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Introduction

This Review contains the latest provincial and local government budgets

The publication of the *2003 Intergovernmental Fiscal Review* has been brought forward to provide Parliament and provincial legislatures with comprehensive budget information on all three spheres of Government before they conclude their 2003 Budget hearings[1].

The 2003 Budget allocates transfers amounting to R171,0 billion or 61,1 per cent of total non-interest expenditure to provincial and local governments. Because the national Budget is presented ahead of the tabling of provincial budgets, it does not provide details on spending plans of provinces.

Now that all nine provinces have tabled their 2003 budgets, this *Review* contains information and spending plans of provinces as set out in their 2003 budgets. Municipalities will only table their 2003 budgets during April and May, as their financial year starts three months later, on 1 July 2003. The *Review* therefore contains information on the 2002-03 municipal budgets.

Timing of the Review gives Parliament and provincial legislatures a total perspective on government spending

Consolidated budget and expenditure information as set out in this *Review* provides the public, elected officials, policy analysts and public servants with comprehensive information on the use of public resources, including the funding of basic services. It presents portfolio committees in Parliament and provincial legislatures with a unique opportunity to get a total perspective on what Government is spending on provincial functions such as school education, health, social development, housing, roads and agriculture. The *Review* also enables them to compare and benchmark provinces against one another in assessing the extent to which their budgets are aligned with and give effect to national priorities.

This *Review* does not focus on the national budget, as the 2003 Estimates *of National Expenditure* tabled with the 2003 Budget provides an in-depth analysis of national department budgets.

1 The *Intergovernmental Fiscal Review* was not published in 2002 in order to accommodate the change of date to coincide with budget debates in Parliament and provincial legislatures. Instead, a smaller document *Provincial Budgets: 2001 Outcome and 2002 MTEF Budgets* was published.

National Government's main spending is not directed at social or basic services: this funding flows through provincial and local Government. National Government’s budget of R109,0 billion is mainly targeted at the criminal justice system (police, justice, prisons) and defence, which make up over half of its expenditure, after all intergovernmental grants have been excluded. Other significant allocations are for higher education, transport (national roads and rail), water affairs, foreign affairs and administrative functions such as home affairs (identity documents and passports), and revenue services.

However, some national functions are shared with the provincial or local sphere and include education, health, water, electricity, agriculture, roads and traffic management, and personnel. In discussing these functions the *Review* highlights some of the unique challenges arising from the concurrent nature of these functions.

Budget-related publications can make oversight role of Parliament and provincial legislatures more effective

Together with other key 2003 Budget documents like the *2003 Budget Review*, the *2003 Estimates of National Expenditure*, the 2003 Division of Revenue Bill and the 2003 Appropriation Bill, the *2003 Intergovernmental Fiscal Review* intends to provide greater depth to the role of Parliament in approving the Budget, and in influencing future budgets. The challenge facing Parliament and provincial legislatures is to use these documents effectively in exercising their oversight role over government departments responsible for these functions.

The quality of information for municipalities is still poor, particularly as most municipalities are still consolidating after their establishment in December 2000. This is the only reason why the *Review* contains less detail on municipal budgets. The imminent enactment of the Municipal Finance Management Bill and supporting capacity-building programmes are expected to improve the quality of information from municipalities in the next few years. Municipalities have yet to implement many of the reforms undertaken by provinces and progress in this area is expected over the next few years.

South Africa in context

Skewed distribution of resources and income has racial and regional dimensions

With a GDP per capita of approximately R24 186, South Africa is rated as a middle-income country, with GDP of R1 099[2] billion in 2002 and a population estimated to be over 43,3 million. South Africa’s long history of racial segregation and apartheid, combined with the uneven spread of resource endowment, created wide disparities in levels of economic activity and development, resulting in a skewed distribution of income. A poverty study in 1998 found that the poorest 40 per cent of the population earned only 11 per cent of income, while the wealthiest 10 per cent earned 40 per cent[3] of income. There is a racial dimension to this skewed distribution of

2 At R8 to an American dollar, this translates to GDP of $137,4 billion, or per capita of $3023

3 J.May (ed.), 1998, *Poverty and Inequality in South Africa*, Praxis, Durban.

income, with the majority of the poorest being black, and the wealthiest, largely white South Africans.

Regional distribution of income is also highly inequitable, with one of the nine provinces (Gauteng) accounting for approximately 41,6 per cent of the country's gross domestic product, even though its population share is approximately 18 per cent. The province contributes a proportionately large share of government revenue.

Apartheid public budgets directed little expenditure towards education, health, housing and basic needs of black South Africans.

Post-apartheid system of three spheres intended to democratise state institutions

The 1994 post-apartheid system therefore aims to democratise state institutions, redress inequality and extend services to the broader population. The 1996 Constitution of South Africa, and the 1993 Interim Constitution which preceded it, provide the legislative framework for the new system. This establishes three 'spheres' of Government, namely national, provincial and local. They are called spheres, rather than tiers or levels, to reflect that they are distinct governments in their own right, each accountable to its own elected legislature or council.

Features of new system designed to deepen democracy and encourage co-operative governance

The new system has the following features:

- A unitary system of government with three distinctive, interrelated and interdependent spheres, with significant decentralisation of powers, functions and budgeting
- National Parliament comprises two houses: a national assembly, and a national council of provinces representing provincial legislatures and organised local Government
- The nine provinces each have their own legislatures and executive committees, as well as administrative structures
- There are 284 municipalities, categorised as metropolitan, district wide or local structures, and comprised of political and administrative components [4]
- Provinces are accountable to provincial legislatures, and local governments are accountable to councils
- The system of election at the national and provincial level is proportional representation, while the local level is a mix of directly elected and proportional representation
- The Constitution entrenches 'co-operative governance', obliging the three spheres of Government to co-operate and to negotiate political and budgeting issues between them. Numerous intergovernmental forums, including the Budget Council[5] and

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[4] Local Government has undergone a three-phase transformation since 1993. The pre-interim phase entailed negotiations in the Local Government Negotiating Forum; the interim phase since 1995 saw the creation of 843 *transitional* municipalities, combining adjoining white and black areas; and the post interim phase started in December 2000, with significantly changed boundaries incorporating urban and rural areas, and a reduced number of 284 municipalities. The new system consists of 6 one tiered urban metropolitan governments or metros, and 232 *primary* municipalities falling within 46 *district* municipalities.

[5] The Budget Council comprises the national Minister of Finance and Members of the Executive Council responsible for Finance in the provinces.

Budget Forum[6], facilitate co-operation and consultation in the budget process

- Public servants employed by national and provincial governments comprise one single public service (with similar remuneration for similar rankings, irrespective of function). Some 70 per cent are in the provinces: a total of abou 753 000. Municipal employees are not part of this public service, but Government is exploring the possibility of incorporating them into the public service. A key feature of the public service is the high level of unionisation, and the impact of collective and centralised bargaining on public remuneration levels.

The intergovernmental fiscal system

Revenue sharing aimed at redressing regional imbalances

Given the regional imbalances in income distribution, South Africa's fiscal system is based on a revenue-sharing model, with most of the nine provinces receiving more funds than they raise through national taxes. Similarly, except for the major urban municipalities, most municipalities are also highly dependent on national transfers, although to a lesser extent than provinces.

The 2003 fiscal framework: allocations for the three spheres

Table 1.1 provides the fiscal framework for the 2003 national Budget published in the *2003 Budget Review*. The total consolidated national government budget (including debt service costs) for 2003/04 is R334,0 billion. This comprises R304,5 billion in revenue (mainly corporate and personal income tax, VAT, fuel and excise levies), and borrowing amounting to R29,5 billion, translating to a 2,4 per cent deficit. Before allocating the funds between the three spheres, R50 billion is set aside for debt service costs, and R3,0 billion for a contingency reserve. The reserve is for unforeseeable and unavoidable expenditure, emergencies and also for expenditure items that are not yet included in departmental allocations.

Provinces receive the largest share of nationally – raised revenue

The provincial sphere receives the largest allocation of R159 billion (or 56,9 per cent), national Government receives R109 billion (38,9 per cent) and local Government R12 billion (4,3 per cent).

Division of revenue broadly reflects functional responsibilities and fiscal capacity

The division of revenue set out in Table 1.1 is an outcome of a consultative process among the spheres of Government. It is informed by policy imperatives and priorities, and takes into account the division of functions among the spheres and their capacity to raise their own revenue through provincial and municipal taxes.

[6] The Budget Forum consists of the members of the Budget Council and representatives of organised local Government.

Table 1.1 Main budget expenditure: 1999/00–2005/06

R million	1999/00 Outcome	2000/01 Outcome	2001/02 Outcome	2002/03 Revised	2003/04 Medium-term estimates	2004/05	2005/06
National departments[1]	66 385	73 178	87 709	98 853	108 983	117 549	126 323
Provinces	99 465	108 899	121 099	136 919	158 995	175 468	191 590
Equitable share	*89 094*	*98 398*	*107 460*	*123 457*	*142 386*	*155 313*	*167 556*
Conditional grants	*10 370*	*10 501*	*13 638*	*13 462*	*16 609*	*20 155*	*24 033*
Local government	4 610	5 536	6 516	8 801	12 001	13 249	14 624
Equitable share	*2 163*	*2 315*	*2 607*	*3 964*	*6 343*	*7 078*	*7 698*
Conditional grants	*2 447*	*3 221*	*3 909*	*4 837*	*5 658*	*6 171*	*6 926*
Non-interest allocations	**170 460**	**187 613**	**215 324**	**244 573**	**279 979**	**306 266**	**332 536**
Percentage increase	*7,4%*	*10,1%*	*14,8%*	*13,6%*	*14,5%*	*9,4%*	*8,6%*
State debt cost	44 290	46 321	47 581	47 250	50 986	53 079	55 070
Contingency reserve	–	–	–	–	3 000	4 000	8 000
Main budget expenditure	**214 750**	**233 934**	**262 905**	**291 823**	**333 965**	**363 345**	**395 606**
Percentage increase	*6,6%*	*8,9%*	*12,4%*	*11,0%*	*14,4%*	*8,8%*	*8,9%*
Percentage shares							
National departments	*38,9%*	*39,0%*	*40,7%*	*40,4%*	*38,9%*	*38,4%*	*38,0%*
Provinces	*58,4%*	*58,0%*	*56,2%*	*56,0%*	*56,8%*	*57,3%*	*57,6%*
Local government	*2,7%*	*3,0%*	*3,0%*	*3,6%*	*4,3%*	*4,3%*	*4,4%*

1. Includes a transfer of R855 million to the Umsobomvu Fund in 1999/00.

Concurrent and exclusive functions

The South African Constitution divides functions between the three spheres of Government. Some functions are shared (concurrent) and others are exclusive. The provincial sphere performs functions like school education, health and social grants, which do not lend themselves to substantial cost recovery, but account for a substantial proportion of public spending. Provinces only raise about 4 per cent of their own revenue. Municipalities, by contrast, have significant revenue-raising powers and collect between 60 to 95 per cent of their own revenue, as two-thirds of their activities such as water, electricity and refuse-removal, are self-funded.

Concurrent functions shared between national Government and provinces

The big concurrent functions shared between national and provincial governments include school education, health services, social security and welfare services, housing and agriculture. For these functions, national Government is largely responsible for providing leadership, formulating policy, determining the regulatory framework including setting minimum norms and standards, and monitoring overall implementation by provincial governments. Provinces are mainly responsible for implementation in accordance with the nationally-determined framework. Given these different responsibilities, it is provincial departments that have large budgets for implementing services, while the national department has a relatively small share for its functions.

Exclusive functions for national Government and provinces

On the other hand, the exclusive functions are the sole responsibility of the relevant government only. In the case of national Government, large exclusive functions include national defence, the criminal-justice system (safety and security, courts), higher education, water and energy (electricity) resources and administrative functions such as home affairs and collection of national taxes. These exclusive functions absorb a substantial proportion of national Government's budget. For provinces, exclusive functions include provincial roads, ambulance services, and provincial planning.

Municipalities also have responsibilities for both concurrent and exclusive functions, like the provision of water, electricity, refuse-removal, municipal infrastructure and emergency services.

Co-operative governance

Co-operation among spheres important for shared functions

The South African Constitution enjoins the three spheres of Government to co-operate in policy-making and implementation. All spheres of Government have to face the challenge of aligning their policy and implementation processes. In the context of a young democracy, such co-operation is critical, particularly for shared functions.

The following intergovernmental forums all play an important role in shaping policy and resource-allocation decisions:

- Extended Cabinet and President's Co-ordination Council, which comprises of the national executive, nine premiers and the chairperson of the South African Local Government Association (Salga) for Extended Cabinet. The Extended Cabinet is the highest co-operative mechanism advising the national Cabinet when finalising the fiscal framework and division of revenue on which MTEF budgets are based.
- Budget Council, which is constituted by the Minister of Finance and the nine Members of the Executive Council responsible for finance in the provinces.
- The Budget Forum, which is made up of the Budget Council and local government representatives.
- MinMECs, which are sectoral policy forums of the Ministers and their provincial counterparts.
- Joint MinMECs between selected sectors and the Budget Council.

There are also several intergovernmental forums comprising of senior officials which provide technical support to the political forums.

Peer learning initiatives bear fruit, but need to address non-financial aspects

One measure bearing fruit is the peer learning forums established for financial officials in key sectors like education, health, social development, agriculture, housing, local government and transport, roads and public works. These forums have contributed to developing uniform approaches to common challenges, providing a forum for promoting best practices, and at the same time allowing for comparisons of similar activities between different governments. The forums need to be expanded, to cover non-financial aspects for non-financial staff, in areas like planning, personnel management, procurement and infrastructure.

Past reforms

Reforms are improving financial management in the public sector

In the last seven years a series of carefully sequenced budget reforms were introduced, with the view to improving planning, enhancing transparency, strengthening accountability, and improving public service delivery. These include:

- The introduction of three-year budgets which are now being extended fully to local Government, including the three-year allocations per municipality published with the 2003 Division of Revenue Bill.
- The promulgation of the Public Finance Management Act (1 of 1999) (PFMA), which together with other public services reforms, establishes institutional mechanisms for strengthening financial management and fostering accountability for results and outputs. Publication of reports keep Cabinet, Parliament, legislatures and the public informed of the state of public finances on a quarterly basis. Departments also submit annual financial statements for auditing within two months after the end of the financial year.

Current and future reforms

Future reforms seek to strengthen alignment between strategic plans, budgets and annual reports

While the reforms set out above have resulted in remarkable improvement in budgeting and financial management in Government, further qualitative improvements are essential. One of the key intergovernmental reforms implemented in the 2003 Budget was the publication of all local government allocations per municipality for the next three years. Provinces have done the same in their budgets. The certainty and transparency of the budget allocation process will make it easier for provinces and municipalities to budget for all grants received, and to plan their spending for the next three years. This *Review* does not provide information on these allocations or reforms, as these are all published in the 2003 Division of Revenue Bill.[7]

A range of reforms currently under way is being considered to accomplish this. Central to the current and future reforms is further strengthening of alignment between departmental strategic plans, budgets, financial statements and annual reports. The reforms will also seek to give effect to the provisions of the Public Service Act and Regulations. Other reforms to be effected include:

- Developing and publishing service delivery measures and indicators to complement financial information, together with strategic plans, revised budget formats and annual reports. Given the importance of these reforms, the section below provides further details.
- Extending financial management and budget reforms currently implemented by national and provincial departments to the local government sphere under the auspices of the soon-to-be

[7] The *2003 Division of Revenue Bill*, as well as the gazette to be published when the Bill is enacted in Parliament on 9 April 2003, will be available on the National Treasury website: www.treasury.gov.za.

promulgated Municipal Finance Management Act. Supply chain reforms to modernise procurement practices in Government. Some provinces, like Gauteng with its shared services concept, are leading innovations in this area.

Departmental strategic plans

Strategic plans are key to evaluating performance and benchmarking departments

One of the most exciting reforms implemented in provincial budgets in 2003/04 are the strategic plans to be tabled by provincial departments during March and April 2003, and on which the 2004 Budget will be built. These strategic and performance plans are based on uniform budget formats for each of the social services sectors. They will attempt to set uniform measurable objectives and performance targets and indicators for each budget programme and subprogramme. Key to this reform is ensuring that there is a close relationship between the strategic plans and budget allocations so that, in reporting, departments can reflect what they delivered with the resources allocated to them.

Common programme structures and indicators for concurrent functions

For provincial functions, it is also vitally important that the strategic plans enable the national department to assess progress with implementation of its policies at sub-national level, and benchmark provinces against one another so that good practices can be shared across provinces. This year's strategic plans for education, health and social development, which have been developed following an extensive and intensive consultative process, represent the first step towards accomplishing this goal.

