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# 1: PROFILE OF THE PROVINCES

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## INTRODUCTION

### Provinces vary substantially

The geographic, economic and demographic characteristics of South Africa's nine provinces vary substantially. While some of these differences can be ascribed to factors such as location, climate and mineral wealth, many were either caused or exacerbated by apartheid policies. These differing characteristics affect the demand for public services, the cost of delivering these services and the capacity of a province – both in terms of human resources and the ability to raise revenue – to meet the needs of its people. The Constitution stipulates that these differences must be taken into account in the intergovernmental budget process. Before examining the financial dimensions of intergovernmental relations, it is therefore useful to review socio-economic conditions in the provinces as these frame fiscal decisionmaking.

## HISTORICAL BACKGROUND

### Fragmented system

The previous system of government was highly centralised but simultaneously fragmented along racial lines. In total, there were 17 systems of government and administration:

- ◆ The three separate administrations covering whites, Indians and coloureds under the tricameral system.
- ◆ The four provincial administrations of the Cape, Transvaal, Orange Free State and Natal within the Republic of South Africa.
- ◆ The four “independent states” of Transkei, Ciskei, Bophuthatswana and Venda.
- ◆ The six “self-governing” territories of Gazankulu, KaNgwane, KwaNdebele, KwaZulu, Lebowa and QwaQwa.

### Need to redress imbalances

Each of these systems had, at least on paper, a political executive, an administration of public servants and, except for the provincial administrations, a legislative assembly. The provinces, although performing health, education and welfare functions, were merely administrative extensions of the white House of Assembly, with policy formulation highly centralised in Pretoria. The homelands received transfers from central government and were also allowed to borrow and raise certain forms of revenue. The racial and regional bias in public

resource allocation is well documented elsewhere. However, the need to redress the imbalances of the past remains a powerful force shaping the emerging system of intergovernmental relations.

## **Government of National Unity**

The Government of National Unity assumed office in May 1994. Provincial Premiers were elected and executive councils appointed soon afterwards. The basic framework legislation for the new public service was promulgated by proclamation by the President on 3 June 1994. The Public Service Act of 1994 established 35 national departments, offices and services and nine provincial governments, each to be headed by a Director-General.

The Constitution formalised the boundaries of the newly created provinces, assigning them distinct functions and powers (as delineated in Schedules 4 and 5 of the Constitution). Parallel to the process of merging and rationalising the 17 administrations and establishing new provincial governments, functions formerly carried out by the national government had to be devolved to these governments. This was an immense task and, not surprisingly, several problems were encountered.

### **Establishing nine new provinces**

The Constitution established nine new provinces, most combining some of the governments and administrations of the previous dispensation. Each new province faced different challenges in merging, consolidating and rationalising its public service while at the same time avoiding interruptions in service delivery.

The nature of the old structures largely determined the developmental needs facing each newly formed province as well as its internal capacity to address these. For instance, provinces that inherited former homeland structures tended to have poor infrastructure and populations with lower levels of educational attainment.

<b>New provinces</b>	<b>Major former administrations</b>
Eastern Cape	Transkei, Ciskei, part of Cape Provincial Administration, House of Representatives
Free State	QwaQwa, Orange Free State Provincial Administration, part of Bophuthatswana
Gauteng	Part of Transvaal Provincial Administration, House of Representatives, House of Delegates
KwaZulu-Natal	KwaZulu, Natal Provincial Administration, House of Representatives, House of Delegates
Mpumalanga	KaNdwane, KwaNdebele, part of Transvaal Provincial Administration
Northern Cape	Part of Cape Provincial Administration, House of Representatives
Northern Province	Venda, Lebowa, Gazankulu, part of Transvaal Provincial Administration
North West	Bophuthatswana, part of KwaNdebele, part of Transvaal and Cape Provincial Administrations
Western Cape	Part of Cape Provincial Administration, House of Representatives

## **Division of functions**

As with the other spheres of government, the functions of the provinces are based on the legislative competence constitutionally assigned to them. However, the Interim Constitution did not explicitly spell out the division of functions between the national and provincial levels, presumably leaving this to be resolved administratively. As the Public Service Commission (1997) pointed out, the appropriate division of these functions was not self-evident – many major functions did not fit neatly

into either category. In general, the national government provides policy frameworks within a function (especially norms and standards), overall planning and essential coordination. Provinces in turn are responsible for the actual delivery of public services. The exact functions of the national and provincial departments continue to evolve and are based on a practical interpretation of the Constitution and political agreement between office-bearers at each level.

## DEMOGRAPHIC<sup>1</sup> AND ECONOMIC CHARACTERISTICS

### Demographics indicate service needs

The size and age distribution of provincial populations give a rough indication of the levels and mix of public service needs. It is obvious that larger provinces provide public services to larger populations and therefore need more capacity and funding. The age profile affects the type of services provided – relatively younger populations require more education while older people are eligible for pension benefits. Provinces with a high proportion of people of working age often spend more on economic and household infrastructure.

**Table 1.1 Population by province**

Province	Population (000)	Share (%)
Eastern Cape	6 303	15,5
Free State	2 634	6,5
Gauteng	7 348	18,1
KwaZulu-Natal	8 417	20,7
Mpumalanga	2 801	6,9
Northern Cape	840	2,1
Northern Province	4 929	12,1
North West	3 355	8,3
Western Cape	3 957	9,7
<b>Total</b>	<b>40 584</b>	<b>100,0</b>

Source: Statistics South Africa, Census 1996

Table 1.2 shows that provinces with former homelands have relatively more children and aged people. For instance, Eastern Cape has 15,5 per cent of the nation's population, but has 18,4 per cent of the country's school-age children and 19,1 per cent of its elderly. These provinces therefore need to spend relatively more on social services.

People of working age generally stay closer to employment opportunities, for instance in Gauteng. This province has proportionally fewer school-age children and elderly people, and thereby faces a relatively lower demand for education and pensions. Given the size of its population, social spending will still be high in absolute terms. Moreover, school enrolment, take-up of old-age pensions and child-maintenance grants and

<sup>1</sup>The demographic data in this chapter are based on the October 1996 census. Although Statistics SA has released mid-year estimates for 1998 (Statistical Release P0302), those population figures are not as detailed and do not include, for instance, a breakdown by age.

the overall level of services provided will also influence actual spending in a province.

**Table 1.2 Age distribution of the population by province**

Province	School age (6–17)		Aged <sup>1</sup>	
	(000)	Share (%)	(000)	Share (%)
Eastern Cape	2 010	18,4	477	19,1
Free State	680	6,2	156	6,2
Gauteng	1 394	12,8	392	15,7
KwaZulu-Natal	2 377	21,7	496	19,8
Mpumalanga	789	7,2	147	5,9
Northern Cape	223	2,0	54	2,1
Northern Province	1 665	15,2	326	13,0
North West	896	8,2	196	7,8
Western Cape	895	8,2	259	10,4
<b>Total</b>	<b>10 930</b>	<b>100,0</b>	<b>2 502</b>	<b>100,0</b>

<sup>1</sup>Aged includes males over age 65 and females over age 60, which is the group eligible for old age grants.

Source: Statistics South Africa, Census 1996

## Spatial distribution

The table below shows that the size of the nine provinces vary greatly, as does the spatial distribution of the population. Although the population of the country as a whole is fairly evenly divided between urban and rural areas, provincial urbanisation patterns differ significantly. The spatial distribution of the population has important implications for the cost of service delivery.

**Table 1.3 Spatial distribution of the population by province**

Province	Distribution (%)		Area (km <sup>2</sup> )	Density (per km <sup>2</sup> )
	Urban	Rural		
Eastern Cape	36,6	63,4	169 580	37
Free State	68,6	31,4	129 480	20
Gauteng	97,0	3,0	17 010	432
KwaZulu-Natal	43,1	56,9	92 100	91
Mpumalanga	39,1	60,9	79 490	35
Northern Cape	70,1	29,9	361 830	2
Northern Province	11,0	89,0	123 910	40
North West	34,9	65,1	116 320	29
Western Cape	88,9	11,1	129 370	31
<b>Total</b>	<b>53,7</b>	<b>46,3</b>	<b>1 219 090</b>	<b>33</b>

Source: Statistics South Africa, Census 1996

## Apartheid affected settlement patterns

Although spatial distribution patterns to some extent correlate with the economic opportunities available in a province, apartheid affected

settlement patterns. Provinces containing former homelands have above average population densities and their population is largely rural. The main economic centres, Gauteng and Western Cape, are predictably more urbanised. Provinces with a strong mining or agricultural economy, such as Free State and Northern Cape, are also more urbanised, as extensive commercial farming limits rural settlement possibilities. This is also reflected in the low population densities of these provinces. Obviously, provinces with a relatively larger rural or more dispersed population incur more costs in trying to extend services to these people.

## Economic disparities

The dramatic disparity in access to economic opportunities is reflected in Table 1.4, which shows the proportion of total remuneration accruing to employees in each province. The four most rural provinces, with a combined share of 43 per cent of the population, receive only 17 per cent of remuneration.

Inadequate employment opportunities also burden the public sector, for instance by limiting the availability of private health care. Although less than 20 per cent of South Africans have access to medical aid, its availability is generally correlated with employment, as shown in Table 1.4. When the population is not in a position to access private health care, public health facilities face higher demand.

**Table 1.4 Distribution of remuneration and medical aid**

Province	Share of total remuneration (%)	Share of total medical aid (%)
Eastern Cape	5,9	6,7
Free State	5,1	6,2
Gauteng	43,2	39,1
KwaZulu-Natal	18,9	14,6
Mpumalanga	4,7	5,2
Northern Cape	1,6	2,3
Northern Province	1,7	5,0
North West	5,1	6,0
Western Cape	13,7	14,9
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

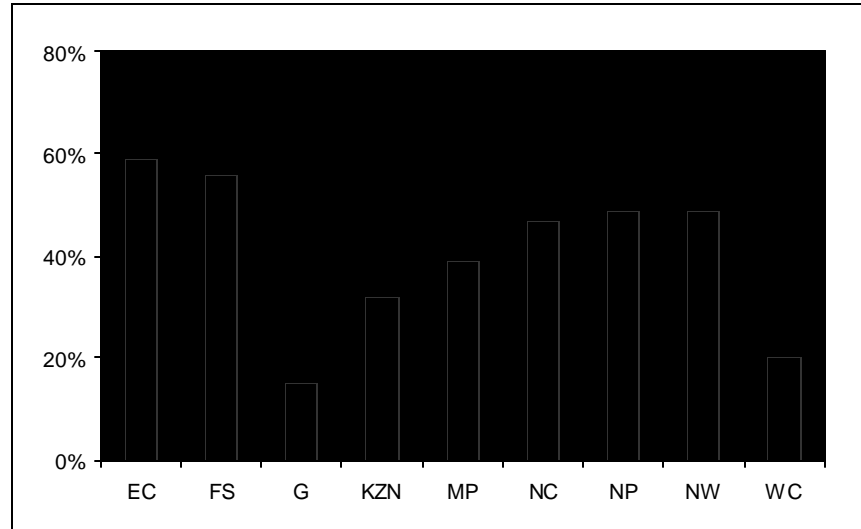
*Source: Statistics South Africa, 1995 income and expenditure survey and 1995 October household survey*

## Income statistics

These patterns are mirrored in income data. Provinces such as Eastern Cape, Northern Province and Free State have a larger share of the country's low-income households than their share of the total number of households. (Households are defined as poor if they are in the bottom 40 per cent of all households in terms of total household income.) Gauteng and Western Cape, in contrast, have proportionally more high-income households – that is, in the richest 20 per cent.

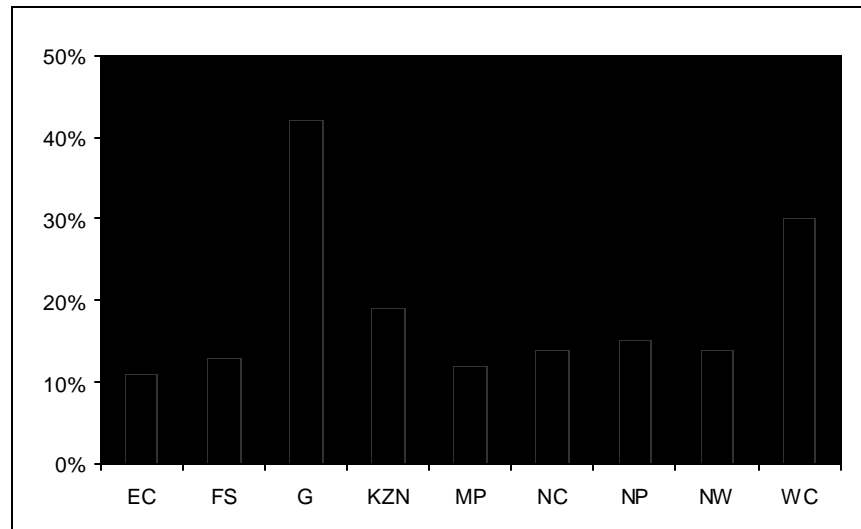
A low level of economic activity and larger numbers of poor households not only increase the demand for social services, but also limit a province's ability to finance the delivery of such services from own revenue sources.

**Figure 1.1 Percentage of low-income households by province**



Source: Statistics South Africa, income and expenditure survey, 1995

**Figure 1.2 Percentage of high-income households by province**



Source: Statistics South Africa, income and expenditure survey, 1995

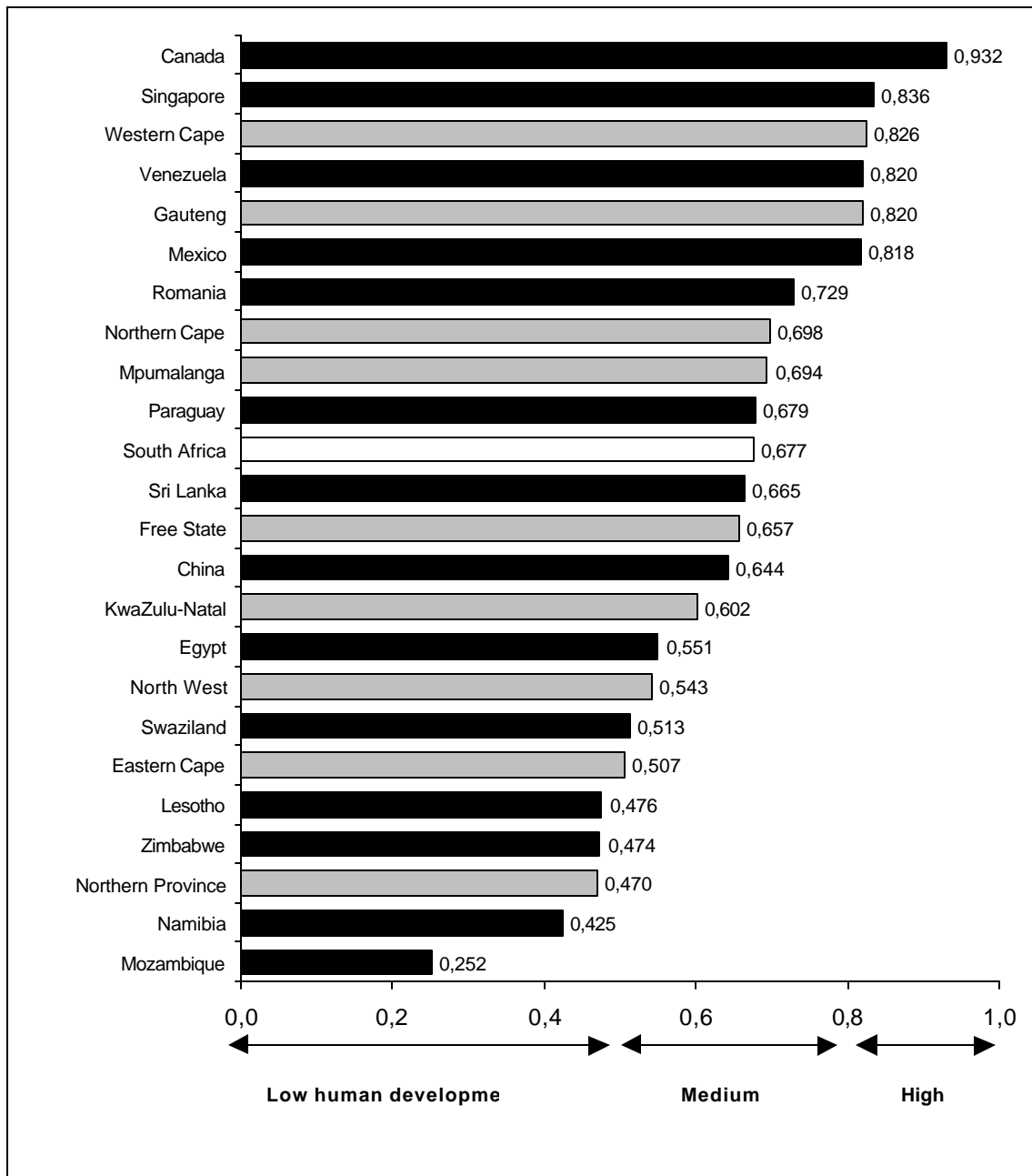
### **Capacity and human resources**

Disparities in economic opportunities not only affect demand for services, but also have a strong impact on the human resources available to a provincial government to administer social service programmes. People migrate in search of economic and educational opportunities and provinces with more limited opportunities have difficulty attracting or retaining qualified individuals. Thus it is not surprising that nearly half of all adult South Africans with tertiary qualifications reside in Gauteng and Western Cape, given the concentration of higher education institutions and the level of economic activity in these two provinces. Nor is it surprising that the poorer, rural provinces tend to have populations with relatively low levels of educational achievement. Figures 1.4 and 1.5 provide an indication of the human capacity of each province to address its challenges.

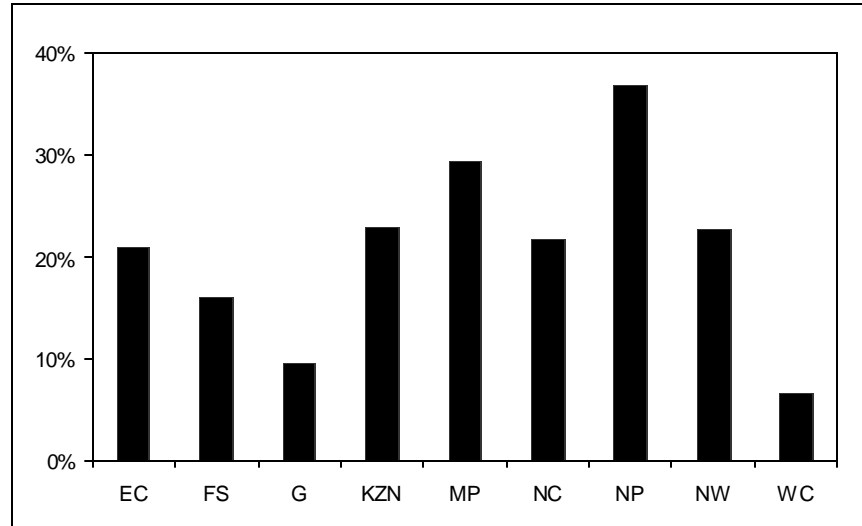
## Human development index

The human development index (HDI) compares quality of life across regions and countries. Ranging between 0 and 1, it is a composite index of life expectancy at birth, educational attainment (measured by adult literacy and school enrolment) and living standards (as measured by real GDP per capita). An HDI of less than 0,5 indicates a low level of development, between 0,5 and 0,8 a medium and 0,8 and above a high level of development. Figure 1.3 shows the HDI of the nine provinces relative to other countries. The data are for 1991 and thus do not reflect improvements since the transition to democracy. South Africa is estimated to have a medium human development ranking, similar to Sri Lanka and Paraguay. Western Cape and Gauteng have high levels of human development while Northern Province has a low level of human development, comparable to Zimbabwe or Namibia.

**Figure 1.3 Comparison of provincial HDI with selected countries**

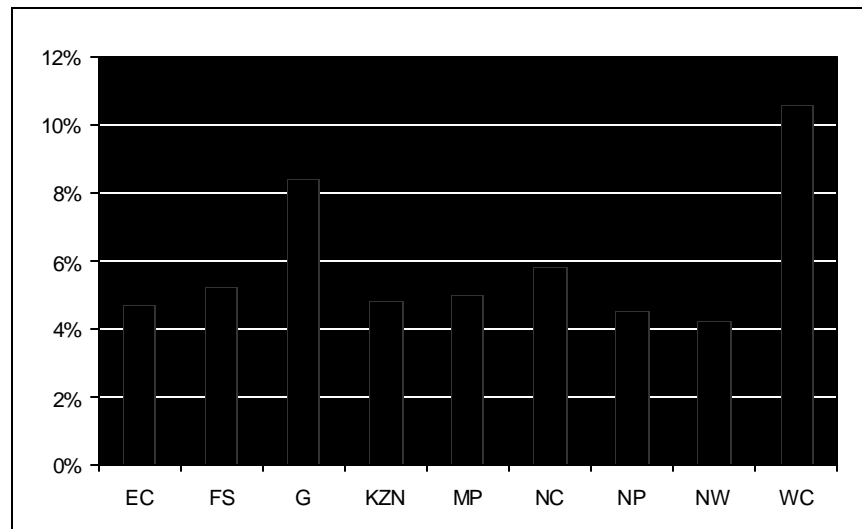


**Figure 1.4 Percentage of adult population with no education**



Source: Statistics South Africa, Census 1996

**Figure 1.5 Percentage of adult population with higher education**



Source: Statistics South Africa, Census 1996

## CONCLUDING REMARKS

The challenges facing provincial governments can best be understood in the light of the historical context in which they emerged and the current socio-economic conditions. Even a cursory review of provincial statistics reveals the substantial differences between provinces, and how these differences can affect the demand for public services. The intergovernmental financial framework has to accommodate the need to redress imbalances and promote equity in the allocation of resources. Consequently, the formula for sharing nationally raised revenue between the provinces (which is presented in detail in Appendix A) takes into account many of the key factors affecting demand for public services.



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# 2: THE INTERGOVERNMENTAL SYSTEM

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## INTRODUCTION

### **Significant changes to the system**

South Africa's intergovernmental system emerged from the Constitutional negotiation process during the democratic transition and represents a substantial transformation challenge. As with most developing countries, the pressures for decentralisation were largely politically driven.

Significant changes include the creation of nine provinces from four provincial administrations, four "independent states", six self-governing territories and the "own affairs" administrations; the shift from allocating funds through function committees to an objective formula-based approach; the introduction of the Medium Term Expenditure Framework (MTEF); and the development of a framework for intergovernmental relations.

### **Evolution of the system**

The system has evolved rapidly over the past four years. Being superimposed on existing structures and systems, it has created certain tensions. This chapter explains the intergovernmental fiscal system and highlights both achievements and constraints in its efficient functioning.

## CONSTITUTIONAL FRAMEWORK

### **Establishing three spheres**

The Constitution establishes three "distinctive, interdependent and interrelated" spheres of government. Provinces have the power to establish their own political structures and processes and elect their leaders. This enhanced political autonomy requires a complex system of cooperative government and intergovernmental relations, for which Section 41 of the Constitution lays the foundation.

### **Assigning responsibility for service delivery**

In addition to these powers, provinces have certain expenditure responsibilities, as set out in Schedules 4 and 5. These are either exclusive or concurrent. Exclusive functions include provincial planning, roads and transport, and economic affairs. Concurrent functions are those shared with national government. For instance, responsibility for the three social services, health, education and welfare, is shared with national government. Provinces currently account for some 60 per cent of non-interest expenditure and 70 per cent of public service employment.

### **Provincial powers to raise revenue**

Despite their significant expenditure responsibilities, provinces have limited sources of own revenue. In terms of Section 228(1) they may impose taxes, levies and duties other than income tax, VAT, sales tax,

rates on property and customs duties. They may also levy a flat-rate surcharge on the tax bases of any tax, levy or duty imposed by national legislation, except for corporate income tax, VAT, rates on property and customs duties. Such taxes must not unreasonably prejudice national economic policies, interprovincial economic activity or the mobility of resources and must be regulated in terms of national legislation.

**Sharing nationally collected revenue**

Section 214(1) of the Constitution stipulates that nationally raised revenue must be distributed equitably between the three spheres of government; that the provincial share must be divided equitably between the nine provinces; and that other allocations may be made from the national share, with or without conditions. The mechanisms for sharing revenue are discussed in Appendix A.

**Regulating provincial borrowing**

Section 230(1) of the Constitution allows provinces and municipalities to borrow capital and bridging finance, subject to regulation. The Borrowing Powers of Provincial Governments Act of 1996 regulates provincial borrowing, but was written in terms of the Interim, rather than final, Constitution. The Act established a Loans Coordinating Committee to oversee provincial borrowing. With the exception of short-term bridging finance, such borrowing is currently quite restricted. Provinces are generally not permitted to borrow to finance recurrent expenditure and, until a clearer policy framework exists, there is general agreement that they will not borrow to finance capital expenditure either.

**Achieving a balance in intergovernmental relations**

While the Constitution confers significant autonomy on provincial governments, it creates a coordination and monitoring role for national government to ensure macroeconomic stability, achievement of national policy goals and obligations, and a consistent standard of services so that citizens are not prejudiced based on their place of residence. The government achieves this through framework legislation or setting norms and standards. Provinces are responsible for implementing national policies affecting concurrent functions.

The Constitution also provides for more direct national monitoring of provincial affairs under prescribed conditions. National government intervention is permitted in order to maintain national security, economic unity, national norms and standards, or to avoid prejudicial activities by any provincial government. Section 100 and Sections 146–150 of the Constitution govern such national supervision in specific instances. Section 100(1) provides for “any appropriate steps” for ensuring that provinces fulfil their executive obligations. Although this section applies broadly to all executive obligations of provincial governments, it has thus far been used exclusively with regard to budgets and financial management.

## **LEGISLATIVE FRAMEWORK**

### **Intergovernmental Fiscal Relations Act**

The Intergovernmental Fiscal Relations Act of 1997 came into effect on 1 January 1998 and was first fully implemented for the 1999 Budget. The Act formalises an intergovernmental budget process. It gives effect to Section 214 of the Constitution by setting out the process for revenue sharing and to Section 41 by promoting cooperative governance.

<b>The Budget Council</b>	The Act establishes the Budget Council and Budget Forum to promote cooperation between the spheres of government on fiscal, budgetary and other financial matters. The Budget Council consists of the national Minister of Finance and the nine provincial MECs for finance. The council is consulted on any fiscal or financial matter affecting provincial government, including financial management issues and proposed legislation or policy with financial implications. The Technical Committee on Finance, which includes officials from the national and provincial treasuries, supports the Budget Council.
<b>The Budget Forum</b>	The Budget Forum is the equivalent body for fiscal and financial matters of concern to local government. Its membership includes the Budget Council, five members nominated by the South African Local Government Association (SALGA) and one representative from each of the provincial associations.
<b>Formalising the budget process</b>	In terms of the Act, the Financial and Fiscal Commission (FFC) proposes a division of revenue 10 months before the new financial year. This is submitted to the Minister of Finance, Parliament and the nine provincial legislatures. The Minister then consults the provinces, local government and the FFC before taking it to Cabinet.
<b>Division of Revenue Bill</b>	Finally the Minister tables a Division of Revenue Bill at the time of the budget, setting out the final allocations to the three spheres and each of the provinces, as well as any conditions that apply. Neither the Constitution nor the Act requires that the division of the local government share between municipalities be detailed. The Bill is accompanied by a memorandum explaining assumptions and formulae used in determining the allocations, and how those allocations comply with constitutional requirements and take into account the FCC's recommendations.

### **Public Finance Management Act**

The Public Finance Management Act of 1999 significantly reforms budgeting and financial management. It is in line with the government's commitment to transparency and accountability, Constitutional obligations and international best practice.

In 1994, the government inherited a fragmented system of financial management and control that undermined accountability. The introduction of nine provincial Exchequer Acts for governing the activities of provincial departments, and the Reporting of Public Entities Act for dealing with public entities were useful interim measures but also introduced some inconsistencies and duplication. The Public Finance Management Act replaced all this legislation with a single comprehensive, coherent framework for financial management. It has four critical components.

<b>Greater accountability</b>	First, the Act ensures that all national and provincial institutions and public entities have accounting officers with clear roles and responsibilities. These officers are responsible for establishing and maintaining basic financial management systems, for keeping their departments within budget and for timely financial reporting. They are subject to clear disciplinary procedures and strict sanctions, including criminal prosecution for gross and wilful financial misconduct. The fiduciary responsibilities of the boards of public entities are similarly set out and regulated.
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### **Improved reporting**

Second, the Act significantly improves the information requirements and timing of financial reports. For example, departments submit monthly expenditure reports to their treasuries and audited financial statements must be available soon after the close of the financial year.

### **Focus on performance**

Third, the Act promotes accounting for performance rather than simply for money spent. As opposed to the formerly narrow, rule-bound focus on inputs, the Act focuses on what public money buys. The minister or MEC is responsible for policy matters and the outcomes of public spending. The head of the department is responsible for outputs and policy implementation and is directly accountable to Parliament for the management of public funds. This approach is in line with the new public service regulations that rely on a performance-driven system based on measurable outputs.

### **Appropriation of funds**

The final component is that Parliament and provincial legislatures are to appropriate funds for specific programmes (the “main divisions” of votes) rather than for entire departments, as is currently the case. Departments are restricted in their ability to transfer funds between programmes. These changes will strengthen parliamentary oversight over the allocation of public funds.

