what proportion of these transfers reflect actual spending.

- Table 4 shows that the biggest provincial capital budgets are for Public Works, Roads and Transport. These departments are performing the best, having spent R3,2 billion or 64,5 per cent of the R4,9 billion adjusted budget. The level of spending has significantly increased by R298,7 million or 10,4 per cent compared with the same period last year.
- Between provinces, the lowest spending is KwaZulu-Natal (53,6 per cent), whilst Gauteng records 89,3 per cent<sup>3</sup>. However, it should be noted that the Gauteng spending here probably includes some health and education capital spending.
- In absolute terms, Northern Cape has recorded the lowest level of spending with R57,4 million and Eastern Cape recording the highest with R766,5 million as at the end of December 2003.

**Table 4: Provincial capital expenditure on public works, roads and transport**

R thousand	Adjusted budget	Actual expenditure as at 31 Dec 2003	Actual expenditure as % of adjusted budget	Expenditure as at 31 Dec 2002 (Section 32: 30 Jan 2003)
Eastern Cape	1,074,361	766,497	71.3%	395,880
Free State	186,082	114,495	61.5%	179,034
Gauteng	462,493	413,235	89.3%	678,592
KwaZulu-Natal	1,109,850	594,397	53.6%	504,976
Limpopo	600,543	425,971	70.9%	261,485
Mpumalanga	316,867	184,184	58.1%	255,002
Northern Cape	103,183	57,372	55.6%	104,224
North West	292,733	174,019	59.4%	98,529
Western Cape	791,190	453,952	57.4%	407,656
<b>Total</b>	<b>4,937,302</b>	<b>3,184,122</b>	<b>64.5%</b>	<b>2,885,378</b>

- Table 5 shows that capital spending on education is recorded at R1,6 billion or 54,5 per cent of their 2,9 billion adjusted capital budget. This level of spending shows great improvements compared to last year, as this year's spending exceeds that of 2002/03 by R489,3 million or 45,3 per cent.
- Spending in Northern Cape (29,3 per cent) and Eastern Cape (45,7 per cent) appears to be the lowest, while North West and Mpumalanga recorded the highest expenditure with 75,8 and 65,3 per cent respectively.

<sup>3</sup> 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.

**Table 5: Provincial capital expenditure: Education as at 31 December 2003**

R thousand	Adjusted budget	Actual expenditure as at 31 Dec 2003	Actual expenditure as % of adjusted budget	Expenditure as at 31 Dec 2002 (Section 32: 30 Jan 2003)
Eastern Cape	434 107	198 210	45,7%	281 871
Free State	197 679	103 399	52,3%	52 933
Gauteng	867 273	482 782	55,7%	225 355
KwaZulu-Natal	561 157	273 869	48,8%	171 062
Limpopo	340 050	200 230	58,9%	111 500
Mpumalanga	260 006	169 661	65,3%	111 303
Northern Cape	38 514	11 289	29,3%	1 109
North West	131 702	99 887	75,8%	95 567
Western Cape	50 907	29 979	58,9%	29 303
<b>Total</b>	<b>2 881 395</b>	<b>1 569 306</b>	<b>54,5%</b>	<b>1 080 003</b>

- Table 6 shows that capital spending on the health sector is lower as a share, at 49,9 per cent or R1,4 billion. There has been a considerable increase of R323,3 million or 29,8 per cent on Health capital spending as compared to the same period last year.
- Gauteng (15,3 per cent) and Free State (25,3 per cent) recorded the lowest level of health capital spending while Eastern Cape (75,4 per cent), KwaZulu-Natal (65,3 per cent) and Limpopo (64 per cent) recorded the highest level of spending. However, provincial departments like the Gauteng health department have not reconciled their monthly reports with their public works department, and hence probably underestimate their actual spending on capital in health.

**Table 6: Provincial capital expenditure: Health as at 31 December 2003**

R thousand	Adjusted budget	Actual expenditure as at 31 Dec 2003	Actual expenditure as % of adjusted budget	Expenditure as at 31 Dec 2002 (Section 32: 30 Jan 2003)
Eastern Cape	500 399	377 312	75,4%	222 303
Free State	85 762	21 721	25,3%	31 213
Gauteng	581 474	88 724	15,3%	210 423
KwaZulu-Natal	729 748	476 172	65,3%	321 104
Limpopo	358 969	229 858	64,0%	148 092
Mpumalanga	183 274	63 316	34,5%	55 168
Northern Cape	90 415	29 789	32,9%	14 093
North West	186 031	65 099	35,0%	54 933
Western Cape	107 413	57 174	53,2%	28 560
<b>Total</b>	<b>2 823 485</b>	<b>1 409 165</b>	<b>49,9%</b>	<b>1 085 889</b>

- Table 7 shows capital expenditure in housing (largely spending on housing subsidies) at R2,8 billion or 56,3 per cent of the R4,9 billion adjusted housing capital budget. The level of spending has significantly increased by R447,9 million or 19,4 per cent as compared to the same period of the 2002/03 financial year.
- These housing figures do not fully account for past roll-overs and transfers (eg to SA Housing Fund and municipalities), making it difficult to assess spending against actual housing budgets.
- The lowest level of spending is recorded by North West at 2,6 per cent followed by Western Cape at 38,3 per cent and Gauteng at 43,2 per cent. The highest level of spending is

recorded by Free State at 85 per cent and Mpumalanga at 78,7 per cent. However, the North West department of housing appears not to have reconciled its suspense accounts, so its reported figure is seriously under-stated.

**Table 7: Provincial capital expenditure: Housing as at 31 December 2003**

R thousand	Adjusted budget	Actual expenditure as at 31 Dec 2003	Actual expenditure as % of adjusted budget	Expenditure as at 31 Dec 2002 (Section 32: 30 Jan 2003)
Eastern Cape	659 563	470 725	71,4%	288 489
Free State	395 764	336 274	85,0%	164 459
Gauteng	1 107 293	477 848	43,2%	324 365
KwaZulu-Natal	911 652	623 041	68,3%	534 383
Limpopo	471 273	284 309	60,3%	243 649
Mpumalanga	339 353	267 083	78,7%	166 222
Northern Cape	157 684	107 547	68,2%	72 929
North West	389 685	9 969	2,6%	229 662
Western Cape	457 295	175 041	38,3%	279 813
<b>Total</b>	<b>4 889 562</b>	<b>2 751 837</b>	<b>56,3%</b>	<b>2 303 971</b>

## Revenue

- Provinces have collected 81,4 per cent of the budgeted own revenue of R5,4 billion for the year, collecting R4,4 billion after nine months.
- The high 81,4 per cent collection may be an indication of provinces being conservative in their revenue budgets, as the R5,4 billion budgeted amount is still less than the R5,9 billion actually collected in the previous year (2002/03). The collection varies from a low of 72,2 per cent in Northern Cape to a high of 99,6 per cent collected in KwaZulu-Natal.
- National government transferred R107,7 billion of the equitable share grant, and R12,2 billion in conditional grants, to provinces to date.
- In total, including adjusted provincial own revenue, provincial revenue as at 31 December 2003 is at R124,2 billion or 26,3 per cent higher than in the same period last year.