The strategic plans for these sectors are based on an agreed uniform programme and subprogramme structure for each sector. In some cases sectors have taken a step further to agree common sets of indicators for their programmes and subprogrammes. In addition to allowing aggregation across provinces, this also permits inter-provincial comparisons.

Annual reports

Annual reports should be statements of fact

In the last two financial years, departments have prepared and published annual reports, as they are now legally required to do so. Annual reports provide financial statements and account for the activities of a department for a particular financial year. The end of the year reports should demonstrate strong links with the strategic plans and budgets adopted before the start of that financial year.

Reporting on non-financial information needs to be strengthened

The quality of annual reports published in the last two years varies greatly. A number of areas have been identified as requiring improvement with the view to enhancing their usefulness as a way of accounting to Parliament and legislatures for the use of public funds. These include:

- Ensuring that there is a clear link between strategic plans and annual reports: the first is a statement of intent with deadlines and targets, while the second is a *post facto* statement of progress or achievements

- Giving a detailed account of transfers of conditional grants to provinces and local government; noting the extent to which the recipient sphere has complied with the conditions relating to the grant; and a consolidated report on the performance of the conditional grant funded programmes
- Providing verifiable quantitative non-financial information on service delivery by programme or subprogramme.

It is envisaged that systematically implementing and consolidating these reforms over the next three to five years will assist Parliament and provincial legislatures in exercising their oversight role.

Chapter overview

The 11 chapters provide overviews of trends and analyses of key policy issues and fiscal challenges:

- This Introduction covers broad trends in the sectors covered in this *Review* and the main features of the intergovernmental system.
- Chapter 2 provides information on the 2003 provincial MTEF budgets, and also reviews provincial budgets and actual revenue, since 1999/00. It shows that the 2003 budgets reinforce the real growth in provincial budgets and expenditure which started over the three years to 2002/03. The chapter also notes that the composition of provincial expenditure is changing, with rising shares for non-personnel expenditure. This is being fuelled mainly by strong growth in capital expenditure on construction and rehabilitation of public facilities and assets such as school buildings, hospitals and roads; and rising spending on housing and on critical items like textbooks and medicines.
- Chapter 3 outlines trends in local government budgets, providing consolidated information on the 2002-03 municipal budgets. The chapter describes key pressures like rising salaries that may undermine the ability of municipalities to deliver free basic and other services. It also provides information on the 2003 national budget allocations.
- Chapters 4, 5 and 6 deal with the key social services sectors: education, health and social development. Provinces play a key role in these sectors, with the policy role residing with national Government. Overall, the chapters show that while the share of these services in total provincial spending is stable at around 81 per cent, within social services, the share of social development grows to about 25 per cent in 2005/06, reflecting the impact of the phasing in of the Child Support Extension Grant. However, each sector's spending grows in real terms.
- Chapter 7 covers agriculture and land. This is the first time that this sector is covered in the *Review*. The chapter identifies critical interventions required by provinces to reduce their share of personnel expenditure in order to provide vital services to support and develop commercial and subsistence farmers. The rapid progress made on land restitution is also impressive.

- Chapters 8 and 9 deal with infrastructure spending, for roads and housing. Although budgets for such infrastructure are increasing, they still exceed the spending capacity of those departments. Both chapters emphasise the need for more effective intergovernmental co-ordination. Approaches to housing which create sustainable communities are highlighted in the housing chapter; and the chapter on roads looks at roads, public transport and road safety.
- Chapter 10 deals with personnel issues, and reviews the challenges for the public sector to attract and retain the appropriate skills, particularly in health and education. It also raises the problem of excess personnel in roads, public works and agriculture departments in provinces. The chapter highlights issues that need to be tackled in order to incorporate municipal personnel into the public service. One of the biggest challenges facing local Government is the rapid rise in personnel expenditure as a share of total operating budgets. Overall, this share has risen to 32 per cent, and may rise further to 45 per cent if the purchase of bulk water and electricity is excluded. This is in stark contrast to provincial trends on personnel, where the share has been declining.
- Chapters 11 and 12 cover water and electricity, which are largely shared between local and national governments. These sectors were not covered in previous years. Key issues in these chapters relate to extending these services to all residents, and to provide free basic services to very poor households. They examine the price-setting processes in these sectors. The chapter on electricity assesses the impact of the restructuring of the electricity distribution sector on municipalities.

Conclusion

This *Review* underscores that South Africa’s intergovernmental system has matured. With intergovernmental institutions of governance firmly in place, and building on the expansionary fiscal stance, provinces and local Government are better placed to play a central role in delivering critical pro-poor social services, thus giving expression to a better life for all.

With the pending publication of Census 2001 results this year, national Government will review all intergovernmental grants, and their formulae, for the 2004 Budget. This process will take account of the functions performed and the fiscal capacity of the three spheres of Government. The *2003 Intergovernmental Fiscal Review* provides valuable information for this. Government will also promote greater consistency in its redistribution objectives, and getting the appropriate balance between national grants and cross-subsidisation.

One of the major challenges facing Government is to improve the quality of delivery, and the production of non-financial performance information. In this respect, it is important that management of resources is appropriately decentralised to schools, hospitals, clinics and other cost centres.

This *Review* will assist the various intergovernmental forums like MinMECs to better prepare for the 2004 Budget process. It should also assist in the implementation of the 2003/04 budgets.

However, the greatest challenge is left for Parliament and provincial legislatures. There is a wealth of information that is available on budgets and spending – the critical challenge is for Parliament and provincial legislatures to make effective use of this information to oversee the quality of delivery by government departments.

2

Trends in provincial budgets

Introduction

The Constitution assigns provinces key delivery functions for social services, which include school education, health, social grants and welfare services and housing; provincial roads; and agriculture support. While comprising 89 per cent of provincial spending, these public services generate little or no revenue and have to be funded through national transfers. For this reason, provinces receive the largest share of nationally raised revenue, comprising over 56,8 per cent of total non-interest allocations to the three spheres of Government.

Strong real growth in national allocations sets base for growth in provincial spending

The 2003 Budget allocations put provinces in a strong position to deliver pro-poor basic social services and give effect to the progressive realisation of social and economic rights envisaged in the Constitution. Together with strong real growth in national allocations of 2,6 per cent a year in the three years to 2002/03, and projected real growth of 6,1 per cent over the next three years, the healthy state of provincial finances lays a solid foundation for further acceleration of service delivery.

Social services reinforced

As the 2003 provincial budgets show, provinces intend to spend more on non-personnel non capital inputs in education, especially learner support material. Spending on professional health personnel, medicines and drugs is growing rapidly, putting the health sector in a position to deliver better health care and face the challenge of HIV/Aids. Social security transfers are rising rapidly over the MTEF period. This ensures that social grants can buy as much as, if not more than, what they could buy last year and provides for the funding of the phased extension of the Child Support Grant. At the same time, infrastructure development in the form of housing delivery, road construction and upgrading is set to accelerate over the next three years.

2003 Intergovernmental Fiscal Review presents details on provincial budgets by sector

The *2003 Budget Review* and Division of Revenue Bill, published on Budget Day, set out trends in provincial revenue and present a preliminary overview of anticipated expenditure trends for the MTEF period. With 2003 provincial budgets having been tabled, this *Intergovernmental Fiscal Review* publishes final budget allocations to key provincial functions as set out in provincial budgets. Because this *Review* is published after the tabling of provincial budgets, chapters on education, social development, housing, agriculture and roads present more detailed information and analyses of trends in each function to provide a national perspective and permit inter-provincial comparisons. Chapter 10 deals with personnel trends, which includes provincial personnel. Detailed tables on provincial budgets are contained in Annexures at the end of the *Review*.

This *Review* does not duplicate the detailed information on provincial finances covered in the explanatory memorandum published with the 2003 Division of Revenue Bill and the *2003 Budget Review.*

Government priorities and provincial finances

Provincial budgets reflect alignment with national priorities

Provinces are now in a much better position to address Government's aim of reducing poverty, vulnerability and inequality. Building on the trend set over the past years, the 2003 provincial MTEF budgets reflect strong alignment to nationally agreed government priorities.

Current and future reforms will enhance accountability

The current phase of financial management and budget reforms should further enhance accountability. This phase involves submitting to Parliament and provincial legislatures strategic plans which set out what departments plan to accomplish with the resources appropriated for the current financial year and what is to be appropriated in subsequent years. In addition, clearly defined measurable objectives for each programme or subprogramme are provided. Also, by setting out details on outputs delivered and outcomes accomplished, future annual reports will enable Parliament and legislatures to better assess whether Government gets value for its expenditure.

2003 Budgets reinforce focus on pro-poor programmes

Provincial budgets give effect to government priorities

The 2003 provincial budgets reflect strong alignment with the national priorities set out in the *2002 Medium Term Budget Policy Statement* and the *2003 Budget Review*. The budgets reaffirm provinces' commitment to deliver more and better quality services, that ensure the progressive realisation of improved quality of life for all South Africans.

Strong real growth in provincial spending

Building on the strong and stable financial and fiscal environment created through prudent budget and expenditure management over the past years, the 2003 provincial budgets reflect strong real growth in spending of 7,5 per cent in 2003/04, and a real average annual growth rate of 5,3 per cent over the MTEF. This growth is mainly to consolidate and expand current programmes, and to improve the outreach of social programmes, particularly those that target the poor, facilitate community development and contribute to job creation and economic growth.

Table 2.1 Total spending per province

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	16 307	18 162	19 591	24 019	27 933	29 959	33 065
Free State	6 692	7 431	8 227	10 054	11 056	12 248	13 363
Gauteng	16 831	18 109	20 203	24 159	27 030	29 696	33 003
KwaZulu-Natal	19 389	21 799	25 061	29 043	32 908	36 434	39 808
Limpopo	12 807	14 485	15 656	18 455	21 373	23 477	25 721
Mpumalanga	6 548	7 024	8 455	9 779	11 362	12 524	13 675
Northern Cape	2 524	2 667	2 947	3 424	3 932	4 326	4 699
North West	8 241	9 216	9 906	11 349	13 203	14 682	16 069
Western Cape	10 748	11 514	12 517	14 605	16 414	17 623	18 974
Total	**100 088**	**110 407**	**122 563**	**144 887**	**165 209**	**180 969**	**198 376**
Percentage growth							
Eastern Cape		11,4%	7,9%	22,6%	16,3%	7,3%	10,4%
Free State		11,0%	10,7%	22,2%	10,0%	10,8%	9,1%
Gauteng		7,6%	11,6%	19,6%	11,9%	9,9%	11,1%
KwaZulu-Natal		12,4%	15,0%	15,9%	13,3%	10,7%	9,3%
Limpopo		13,1%	8,1%	17,9%	15,8%	9,8%	9,6%
Mpumalanga		7,3%	20,4%	15,7%	16,2%	10,2%	9,2%
Northern Cape		5,7%	10,5%	16,2%	14,9%	10,0%	8,6%
North West		11,8%	7,5%	14,6%	16,3%	11,2%	9,4%
Western Cape		7,1%	8,7%	16,7%	12,4%	7,4%	7,7%
Total		**10,3%**	**11,0%**	**18,2%**	**14,0%**	**9,5%**	**9,6%**

Source: National Treasury database.

Significant growth in national transfers

Strong real growth in provincial spending is mainly due to significant real growth in national transfers of 9,5 per cent in 2003/04 and 6,1 per cent a year over the MTEF. National transfers grow from R136,9 billion in 2002/03 to R159,0 billion in 2003/04, rising to R191,6 billion by 2005/06.

Deficit budgets of R1,1 billion are tabled

Growth in spending can also be explained by the fact that after eliminating their debts, some provinces are now planning to use their remaining cash balances to fund once-off expenditures and projects with limited recurrent costs, by tabling deficit budgets of R1,1 billion in 2003/04 and 2005/06. Eastern Cape tables a budget deficit of R968 million in 2003/04; Western Cape tables budget deficits of R435 million, R249 million and R258 million in each of the MTEF years; and after tabling surplus budgets of R224 million in 2003/04 and R101 million in 2004/05, Gauteng plans to table a deficit budget of R871 million in 2005/06.

Social services spending

Provincial budgets show clear commitment to social services

Consistent with Government's continued commitment to social services, provincial budgets provide for real growth of 7,1 per cent in social services expenditure in 2003/04, and a real average annual growth rate of 5,5 per cent over the MTEF. Table 2.2 shows that this will ensure that the share of social services expenditure remains stable at around 81 per cent of total provincial spending. This is in the context of fast-growing total provincial spending over the MTEF period. Although increasing in real terms, the shares of education and health in total provincial spending decline steadily, while the share of social development is expected to increase by 4,2 percentage points from 21,6 per cent in 2002/03 to 25,8 per cent by 2005/06.

Table 2.2 Consolidated provincial expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Education	39 828	43 223	46 889	53 102	58 897	63 447	67 465
Health	24 110	26 403	29 757	33 238	36 852	40 014	42 942
Social Development	19 374	20 897	23 837	31 247	37 808	44 135	51 248
Total social services spending	83 312	90 523	100 483	117 586	133 558	147 596	161 654
Contingency reserves	–	–	–	–	178	225	273
All other expenditure	16 776	19 884	22 081	27 300	31 474	33 148	36 449
Total	**100 088**	**110 407**	**122 563**	**144 887**	**165 209**	**180 969**	**198 376**
Shares in total provincial spending							
Social services	83,2%	82,0%	82,0%	81,2%	80,8%	81,6%	81,5%
Education	*39,8%*	*39,1%*	*38,3%*	*36,7%*	*35,6%*	*35,1%*	*34,0%*
Health	*24,1%*	*23,9%*	*24,3%*	*22,9%*	*22,3%*	*22,1%*	*21,6%*
Social Development	*19,4%*	*18,9%*	*19,4%*	*21,6%*	*22,9%*	*24,4%*	*25,8%*
Non-social services	16,8%	18,0%	18,0%	18,8%	19,2%	18,4%	18,5%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
Percentage growth							
Social services		8,7%	11,0%	17,0%	13,6%	10,5%	9,5%
Education		*8,5%*	*8,5%*	*13,2%*	*10,9%*	*7,7%*	*6,3%*
Health		*9,5%*	*12,7%*	*11,7%*	*10,9%*	*8,6%*	*7,3%*
Social Development		*7,9%*	*14,1%*	*31,1%*	*21,0%*	*16,7%*	*16,1%*
Non-social services		18,5%	11,0%	23,6%	15,9%	5,4%	10,0%
Total		**10,3%**	**11,0%**	**18,2%**	**14,0%**	**9,5%**	**9,6%**
Social services spending as percentage of provincial expenditure							
Eastern Cape	85,7%	82,9%	83,8%	80,8%	80,5%	83,2%	84,2%
Free State	82,7%	81,1%	80,4%	78,8%	80,9%	81,8%	82,5%
Gauteng	85,2%	85,0%	84,8%	82,2%	79,7%	79,6%	77,8%
KwaZulu-Natal	84,9%	83,8%	85,2%	84,9%	84,7%	84,6%	84,6%
Limpopo	81,2%	79,6%	78,6%	78,9%	79,3%	80,1%	80,0%
Mpumalanga	78,1%	77,4%	74,7%	78,9%	80,0%	80,6%	81,4%
Northern Cape	80,6%	78,3%	75,6%	77,5%	75,5%	75,1%	76,1%
North West	76,2%	76,4%	77,9%	77,6%	78,4%	79,2%	80,3%
Western Cape	85,4%	84,1%	83,3%	81,9%	81,2%	81,9%	80,4%
National Average	**83,2%**	**82,0%**	**82,0%**	**81,2%**	**80,8%**	**81,6%**	**81,5%**

Source: National Treasury database.

Strong growth in non-personnel non-capital expenditure will ensure better quality services

Within social services functions, non-personnel spending (excluding social development transfers) grows by R5 billion in 2003/04 to R27,6 billion and to R33,7 billion in 2005/06. This translates to real growth of 8,3 per cent a year over the next three years. It signals a growing appreciation of the significance of non-personnel non-capital inputs in the delivery of provincial services in general and social services in particular.

Growth in spending on social security transfers reflects intensification of fight against poverty

The growth in social development budgets reaffirms Government's commitment to intensifying the fight against poverty and vulnerability by providing direct income support to poor households and individuals, especially children. It provides for the increases in social grants announced on Budget Day and the accelerated expansion in the social security net, mainly through the phased extension of the Child Support Grant to children until they turn 14. Based on current population estimates and poverty levels, it is expected that the Grant will reach over 6,5 million children by 2006.

Increase in both grant values and beneficiary numbers

Budgeted total spending on social security grants rises from R27,3 billion in 2003/04 to R44,6 billion in 2005/06. These amounts include R1,1 billion in 2003/04; R3,4 billion in 2004/05 and R6,4 billion in 2005/06 set aside for the Child Support Extension Grant. MTEF allocations also include a conditional grant allocation of R388 million in each year to provide food relief to vulnerable households and individuals.