## **Financial and Fiscal Commission Act of 1997**

The Financial and Fiscal Commission (FFC) Act gives effect to Section 220 of the Constitution. An advisory body accountable to Parliament and the legislatures, it makes recommendations and advises organs of the state on financial and fiscal matters. The FFC was originally established under the Interim Constitution and has contributed significantly to the development of the intergovernmental system. Its recommendations for the division of resources between the spheres of government underlie the current allocations.

## **IMPLEMENTATION**

### **Changes to the budget process**

The budget process has changed significantly over the past four years to reflect the financial provisions of the Constitution and the introduction of the MTEF. Even though provinces were established under the Interim Constitution, the flexibility to allocate their own budgets did not materialise until 1997/98. Prior to this, allocations were largely made through function committees for education, health and welfare amongst others.

### **Allocations through function committees**

Function committees were responsible for coordinating budget proposals for all areas of Government’s functional expenditure such as health, education and defence. The budget was effectively divided into allocations by function committees and “unexamined estimates”, which the Department of State Expenditure advised on. Those government departments consisting only of a national department (such as Minerals and Energy, Foreign Affairs, Home Affairs) submitted a budget to the Department of State Expenditure for approval. For departments with provincial counterparts, a function committee coordinated budget proposals and distributed allocations for the function (eg health, housing,

and education) among national and provincial departments. The function committees had their own mechanisms or formulae for determining this distribution. Within this system, provincial budgets amounted to little more than a total of predetermined allocations decided on by the committees.

### **Greater provincial discretion**

The provisions of the final Constitution, which allows the provinces to establish their own priorities, rendered the function committees obsolete. In 1997/98 provincial governments for the first time received a lump sum to allocate according to their priorities. Provincial departments no longer competed for funds within a function across provinces but rather between functions within a province. Provincial treasuries now took on the provincial coordination, monitoring and expenditure control functions.

### **Introduction of the MTEF**

The reintegration of the former independent states and self-governing territories, the extension of services to all South Africans and the commitment to transformation heightened pressures to expand public spending. As the new government had also inherited a large and growing public debt, these pressures had to be balanced against the need to reduce debt to sustainable levels. This tension is managed by a medium-term approach to budgeting whereby priorities and longer-term policy options are explicitly brought into the budget process. Expenditure is driven by priorities but choices about these priorities are made from a set of affordable alternatives. This facilitates better planning, ongoing reprioritisation and clear political involvement in policy choices.

### **Provincial expenditure responsibilities**

#### **Provincial and national responsibilities**

Expenditure responsibilities have largely been devolved as envisaged in the Constitution. Although exclusive and shared functions were specified, the Constitution did not provide guidelines for the management of shared responsibilities. Within concurrent functions national departments are responsible for policy formulation and for monitoring and evaluating implementation, while provincial departments are responsible for service delivery. In the early years of the transition policy development was emphasised above systems for monitoring delivery and outputs.

In the provincial budget the amount for each function is proposed by the provincial executive and must be approved by the provincial legislature, based on available resources and provincial priorities within the context of national legislation.

#### **Expenditure reprioritisation constrained**

Despite provinces' freedom to allocate their budgets, they are constrained by a number of factors, which are discussed in more detail in the following chapters. The challenge facing provinces is to meet social and developmental commitments within the limits of available resources. Although provinces have discretion over the allocation of their equitable shares, committed expenditures in a number of areas reduce the opportunities for discretionary allocations. For example, they are bound by national policy to provide free primary health care and national entitlements such as old age pensions. More than half of provincial budgets are spent on personnel, yet conditions of service are currently negotiated nationally with public sector unions.

#### **Disjuncture between policy development and delivery**

The separation between responsibility for policy formulation and for funding and delivery creates certain tensions. National departments frequently develop policy that must be financed from provincial budgets,

over which national departments have no direct control. In turn, provincial governments have the right to allocate their budgets according to provincial priorities, but are also bound to meet national mandates. Service delivery suffers when policies are proposed that provinces cannot afford, or provinces allocate insufficient funds to meet national priorities. Because provinces rely almost entirely on national government transfers to cover expenditure, accountability for poor service delivery is diluted. This creates an incentive for provinces to blame overspending on national mandates or poor performance on insufficient transfers from national government. Yet provinces also potentially face unfunded national mandates that divert funds from exclusively provincial responsibilities. The challenge of cooperative governance in South Africa's intergovernmental system is managing this tension between moral hazard on the one hand, and unfunded mandates on the other.

### **Sharing nationally collected revenue**

#### **Division based on political judgement**

The equitable division of national revenue between the three spheres of government is based on the functions assigned to each sphere by the Constitution and revenue sources to fund these. It determines the broad allocation of such resources between the respective responsibilities of the spheres. Although analyses of the different functions and the impact on service delivery of different funding levels should inform the vertical division, relative priorities fundamentally remain a political choice.

The equitable shares are further divided between the different spheres of government according to formulae that have a strong equity component, recognising the special needs of poorer areas.

#### **Funding provincial priorities**

The provincial revenue-sharing formula is based on the demographic and economic profiles of the provinces, as explained in Appendix A. The formula comprises six components (with the weight given to each component shown in brackets):

- ◆ An education share based on the average size of the school-age population (ages 6–17) and the number of learners enrolled in public ordinary schools (40 per cent).
- ◆ A health share based on the differential use of the public health system by people with and without medical aid or health insurance (18 per cent).
- ◆ A social security component based on the population eligible for social security grants – the elderly, disabled and children – and adjusted to target the poor (17 per cent).
- ◆ A basic share based on each province's share of the total population of the country (9 per cent).
- ◆ A backlog component based on the distribution of capital needs as captured in the schools register of needs, the audit of hospital facilities and the share of the rural population (3 per cent).
- ◆ An economic activity share based on the distribution of total remuneration in the country (8 per cent).
- ◆ An institutional component divided equally among the provinces (5 per cent).

**Table 2.1 Division of resources between the spheres, 1999 Budget**

R million	1998/99 <sup>2</sup>	1999/00	2000/01	2001/02
<b>Total budget expenditure</b>	<b>204 293</b>	<b>216 780</b>	<b>230 722</b>	<b>247 250</b>
Less:				
Debt service costs	43 413	48 222	49 820	52 609
Contingency reserve	–	1 100	3 500	8 000
Skills development levy grant scheme	–	–	1 000	2 000
Donor-financed spending	651	750	750	750
<b>Resources to be divided<sup>1</sup></b>	<b>160 228</b>	<b>166 708</b>	<b>175 652</b>	<b>183 891</b>
National equitable share	78 273	78 733	81 100	84 489
<i>As a percentage</i>	<i>48,9</i>	<i>47,2</i>	<i>46,2</i>	<i>45,9</i>
Of which:				
National departments	67 573	69 972	72 739	76 232
Conditional grants to provinces and local government	10 700	8 761	8 361	8 257
Provincial equitable share	80 931	86 302	92 071	96 822
<i>As a percentage</i>	<i>50,5</i>	<i>51,8</i>	<i>52,4</i>	<i>52,7</i>
Local government equitable share	1 024	1 673	2 480	2 580
<i>As a percentage</i>	<i>0,6</i>	<i>1,0</i>	<i>1,4</i>	<i>1,4</i>
<b>Addendum</b>				
Provincial allocations including conditional grants	90 499	94 420	100 432	105 079
Local government share including conditional grants	2 156	2 316	2 480	2 580

<sup>1</sup>Note that the national and provincial equitable shares include estimates of improvements in conditions of service.

<sup>2</sup>The national and provincial shares of expenditure in 1998/99 are adjusted here for the reduction in the employer's contribution to pension funds from 17 to 15 per cent.

### Conditional grants to provinces

In addition to their equitable share, provincial governments also receive conditional or unconditional allocations from the national share. Conditional grants and agency payments, which are presented in Schedule 3 of the Division of Revenue Act of 1999, are made to:

- ◆ Provide for national priorities in the budgets of other spheres.
- ◆ Promote national norms and standards.
- ◆ Compensate provinces for cross-border flows and specialised services of nationwide benefit, such as the training of medical professionals.
- ◆ Recognise that other spheres implement some national government functions, such as the provision of housing.

Conditional grants were first introduced in the 1998 Budget, most significantly in the health sector.

## **Accountability for conditional grants**

A conditional grant is voted in the budget of a national department and reflected as a revenue item in provincial accounts, and is also voted in the budgets of provincial departments. The national department is responsible for monitoring compliance with the conditions of the grant, whereas the province is accountable for the actual expenditure of the funds. The incentive, therefore, lies with the provincial department to meet the conditions of the grant as efficiently as possible. Specific conditional grants to provinces are presented in Appendix A. For 1999/00 the largest grants are:

- ◆ A supplementary allocation to augment provincial funding of social services and assist in improved financial management.
- ◆ A health grant with subcomponents: research and training, provision of specialised health services, hospital rehabilitation and construction, and the Primary School Nutrition Programme.
- ◆ A local government transfer to assist in the transfer of functions and staff to local government and to ease municipalities' adjustment to the formula distribution of the equitable share.

## **Other grants**

Other grants include amounts to support capacity building and financial management in housing and welfare; systems development and support by the Department of State Expenditure; and training centres in two provinces.

## **Agency payments**

Agency payments, such as housing subsidies, are not reflected on provincial budgets. In an agency payment, the national department retains full accounting responsibility for the funds and, in essence, pays the provincial or local government to deliver particular services.

## **Provincial own revenue**

### **Limited sources of revenue**

Provincial own revenue accounts for less than 4 per cent of provincial budgets. It is derived mainly from motor vehicle licences, hospital fees and gambling levies. Provinces are therefore highly dependent on intergovernmental transfers to finance their activities while local governments, in contrast, have significant revenue bases.

### **FFC proposals**

The FFC has argued for a provincial surcharge on the personal income tax base to increase the fiscal capacity of provinces and improve accountability. To avoid increasing the tax to GDP ratio, the FFC recommended that national government reduce national income tax rates to create room for such a surcharge.

### **Katz Commission report**

The Katz Commission, at the request of the Budget Council, reviewed provincial revenue. It noted several constraints to a surcharge:

- ◆ Allowing each province to choose the applicable tax rate may lead to tax competition between provinces, which can interfere with trade, investment or migration across provincial boundaries.
- ◆ Economic disparities between provinces could be reinforced by expanded revenue-raising powers since the distribution of wealth and economic activity is highly skewed.



- ◆ As tax revenue generated from a surcharge will remain a small proportion of total provincial budgets, particularly in poorer provinces, it is not clear that it would stimulate accountability.
- ◆ Collecting provincial surcharges will pose administrative problems, at least in the foreseeable future. The South African Revenue Service has indicated that it is as yet unable to collect the surcharge on behalf of provinces because, among other factors, its information on the residence of taxpayers is insufficient.

### **Government's approach to provincial tax powers**

Taking into account capacity issues and other considerations discussed above, the government remains cautious in extending provincial taxing powers. At the request of the Budget Council, the Department of Finance is reviewing existing provincial revenue sources and options for new sources. The effective collection of existing sources is a key goal and hospital fees are currently being reviewed. New revenue options are also being explored, but proper coordination is required to prevent a proliferation of small fees and charges that could cause unnecessary confusion, raise the cost of compliance and undermine efforts to simplify the tax regime. The Constitution requires national legislation to regulate provincial revenue powers and to guard against such problems. This legislation will be developed as part of the overall revenue review process.

### **Provincial borrowing**

In terms of the Constitution, provincial governments may borrow money for bridging finance and to fund capital projects such as investments in infrastructure. Section 230 further states that provincial borrowing must be "in accordance with reasonable conditions determined by national legislation." Currently, the Borrowing Powers of Provincial Governments Act of 1996 regulates provincial borrowing.

### **Financing of capital expenditure**

Borrowing enables a government to finance the initial cost immediately but to budget repayment over time as benefits from the investment are derived. Spreading the burden of the investment ensures that current taxpayers do not fund the entire cost of a project that will render benefits to future generations. Debt financing also allows a government to undertake more projects, and sooner, than would have been possible from tax revenue alone.

### **Regulating provincial borrowing**

The Borrowing Powers of Provincial Governments Act was enacted prior to the provinces receiving their current level of autonomy with regard to budgeting and before current intergovernmental financial relationships took shape. Although the Act continues to guide provincial borrowing, it may need to be updated. For instance, the Act did not envisage that provincial borrowing would primarily be in the form of bank overdrafts and project-specific financing schemes.

Despite the Constitutional autonomy and independence of the provinces, the markets often view national government as a guarantor of provincial debt. To counter this perception and foster provincial independence, national government has taken a clear "no bail out" approach. It has offered assistance only under stringent conditions, as part of Section 100 interventions. National government has also encouraged the provinces to eliminate any outstanding debts over the medium term, and provinces have budgeted accordingly. As the relationship between the national and

provincial governments becomes clearer and the management of provincial finances continues to improve, the scope may increase for provincial borrowing or public-private partnerships to address capital needs. The regulatory framework will, however, first have to be updated to ensure that a proper assessment of risk and its incidence is undertaken and that the financial implications for the province and the nation are better understood.

### **Intergovernmental coordination**

#### **Redistributing resources**

While the Division of Revenue Act and the formula for distributing the provincial equitable share address interprovincial equity in access to available resources, other critical issues require coordination. Several intergovernmental forums, such as the MinMECs, MTEF review teams and technical committees (also known as 4x4s), deal with issues such as managing transformation, the coherence of policy within sectors and norms and standards. These issues will be discussed in more detail in subsequent chapters.

### **Information management and systems**

#### **Fragmented information systems**

A proliferation of systems and poor financial record keeping prior to 1994 resulted in fragmented and incomplete data on consolidated government expenditure. Before 1995/96, expenditure data reflected the aggregate of all the budgets of the various administrations. Provinces that inherited self-governing territories and the TBVC ran different systems in tandem during the integration process. Two provinces are still not on the FMS or BAS financial accounting systems. All nine provinces have only been running the same centralised personnel management system, Persal, since the 1997/98 financial year. Therefore, despite some improvement, the availability of detailed, timely expenditure data remains a problem. Differences in classifications across provinces also complicate interprovincial comparisons and consolidated expenditure by economic or functional classifications.

#### **Developing new systems**

The new Vulindlela system collates data from the national and provincial personnel and financial systems. When complete, it will provide a central repository of data that allows analysis and comparison between sectors and provinces. The Reserve Bank is assisting with the classification of data according to internationally accepted functional and economic definitions. Provinces are being encouraged to adopt new budget formats that will make the strategic plans and policies underlying budgets more transparent, and will also assist in the compilation of comparative data through the Vulindlela system.

## **THE WAY FORWARD**

Four years after the democratic transition, the disparities between provinces and between municipalities in terms of development and access to public services have been reduced and progress has been significant in the intergovernmental financial system. However, several challenges remain. Developmental needs differ widely, with poorer provinces having to overcome inherited backlogs in service delivery. Geographic variation and differences in population densities reinforce cost differentials in service delivery across provinces.

<b>International focus on decentralisation</b>	Fiscal decentralisation has been much debated during the nineties. While it can improve the allocation of public resources and offer greater freedom of choice in services, it may undermine macroeconomic management and redistribution. The challenge is to achieve an appropriate balance between national government control and provincial autonomy and to harness the advantages without neglecting overarching transformation and development goals.
<b>Improving resource allocation</b>	Decentralisation can also improve the distribution of resources and allow for regional diversities. Instead of centralised decisions that compel all regions to produce the same mix of public services and taxes, decentralisation allows regional governments to adjust the mix, level and mode of service delivery to suit regional preferences and circumstances. Where, however, regional disparities are significant in wealth or access to productive resources, decentralisation can widen the divide. The ability to provide services will differ, but cross-border flows can be destabilising and reinforce political or social instability.
<b>Institutional constraints to decentralisation</b>	Moreover, institutional constraints can dilute the possible benefits of decentralisation. International experience suggests that successful decentralisation depends on adequate policymaking, delivery and management capacity at provincial level. This is necessary for implementing and managing differentiated spending programmes, managing the increased financial flows and containing corruption. Financial management information, monitoring and evaluation systems are important to measure performance against agreed goals for service delivery.
<b>Creating provincial capacity</b>	Regional governments generally find it more difficult to attract staff with skills and experience. Extending national controls to compensate for a lack of provincial capacity is not a long-term solution. In fact, it may generate disincentives and obstacles to the creation of longer-term capacity if provinces become dependent on nationally provided skills. While current capacity may determine the timing and phases of a transition path, it should not dictate the long-term structure of the intergovernmental system.
<b>Managing decentralisation</b>	The development of the intergovernmental system is a process, not an event. The system considers short-term conditions and constraints while working towards a long-term desired outcome. The speed and sequencing of devolution is a critical issue. To date, political pressures and timeframes specified in the Constitution have determined the speed and direction of refinements to the system. Provinces have largely moved in tandem, with expanded rights and responsibilities being applied equally. But as provincial governments have matured, individual provinces are looking for ways to exercise their autonomy and address their specific needs within the context of cooperative governance. Given the uneven distribution of resources and differing historical circumstances, it is not surprising that the demands facing provinces differ. Taking these differences into account is essential for the promotion of Government's reconstruction and development goals. Yet the required regulation and management of such an intergovernmental system necessarily becomes more complex. Institutions are, however, in place to ensure that future changes will follow a structured approach, allowing for the evolution of a coherent framework for intergovernmental fiscal relations.



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# 3: OVERVIEW OF PROVINCIAL BUDGETS

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## INTRODUCTION

### **Budgets reflect circumstances of provinces**

This chapter provides an overview of provincial budgets, including actual revenue and expenditure for 1995/96 through 1997/98, estimated actual outcomes for 1998/99 and budgeted amounts for 1999/00 through 2001/02. The information in this chapter, and the next four, should be seen against the different demographic, economic and historical circumstances of the nine provinces (see Chapter 1), and the evolving nature of intergovernmental financial relations (see Chapter 2). These factors strongly influenced the allocation of resources within provinces as well as the ability of provinces to manage their finances.

### **Adjustments to expenditure**

This chapter also discusses certain adjustments to provincial expenditure, which facilitate comparisons across provinces and trend analyses over time. Such adjustments are required when similar items are recorded differently in provincial budgets, thus distorting interprovincial comparisons; or when responsibilities shift between the provincial and national spheres of government, thus distorting expenditure trend analysis. The need for these adjustments arise because the intergovernmental system is new and evolving, with spending responsibilities and accounting rules still being clarified.

## PROVINCIAL REVENUE AND EXPENDITURE

### **Provincial budget performance**

### **Positive outlook for provincial budgets**

Provincial expenditure and revenue and the resulting deficits or surpluses are presented in Table 3.1. The nine provinces were projected to run a combined surplus of R1,1 billion in 1998/99, reversing a pattern of growing deficits in 1996/97 and 1997/98. The medium-term budgets tabled by the provinces in February 1999 continue this positive trend.

### **Budgets include reserves to repay debt**

All provinces budgeted to repay debts accumulated in previous years, according to an agreement with the national government on the allocation of an additional R1 billion in 1998/99. Under the agreement, provinces set aside funds in “finance reserves” dedicated to debt repayment. Gauteng chose to display its reserve in the form of a surplus, as debt repayment will ultimately be treated as a financing item rather than as expenditure. The surpluses shown in Table 3.1 for 1999/00 through 2001/02 are thus attributable to Gauteng, the other provinces all tabling balanced budgets that include finance reserves.

**Table 3.1 Total provincial revenue and expenditure**

R million	Actual		Estimated actual		Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Transfers from national budget <sup>1</sup>	72 885	84 700	85 956	91 811	94 259	99 424	103 963
<i>Of which: conditional grants<sup>1</sup></i>	–	–	–	10 275	7 958	7 353	7 141
Own revenue	4 334	4 089	3 458	3 375	3 529	3 852	4 204
<b>Total provincial revenue</b>	<b>77 220</b>	<b>88 789</b>	<b>89 414</b>	<b>95 186</b>	<b>97 789</b>	<b>103 276</b>	<b>108 168</b>
Education	29 971	36 606	38 570	38 656	39 862	42 613	44 636
Health	16 097	20 640	22 376	22 878	23 529	25 171	26 291
Welfare	14 400	15 938	17 669	18 288	18 487	19 465	20 322
Other expenditure:							
Local government grants	1 963	2 238	1 999	1 132	463	–	–
State debt service costs <sup>2</sup>	1 321	1 998	–	–	–	–	–
Finance reserve	–	–	–	–	2 419	1 596	1 475
All other expenditure	12 286	14 391	14 632	13 105	12 841	13 869	14 629
<b>Total provincial expenditure</b>	<b>76 038</b>	<b>91 810</b>	<b>95 246</b>	<b>94 059</b>	<b>97 601</b>	<b>102 715</b>	<b>107 354</b>
Surplus/deficit(-)	1 181	- 3 021	- 5 831	1 128	187	561	814
<b>Percentage growth:</b>							
Total revenue		15,0	0,7	6,5	2,7	5,6	4,7
Total expenditure		20,7	3,7	-1,2	3,8	5,2	4,5
Adjusted revenue <sup>3</sup>		14,4	3,4	7,6	3,5	6,1	4,7
Adjusted expenditure (see Table 3.3)		20,4	6,5	-0,3	1,9	6,8	4,7
<b>Addendum:</b>							
GDP (R billions) <sup>4</sup>	564,3	631,4	696,6	749,0	811,3	878,2	949,0
CPI (percentage change)	7,8	8,1	7,6	7,6	5,5	4,5	4,0

<sup>1</sup>This reflects amounts shown in provincial budgets, and thus excludes agency payments and certain conditional grants that have not yet been allocated by province.

<sup>2</sup>This reflects interest on debts inherited by the provinces that were later assumed by the national government.

<sup>3</sup>Adjusted to take into account functions shifts (local government grants and state debt service costs).

<sup>4</sup>The historical GDP figures are those published in the June 1999 Quarterly Bulletin of the South African Reserve Bank, reflecting revisions to accommodate updated definitions of the national accounts. The projections reflect the same growth rates and inflation forecasts presented in the 1999 Budget, but are applied to the revised GDP estimates.

### Provincial surpluses expected

Had the other provinces imitated Gauteng in scoring their finance reserves as surpluses, they would have shown a combined surplus of R7,1 billion between 1999/00 and 2001/02. This amount exceeds the rough estimate of provincial debt identified in the agreement, reflecting the intention of several provinces to use some reserve funds for unanticipated expenditure. Assuming this additional expenditure and anticipated debt reduction, the combined provincial surpluses are therefore likely to be R3–R4 billion between 1999/00 and 2001/02.

## All provinces improve in 1998/99

The turnaround in provincial budgets is illustrated in Table 3.2 and Figure 3.1. All nine provinces ran a deficit in 1997/98, totalling R5,8 billion or 0,8 per cent of GDP. For 1998/99, however, all provinces projected an improved financial situation, with five provinces estimating a surplus and the remainder running smaller deficits. Most notably, Eastern Cape anticipated moving from a deficit of R886 million in 1997/98 to a surplus of R837 million in 1998/99, and KwaZulu-Natal is showing a surplus of R287 million after a deficit of R1,2 billion.

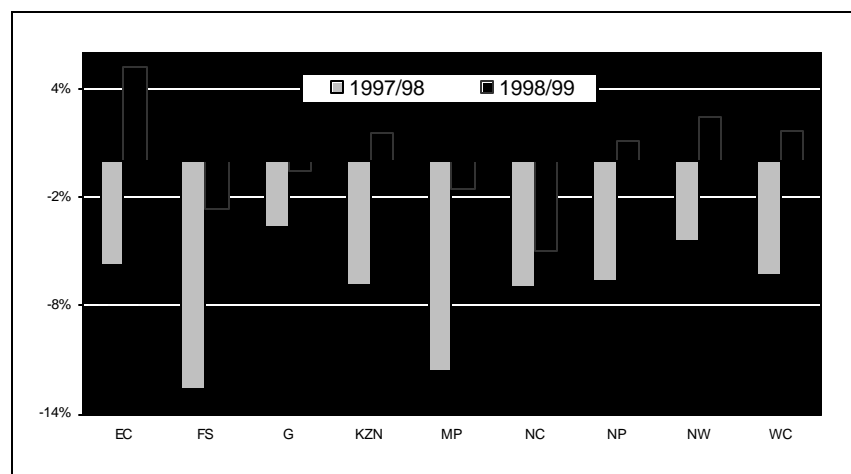
**Table 3.2 Provincial surplus/deficit(-), 1997/98 and 1998/99**

Province	1997/98	1998/99
Eastern Cape	-886	837
Free State	-762	-177
Gauteng	-528	-88
KwaZulu-Natal	-1 216	287
Mpumalanga	-618	-110
Northern Cape	-151	-112
Northern Province	-731	130
North West	-321	186
Western Cape	-618	172
<b>Total</b>	<b>-5 831</b>	<b>1 128</b>

## Deficits as share of budget

The 1997/98 provincial deficits were sizeable by any measure. Figure 3.1 shows these deficits as a percentage of each province's total revenue, indicating the size of the deficit relative to its budget and the difficulty of closing the gap between revenue and expenditure. For instance, KwaZulu-Natal ran the largest deficit in rand terms, nearly twice the size of Mpumalanga's deficit. Yet as a share of revenue, the situation is nearly reversed. In 1997/98 Mpumalanga's deficit amounted to 11,6 per cent of revenue, while the KwaZulu-Natal figure was 6,8 per cent. Similarly, the 1997/98 deficits in Free State and Northern Cape, at 12,6 per cent and 7,0 per cent of revenue respectively, appear more serious.

**Figure 3.1 Provincial surplus/deficit as percentage of provincial revenue, 1997/98 and 1998/99**



## Steps to align budgets with outcomes

The analysis in this *Intergovernmental Fiscal Review* focuses on actual expenditure and revenue between 1995/96 and 1998/99, and budgeted amounts for 1999/00 through 2001/02. It examines trends over time and the implications of budget proposals. The *Review* does not, however, compare in detail previous budgets with actual expenditure or revenue.

Part of the reason is technical – comparing budgets to actuals is a very inexact science. The original provincial “white book” budgets exclude certain amounts that are provided in the adjustments estimate, such as funds to cover the cost of pay increases. In 1996/97, for instance, the national government transferred over R9 billion to the provinces as part of the adjustments estimate. Moreover, the provincial adjustments estimates are less detailed than the original budgets and actual expenditure data, making comparisons difficult. In some cases, funds for items such as improvements are not distributed by department, let alone by programme. Moreover, adjustments estimates frequently do not indicate amounts suspended by the treasury and thus present appropriation levels that exceed what is actually anticipated to be spent.

In addition to these technical concerns, the main causes of actual expenditure exceeding budgets in 1996/97 and 1997/98 have, to a large extent, been identified and documented elsewhere (see *1998 Budget Review*). Most are closely associated with the immaturity of the new intergovernmental system at that time. Proper capacity and systems were simply not in place at either the national or provincial sphere to address adequately the challenges of a new intergovernmental financial system.

In 1997/98 and 1998/99 several budget reforms were introduced to improve the quality of intergovernmental budgeting. These reforms include:

- The Medium Term Expenditure Framework, which gives the provinces three-year forward estimates to create more certainty in budget allocations and improve planning.
- The Division of Revenue Bill, which is tabled with the annual budget and identifies all allocations from national government to provinces and any conditions that may be attached.
- The early warning system, which requires provinces to report expenditure and revenue outcomes on a monthly basis. This facilitates expenditure control and budget preparation.
- Sectoral review teams, which were created as part of the MTEF process to assess expenditure trends and policy issues in education, health and welfare. Intergovernmental policy coordination has been expanded to include regular “technical committee” meetings (4x4s) between officials from national and provincial treasuries and relevant line departments.

Most of these reforms were put in place during 1997/98 and thus affected both the preparation of the 1998/99 budgets and their management during the year. Compared to the outcomes in 1997/98, estimates for 1998/99 indicate a clear improvement. The reforms seem to be having the desired impact, although many problems remain. In future, therefore, comparing budgeted amounts with actual outcomes will provide considerably more insight, similar to the analysis of national departments in the *Budget Review* and *National Expenditure Survey*.

## Provincial revenue

### Transfers from national government

Transfers from national government dominate provincial revenue, representing over 96 per cent of such revenue in 1999/00. The transfers comprise an unconditional equitable share allocation and numerous conditional grants. How these allocations are determined is discussed in more detail in Chapter 2 and Appendix A. Provinces are responsible for compiling their own budgets on the basis of these transfers and any revenue from own sources.

In 1999/00, the equitable share including improvements in conditions of service (ICS) represents about 88 per cent of provincial revenue, while conditional grants equal 8 per cent and own revenue less than 4 per cent. However, the distribution varies across provinces, particularly regarding



conditional grants. Recipients of the central hospital grant, which is the single largest conditional grant, obtain considerably more of their allocations from conditional grants. For instance, conditional grants form nearly 15 per cent of Gauteng's revenue in 1999/00, compared to less than 4 per cent in Northern Cape.

**Provincial own revenue**

Provincial own revenue has been steadily decreasing, falling from R4,3 billion in 1995/96 to an estimated R3,4 billion in 1998/99. This represents a decline from 5,6 per cent of total provincial revenue in 1995/96 to 3,6 per cent in 1998/99. Provincial own revenue is projected to grow at an average rate of 8,1 per cent a year over the medium term and will increase modestly as a share of total revenue. However, even in 2001/02, provincial own revenue is projected to be slightly below the 1995/96 level, reflecting a significant real decline.

