

Intergovernmental  
Fiscal Review  
1999



# Intergovernmental Fiscal Review 1999

Department of Finance

Republic of South Africa

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# FOREWORD

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This first *Intergovernmental Fiscal Review* provides essential provincial financial data, including historical information on actual expenditure and revenue and three-year forward estimates from the 1999/00 provincial budgets. Broadening access to this information is especially crucial given that provincial governments are now the main agents of social service delivery. The *Review* facilitates greater transparency in budgets, and will enable Parliamentarians, legislators, parliamentary standing committees, policymakers, government officials, non-governmental organisations and civil society to analyse and interact more meaningfully in the budget process.

This *Review* complements the *1999 Budget Review*, which provides consolidated national and provincial MTEF allocations, but not details on individual provincial budgets. The *Intergovernmental Fiscal Review* presents the expenditure and revenue information for individual provincial governments, thereby enabling comparisons across provinces.

Although this edition focuses exclusively on the provinces, financial data from local government will also be included in future. Obtaining timely, accurate and comparable financial data at both the provincial and local levels is generally problematic. The impending local government equivalent of the Public Finance Management Act of 1999 should address this problem.

The government's budget reform efforts aim to link budgeted expenditure with service delivery. The *1999 National Expenditure Survey* is a step in this direction for national departments. It is hoped that subsequent editions of the *Intergovernmental Fiscal Review* will also reflect this move towards a more results-oriented budgeting system. This would, in future, permit the benchmarking of provincial performance, with a shift in emphasis from financial data to service delivery output.

The *Intergovernmental Fiscal Review* was compiled by the Budget Office in the Department of Finance. The Intergovernmental Relations Chief Directorate oversaw the production of the document and the development of the database. The Financial Planning Chief Directorate contributed to the analyses of the social sectors, which grew out of work undertaken by the MTEF review teams over the last two years. In addition, the Applied Fiscal Research Centre contributed to earlier drafts of the document, and Janine Thorne provided editorial assistance. I want to extend a special thanks to Joel Friedman in the Intergovernmental Relations Chief Directorate for his sterling work in overseeing this project to completion.

**Maria Ramos**

**Director-General: Finance**

**Rounding**

Tables may not add up due to rounding.

**Fiscal year**

References to a combined year, for instance 1999/00, are to the fiscal year from 1 April to 31 March.

**Improvements in conditions of service**

Medium-term estimates include estimated costs of improvements in conditions of service.

**Data sources**

All provincial budget data were provided by the provincial treasuries.

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# INTRODUCTION

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## **Transition to a new intergovernmental fiscal system**

The first democratic government has presided over significant political, economic and social transformation. The creation of nine provincial governments with considerably expanded responsibilities and the concomitant set of intergovernmental institutions and fiscal arrangements posed enormous challenges. Achievements in intergovernmental relations have sometimes been overshadowed by reports of corruption, poor financial management and high turnover of senior political office-bearers. Progress in creating a robust intergovernmental fiscal system over the past five years has received less attention.

The emphasis on cooperative governance and on laying a sound foundation is paying dividends, as shown by a dramatic turnaround in provincial financial affairs and improvements in service delivery. The *Intergovernmental Fiscal Review* traces the development of the provincial fiscal system since its inception in 1995/96. It explains the background to the financial difficulties experienced in the system's infancy and describes the strides being made to strengthen provincial finances.

## **Improving financial data**

Access to reliable, timely data has been particularly problematic. As such, the *Intergovernmental Fiscal Review* marks a milestone in Government's pursuit of greater transparency and accountability. It provides historical data on actual revenue and expenditure as well as projections of future revenue and expenditure. While most of the historical data have not been audited, and some adjustments are therefore possible, they reflect the best current estimates. For 1998/99 preliminary estimates of actual expenditure and revenue have been used. Appendix B includes detailed tables of provincial revenue and expenditure and outlines some of the data problems that complicate comparisons across provinces or trend analyses over time. The Public Finance Management Act of 1999 addresses many of these problems by requiring uniform classifications and timeous reporting.

## **The challenges of new provinces**

The provinces have different demographic and economic profiles and differing capacity to fulfil their Constitutional responsibilities. Provinces that incorporated former apartheid structures faced additional problems arising from the consolidation of various administrations. Chapter 1 examines the economic and demographic profiles of the provinces, highlighting aspects that affect the allocation of resources and the ability of the provinces to cope with the challenges confronting them.

## **The foundations of a new system**

Laying the foundations of a new system while increasing service delivery has been a mammoth task. Although a decentralised system will facilitate more efficient and equitable service delivery in future, the transition phase is particularly complex. Chapter 2 reviews the intergovernmental fiscal system, which has developed rapidly within a new Constitutional and legislative framework and a shifting policy environment. Appendix A

discusses the revenue-sharing formula for calculating each province's equitable share of national revenues.

**Improved financial management**

Provincial overspending in 1996/97 and 1997/98 has been well documented. Efforts to improve financial management are bearing fruit, as evidenced by the marked improvement in the financial position of the provinces over the past year. As a group, provinces have shifted from running a significant deficit in 1997/98 to a surplus in 1998/99. Chapter 3 describes the evolution of provincial financial management and details trends in aggregate provincial expenditure.

**Spending on social services**

Government is committed to increasing access to public services and redressing the imbalances of the past. Provinces are crucial to achieving these goals since they account for 60 per cent of non-interest spending, the bulk of which is allocated to health, education and welfare services. Trends in spending on the social services, factors contributing to escalating costs and obstacles to improved service delivery are discussed in some detail in Chapters 4, 5 and 6. They provide spending patterns to date and discuss current financing issues.

**Other provincial priorities**

Social spending will continue to dominate provincial budgets but provinces are also responsible for several other functions. Chapter 7 describes these other expenditures, examining spending patterns and the approaches provinces have taken to address the trade-offs between social imperatives and other provincial priorities such as agriculture, rural and industrial development and infrastructure. The focus on social service spending has squeezed allocations to these other functions, although they are important for promoting job creation, provincial growth, alleviating poverty and promoting equity. How to resolve these tensions and divert resources to provincial priorities without undermining national commitments is an issue of ongoing debate.