Non-personnel non-capital expenditure in education receives a boost

Total education spending grows by 4,6 per cent in real terms from R53,1 billion to R58,9 billion in 2003/04. Within education, the highest growth is in non-personnel non-capital expenditure, which shows real growth of 16,1 per cent in 2003/04 and is projected to grow at an average annual rate of 9,4 per cent over the MTEF. This level of growth is expected to help the sector allocate increasing amounts to learner support materials and reinforce improvements in the quality of school education.

Hiring and retaining professional personnel with scarce skills is a priority in health

Provincial health budgets grow by R3,6 billion or 4,5 per cent in real terms to R36,9 billion in 2003/04, and are expected to grow in real terms at an average annual rate of 3,3 per cent over the MTEF to R42,9 billion in 2005/06. Personnel spending is set to grow by R1,9 billion in 2003/04 to provide for the costs of hiring and deploying personnel with scarce skills in the sector, such as doctors and pharmacists. Supported by additional funding of R0,5 billion, R0,8 billion and R1,0 billion, this trend is expected to continue over the next three years to ensure that the public health sector has adequate professional personnel with the requisite skills equitably distributed across the country.

More funds for infrastructure and medicines in provincial health budgets

Non-personnel spending in health also shows strong real growth of 5,9 per cent in 2003/04 and 4,7 per cent a year over the MTEF, in line with Government's commitment to ensure that hospitals and clinics have sufficient medicines and drugs. Provinces are also committing R6,9 billion of their own funds to be spent on health capital projects over the next three years. This will go towards upgrading, replacing and constructing health facilities and is additional to the R2,7 billion conditional grant allocation for refurbishing 18 additional hospitals.

Non-social services and capital expenditure

In addition to social services, provinces are also responsible for housing, provincial roads, agriculture, economic affairs, the environment and tourism, and other administrative functions. Spending on certain of these functions declined due to tight budget constraints, resulting in infrastructure backlogs in roads, tourism and agricultural support services. This in turn had a negative impact on the level of economic activity in the provinces and constrained the economic growth potential of the country as a whole.

Spending on non-social service functions grows strongly over the MTEF

Stable provincial finances and the substantially expanded resource envelope allow for strong recovery in spending on these functions. Spending on non-social services functions, including housing, rises from R27,3 billion in 2002/03 to R31,6 billion 2003/04 or 19,2 per cent of total provincial expenditure. It is set to rise to R36,7 billion by 2005/06.

Capital expenditure promotes service delivery and expands economic opportunities

Strong growth in spending on these functions, which is largely a result of growth in capital expenditure, will have positive economic spin-offs for individual provinces and for the country. Excluding housing and social services capital, provinces are budgeting to spend R40,5 billion on infrastrucuture. This will improve the quality of provincial infrastructure and pave the way for efficient delivery of other services. It will also reduce the cost of business, thus serving as a catalyst for higher economic growth and job creation.

Trends in provincial revenue and expenditure

This section covers trends in provincial budgets for the seven-year period 1999/00 to 2005/06. It covers aggregate or general trends and thus could mask circumstances prevailing in individual provinces and within each function. Such details are presented in the chapters that deal with each specific sector.

Past surpluses reflect underspending on capital

Table 2.3 shows trends in provincial budgets between 1999/00 and 2005/06. The last three years saw provinces posting surpluses. The surpluses in 1999/00 and 2000/01 were mainly due to slow implementation of capital projects, and represent funds that were rolled over for spending in subsequent periods. Limited amounts of the surpluses were used to repay remaining debts from the past.

Large surplus in 2001/02 due to social security grant arrears

The 2001/02 surplus includes the conditional grant of R2 billion intended to fund arrears in social security grant payments. This amount was transferred at the end of 2001/02 for spending in the 2002/03 financial year as the processes of assessing eligible beneficiaries took longer than was initially anticipated. When these funds are netted out, the provincial surplus for 2001/02 becomes significantly lower, at R1,8 billion.

Preliminary deficit for 2002/03 projected at R2,3 billion

For 2002/03, the preliminary indication is that, in total, provinces are likely to realise a deficit of R2,3 billion. This deficit is fully funded by the R2 billion social grants arrears allocation rolled over from 2001/02 and other provincial rollovers.

Projected deficits to be financed through past surpluses

Over the MTEF period, provinces are projecting small deficits, which will be financed through cash balances from past surpluses. Presenting budgets this way is in accordance with the Government Finance Statistics (GFS) classification system, which prevents double counting of revenue. No provincial borrowing is expected over the MTEF period since all these deficits are fully funded.

Table 2.3 Total provincial revenue and expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Transfers from national budget	99 576	109 223	121 398	136 936	158 995	175 468	191 590
Of which: equitable share	*89 095*	*98 398*	*107 460*	*123 457*	*142 386*	*155 313*	*167 556*
Conditional grants	*10 482*	*10 825*	*13 938*	*13 479*	*16 609*	*20 155*	*24 033*
Own revenue	4 039	4 531	4 942	5 624	5 087	5 402	5 707
Total revenue	**103 615**	**113 754**	**126 340**	**142 560**	**164 082**	**180 869**	**197 296**
Share of total provincial revenue							
Transfers from national budget	96,1%	96,0%	96,1%	96,1%	96,9%	97,0%	97,1%
Of which: equitable share	*86,0%*	*86,5%*	*85,1%*	*86,6%*	*86,8%*	*85,9%*	*84,9%*
Conditional grants	*10,1%*	*9,5%*	*11,0%*	*9,5%*	*10,1%*	*11,1%*	*12,2%*
Own revenue	3,9%	4,0%	3,9%	3,9%	3,1%	3,0%	2,9%
Total expenditure	**100 088**	**110 407**	**122 563**	**144 887**	**165 209**	**180 969**	**198 376**
Surplus(+)/deficit(-)	**3 527**	**3 347**	**3 777**	**-2 327**	**-1 127**	**-99**	**-1 080**

Source: National Treasury database.

Provincial revenue

National allocations continue to make up over 96,1 per cent of total provincial revenue

Provinces rely on national transfers, which make up over 96,1 per cent of total provincial revenue in 2002/03. These transfers comprise the equitable share, which constitutes 86,6 per cent of total provincial revenue, and conditional grants, which constitute 9,5 per cent. Provincial own revenue constitutes only 3,9 per cent. The share of national transfers in total provincial revenue grows to 97,1 per cent in 2005/06. While this is attributable to strong growth in national transfers, it is also partly due to slow growth in provincial own revenue.

Table 2.4 shows that provincial revenue is adjusted for local government funds that were previously reflected as revenue and expenditure for both spheres. This ensures comparability of the revenue and expenditure data. These are now deducted from the provincial sphere and incorporated in the local government share. The R293 town grant (paid to towns in former homeland and self-governing territories) that used to form part of funds transferred through provincial accounts, has been split between the provincial and local government equitable share as part of the rationalisation process.

Table 2.4 Adjusted provincial revenue and expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Total provincial revenue	103 615	113 754	126 340	142 560	164 082	180 869	197 296
Total provincial expenditure	100 088	110 407	122 563	144 887	165 209	180 969	198 376
Less: local govt grants[1]	463	463	–	–	–	–	–
Total adjusted revenue	**103 152**	**113 291**	**126 340**	**142 560**	**164 082**	**180 869**	**197 296**
Total adjusted expenditure	**99 625**	**109 944**	**122 563**	**144 887**	**165 209**	**180 969**	**198 376**

1. Before 2000/01 local government grants were transferred through provinces. For comparison these are deducted from both revenue and expenditure.

Source: National Treasury database.

Adjusted provincial revenue grows in real terms

Total adjusted provincial revenue grows by R21,5 billion to R164,0 billion in 2003/04 and is further projected to grow 5,7 per cent a year in real terms to R197,3 billion in 2005/06. Adjusted provincial expenditure, on the other hand, grows by R20,3 billion in 2003/04 and is also expected to grow by a comparable proportion in 2005/06.

Strong growth in national transfers signals commitment to pro-poor programmes

National transfers continue to grow strongly and increase from R136,9 billion in 2002/03 to R158,9 billion in 2003/04, an increase of 9,5 per cent in real terms. Over the MTEF, national transfers are expected to further rise to R191,6 billion in 2005/06, translating to a real average annual growth of 6,1 per cent.

Table 2.5 Change in adjusted provincial revenue

	Average annual growth in real terms	
	1999/00-2002/03	**2002/03-2005/06**
Transfers from national budget	2,6%	6,1%
Of which:		
Equitable share	*2,8%*	*5,0%*
Conditional grants	*0,3%*	*15,0%*
Own revenue	3,0%	-4,7%
Total provincial revenue	**2,6%**	**5,7%**

Source: National Treasury database.

Provinces exercise discretion in allocating their equitable shares

The growth in national transfers is mainly driven by sharp increases in the equitable share to R142,4 billion in 2003/04 and it is projected to increase to R167,6 billion in 2005/06. Provinces exercise discretion over the allocation of the equitable share to the functions they perform. However, in allocating the equitable share, they take account of nationally agreed priorities, which normally inform the division of resources among the spheres. Rising equitable share gives provinces more scope and discretion to draw budgets that give expression to national priorities.

Conditional grants still an important part of intergovernmental fiscal system

A substantial portion of national transfers (10 per cent in 2003/04) is in the form of conditional grants. Conditional grants are R13,5 billion in 2002/03, including the once-off R2,0 billion social security arrear payments grant. They increase to R16,6 billion in 2003/04, and will rise to R24,0 billion in 2005/06. The sharp growth in conditional grants is due to the introduction of the Child Support Extension Grant, which rises from R1,1 billion in 2003/04 to R6,4 billion in 2005/06.

Rationalisation of conditional grants will continue

The growth in conditional grants over the 2003 MTEF must be viewed as transitory, mainly due to the new Child Support Extension Grant. Government still remains committed to rationalising conditional grants into fewer, better designed and more efficient grants.

Provincial own revenue

Despite the promulgation of the Provincial Tax Regulation Process Act in 2001, which sets a framework for provinces to impose taxes and expand their own revenue sources, provincial own revenue remains a small portion (4 per cent) of total provincial revenue.

Provinces tend to underestimate their own revenues

For 2003/04, provinces are projecting to collect about R0,5 billion less revenue than they are anticipating this current financial year. All provinces, except North West, Gauteng and Northern Cape, are projecting declines in own revenue in 2003/04. This trend is partly due to uncertainty about anticipated interest revenue. However, based on past patterns, it appears that provinces tend to be conservative about their own revenue collections, and are likely to collect more than they are projecting for 2003/04.

Past trends in provincial own revenue, set out in Table 2.6, confirm that projections of own revenue collection are likely to understate the revenue potential of provinces. Between 1999/00 and 2002/03, provincial own revenue increased by 3,0 per cent. While growth in Western Cape, Eastern Cape, Northern Cape and Mpumalanga was positive, other provinces showed sharp declines. For 2002/03, provincial own revenue is expected to be 13,8 per cent higher than in 2001/02. Provincial own revenue is projected to drop by 9,6 per cent in 2003/04, and will only rise to around R5,7 billion in 2005/06.

Table 2.6 Own revenue per province: 1999/00–2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	374	395	486	823	517	528	552
Free State	262	305	334	384	346	380	390
Gauteng	1 046	1 168	1 308	1 413	1 459	1 560	1 656
KwaZulu-Natal	613	908	986	821	712	841	891
Limpopo	247	321	265	413	330	345	366
Mpumalanga	363	155	238	365	281	303	320
Northern Cape	79	89	107	87	93	93	96
North West	321	425	264	278	333	322	349
Western Cape	733	765	955	1 040	1 016	1 030	1 086
Total	**4 039**	**4 531**	**4 942**	**5 624**	**5 087**	**5 402**	**5 707**

Source: National Treasury database.

Road traffic fees remain largest source of own revenue

Table 2.7 shows that fees collected under the National Road Traffic Act, 1996 (93 of 1996) remain the largest source of provincial own revenue and are estimated to contribute 38,3 per cent in 2002/03. Their share is expected to rise to 49,3 per cent in 2003/04 and grow to 50,3 per cent in 2005/06. The ‘other’ category of own revenue continues to be large and is indicative of the problems in the administration and classification of own revenue.

Table 2.7 Composition of own revenue

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Road traffic fees	1 514	1 748	1 965	2 152	2 506	2 672	2 871
Patient fees	321	356	455	432	492	522	559
Gambling	438	622	543	635	643	666	669
Horse racing	*170*	*165*	*162*	*113*	*101*	*105*	*108*
Casino	*268*	*456*	*381*	*522*	*543*	*561*	*561*
Interest	323	693	1 098	697	702	727	773
Other	1 442	1 112	882	1 709	744	815	834
Total	**4 039**	**4 531**	**4 942**	**5 624**	**5 087**	**5 402**	**5 707**
Percentage of total own revenue							
Road traffic act	37,5%	38,6%	39,8%	38,3%	49,3%	49,5%	50,3%
Patient fees	8,0%	7,8%	9,2%	7,7%	9,7%	9,7%	9,8%
Gambling	10,8%	13,7%	11,0%	11,3%	12,6%	12,3%	11,7%
Horse racing	*4,2%*	*3,6%*	*3,3%*	*2,0%*	*2,0%*	*1,9%*	*1,9%*
Casino	*6,6%*	*10,1%*	*7,7%*	*9,3%*	*10,7%*	*10,4%*	*9,8%*
Interest	8,0%	15,3%	22,2%	12,4%	13,8%	13,5%	13,5%
Other	35,7%	24,6%	17,8%	30,4%	14,6%	15,1%	14,6%

Source: National Treasury database.

Provincial expenditure

Although budgeted expenditure provided for growth rates higher than inflation in 1999/00 and 2000/01, actual provincial expenditure was less than actual provincial revenues. This resulted in surpluses of R3,5 billion and R3,3 billion, respectively. While substantial proportions of the surpluses were planned for repayment of debts, part of the surpluses reflects the lack of capacity to spend. As a result of this mismatch in budgeted and actual expenditure, the planned provincial spending was not fully realised.

Provincial budgets and expenditure are converging

After adjusting provincial revenue for 2001/02 for the R2 billion allocation for social security grant arrears, provincial revenue of R124,4 billion against actual expenditure of R122,6 billion reflects a consolidated surplus of R1,8 billion for provinces. If this downward trend is sustained, going forward, actual provincial expenditure will begin to grow in real terms in line with Government's intentions.

For 2002/03, based on actual expenditure data for 10 months to 31 January 2003, provinces are projecting a combined deficit of R2,3 billion. The deficit must be viewed against the surplus of 2001/02, as it is linked to the payment of arrears in social security grants and will be financed from the surplus of last year. If a portion of the funds remains after paying all eligible beneficiaries, it is possible that the provincial budget balances will change.

Table 2.8 Expenditure by economic classification

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Current expenditure	93 662	102 153	111 236	131 122	146 426	161 095	175 983
Personnel	*59 140*	*63 805*	*67 645*	*74 829*	*81 143*	*86 800*	*92 077*
Transfers	*21 624*	*23 712*	*26 589*	*34 647*	*40 921*	*46 999*	*53 751*
Other current	*12 898*	*14 636*	*17 002*	*21 646*	*24 362*	*27 296*	*30 154*
Capital expenditure	6 426	8 254	11 327	13 765	18 606	19 649	22 121
Contingency reserve	–	–	–	–	178	225	273
Total	**100 088**	**110 407**	**122 563**	**144 887**	**165 209**	**180 969**	**198 376**
Non-personnel	40 948	46 602	54 919	70 057	84 066	94 169	106 299
Non-personnel non-capital	34 522	38 347	43 591	56 292	65 283	74 296	83 905
Percentage share in total spending							
Current expenditure	93,6%	92,5%	90,8%	90,5%	88,6%	89,0%	88,7%
Personnel	*59,1%*	*57,8%*	*55,2%*	*51,6%*	*49,1%*	*48,0%*	*46,4%*
Transfers	*21,6%*	*21,5%*	*21,7%*	*23,9%*	*24,8%*	*26,0%*	*27,1%*
Other current	*12,9%*	*13,3%*	*13,9%*	*14,9%*	*14,7%*	*15,1%*	*15,2%*
Capital expenditure	6,4%	7,5%	9,2%	9,5%	11,3%	10,9%	11,2%
Contingency reserve	–	–	–	–	0,1%	0,1%	0,1%
Non-personnel	40,9%	42,2%	44,8%	48,4%	50,9%	52,0%	53,6%
Non-personnel non-capital	34,5%	34,7%	35,6%	38,9%	39,5%	41,1%	42,3%

Source: National Treasury database.

Personnel expenditure

Share of personnel drops to 46,4 per cent of provincial expenditure…

In the three years to 2002/03, growth in provincial personnel expenditure slowed down, resulting in the downward trend in the share of personnel total provincial expenditure, from 59,1 per cent in 1999/00 to 51,6 per cent in 2002/03. Although personnel spending is set to grow slightly above inflation in 2003/04, the downward trend in the share of personnel expenditure is set to continue, albeit at a slower pace, with the share dropping to 46,4 per cent in 2005/06.