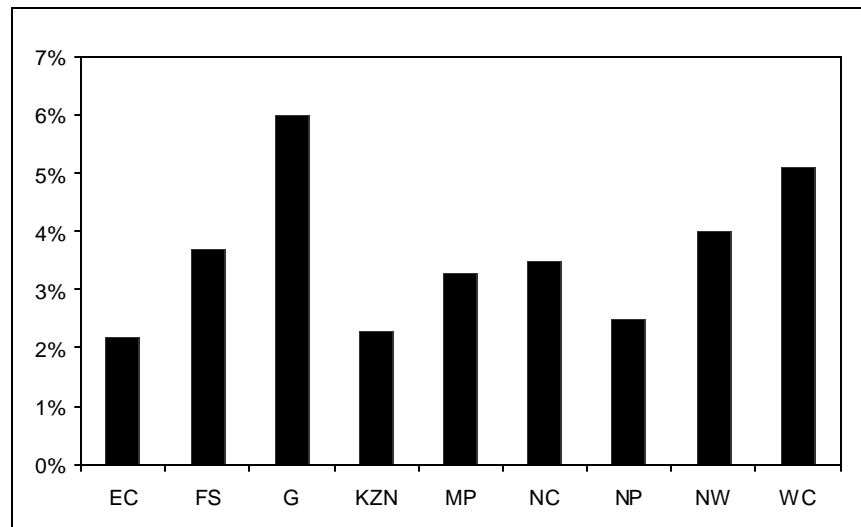
Provincial own revenue sources are fairly limited, mainly comprising fees for motor vehicle licences, gambling licences and hospital services. Lower income from hospital fees and a sharp decline in interest income (as provinces used up their bank balances to finance deficit spending) are the main reasons for the overall decline. Poor collection systems and inadequate incentives to collect fees also contributed.

New policy initiatives should have a positive impact on provincial fee revenues. For instance, recently enacted reforms to road traffic management and the implementation of provincial gambling laws affect two of the provinces' major revenue sources. At the request of the Budget Council, the Department of Finance is undertaking a thorough review of provincial own revenues, including fee structures and the associated collection processes. It is also reviewing the recommendations of the Katz Commission report on provincial taxing powers.

**Collections vary by province**

Figure 3.2 shows that the relative importance of own revenue differs between provinces. To some extent this correlates with the provinces' economic circumstances. Predictably, the share of own revenue is above average in Gauteng and Western Cape, and well below average in Northern Province and Eastern Cape.

**Figure 3.2 Provincial own revenue as percentage of total provincial revenue, 1998/99**



## Total provincial expenditure

Table 3.1 presents total actual provincial expenditure for 1995/96 through 1997/98, projected expenditure for 1998/99 and budgeted expenditure for 1999/00 through 2001/02. These figures are useful for calculating the deficits and surpluses as presented by the provinces. For purposes of reviewing expenditure trends, however, certain distorting items should be removed from the data. These are shown on Table 3.1 under “other expenditures” and include grants to local government, state debt service costs and the finance reserves.

### Function shifts

Both grants to local government and state debt service costs represent function shifts, in that the provinces have been relieved of these funding responsibilities. Provinces subsidise municipal operating expenses from their budgets, but these grants are to be replaced by the local government equitable share. Similarly, some provinces used to pay interest on debts inherited from the previous dispensation. In terms of the Interim Constitution, these debts and associated interest costs were transferred to the national government. From 1997/98, provincial budgets no longer reflected such costs.

With function shifts, a decline in funding does not imply a reduction in services but rather a change in responsibility. Removing such expenditure items therefore gives a clearer picture over time of resources available to fund current provincial functions. Since 1995/96, other smaller functions have shifted between the different spheres, but these are not reflected as the amounts are not significant and the information not readily available.

### Finance reserves

As discussed above, provinces included finance reserves in their medium-term budgets. These reserves were established in terms of an agreement with national government to repay outstanding provincial debt. Under the rules of the International Monetary Fund’s Government Finance Statistics, repayment of debt is not treated as expenditure but instead as a change in financing. As a result, the portion of finance reserves allocated to debt reduction will be scored as a budget surplus rather than expenditure. The remaining reserve amounts are unallocated, much like the contingency reserve on the national budget. Because it is as yet unclear how reserve amounts will be used, it is less distorting to remove all reserves from expenditure figures, as was done in the Gauteng budget.

### Adjusted provincial expenditure

Table 3.3 shows provincial expenditure between 1995/96 and 2001/02 after excluding debt service costs in the first two years, local government operating subsidy grants in the first five and finance reserves in the last three. Details of these adjustments by province are shown in Appendix B.

### Adjustments affect individual provinces

Although these adjustments do not fundamentally alter the overall picture of provincial expenditure over the period, they can have a dramatic impact on specific provinces or categories of expenditure. For instance, of the total debt service costs that were excluded from Table 3.3 because these were later assumed by the national government, Eastern Cape incurred R1,5 billion in 1996/97. Had this item not been excluded, overall spending in Eastern Cape would have declined by nearly 4 per cent in 1997/98 instead of increasing by 5,8 per cent as shown in the table.

Unless stated otherwise, the adjusted provincial totals are used throughout the *Review* when calculating shares of total provincial expenditure or for analysis of non-social services expenditure.

**Table 3.3 Adjusted provincial expenditure by province<sup>1</sup>**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape	11 883	14 899	15 769	14 982	15 132	16 699	17 523
Free State	5 050	6 039	6 730	6 851	6 624	6 986	7 286
Gauteng	11 650	13 478	14 834	15 576	16 041	16 823	17 627
KwaZulu-Natal	14 318	17 069	18 451	17 857	18 561	19 966	20 981
Mpumalanga	4 168	5 320	5 841	5 995	6 095	6 584	7 022
Northern Cape	1 803	2 026	2 274	2 327	2 292	2 390	2 478
Northern Province	8 947	11 401	11 635	11 592	11 774	12 550	13 195
North West	6 280	7 260	7 473	7 592	7 942	8 396	8 716
Western Cape	8 655	10 082	10 239	10 153	10 257	10 725	11 051
<b>Total, adjusted</b>	<b>72 754</b>	<b>87 575</b>	<b>93 247</b>	<b>92 927</b>	<b>94 719</b>	<b>101 119</b>	<b>105 879</b>

**Percentage growth:**

Eastern Cape	25,4	5,8	-5,0	1,0	10,4	4,9
Free State	19,6	11,4	1,8	-3,3	5,5	4,3
Gauteng	15,7	10,1	5,0	3,0	4,9	4,8
KwaZulu-Natal	19,2	8,1	-3,2	3,9	7,6	5,1
Mpumalanga	27,6	9,8	2,6	1,7	8,0	6,6
Northern Cape	12,3	12,2	2,4	-1,5	4,3	3,7
Northern Province	27,4	2,1	-0,4	1,6	6,6	5,1
North West	15,6	2,9	1,6	4,6	5,7	3,8
Western Cape	16,5	1,6	-0,8	1,0	4,6	3,0
<b>Total, adjusted</b>	<b>20,4</b>	<b>6,5</b>	<b>-0,3</b>	<b>1,9</b>	<b>6,8</b>	<b>4,7</b>

<sup>1</sup>Expenditure totals exclude debt service costs in 1995/96 and 1996/97, local government grants in 1995/96 through 1999/00, and finance reserve amounts in 1999/00 through 2001/02. See Appendix B for each of these adjustments by province.

**Provincial spending has grown in real terms**

Adjusted provincial expenditure grew from R72,8 billion in 1995/96 to an estimated R92,9 billion in 1998/99, reflecting an average annual rate of 8,5 per cent. This represents real expenditure growth, given average inflation of 7,8 per cent over the period. The provincial medium-term budgets, as adjusted, will grow to R94,7 billion in 1999/00 and then to R105,9 billion by 2001/02. This reflects an average annual growth rate of 4,4 per cent, nearly equal to the anticipated inflation rate of 4,7 per cent.

**Strong growth in 1996/97**

Much of the strong growth in consolidated expenditure over the last four years occurred in 1996/97, when it jumped by 20,4 per cent. Expenditure growth was more moderate in subsequent years. As will be discussed in later chapters, the growth in that year reflects the impact of a generous wage agreement, new appointments, the follow-through costs of RDP projects and costs associated with consolidating administrations.

Expenditure patterns in individual provinces tend to mirror the overall provincial trend, all provinces having shown double-digit growth in 1996/97. Growth was particularly strong in those provinces, such as Eastern Cape and Northern Province, that experienced large increases in

their personnel costs as a result of the new wage agreement or new appointments. Expenditure growth slowed in 1997/98 as provinces implemented cost saving measures to contain the level of overexpenditure. Four of the five provinces that are estimated to run surpluses in 1998/99 reduced expenditure below the previous year's level. Northern Cape and Free State, which are projecting the largest deficits in 1998/99, have budgeted for nominal declines in expenditure for 1999/00. With few options on the revenue side, provinces have been forced to reduce expenditure in order to restore stability to their budgets.

### Aligning of budgets and actual expenditure

Table 3.4 shows that budgeted transfers from national government, which are the main source of recurrent provincial revenue, grew by over 10 per cent a year between 1995/96 and 1998/99. Steady growth is also reflected in budgeted provincial expenditure. However, actual provincial expenditure growth of over 20 per cent in 1996/97 exceeded growth in revenue, leading to deficits in 1996/97 and setting the stage for the large 1997/98 deficits. Provinces relied on transfers in the adjustments estimate and on bank reserves and overdrafts to cover this overexpenditure. With the budget process now limiting transfers in the adjustments estimate and with fewer bank reserves to utilise, provinces have had to curtail expenditure growth, bringing actual spending in 1998/99 in line with the budgeted allocations.

**Table 3.4 Budgeted and actual transfers and expenditure**

R million	1995/96	1996/97	1997/98	1998/99	1999/00
<b>Transfers from national budget<sup>1</sup></b>					
Budget estimates	63 109	71 435	78 807	86 955	91 696
<i>Percent change</i>		13,2	10,3	10,3	5,5
Budget plus ICS	65 745	77 192	82 337	89 374	93 796
<i>Percent change</i>		17,4	6,7	8,5	4,9
Actual transfers	69 601	80 465	83 957	90 679	N/A
<i>Percent change</i>		15,6	4,3	8,0	N/A
<b>Provincial expenditure<sup>2</sup></b>					
Budget estimates	68 393	75 804	82 959	90 591	92 619
<i>Percent change</i>		10,8	9,4	9,2	2,2
Budget plus ICS	71 029	81 561	86 489	93 010	94 719
<i>Percent change</i>		14,8	6,0	7,5	1,8
Actual expenditure	72 754	87 575	93 247	92 927	N/A
<i>Percent change</i>		20,4	6,5	-0,3	N/A

<sup>1</sup>Excludes function shifts (debt service costs and local government grants).

<sup>2</sup>Excludes function shifts and finance reserves (see Table 3.3).

Note: ICS is new improvements in conditions of service, which are determined annually.

### Social expenditure

#### Real growth in social services

The three major social services programmes – education, health and welfare – grew by an average of 9,7 per cent a year between 1995/96 and 1998/99, above the rate of inflation and faster than total provincial expenditure. As a result, they captured an increasing share of provincial spending, growing from 83,1 per cent of total adjusted provincial expenditure in 1995/96 to 85,9 per cent three years later (see Table 3.5).

The share of social services remains above 86 per cent in the medium-term estimates of the provincial budgets. Social services expenditure is discussed in more detail in Chapters 4–6.

**Table 3.5 Expenditure on social services as percentage of adjusted provincial expenditure <sup>1</sup>**

	Actual		Estimated actual		Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Social services	83,1	83,6	84,3	85,9	86,4	86,3	86,2
Education	41,2	41,8	41,4	41,6	42,1	42,1	42,2
Health	22,1	23,6	24,0	24,6	24,8	24,9	24,8
Welfare	19,8	18,2	18,9	19,7	19,5	19,3	19,2
Non-social services	16,9	16,4	15,7	14,1	13,6	13,7	13,8
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

<sup>1</sup>Total provincial expenditure adjusted to exclude function shifts (local government grants and debt costs) and finance reserves.

### **Non-social services under pressure**

Table 3.5 shows that the growth in the three main social services is crowding out expenditure on non-social services, such as provincial roads, tourism promotion, agricultural development and economic affairs. (These programmes are discussed in Chapter 7.) Expenditure on these programmes grew by 2,1 per cent over the period, and their share of provincial expenditure fell from 16,9 per cent in 1995/96 to 14,1 per cent in 1998/99. Their share falls further to 13,6 per cent in the 1999/00 provincial budgets, before increasing in the subsequent two years.

### **Personnel and social security spending**

Current expenditure dominates provincial budgets, capturing about 95 per cent of spending (see Table 3.6). Capital spending, on the other hand, represents only about 4–5 per cent of provincial expenditure.

### **Rapid growth in personnel**

Within current expenditure, spending on personnel has risen steadily since 1995/96. Up to 1998/99, personnel expenditure grew at an average annual rate of 11,4 per cent, or nearly 4 per cent in real terms. Its share of total expenditure rose from 56,2 per cent in 1995/96 to 60,8 per cent in 1998/99. Over the medium term, personnel spending is projected to stabilise at about 61 per cent of expenditure.

The rapid growth in personnel costs from 1996/97 reflects large pay increases (improvements in conditions of service) resulting from wage agreements between the national government and the civil service employee unions. It was also affected by hiring of education and health personnel in certain provinces. The specific circumstances in each sector are presented in more detail in the following chapters.

**Table 3.6 Adjusted provincial expenditure by economic classification**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	69 122	82 940	88 455	88 990	90 836	96 601	101 438
Personnel	40 897	49 469	54 085	56 468	58 294	61 784	64 549
Transfer payments	16 121	19 213	20 446	20 485	22 073	22 323	23 097
Other current	12 104	14 258	13 924	12 061	10 470	12 494	13 792
Capital expenditure	3 632	4 635	4 792	3 913	3 883	4 518	4 442
<b>Total</b>	<b>72 754</b>	<b>87 575</b>	<b>93 247</b>	<b>92 927</b>	<b>94 719</b>	<b>101 119</b>	<b>105 879</b>
<b>As a percentage of total:</b>							
Current expenditure	95,0	94,7	94,9	95,8	95,9	95,5	95,8
Personnel	56,2	56,5	58,0	60,8	61,5	61,1	61,0
Transfer payments	22,2	21,9	21,9	22,0	23,3	22,1	21,8
Other current	16,6	16,3	14,9	13,0	11,1	12,4	13,0
Capital expenditure	5,0	5,3	5,1	4,2	4,1	4,5	4,2
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

**Personnel costs impact on provinces**

Table 3.7 highlights the impact of personnel costs on individual provinces. Northern Province has dedicated 68,4 per cent of its budget to personnel expenditure in 1999/00, well above the average of 61,7 per cent. It has 242 public sector employees for every 10 000 residents, representing over one-fifth of all employed persons in the province. Thus personnel policy has an impact not only on its budget, but also on the provincial economy. In most other provinces, public sector employees are fewer than 10 per cent of total employees. But, even in these provinces, personnel costs are still more than half of all provincial expenditure.

**Table 3.7 Personnel expenditure and public sector employment**

Province	Personnel expenditure <sup>1</sup> (1999/00)		Number of public sector employees		Provincial employment	
	R million	Share (%) of total expenditure	(000)	Employees per 10 000 population	Total employed (000)	Public sector as % of total employed
Eastern Cape	9 612	63,2	136 935	217	786 818	17,4
Free State	4 458	66,8	61 054	232	701 175	8,7
Gauteng	9 599	59,8	112 851	154	2 564 243	4,4
KwaZulu-Natal	11 278	60,3	153 687	183	1 570 573	9,8
Mpumalanga	3 728	60,9	51 355	183	605 925	8,5
Northern Cape	1 160	50,6	14 821	176	215 523	6,9
Northern Province	8 129	68,4	119 465	242	570 129	21,0
North West	4 927	61,6	67 169	200	725 287	9,3
Western Cape	5 866	57,2	67 940	172	1 374 174	4,9
<b>Total</b>	<b>58 757</b>	<b>61,7</b>	<b>785 277</b>	<b>193</b>	<b>9 113 847</b>	<b>8,6</b>

<sup>1</sup>Includes funds for R293 town employees excluded from Table 3.6.

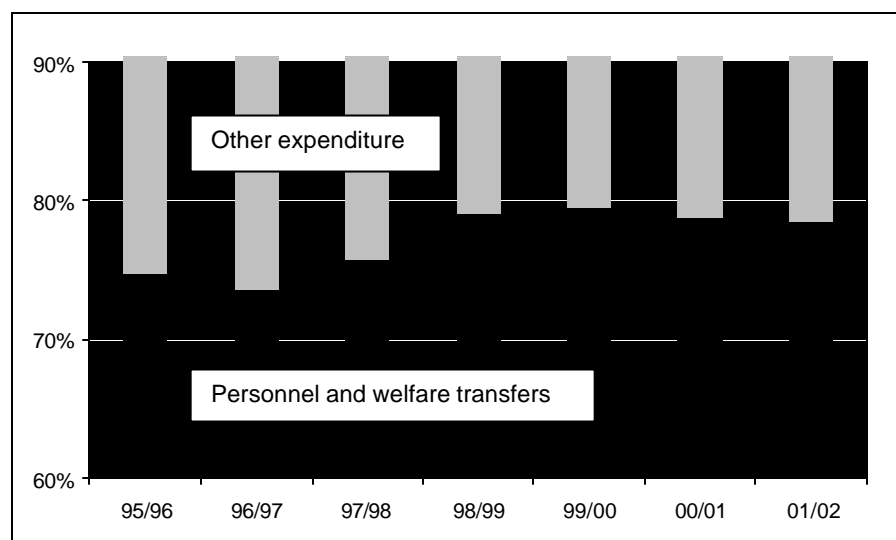
Source: Department of Public Service and Administration Exchequer Report, 1998, and 1996 Census

## Transfer payments

Transfer payments grew at an annual average rate of 8,3 per cent between 1995/96 and 1998/99. Welfare transfers, which are primarily social security grants, are by far the largest component in this category, amounting to about R17 billion or nearly 80 per cent of total transfers in 1999/00.

Figure 3.3 shows trends in personnel and welfare transfers relative to other expenditure. In 1995/96 personnel costs and social security transfers represented just under 75 per cent of total provincial expenditure. This increased to 76 per cent in 1997/98 and 79 per cent the year after. The MTEF estimates suggest that it should stabilise at around this level. Personnel and welfare transfers not only represent three-quarters of provincial expenditure but are the items over which the provinces have only limited control, as both wages and social security grants are determined nationally.

**Figure 3.3 Share of personnel and welfare transfers of total adjusted provincial expenditure**



## Complementary inputs

Within the social services, this growth in personnel costs and social security expenditure affects the ability of provinces to invest in complementary inputs such as textbooks and medicines. Table 3.6 shows that provinces budgeted R10,5 billion for “other current” expenditure in 1999/00, R3,8 billion below the 1996/97 peak. Between 1995/96 and 1999/00 the share of “other current” items in provincial expenditure declines from 16,6 per cent to 11,1 per cent. Provinces were able to “absorb” the expenditure pressures coming from personnel and transfers by drawing on cash balances in 1996/97 and by utilising overdrafts in 1997/98. Obviously neither of these were sustainable.

## Capital expenditure

The imbalance between provincial revenue and expenditure in 1996/97 and 1997/98, caused by a surge in expenditure on personnel and transfers and financed by means of once-off financing mechanisms, is reflected in the inability of provinces to maintain investment in capital. Capital expenditure grew rapidly in 1996/97 to R4,6 billion or 5,3 per cent of provincial expenditure, reflecting RDP efforts to address infrastructure backlogs. Since then, capital spending has declined as a share of expenditure. Many provinces classify expenditure on maintenance under

capital, raising concerns that this slowdown in spending over the past few years implies that maintenance of the capital stock is not receiving sufficient attention.

The provincial budget estimates suggest that this downward trend in “other current” and capital expenditure may be reversed over the medium term. Both are budgeted to begin rising in 2000/01. This trend should strengthen once provinces have settled all their debts.

## **CONSOLIDATED EXPENDITURE AND REVENUE**

### **National and provincial expenditure**

The national government budget includes funds for national departments, transfers to provincial and local governments, debt service costs and a contingency reserve. Provincial expenditure is funded from national government transfers and from own revenue sources. Consolidated spending comprises national and provincial expenditure, after netting out transfer payments between the different spheres of government, and the local government equitable share. These expenditure figures, which have been adjusted to exclude national and provincial reserve amounts<sup>1</sup>, are shown in Table 3.8 for 1995/96 through 2001/02.

### **Consolidated expenditure growth**

Consolidated expenditure grew from R155,0 billion in 1995/96 to an estimated R207,0 billion in 1998/99, reflecting average annual growth of 10,1 per cent. This growth is substantial in real terms, given that inflation averaged 7,8 per cent over the period. As presented in the recently tabled national and provincial budgets, consolidated expenditure excluding reserve amounts will grow to R241,2 billion by 2001/02. This reflects an average growth rate of 5,2 per cent, which is slightly above the anticipated inflation rate. Including reserves potentially available for ordinary expenditure, spending will grow at 6,5 per cent per year on average between 1998/99 and 2001/02.

Much of the strong growth in consolidated expenditure since 1995/96 occurred in 1996/97, when it jumped by 18,3 per cent. Expenditure growth was more moderate in subsequent years. Provincial expenditure grew faster by about 6 percentage points than national expenditure in 1996/97, partially financed from provincial cash reserves. As a result, provincial expenditure as a share of consolidated non-interest expenditure grew to 59,3 per cent. This level of spending continued into 1997/98, when provinces again drew down reserves and some relied on overdrafts. Since then, the provincial share has had to adjust to available recurrent resources and is estimated to be 56,4 per cent in 1998/99 and 56,2 per cent in 2001/02.

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<sup>1</sup>For purposes of comparison, the national contingency reserve as well as the provincial finance reserves were excluded from the expenditure totals in Table 3.8. The national contingency reserve is unallocated in the national budget and is available to cushion the budget against future economic uncertainties and other unanticipated events. The division of the reserve between the spheres is therefore unknown. In 1997/98, for instance, the reserve was divided proportionately between national government and the provinces, while in 1998/99 it was absorbed entirely by higher than anticipated debt service costs. Provincial contingency reserves are excluded because they are primarily intended for debt repayment, as discussed above.



**Table 3.8 Consolidated national and provincial expenditure**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
National expenditure	50 631	57 825	65 172	69 680	71 346	75 497	80 097
Provincial expenditure	72 754	87 575	93 247	92 927	94 719	101 119	105 879
Local govt equitable share <sup>1</sup>	1 963	2 238	1 999	2 156	2 316	2 480	2 580
Consolidated non-interest expenditure	125 349	147 638	160 418	164 763	168 381	179 096	188 557
State debt costs	30 658	36 097	39 479	43 413	48 222	49 820	52 609
Recovery from pension fund	-1 023	-335	–	-1 158	–	–	–
Consolidated expenditure	154 984	183 401	199 897	207 018	216 603	228 916	241 166
Note: reserve amounts excluded from expenditure totals							
National contingency reserve	–	–	–	–	1 100	3 500	8 000
Provincial reserves	–	–	–	–	2 419	1 596	1 475
<b>As a percentage of consolidated non-interest expenditure:</b>							
National expenditure	40,4	39,2	40,6	42,3	42,4	42,2	42,5
Provincial expenditure	58,0	59,3	58,1	56,4	56,3	56,5	56,2
Local govt equitable share <sup>1</sup>	1,6	1,5	1,2	1,3	1,4	1,4	1,4
<b>Percentage growth:</b>							
National expenditure		14,2	12,7	6,9	2,4	5,8	6,1
Provincial expenditure		20,4	6,5	-0,3	1,9	6,8	4,7
Local govt equitable share <sup>1</sup>		14,0	-10,7	7,9	7,4	7,1	4,0
State debt costs		17,7	9,4	10,0	11,1	3,3	5,6
Consolidated non-interest expenditure		17,8	8,7	2,7	2,2	6,4	5,3
Consolidated expenditure		18,3	9,0	3,6	4,6	5,7	5,4
Consolidated expenditure adjusted <sup>2</sup>		15,5	7,6	7,3	5,8	6,5	7,2
<b>As a percentage of GDP:</b>							
National expenditure	9,0	9,2	9,4	9,3	8,8	8,6	8,4
Provincial expenditure	12,9	13,9	13,4	12,4	11,7	11,5	11,2
Local govt equitable share <sup>1</sup>	0,3	0,4	0,3	0,3	0,3	0,3	0,3
State debt costs	5,4	5,7	5,7	5,8	5,9	5,7	5,5
Consolidated expenditure	27,5	29,0	28,7	27,6	26,7	26,1	25,4
Consolidated expenditure adjusted <sup>2</sup>	27,7	28,6	27,9	27,8	27,2	26,7	26,5
Note: reserves	–	–	–	–	0,4	0,6	1,0

<sup>1</sup>Prior to 2000/01, when the local government equitable share is scheduled to be fully phased in, figures reflect grants from the provinces subsidising R293 town personnel and other municipal operating costs.

<sup>2</sup>Consolidated expenditure adjusted to exclude provincial deficit-financed expenditure, but to include national and provincial reserve amounts and provincial surpluses.

The provincial share of expenditure differs from the share of the national budget devoted to transfers to the provinces owing to provincial own-financing. As noted, in 1996/97 and 1997/98, provinces supplemented transfers from national government with own revenue and by drawing down accumulated bank reserves (or in some cases running bank overdrafts). This boosted the provincial share of total expenditure relative to later years, as provincial own revenue has subsequently declined and fewer financing options are now available. The provincial share of the national budget is presented in Chapter 2 and in Appendix A.

### **Expenditure as a share of GDP**

Table 3.8 shows expenditure as a share of gross domestic product (GDP). Consistent with Government's macroeconomic policy, which calls for smaller deficits and a lower tax burden, consolidated expenditure is declining as a share of GDP. Using the revised GDP estimates that reflect the updated definition of the national accounts, expenditure fell from a peak of 29,0 per cent of GDP in 1996/97 to an estimated 27,6 per cent in 1998/99. This trend continues in the medium-term budget estimates.

### **Consolidated expenditure trends**

These trends in consolidated expenditure, however, are somewhat distorted by two factors. First, expenditure is higher in 1996/97 and 1997/98 as provinces used deficit financing rather than recurrent revenues to fund expenditure. Second, expenditure is lower over the medium term because of the sizeable amounts set aside for reserves in both the national and provincial budgets. As result, expenditure rises and falls as a share of GDP more dramatically than if provinces had not used exceptional financing to fund expenditure and if reserve amounts were allocated to expenditure programmes. By adjusting consolidated expenditure to account for these two factors, the trends appear more stable with expenditure declining gradually as a share of GDP in response to Government's deficit-reduction policy. These adjusted figures are shown in Table 3.8 for comparison purposes.

### **Provincial and national expenditure**

In line with the consolidated totals, both national and provincial expenditure decline as a share of GDP. Provincial expenditure peaked at 13,9 per cent in 1996/97, while national expenditure reached a high of 9,4 per cent in 1997/98. As a share of GDP, provincial expenditure falls to 11,7 per cent in the 1999/00 budget. This exceeds the decline in national expenditure, reflecting the slowdown in provincial expenditure growth as provinces have attempted to align their expenditure and revenue streams. Again, these trends would be softened if the national and provincial figures were adjusted as discussed above.

## **ISSUES IN PROVINCIAL BUDGETING**

### **Strengthen financial management capacity**

#### **Provinces lack capacity**

Inadequate management capacity, particularly on financial matters, has been a main concern at the provincial sphere of government. In 1997 the Department of Public Service and Administration noted that this resulted in inadequate expenditure controls, increasing fraud, administrative overstaffing, lack of oversight to prevent unnecessary expenditure and inordinate delays in needed reforms.

#### **Innovations in financial management**

The national and provincial spheres have both taken measures to improve the financial management capacity of provincial treasuries and

departments. One such measure is a financial management improvement programme coordinated by the Department of State Expenditure. It involves monitoring expenditure on a monthly basis, appointing qualified personnel, training financial managers, and improving financial reporting and oversight procedures. In addition tighter control measures were introduced to curb unwarranted expenditure. Several provinces also launched anti-fraud units or investigations.

### **Public Finance Management Act**

The Public Finance Management Act of 1999, which applies to both the national and provincial spheres, will significantly improve financial management practices. It clarifies the responsibility of accounting officers with regard to financial matters and establishes strict reporting procedures. Failure to comply could lead to sanctions, including civil penalties.

### **Improved early warning**

Reforms are also anticipated in the early warning system. First, a more complete reporting and analysis of provincial cash flows will supplement the monthly reporting of expenditure. Proper cash management has become crucial for provinces trying to reduce or avoid bank overdrafts and the associated interest costs. Second, the Department of State Expenditure anticipates automating the early warning reports through its new Vulindlela system. This supplements the existing FMS and BAS systems, which simply record revenue and expenditure, by providing analytical tools to support more sophisticated financial management. Automated reports have now become possible as seven provinces are using FMS or BAS and the remaining two provinces (Mpumalanga and North West) are able to provide data in a format that is compatible with Vulindlela.

### **Improve budget preparation and policy coordination**

Provinces can now better monitor and control expenditure, thereby helping to stabilise provincial budgets, but the preparation of these budgets does not always follow a proper process. Provinces implemented the MTEF in 1998/99 along with national departments. Yet some have been unable to develop a decisionmaking process that ensures adequate involvement of political office-bearers and sufficiently links budgets with provincial policy objectives. Moreover, the process is complicated by insufficient policy coordination with national departments. When national departments fail to take full account of the cost implications of their policies, and additional funds are not provided to provinces to implement new responsibilities, provinces face unfunded mandates.

