National Treasury has published the 13th edition of the Provincial Budgets and Expenditure Review which covers a seven-year period from 2010/11 to 2016/17. It is both a review of the recent past and a forward-looking document that forms part of government's commitment to budget transparency.

The Review provides a consolidated picture of provincial finances during a period of exceptional turbulence in the global and South African economy. Provinces play a critical role as a service delivery arm of government and more than 43 per cent of nationally-raised government revenue is distributed to the nine provincial governments in the country.

Within this context, the Review is an important resource that forms part of government's commitment to budget transparency. It provides the public, elected officials, policy analysts and public servants with information on the use of public resources.

The Review has four broad objectives:

- To provide a consolidated picture of the financial performance and plans of provinces;
- To assess the performance of provincial governments in providing critical social services and supporting economic growth through increased investment in strategic and economic infrastructure;
- To assess the financial management capacity of provinces; and
- To highlight challenges, and the recommendations, possible solutions and policy initiatives designed to address them.

The document contains twelve chapters, excluding the Introduction and has a detailed data-set of financial information drawn from the National Treasury’s Provincial Database. The data-sets (Annexures A and B) contain both the financial and the non-financial performance of provincial governments.

Based on the reported trends, several observations can be made:

- Building sustainable communities remains a major issue. Since 1994, access to social and basic services has grown rapidly. However, the sustainability of some of these communities is debatable.
- There is a continuing need to improve infrastructure delivery. Sharp increases in provincial capital budgets have not been matched by the quality of delivery mechanisms. Provinces need to absorb and entrench good practice in infrastructure planning, budgeting and implementation.
Personnel expenditure trends should be examined.
A comprehensive, coordinated initiative is required to bring about sound financial management across the public sector.

Other highlights include:

- The Provincial Equitable Share, which constitutes almost 80% of total provincial revenue and is transferred by national government, will continue to grow by 6.9 per cent in the 2014 MTEF.
- Provincial Own Revenues (that is, revenue raised by provinces themselves outside of national government transfers) have risen from R10.3 billion in 2010/11 to R14.4 billion in 2013/14, and are set to rise to R15.3 billion in 2016/17.
- Provinces have begun to moderate the growth in staff numbers. Staff numbers have declined from 920 826 in 2012 to 915 569 in 2014. The practice of making appointments without sufficient funds in budgets is not as prevalent in provinces as it was during the implementation of the Occupation-Specific Dispensation (OSD).
- Nevertheless, because of continuing civil service wage demands, the cost of government employment has consistently risen above inflation. Compensation of employees in provinces has risen by an annual average of 9.6 per cent since 2010/11, from R193.5 billion to a projected R310.8 billion in 2016/17.
- In 2013/14 R227 billion was spent on Education, equivalent to 19.7 percent of total government expenditure and 6.5 per cent of GDP. Out of this amount, R176.4 billion was spent in provinces.
- Since 2010/11 provincial spending on Health has grown by over 10% annually, reflecting a considerable prioritization of health services by provincial legislatures and treasuries. However, prioritization within provincial Health departments themselves still needs to improve.
- Spending on HIV and AIDS grew by over 20 per cent annually between 2010/11 and 2013/14 and is set to continue growing by over 13 per cent over the 2014 MTEF, which is still at over twice the rate of inflation.
- Three provinces (Eastern Cape, KwaZulu-Natal and Limpopo) currently account for 53.7 per cent of all provincial agriculture spending in the country.
- Within other non-social sector functions (such as Roads, Public Works and Infrastructure development), the primary reasons for under-performance are lack of adequate technical skills, poor planning, poor asset management and poor costing of spending items such as leases.

The chapters are summarized in the Annexure below. The National Treasury hopes that the chapters and accompanying data-sets within the Review will provide a useful body of knowledge and will enable informed consideration of the many and varied government programmes being carried out in the provinces.

Copies of the Review can be accessed via the following link:

Issued on behalf of National Treasury

Date: 14 January 2015