… but more personnel will be hired in key sectors

Despite the falling share in total provincial expenditure, personnel spending in the personnel-intensive social services sectors grows sufficiently. This is to ensure the strengthening of these sectors to meet delivery challenges over the medium term. Personnel expenditure in education grows by 7,1 per cent in nominal terms in 2003/04 and will grow at an average annual rate of 6,6 per cent over the MTEF, while in health the growth rates are 9,9 per cent and 7,8 per cent, respectively. The growth rates in health also reflect the strategy of enhancing the capacity of the sector by retaining and hiring more personnel with scarce skills.

Non-personnel expenditure

Non-personnel expenditure recovers strongly

As spending on personnel is curtailed, the recovery in non-personnel expenditure continues at an accelerated pace. After being squeezed out by personnel spending, largely fuelled by strong growth in capital expenditure and social security grants, total non-personnel expenditure by provinces rises from 40,9 per cent of provincial expenditure in 1999/00 to 48,4 per cent in 2002/03. It is expected to rise even faster to 53,6 per cent by 2005/06.

Increasing non-personnel spending a plus for quality service delivery

The rising share in non-personnel expenditure is a positive development as it reflects provinces' concerted effort to improve the composition of their expenditure. It will also boost the quality of services while simultaneously enhancing efficiency of spending.

Expenditure on non-social services and capital

The upward trend in non-social services spending is sustained

Table 2.2 shows that non-social services spending continues to recover strongly from a projected outcome of R27,3 billion in 2002/03 to R31,7 billion in 2003/04, and is set to rise to R36,7 billion by 2005/06. This includes spending on roads, tourism, housing delivery, agricultural development, and other economic and rural infrastructure. This will see the share of non-social services rising from 16,8 per cent in 1999/00 to 19,2 per cent in 2003/04 before levelling off over the MTEF.

Table 2.9 Capital spending per province: 1999/00–2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	576	943	1 162	2 248	3 132	2 665	2 862
Free State	235	422	702	873	871	1 089	1 154
Gauteng	1 781	1 558	2 266	2 770	5 022	5 549	6 803
KwaZulu-Natal	1 351	1 869	2 947	2 951	3 935	4 306	4 634
Limpopo	604	1 096	1 279	1 463	1 773	1 796	2 021
Mpumalanga	510	567	865	843	1 050	1 150	1 318
Northern Cape	176	191	271	298	373	399	426
North West	482	672	690	921	1 022	1 194	1 294
Western Cape	710	938	1 146	1 397	1 427	1 500	1 609
Total	**6 426**	**8 254**	**11 327**	**13 765**	**18 606**	**19 649**	**22 121**
Percentage of total spending							
Eastern Cape	3,5%	5,2%	5,9%	9,4%	11,2%	8,9%	8,7%
Free State	3,5%	5,7%	8,5%	8,7%	7,9%	8,9%	8,6%
Gauteng	10,6%	8,6%	11,2%	11,5%	18,6%	18,7%	20,6%
KwaZulu-Natal	7,0%	8,6%	11,8%	10,2%	12,0%	11,8%	11,6%
Limpopo	4,7%	7,6%	8,2%	7,9%	8,3%	7,6%	7,9%
Mpumalanga	7,8%	8,1%	10,2%	8,6%	9,2%	9,2%	9,6%
Northern Cape	7,0%	7,2%	9,2%	8,7%	9,5%	9,2%	9,1%
North West	5,9%	7,3%	7,0%	8,1%	7,7%	8,1%	8,1%
Western Cape	6,6%	8,1%	9,2%	9,6%	8,7%	8,5%	8,5%
Total	**6,4%**	**7,5%**	**9,2%**	**9,5%**	**11,3%**	**10,9%**	**11,2%**

Source: National Treasury database.

Fast growth in capital expenditure leads to strong recovery in non-social services expenditure

Table 2.9 shows that the upturn in capital expenditure, which started in 1999/00, is contributing to the strong recovery in non-social services expenditure. Provincial capital expenditure grew from R6,4 billion in 1999/00 or 6,4 per cent of total provincial expenditure, to a projected R13,8 billion or 9,5 per cent of total provincial expenditure in 2002/03. In the 2003 budgets, capital expenditure grows by 27,4 per cent in real terms in 2003/04 to R18,6 billion. It is set to grow at an average annual rate of 11,1 per cent over the MTEF to R22 billion by 2005/06, exceeding 10 per cent of total provincial expenditure.

New budget reforms seek to improve accountability

Current reforms will enhance accountability

Against the background of stable finances and expansionary budgets, the challenge that remains is ensuring that public funds are spent efficiently and that services are delivered. Recent reforms include the tabling of departmental strategic plans to Parliament and the relevant provincial legislatures. These plans contain the service delivery objectives and specific output targets for each programme, alongside the resources that have been appropriated. These reforms aim to improve delivery and enhance accountability.

By setting out details on outputs delivered and outcomes accomplished, the annual reports published after the end of each financial year will enable Parliament and legislatures to better assess whether Government gets value for its expenditure.

Conclusion

Provinces have implemented far-reaching budget reforms and have produced tangible results in expenditure management. Through sound financial management, provinces have placed their finances on a firm footing. Improved expenditure management, however, is a necessary but not sufficient condition for enhanced service delivery. The challenge now is to translate financial management gains into improved service delivery that addresses poverty and vulnerability, and that reduces inequality.

Current spending and budget trends demonstrate that provinces are focusing on pro-poor programmes by consolidating social services delivery, increasing capital spending, and enhancing the quality of spending. Provincial institutional capacity is continually bolstered to deal with the pressures generated by the greater demand for public services.

3

Local government budget trends

Introduction

Extending services to all residents, including the poor, is a challenge for municipalities

Municipalities are responsible for providing basic household and suburban services, such as electricity, water, sanitation, refuse-removal, municipal roads, parks and recreational facilities, among other functions provided for in the Constitution. These services were traditionally fully provided to formerly advantaged communities under apartheid, but in large parts were not provided to formerly black townships and homelands. Where they were provided, this was done by national public entities like Eskom rather than by municipalities. Post-apartheid municipalities are now expected to expand their delivery of services to all residents, and to subsidise such services to poor households. This is the key delivery challenge facing the new municipalities.

Municipalities have undergone three phases of transformation since 1993

The local government sphere has undergone three major restructuring phases since 1993. Each has involved the creation of new municipalities, with new boundaries, as they moved from interim (1993) to transitional (1995) and to new (2000) municipalities. The numbers were reduced from 843 municipalities to 284 in December 2000. The new municipalities are of three types: one tier metropolitan (or category A) municipalities, two-tiered district (category C) and local (or category B) municipalities.

Comparative analysis complicated due to transition

These changes have affected the stability of municipalities. Staff, income, expenditure, assets, liabilities, plans and budgets all changed with the creation of the new municipalities in each of these phases. For this reason, it is not possible to cover past municipal budgets (before 2001-02). Even the current budgets are not strictly comparable, as functions continue to be shifted between district (category C) and local municipalities (category B). Systems of reporting differ and institutional arrangements also vary. Furthermore, the imminent restructuring on electricity distribution will impact on future municipal budgets, probably reducing them significantly, as electricity comprises around 33 per cent of municipal budgets. Given all the restructuring that has taken place, and is taking place, it is not possible to provide a comprehensive analysis of all municipal budgets. Neither is the information between municipalities comparable, because of diverse budgeting and reporting systems, variations in internal methodologies, and institutional and organisational structures.

Local Government follows a different financial year from national and provincial governments, starting three months later, on 1 July. Hence the 2003 national budget transfers to the local sphere will only be allocated in the 2003-04 municipal budgets, to be tabled in May and June 2003. Although, three-year budgets are being introduced in municipalities, most municipalities currently only table one-year budgets.

For these reasons, this chapter and *Review* only cover 2002-03[1] municipal budgets, and provide information on 2003 national and provincial transfers to municipalities.

Key priorities include provision of free basic services

Key priorities for municipalities include expanding their capacity to provide services, particularly the free basic services policy that came into effect in July 2001. Other priorities include the stabilisation and consolidation of municipalities, modernising delivery, budgeting, and financial management systems; and improving revenue collection.

Given the impact of the restructuring of the electricity sector, the finalisation of functions between district and local municipalities, and the publication of Census 2001 results this year, national Government intends to undertake a comprehensive review of the local government fiscal system. The *Review* will table proposals for the future of RSC levies, and new formulae for national grants to municipalities for the 2004 Budget.

2003 Budget Review and the Division of Revenue Bill cover national grants to municipalities

This *Review* does not provide detailed information on national grants to municipalities since these are contained in the *2003 Budget Review* and the Division of Revenue Bill, including the formulae for such allocations. Apart from this chapter, local government issues are also covered in chapters 5, 8, 10, 11 and 12 which respectively cover health, roads and traffic management, personnel issues, water and electricity sectors. Detailed data on municipal budgets are contained in Annexure C4.

2002-03 Municipal budgets and trends

Two-thirds of municipal activity is self-funded

About two-thirds of municipal activity is self-funded, as municipalities generate revenue through user charges for the consumption of services such as electricity and water. The remaining third is for public goods and services like suburban and municipal infrastructure. These do not raise significant revenue, but are normally funded from rates and regional services council levies. This is in contrast to provinces, which have little revenue-raising capacity and

[1] Throughout this review, '2002-03' is used to cover the municipal financial year from 1 July 2002 to 30 June 2003. In contrast '2002/03' is used to cover the national and provincial financial year, from 1 April 2002 to 31 March 2003. Similarly for other financial years.

are totally dependent on national grants; 95 per cent of their activities are the provision of public goods such as school education, health, social grants and welfare services, housing and provincial roads.

2002-03 is the second year for new municipalities' budgets

The 2002-03 municipal budgets are the second budget for the new municipalities, since their establishment in December 2000. Their first budgets for 2001-02 were generally not prepared for a single consolidated municipality, but were merely the aggregation of various budgets for the incorporated parts of previous municipalities. Furthermore, the information for 2001-02 is budgeted information, rather than actual spending information, which is a better reflection of what transpired in that year but is not available at this stage. The 2002-03 budgets are the first consolidated and integrated budgets of the new municipalities.

These are based on the municipal budgets submitted to the National Treasury, and reflect close to 98 per cent of income and expenditure budgeted in the local sphere. Annexure C provides detailed information for metropolitan, and district/local consolidated, municipal budgets, regional services levies and other relevant statistics.

Municipal budgets

Budget increases by 15,7 per cent to R74,5 billion

Municipal capital and operating budgets are estimated to total R74,5 billion[2] in 2002-03, compared to R64,4 billion, in 2001-02, reflecting an increase of 15,7 per cent (budget-to-budget growth). Capital[3] budgets total R13,1 billion compared to R11,7 billion in the previous financial year, showing an increase of 12 per cent. Municipalities also budgeted R61,4 billion for operating income compared to R52,7 billion for the previous year, showing an increase of 16,5 per cent.

Six metros make up 62,7 per cent of local government spending

Table 3.1 provides information on the largest municipal budgets. These are the six metropolitan municipalities, and the biggest local (category B) municipal budgets. The three largest municipal budgets for 2002-03 are around R10,0 billion each, with Johannesburg at R11,0 billion, Cape Town at R9,8 billion and eThekwini (Durban) at R9,3 billion, followed by Ekurhuleni's (East Rand) budget at R8,1 billion, and Tshwane (Pretoria) at R6,1 billion. The metropolitan budgets total R46,7 billion, and the average per capita is R3 700, ranging from R4 161 in Johannesburg to R2 571 in Nelson Mandela (Port Elizabeth). The R46,7 billion total for the six metropolitan municipal budgets comprises 62,7 per cent of total local government budgets for 2002-03.

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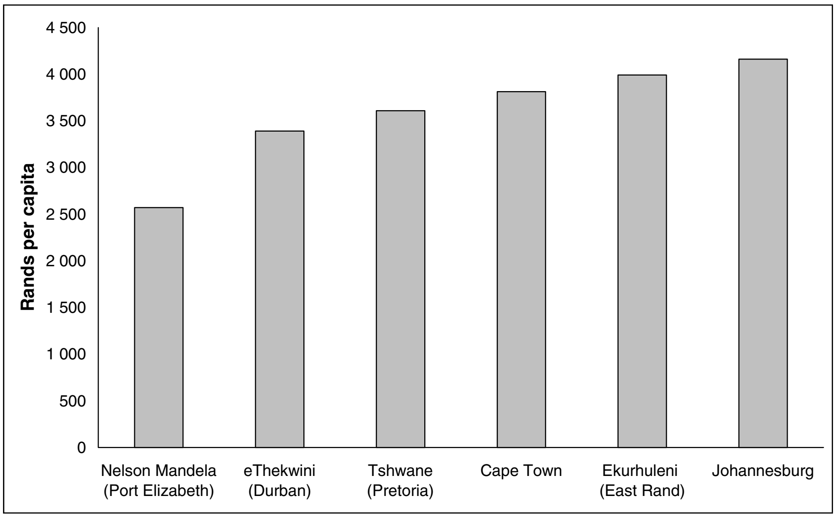
[3] The definition of 'capital' used is not the economic definition, as it includes maintenance budgets. Past practice included part of maintenance expenditure as capital.

Figure 3.1 Per capita budgets for metropolitan municipalities



Source: National Treasury local government database

The most significant local (category B) budgets are Buffalo City (East London), Mangaung (Bloemfontein) and Msunduzi (Pietermaritzburg) which are all around R1,2 billion. These are followed by Polokwane at R718,7 million, Rustenburg at R699,0 million and uMhlathuze (Richards Bay) at R616,8 million.

All other local and district municipalities have budgets below R500 million, with many lower than R100 million. For example, as reflected in Annexure C, of the 47 category C municipalities the largest operating budgets are Amatole at R452 million (transfers to category B municipalities over 80 per cent), Ugu at R295 million (transfer to category B's over 53 per cent), Ehlanzeni at R202 million (transfer to category B's over 75 per cent), and OR Tambo at R198 million (transfer to category B's over 66 per cent). The transfers from districts to category B municipalities consist predominantly of national capital grants flowing through district municipalities. The smallest district budgets are Namakwa at R15 million, Metsweding at R16 million, Xhariep at R18 million, and Sisonke at R19 million.

Difficult to compare budgets of category B and category C municipalities

The budgets of category B and C municipalities are difficult to compare, as they may vary in the division of functions between them. The budgeted per capita expenditure is also significantly lower than metropolitan areas, even for the larger category B municipalities, where the three largest are R3 297 (Stellenbosch), R3 145 (uMhlathuze) and R2 412 (Drakenstein). The three largest budget category B municipalities have lower per capita budgets of R1 934 (Buffalo City), R2 149 (Mangaung) and R2 242 (Msunduzi).

Table 3.1 Operating and capital budgets for a sample of municipalities

Municipality	Population	Total Budget (R'000)		Per Capita
		2001-02	2002-03	2002-03
Johannesburg	2 638 185	10 313 638	10 978 069	4 161
Cape Town	2 563 091	9 492 427	9 774 600	3 814
eThekwini (Durban)	2 753 479	7 920 258	9 335 727	3 391
Ekurhuleni (East Rand)	2 026 056	7 666 598	8 087 038	3 992
Tshwane (Pretoria)	1 682 144	5 436 214	6 070 661	3 609
Nelson Mandela (Port Elizabeth)	969 518	2 094 449	2 492 494	2 571
Sub total	**12 632 473**	**42 923 586**	**46 738 592**	**3 700**
Buffalo City (East London)	682 376	1 261 236	1 319 670	1 934
Mangaung (Bloemfontein)	603 528	1 065 399	1 297 021	2 149
Msunduzi (Pietermaritzburg)	524 937	1 110 528	1 176 940	2 242
Polokwane (Pietersburg)	424 835	535 994	718 747	1 692
Rustenburg	311 187	573 606	699 161	2 247
uMhlathuze (Richards Bay)	196 123	553 830	616 804	3 145
Drakenstein (Paarl)	186 149	371 124	448 966	2 412
Sol Plaatje (Kimberley)	204 186	430 480	438 264	2 146
Mbombela (Nelspruit)	425 503	374 429	437 475	1 028
Govan Mbeki (Highveld East)	209 626	369 053	355 475	1 696
Stellenbosch	103 719	270 517	342 009	3 297
Maluti-a-Phofung (Harrismith)	353 238	182 458	281 507	797
Mafikeng	242 146	193 500	169 170	699
Msukaligwa (Ermelo)	105 971	112 773	137 476	1 297
uMngeni (Howick)	69 742	65 551	82 834	1 188
Cederberg (Clanwilliam)	31 704	46 793	52 289	1 649
Engcobo	149 602	62 966	47 637	318
Musina (Messina)	33 061	30 528	33 180	1 004
Tokologo (Boshof)	26 767	17 630	30 966	1 157
Sub total	**4 884 400**	**7 628 403**	**8 685 599**	**1 778**
Total	**17 516 873**	**50 551 989**	**55 424 191**	**3 164**

Source: National Treasury Local Government Database.