### **4x4 meetings**

A key recommendation of the 1998 MTEF sectoral review teams was a call for regular meetings between provincial and national treasuries and line departments providing social services. This policy coordination process in education, health and welfare was established at the end of 1998 and supplements the work of existing intergovernmental institutions, such as the Budget Council. The issues addressed in these technical committee meetings, or 4x4s, are discussed in the chapters on the social services. In addition, a similar process for transportation was launched in 1999. This will significantly enhance the understanding of policies impacting on provincial budgets.

### **Benchmark projections**

As part of its assistance to the provinces in preparation of the 1999/00 provincial budgets, the Department of Finance attempted to develop benchmark budgets for the social services departments. These were

essentially baseline projections, reflecting the cost of continuing current policies, to compare with proposed provincial budgets. They were used, for instance, to gauge the impact of social security grant increases on provincial budgets. These benchmark estimates are not recommended budgets, but simply a tool to assess whether amounts budgeted by a province are consistent with the underlying policies. The department envisages further refinement of these projection techniques as part of the MTEF sectoral review process in 1999, allowing these benchmark estimates to be used more extensively in the 2000/01 provincial budgets.

#### **Revised budget formats**

A further reform in the budget preparation process will be the introduction of new provincial budget formats. The Public Finance Management Act enables the national treasury to establish common budget formats for all the provinces. The new formats will increase transparency by highlighting relevant information and presenting this in a user-friendly manner. Gauteng incorporated some of these new formats as a pilot project in its *1999/00 Budget Statement* document. Improved presentation of budget information will encourage wider and more informed participation in the budget process.

#### **Expanding political involvement**

Wider involvement by political office-bearers remains one of the key challenges facing provincial budget-making. Inadequate political participation in the budget process weakens the government's ability to set priorities and pursue its policy goals through the budget. Some provinces have mirrored the national government by establishing a subcommittee of the executive council to deal with budget issues and oversee the budget process. Reforms in the budget process are unlikely to yield the desired results without wider political involvement.

#### **Enhance service delivery**

#### **Goal is improved service delivery**

Improving financial management and budgeting systems is not an end in itself. It is rather a crucial step towards improving provincial service delivery, particularly of social services, which is the core responsibility of the provinces under the Constitution.

Government's budget reform goals include establishing clearer links between funding levels and the quantity and quality of services provided. Ultimately, Government must be able to assess whether the desired policy outcomes have been achieved. The MTEF is designed to focus policymaking on the outcomes that the government is to achieve. It does this first by aligning budgeting with policy and planning time horizons. The next step in the MTEF budgeting process is to move toward performance budgeting.

#### **Output and performance indicators**

At the national level, the focus on performance was demonstrated in the publication of the *1999 National Expenditure Survey*. This document presented each national department budget in the context of its desired policy goals and outcomes. It laid the groundwork for judging departmental performance against established output indicators. Similar reforms are to be initiated at the provincial level. The MTEF sectoral reviews for 1999 are to develop output indicators for provincial social services. Provinces will be encouraged to publish these indicators as part of their 2000/01 budgets. By emphasising performance and the achievement of policy outcomes as the standard for success, budgeting will promote efficient and effective use of public funds.

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# 4: FOCUS ON EDUCATION

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## INTRODUCTION

### **Constitutional obligations**

The Bill of Rights in the Constitution stipulates in Section 29 that “everyone has the right to a basic education”. The Constitution further obligates the state to provide each person with education in the language of his or her choice, where “reasonably practicable”. While the state is required to consider quality, equity and redress in the provision of education, this must be balanced against available resources.

### **Responsibility for education**

All but tertiary level education is a concurrent function of national and provincial governments in terms of Schedule 4 of the Constitution. The national government funds higher education at universities and technikons and develops education policy for the whole country. Provinces fund primary and secondary schooling, teacher education and training, adult basic education, pre-school care, technical colleges and education for learners with special needs. Provincial governments account for roughly 85 per cent of education spending.

### **Overcoming apartheid education**

The first task of provincial governments was to combine the education departments established under apartheid’s racial and spatial policies. For example, the KwaZulu-Natal Department of Education is the result of the integration of the KwaZulu Department of Education and Culture, the education departments under the Houses of Assembly, Delegates and Representatives (for whites, Indians and coloureds respectively) and the Department of Education and Training which catered for African children outside the homelands.

### **Disparities in education expenditure**

Per capita education expenditure differed substantially between education departments, with a white child receiving almost three times as much as an African child. The legacy of apartheid and, particularly, of racially based education policies, is evident in low and uneven levels of educational attainment, a low skills base and high unemployment. The creation of nine provincial education departments laid the foundation for a uniform education system with equitable levels of funding and non-racial admissions criteria.

### **Key legislation**

The National Education Policy Act of 1996 established the overall aims and objectives of the education system, with the national minister responsible for strategic policy direction. It also provided the basis for non-racial schooling, obligating provinces to achieve equity and redress in the delivery of education. The South African Schools Act of 1996 provided a framework for dividing responsibility for school education between the national minister, provincial education departments, school governing bodies and parents.

### **Coordinating education policy**

A key challenge facing the post-apartheid education system is to clarify the roles and responsibilities of the various stakeholders. The MTEF

promotes intergovernmental coordination in the budget process. In 1997 and 1998, MTEF education sectoral review teams consisting of officials from the national Departments of Education, Finance and State Expenditure and provincial education and treasury officials evaluated expenditure patterns and trends, examined policy options and recommended financing and policy options to political decisionmakers.

#### **Education 4x4 meetings**

A permanent forum of national and provincial treasury and education officials was established in 1998 to facilitate on-going dialogue on education finance issues. Known as the education 4x4, this forum used the recommendations of the MTEF sectoral reports for proposals aimed at stabilising provincial education budgets, restraining growth in personnel costs, increasing non-personnel expenditure and improving efficiency in education. It also discusses joint research programmes, procurement procedures, the provision of textbooks and difficulties at higher education institutions.

## **FINANCING EDUCATION**

#### **National budget**

Most of the national allocation to the Department of Education is earmarked for the higher education sector. Provision is made for R211 million in 1999/00, as a conditional grant to provinces for developing financial and managerial capacity. The remainder is allocated to the policy and monitoring role of the department.

#### **Provincial equitable shares**

With the exception of the conditional grants, which are discussed in more detail below, provinces budget for education from their own resources. The largest source of revenue for a province is its equitable share, which is determined by an objective formula. One component of the formula is a proxy for the relative need for educational services. Weighted at 40 per cent, it reflects the provincial distribution of the school-age population and actual school enrolment figures. The former identifies the target group for education services, while the latter compensates for higher enrolment rates in provinces that inherited poor quality education systems. Appendix A details the revenue-sharing formula and its education component.

#### **Conditional grants to provinces**

Table 4.1 shows conditional grants and agency payments used to meet national objectives such as classroom building and projects to develop the culture of learning. In 1998/99, R200 million was allocated to the national department to supplement provincial expenditure on textbooks and learner support materials. This grant was targeted at learners in grades one, two and twelve (matric) in poor schools. Conditional grants were also used for classroom building.

#### **Improved management and quality**

In addition, the government has allocated R966 million over four years from 1998/99 to improving quality and financial management, particularly in schools and school districts. The 1999/00 allocation comprises R111 million to the provinces and R100 million to be managed by the national department. Initiatives supported by this grant include:

- ◆ Education management development.
- ◆ Quality assurance capacity and systems.
- ◆ The culture of learning, teaching and service campaign (Colts).

- ◆ Professional development of teachers for Curriculum 2005.
- ◆ Corporate-level financial and other management services.
- ◆ District development projects.

**Table 4.1 Conditional grants and agency payments to provinces for education**

R million	1998/99	1999/00	2000/01	2001/02
Financial management and quality enhancement	200	211	272	283
Classroom backlogs	51	–	–	–
KwaZulu-Natal peace initiative	80	–	–	–
Textbook grant	200	–	–	–

**School fees**

The South African Schools Act allows schools to charge a user fee or to raise funds from communities. The Act gives school governing bodies discretion over the use of such money. With the introduction of a more redistributive funding system, parents in wealthier areas are required to pay for certain services previously provided by the government. As a result, private contributions now constitute a significant proportion of expenditure on education. Poor students are exempted from paying fees if their parents earn less than a particular threshold amount.

**AGGREGATE EDUCATION SPENDING**

Consolidated education expenditure is the single largest item of public expenditure in the country, representing about 28 per cent of total non-interest expenditure. The education system teaches almost a third of the total population and employs one in three civil servants.

**Increase in education expenditure**

Table 4.2 shows that education expenditure increased from R34,1 billion in 1995/96 to R45,2 billion in 1998/99, reflecting an average annual growth rate of 9,8 per cent. This implies an average real growth rate of about 2,0 per cent a year since 1995/96. However, much of this growth was concentrated in 1996/97, for reasons discussed below.

**MTEF trends**

During the MTEF years, growth in education expenditure is expected to be steady but moderate. With an average annual growth rate of 5,0 per cent, education spending will remain steady in real terms, while it remains at just under 28 per cent of total non-interest expenditure over the medium term.

**Trends in learner numbers**

School enrolment growth accelerated after the 1994 elections. Indeed, the increase in enrolment from about 10 million in 1994 to 12,5 million in 1998 is a significant achievement of the new government. But demographic trends indicate that enrolment growth should decline at all levels over the next few years. Full-time enrolment at universities has grown by just 1 per cent in 1998 and a similar trend is expected over the medium term. Enrolment at technikons has grown more rapidly, reflecting the attraction of vocational or employment-related training programmes.

**Table 4.2 Aggregate national and provincial education expenditure**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
National education expenditure	4 165	5 319	5 975	6 718	7 028	7 474	7 928
<i>Less: conditional grants to provinces</i>	–	–	–	132	111	272	283
Provincial education expenditure <sup>1</sup>	29 971	36 606	38 570	38 656	39 862	42 613	44 636
Consolidated education expenditure	34 136	41 925	44 545	45 243	46 780	49 816	52 281
<b>Provincial education expenditure as a percentage of:</b>							
Consolidated education expenditure	87,8	87,3	86,6	85,4	85,2	85,5	85,4
Total adjusted provincial expenditure	41,2	41,8	41,4	41,6	42,1	42,1	42,2
<b>Consolidated education expenditure as a percentage of:</b>							
Total consolidated expenditure <sup>2</sup>	22,0	22,9	22,3	21,3	21,6	21,8	21,7
Total consolidated non-interest expenditure <sup>2</sup>	27,2	28,4	27,8	27,5	27,8	27,8	27,7
<b>Percentage growth:</b>							
Provincial education expenditure		22,1	5,4	0,2	3,1	6,9	4,7
Consolidated education expenditure		22,8	6,2	1,6	3,4	6,5	4,9

<sup>1</sup>Expenditure data reflect totals for provincial departments of education. In some provinces, the education department includes arts and culture and sports and recreation, but the amounts spent on these programmes are relatively small.

<sup>2</sup>Excludes national and provincial reserve amounts.

## TRENDS IN PROVINCIAL EDUCATION EXPENDITURE

### Real increase in education expenditure

Provincial expenditure grew at an annual rate of 8,9 per cent or just over 1 per cent a year in real terms over the last three years, rising from R30,0 billion to R38,7 billion. Under the recently tabled provincial budgets, education expenditure should grow slightly faster than inflation, reaching R44,6 billion in 2001/02. About 42 per cent of provincial expenditure is devoted to education, representing the largest provincial spending category.

### Increase in personnel costs

Education is the most labour-intensive service provided by the government. As shown in Table 4.3, personnel costs currently consume about 90 per cent of provincial education budgets, up from a low of 86,3 per cent in 1996/97. While education expenditure has increased in real terms during the period, personnel expenditure has grown faster, thus



reducing the share of education expenditure on textbooks, capital and other non-personnel items. Indeed, following a sharp increase in non-personnel spending in 1996/97, it fell by an average of 17 per cent a year over the next two years as provinces tried to eliminate overspending but lacked the flexibility to reduce personnel numbers. Despite budgeting for an increase in 1999/00, non-personnel expenditure will still be at about the 1995/96 level, reflecting a significant real decline.

**Table 4.3 Provincial education expenditure by economic classification**

R million	Actual		Estimated actual		Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	29 290	35 607	38 063	38 107	39 363	42 022	44 023
Personnel expenditure	26 128	31 578	34 252	35 229	36 137	38 071	39 830
Transfer payments	538	593	539	507	637	716	748
Other current expenditure	2 623	3 437	3 272	2 372	2 589	3 234	3 445
Capital expenditure	681	999	507	549	500	592	613
<b>Total</b>	<b>29 971</b>	<b>36 606</b>	<b>38 570</b>	<b>38 656</b>	<b>39 862</b>	<b>42 613</b>	<b>44 636</b>
<b>As a percentage of total education expenditure:</b>							
Current expenditure	97,7	97,3	98,7	98,6	98,7	98,6	98,6
Personnel expenditure	87,2	86,3	88,8	91,1	90,7	89,3	89,2
Transfer payments	1,8	1,6	1,4	1,3	1,6	1,7	1,7
Other current expenditure	8,8	9,4	8,5	6,1	6,5	7,6	7,7
Capital expenditure	2,3	2,7	1,3	1,4	1,3	1,4	1,4
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

#### **Uniformity in salary scales**

The increase in personnel expenditure has two main causes. First, apartheid-era education departments had different salary structures and rewarded qualifications and experience differently. In 1996/97, the various salary structures were merged into a consolidated salary scale, with average salary increases of 12–15 per cent. This broadbanding process meant that teachers in former homelands, who used to be paid less for similar qualifications, were now paid the same across the board. Thus teacher salaries were, in effect, adjusted upwards to the scale of the former white education departments. This agreement resulted in roughly 40 per cent of teachers moving into a higher salary bracket. Other adjustments included equal pay for female and male teachers, a principle not adhered to in some homeland departments.

#### **Additional teachers hired**

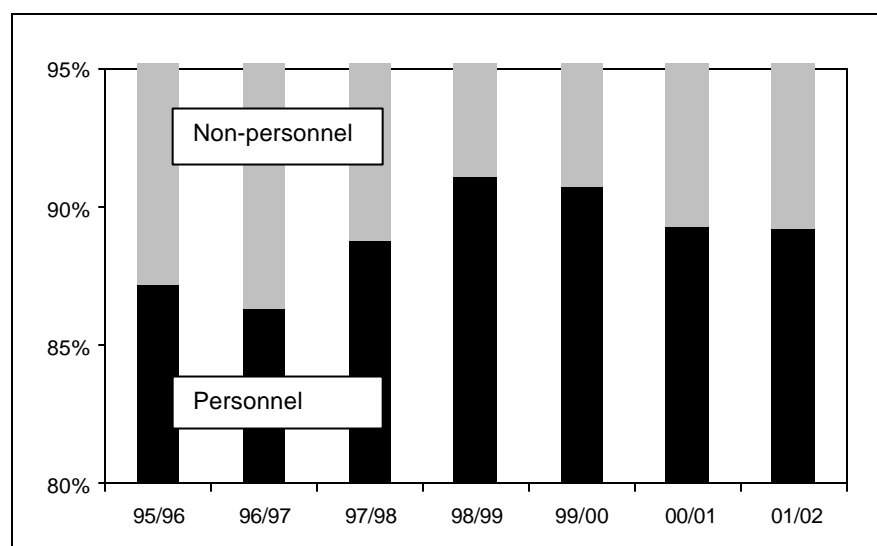
The second reason for increased personnel costs was the introduction of norms and standards for class sizes. The national minister issued policy guidelines requiring class sizes to be equalised at 40 in primary and 35 in secondary schools. While these ratios did not necessitate an increase in the overall number of teachers, schools that were above the norm hired additional teachers to reduce class sizes while schools below the norm were given five years to reduce their teacher numbers. This resulted in the employment of between 40 000 and 60 000 teachers countrywide.

Currently 383 000 educators are employed in provincial education departments.

**Reduced non-personnel expenditure**

The main consequence of these developments has been the crowding out of non-personnel expenditure, as illustrated in Figure 4.1. The ability of provincial governments to provide complementary inputs such as textbooks and new classrooms has been compromised. Capital expenditure projects have been curtailed in most provinces, and expenditure on textbooks, other support materials, water, rates and electricity have declined to undesirable levels. The decrease in non-personnel expenditure has clearly affected the quality of education. The trend in personnel and non-personnel expenditure shows some improvement over the medium term.

**Figure 4.1 Composition of education expenditure**



**Public schooling**

In financial terms, public ordinary school education is by far the most significant programme provided by the government (see Table 4.4). It supports pre-primary, primary and secondary schooling and constitutes over 80 per cent of provincial education spending. Support for private or independent schools, on the other hand, comprises less than 1 per cent of provincial education spending.

Expenditure on administration, ie on provincial education departments and district offices, comprises about 8 per cent of education spending. About 2,0 per cent is dedicated to teacher education and training, while less than 3 per cent is spent on special school education for children with special education needs. The growth in teacher training and special school education in 1999/00 is due almost entirely to sharply higher allocations to these programmes in the Eastern Cape education budget.

**Table 4.4 Provincial education expenditure by programme**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Administration <sup>1</sup>	1 613	3 023	3 069	3 083	1 860	2 733	2 867
Public ordinary schools	25 718	29 788	31 681	31 809	33 663	35 345	37 037
Private ordinary schools	265	261	261	245	239	260	270
Special school education	658	910	989	1 068	1 156	1 218	1 271
Teacher training	784	966	840	813	953	967	994
Other	933	1 659	1 731	1 638	1 991	2 091	2 198
<b>Total</b>	<b>29 971</b>	<b>36 606</b>	<b>38 570</b>	<b>38 656</b>	<b>39 862</b>	<b>42 613</b>	<b>44 636</b>
<b>As a percentage of total education expenditure:</b>							
Administration <sup>1</sup>	5,4	8,3	8,0	8,0	4,7	6,4	6,4
Public ordinary schools	85,8	81,4	82,1	82,3	84,4	82,9	83,0
Private ordinary schools	0,9	0,7	0,7	0,6	0,6	0,6	0,6
Special school education	2,2	2,5	2,6	2,8	2,9	2,9	2,8
Teacher training	2,6	2,6	2,2	2,1	2,4	2,3	2,2
Other	3,1	4,5	4,5	4,2	5,0	4,9	4,9
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

<sup>1</sup>The dip in 1999/00 is due to a categorisation change in the Northern Province budget.

### **Future education shortfall possible**

Education departments will face tough choices over the next few years if they are to improve quality while avoiding financial problems. In 1998 the MTEF team estimated that, at current learner:educator (L:E) ratios, if the cost per teacher and expenditure on education were to remain constant in real terms, provincial education departments would face a budget shortfall by 2005.

### **Policy trade-offs**

Education departments will also face trade-offs between class size, teacher salaries and growth in education budgets. The MTEF report recommends a combination of measures, such as wage restraint, a slightly higher L:E ratio, increased teacher productivity, efficiency measures such as longer school hours, and improved use of textbooks and learner-support materials.

## **INTERPROVINCIAL ANALYSIS**

### **Education expenditure by province**

#### **High growth in most provinces**

The rate of increase in education spending differs considerably between provinces. Northern Province and Eastern Cape increased education expenditure by 38,7 per cent and 45,9 per cent respectively from 1995/96 to 1998/99, by far exceeding the average growth rate of 29 per cent. This increase was partly to correct for underfunding in the apartheid era.

Education expenditure in Western and Northern Cape and Gauteng increased by only 10,4 per cent, 23,8 per cent and 22,6 per cent respectively, which are well below the average (see Figure 4.2).

Table 4.5 shows that most of this increase occurred in 1996/97 when expenditure rose by an average of 22,1 per cent, significantly above budgeted amounts. (In Northern Province and Eastern Cape, the increases were 28,5 per cent and 36,9 per cent respectively.) This increase occurred off a base much lower than other provinces. Growth in 1997/98 averaged only 5,4 per cent, which was less than the inflation rate of 7,6 per cent, and slowed down further in 1998/99 as provinces attempted to stay within available resources.

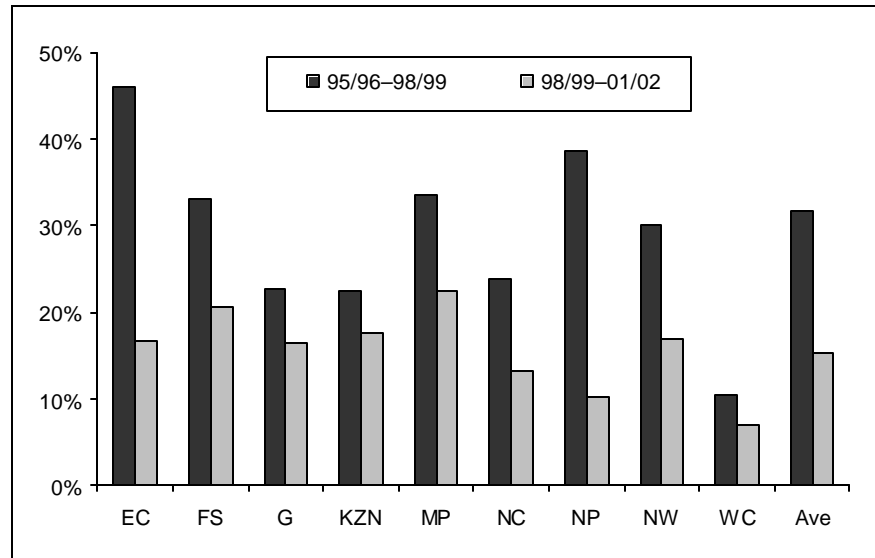
### Trends in provincial MTEF budgets

Over the MTEF period, provincial education budgets are to increase by 15,5 per cent from 1998/99. Only Western Cape, Northern Province and Northern Cape are likely to record below-average growth. Slower growth in projected expenditure will encourage provinces to focus on effective spending to achieve quality educational outcomes.

**Table 4.5 Education expenditure by province**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape	4 517	6 183	6 750	6 590	6 634	7 375	7 684
Free State	1 964	2 426	2 539	2 612	2 812	2 994	3 151
Gauteng	4 931	5 577	5 865	6 045	6 424	6 733	7 041
KwaZulu-Natal	5 799	6 720	7 207	7 106	7 430	7 915	8 356
Mpumalanga	1 963	2 414	2 506	2 624	2 760	3 004	3 215
Northern Cape	714	809	855	885	889	960	1 002
Northern Province	4 160	5 348	5 696	5 771	5 732	6 090	6 355
North West	2 455	2 966	3 240	3 196	3 373	3 574	3 736
Western Cape	3 468	4 164	3 912	3 828	3 810	3 970	4 098
<b>Total</b>	<b>29 971</b>	<b>36 606</b>	<b>38 570</b>	<b>38 656</b>	<b>39 862</b>	<b>42 613</b>	<b>44 636</b>
<b>Percentage growth:</b>							
Eastern Cape		36,9	9,2	-2,4	0,7	11,2	4,2
Free State		23,5	4,7	2,9	7,6	6,5	5,2
Gauteng		13,1	5,2	3,1	6,3	4,8	4,6
KwaZulu-Natal		15,9	7,2	-1,4	4,6	6,5	5,6
Mpumalanga		23,0	3,8	4,7	5,2	8,8	7,0
Northern Cape		13,3	5,7	3,4	0,5	7,9	4,4
Northern Province		28,5	6,5	1,3	-0,7	6,2	4,3
North West		20,8	9,3	-1,4	5,5	6,0	4,6
Western Cape		20,1	-6,0	-2,2	-0,5	4,2	3,2
<b>Average</b>		<b>22,1</b>	<b>5,4</b>	<b>0,2</b>	<b>3,1</b>	<b>6,9</b>	<b>4,7</b>

**Figure 4.2 Percentage increase in education expenditure**



**Education expenditure by economic classification**

**Personnel expenditure**

The imbalance between personnel and non-personnel expenditure in the provincial education sector is clearly evident in Table 4.6. As noted, with personnel spending being the major category of current expenditure, an appropriate balance is required between personnel expenditure and complementary inputs into the education process. Personnel spending covers 383 000 educators and 64 000 non-educators.

Some provinces are better able to maintain this balance. Others, such as Eastern Cape, Mpumalanga, Northern Province and North West all spend 90 per cent or more of their budgets on personnel. They inherited inefficient education systems with high failure rates and thus teach large numbers of repeaters. They also generally faced large classroom backlogs. Most, particularly Northern Province, moved rapidly to decrease L:E ratios by employing more teachers. However, not having first addressed classroom backlogs, some schools had more teachers than physical classes and average class sizes remained high.

Former homeland areas also had sizeable education bureaucracies with large numbers of staff at head offices or in regions and districts. Provinces that did not inherit such problems were able to allocate larger portions to non-personnel expenditure.

**Non-personnel expenditure**

Expenditure on complementary items such as textbooks, materials, equipment and teacher-support programmes has been cut in real terms due to unbudgeted increases in personnel costs. This is most evident in Eastern Cape, Northern Province and KwaZulu-Natal.

With capital expenditure under pressure from unplanned increases in personnel costs, backlogs in rural classrooms school maintenance can hardly be addressed. Parents increasingly contribute to equipment and maintenance costs. Should this trend continue, poor schools will find it hard to provide quality education. This problem could be addressed through an increased emphasis on non-personnel spending and on improving the quality of personnel expenditure.

**Table 4.6 Education expenditure by province and economic classification, 1999/00**

R million	Personnel	Transfer payments	Other current	Capital	Total
Eastern Cape	6 308	34	275	16	6 634
Free State	2 473	34	289	15	2 812
Gauteng	5 576	203	462	183	6 424
KwaZulu-Natal	6 681	106	558	85	7 430
Mpumalanga	2 489	17	198	56	2 760
Northern Cape	716	29	128	16	889
Northern Province	5 445	27	211	48	5 732
North West	3 074	62	198	38	3 373
Western Cape	3 375	125	269	42	3 810
<b>Total</b>	<b>36 137</b>	<b>637</b>	<b>2 589</b>	<b>500</b>	<b>39 862</b>

**As a percentage of total:**

Eastern Cape	95,1	0,5	4,1	0,2	100,0
Free State	88,0	1,2	10,3	0,5	100,0
Gauteng	86,8	3,2	7,2	2,8	100,0
KwaZulu-Natal	89,9	1,4	7,5	1,1	100,0
Mpumalanga	90,2	0,6	7,2	2,0	100,0
Northern Cape	80,5	3,3	14,5	1,8	100,0
Northern Province	95,0	0,5	3,7	0,8	100,0
North West	91,2	1,8	5,9	1,1	100,0
Western Cape	88,6	3,3	7,1	1,1	100,0
<b>Average</b>	<b>90,7</b>	<b>1,6</b>	<b>6,5</b>	<b>1,3</b>	<b>100,0</b>

**Education expenditure by programme****Administration**

Administrative expenditure supports functions performed at provincial and regional offices and some at school district level. The successful implementation of educational policies and the smooth running of schools depend on an efficient administration. However, Table 4.7 shows that Northern Province, Free State and North West devote more than 7 per cent of their education budgets to administration compared with 1,5 per cent in Gauteng, partly owing to differences in classification. Provinces need to balance efficient education management and support structures, such as school districts, against a large bureaucracy that drains resources.

**Public ordinary schooling**

The public ordinary schooling programme includes expenditure on primary and secondary schools, teachers, equipment, teacher support programmes and examinations. It comprises the bulk of provincial education expenditure and is a key programme in provincial services. In this programme, provincial departments pay salary costs, manage capital expenditure and provide certain services such as teacher support systems. The Schools Act establishes a framework whereby other recurrent expenditure on items such as textbooks, maintenance, water and electricity and equipment may be transferred directly to schools. School

governing bodies will then vote on such expenditure as part of a school budget, giving parents more discretion over these resources. Gauteng and Western Cape allocate the lowest proportion of their budget to this programme. This partly reflects higher expenditure on independent schools and education for learners with special needs.

**Table 4.7 Education expenditure by province and programme, 1999/00**

<b>R million</b>	<b>Adminis- tration</b>	<b>Public ordinary schools</b>	<b>Indepen- dent schools</b>	<b>Teacher training</b>	<b>Other</b>	<b>Total</b>
Eastern Cape	400	5 518	8	182	526	6 634
Free State	236	2 255	15	75	230	2 812
Gauteng	96	5 387	121	121	698	6 424
KwaZulu-Natal	129	6 558	30	182	533	7 430
Mpumalanga	132	2 420	9	48	150	2 760
Northern Cape	40	719	3	9	118	889
Northern Province	501	4 855	7	213	155	5 732
North West	247	2 910	7	68	140	3 373
Western Cape	79	3 041	40	54	597	3 810
<b>Total</b>	<b>1 860</b>	<b>33 663</b>	<b>239</b>	<b>953</b>	<b>3 148</b>	<b>39 862</b>
<b>As a percentage of total:</b>						
Eastern Cape	6,0	83,2	0,1	2,7	7,9	100,0
Free State	8,4	80,2	0,5	2,7	8,2	100,0
Gauteng	1,5	83,9	1,9	1,9	10,9	100,0
KwaZulu-Natal	1,7	88,3	0,4	2,4	7,2	100,0
Mpumalanga	4,8	87,7	0,3	1,7	5,4	100,0
Northern Cape	4,5	80,9	0,3	1,0	13,3	100,0
Northern Province	8,7	84,7	0,1	3,7	2,7	100,0
North West	7,3	86,3	0,2	2,0	4,1	100,0
Western Cape	2,1	79,8	1,0	1,4	15,7	100,0
<b>Average</b>	<b>4,7</b>	<b>84,4</b>	<b>0,6</b>	<b>2,4</b>	<b>7,9</b>	<b>100,0</b>

### **Independent schools**

Independent schools are registered with government and operate outside the public education system. They are responsible for their own staff, curricula, school management, school buildings and equipment. Independent schools receive a government subsidy if they meet certain requirements, including having been in existence for more than a year and achieving success in examinations. Currently provinces have discretion over the level of subsidies to independent schools. The subsidy depends on the fee structure of the school and ranges from 0–60 per cent of the per learner expenditure on public ordinary schools in the province.