Table 3.2 reflects the budgets per category of municipality. Metropolitan councils make up around 64 per cent of total municipal budgets if it is assumed that there are over R2,2 billion in intra-municipal transfers. District or category C municipalities have a low budget share as their actual spending budgets are probably closer to R3,2 billion and that of local municipalities closer to R22,3 billion. Hence, local municipalities constitute 30 per cent of total local government budgets, and the district municipalities constitute only 4 per cent of total local government budgets. The low share of category C municipalities indicates that district municipalities currently provide relatively few services directly to residents. Consolidated district and local municipal budgets for 2002-03 are available in Annexure C.

Category B municipalities make up 30 per cent and district municipalities 4 per cent of total local government budgets

Table 3.2 Budgets by category: 2002-03

R thousand	Operating Budget	Capital Budget	Total	As % of total: Operating Budget	As % of total: Capital Budget
Category A (Metros)	39 733	7 006	46 739	85,0%	15,0%
Category B (Locals)	17 386	4 976	22 363	77,7%	22,3%
Category C (Districts)	4 310	1 125	5 435	79,3%	20,7%
Total	**61 429**	**13 107**	**74 536**	**82,4%**	**17,6%**

Source: National Treasury Local Government Database.

Any shifts of the water and sanitation, refuse-removal and municipal health functions between district and local municipalities arising from the recent announcement[4] by national Government will only take effect for the 2003-04 municipal budgets. It is not clear to what extent the new arrangements for the division of functions will affect the budgets of district and local municipalities.

Five-year trend in municipal budgets

Table 3.3 sets out consolidated expenditure budgets for municipalities spanning five years from 1998-99 to 2002-03. Over the past five years, municipal expenditure budgets have grown from R54,8 billion in 1998-99 to R74,5 billion in 2002-03. The greatest year-on-year increase of 15,7 per cent is between 2001-02 and 2002-03. Disaggregated, budgeted operating expenditure has grown by 16,5 per cent and budgeted capital expenditure by 12 per cent above the 2001-02 levels, reflecting local Government's objective to address backlogs and service coverage.

Table 3.3 Consolidated municipal expenditure budgets

R billion	98-99	99-00	% change	00-01	% change	01-02	% change	02-03	% change	% of operating budget
Salaries	12,8	13,8	7,8%	15,9	15,2%	17,9	12,6%	19,8	10,6%	32,2%
Bulk services	12,8	13,8	7,8%	14,9	8,0%	13,7	9,0%	15,3	11,7%	24,9%
Other	15,6	16,9	8,3%	17,3	2,4%	21,1	17,3%	29,3	38,9%	47,8%
Operating budget	41,1	44,4	8,0%	48,1	8,3%	52,7	9,6%	61,4	16,5%	
Capital budget	13,7	13,7	0,0%	13,7	0,0%	11,7	-14,6%	13,1	12,0%	
Total	**54,8**	**58,1**	**6,0%**	**61,8**	**6,4%**	**64,4**	**4,2%**	**74,5**	**15,7%**	

Source: National Treasury Local Government Database

Operating expenditure

Municipalities on average use up to 32 per cent of their operating income to finance personnel costs

Salaries take up the largest share of municipal budgets, totalling R19,8 billion in 2002-03, or 32 per cent of operating income. This aspect of municipal spending needs intensive scrutiny and more transparency. Chapter 10 raises some of the necessary reforms on personnel matters.

[4] Refer to Gazette no. 24228 published on 3 January 2003 by the Minister of Provincial and Local Government.

Share of personnel spending is of concern

If the cost of bulk electricity and water purchases and intra-municipal transfers are excluded, then this share of personnel may be as high as 45 per cent in aggregate. This item has also increased rapidly in the past two years, rising at 15,2 per cent in 2000-01 and 12,6 per cent in 2001-02. It is budgeted to rise at 10,6 per cent in the current year over the previous year's figure of R17,9 billion. These marked increases are in spite of the fact that the number of employees has not increased since the new demarcations in 2000. Rather, they probably reflect the cost of amalgamation, which has tended to place upward pressure on wages and salaries to the highest level, without corresponding improvements in productivity or expansion in service delivery.

Total operating budgets for municipalities amount to R61,4 billion for the 2002-03 municipal year. Table 3.3 also shows that a total of R15,3 billion was budgeted for expenditure for bulk purchases of electricity and water. Moreover, a total of R29,3 billion was budgeted for the 'other' component, which includes repairs and maintenance, general expenditure, interest and redemption of loans and provisions for under-collection of revenue of the municipal operating budget for the year 2002-03. Collectively, the 'other' component constitutes 47,8 per cent of the total 2002-03 budget. This amount represents a substantial percentage increase of 38,9 per cent over the previous year's figure of R21,1 billion.

Table 3.4 Operating expenditure budget by function: 2002-03

	Johannesburg		Ekurhuleni		Tshwane	
R million		**%**		**%**		**%**
Electricity	2 856	25,9%	2 331	31,7%	1 716	33,1%
Finance & Admin	2 718	24,6%	1 196	0	719	13,9%
Water	2 246	20,4%	1 332	18,1%	782	15,1%
Public Safety	673	6,1%	502	6,8%	400	7,7%
Road Transport	584	5,3%	595	8,1%	445	8,6%
Waste Management	483	4,4%	461	6,3%	274	5,3%
Executive & Council	390	3,5%	62	0,8%	115	2,2%
Other	270	2,4%	19	0,3%	80	1,5%
Health	191	1,7%	257	3,5%	122	2,3%
Housing	189	1,7%	93	1,3%	66	1,3%
Sport & Recreation	155	1,4%	327	4,4%	226	4,4%
Community & Social Services	142	1,3%	97	1,3%	102	2,0%
Planning and Development	137	1,2%	82	1,1%	137	2,7%
Environmental Protection	-	0,0%	4	0,1%	-	0,0%
Total	**11 036**	**100,0%**	**7 360**	**100,0%**	**5 182**	**100,0%**

The operating budget of Jhb incl. R1, 3bn transfers between the city and its entities.

Source: National Treasury Local Government Database.

Capital expenditure and revenue

Actual spending on capital is less than budgeted, due to poor planning

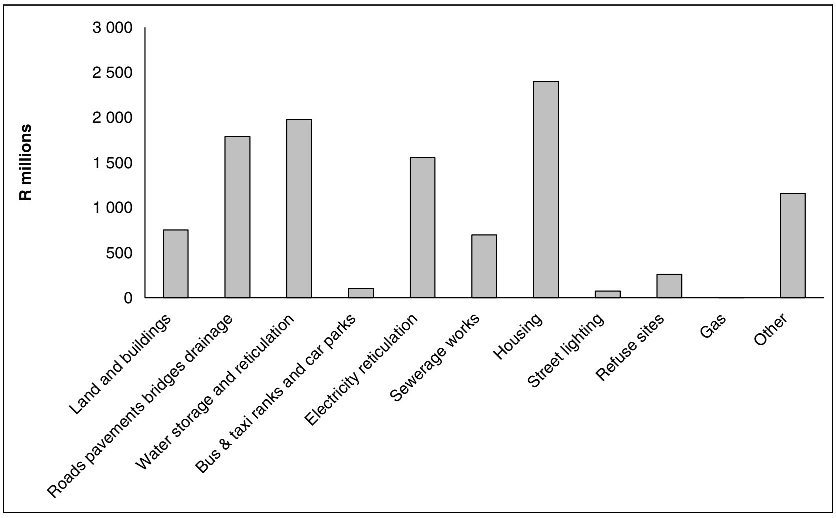
While the budgeted allocations for capital for 2001-02 have grown from R11,7 billion to R13,1 billion in 2002-03[5], past performance indicates that actual capital expenditure is less than budgeted. The

5 There is some double counting in capital budgets due to intra-municipal transfers from districts to local municipalities. Current municipal infrastructure grants like the CMIP take up a large portion of such transfers.

main reason for this is that many municipalities prepare one-year capital budgets, have poor cash-flow and implementation plans, and only secure funding sources after the tabling of the budget. This delay often causes under-spending, lack of implementation and delayed service delivery.

For 2002-03, 82 per cent of the R13,1 billion capital budget is for general infrastructure, 11 per cent for other assets, 6 per cent for community infrastructure and 1 per cent for specialised vehicles. Figure 3.2 demonstrates that the largest proportion of general infrastructure expenditure is earmarked for housing, water reservoirs and reticulation, roads, bridges and pavements, electricity distribution. Annexure C provides more detailed tables on these components.

Figure 3.2 Total budgeted expenditure on infrastructure



Source: National Treasury local government database

Electricity makes up largest portion of local budgets, followed by water and sanitation

Table 3.4 shows a sample of municipal operational budgeted expenditure by function for 2002-03. The electricity distribution function makes up the largest share of expenditure, and accounts for over 30 per cent in Tshwane and Ekurhuleni municipalities, and just over 25 per cent for the City of Johannesburg. Water and sanitation is the next largest area of expenditure, comprising 15 and 18 per cent in the case of Tshwane and Ekurhuleni municipalities, respectively. Most of the other functions fall below the 10 per cent range. Further reforms through the financial management pilot programme will improve on the apportioning of activity and costs for functions.

Table 3.5 Consolidated capital income budgets

R million	2001-02	2002-03	%
National transfers	3 947	5 160	30,7%
Internal advances, contributions from revenue, public contributions	4 935	4 908	-0,6%
Other Financing, provincial contributions	1 166	1 361	16,7%
External loans	1 725	1 692	-1,9%
Total	**11 773**	**13 120**	**11,4%**

Source: National Treasury Local Government Database.

Table 3.5 shows that revenue for capital expenditure is derived from national and provincial allocations in the region of 39 per cent of the budgeted local government capital funding requirement of R13,1 billion. The secondary category of funding (internal advances, contributions from revenue, and public contributions) and the balance (other financing sources, donor funding, borrowing, provincial contributions) are not reported in detail. These figures are for the municipal financial year.

National and provincial governments allocate 39 per cent for municipal infrastructure

Operating revenue

The largest share of operating revenue is derived from user charges, mainly from electricity and water, totalling R28 billion or 45 per cent. Property rates make up 20,2 per cent of operating revenue, and Regional Service Council (RSC) levies on business make up a further 7,1 per cent or R4,4 billion. The remaining R16,7 billion is budgeted to come from refuse removal, grants, subsidies, tariffs, fines and other user charges.

Breakdown of major sources of operating revenues places user charges on top

Table 3.6 Consolidated operating income budgets

R billion	2001-02	2002-03	% Change
Property Tax	11,5	12,5	8,6%
Bulk Services	25,0	28,0	12,0%
RSC levies	3,9	4,4	12,8%
Intergovernmental grants	3,6	6,7	86,1%
Other	10,3	10,0	-0,1%
Total	**54,3**	**61,6**	**13,4%**

Source: National Treasury Local Government Database.

Property taxes

Table 3.6 shows that budgeted income from property rates increases by 8,6 per cent over the previous year's income of R11,5 billion, while the income from user charges increases by 12 per cent from the previous year, to R28 billion. These large increases have a dampening effect on economic growth, local sustainability and fuel inflation.

Table 3.7 Property tax by category

R billion	2001-2002	2002-2003
Metros (Category A)	8,1	8,9
Local (Category B)	3,4	3,6
Total	**11,5**	**12,5**

Source: National Treasury Local Government Database.

Table 3.7 illustrates that the metropolitan municipalities raise over 71 per cent of the R12,5 billion in property taxes. Local or category B municipalities raise the remainder, as district or category C municipalities do not have the power to impose property taxes. Property tax revenues have shown a steady increase over the past three years in most provinces, despite moderate economic growth.

Substantial proportion of property tax revenue comes from the metros

User charges

Electricity and water functions not strictly ring-fenced and do not take account of overhead costs

These are charges raised by municipalities for services rendered predominantly for electricity, water and sanitation and refuse-collection. Following the discussion from Table 3.6, the increase in user charges compared to 2001-02 is 12 per cent, and indicates the effect of implementing free basic services. The electricity and water functions are not strictly ring-fenced and do not take account of overhead costs, such as salaries and administration, repairs and maintenance, capital charges on interest and redemption of loans. These functions generate income of R28,0 billion and incur bulk costs of electricity and water in the region of R15,4 billion. Municipal accounting systems are in the process of being reformed. Information from pilot municipalities is detailed in the chapters on electricity and water. Indications are that these trading services generate surpluses for municipalities, to use for funding or subsidising other municipal activities. A major issue facing municipalities is the high level of water and electricity losses. This will be discussed in chapters 11 and 12.

Regional service levies

These levies are raised on business and based on turnover and wages. The six metropolitan areas account for over 68 per cent of all regional service levies budgeted for 2002-03, as shown in Table 3.8. Regional services levy income also increases significantly by 13 per cent over the previous year's figure of R3,9 billion.

Table 3.8 Revenues from RSC levies: 1998-99 – 2002-03

District councils R million	1998-99	1999-00	2000-01	2001-02	2002-03
Eastern Cape	212	217	223	121	135
Free State	136	142	148	165	171
Gauteng	366	367	368	146	171
KwaZulu-Natal	181	189	198	203	186
Limpopo	73	84	84	90	111
Mpumalanga	187	202	217	248	282
Northern Cape	142	140	140	62	54
North West	52	55	55	126	154
Western Cape	119	126	132	143	155
Sub total	**1 469**	**1 521**	**1 567**	**1 303**	**1 419**
growth		*3,6%*	*3,0%*	*-16,9%*	*8,9%*
Metro's					
Eastern Cape	–	–	–	142	149
Gauteng	1 092	1 095	1 098	1 692	1 876
KwaZulu-Natal	247	270	283	210	323
Western Cape	475	500	527	562	654
Sub total	**1 814**	**1 865**	**1 908**	**2 606**	**3 001**
growth		*2,8%*	*2,3%*	*36,6%*	*15,2%*
Total	**3 283**	**3 386**	**3 474**	**3 908**	**4 421**
growth		*3,1%*	*2,6%*	*12,5%*	*13,1%*

Source: National Treasury Local Government Database.

Table 3.8 shows that 32 per cent of levies are collected by 47 districts and 68 per cent by the six metropolitan municipalities. RSC levy income has also risen sharply in metropolitan areas in 2001-02 and 2002-03, largely due to stepped-up levy collection efforts in Johannesburg, Cape Town and eThekwini.

Metros account for 68 per cent of RSC Revenues

Grants and 'Other'

Intergovernmental grants for recurrent purposes also increase significantly compared to 2001-02. The last category of funding – 'Other' –is significant, and includes items such as traffic fines, rental of housing stock, interest on investments and outstanding payment for services, refuse-removal and the use of previous years' surplus funds. However, this area is not well reported on by municipalities.

Intergovernmental grants to local Government

National allocations

The 2002-03 municipal budgets indicate the growing importance of national allocations for municipal budgets. Their contribution has grown and the latest estimates indicate that national transfers comprise about 17 per cent of local government revenue. For poorer municipalities the share is much higher, typically making up to 60 per cent of their total revenues. The significant increase in such transfers in 2002/03 is expected to lead to real increases in the 2003-04 municipal budgets.

National allocations comprise 17 per cent of local revenue on average, but over 50 per cent in rural municipalities

There has been a steady but significant real growth in national allocations since 1998/99, doubling from R4,4 billion to R8,8 billion in 2002/03. Table 3.9 shows the allocations increasing substantially in the 2002/03 budget, rising to R12,0 billion in 2003/04 and to R14,6 billion in 2005/06. This shows an increase of 18,9 per cent in nominal terms or 12,2 per cent in real terms over the next three years. These figures are for the national financial year.

The strongest growth is experienced by the equitable share as it increased by 19,2 per cent in nominal terms from R1,9 billion in 1998/99 to R3,9 billion in 2002/03. It is expected to experience even more robust growth over the medium term as it is set to increase by 24,8 per cent in nominal terms and 18,3 per cent in real terms, from R3,9 billion in 2002/03 to R7,7 billion in 2005/06.

Equitable share outpaces conditional grants

In the 1998/99 financial year, the unconditional equitable share portion of transfers to local Government comprised 44 per cent of total transfers. The unconditional share in 2003/04 has risen to 53 per cent, reflecting the move towards discretion at the local level.

Table 3.9 National transfers to local government

R million	2002/03	2003/04	2004/05	2005/06
Equitable share	3 964	6 343	7 078	7 698
Transition grant	223	–	–	–
Water and sanitation operating	700	836	858	934
Subtotal equitable share and related	**4 887**	**7 180**	**7 936**	**8 633**
Consolidated Municipal Infrastructure Programme	1 671	2 246	2 724	3 016
Water Services Project	999	1 102	948	1 037
Community Based Public Works Programme	260	260	–	–
Local Economic Development Fund	111	117	–	–
Sport & Recreation facilities	76	123	–	–
National Electrification Programme	228	240	245	258
Urban Transport Fund	40	9	–	–
Integrated Sustainable Rural Development	32	–	–	–
Municipal Infrastructure Grant	–	47	117	97
Unallocated[1]	–	–	555	588
Subtotal capital	**3 416**	**4 144**	**4 588**	**4 996**
Restructuring grant	250	315	343	363
Financial management grant	154	212	199	208
Municipal Systems Improvement	94	150	182	423
Subtotal capacity building and restructuring	**498**	**677**	**724**	**995**
Total transfers to local government	**8 801**	**12 001**	**13 249**	**14 624**

1. Poverty relief allocations in 2004/05 and 2005/06 are subject to a Cabinet review .

Source: Division of Revenue Bill 2003.

Table 3.9 further disaggregates each category of grant. Included in the equitable share and related components, are operating subsidies for water and sanitation services transferred via the Department of Water Affairs and Forestry to predominantly rural jurisdictions.

Stronger movement towards grant consolidation in the medium term

The next category relates to infrastructure allocations. The largest portion is the Consolidated Municipal Infrastructure Programme (CMIP) which flows through the Department of Provincial and Local Government. The next largest grant flows from the Department of Water Affairs and Forestry, the National Electrification Programme (managed by the Department of Minerals and Energy), the Local Economic Development Fund, the Community Based Public Works Programme and the Building for Sports and Recreation programme. In the medium term, the different grants are to be phased into a single grant programme, the Municipal Infrastructure Grant (MIG).

The third category provides for capacity-building initiatives, in line with Government's capacity building strategy, and to give effect to skills development in planning, budgeting and financial management, and technical skills. For example, Government has commenced with piloting budgeting and financial management reforms in 39 municipalities. A large portion of this component deals with restructuring assistance to municipalities.

Equitable share

Equitable share formula enables local Government to provide basic services

The equitable share formula was first introduced in 1998 in line with section 214 of the Constitution, to enable the local sphere of Government to provide basic services and to perform functions assigned to it. The formula is based on six component parts. The major window is the S component, which targets households with expenditure of less than R1 100 per month. Annexure E of the *2003 Budget Review* and the 2003 Division of Revenue Bill provide more information on the formula, and the allocations per municipality for the 2003 Budget.

Major challenge facing municipalities is to ensure proper usage and targeting of equitable share

The shift in functions between category B and C municipalities has necessitated small adjustments to the formula for the 2003 Budget. The overall S grant of the formula is now split up as follows: 23,3 per cent water supply, 41,9 per cent electricity supply, 11,6 per cent sanitation services, and 23,3 per cent refuse removal. As a result, the portion of the equitable share allocated to category C municipalities increases to about 17 per cent in 2003/04, with a corresponding decline in the category B municipalities' share. The share for the category A municipalities remains unchanged at 20 per cent in 2003/04 as they are not affected by the shift in municipal powers and functions. The major challenge facing municipalities is to ensure proper usage and targeting of the equitable share to give effect to the policy intent. Clear and transparent reporting will ensure that funds are spent on the intended purpose.

Provincial transfers

Allocations from provinces to municipalities shown for the first time

Table 3.10 shows the allocations from provinces to municipalities for the period 2000/01 to 2005/06. The 2003 provincial budgets provide this information for the first time. The upside for municipalities is that provincial allocations as well as national allocations are available for multi-year allocations. This move signals the policy intent where the total transfers to municipalities will be known much earlier in the budget process.

Table 3.10 Transfers from provinicial budgets to municipalities

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	*Average annual*	
	Actual	Actual	Estimated	Medium-term estimates			*2002/03-*	*2002/03-*
R million			actual				*2003/04*	*2005/06*
Eastern Cape	128	219	328	356	377	350	*8,5%*	*2,2%*
Free State	59	61	336	254	236	91	*-24,4%*	*-35,3%*
Gauteng	392	435	670	755	692	579	*12,7%*	*-4,7%*
KwaZulu-Natal	139	129	121	138	155	88	*14,0%*	*-10.1%*
Limpopo	7	5	432	451	394	396	*4,4%*	*-2.9%*
Mpumalanga	–	–	–	61	61	66	–	–
Northern Cape	1	5	6	49	54	55	*716,7%*	*109,3%*
North West	76	66	80	50	49	31	*-37,5%*	*-27,1%*
Western Cape	300	269	304	296	302	309	*-2,6%*	*0,5%*
Total	**1 102**	**1 189**	**2 277**	**2 410**	**2 320**	**1 965**	***5,8%***	***-4.8%***

Source: Provincial budget statements 2003.

Distribution of grants to local Government

This section analyses the distribution per household of the equitable share and infrastructure grants.

National support to municipalities amounts to R300 per person on average and targets the poor

The total support provided to local Government in the 2003/04 financial year amounts to just under R300 per person. Since many of the services supplied by municipalities take the 'household' as the basic unit, this allocation translates into an average annual allocation of around R1 200 per household. Since municipalities direct these grants to poor households, this means that an even larger allocation is provided per poor household, at around R3 700 per poor household.

Table 3.11 shows backlogs and per capita allocations for a sample set of municipalities. The metropolitan municipalities all receive considerably less than R300 per capita, with Cape Town at the low end, receiving R116 per capita, and Nelson Mandela receiving R223,84. One reason for this lower allocation is that the equitable share, which accounts for a substantial portion of the overall transfers, has a poverty-targeting component, and metropolitan areas have a smaller poverty count than many of the rural areas.

To facilitate comparability with category A municipalities, the equitable share allocations have been adjusted for the powers and functions assigned to B and C municipalities. Some B municipalities will be receiving smaller grants because of these shifts as they now carry out fewer functions. Since category B and C municipalities service the same area, all allocations to that category C municipality must be consolidated with all the category B municipalities in that district in order to compare with category A municipalities.

Analysis of per capita allocations

For example, in municipalities like Engcobo or Ulundi, only 37 per cent and 34 per cent respectively of the transfers go directly to the category B municipality. A further substantial indirect subsidy and other infrastructure subsidies flow to category C municipalities.

Another way of analysing the impact of these subsidies is to compare them with different measures of backlogs. Three available measures of backlogs are: the number of households without flush or chemical toilets; the number of households without piped water in their dwelling or on site; and the number of households without electricity. Since the source of the information is the 1996 census, these measures may be substantially overstated, since it does not take into account delivery since that period.

Table 3.11 indicates that there is considerable variation between municipalities in how much each receives through the various flows of funds. The total per capita allocations to the category B municipalities - directly and through the district - are substantially higher than those of the metros.

Table 3.11 Backlogs and per capita allocations

	Backlogs			Per capita allocations				
Municipality	flush/ chem toilet number	tap in dwelling / on site number	electricity number	Total infra-structure R/c	Total Recurrent R/c	Total Indirect R/c	Total equitable share R/c	Total grants R/c
Cape Town	1 883	1 925	1 529	51,46	1,37	1,63	62,42	116,88
Nelson Mandela	1 741	1 767	976	66,24	3,61	–	153,99	223,84
eThekweni	668	794	890	54,88	1,45	0,73	134,54	191,60
Ekurhuleni	970	985	629	42,73	1,73	0,15	95,00	139,61
Johannesburg	1 344	1 299	1 227	51,34	1,33	2,05	90,50	145,22
% coming direct				70,3%	58,7%	0,0%	94,5%	27,6
Sol Plaatje	2 746	4 628	2 234	86,82	9,80	–	131,66	228,27
via/ incl district	3 353	5 650	2 728	19,18	15,06	15,67	5,46	55,37
total				106,00	24,85	15,67	137,12	283,64
% direct transfers				81,9%	39,4%	0,0%	96,0%	80,5%
Buffalo City	1 043	876	623	73,62	4,40	8,35	274,27	360,64
via/ incl district	1 946	1 635	1 163	63,76	3,38	54,03	40,40	161,56
total				137,37	7,77	62,38	314,67	522,20
% direct transfers				53,6%	56,5%	13,4%	87,2%	69,1%
Engcobo	9	9	9	1,67	–	–	172,00	173,67
via/ incl district	646	653	668	122,75	5,83	65,3	95,67	289,54
total				124,42	5,83	65,3	267,67	463,22
% direct transfers				1,3%	–	0,0%	64,3%	37,5%
Mangaung	570	837	745	73,36	77,88	1,66	330,74	483,63
via/ incl district	666	979	871	12,46	3,68	28,40	1,06	45,61
total				85,83	81,56	30,06	331,79	529,24
% direct transfers				85,5%	95,5%	5,5%	99,7%	91,4%
Msunduzi	341	408	608	36,88	81,91	–	142,97	261,76
via/ incl district	658	788	1 175	34,34	6,36	91,30	24,65	156,65
total				71,22	88,27	91,3	167,62	418,41
% direct transfers				51,8%	92,8%	0,0%	85,3%	62,6%
Ulundi	133	142	148	19,06	–	–	88,83	107,89
via/ incl district	768	819	857	91,22	5,79	67,61	49,79	214,42
total				110,28	5,79	67,61	138,62	322,31
% direct transfers				17,3%	–	0,0%	64,1%	33,5%

Source: Flush/chem toilet, tap in dwelling / on site and electricity numbers (Census 1996), Transfers (Division of Revenue Bill 2003).

Municipal borrowing

Good financial argument for long-term borrowing

Municipalities need to address backlogs in infrastructure in order to provide basic services. Given that a large portion of municipal infrastructure has the potential to generate revenue, there is a strong economic argument to finance such capital expenditure through long-term borrowing, in order to accelerate the pace of delivery. This option allows the financing of expensive and bulky assets to be spread over the useful life of the assets. The beneficiaries of these assets often straddle generations and hence the burden of repayment should be spread equally over the consumption period and not on current consumers.

Although borrowing from the private sector continues to be an attractive option for financing infrastructure, it remains largely untapped. The municipal borrowing market has remained stagnant since 1994. At the end of December 2002, the total outstanding borrowing by municipalities amounted to R20,2 billion, marginally up by R300 million from a year earlier. The municipal borrowing market is also currently concentrated among a few lenders and larger urban municipalities. The main source of public sector credit to municipalities is sourced from the Development Bank of Southern Africa (DBSA) and amounts to R7 billion.

Steps taken to facilitate municipal borrowing

National Government is strongly committed to the development of a strong municipal borrowing market, and has taken a number of steps to facilitate borrowing. The main reasons for the stagnant municipal borrowing market are the transition process and uncertainty in:

- the legal framework particularly in relation to recourse in the event of defaults
- finalising municipal boundaries and shifting of functions
- national allocations
- capital planning and spending capacity of municipalities.

Steps taken by national Government to reduce this uncertainty include:

- the enactment of Constitutional amendments and the finalisation of the Municipal Finance Management Bill
- completion of the demarcation process in 2000, and the gazetting on 3 January 2003 of powers and functions between category B and C municipalities
- early publication of all national and provincial allocations for a three-year period
- piloting of reforms to modernise budgeting and financial management (including multi-year budgets), and the extension of the pilot programme to all other municipalities.

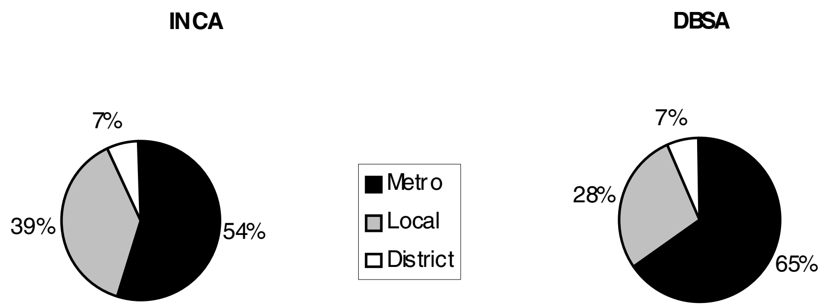
Two major players in the local government market

Private sector credit currently at R12 billion accounts for 60 per cent of municipal borrowings, primarily provided by commercial banks and the Infrastructure Finance Corporation (INCA). Together, these institutions account for 79 per cent of the private sector market. Insurance and pension funds, which used to account for 35,3 per cent of private sector lending to municipalities in 1997, now account for a mere 2,5 per cent of private sector lending.

Securities used to be the main instrument of municipal borrowing. The DBSA increased its market share through mainly granting long-term loans to municipalities. As a result, securities declined from 68,3 per cent to 35,9 per cent in March 1997 to December 2002. The absence of tradable municipal securities does pose a challenge to the development of a municipal bond market.

INCA and DBSA

The Infrastructure Finance Corporation (INCA) is a private sector lender and the Development Bank of Southern Africa (DBSA) is a public sector lender. Both institutions lend to municipalities and other infrastructure service providers. Together these institutions' exposure to the municipal sector exceeds R10 billion. Their portfolios, reflected as a proportion of lending to local government, show that INCA provides a larger share to non-metropolitan areas at 39 per cent, while the DBSA has a larger share of its lending to metropolitan municipalities at 65 per cent.



Source: INCA and DBSA (2003)

In a sample survey of pilot municipalities, as Table 3.12 shows, it was found that over R14 billion or 70 per cent of total municipal borrowing, estimated at R20 billion, is in 39 municipalities. Category A municipalities account for 93,4 per cent, category B municipalities for 6 per cent and category C municipalities a negligible percentage, with only five municipalities reporting having credit.

39 municipalities make up 70 per cent of the market

Table 3.12 Borrowings by category – pilot municipalities

R million	Current Borrowings	Planned Borrowings	No. of Municipal Credit Ratings
Category A (Metros)	13 236	1 000	4
Category B (Local)	851	223	1
Category C (Districts)	80	13	–
Total	**14 167**	**1 236**	**5**

Source: National Treasury survey.

Key budgetary challenges

The following section provides a discussion and analysis of key budgetary challenges that relate to revenue collection, leakage in service delivery, the need for improvement in financial management and quality of reporting.

Revenue collection and outstanding debtors

Recent surveys by the Department of Provincial and Local Government have raised the issue of revenue collection by municipalities. The most recent reports suggest that municipalities have accumulated R24,3 billion in outstanding debtor balances or

Accumulated municipal debtor balances rise annually by about R1,8 billion unpaid consumer bills. This accumulation over the recent past represents approximately 10 per cent of the total operating budgets for the last five years. Annually, municipal accumulated debtor balances rises by about R1,8 billion, representing 3 per cent of the total annual expenditure of municipalities.

Table 3.13 provides a national aggregate of outstanding consumer debtors broken down by province and category of municipalities for June 2002. Data for a later period is still being consolidated.

Table 3.13 Outstanding consumer debtors

R thousands	Category A (Metros)	Category B (Locals)	Category C (Districts)	Total
Eastern Cape	845 688	952 584	1 576	1 799 848
Free State	–	1 800 980	–	1 800 980
Gauteng	10 737 100	1 450 080	–	12 187 180
KwaZulu-Natal	1 832 880	1 169 430	53 834	3 056 144
Limpopo	–	331 470	–	331 470
Mpumalanga	–	800 283	–	800 283
Northern Cape	–	539 929	13 689	553 618
North West	–	917 960	5 460	923 420
Western Cape	1 699 250	625 174	9 911	2 334 335
Total	**15 114 918**	**8 587 890**	**84 470**	**23 787 278**

Source: DPLG project viability report.

Of the total outstanding consumer debtors, R15 billion (63,5 per cent) is owed to metropolitan municipalities, R8 billion is owed to municipalities in Free State, Gauteng and KwaZulu-Natal and a smaller proportion to district municipalities because their main source of revenue is transfers and regional levies.

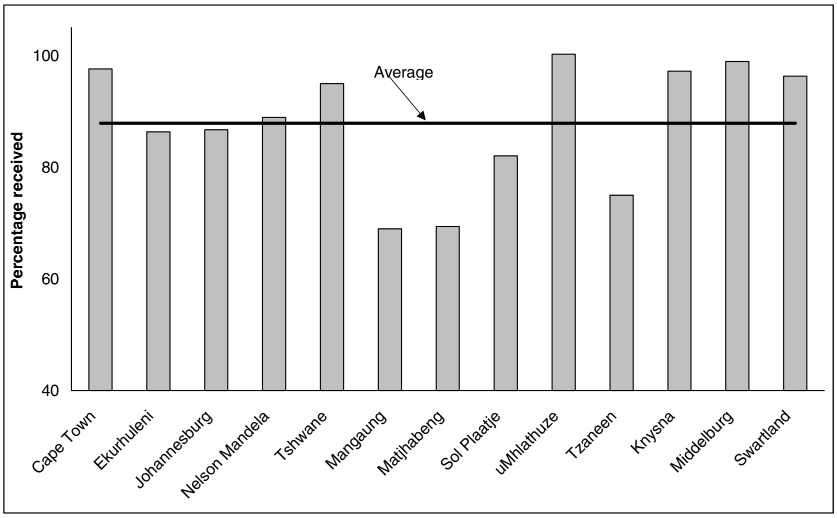
Many municipalities over-optimistic about poor households' ability to pay for basic services

The reports on outstanding payments to municipalities must be assessed in their proper context. Many municipalities have tended to budget for 100 per cent payment on all billings, and have tended to be over-optimistic about the ability of poor households to pay for basic services. In addition, the current reporting system does not differentiate between unrealistic billings, poor planning (on what revenue can be collected from poor households), acceptable levels of bad debt, and poor collection systems.