Norms and standards for school funding in terms of the Schools Act require provinces to adopt a similar funding formula for subsidies to independent schools. Provinces such as Gauteng and Western Cape have more of these schools, while poorer provinces generally have fewer.

## Teacher education and training

Provinces currently run teacher education and training institutions. This should change over the next few years as these are integrated into the higher education sector. Universities provide teacher education and training and will absorb some colleges. Provinces with former homelands generally spend a higher proportion of their budgets on teacher training. African learners had fewer opportunities to study at universities and technikons and teaching was one of the few available middle-income occupations. Hence, the number of African learners who studied teaching was disproportionately high, as reflected in the large share of teacher training in Northern Province and Eastern Cape.

## Other programmes

The “other” category consists mainly of educational provision for learners with disabilities, early learning and adult literacy programmes and technical colleges. Western and Northern Cape and Gauteng provide relatively more specialised education and technical colleges.

## PER LEARNER EXPENDITURE

Table 4.8 shows differences in per learner spending and Table 4.9 learner:educator ratios. Gauteng and Western Cape spend almost 70 per cent more per learner than Northern Province, KwaZulu-Natal and Mpumalanga and have substantially smaller classes.

**Table 4.8 Per learner amounts for personnel and non-personnel, 1999/00**

Province	Learners (1998) (000)	Expenditure (R million)			Per-learner budget (R)		Total (R)
		Personnel	Other	Total	Personnel	Other	
Eastern Cape	2 295	6 308	326	6 634	2 749	142	2 890
Free State	808	2 473	339	2 812	3 062	419	3 481
Gauteng	1 400	5 576	847	6 424	3 984	605	4 589
KwaZulu-Natal	2 812	6 681	749	7 430	2 376	266	2 642
Mpumalanga	924	2 489	271	2 760	2 694	294	2 988
Northern Cape	202	716	173	889	3 538	856	4 394
Northern Province	2 043	5 445	287	5 732	2 665	140	2 805
North West	946	3 074	298	3 373	3 251	315	3 567
Western Cape	905	3 375	436	3 810	3 730	481	4 211
<b>Total</b>	<b>12 335</b>	<b>36 137</b>	<b>3 726</b>	<b>39 862</b>	<b>2 930</b>	<b>302</b>	<b>3 232</b>

Poorer provinces tend to have a younger age profile and a higher proportion of their population is of school-going age. Past inefficiencies, high repetition rates, under-aged and over-aged enrolment and inadequate employment opportunities for young adults also contribute to high enrolment rates. This perpetuates an inefficient and overstretched system. The Minister of Education has published a policy on admission and age-grade norms that are intended to arrest these problems. Even where enrolment figures are exaggerated, they still highlight a serious problem. Unless out-of-age enrolment – ie under-aged children in grade one and over-aged children in higher grades – is decreased and pass rates increased, large class sizes and poor teaching quality will persist. The



MTEF team recommended increased teacher productivity, improved workloads, better lesson planning and teacher support systems.

**Table 4.9 Learners per educator, 1999**

Province	Learner: educator ratio
Eastern Cape	32,4
Free State	31,2
Gauteng	27,9
KwaZulu-Natal	36,1
Mpumalanga	35,2
Northern Cape	27,6
Northern Province	33,6
North West	27,4
Western Cape	30,8
<b>Average</b>	<b>32,2</b>

Source: Calculated from Department of Education data

### Learner:educator ratios

Provincial disparities in per learner expenditure correspond with L:E ratios. Gauteng, Northern Cape, North West and Western Cape have low L:E ratios while KwaZulu-Natal, Northern Province and Eastern Cape have higher ratios. Individual qualifications and the agreed salary structure at national level determine educator costs, and provinces consequently have very little discretion. However, they do have some control over promotions and notch adjustment increases for certain categories of staff. Tighter control over these instruments can yield savings at the margins, which can be used on non-personnel expenditure. Table 4.10 reflects differences in the cost of educators. This cost is lowest in KwaZulu-Natal where relatively more teachers are underqualified.

**Table 4.10 Estimated cost per educator, 1999/00<sup>1</sup>**

Province	Number	Average teacher cost (R)	Expenditure (R 000)
Eastern Cape	70 932	77 514	5 498 244
Free State	25 911	83 549	2 164 832
Gauteng	50 090	90 585	4 537 392
KwaZulu-Natal	77 911	74 698	5 819 801
Mpumalanga	26 224	80 253	2 104 547
Northern Cape	7 321	84 147	616 037
Northern Province	60 759	78 506	4 769 944
North West	34 562	76 199	2 633 583
Western Cape	28 945	98 559	2 852 800
<b>Total</b>	<b>382 655</b>	<b>82 307</b>	<b>30 997 179</b>

<sup>1</sup>This table only reflects educators employed in the college and school sector. It excludes all other staff employed by provincial education departments.

Source: Department of Public Service and Administration

The 1999/00 budgets reflect a concerted effort to increase expenditure on textbooks and learner support materials, with the provision for textbooks having almost doubled (see Table 4.11). Differences in per learner amounts remain substantial, with Free State, Gauteng, Western Cape and Northern Province being above average and the rest below. Ideally, expenditure on these items should be about R100 per learner. All provinces are far from this norm, though matters have improved since last year.

**Table 4.11 Per learner allocation on textbooks, 1999/00**

Province	Textbook allocation (R million)	Per learner (R)
Eastern Cape	108,0	47,06
Free State	56,7	70,20
Gauteng	87,0	62,16
KwaZulu-Natal	110,0	39,11
Mpumalanga	32,0	34,64
Northern Cape	5,9	29,16
Northern Province	103,3	50,55
North West	30,0	31,73
Western Cape	56,7	62,67
<b>Total</b>	<b>589,6</b>	<b>47,80</b>

## ISSUES IN SCHOOL FINANCING

### Quality schooling

#### Poor teaching quality in the classroom

While education expenditure has increased in real terms over the last four years, progress in the quality of schooling cannot simply be achieved through higher spending. The education MTEF sectoral reviews in 1997 and 1998 pointed out that, in most provinces, the outputs of the education system are still poor. Some of the reasons highlighted were:

- ◆ Decreases in complementary inputs such as textbooks and learner support materials.
- ◆ Weak management, especially at school and district level.
- ◆ Low teacher productivity and inadequate teacher support services.
- ◆ An inability to address classroom backlogs in some provinces.

#### Inefficient school system

Flow-through of learners is low – some 35 pupil-years of effort are needed to produce one matric pass. A more reasonable goal for a country such as South Africa might be about 25. Thus, while learners are spending 12–13 years in schools on average, only about a third of each cohort of young adults achieves a matric pass. Poor educational outcomes contribute to high failure rates and out-of-age enrolment and a low skills base, high unemployment and low economic growth.

**New initiatives to improve quality**

Based on the education sectoral reviews, several initiatives have been implemented, such as proposals aimed at increasing non-personnel expenditure, raising teacher productivity and reducing overenrolment. An instrument for educator appraisal was introduced in 1999 to assist individual educators in identifying strengths and addressing weaknesses.

**Personnel costs****Central bargaining**

The salaries of educators and their terms of employment are the result of national negotiations in the Public Sector Consolidated Bargaining Chamber (PSCBC) and the Education Labour Relations Council (ELRC). Provincial education authorities are insufficiently involved in the current structure of salary bargaining; they are represented, but are not always adequately informed about sector-specific matters. As funds are voted centrally for the nine-month period following an agreement (July–March), problems are not immediately apparent but only arise in the following year when provinces have to finance carry through costs from within their MTEF baseline allocations. They are often not aware of the full impact of these carry through costs when compiling their budgets.

**More provincial discretion**

In November 1998 the Minister of Education signed an agreement with teacher unions on a process of rationalisation and redeployment. It allows provincial education departments to redistribute teaching posts more evenly within provinces and to determine the number of teaching posts within the framework of provincial budgets. This will allow them to reduce the number of surplus temporary teachers. The salaries of teachers are still determined nationally in the PSCBC.

**Non-personnel costs****More expenditure on textbooks and classrooms**

The Department of Education, in its norms and standards for school funding, aims to increase non-personnel expenditure to approximately 15 per cent of total provincial education expenditure. This will allow provinces to increase complementary inputs, address classroom backlogs through increased capital expenditure, establish teacher support systems and improve the administrative and financial capacity of education departments. Over the medium term, savings from reduced personnel expenditure can be channelled to non-personnel expenditure.

**Quality enhancement and financial management****Conditional grant for improved quality and management**

The national Department of Education has allocated R966 million from 1998/99 to 2001/02 for quality enhancement and the improvement of financial management capacity in provinces. The programmes supported by this grant are listed above in the discussion on conditional grants. The priorities for education departments in 1999/00 are to improve efficiency at school district level, build the capacity of school principals and develop a culture of learning, teaching and service. A new project to improve teacher support programmes will assist in evaluating the needs of teachers, providing subject advisory services and enhancing the relevance of teacher training.

## **Improved teacher productivity**

### **Teacher appraisals**

Two agreements concluded between the Minister of Education and teacher unions in 1998 relate specifically to improving teacher productivity in the classroom. For the first time, job descriptions are available for educators at all levels and an appraisal system is used to measure teacher performance on the basis of these job descriptions.

### **New teaching hours**

Teachers are now required to work a 40-hour week with compulsory attendance at school for seven hours a day, and have to undergo 80 hours of in-service training annually. Contact time with learners, subject preparation procedures and learner evaluation are also addressed.

## **CONCLUDING REMARKS**

Many of South Africa's social ills stem from poor education, and apartheid education contributed much to the current inequalities in society. Long-term social and economic wellbeing can only be achieved by a nation that is able to improve its educational base. Thus the government has provided more resources for education in general and for public schools in particular.

The focus is now shifting from more funds to better expenditure. The education system needs to provide better services by emphasising teaching quality, efficient use of resources and a firmer commitment to involving communities in education delivery.

The current policy environment, legislative framework and financial base are conducive to improved productivity in education. Education is already an example of good cooperative governance, where national and provincial governments are able to coordinate policies and where budgeting and planning are linked. These successes can form the basis for a culture of learning, teaching and service that could break the cycle of poor education, low economic growth and high unemployment.

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# 5: FOCUS ON HEALTH

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## INTRODUCTION

### **Constitutional provisions**

The Bill of Rights stipulates that “everyone has the right to have access to health care services, including reproductive health care”. It further states that “no one may be refused emergency medical treatment”. The state is obligated to take reasonable legislative and other measures progressively to realise the relevant rights, “within its available resources”.

### **Responsibility for service provision**

Schedule 4 of the Constitution lists health and municipal health services as functional areas of concurrent national and provincial legislative competence. While provinces therefore have administrative authority for health services, and municipalities for municipal health services, they have to implement national legislation. Section 146 provides criteria for determining what legislation will prevail should conflicts arise. According to Section 125(3) the responsibility of provinces to implement national legislation is limited by their administrative capacity to assume effective responsibility. The national government is also obliged to develop the administrative capacity of the provinces.

### **National Health Bill**

Efficient service delivery depends on a clear allocation of tasks between the relevant levels of government. The current uncertainty about roles stems from the integration of previously fragmented systems and the creation of a district health system. The division of responsibilities between national, provincial and local government is to be addressed in the National Health Bill currently being drafted.

In practice the national department is primarily involved in formulating health policy and monitoring its implementation, while provincial departments are responsible for delivering most health services at a regional or district level. Local government also provides important community health and ambulance services.

### **Classifying health services**

Health services can be classified by level of care, ranging from primary to secondary, tertiary and quaternary health services. Primary health care includes promotive, preventative and ambulatory curative care through the outpatient departments of hospitals, clinics or health centres and general practitioners’ offices. District hospitals are first-level non-specialist hospitals for referral from clinics and provide services by generalist medical personnel with access to basic diagnostic and therapeutic facilities. Primary services include personal, promotive and preventative services, maternal and child health services, provision of essential drugs, basic oral and optometry services, health education and health-related nutritional support.

Secondary health care is provided at regional and provincial hospitals with some specialist services and frequently an intensive care unit. Tertiary services are for patients requiring the expertise and care

associated with the more specialised disciplines (such as cardiology, endocrinology, oncology, plastic and trauma surgery, neonatology and sophisticated paediatrics) or requiring access to scarce, expensive and specialised therapeutic and diagnostic equipment at central or tertiary hospitals. These services are mostly linked to academic health complexes. Level four services provide highly advanced health care such as liver and heart transplants.

### **Health policy**

Health care reform in South Africa has two aims: to shift focus from hospital-based to primary care, and to shift resources from better resourced urban to underfunded rural areas. This will provide more appropriate and cost-effective care and address the legacy of unequal access to basic health care services. To this end a district health system is being established to provide primary health care at district level. Provinces therefore have the dual responsibility of implementing an effective district health system while providing different levels of hospital services.

The transformation of the health sector and increased emphasis on primary services substantially affects provincial health administration and budgets. Free health care services to pregnant women and children under six, clinic building and free access to primary health care all put pressure on recurrent health expenditure, as did implementation of the Choice on Termination of Pregnancy Act. Tertiary services are being rationalised and scaled down to accommodate the shift to lower-level services. This has led to substantial reorganisation in the provinces.

## **FINANCING HEALTH SERVICES**

The provinces budget for the bulk of health services. These are primarily funded from provincial equitable shares and conditional grants from the national Department of Health as listed in Table 5.1.

### **Provincial equitable shares**

Provincial governments have discretion over the allocation of the provincial equitable share between services such as education, health and welfare. However, the national government considers the relative need for public health services in determining this equitable share. In effect people without medical aid coverage are weighed more heavily in determining the distribution of available resources. Appendix A provides more information on the equitable share and its health component.

### **Conditional grants for health**

The vote of the national Department of Health includes the largest conditional grants to provinces. These are mainly for specialised health services that are provided by a few provinces only.

### **Central hospitals grant**

The central hospitals grant aims to ensure access to high-level health services for all South Africans irrespective of whether these services are provided in their province. The grant is allocated to four provinces – Gauteng, Western Cape, KwaZulu-Natal and Free State – whose hospitals provide tertiary health care and extensive referral services, including services to patients from other provinces. It is conditional on non-discrimination between residents and non-residents of the province in which the services are located. Other conditions, such as the submission of strategic plans to the Minister, enable the national department and provinces to plan for the delivery of specialised health services in central hospitals.

**Table 5.1 Conditional grants to provinces for health**

<b>R million</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>
Central hospital services	3 075,0	3 112,0	3 220,9
Health professional training and research	1 118,0	1 174,0	1 215,1
Redistribution of specialised health services	112,0	176,0	182,2
Hospital rehabilitation	200,0	400,0	500,0
Primary school nutrition programme	554,7	582,4	602,8
Umtata hospital	63,9	–	–
Durban academic hospital	247,0	273,0	102,6
<b>Total</b>	<b>5 370,6</b>	<b>5 717,4</b>	<b>5 823,6</b>

**Medical training and research**

The Health Professional Training and Research Grant funds training activities and effectively compensates provinces for the higher service costs associated with training health professionals. This grant will increase from R1 118 million in the current financial year to R1 215 million in 2001/02. All provinces receive a share of this grant but most is reserved for provinces with academic health complexes. Medical training and research facilities serve the country as a whole, but are mainly located in the four provinces with central hospitals.

**Redistribution of specialised health services**

The Grant for the Redistribution of Specialised Services supports the development of specialised health services in provinces without such facilities. The intention is to reduce referrals to the four provinces with tertiary services. The grant will increase from R112,0 million in 1999/00 to R182,2 million in 2001/02.

**Nutrition programme**

One of the first initiatives of the democratic government was to provide meals to primary school children in poor areas to supplement their nutritional intake. This programme is funded through a conditional grant to all provinces, the largest shares accruing to Eastern Cape, KwaZulu-Natal and Northern Province.

**Hospital rehabilitation programme**

The Department of Health is assisting provinces to restructure and rehabilitate their hospital systems to improve service delivery. The rehabilitation programme finances the repair and upgrading of hospital buildings and the purchase of capital equipment to restore acceptable service levels. This grant enables provinces to embark on restructuring within a nationally agreed framework.

**Durban and Umtata hospitals**

The construction of the new Durban academic hospital is financed through a five-year grant to KwaZulu-Natal. The hospital is to play a larger role in tertiary health services in the country, as is the Umtata regional hospital for which the Eastern Cape receives a similar grant.

**AGGREGATE HEALTH SPENDING****Total expenditure and relative importance**

Total consolidated expenditure on health is projected to reach R24,1 billion in 1999/00 (see Table 5.2). This amounts to 3,0 per cent of GDP and 11,1 per cent of consolidated government expenditure. Nearly

98 per cent of expenditure, or R23,5 billion, occurs at provincial level. This includes transfers to local authorities that provide some primary health care services on an agency basis for the provincial health departments.

**Table 5.2 Aggregate national and provincial health expenditure**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
National health expenditure	1 291	656	512	5 513	5 940	6 243	6 379
<i>Less: conditional grants to provinces</i>	–	–	–	4 960	5 371	5 717	5 824
Provincial health expenditure	16 097	20 640	22 376	22 878	23 529	25 171	26 291
Consolidated health expenditure	17 388	21 296	22 889	23 430	24 098	25 697	26 847
<b>Provincial health expenditure as a percentage of:</b>							
Consolidated health expenditure	92,6	96,9	97,8	97,6	97,6	98,0	97,9
Total adjusted provincial expenditure	22,1	23,6	24,0	24,6	24,8	24,9	24,8
<b>Consolidated health expenditure as a percentage of:</b>							
Total consolidated expenditure <sup>1</sup>	11,2	11,6	11,5	11,3	11,1	11,2	11,1
Total consolidated non-interest expenditure <sup>1</sup>	13,9	14,4	14,3	14,2	14,3	14,3	14,2
<b>Percentage growth:</b>							
Provincial health expenditure		28,2	8,4	2,2	2,8	7,0	4,5
Consolidated health expenditure		22,5	7,5	2,4	2,9	6,6	4,5

<sup>1</sup>Excludes national and provincial reserve amounts.

### Growth in expenditure

Between 1995/96 and 1998/99 consolidated health expenditure grew at a rate of 10,0 per cent per year as against an inflation rate of 7,8 per cent. This can primarily be attributed to the sharp increase in provincial health expenditure in 1996/97 of 28,2 per cent or about 20 per cent in real terms. This exceptional growth resulted from the amalgamation of previous homeland administrations in the provinces and the financing of some new RDP projects in the health sector. Consolidated expenditure growth rates subsequently fell to 7,5 per cent in 1997/98 and 2,4 per cent in 1998/99 as provinces attempted to contain overexpenditure.

Over the MTEF period, consolidated health expenditure is projected to grow at an average annual rate of 4,6 per cent from R23,4 billion in 1998/99 to R26,8 billion in 2001/02. The health share of consolidated non-interest expenditure remains fairly stable at just over 14 per cent.

The sizeable increase in national health expenditure in 1998/99 is due to the introduction of conditional grants and the resulting change in the channel for funding central hospital services and health training. Before 1998/99 funding for these services flowed directly to the provinces. The



upward adjustment in the national budget therefore does not imply a shift in functional responsibilities.

## TRENDS IN PROVINCIAL HEALTH EXPENDITURE

### Compared to total provincial expenditure

Table 5.2 indicates that health expenditure is expected to comprise 24,8 per cent of total provincial expenditure in 1999/00. This is higher than the 22,1 per cent in 1995/96 and reflects the increasing priority of social services, particularly health. This also partially reflects the wage drift experienced in the health sector. Over the MTEF period the share of health is expected to remain stable at 24,8 per cent.

### Composition by economic classification

As shown in Table 5.3, personnel expenditure should constitute 64,2 per cent of provincial health expenditure in 1998/99. Other current expenditure comprised an estimated 24,6 per cent of the total and includes administrative expenditure (for example communication and transport costs), consumables (such as medicines) and contracted professional and special services. Transfers, mostly to local authorities for agency services, amount to a further 7,5 per cent. Capital expenditure is estimated at 3,7 per cent of expenditure in 1998/99.

**Table 5.3 Provincial health expenditure by economic classification**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	15 619	19 838	21 536	22 035	22 238	23 669	24 830
Personnel expenditure	9 616	12 354	13 612	14 689	15 174	16 081	16 729
Transfer payments	1 190	1 855	1 745	1 724	1 921	2 055	2 200
Other current expenditure	4 814	5 629	6 179	5 622	5 143	5 533	5 901
Capital expenditure	479	802	840	842	1 291	1 502	1 461
<b>Total</b>	<b>16 097</b>	<b>20 640</b>	<b>22 376</b>	<b>22 878</b>	<b>23 529</b>	<b>25 171</b>	<b>26 291</b>
<b>As a percentage of total health expenditure:</b>							
Current expenditure	97,0	96,1	96,2	96,3	94,5	94,0	94,4
Personnel expenditure	59,7	59,9	60,8	64,2	64,5	63,9	63,6
Transfer payments	7,4	9,0	7,8	7,5	8,2	8,2	8,4
Other current expenditure	29,9	27,3	27,6	24,6	21,9	22,0	22,4
Capital expenditure	3,0	3,9	3,8	3,7	5,5	6,0	5,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

### Growth in expenditure and personnel cost pressures

Between 1996/97 and 1998/99, provincial health expenditure increased at an average annual rate of 5,3 per cent. Personnel costs, however, grew faster than aggregate expenditure at 9,0 per cent per year and the share of expenditure on personnel increased from 59,7 per cent in 1995/96 to 64,2 per cent in 1998/99. Consequently, other essential complementary inputs such as pharmaceuticals and medical equipment were crowded out, often resulting in declining levels of service and lower quality of services.

### Reasons for personnel cost growth

The increase in personnel costs can largely be attributed to growth in average remuneration rather than to increasing numbers. Average costs increased because the pay scales of the various administrations were consolidated into a single salary scale during broadbanding in 1996/97. In addition, the 1996 wage agreement affected rank and leg promotions, particularly through automatic promotion in some categories after a certain period of service. Reprioritisation of service delivery towards primary care also required new posts, while tools for redeployment and managing down supernumeraries were limited.

The increase in the unit cost of personnel put severe pressure on personnel numbers. Given the moratorium on retrenchment, an aggressive policy of restructuring proved impossible, except in Western Cape where voluntary severance packages were used extensively. As personnel costs increased from R48 000 per post to R78 000 over three years, the Western Cape health department cut personnel numbers by 8 000.

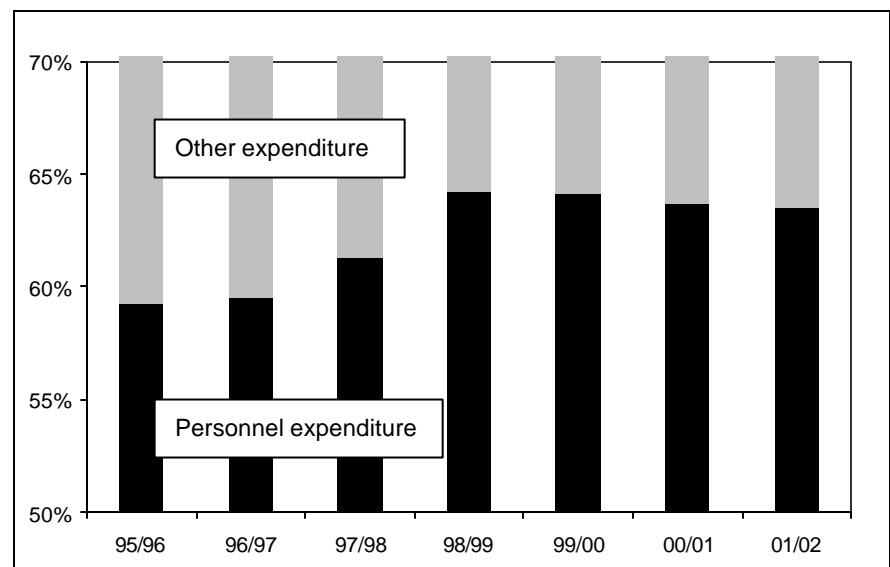
### Other cost pressures

The programmes of free medical care for pregnant women and children under six, free primary health care and clinic building expanded access to health services and added to cost pressures in the provinces. Amalgamation of different administrations often necessitated upward adjustment of budgets, as the extent of expenditure by the various administrations became clear.

### MTEF allocations

Although MTEF allocations show stabilisation of personnel cost at just under 64 per cent of expenditure, the recent escalation in personnel costs allows little room for funding non-personnel at the required levels (see Figure 5.1). Expenditure on non-personnel items is projected to remain well below 1995/96 levels in real terms. Transfer payments are projected to increase slightly to 8,2 per cent of total expenditure, which implies some pressure on service delivery by local governments and provincially aided hospitals.

**Figure 5.1 Composition of health expenditure**



## Expenditure by programme

Table 5.4 shows the five major programmes of provincial health expenditure. Between 1995/96 and 1998/99 the classification of expenditure by programme changed substantially and trends are therefore misleading. These changes included the introduction of the academic health services programme and the reallocation of certain expenditure from this to other programmes. Since 1998 programmes have been increasingly standardised to ensure greater comparability.

**Table 5.4 Provincial health expenditure by programme**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Administration	771	1 184	825	744	801	943	1 093
District health services	4 831	7 624	8 419	8 941	9 362	10 505	10 930
Provincial hospital services	9 139	5 614	6 506	6 615	6 502	6 602	6 842
Academic hospital services	124	4 677	5 173	5 119	4 970	5 187	5 416
Other	1 233	1 541	1 453	1 459	1 895	1 934	2 009
<b>Total</b>	<b>16 097</b>	<b>20 640</b>	<b>22 376</b>	<b>22 878</b>	<b>23 529</b>	<b>25 171</b>	<b>26 291</b>
<b>As a percentage of total health expenditure:</b>							
Administration	4,8	5,7	3,7	3,3	3,4	3,7	4,2
District health services	30,0	36,9	37,6	39,1	39,8	41,7	41,6
Provincial hospital services	56,8	27,2	29,1	28,9	27,6	26,2	26,0
Academic hospital services	0,8	22,7	23,1	22,4	21,1	20,6	20,6
Other	7,7	7,5	6,5	6,4	8,1	7,7	7,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

## Relative importance of programmes

In 1999/00, district health services will comprise 39,8 per cent of provincial health expenditure, provincial hospital services 27,6 per cent and academic hospital services 21,1 per cent. While the district health services programme encompasses primary health care services, it also includes expenditure on secondary services in district hospitals. This programme is therefore not a reliable proxy for the shift to primary health care services. It is thus difficult to deduce from the current programme structure whether policy priorities are being implemented.

## Programmes over the MTEF period

Over the MTEF period the district health services programme (including primary care) is projected to grow more rapidly (at 6,9 per cent annually) than the provincial and academic health services programmes at 1,1 and 1,9 per cent respectively. As a result district health services will grow in relative importance from 39,1 per cent of total expenditure in 1998/99 to 41,6 per cent in 2001/02. The low growth in the other two expenditure programmes indicates that further rationalisation will be required.

## INTERPROVINCIAL ANALYSIS

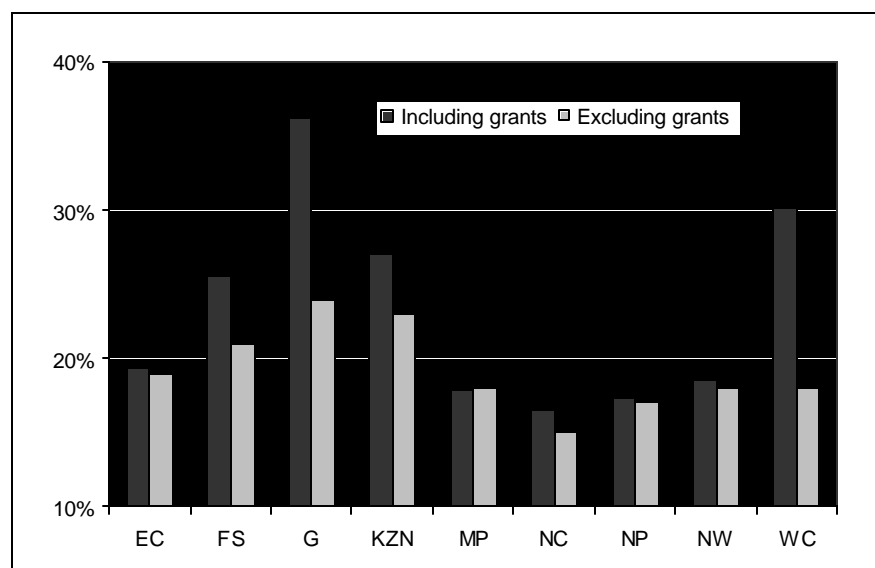
### Relative importance in provincial budgets

### Health expenditure by province

The proportion of expenditure devoted to health differs substantially between provinces, ranging from 17,9 per cent in Mpumalanga to 36,2 per cent in Gauteng in 1999/00. This difference mainly relates to the concentration of tertiary services and medical training in four provinces – Free State, Gauteng, KwaZulu-Natal and Western Cape. These provinces deliver direct and indirect services to patients from other provinces, and maintain specialised hospital facilities for which they are compensated by national conditional grants.

While health expenditure in Free State, Gauteng, KwaZulu-Natal and Western Cape exceeds 25 per cent of provincial expenditure, it varies from 15–20 per cent in the other provinces (see Figure 5.2). If conditional grants for central hospitals and medical training are excluded, health expenditure ranges from 15–24 per cent of total expenditure.

**Figure 5.2 Health expenditure as a proportion the total, including and excluding conditional grants, 1999/00**



### Growth in health expenditure to 1998/99

Table 5.5 shows that, up to 1998/99, health expenditure in the provinces moved in tandem – a large increase in 1996/97, lower growth in the next year and negative real growth in 1998/99. With the exception of KwaZulu-Natal, provinces providing tertiary services and training experienced smaller increases than the poorer provinces. Over this period, growth was particularly strong in Mpumalanga (at 26,5 per cent per year), Northern Province (40,7 per cent) and North West (14,1 per cent). This reflects a first tentative movement towards equalisation of expenditure levels between provinces, although disparities are still large, as described below.

While all provinces experienced real growth in health expenditure over the period, growth was reduced sharply in Eastern Cape, Free State, KwaZulu-Natal and North West in 1998/99. Western Cape reduced personnel numbers and closed beds in order to address a deficit.

## MTEF trends

Between 1998/99 and 2001/02, growth will be contained in all provinces, averaging slightly more than the expected inflation rate. The exceptions are Northern Cape and Western Cape where expenditure will decline in real terms as resources shift in favour of poorer provinces.

**Table 5.5 Provincial health expenditure by province**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape	2 206	3 066	3 039	3 024	2 947	3 235	3 500
Free State	1 183	1 470	1 659	1 688	1 697	1 795	1 875
Gauteng	3 902	4 643	5 299	5 476	5 800	5 997	6 279
KwaZulu-Natal	3 285	4 234	4 806	4 869	5 014	5 517	5 629
Mpumalanga	541	817	1 017	1 058	1 091	1 196	1 269
Northern Cape	277	333	380	388	377	399	414
Northern Province	1 424	2 020	1 865	2 004	2 049	2 220	2 315
North West	933	1 276	1 375	1 342	1 467	1 552	1 609
Western Cape	2 346	2 780	2 937	3 029	3 087	3 260	3 402
<b>Total</b>	<b>16 097</b>	<b>20 640</b>	<b>22 376</b>	<b>22 878</b>	<b>23 529</b>	<b>25 171</b>	<b>26 291</b>
<b>Percentage growth:</b>							
Eastern Cape		39,0	-0,9	-0,5	-2,5	9,7	8,2
Free State		24,3	12,8	1,7	0,5	5,8	4,5
Gauteng		19,0	14,1	3,3	5,9	3,4	4,7
KwaZulu-Natal		28,9	13,5	1,3	3,0	10,0	2,0
Mpumalanga		51,0	24,5	4,1	3,1	9,6	6,1
Northern Cape		20,2	14,3	2,2	-2,9	5,8	3,9
Northern Province		41,9	-7,7	7,5	2,2	8,3	4,3
North West		36,7	7,8	-2,4	9,3	5,9	3,6
Western Cape		18,5	5,6	3,1	1,9	5,6	4,4
<b>Average</b>		<b>28,2</b>	<b>8,4</b>	<b>2,2</b>	<b>2,8</b>	<b>7,0</b>	<b>4,5</b>

## Health expenditure by economic classification

### Personnel

Despite differences in the mix of services provided by the provinces, personnel expenditure is generally close to the average of 64,5 per cent of total expenditure (Table 5.6). The exceptions are Gauteng, which spends only 58,5 per cent on personnel, and Free State with 73,9 per cent. This broad similarity, however, hides significantly different trends over the last three years.

Between 1995/96 and 1999/00, personnel cost was proportionally stable in the two provinces with large tertiary and academic complexes, ie Gauteng and Western Cape. This can partly be explained by the freezing of posts, which led to some personnel cost being shifted to professional and special services. For instance, some nursing staff were not appointed against posts but were rather hired from nursing agencies. In Western

Cape the stability was achieved by cutting 8 000 posts. In KwaZulu-Natal, however, personnel cost increased by five percentage points to 66,4 per cent during this period, while in the Free State it rose sharply by 13 points to 73,9 per cent.

In provinces without significant tertiary facilities, personnel expenditure increased rapidly as a proportion of expenditure, with the exception of Northern Province. In this province it increased by only three percentage points to 1999/00, as against over seven percentage points in Eastern Cape, Mpumalanga, Northern Cape and North West.

In all the provinces personnel cost is projected to stabilise as a proportion of expenditure over the MTEF period, with average annual growth rates of personnel expenditure (including improvements in conditions of service) ranging between 3,1 per cent in Western Cape and 7,3 per cent in Mpumalanga.

**Table 5.6 Health expenditure by province and economic classification, 1999/00**

<b>R million</b>	<b>Personnel</b>	<b>Transfer payments</b>	<b>Other current</b>	<b>Capital</b>	<b>Total</b>
Eastern Cape	1 987	446	417	98	2 947
Free State	1 253	117	297	30	1 697
Gauteng	3 391	522	1 495	392	5 800
KwaZulu-Natal	3 329	297	976	412	5 014
Mpumalanga	675	3	371	42	1 091
Northern Cape	239	52	79	6	377
Northern Province	1 309	48	497	195	2 049
North West	1 024	63	300	80	1 467
Western Cape	1 965	374	710	37	3 087
<b>Total</b>	<b>15 174</b>	<b>1 921</b>	<b>5 143</b>	<b>1 291</b>	<b>23 529</b>
<b>As a percentage of total:</b>					
Eastern Cape	67,4	15,1	14,2	3,3	100,0
Free State	73,9	6,9	17,5	1,8	100,0
Gauteng	58,5	9,0	25,8	6,8	100,0
KwaZulu-Natal	66,4	5,9	19,5	8,2	100,0
Mpumalanga	61,9	0,3	34,0	3,8	100,0
Northern Cape	63,5	13,8	21,1	1,7	100,0
Northern Province	63,9	2,3	24,3	9,5	100,0
North West	69,8	4,3	20,4	5,5	100,0
Western Cape	63,7	12,1	23,0	1,2	100,0
<b>Average</b>	<b>64,5</b>	<b>8,2</b>	<b>21,9</b>	<b>5,5</b>	<b>100,0</b>

## Transfer payments

Table 5.6 highlights the significant provincial differences in transfers as a proportion of health expenditure. These transfers are mainly to local authorities for the delivery of primary health care services, although some

transfers are also paid to provincially aided hospitals providing various health services on behalf of the province. Transfer payments range from 9,0 per cent to 15,1 per cent in Eastern Cape, Northern Cape, Western Cape and Gauteng, depending on the ability of local authorities to deliver primary health care and emergency services. Transfers are below 5,0 per cent in Mpumalanga, Northern Province and North West, possibly indicating limited local authority capacity.

#### **Other current expenditure**

Other current expenditure as a proportion of total expenditure also varies between provinces, ranging from 14,2 per cent in Eastern Cape to 34,0 per cent in Mpumalanga. While Gauteng and Western Cape managed to keep other expenditure proportionally stable or increasing between 1995/96 and 1998/99, some provinces saw large real cuts in this category. Provinces where personnel expenditure rose rapidly were most affected, such as Eastern Cape (average annual decline of 4,7 per cent), Free State (-3,3 per cent) and North West (-3,0 per cent). While this category should recover over the MTEF period, it is still projected to decline in nominal terms in Eastern Cape and North West, implying severe strain on budgets and service delivery in these provinces.

#### **Capital expenditure**

Interprovincial comparisons of health capital expenditure are difficult as it is treated differently by the provinces, captured under either the public works vote or the health vote. Capital expenditure as a proportion of total expenditure varies significantly around the provincial average of 5,5 per cent in 1999/00, with Northern Province, KwaZulu-Natal and Gauteng allocating above average amounts. Capital expenditure is projected to increase proportionally in North West, Mpumalanga and Northern Province. In Western Cape, Northern Cape and Free State it is projected to remain below 2,0 percent of total spending.

### **Health expenditure by programme**

Function shifts and changes to the programme structure also complicate comparisons of health spending, particularly in 1995/96 and 1996/97. Since then, initiatives to standardise the programme structure have improved matters.

Table 5.7 reflects estimated expenditure by programme for each of the nine provincial governments in the 1999/00 fiscal year. Provinces such as Eastern Cape, KwaZulu-Natal, Northern Cape and North West direct most of their health budgets to district health services, and to a lesser extent provincial health services. Others, such as Western Cape, Gauteng and Free State, spend proportionally less on district level services due to their additional national function of providing academic health services. The high proportion of expenditure on district health services in Mpumalanga reflects the low level of secondary and tertiary services.

Table 5.8 compares trends in the relative importance of district and tertiary health expenditure by province over the last three years. The proportion of expenditure on district health care has grown in all provinces, while tertiary expenditure has declined.

#### **District health care expenditure**

Most provinces increased proportional expenditure on district health care services, frequently as a result of active policy implementation in the sector, with primary care being prioritised above hospital-based care. The parallel capital-financing scheme for building clinics in previously underserved areas throughout the country probably added impetus to

this shift, as it required an increase in recurrent budgets to run new facilities. More detailed expenditure and output information on reprioritisation is, however, required.

As noted, the introduction of free primary health care contributed to higher expenditure as the number of visits to these facilities grew. Health authorities regard this as a major policy success and a vindication of the view that user charges had been a barrier for many potential users.

**Table 5.7 Health expenditure by province and programme, 1999/00**

R million	Admini- stration	District health services	Provincial hospital services	Academic hospital services	Other <sup>1</sup>	Total
Eastern Cape	116	1 593	1 040	48	150	2 947
Free State	49	619	488	348	194	1 697
Gauteng	183	1 165	1 320	2 815	317	5 800
KwaZulu-Natal	94	2 031	1 814	598	477	5 014
Mpumalanga	71	847	90	–	82	1 091
Northern Cape	19	220	123	–	15	377
Northern Province	153	1 049	480	–	367	2 049
North West	42	888	410	–	126	1 467
Western Cape	74	950	737	1 161	165	3 087
<b>Total</b>	<b>801</b>	<b>9 362</b>	<b>6 502</b>	<b>4 970</b>	<b>1 895</b>	<b>23 529</b>
<b>As a percentage of total:</b>						
Eastern Cape	3,9	54,0	35,3	1,6	5,1	100,0
Free State	2,9	36,5	28,7	20,5	11,4	100,0
Gauteng	3,1	20,1	22,8	48,5	5,5	100,0
KwaZulu-Natal	1,9	40,5	36,2	11,9	9,5	100,0
Mpumalanga	6,6	77,6	8,2	–	7,6	100,0
Northern Cape	5,1	58,2	32,6	–	4,0	100,0
Northern Province	7,5	51,2	23,4	–	17,9	100,0
North West	2,9	60,6	27,9	–	8,6	100,0
Western Cape	2,4	30,8	23,9	37,6	5,3	100,0
<b>Average</b>	<b>3,4</b>	<b>39,8</b>	<b>27,6</b>	<b>21,1</b>	<b>8,1</b>	<b>100,0</b>

<sup>1</sup>Other programmes include health sciences, health support services, health facilities development and maintenance as well as authorised losses, statutory payments, capital expenditure from public works, auxiliary and associated services, supernumerary staff, less recovery from internal charges and gender affairs.

### Academic hospital expenditure

Owing to rigidities in personnel expenditure and issues such as agreements with academic institutions on the provision of service platforms, rationalisation of tertiary institutions proved difficult. Nevertheless, the figures show nominal declines in all provinces, which is evidence of significant reprioritisation in favour of policy priorities such as primary service delivery.



**Table 5.8 Percentage of expenditure on district and tertiary health care**

R million	1996/97		1997/98		1998/99		1999/00	
	District	Tertiary	District	Tertiary	District	Tertiary	District	Tertiary
Eastern Cape	39,2	4,7	50,3	0,7	54,7	0,6	54,0	1,6
Free State	37,6	19,4	35,2	24,0	36,8	21,3	36,5	20,5
Gauteng	15,0	54,8	14,6	55,4	17,7	54,0	20,1	48,5
KwaZulu-Natal	39,0	12,8	39,8	12,8	40,3	12,2	40,5	11,9
Mpumalanga	82,1	–	84,0	–	71,0	–	77,6	–
Northern Cape	54,1	–	55,1	–	57,5	–	58,2	–
Northern Province	64,6	–	55,4	–	53,7	–	51,2	–
North West	48,9	–	53,8	–	63,7	–	60,6	–
Western Cape	26,6	41,7	26,7	41,0	27,4	39,3	30,8	37,6
<b>Total</b>	<b>36,9</b>	<b>22,7</b>	<b>37,6</b>	<b>23,1</b>	<b>39,1</b>	<b>22,4</b>	<b>39,8</b>	<b>21,1</b>

Note: Academic hospital expenditure was used to proxy tertiary health care spending.

### Regional hospital expenditure

The analysis of regional hospital trends combines secondary general hospitals with specialised hospitals such as psychiatric, TB or other non-tertiary referral hospitals due to insufficient information. The expenditure trend is interesting for its lack of consistency in all provinces. While in Eastern Cape and North West regional hospital proportions are declining, other provinces have less straightforward patterns. Despite fears that regional hospitals are being neglected as primary health care is prioritised, spending patterns across provinces do not fully support this view (see Table 5.9).

**Table 5.9 Trends in actual and projected regional hospital expenditure as a proportion of total health expenditure**

Province	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape	38,8	35,6	35,4	35,3	37,2	36,6
Free State	31,4	32,3	35,8	28,7	28,9	29,1
Gauteng	23,5	26,7	24,1	22,8	22,9	22,8
KwaZulu-Natal	36,9	37,7	37,3	36,2	29,1	27,5
Mpumalanga	0,0	0,0	9,9	8,2	3,8	7,1
Northern Cape	33,0	32,3	33,7	32,6	32,5	32,7
Northern Province	5,1	20,3	21,7	23,4	21,3	21,4
North West	33,2	30,4	29,5	27,9	28,2	28,6
Western Cape	24,3	25,2	24,2	23,9	25,0	25,1
<b>Average</b>	<b>27,2</b>	<b>29,1</b>	<b>28,9</b>	<b>27,6</b>	<b>26,2</b>	<b>26,0</b>

## PER CAPITA SPENDING

Table 5.10 details spending per person without medical aid coverage. Disparities are significant, with the range from R1 321 in Gauteng to R450 in Northern Province in 1999/00. It may, however, be more appropriate to compare expenditure excluding conditional grants as these fund services to the whole country. This narrows the range substantially from R444 in Mpumalanga to R874 in Gauteng. The disparity is still large, however, indicating that access to health services remains unequal.

**Table 5.10 Health expenditure by province and economic classification, 1999/00**

R million	Total health expenditure		Total spending per capita		People without medical aid
	Including conditional grants	Excluding conditional grants <sup>1</sup>	Including conditional grants	Excluding conditional grants <sup>1</sup>	
Eastern Cape	2 947	2 833	509	489	5 793
Free State	1 697	1 381	783	637	2 166
Gauteng	5 800	3 839	1 321	874	4 390
KwaZulu-Natal	5 014	4 224	686	578	7 314
Mpumalanga	1 091	1 069	453	444	2 409
Northern Cape	377	355	567	534	665
Northern Province	2 049	2 027	450	445	4 554
North West	1 467	1 444	506	498	2 897
Western Cape	3 087	1 854	1 091	655	2 830
<b>Total</b>	<b>23 529</b>	<b>19 026</b>	<b>713</b>	<b>576</b>	<b>33 018</b>

<sup>1</sup> Conditional grants fund services that are available to people from all provinces so that it should not be attributed to provinces where they are physically located.

## ISSUES IN HEALTH FINANCING

### Conditional grants

#### Implementation

The 1998/99 fiscal year saw the introduction of conditional grants that are voted on the budget of the national Department of Health and transferred to provincial budgets for specific purposes. These grants were outlined above. Implementation problems relating to approval of business plans and mechanisms for compliance are being addressed by the Health/Finance Technical Committee (4x4).

#### Provincial discretion

Provinces have discretion in allocating the resources available to them, subject to conditions applying to grant funding. Funding through a conditional grant allows planning for delivery of advanced services at a national level. The intention is that the conditional grant will be reduced as tertiary services are distributed more evenly and primary care is prioritised.

#### Evaluation of grant financing

As this financing mechanism is new, its efficacy and the appropriateness of allocations have to be evaluated over the medium term. Such an

evaluation will, however, depend on agreements about service delivery levels. Once these are in place, costs can be estimated and grant values determined on a more rational basis. A process to establish service delivery targets (or norms and standards) has been initiated in the Department of Health. This will enable proper evaluation so that adjustments can be made for the 2001/02 financial year.

### **Hospital revenue issues**

#### **Resource pressures in hospitals**

Prioritisation of primary care and personnel cost pressures in the context of budget constraints severely affected hospital budgets. Financing mechanisms and centralised decisionmaking also often failed to ensure dynamic and proper management at institution level. Shifts in the pattern of demand for hospital services, in particular the increased use of private services by medical aid members and wealthy individuals, reduced revenue from public hospitals. The channelling of hospital revenue to provincial revenue funds provides little incentive for revenue collection at the hospital level. Consequently fee structures have been updated only sporadically and revenue collection has been unequal and inefficient.

#### **Proposal for revenue retention**

Over the last few years, several proposals have been considered for addressing these issues. The principle of decentralised management has long been accepted and mechanisms are being introduced to stimulate revenue generation by the hospital sector, eg public-private partnerships and service contracts with private funders. This could contribute to a stabilisation of the resources available to this sector. Such initiatives have, however, been limited by the absence of a mechanism for revenue retention in the health sector and at the level of institutions. Mechanisms for revenue retention are now being explored in Gauteng and Western Cape. Revenue generated above specified targets will be allocated to health departments and, in the case of Gauteng, to specific institutions through the Adjustments Estimate. Piloting of hospital funding through trading accounts is currently receiving attention. The provincial subsidy to hospitals and collected revenue will flow to hospitals via these trading accounts. This should eliminate the need for additional appropriations, clearly reflect the net cost to the state of hospitals and allow for management reform.

Revenue retention will facilitate greater revenue collection from the current patient profile. It will also allow increased participation of the public sector in the market for low-cost hospital services that is expected to result from the new mandatory minimum hospital package envisaged in the Medical Schemes Act.

#### **Billing**

Outdated billing systems and uneven treatment of clients from other provinces, state departments and social insurance funds, such as the Road Accident Fund and the Workmen's Compensation Fund, have led to substantial loss of revenue in the public health sector. Proposals on a uniform billing system as well as processes to address this issue are now in place.

### **Personnel issues**

#### **Personnel pressures**

Broadbanding and the rank and leg promotions resulting from the 1996 wage negotiations created wage cost pressure in the health sector. The reprioritisation to primary delivery necessitated a shift in the skills mix and location of personnel. A shortage of highly skilled personnel with

supernumeraries at the lower end has also been experienced, particularly in rural areas.

**Management constraints**

Provincial health managers are constrained in dealing with these forces. The moratorium on retrenchments and the absence of an affordable retrenchment tool have complicated redeployment and rightsizing of the personnel component. Central wage determination in the public sector without adequate input from health and provincial managers also limited flexibility. Planning is currently in progress for more effective mandating procedures for the new Health and Welfare Bargaining Council.

**Management capacity**

Financial management capacity for personnel budgeting is limited and will be further stretched by the simultaneous phasing in of decentralised budgeting for ICS, the Public Finance Management Act and new public service regulations. Strengthening financial and personnel management capacity is therefore a priority in the health sector.

**Information systems**

Effective personnel management requires detailed and timely data on personnel numbers, composition and remuneration. This information is on the Persal and FMS systems, but access arrangements are cumbersome and these systems are not available in all provinces. Implementation of the Vulindlela management information system should help address these problems.

**Monitoring outputs and performance**

The health sector has seen substantial policy shifts and reorganisation in order to provide more appropriate services. Current budget information does not allow sufficient evaluation of the correlation between policy shifts and budgetary allocations. In addition, information on changes in service availability and actual service delivery is extremely limited. Several new initiatives aim to improve the output information necessary for performance management.

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# 6: FOCUS ON WELFARE

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## INTRODUCTION

### Constitutional provisions

The Constitution guarantees all people access to social security, including social assistance when they are unable to support themselves and their dependants. The government is mandated to take reasonable legislative and other measures within available resources to progressively realise these rights.

### Responsibilities

The Constitution also lists welfare as a concurrent function of national and provincial governments. Currently, the national Department of Welfare and Population Development is responsible for policy development, regulating entitlements and monitoring the system, while the provinces are responsible for the delivery of welfare, including social security payments. As a result, the national department's share of the welfare budget is less than 1 per cent.

### Composition

Welfare expenditure is classified into social security and welfare services. Social security consists of means-tested grant payments to the elderly, the disabled and households with children. Welfare services refer to the provision of services such as institutional care for the aged and the disabled, rehabilitation centres for juvenile offenders or drug dependants, adoption services and probation services. The government provides some services to citizens while subsidising private organisations to provide other services.

### Attainments

Each month provincial welfare departments distribute approximately R1,3 billion to almost 3 million beneficiaries. Thus social security, which accounts for 91 per cent of welfare expenditures, represents the government's primary investment in poverty alleviation. The main beneficiaries are the aged and the disabled, but their households frequently include young children. Grants are therefore a key source of income for poor households, particularly in rural areas. They are well targeted to the poor and are strongly redistributive.

### Policy developments

Several recent welfare policy initiatives help to safeguard the fiscal sustainability of this safety net. These include:

- ◆ Timely adjustments to the benefit structure (phasing out the state maintenance grant and phasing in the better-targeted and fiscally more manageable child support grant).
- ◆ Swift integration of the highly fragmented apartheid system.
- ◆ Steps to contain fraud and abuse of the system.

The *White Paper for Social Welfare* emphasises the need to transform expensive institutional models of service delivery to a developmental model that empowers individuals and communities to become self-reliant.

Recent policies on substance abuse, care of the aged and community development reflect this shift from unsustainable, and often inequitable, institutional care models to cost-effective and sustainable community-based methods.

### Financing of provincial welfare expenditure

Provinces have to finance large welfare expenditures from their equitable share. As explained in Chapter 2 the horizontal division of the equitable share between the provinces is based on demographic and economic profiles and the relative demand for social security.

## AGGREGATE WELFARE EXPENDITURE

### Total expenditure and relative importance

In 1999/00 consolidated welfare expenditure is projected to total R18,7 billion. This equals 8,6 per cent of consolidated government expenditure and 2,3 per cent of GDP. Of this amount, 99,0 per cent is spent at provincial level.

### Growth in expenditure

Table 6.1 shows that consolidated welfare expenditure increased from R14,5 billion in 1995/96 to an estimated R18,4 billion in 1998/99, at an average annual rate of 8,3 per cent. This is primarily attributable to expanding provincial welfare expenditure, as discussed below. Aggregate growth equalled 10,6 per cent in 1996/97 and 11,3 per cent the year after, before slowing to 3,2 per cent in 1998/99. Over the MTEF period, total expenditure grows to R20,6 billion at an annual average rate of 4,0 per cent.

**Table 6.1 Aggregate national and provincial welfare expenditure**

R million	Actual		Estimated actual		Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
National welfare expenditure	66	67	145	95	187	342	276
Provincial welfare expenditure	14 400	15 938	17 669	18 288	18 487	19 465	20 322
Consolidated welfare expenditure	14 466	16 005	17 814	18 383	18 673	19 807	20 598
<b>Provincial welfare expenditure as percent of:</b>							
Consolidated welfare expenditure	99,5	99,6	99,2	99,5	99,0	98,3	98,7
Total adjusted provincial expenditure	19,8	18,2	18,9	19,7	19,5	19,3	19,2
<b>Consolidated welfare expenditure as a percentage of:</b>							
Total consolidated expenditure <sup>1</sup>	9,3	8,7	8,9	8,9	8,6	8,7	8,5
Total consolidated non-interest expenditure <sup>1</sup>	11,5	10,8	11,1	11,2	11,1	11,1	10,9
<b>Percentage growth:</b>							
Provincial welfare expenditure		10,7	10,9	3,5	1,1	5,3	4,4
Consolidated welfare expenditure		10,6	11,3	3,2	1,6	6,1	4,0

<sup>1</sup>Excludes national and provincial reserve amounts.

## National department

The national department's expenditure fluctuated substantially in recent years. Specific allocations were made to the department to address government priorities outside its normal line functions. Voted in the Adjustments Estimates, these included funds for poverty alleviation, implementing secure care programmes and for implementing proposals of the Inter-ministerial Committee on the Transformation of the Child and Youth Care System. The national department will receive R50 million in 1999/00 and R203 million for poverty alleviation in each of the next two years. Its budget also includes funds to improve the financial management of the social security system and to cover initial implementation costs of child support grants.

## PROVINCIAL WELFARE EXPENDITURE

### Compared to total provincial expenditure

Table 6.1 indicates that provincial welfare expenditure is projected to amount to R18,5 billion in 1999/00, comprising 19,5 per cent of total provincial expenditure. This is somewhat below the 19,8 per cent for 1995/96 and is expected to drop slightly to 19,2 per cent by 2001/02.

### Economic classification

Table 6.2 shows provincial welfare expenditure by economic classification. In 1999/00 transfer payments will comprise 92,0 per cent of welfare expenditure with the remainder coming from personnel (4,0 per cent), other current expenditure (3,7 per cent) and capital expenditure (0,3 per cent). Compared to the other social services, the low proportion of expenditure on personnel is notable, although to be expected given the large role of welfare transfers.

**Table 6.2 Provincial welfare expenditure by economic classification**

R million	Actual		Estimated actual		Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	14 365	15 887	17 644	18 262	18 431	19 402	20 267
Personnel	619	512	615	693	742	794	835
Transfer payments	13 421	14 935	16 505	16 928	17 014	17 847	18 599
Other current	325	440	523	641	676	762	833
Capital expenditure	35	51	25	27	55	63	55
<b>Total</b>	<b>14 400</b>	<b>15 938</b>	<b>17 669</b>	<b>18 288</b>	<b>18 487</b>	<b>19 465</b>	<b>20 322</b>
<b>As a percentage of total:</b>							
Current expenditure	99,8	99,7	99,9	99,9	99,7	99,7	99,7
Personnel	4,3	3,2	3,5	3,8	4,0	4,1	4,1
Transfer payments	93,2	93,7	93,4	92,6	92,0	91,7	91,5
Other current	2,3	2,8	3,0	3,5	3,7	3,9	4,1
Capital expenditure	0,2	0,3	0,1	0,1	0,3	0,3	0,3
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

<b>Transfer payments</b>	The bulk of transfer payments consists of grants to individuals and households (social pensions). Thus welfare payments directly assist the poor and leakage to intermediaries in the delivery process is limited. Transfer payments also include subsidies and other payments to non-governmental organisations for the provision of welfare services such as probation and adoption services, family counselling and homes for children and the aged.
<b>Trends</b>	Up to 1999 other current expenditure has grown in relative importance at the expense of personnel and transfer payments. Transfers declined slightly from 93,2 per cent of total in 1995/96 to 92,6 per cent in 1998/99. This implies an increase in the relative importance of administration costs, equipment and professional and special services. Over the MTEF period, transfer payments should decline to 91,5 per cent in 2001/02 and other current expenditure increase to 4,1 per cent of welfare expenditure.
<b>Capital</b>	Given the nature of services provided by the welfare department, capital expenditure is limited. However, unequal access to welfare institutions and backlogs resulting from uneven capital expenditure in the past have led to calls for increased capital expenditure in this sector. Over the MTEF period, capital expenditure is projected to be slightly higher at 0,3 per cent of total expenditure.
<b>Expenditure by programme</b>	Table 6.3 shows the dominance of the social security programme (grants and their administration) in overall expenditure. Social security will comprise 90,5 per cent of welfare expenditure in 1999/00, social assistance (subsidies to welfare organisations) 4,5 per cent and social welfare services (provided directly by provincial welfare departments) 3,2 per cent. Social development is a relatively new programme, reflecting the department's focus on developing independence and capacities rather than merely providing income support.
<b>Programme trends</b>	<p>The table also shows an increase in the share of social security between 1995/96 and 1998/99, although this is due to the accounting convention implemented in 1996/97 to allocate administrative expenditure to specific programmes. This is also reflected in the decline of administrative expenditure from 5,4 per cent of total expenditure to 1,0 per cent in 1998/99. Over the same period social assistance grew modestly, while expenditure on social welfare services nearly tripled, but off a small base. Likewise, social development grew strongly, but also off a low base.</p> <p>Between 1998/99 and 2001/02 social security grows somewhat more slowly than the other programmes, leading to a slight drop in its relative importance to 90,4 per cent. While the other programmes grow at more than the inflation rate, further reprioritisation to more developmental services is envisaged in the <i>White Paper on Social Welfare</i>. Reprioritisation will have to be balanced against the costs of maintaining social grants programmes.</p>
<b>Social security</b>	Social security expenditure is dominated by old age grants, which comprise nearly 70 per cent of total provincial grant expenditure (see Figure 6.1). Care of the disabled is the second most important category and largely reflects grants to disabled people qualifying in terms of a means test. Grants to children and families are currently being restructured and state maintenance grants are being replaced by child support grants.