Holistic approach needed to address revenue collection

A holistic approach is required to address current problems. This includes improvements in customer care, accurate and timely billings, cleansing of internal systems, appropriate write-offs and the provision of appropriate levels of service. The new budget and accounting reforms being piloted, will correct some of these problems. These reforms must be supported by an appropriate and more effective indigent policy. Many municipalities have also taken appropriate steps to extend a minimum level of service to poor households, and provide free basic services. Some of the metropolitan municipalities now exempt property valued up to a certain level (for example, R20 000 in Johannesburg and R50 000 in Cape Town). Once municipalities are able to target poor households, they will be free to pursue more vigorously higher income households and businesses refusing to pay for rates and services.

Figure 3.3 Revenue collection in selected municipalities 2001-02

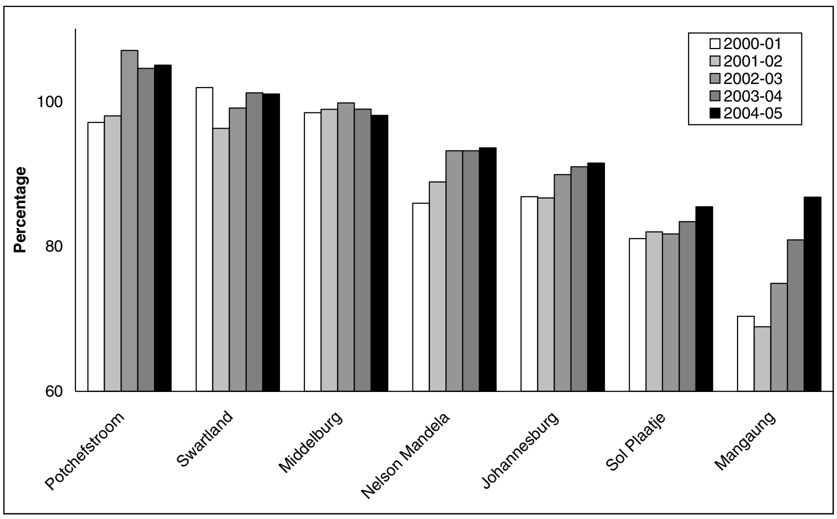


Source: National Treasury survey

Figures 3.3 and 3.4 demonstrate collection levels reported for a sample of municipalities. Only metropolitan and local municipalities are reflected, as district municipalities do not have significant amounts of outstanding debtors due to the nature of their functions. This is likely to change with the shifts in powers and functions. Figure 3.3 shows collection levels for 2001-02 reported by 13 municipalities. Seven municipalities show collection levels of below 90 per cent and of those, two are actually below 70 per cent.

Figure 3.4 shows trends in collection levels for seven municipalities. Some municipalities do not appear to be adequately tackling this challenge, as four municipalities still plan to be collecting less than 95 per cent in 2004-05.

Figure 3.4 Revenue collection in selected municipalities



Source: National Treasury survey

Eskom also has difficulty in collecting revenue

The problem of non-payment does not only affect municipalities but also public entities. Reports of Eskom's proposal to write-off its arrears will put pressure on municipalities to do likewise. It is therefore important that such write-offs be coordinated between organs of state.

Water and electricity leakages

Municipalities need to reduce technical and other losses in water and electricity distribution functions

As important as improving revenue collection systems, is the need for municipalities to reduce the technical and other losses in their water and electricity distribution functions. Some of these arise from disparities between purchased and billed services while others through criminal conduct. Project viability information suggests that water losses for Msunduzi and Matjhabeng municipalities amount to over 40 per cent of water purchased. This is similar to losses experienced in Johannesburg, and higher than the 18 per cent loss in Cape Town. For electricity, Johannesburg estimates its loss at 18 per cent, Cape Town at 7 per cent and Sol Plaatje municipality at 16 per cent .The chapters on water and electricity discuss related issues in more detail.

Water loss in Johannesburg Metro

In preparing its budget, Johannesburg Metro estimated its unaccounted for water as follows: (Unaccounted for water is defined as the difference between water purchased and water billed to consumers.)

	Ml/ pa	Percent
Physical losses:	62 128	17,0
Not billed – informal areas:	7 314	2,0
Not billed – data errors:	31 084	8,5
Illegal connections:	9 142	2,5
Incorrect capturing:	12 799	3,5
Underestimation of billing:	27 793	7,6
Total unaccounted for water :		42

This table shows that 42 per cent of water purchased is unaccounted and suggests that a concentrated effort in this area could yield substantial savings that could be used to increase service levels. The loss may also be divided between unpaid losses and technical losses.

Source: City of Johannesburg

Audits and Annual reports

Lack of timely financial reporting

A critical problem facing municipalities is the failure by a significant number of municipalities to submit their financial statements on time (or at all) and the high number of qualified opinions by the Auditor-General. Table 3.14 provides the latest information on municipal financial statements as at 30 September 2002 supplied by the Auditor-General. The information shows that 38 municipalities or 5 per cent, and 236 municipalities or 77 per cent of financial statements for municipal financial years 2000-01 and 2001-02, respectively, were still outstanding. The table also shows the low proportion of audits that were not qualified – 29 per cent of the 543 audits that were issued with financial statements. This means that of the 543 audits issued, an overwhelming 71 per cent were qualified, disclaimed or have audit opinions outstanding.

Table 3.14 Status report from the Auditor-General

Number	2000-01	2001-02
Municipalities	843	284
Audits to be performed	777	306
Financial statements yet to be submitted 30/09/2002	38	236
Audit reports issued with financial statements	543	unknown
Audit reports not qualified	159	unknown
Either qualified / disclaimed / opinion outstanding	384	unknown

Difference between 777 and 843 audits is ascribed to TRC's audits as part of District Councils.

*** Difference between 306 and 284 audits is ascribed to TRC's reporting separately.*

**** Number of municipalities reduced from 843 to 284 due to new demarcations in 2000.*

Source: Office of the Auditor-General.

Provincial governments and legislatures have the constitutional responsibility to monitor and oversee that municipalities are fulfilling their executive obligations. It is not clear what action is taken by provinces when municipalities fail to submit their financial statements, or fail to take corrective steps after receiving a qualified audit opinion.

Significant delays are experienced in finalising financial statements

Information from a survey of 31 municipalities suggests that there are significant delays at the initial stages of submitting financial statements. For example, Rustenberg, Swartland, Matjhabeng and OR Tambo municipalities all submitted 2000-01 financial statements by the second half of 2002 – more than 12 months late. In other instances even if statements were submitted within a reasonable timeframe, delays still occurred thereafter, often because of the poor quality financial statements or lack of audit personnel. For example, Potchefstroom's audit report was issued nearly a year after it was submitted. Furthermore, out of the 31 pilot municipalities examined, only eight municipalities attained unqualified audit reports on their 2000-01 financial statements. The reasons cited for qualification were: insufficient provision to cover exposure with irrecoverable debtor balances; failure to write off irrecoverable consumer debtors; and lack of policy for recovering the outstanding consumer debtors. Asset registers were also not updated regularly and incomplete accounting records did not support stated amounts and transactions.

Better quality non-financial and performance information is needed

Another area in need of improvement is in the quality of non-financial and performance information provided in annual reports. A brief survey of annual reports indicates that municipalities are failing to use annual reports to assess their performance. Indeed, most municipalities do not even provide the basic information on key functions.

Table 3.15 shows the audited financial outcome of income and expenditure against budgets for the 2001-02 financial year in the case of the City of Tshwane. Their annual report does go into some detail in explaining the variances but needs to provide better descriptive analysis in relation to corrective action.

Table 3.15 Tshwane Case Study – Audited Results

R million	Original Budget	Adapted Budget	Actual	Variance
Income				
Operating Income	4 609	4 677	4 882	4,4%
Capital Income	824	920	503	-45,3%
Expenditure				
Operating expenditure	4 612	4 680	4 490	-4.1%
Capital Expenditure	824	920	503	-45.3%

Source: City of Tshwane Financial Statements for the year ended 30 June 2002.

The City of Tshwane's annual report is summarised below. The comment in the box also captures areas in need of improvement.

Annual Report of Tshwane

The municipality of Tshwane has begun to prepare better quality financial reports compared to previous years. These include better and more useful information about service delivery. However, more can still be done to enhance reporting in the area of management information. For example, the following is extracted for the City of Tshwane annual report:

- Water and sanitation: initiated various water projects in several informal settlements at a cost of over R2,8 million, installed 1 000 prepayment water meters and completed 60 ablution buildings, - A reference to the measurable objectives at budget tabling time, the extent of the backlogs that have been addressed and are still remaining, the number of households benefiting from this delivery would have been useful.
- Electricity: 3 000 new streetlight fittings in Mamelodi; and installed 10km of new streetlights in Soshanguve, 12 high mast lights in high-crime areas at a cost of R1 million. Similar comments as water also a cost breakdown would have been useful.
- Community Health: little said about achievements.
- Roads and Stormwater: Initiated 31 projects in this regard in keeping with councils *"Quick and Visible Programme"* at a total cost of over R2,3 million. More details on the type of projects and beneficiaries would have been useful.

Source: City of Tshwane annual report: 2000-2002

Public-private partnerships (PPP's)

PPP's to benefit over 280 000 households

The *2001 Intergovernmental Fiscal Review* provided a comprehensive discussion on the role of PPPs in financing infrastructure. This continues to be a growing area, particularly in water and sanitation, waste management, municipal transport, electricity, refuse removal, fire fighting services and recently municipal airports. A key role-player facilitating these transactions is the Municipal Infrastructure Investment Unit (MIIU).

Conclusion

Local Government has been through three phases of transformation that have entailed redrawing of boundaries, movement and assignment of functions between category B and C municipalities; transferring personnel, assets and liabilities; and changing integrated plans and budgets. This process of restructuring is not complete, as the electricity restructuring and new division of functions between local and district municipalities take effect.

The electricity restructuring process will have a significant impact on local Government, given that electricity makes up about 33 per cent of local government activity. Though numbers are not known (as the electricity activities are not ring-fenced), one scenario would be that municipalities shift over R20 billion of their budgets, at least 25 000 personnel and a substantial portion of its liabilities to the regional electricity distributors. This will result in local government budgets shrinking from R72 billion to R50 billion, personnel employed from 210 000 to 185 000 (or even less), and reduction of substantial liabilities estimated to be in the region of R7 billion. The value of assets to be shifted is not known.

The new division of functions between district and local municipalities will also take effect from 1 July 2003, and cause further changes in budgets, assets, liabilities and number of personnel.

Municipalities face great challenges in implementing these reforms, and ensuring that service delivery does not deteriorate while such transformation is taking place. Further, local government systems are antiquated, with poor information systems, and municipalities need to modernise their systems of delivery and management, in order to perform better and promote their accountability to residents, rate-payers and customers. This includes short-term improvements to revenue collection systems, reduction of water and electricity losses, and containing the share of personnel expenditure. Poor information systems mean that this *Review* cannot comprehensively cover municipal activities.

In many cases the expansion of service delivery to previously under-serviced areas is ready to take effect, given the additional resources allocated by national Government. Improvements in planning and budgeting through Government's prioritised capacity-building programmes will help local government deliver on its mandate.

The challenge is to translate these best-practice policy reforms into practical and executable programmes, impacting positively on communities, addressing poverty and moving the pace of economic growth at the local level.

4

Education

Introduction

Transformation of education is an area in which the post-apartheid government has achieved considerable success.

Key transformation objectives have been accomplished…

Notable achievements include:

- Improved access, as reflected in the sharp growth in enrolment figures. These peaked to historical highs in excess of 12 million in 1996 and are directly linked to the policy of compulsory education adopted in 1996
- Accelerated provisioning of school infrastructure, which was reinforced through the school-building programme
- Improved learner: educator ratios, from in some instances 40:1 to 32:1 in 2002
- Enhanced efficiency by curtailing out-of-age enrolments
- A more equitable distribution of resources within the sector
- Strengthening of parent and community involvement through school governing bodies
- The successful transition from 17 departments to a unified system of school education under the auspices of the nine provinces.

… but challenges remain

In spite of these successes some challenges still remain. These include the need to further advance equity in the allocation of public expenditure on education, to enhance the quality of teaching and learning, to strengthen science and mathematics teaching, and to reinforce active community participation in school education through participation in school governing bodies.

This chapter analyses provincial expenditure and budget trends in education for the period 1999/00 to 2005/06. At 36,7 per cent of total provincial spending, education expenditure makes up the largest proportion of provincial expenditure. This chapter notes the continued recovery in provincial spending on education in the three years to 2002/03, which is reinforced by the 2003 MTEF budgets. It highlights the need to focus on non-financial service delivery information so that Government, the public and education managers can have a better sense of the impact of rising expenditure on educational outputs and outcomes.

Constitutionally, education is a concurrent function for all levels excepting tertiary education. National Government is responsible for formulating policy and setting norms and standards relating to all levels of education. It also funds higher education institutions through subsidies to universities and technikons and by giving financial support to students through the National Student Financial Aid Scheme. Provinces are responsible for all aspects of school education, as well as important education programmes such as adult education (ABET), early childhood development (ECD) and further education and training at public and youth colleges.

Provincial education expenditure trends

Provincial education budgets will grow at 8,3 per cent over the MTEF

The figures in tables 4.1 and 4.2 show that provinces are projecting to spend R53,1 billion on education in 2002/03. Although the share of education spending in total provincial expenditure shows a steady downward trend from 39,8 per cent in 1999/00 to 36,7 per cent in 2002/03, provincial education expenditure has been growing at 10,1 per cent a year in the three years to 2002/03.

Table 4.1 Provincial education expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Personnel	36 221	39 308	41 531	46 046	49 322	52 718	55 813
Capital	459	672	1 382	1 851	3 167	3 489	3 672
Other recurrent	3 148	3 243	3 976	5 205	6 407	7 240	7 979
Total	**39 828**	**43 223**	**46 889**	**53 102**	**58 897**	**63 447**	**67 465**
Percentage change (average annual)	**1999/00 – 2002/03**				**2002/03 – 2005/06**		
Personnel	8,3%				6,6%		
Capital	59,2%				25,7%		
Other recurrent	18,2%				15,3%		
Total	**10,1%**				**8,3%**		

Source: National Treasury database.

Education spending is set to continue to grow strongly

The 2003 provincial budgets reinforce the upward trend in education spending. Education expenditure is projected to grow at an average 8,3 per cent (or 2,7 per cent in real terms) over the MTEF. In 2003/04, provinces are budgeting to spend R5,8 billion more on education than their expected outcome for 2002/03. In aggregate terms provincial education spending rises to R58,9 billion in 2003/04 to R63,4 billion in 2004/05 and reaches R67,5 billion in 2005/06.

Highest growth is now in non-personnel components

Unlike in the period prior to 1998, when the bulk of additional resources to education spending went into personnel and left very little for non-personnel, especially for capital expenditure, emphasis is now on the non-personnel components of expenditure. Consistent with prioritising other complementary inputs such as learner support materials, and building on the moderate recovery in the three years to 2002/03, non-personnel expenditure in education grows by R2,5 billion or 35,7 per cent in 2003/04. Non-personnel expenditure will continue to rise over the MTEF at an average annual rate of 18,2 per cent.

Table 4.2 Education expenditure per province

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Eastern Cape	6 616	7 191	7 863	9 278	9 912	10 901	11 741
Free State	2 785	2 990	3 174	3 636	4 029	4 450	4 791
Gauteng	6 310	6 815	7 268	8 193	8 849	9 345	9 793
KwaZulu-Natal	7 299	8 173	9 261	10 373	11 868	12 677	13 451
Limpopo	5 854	6 370	6 673	7 385	8 512	9 054	9 498
Mpumalanga	2 809	2 997	3 331	3 951	4 523	4 920	5 374
Northern Cape	906	965	1 013	1 151	1 306	1 408	1 556
North West	3 408	3 699	3 972	4 332	4 768	5 241	5 585
Western Cape	3 840	4 023	4 334	4 803	5 131	5 452	5 676
Total	**39 828**	**43 223**	**46 889**	**53 102**	**58 897**	**63 447**	**67 465**

Percentage change (average annual)	1999/00 – 2002/03	2002/03 – 2005/06
Eastern Cape	11,9%	8,2%
Free State	9,3%	9,6%
Gauteng	9,1%	6,1%
KwaZulu-Natal	12,4%	9,0%
Limpopo	8,1%	8,8%
Mpumalanga	12,0%	10,8%
Northern Cape	8,3%	10,6%
North West	8,3%	8,8%
Western Cape	7,7%	5,7%
Total	**10,1%**	**8,3%**

Source: National Treasury database.