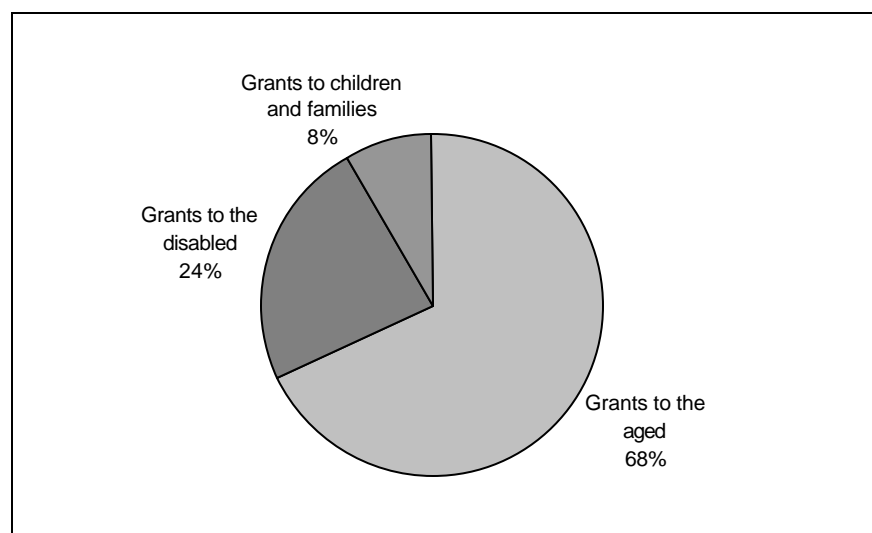
**Table 6.3 Provincial welfare expenditure by programme**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Administration	773	223	150	183	177	185	197
Social security	12 674	14 539	16 127	16 698	16 739	17 628	18 377
Social assistance	717	754	753	792	828	844	900
Social welfare services	180	335	533	518	586	638	676
Social development	8	22	31	52	62	67	70
Other	48	65	75	46	95	105	102
<b>Total</b>	<b>14 400</b>	<b>15 938</b>	<b>17 669</b>	<b>18 288</b>	<b>18 487</b>	<b>19 465</b>	<b>20 322</b>

**As a percentage of total:**

Administration	5,4	1,4	0,8	1,0	1,0	0,9	1,0
Social security	88,0	91,2	91,3	91,3	90,5	90,6	90,4
Social assistance	5,0	4,7	4,3	4,3	4,5	4,3	4,4
Social welfare services	1,2	2,1	3,0	2,8	3,2	3,3	3,3
Social development	0,1	0,1	0,2	0,3	0,3	0,3	0,3
Other	0,3	0,4	0,4	0,3	0,5	0,5	0,5
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

**Figure 6.1 Composition of social security expenditure, February 1999**



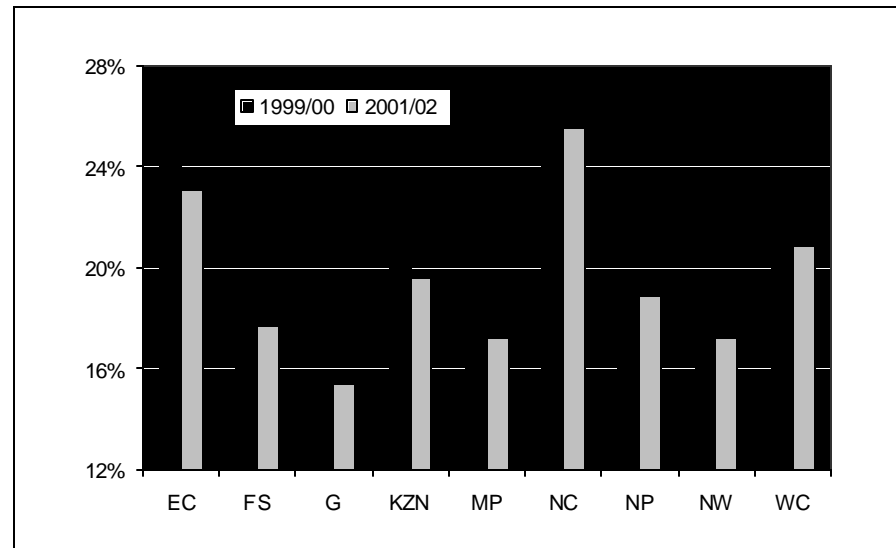
**INTERPROVINCIAL ANALYSIS**

**Relative importance in provincial budgets**

While on average 19,5 per cent of provincial expenditure in 1999/00 will be on welfare, this varies widely between provinces (see Figure 6.2). The proportion ranges from a high of 26,5 per cent in the Northern Cape to a low of 14,8 per cent in Gauteng. Western Cape, Eastern Cape, Northern Cape and KwaZulu-Natal spend more than the average on welfare and the

other provinces less than the average. This diversity reflects a mix of historical factors and demographic realities.

**Figure 6.2 Welfare expenditure as percentage of provincial expenditure, 1999/00 and 2001/02**



**Explaining provincial diversity**

The relatively low share of welfare spending in Gauteng reflects a relatively small section of aged and young people in the province as well as a high proportion of gainfully employed people. The differences between the northern (North West, Northern Province, Mpumalanga) and southern provinces (Western Cape, Northern Cape and Eastern Cape) reflect historical discrimination against Africans in favour of whites and coloureds in terms of access to grants as well as historical differences in administrative reach and efficiency. As administrative systems improve and fraud is eliminated, proportional spending on welfare should better reflect poverty levels per province. The figure provides some evidence of this over the MTEF period as relative spending by traditionally “big spenders” declines substantially.

**Impact of child support grant**

The changeover from state maintenance grants to child support grants will improve equity in relative expenditure levels. It will also lead to substantial savings in Eastern Cape, Western Cape and Northern Cape, with upward pressure on expenditure in provinces such as North West, Northern Province and Mpumalanga. While poverty and equity issues will be addressed more effectively, the budgets of several provinces will be under pressure.

**Growth rates**

Table 6.4 shows that all provinces except Western Cape participated in the strong growth in welfare expenditure between 1995/96 and 1998/99. Growth was higher in provinces that spent below average proportions on welfare, namely Northern Province, North West and Mpumalanga. In Western Cape, the growth rate was somewhat below the average inflation rate for the period.

Growth rates between 1998/99 and 2001/02 vary across provinces depending on assumptions about the impact of re-registration processes, the uptake of the child support grant and the trend in disability grants. Higher grant levels and increased uptake of the child support grant

particularly in poorer provinces could result in tight welfare budgets. Real declines in expenditure are projected in Northern Cape, Western Cape, and KwaZulu-Natal. Both Western Cape and Northern Cape should realise savings from the new child support grants, but Northern Cape will require prudent management of disability grants in order to remain within budget allocations.

**Table 6.4 Provincial welfare expenditure by province**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape	2 750	3 451	3 651	3 628	3 680	3 930	4 056
Free State	898	968	1 125	1 158	1 225	1 261	1 288
Gauteng	1 926	2 019	2 214	2 292	2 373	2 592	2 722
KwaZulu-Natal	3 011	3 329	3 731	3 972	3 803	3 905	4 120
Mpumalanga	747	821	988	1 116	1 063	1 133	1 205
Northern Cape	526	546	650	666	608	623	633
Northern Province	1 610	1 794	2 014	1 961	2 134	2 312	2 489
North West	990	1 012	1 083	1 299	1 399	1 440	1 496
Western Cape	1 941	2 000	2 212	2 196	2 201	2 270	2 313
<b>Total</b>	<b>14 400</b>	<b>15 938</b>	<b>17 669</b>	<b>18 288</b>	<b>18 487</b>	<b>19 465</b>	<b>20 322</b>

**Expenditure growth:**

Eastern Cape	25,5	5,8	-0,6	1,5	6,8	3,2
Free State	7,7	16,3	2,9	5,8	2,9	2,1
Gauteng	4,8	9,7	3,5	3,5	9,2	5,0
KwaZulu-Natal	10,6	12,1	6,5	-4,3	2,7	5,5
Mpumalanga	10,0	20,3	12,9	-4,7	6,6	6,4
Northern Cape	3,7	19,2	2,5	-8,7	2,3	1,7
Northern Province	11,4	12,3	-2,7	8,8	8,4	7,6
North West	2,2	7,0	20,0	7,7	2,9	3,9
Western Cape	3,0	10,6	-0,7	0,2	3,2	1,9
<b>Total</b>	<b>10,7</b>	<b>10,9</b>	<b>3,5</b>	<b>1,1</b>	<b>5,3</b>	<b>4,4</b>

**Provincial welfare expenditure by economic classification**

Table 6.5 shows that while transfer payments naturally dominate in all provinces, some differences are noteworthy. Transfers are well over 90 per cent of expenditure in North West, KwaZulu-Natal, Northern Province and Eastern Cape. Free State, Gauteng and Northern Cape have more than 10 per cent of their budgets available for other expenditure.

Proportional expenditure on personnel also varies substantially, eg Free State's share is more than four times that of Northern Province. Relatively high personnel expenditure in Western Cape and Gauteng relate to higher levels of institutional and curative care, especially compared to the rural provinces. The same may be true for Northern Cape. Providing equal access to and equity in institutional care will substantially affect personnel cost in other provinces. The developmental

approach to welfare services, in contrast to income support, will also require expanded personnel expenditure, a factor that has to receive more attention in the planning of welfare service delivery.

**Table 6.5 Welfare expenditure by province and economic classification, 1999/00**

<b>R million</b>	<b>Personnel</b>	<b>Transfer payments</b>	<b>Other current</b>	<b>Capital</b>	<b>Total</b>
Eastern Cape	102	3 501	67	11	3 680
Free State	90	1 061	69	4	1 225
Gauteng	125	2 107	139	2	2 373
KwaZulu-Natal	144	3 556	101	2	3 803
Mpumalanga	40	963	57	3	1 063
Northern Cape	39	529	36	4	608
Northern Province	36	2 006	79	13	2 134
North West	54	1 287	48	11	1 399
Western Cape	112	2 004	79	5	2 201
<b>Total</b>	<b>742</b>	<b>17 014</b>	<b>676</b>	<b>55</b>	<b>18 487</b>
<b>As a percentage of total:</b>					
Eastern Cape	2,8	95,1	1,8	0,3	100,0
Free State	7,4	86,6	5,7	0,4	100,0
Gauteng	5,3	88,8	5,9	0,1	100,0
KwaZulu-Natal	3,8	93,5	2,7	0,1	100,0
Mpumalanga	3,7	90,6	5,4	0,3	100,0
Northern Cape	6,4	87,0	6,0	0,6	100,0
Northern Province	1,7	94,0	3,7	0,6	100,0
North West	3,9	92,0	3,4	0,8	100,0
Western Cape	5,1	91,0	3,6	0,2	100,0
<b>Total</b>	<b>4,0</b>	<b>92,0</b>	<b>3,7</b>	<b>0,3</b>	<b>100,0</b>

**Provincial welfare expenditure by programme**

The welfare department's long-term target is to reduce social security expenditure to 80 per cent of expenditure as against the current provincial average of 90,5 per cent. This will free up funds for developmental welfare services. Table 6.6 shows that only Free State, Northern Cape, Western Cape and Gauteng spend less than 90 per cent on social security. In the other five provinces, social security accounts for well over 90 per cent of welfare expenditure in 1999/00. The dominance of the social security programme in these provinces reflects the underdevelopment of other welfare services. Poverty levels and demographic profiles, eg the proportion of aged people, also contribute.

Table 6.6 shows that the 80/20 target seems within reach only for Gauteng, which currently spends 81,0 per cent on social security. Given savings from phasing in child support grants and scaling down disability grants, Western Cape and Northern Cape may also approach the target in the foreseeable future. Other provinces will have more difficulty,

especially since the increased uptake of child support grants will put upward pressure on social security expenditure.

**Table 6.6 Welfare expenditure by province and programme, 1999/00**

<b>R million</b>	<b>Admin- istration</b>	<b>Social security</b>	<b>Other welfare services</b>	<b>Total</b>
Eastern Cape	24	3 446	210	3 680
Free State	18	1 089	119	1 225
Gauteng	28	1 923	422	2 373
KwaZulu-Natal	23	3 574	206	3 803
Mpumalanga	11	977	76	1 063
Northern Cape	11	538	59	608
Northern Province	20	2 035	79	2 134
North West	8	1 295	96	1 399
Western Cape	33	1 863	305	2 201
<b>Total</b>	<b>177</b>	<b>16 739</b>	<b>1 571</b>	<b>18 487</b>
<b>As a percentage of total:</b>				
Eastern Cape	0,7	93,6	5,7	100,0
Free State	1,5	88,9	9,7	100,0
Gauteng	1,2	81,0	17,8	100,0
KwaZulu-Natal	0,6	94,0	5,4	100,0
Mpumalanga	1,0	91,9	7,1	100,0
Northern Cape	1,9	88,5	9,6	100,0
Northern Province	0,9	95,4	3,7	100,0
North West	0,6	92,6	6,9	100,0
Western Cape	1,5	84,6	13,8	100,0
<b>Total</b>	<b>1,0</b>	<b>90,5</b>	<b>8,5</b>	<b>100,0</b>

### **Trends in relative importance of social security**

Although the large share of social security limits the ability of provinces to refocus on other services, the situation is not deteriorating. While social security did increase from 88,0 per cent of total expenditure in 1995/96 to 91,3 per cent in 1998/99 this resulted from the inclusion of administrative costs in the programme. In fact, in four of the nine provinces, social security expenditure remained stable or declined relative to total expenditure. In Western Cape, Eastern Cape and KwaZulu-Natal, where the increase was at least 3 percentage points, it was caused by a once-off upward adjustment in 1996/97. In all provinces the social security share is projected to decline marginally or remain stable over the MTEF period. Given pressures for increasing grant levels and beneficiary numbers in the poorer provinces, they may find it difficult to emphasise expenditure on welfare services.

## PER CAPITA EXPENDITURE, TRENDS IN BENEFICIARY NUMBERS AND COVERAGE OF POPULATION

### Expenditure per capita

Expenditure per capita provides a basic measure of relative levels of welfare delivery in the provinces. Table 6.7 and Figure 6.3 show estimated per capita welfare expenditure for 1999/00.

**Table 6.7 Welfare and social security expenditure per capita, 1999/00**

Province	Population	Per capita expenditure (R)			Poverty rate <sup>2</sup>
	1999 <sup>1</sup> (000)	Welfare expenditure	Social security	Other welfare	
Eastern Cape	6 648	554	518	35	70,7
Free State	2 779	441	392	49	63,4
Gauteng	7 794	304	247	58	17,3
KwaZulu-Natal	8 911	427	401	26	51,9
Mpumalanga	2 999	355	326	29	57,3
Northern Cape	874	696	616	80	54,9
Northern Province	5 329	400	382	19	59,1
North West	3 557	393	364	29	62,1
Western Cape	4 164	528	447	81	28,0
<b>Total</b>	<b>43 055</b>	<b>429</b>	<b>389</b>	<b>41</b>	<b>50,0</b>

<sup>1</sup>Stats SA mid-year estimates for 1998, increased by the average annual growth rate between 1996 and 1998.

<sup>2</sup>The proportion of the provincial population below a poverty line that places 50 per cent of the total country's population in poverty.

#### Total welfare expenditure

As indicated in the table, Northern Cape spends the highest per capita amount on welfare, followed by Eastern Cape and Western Cape. Gauteng and Mpumalanga are at the bottom of the list, with per capita spending about half that of the Northern Cape amount. Per capita expenditures are also well below the national average in Northern Province and North West, despite the high levels of poverty.

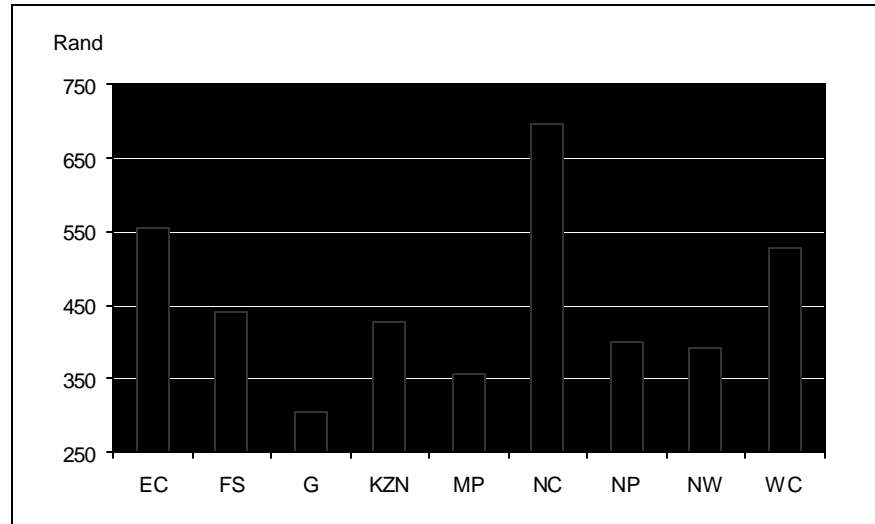
#### Social security

The pattern of per capita expenditure on social security is much the same as for total welfare expenditure. The low level of expenditure in Gauteng is in line with its fairly youthful population and the tendency for people to retire to other provinces. Gauteng and Western Cape are also noticeably less poor than other provinces. Since grants are means tested, this will tend to reduce per capita expenditure. Below average per capita expenditure in Northern Province, North West and Mpumalanga contrasts with high rates of poverty in these provinces. This raises the question whether these provinces are likely to increase per capita expenditure on social security to the national level.

#### Welfare services

Western Cape and Northern Cape spend the highest amounts per capita on other welfare services, followed by Gauteng. KwaZulu-Natal and Northern Province spend the least per capita – about a third of the amount in Western Cape. This confirms the unequal distribution of welfare facilities and the backlogs in certain provinces.

**Figure 6.3 Per capita welfare expenditure by province, 1999/00**



### Trends in beneficiary numbers

The Socpen payment system, utilised by all provinces and managed by the national department, provides basic information on the number of beneficiaries on a monthly basis. Systematic and comparable data are available from the beginning of 1997.

### Overall change

Table 6.8 shows that between April 1997 and April 1999 beneficiary numbers grew by only about 40 000, at an average rate of 0,7 per cent per year. The overall change, however, masks two underlying trends. First, numbers declined in the first year and then grew strongly until April 1999. The downward movement is presumably related to the cleanup process, while the recovery in numbers can be ascribed to reinstatement of wrongfully removed beneficiaries, population growth and increased effectiveness in delivering benefits.

**Table 6.8 Number of beneficiaries by province**

Province	April 1997	April 1998	October 1998	April 1999
Eastern Cape	630 514	583 705	577 988	591 392
Free State	174 727	181 994	177 583	169 272
Gauteng	335 721	323 947	310 987	325 069
KwaZulu-Natal	594 916	617 568	629 010	628 204
Mpumalanga	157 091	164 656	157 912	164 096
Northern Cape	110 301	113 592	117 800	122 963
Northern Province	339 555	276 465	338 110	350 695
North West	189 980	194 579	203 237	207 325
Western Cape	366 719	384 220	388 022	380 809
<b>Total</b>	<b>2 899 524</b>	<b>2 840 726</b>	<b>2 900 559</b>	<b>2 939 825</b>

Source: Socpen

## Provincial differences

A second trend is the differences between provinces. Numbers in Eastern Cape, Free State and Gauteng declined between 1997 and 1999 while most other provinces showed moderate growth of around 2 per cent a year. North West and Northern Cape showed strong growth of more than 4 per cent per year. After October 1998 numbers declined in Free State, KwaZulu-Natal and Western Cape, but all other provinces showed growth exceeding 4 per cent a year.

## Trends by grant type

Table 6.9 indicates that a decline in disability grant numbers has been counteracted by rapid growth in the number of old age grant beneficiaries. While the number of disability beneficiaries declined by about 7 per cent a year over the last two years, the number of old age grant beneficiaries increased by about 2,5 per cent per year. The numbers of war veteran's and maintenance grant beneficiaries are also expected to decline, the latter due to the phasing out of this grant over a four-year period from April 1998. Currently no new beneficiaries are taken on and the value of the grant is decreased by 25 per cent of the original amount each year.

**Table 6.9 Number of grant beneficiaries**

Type of grant	April 1997	April 1998	October 1998	April 1999
Old age	1 737 682	1 702 647	1 789 934	1 822 255
War veterans	12 047	10 441	9 656	9 109
Disability	732 322	660 198	625 747	632 286
Grants-in-aid	10 082	9 113	8 750	8 587
Parent allowance	152 973	173 662	171 487	160 162
Child allowance	209 658	230 633	228 673	214 029
Foster care	41 865	43 906	46 342	47 133
Care dependency	2 895	10 126	13 406	17 721
Child support	–	–	6 564	28 543
<b>Total</b>	<b>2 899 524</b>	<b>2 840 726</b>	<b>2 900 559</b>	<b>2 939 825</b>

## Disability grants

The number of disability grants has declined in all provinces except Northern Cape and North West. Many elderly disabled people are receiving old age grants instead and cleanups removed large numbers of disability beneficiaries from the rolls. Cleanups affected disability grants in particular as, in the past, temporary disability grants were not removed automatically on expiry. Criteria for the disability grant are also more open to interpretation, which led to abuse. In some provinces, benefits to legitimate recipients were discontinued and thus large reinstatements have taken place. Continued scope for abuse and HIV/AIDS may again increase the number of disability beneficiaries in future.

## Foster care and care dependency

Growth in the number of foster care and care dependency grants has been rapid over the last two years, averaging 6 per cent and 147 per cent a year, respectively. This has, however, been off a low base. The increasing number of AIDS orphans and the phasing out of maintenance grants should lead to continued strong growth in foster care grants. The growth in care dependency grants possibly relates to better dissemination of information about this relatively underutilised grant.



## **Child support grant**

Since April 1998 take-up of the child support grant has been substantially below target but it has been increasing rapidly in recent months. After the first year of the five-year implementation period, less than 30 000 people, or 1 per cent of the target of 3 million, had registered for this grant. Slow take-up relates to stringent information requirements and inadequate capacity in welfare departments. Efforts are underway to improve take-up of the grant.

### **Data cleanup and suspensions**

The cleanup of the social security database has progressed significantly over the last year. The national and provincial welfare departments are all involved in the process, which includes suspensions, monthly data discrepancy reports to provinces, re-registrations, and data linkages with the Unemployed Insurance Fund, Persal and civil pension databases to identify people receiving double payments from the different funds.

Grants have been suspended from the Socpen system for the following reasons:

- ◆ Deceased beneficiaries.
- ◆ Expiry of temporary disability grants.
- ◆ Corrections in state maintenance grants, foster care grants and care dependency.
- ◆ Suspension of child care grants to people older than 18 years old.
- ◆ Invalid grant combinations.
- ◆ Requests from provinces to suspend those who do not qualify from reports.

Suspensions and estimated total savings for the two previous fiscal years are shown in Table 6.10. A total of 230 866 grants were suspended from April 1997 to March 1999, with a potential saving of R497 million. While large numbers of beneficiaries were suspended, many had to be re-registered. Up to 70 per cent of those suspended in Northern Province were re-registered. Legitimate beneficiaries might also have been suspended and be unable to re-register, due to circumstances or poor administration.

### **Coverage of target populations**

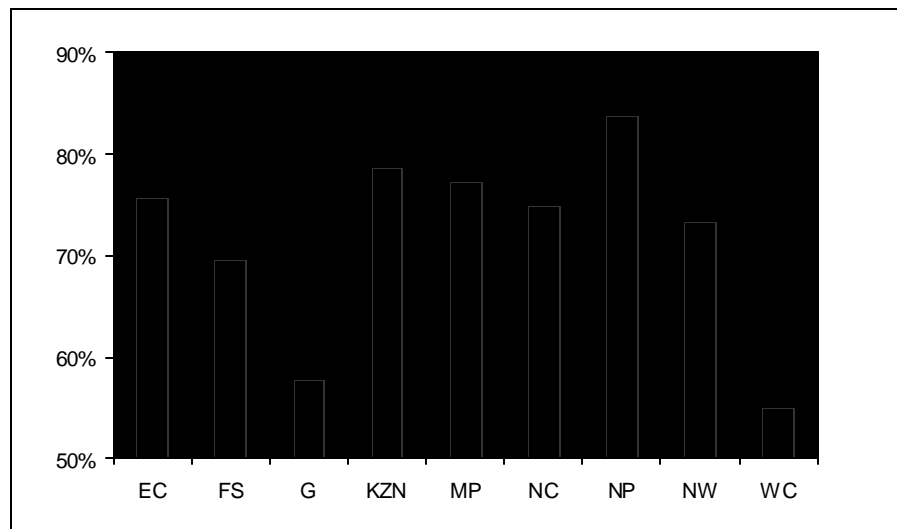
Unequal per capita expenditures outlined above reflect the unequal grant coverage of target populations in different provinces. This is also shown by the number of beneficiaries relative to the target population groups. Information on income levels is not sufficient to include this in defining target groups, hence the focus on demographics.

## **Coverage of the elderly**

Figure 6.4 shows that old age grant coverage is high and generally mirrors poverty patterns, with poorer provinces having higher coverage levels. While more than 70 per cent of the elderly in the country receive old age grants, only about 55 per cent receive grants in the richer provinces of Gauteng and Western Cape. Given the means-tested nature of the grant, coverage of the target population must be close to complete and grant numbers should not grow faster than the elderly population.

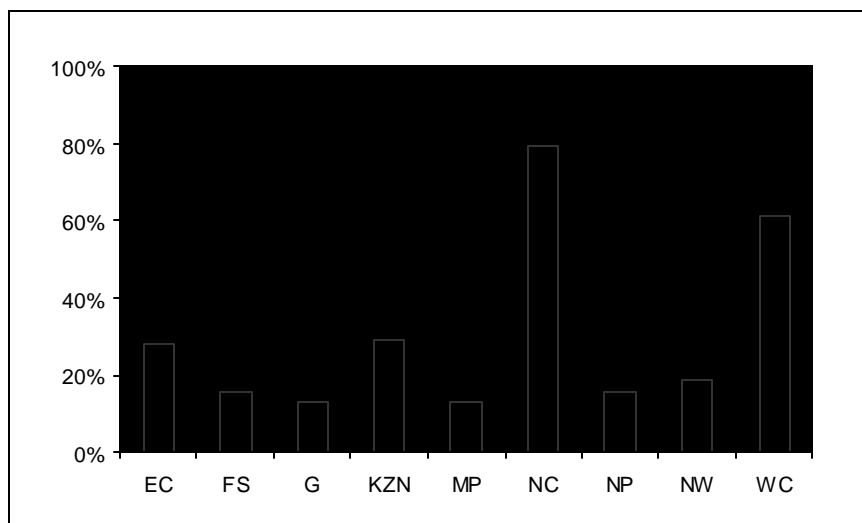
**Table 6.10 Total beneficiary suspension**

	April 1997–March 1998		April 1998–March 1999	
	Suspensions	Amount saved (R)	Suspensions	Amount saved (R)
Eastern Cape	7 716	6 888	3 855	14 213
Free State	6 545	6 361	3 914	13 923
Gauteng	16 657	13 421	4 583	16 411
KwaZulu-Natal	9 849	10 206	5 316	19 951
Mpumalanga	6 129	5 779	2 610	8 823
Northern Cape	4 023	3 813	1 340	35 025
Northern Province	94 999	132 355	2 170	8 059
North West	6 079	4 782	1 973	7 178
Western Cape	10 779	8 817	3 723	13 947
Batch suspension	29 147	126 745	9 459	40 050
<b>Total</b>	<b>191 923</b>	<b>319 167</b>	<b>38 943</b>	<b>177 579</b>
<b>Estimated savings after reinstatement</b>				<b>53 274</b>

**Figure 6.4 Proportion of elderly receiving old age grants, by province****Coverage of the disabled**

In contrast, disability grant coverage varies significantly between provinces and does not reflect the incidence of poverty (see Figure 6.5). Northern Cape and Western Cape have high levels of coverage, but four of the poorest provinces, Free State, Mpumalanga, Northern Province and North West, have low coverage levels. The extremely high coverage in Northern Cape stands out. Low coverage in the poorer provinces points to significant future budgetary pressure. This pattern holds for maintenance grants, grants-in-aid and foster care grants.

**Figure 6.5 Proportion of disabled receiving disability grants, by province**



### Welfare services

Expenditure on welfare services other than social security varies considerably, as shown in Table 6.11. For instance Northern Cape spends only slightly less than North West and Mpumalanga despite its far smaller population. This reflects historical imbalances in the distribution of welfare facilities.

**Table 6.11 Percentage expenditure on welfare programmes other than social security, 1999/00**

Province	Welfare expenditure excl. social security (R million)	Social assistance (%)	Social welfare services (%)	Social development (%)	All other (%)
Eastern Cape	235	55,4	29,8	1,2	13,7
Free State	137	37,7	36,9	10,6	14,9
Gauteng	450	44,3	36,7	3,6	15,4
KwaZulu-Natal	229	48,7	39,3	1,1	11,0
Mpumalanga	86	40,3	38,6	0,0	21,1
Northern Cape	70	37,9	32,7	4,0	25,4
Northern Province	99	24,3	29,5	12,9	33,3
North West	104	38,4	40,7	3,6	17,3
Western Cape	338	62,1	24,5	2,1	11,3
<b>Total/Average</b>	<b>1 748</b>	<b>47,3</b>	<b>33,6</b>	<b>3,6</b>	<b>15,5</b>

## ISSUES IN WELFARE

### Sustainability of grant expenditure

Several factors point towards continuing budgetary pressure for grant expenditure. First, unequal per capita expenditure and unequal coverage of target populations, particularly regarding disability benefits, show that some poor provinces do not as yet provide adequate services to their communities, probably owing to a lack of capacity and information.

Expenditure in these provinces is likely to grow in future. Second, provinces with large numbers of children qualifying for child support grants will benefit little from phasing out the state maintenance grant. Higher take-up of the child benefit will therefore put upward pressure on spending. Annual increases in grant values will have to be balanced against this expected growth in numbers and the affordability of the current system should be carefully monitored over the next few years.

**Budgeting for social security**

The lack of detailed demographic data and information about household income levels precludes rigorous budgeting for social security expenditure. Data for projecting future grant expenditure should urgently be improved.

**Reprioritisation of expenditure**

The welfare policy is to reprioritise expenditure towards developmental services and away from “passive” income support. This challenge is formidable given cost pressures on grants, and innovative solutions will need to be sought.

**Unequal expenditure on welfare services**

Unequal access to welfare services between provinces is clearly reflected in widely diverging per capita expenditure levels. Eradication of these inequalities will require reprioritisation within welfare budgets and also within provincial budgets. As with health and education, expenditure cannot immediately be equalised at the levels that prevailed in provinces with high per capita expenditure.

**Financing welfare services**

The Cabinet has recently approved a new model for financing welfare organisations. It aims to provide equal access to more appropriate, community-based welfare services as against expensive curative and institution-based services. This will require substantial adjustment over the next three years. The costing of the new model is currently underway.

**Location of responsibility for social security**

As noted above, welfare is a concurrent function of national and provincial governments. While the financing and delivery of social grants is in the hands of provinces, the national minister is responsible for policy, legislation and regulation. This division of responsibilities could lead to budget gaming, with provinces anticipating that the national government will foot deficits on what is essentially a national mandate, as well as allegations of unfunded national mandates. Recent years saw increased efforts to coordinate policy determination with provincial financial realities. These will have to be strengthened, or responsibilities for policy and financing consolidated at either the national or provincial level.

**Improving financial management and efficiency**

Given the budgetary pressures in the welfare sector, management of resources and efficiency of service delivery need to be strengthened. A conditional grant to support such efforts has been included on the national budget in 1998/99 and 1999/00.

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# 7: FOCUS ON OTHER PROVINCIAL FUNCTIONS

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## INTRODUCTION

The previous chapters discussed the social services, which are concurrent responsibilities of the national and provincial governments. However, provincial governments also have several other functions, which have been severely affected by the focus on social service delivery.

### **Non-social service responsibilities**

Schedules 4 and 5 of the Constitution delineate functions that are concurrent and exclusive responsibilities of provincial governments. The non-social service functions are important for promoting provincial economic development, employment and poverty alleviation. They include economic affairs (trade, tourism and industry), public works, transport, local government, housing and agriculture. Provincial budgets also fund safety and security, provincial administrative services, the provincial legislature, environmental affairs and sport.

### **Differences in classification**

Provinces have considerable freedom to determine how departments will be structured, leading to a lack of uniformity across provinces. For example, some provinces link finance and economic affairs while others combine trade, industry and tourism. This complicates interprovincial comparisons as expenditure on subcomponents such as administration and stores cannot be isolated.

### **Funding of other functions**

Provinces fund all their other functions from their equitable share and own revenues. Given the dominance of social spending, less than 20 per cent of provincial budgets is available for these functions.

## AGGREGATE EXPENDITURE ON OTHER PROVINCIAL FUNCTIONS

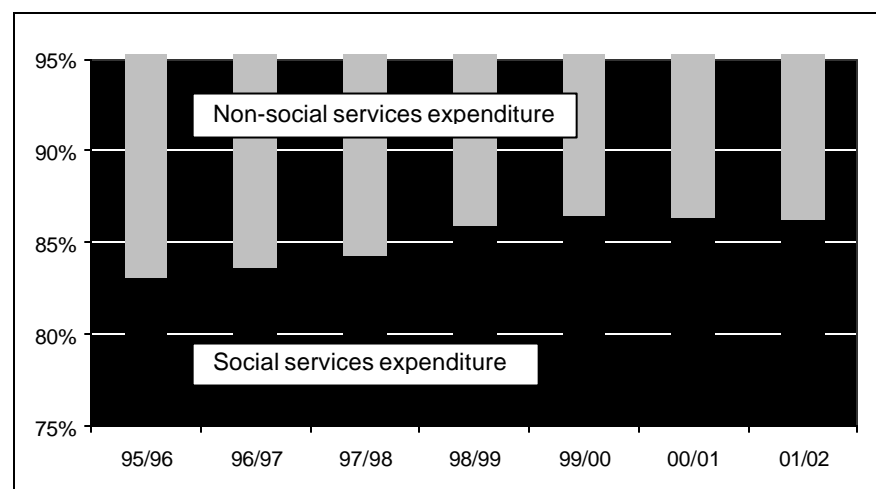
### **Decrease in expenditure on other functions**

Figure 7.1 shows the division of adjusted total provincial expenditure (which excludes state debt service costs, finance reserves and certain grants to local government) between social service and non-social service programmes. Aggregate expenditure on non-social service functions has declined from 16,9 per cent of total provincial expenditure in 1995/96 to 14,1 per cent in 1998/99. In provinces with academic hospital complexes, such as Gauteng and Western Cape, the proportion of the budget spent on other functions is significantly lower, at about 11 per cent on average, despite conditional grants.

The 1999/00 provincial budgets reflect a further reduction in expenditure on non-social services to 13,6 per cent of provincial expenditure and a

subsequent marginal increase to 13,8 per cent in 2001/02. This reduction is partly due to provinces repaying debts accumulated in previous years. "Other" programmes are particularly affected since most social services expenditure items, such as teachers' salaries and social security grants, are fixed costs over which provinces have little direct control.

**Figure 7.1 Share of social services and other expenditure of total adjusted provincial expenditure**



### Increasing expenditure on personnel

Table 7.1 and Figure 7.2 show spending on personnel capturing a growing share of non-social services, increasing from 34,9 per cent in 1996/97 to 44,7 per cent in 1998/99. The increase in personnel expenditure has been more significant in provinces with former homelands. This is due in part to above-average pay increases to workers at the lowest levels. In addition, these provinces carry surplus personnel (supernumeraries) in public works, agriculture and local government.

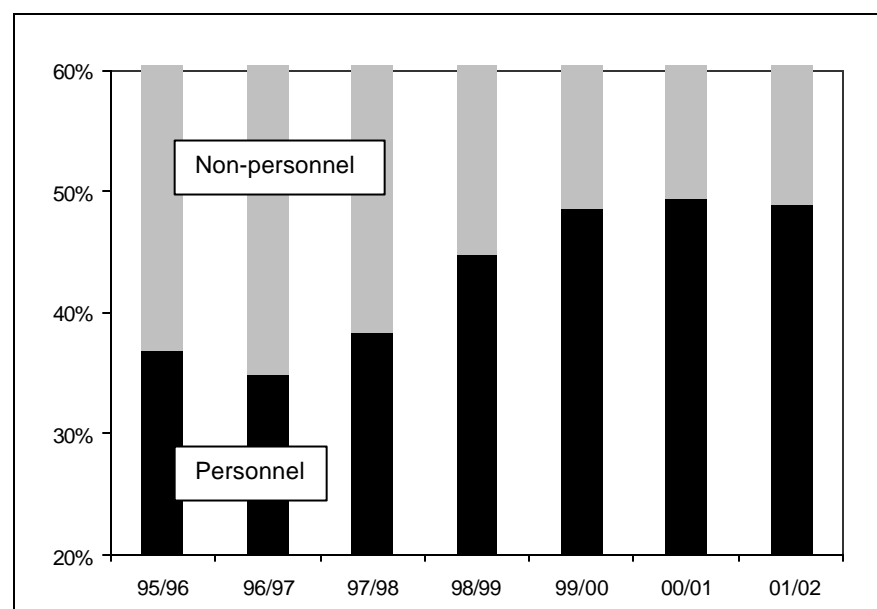
**Table 7.1 Provincial expenditure on non-social services functions<sup>1</sup>**

	Actual		Estimated actual		Medium term estimate		
R million	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Personnel expenditure	4 535	5 025	5 605	5 856	6 242	6 839	7 155
Other expenditure	7 791	9 366	9 067	7 248	6 599	7 031	7 475
<b>Total</b>	<b>12 286</b>	<b>14 391</b>	<b>14 632</b>	<b>13 105</b>	<b>12 841</b>	<b>13 869</b>	<b>14 629</b>
<b>As a percentage of total:</b>							
Personnel expenditure	36,9	34,9	38,3	44,7	48,6	49,3	48,9
Other expenditure	63,1	65,1	61,7	55,3	52,4	50,7	51,1
<b>Percentage growth:</b>							
Personnel expenditure		10,8	11,5	4,5	6,6	9,6	4,6
Other expenditure		20,8	-3,6	-19,7	-9,0	6,5	6,3
<b>Total</b>		<b>17,1</b>	<b>1,7</b>	<b>-10,4</b>	<b>-2,0</b>	<b>8,0</b>	<b>5,5</b>

<sup>1</sup>Excluding finance reserves, state debt service costs and local government grants (see Chapter 3 and Appendix B).

Over the MTEF period, personnel expenditure grows at an average rate of 7,1 per cent per year, which is above the average anticipated inflation rate of 4,7 per cent over the period. In contrast to this growth in personnel expenditure, non-personnel spending has declined steadily since 1996/97, falling nearly 20 per cent in 1998/99 alone. Provinces budgeted for a further decline of 9,0 per cent in 1999/00. This trend should be reversed from 2000/01, when expenditure allocated to non-personnel is expected to increase.

**Figure 7.2 Personnel and non-personnel shares of “other” expenditure**



**Budget instability**

Overspending in the large social services programmes in 1997/98 and 1998/9 affected non-social services functions, which were reduced in-year as provinces attempted to stay within overall budget totals. Stabilisation of social services budgets through the MTEF process should enable provinces to divert more resources to other provincial priorities, especially from 2000/01 onwards.

**Difficulty in comparing provincial budgets**

**INTERPROVINCIAL COMPARISONS**

Although programme structures across provinces are now more uniform, the structure and functions of departments differ widely within provincial own functions. This complicates budget comparisons across provinces.

**Budgets of other functions**

Apart from provincial health, education and welfare department votes, provincial budgets contain 10 to 15 other votes. These votes are small relative to social service budgets, with the four largest components constituting only about 10 per cent of total provincial budgets in 1999/00. These are provincial public works and transport, local government, housing and agriculture. The remaining provincial votes comprise less than 4 per cent of provincial budgets and include the Premier’s office, the provincial legislature, safety and security, corporate services, sport and culture, and economic and environmental affairs. The four largest non-social functions are discussed in more detail below.

## **Public works and transport**

<b>National public works responsibility</b>	Public works and transport are concurrent responsibilities of the national and provincial governments. The national Department of Public Works focuses on the land and building needs of national departments and the National Public Works Programme (NPWP). The NPWP delivers public-sector infrastructure through labour-intensive construction and a community-based public works programme.
<b>National transport responsibilities</b>	The national Department of Transport is responsible for transport policy, regulation and safety, and rail and bus subsidy transfers. National roads infrastructure is the responsibility of the National Roads Agency.
<b>Provincial programme structure</b>	Provinces do not have a uniform programme structure for these two departments, some combining and others separating the functions. In some provinces, the transport department is responsible for road safety, maintenance and construction, while in others this is the responsibility of public works. To facilitate comparisons, Table 7.2 combines public works and transport expenditure. These votes are important because a significant portion of the funds is devoted to capital expenditure. Note that provinces show some capital expenditure on the votes of individual departments such as health rather than on the public works vote.
<b>Expenditure levels</b>	In 1998/99 provincial expenditure on both public works and transport is only slightly above its 1995/96 level. It increased by 18,1 per cent in 1996/97, reflecting a surge of RDP funds, and was static in 1997/98. Expenditure subsequently declined as provinces tried to contain overexpenditure on the budget totals. Provinces budgeted for a further decline in 1999/00, with above-inflation growth in the following year. KwaZulu-Natal increases its allocation by 23,1 percent in 2000/01, mainly to replace existing capital stock.
<b>Variation in expenditure across provinces</b>	Although overall expenditure on public works and transport is largely the same in 1998/99 as in 1995/96, provincial patterns vary significantly. Over this period, public works and transport expenditure declined sharply in Eastern Cape and KwaZulu-Natal, with most provinces experiencing a significant decrease in 1998/99. In 1998/99 Western Cape's public works and transport expenditure was also under pressure after restructuring that separated transport and public works into two departments. In contrast, Gauteng nearly doubled its expenditure between 1995/96 and 1998/99.
<b>Growth in personnel expenditure</b>	The economic classification of public works and transport expenditure in Table 7.3 shows that the share of capital expenditure grew from 27,5 per cent to about 32,4 per cent in 1997/98 and then declined to 28,1 per cent in 1998/99. The medium-term budgets envisage a drop in this share to about 26 per cent. The share of personnel expenditure is expected to increase from 29,9 per cent in 1995/96 to 42,1 per cent in 1999/00 before receding somewhat in the outer MTEF years. As a result of declining allocations and high personnel expenditure, new capital spending is being curtailed. This may also impact on maintenance and rehabilitation.
<b>Infrastructure review report</b>	The infrastructure MTEF review noted that provincial roads require rehabilitation and maintenance. Continued neglect may begin to impair the provinces' ability to promote economic development and address unemployment and poverty.



**Table 7.2 Provincial expenditure on public works and transport**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape	1 075	1 070	1 041	784	731	836	884
Free State	600	711	825	716	452	473	490
Gauteng <sup>1</sup>	624	868	940	1 128	1,067	1,126	1,166
KwaZulu-Natal	1 125	1 384	1 464	896	1 040	1 280	1 362
Mpumalanga	383	662	491	511	580	596	636
Northern Cape	172	192	208	187	163	171	174
Northern Province	830	877	950	809	884	915	975
North West	952	1 042	953	967	933	969	989
Western Cape	557	650	691	505	469	494	466
<b>Total</b>	<b>6 317</b>	<b>7 458</b>	<b>7 564</b>	<b>6 504</b>	<b>6 318</b>	<b>6 860</b>	<b>7 143</b>

**Percentage growth:**

Eastern Cape	-0,4	-2,8	-24,7	-6,8	14,4	5,8
Free State	18,5	16,1	-13,2	-36,9	4,7	3,7
Gauteng	39,3	8,3	19,9	-5,4	5,5	3,5
KwaZulu-Natal	23,1	5,7	-38,8	16,0	23,1	6,4
Mpumalanga	73,0	-25,9	4,1	13,5	2,8	6,7
Northern Cape	11,8	7,9	-10,1	-13,1	5,0	2,1
Northern Province	5,8	8,1	-14,9	9,3	3,6	6,6
North West	9,4	8,3	1,4	-3,5	3,8	2,1
Western Cape	16,7	6,3	-29,9	-7,1	5,4	-5,7
<b>Total</b>	<b>18,1</b>	<b>1,4</b>	<b>-14,0</b>	<b>-2,9</b>	<b>8,6</b>	<b>4,1</b>

<sup>1</sup>For 1999/00 through 2001/02, the Gauteng totals include about R250 million each year of capital-related expenditure that was budgeted on the health vote. Actual figures include similar health expenditure on capital projects on the works vote, and thus are included above for consistency.

**Stabilisation of the budgets**

Some provincial departments are exploring innovative ways of providing services more efficiently and addressing infrastructure backlogs such as:

- ◆ Outsourcing construction and maintenance units of public works departments
- ◆ Establishing dedicated infrastructure funds
- ◆ Promoting public-private partnerships
- ◆ Restructuring assets to raise funds for infrastructure maintenance and investment
- ◆ Establishing provincial road agencies for road rehabilitation and construction

**Table 7.3 Total provincial public works and transport expenditure by economic classification**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	4 580	5 499	5 118	4 679	4 631	4 893	5 258
Personnel	1 890	2 261	2 449	2 478	2 661	2 801	2 901
Transfer payments	378	427	461	322	381	400	388
Other current	2 312	2 810	2 203	1 879	1 590	1 691	1 969
Capital expenditure	1 737	1 959	2 450	1 824	1 687	1 968	1 885
<b>Total</b>	<b>6 317</b>	<b>7 458</b>	<b>7 564</b>	<b>6 504</b>	<b>6 318</b>	<b>6 860</b>	<b>7 143</b>
<b>As a percentage of total:</b>							
Current expenditure	72,5	73,7	67,2	71,9	73,3	71,3	73,6
Personnel	29,9	30,6	32,4	38,1	42,1	40,8	40,6
Transfer payments	6,0	5,0	6,1	5,0	6,0	5,8	5,4
Other current	36,6	37,7	29,1	28,9	25,2	24,7	27,6
Capital expenditure	27,5	26,3	32,4	28,1	26,7	28,7	26,4
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

### Local government and housing expenditure

#### Expenditure trends

Some provinces combine housing with local government, while others have a separate housing department. Table 7.4 shows total local government and housing expenditure by province. The local government totals include provincial grants to local government. As from 1998/99, the local government equitable share replaced most grants to local governments subsidising operating costs. These grant amounts were removed from other analyses, but are included here to illustrate the declining budgetary responsibility of provinces in respect of funding for local government.

The share of local government and housing was approximately 24 per cent of total non-social expenditure in 1997/98 and then, as the local government equitable share was introduced, declined to 17 per cent in 1998/99 and will decline to 10 per cent in 2000/01. By that stage the local government equitable share will be fully phased in and provinces will not have this responsibility for funding local government.

The housing expenditure excludes housing subsidies. These agency payments are administered by provincial housing boards and are not reflected on provincial budgets.

#### Transfer of R293 staff

Some provinces are currently transferring to municipalities the functions and staff of R293 towns, which are towns in certain former homeland areas. In 1998/99, R951 million was allocated to fund services and staff in R293 towns. It was anticipated that the transfer would be complete by the end of 1998/99 and that funding for R293 towns would form part of the equitable share from 1999/00. Delays in the transfer of staff led to funding for R293 towns being split for 1999/00. About R477 million will be paid directly to R293 towns as part of the local government equitable

share to fund the provision of services. Staff transfers should be finalised this year and the salary component remains with the provinces for the 1999/00 budget. Conditional grants to the provinces for R293 staff amount to R463 million in 1999/00, and a further R40 million has been allocated to assist with staff transfers. The transfer of staff will be monitored and grants adjusted as transfers occur.

**Table 7.4 Local government and housing expenditure and budgets by province**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Eastern Cape <sup>1</sup>	405	441	514	275	285	234	251
Free State <sup>1</sup>	185	308	311	323	135	83	87
Gauteng	291	99	95	109	97	106	115
KwaZulu-Natal <sup>1</sup>	911	1 188	992	797	463	364	388
Mpumalanga <sup>1</sup>	155	167	211	131	104	107	109
Northern Cape	56	71	69	45	43	45	47
Northern Province <sup>1</sup>	138	478	276	286	224	119	124
North West <sup>1</sup>	385	446	484	311	245	253	260
Western Cape	220	337	304	107	94	98	101
<b>Total</b>	<b>2 746</b>	<b>3 534</b>	<b>3 258</b>	<b>2 385</b>	<b>1 691</b>	<b>1 409</b>	<b>1 483</b>
<b>Percentage growth:</b>							
Eastern Cape <sup>1</sup>		8,8	17,0	-46,6	3,5	-17,7	7,2
Free State <sup>1</sup>		66,5	1,0	4,1	-58,1	-38,4	4,7
Gauteng		-65,9	-4,0	13,9	-10,2	9,1	8,4
KwaZulu-Natal <sup>1</sup>		30,4	-16,5	-19,6	-41,9	-21,4	6,7
Mpumalanga <sup>1</sup>		7,8	26,1	-37,7	-21,0	2,8	1,9
Northern Cape		26,7	-1,9	-34,5	-6,2	6,3	3,3
Northern Province <sup>1</sup>		247,8	-42,2	3,4	-21,5	-47,1	4,9
North West <sup>1</sup>		15,8	8,5	-35,7	-21,3	3,1	2,9
Western Cape		53,3	-9,6	-64,9	-11,9	3,8	4,0
<b>Total</b>		<b>28,7</b>	<b>-7,8</b>	<b>-26,8</b>	<b>-29,1</b>	<b>-16,7</b>	<b>5,3</b>

<sup>1</sup>Indicates provinces that have R293 towns.

### **Reduction in transfers to local government**

In addition to the R293 transfers, the budgets of local government departments included intergovernmental grants (IGGs) paid to black municipalities between 1995/96 and 1997/98 to support service delivery. The IGGs are included in the equitable share for local government in 1998/99. With IGGs being replaced by equitable share allocations, transfer payments paid by provinces to local government fall from a high of 50,6 per cent of expenditure in 1997/98 to 12,9 per cent in 1999/00 (see Table 7.5). As a result of this function shift, personnel expenditure, which stays relatively steady in rand terms, more than doubles as a share of expenditure. It tapers off beginning in 2000/01, reflecting the end of the conditional grant funding R293 staff.

**Table 7.5 Local government and housing expenditure by economic classification**

R million	Actual			Estimated actual	Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	2 474	3 213	2 926	2 147	1 593	1 307	1 378
Personnel	700	927	915	1 032	1 016	810	853
Transfer payments	875	1 652	1 649	861	219	142	148
Other current	899	633	363	254	359	354	377
Capital expenditure	271	322	331	237	98	102	105
<b>Total</b>	<b>2 746</b>	<b>3 534</b>	<b>3 258</b>	<b>2 385</b>	<b>1 691</b>	<b>1 409</b>	<b>1 483</b>
<b>As a percentage of total:</b>							
Current expenditure	90,1	90,9	89,8	90,1	94,2	92,8	92,9
Personnel	25,5	26,2	28,1	43,1	60,1	57,5	57,5
Transfer payments	31,9	46,7	50,6	36,1	12,9	10,1	10,0
Other current	33,8	17,9	11,1	10,7	21,2	25,1	25,4
Capital expenditure	9,9	9,1	10,2	9,9	5,8	7,2	7,1
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

**Developmental and oversight role of local government**

Although provincial local government departments are no longer responsible for budgeting for transfers to local government, these departments still direct national funds to the local sphere. For instance, they administer Consolidated Municipal Infrastructure Programme (CMIP) grants. The CMIP emerged from the rationalisation of the three short-term programmes that funded municipal bulk infrastructure between 1995/96 and 1997/98: the Municipal Infrastructure Programme (MIP), the Extended Municipal Infrastructure Programme (EMIP), and the Bulk and Connector Infrastructure Grant (BCIG). Through these programmes, R666 million was transferred to local governments in 1995/96 and 1996/97. This increased to R1 808 million in 1997/98 when the CMIP was implemented and the others phased out.

**Objective of CMIP**

CMIP funds are voted on the budget of the Department of Constitutional Development. It supports the installation of new internal bulk and connector infrastructure for greenfield development and upgrading or rehabilitation of existing bulk and connector infrastructure. The rural water infrastructure grant of the Department of Water Affairs and Forestry funds community water and sanitation projects. These programmes complement the housing programme by ensuring service provision especially to poor households with land and housing subsidies.

**Access to CMIP funds**

To access CMIP funds, municipalities prepare business plans that are submitted to provincial local government departments for approval and for submission to the Department of Constitutional Development. CMIP transfers amounted to R703 million in 1998/99 and R696 million are budgeted for 1999/00. These agency payments do not appear on the provincial budgets.

## Responsibility for housing function

Housing is a concurrent function of national and provincial governments, with the national Department of Housing giving policy direction. Its budget also supports the South African Housing Fund that, in terms of the Housing Act of 1997, provides subsidy payments via the provincial housing boards. Provinces administer the housing programme and offer secretarial and administrative support to the provincial housing boards. In 1999/00, R2,9 billion is budgeted for housing subsidies. These agency payments are also not reflected on provincial budgets.

## Agriculture

## Responsibility for agriculture

Agriculture is a concurrent responsibility of the national and provincial governments. The national Department of Agriculture sets policy to support the development of agriculture, sustainable use of agricultural resources and agricultural trade. The provinces facilitate sustainable development of both small-scale and commercial agriculture. Small-scale agriculture is particularly critical in rural areas with high unemployment.

**Table 7.6 Provincial expenditure and budgets for agriculture**

R million	Actual		1997/98	Estimated actual	Medium term estimate		
	1995/96	1996/97		1998/99	1999/00	2000/01	2001/02
Eastern Cape	563	507	537	391	375	482	503
Free State	149	124	117	100	88	93	96
Gauteng	34	41	65	67	93	96	104
KwaZulu-Natal	301	366	374	264	345	379	414
Mpumalanga	137	89	136	135	116	127	135
Northern Cape	42	46	53	53	49	53	55
Northern Province	540	422	659	558	551	579	609
North West	309	289	193	192	197	204	210
Western Cape	63	84	78	79	75	80	83
<b>Total</b>	<b>2 138</b>	<b>1 967</b>	<b>2 212</b>	<b>1 838</b>	<b>1 889</b>	<b>2 093</b>	<b>2 210</b>
<b>Percentage growth:</b>							
Eastern Cape		-10,0	6,1	-27,3	-4,1	28,5	4,5
Free State		-17,2	-5,8	-14,6	-11,6	5,1	3,7
Gauteng		18,9	58,1	3,8	38,4	3,4	8,8
KwaZulu-Natal		21,6	2,3	-29,1	30,7	9,9	9,3
Mpumalanga		-35,1	53,2	-0,9	-14,1	9,7	6,4
Northern Cape		9,9	16,1	-1,7	-5,9	7,1	3,9
Northern Province		-21,9	56,2	-15,3	-1,2	5,1	5,0
North West		-6,6	-33,3	-0,2	2,3	3,8	2,9
Western Cape		33,6	-7,0	0,4	-4,7	6,3	3,8
<b>Total</b>		<b>-8,0</b>	<b>12,5</b>	<b>-16,9</b>	<b>2,8</b>	<b>10,8</b>	<b>5,6</b>

**Agriculture in former homelands**

Agriculture in most former homelands and self-governing states is largely limited to subsistence farming. The provincial governments aim to broaden access to agricultural resources in these areas through marketing and extension services, credit and land. These initiatives contribute significantly to job creation and poverty alleviation in rural areas.

**Expenditure on agriculture**

Consolidated total expenditure on agriculture in the 1999/00 budgets is approximately R2,6 billion, of which about three-quarters or R1,9 billion is on the provincial budgets. This is approximately 2 per cent of total provincial expenditure. Most rural provinces, except KwaZulu-Natal, have allocated more than 2,5 per cent of total expenditure to agriculture. Urban provinces, such as Gauteng and Western Cape, spend a smaller proportion on this sector. Compared to other years, 1998/99 shows a reduction in provincial expenditure on agriculture, concentrated in KwaZulu-Natal, Eastern Cape, Free State and Northern Province. A recovery in these expenditures in 1999/00 is budgeted in some provinces (KwaZulu-Natal and Gauteng) or is projected to take place in subsequent years (Eastern Cape).

**Provincial spending trends**

Table 7.7 shows that over 90 per cent of agriculture budgets are allocated to current expenditure, with personnel absorbing a growing share. Expenditure on personnel increased from 53,3 per cent in 1995/96 to 73,8 per cent in 1998/99, stabilising at about 71 per cent over the MTEF period. Particularly in provinces with former homelands, agriculture departments carry excess low-level staff, while they have a shortage of the skills required for adaptive research and extension programmes.

**Table 7.7 Total provincial agriculture expenditure and budgets by economic classification**

R million	Actual		Estimated actual		Medium term estimate		
	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Current expenditure	2 084	1 902	2 164	1 779	1 780	1 942	2 032
Personnel	1 141	1 081	1 386	1 356	1 399	1 491	1 571
Transfer payments	532	466	346	163	97	160	171
Other current	411	355	432	260	284	291	290
Capital expenditure	54	64	47	59	109	151	178
<b>Total</b>	<b>2 138</b>	<b>1 967</b>	<b>2 212</b>	<b>1 838</b>	<b>1 889</b>	<b>2 093</b>	<b>2 210</b>
<b>As a percentage of total:</b>							
Current expenditure	97,5	96,7	97,9	96,8	94,2	92,8	91,9
Personnel	53,3	55,0	62,7	73,8	74,1	71,2	71,1
Transfer payments	24,9	23,7	15,6	8,9	5,1	7,7	7,8
Other current	19,2	18,1	19,5	14,2	15,1	13,9	13,1
Capital expenditure	2,5	3,3	2,1	3,2	5,8	7,2	8,1
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

## CONCLUDING REMARKS

### **Importance of other functions**

The non-social services functions constitute a small, but important, part of provincial budgets. Provinces acknowledge the need to move beyond the provision of social services and most have development plans to stimulate job creation through support for SMMEs, tourism and agriculture. Limited resources and the magnitude of the need for basic social services have meant that many have had to delay implementation of these programmes.

### **Sectoral expenditure reviews**

The sectoral expenditure reviews facilitate programme standardisation, identification of key challenges and policy formulation for improved delivery of social services. They resulted in the establishment of policy and budget coordination committees to harmonise the roles of different spheres of government in the delivery of social services. With the exception of the infrastructure review, other concurrent functions have not been comprehensively reviewed. Even this review focuses mainly on national government functions, and sectoral reviews of the other socio-economic functions are increasingly necessary. Coordinating policy and delivery of these functions is equally important for achieving the government's goal of expanding access to socio-economic services.