Table 4.3 shows the share of education expenditure by province. It is above the average in Limpopo (40,0 per cent), Mpumalanga (40,4 per cent), Eastern Cape (38,6 per cent) and North West (38,2 per cent). While this may reflect provincial budget choices and preferences, it does also have a structural and historical basis. Provinces which amalgamated multiple administrations, tend to have bigger staff numbers, with duplication in a number of functions and positions.

Table 4.3 Education as percentage of provincial expenditure

Percentage of total	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Eastern Cape	40,6%	39,6%	40,1%	38,6%	35,5%	36,4%	35,5%
Free State	41,6%	40,2%	38,6%	36,2%	36,4%	36,3%	35,9%
Gauteng	37,5%	37,6%	36,0%	33,9%	32,7%	31,5%	29,7%
KwaZulu-Natal	37,6%	37,5%	37,0%	35,7%	36,1%	34,8%	33,8%
Limpopo	45,7%	44,0%	42,6%	40,0%	39,8%	38,6%	36,9%
Mpumalanga	42,9%	42,7%	39,4%	40,4%	39,8%	39,3%	39,3%
Northern Cape	35,9%	36,2%	34,4%	33,6%	33,2%	32,5%	33,1%
North West	41,3%	40,1%	40,1%	38,2%	36,1%	35,7%	34,8%
Western Cape	35,7%	34,9%	34,6%	32,9%	31,3%	30,9%	29,9%
Total	**39,8%**	**39,1%**	**38,3%**	**36,7%**	**35,6%**	**35,1%**	**34,0%**

Source: National Treasury database.

Education expenditure per learner

The gap in per learner expenditure among provinces is still wide…

Table 4.4 shows that growth in education expenditure over the last three years has resulted in a substantial increase in per learner expenditure, from R3 234 in 1999/00 to R4 437 in 2002/03. However, at R1 393, the gap among provinces in average per learner expenditure is still wide. Despite having the biggest education budget of R10,4 billion, and notwithstanding the highest growth in total spending of 12,4 per cent a year between 1999/00 and 2002/03, KwaZulu-Natal still has the lowest per learner expenditure. Sustained growth in education budgets in provinces with low per learner expenditure, should narrow the gap over the MTEF.

Table 4.4 Expenditure per learner

Rand	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual
Eastern Cape	2 846	3 362	3 866	4 466
Free State	3 570	3 910	4 433	5 155
Gauteng	4 021	4 384	4 655	5 077
KwaZulu-Natal	2 633	3 069	3 432	3 762
Limpopo	3 211	3 452	3 674	4 015
Mpumalanga	3 019	3 287	3 685	4 321
Northern Cape	4 438	4 858	5 139	5 805
North West	3 602	4 065	4 447	4 727
Western Cape	3 987	4 391	4 721	5 081
Average	**3 234**	**3 631**	**3 995**	**4 437**

Sources: Learner numbers, EMIS, national Department of Education and Expenditure data, National Treasury database.

… but must be viewed in relation to other factors

While per learner expenditure is an important measure for comparing the nine provinces, it is advisable to use it with other indicators that reflect unique circumstance prevailing in individual provinces. For instance, some provinces have greater administration or head office expenditure. Some spend more on transportation and hostel accommodation, while others have higher average salaries because they have larger proportions of better-qualified educators. Also, the average cost of providing education varies across provinces due to the availability or otherwise of infrastructure and other factors.

Composition of provincial education expenditure

Expenditure by programme and uniform budgets

Public ordinary schools get 83 per cent of provincial education expenditure

Table 4.5 sets out provincial education spending by programme and shows that public ordinary school education makes up the biggest percentage of provincial education expenditure. The programme funds primary and secondary schools that provide compulsory education to grades 1 to 9, and non-compulsory education for grades 10 to 12.

With the introduction of the 'inclusive school policy', many learners with special needs will now be incorporated into public ordinary schools. Only learners with disabilities that require specialised care will be placed in special learning centres.

Estimated provincial expenditure on public ordinary schools amounts to R44,3 billion or 83,4 per cent of total education expenditure in 2002/03. Expenditure on this programme is budgeted to grow by 10,1 per cent to R48,8 billion in 2003/04, rising to R52,7 billion in 2004/05 and R56,1 billion in 2005/06. The growth in expenditure on public ordinary schools is in line with the overall growth in education expenditure of 10,9 per cent.

Table 4.5 Provincial education expenditure per programme

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Estimated	Medium-term estimates		
R million				actual			
Administration	2 644	2 472	3 479	3 780	4 328	4 574	4 832
Public ordinary school education	33 653	36 966	39 213	44 306	48 804	52 702	56 083
of which: Primary schools	*20 322*	*22 200*	*23 709*	*24 526*	*27 121*	*28 920*	*30 807*
of which: Secondary schools	*12 493*	*13 695*	*14 703*	*18 970*	*20 802*	*22 825*	*24 293*
Other	*838*	*1 071*	*801*	*811*	*881*	*957*	*982*
Independent school subsidies	176	206	187	196	235	245	253
Public special school education	1 116	1 134	1 356	1 446	1 595	1 665	1 764
Further education and training	754	827	869	1 082	1 201	1 276	1 360
Adult basic education and training	362	410	401	512	551	595	637
Early childhood development	199	197	248	449	510	538	591
Auxiliary and associated services	657	653	844	1 199	1 519	1 701	1 784
Other programmes	266	359	293	132	154	151	161
Total expenditure	**39 828**	**43 223**	**46 889**	**53 102**	**58 897**	**63 447**	**67 465**
Economic classification							
Current expenditure	39 369	42 551	45 507	51 251	55 730	59 958	63 792
of which: Personnel	*36 221*	*39 308*	*41 531*	*46 046*	*49 322*	*52 718*	*55 813*
Capital expenditure	459	672	1 382	1 851	3 167	3 489	3 672

See Appendix A2.3 for expenditure and budgets of each province.

Uniform budget structures implemented in 2003/04

For the 2003 provincial budgets, all provinces implemented a uniform budget format and programme structure for education. Historical expenditure has been reclassified to be consistent with the new programme structure and to allow for comparisons. For the first time, Government is now in a position to present expenditure on primary and secondary education separately.

Primary school education receives 55 per cent of school education expenditure

Within the Public Ordinary School Education Programme, the share of secondary education is set to grow from 37,1 per cent in 1999/00 to 43,3 per cent in 2005/06. Conversely, the share of expenditure on primary education drops from 60,4 per cent to about 55,0 per cent over the same period. However, expenditure on primary school education grows by 7,9 per cent from R24,5 billion in 2002/03 to R30,8 billion in 2005/06. Expenditure on secondary school education amounted to R19,0 billion in 2002/03 and, growing at an average annual rate of 8,6 per cent, rises to R24,3 billion in 2005/06.

The introduction of the Early Childhood Development (ECD) Programme is an important reform initiative aimed at providing a more efficient schooling system. The national Department of Education envisages that the introduction of a reception grade will allow for greater school preparedness of learners and, ultimately, a lower repeater rate and a more efficient education system.

Personnel expenditure trends

Average teacher salary package is between R78 000 and R97 000

Delivery of education is one of the most personnel-intensive public services. Out of an estimated expenditure outcome of R53,1 billion in 2002/03, about R46 billion, representing 86,7 per cent, is on personnel. While the average salary package of an educator ranges between R78 000 and R97 000, 'take-home' salary (excluding pension and medical aid) averages between R60 000 and R80 000 per annum..

Declining share of personnel expenditure creates space for critical non-personnel inputs

Provincial departments of Education are succeeding in curtailing growth in personnel spending in their budgets. Following an agreement between educators' unions and Government in 1999 over rationalisation and redeployment, provinces embarked on a strategy to contain personnel spending. The aim was to reduce the share of personnel spending in total education expenditure to at least 85 per cent. This was in order to create space in provincial budgets for non-personnel inputs that are critical to the effective delivery of education.

Over the last three years, growth in educator salaries has been slightly below inflation. Simultaneously, education budgets have been growing at 1,5 per cent in real terms. Combined with moderate decreases in educator numbers mainly due to attrition, this has resulted in a reduction in the share of personnel in education spending from 90,9 per cent in 1999/00 to 86,7 per cent in 2002/03. As the 2003 MTEF budgets indicate, the downward trend in the share of personnel is set to continue, with the share dropping further to 82,7 per cent by 2005/06.

Right-sizing is yielding dividends

The rate of the fall in the share of personnel, however, varies from province to province. Table 4.6 shows that all provinces have contained personnel expenditure, albeit with varying success. In four provinces, Limpopo (89,7 per cent), North West (89,6 per cent), KwaZulu-Natal (88,9 per cent) and Eastern Cape (88,6 per cent), the share of personnel is above the national average of 86,7 per cent. This is in spite of the fact that these provinces have lower average educator salaries.

Although Western Cape and Gauteng have a larger complement of highly qualified educators and therefore on average pay more per educator, their share of personnel expenditure is among the lowest. This is partly due to the bold step these provinces took to rightsizing their personnel structure.

Table 4.6 Provincial education personnel expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Eastern Cape	6 371	6 772	7 166	8 224	8 537	9 360	9 784
Free State	2 472	2 694	2 800	3 150	3 388	3 617	3 874
Gauteng	5 448	5 786	6 049	6 702	6 817	7 223	7 654
KwaZulu-Natal	6 721	7 613	8 251	9 223	9 995	10 593	11 207
Limpopo	5 401	5 871	6 124	6 625	7 407	7 821	8 292
Mpumalanga	2 587	2 788	2 960	3 285	3 688	4 005	4 402
Northern Cape	773	812	857	932	1 041	1 124	1 218
North West	3 129	3 405	3 609	3 883	4 125	4 357	4 590
Western Cape	3 318	3 567	3 716	4 023	4 323	4 617	4 792
Total	**36 221**	**39 308**	**41 531**	**46 046**	**49 322**	**52 718**	**55 813**
Percentage of education budget							
Eastern Cape	96,3%	94,2%	91,1%	88,6%	86,1%	85,9%	83,3%
Free State	88,7%	90,1%	88,2%	86,6%	84,1%	81,3%	80,9%
Gauteng	86,3%	84,9%	83,2%	81,8%	77,0%	77,3%	78,2%
KwaZulu-Natal	92,1%	93,2%	89,1%	88,9%	84,2%	83,6%	83,3%
Limpopo	92,3%	92,2%	91,8%	89,7%	87,0%	86,4%	87,3%
Mpumalanga	92,1%	93,0%	88,9%	83,1%	81,5%	81,4%	81,9%
Northern Cape	85,3%	84,1%	84,6%	81,0%	79,8%	79,9%	78,3%
North West	91,8%	92,1%	90,9%	89,6%	86,5%	83,1%	82,2%
Western Cape	86,4%	88,7%	85,7%	83,8%	84,3%	84,7%	84,4%
Total	**90,9%**	**90,9%**	**88,6%**	**86,7%**	**83,7%**	**83,1%**	**82,7%**

Source: National Treasury database.

Non-personnel expenditure

The physical facilities that are conducive to a stable learning environment have been identified as one of the strategic priorities of education. In the years when personnel spending was in excess of 90 per cent of education expenditure, little was left for school infrastructure, construction and maintenance, textbooks and other critical inputs.

Non-personnel expenditure recovers strongly over the MTEF

One of the spin-offs of the success in containing personnel costs is the strong recovery in non-personnel expenditure. In the three years to 2002/03, the upturn in non-personnel expenditure has been largely fuelled by exponential growth in capital expenditure. This comprises mainly of building schools and extra classrooms in overcrowded schools and replacing dilapidated buildings.

Strong growth in capital expenditure should reduce classroom backlogs

After rising somewhat steadily in 2000/01 and 2001/02, education capital expenditure more than doubles in the three years to 2002/03, rising from R672 million in 2000/01 to an estimated outcome of R1,9 billion in 2002/03. This raises the share of capital expenditure in education to 3,5 per cent from 1,2 per cent in 1999/00. Although information on physical progress with classroom building is not readily available, spending of this magnitude is expected to make a significant impact on reducing backlogs.

Table 4.7 Provincial education capital expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Eastern Cape	8	62	187	314	437	412	438
Free State	13	31	104	97	120	199	214
Gauteng	216	170	191	374	777	826	831
KwaZulu-Natal	23	198	539	432	1 016	1 155	1 246
Limpopo	30	54	103	186	302	334	353
Mpumalanga	63	42	92	153	206	236	243
Northern Cape	26	0	1	16	26	27	38
North West	28	54	53	153	145	165	174
Western Cape	53	59	111	125	138	134	135
Total	**459**	**672**	**1 382**	**1 851**	**3 167**	**3 489**	**3 672**
Percentage of education budget							
Eastern Cape	0,1%	0,9%	2,4%	3,4%	4,4%	3,8%	3,7%
Free State	0,5%	1,0%	3,3%	2,7%	3,0%	4,5%	4,5%
Gauteng	3,4%	2,5%	2,6%	4,6%	8,8%	8,8%	8,5%
KwaZulu-Natal	0,3%	2,4%	5,8%	4,2%	8,6%	9,1%	9,3%
Limpopo	0,5%	0,8%	1,6%	2,5%	3,5%	3,7%	3,7%
Mpumalanga	2,2%	1,4%	2,8%	3,9%	4,6%	4,8%	4,5%
Northern Cape	2,8%	0,0%	0,1%	1,4%	2,0%	2,0%	2,5%
North West	0,8%	1,5%	1,3%	3,5%	3,0%	3,2%	3,1%
Western Cape	1,4%	1,5%	2,6%	2,6%	2,7%	2,5%	2,4%
Total	**1,2%**	**1,6%**	**2,9%**	**3,5%**	**5,4%**	**5,5%**	**5,4%**

Source: National Treasury database.

Non-personnel non-capital components will account for more growth in expenditure in future

Capital expenditure continues to grow over the MTEF, rising to R3,2 billion in 2003/04 and reaching R3,7 billion in 2005/06. However, over the next three years the main factors behind growth in non-personnel spending in education include other non-personnel non-capital components, such as increased funding for learner support materials.

Non-personnel non-capital expenditure

In addition to having educators, proper school buildings and other facilities, effective teaching and learning also requires various complementary inputs, such as textbooks, stationery, and other teaching aids.

The slowdown in growth of personnel expenditure and strong growth in provincial budgets has created space for increases in other non-personnel expenditure. It is important to disaggregate non-personnel non-capital expenditure further to separate the component that is spent on public ordinary schools.

Non-personnel non-capital spending for provincial education is R5,2 billion for 2002/03

Table 4.8 shows that total provincial non-personnel non-capital expenditure in 2001/02 was R3,9 billion. It increased by 30,9 per cent to R5,2 billion in 2002/03. This includes non-personnel non-capital expenditure at head office and other parts of education administration.

Table 4.8 Non-personnel non-capital (npnc) expenditure–total provincial education

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	238	357	511	740	938	1 129	1 519
Free State	301	265	269	389	520	633	704
Gauteng	646	858	1 029	1 117	1 255	1 296	1 308
KwaZulu-Natal	554	362	471	718	857	929	998
Limpopo	422	445	446	574	802	900	853
Mpumalanga	159	166	279	513	629	678	729
Northern Cape	108	153	155	203	238	256	299
North West	250	240	310	296	498	718	820
Western Cape	469	397	507	655	670	701	749
Total	**3 148**	**3 243**	**3 976**	**5 205**	**6 407**	**7 240**	**7 979**
Percentage of education budget							
Eastern Cape	3,6%	5,0%	6,5%	8,0%	9,5%	10,4%	12,9%
Free State	10,8%	8,8%	8,5%	10,7%	12,9%	14,2%	14,7%
Gauteng	10,2%	12,6%	14,2%	13,6%	14,2%	13,9%	13,4%
KwaZulu-Natal	7,6%	4,4%	5,1%	6,9%	7,2%	7,3%	7,4%
Limpopo	7,2%	7,0%	6,7%	7,8%	9,4%	9,9%	9,0%
Mpumalanga	5,7%	5,5%	8,4%	13,0%	13,9%	13,8%	13,6%
Northern Cape	11,9%	15,9%	15,3%	17,6%	18,3%	18,2%	19,2%
North West	7,3%	6,5%	7,8%	6,8%	10,4%	13,7%	14,7%
Western Cape	12,2%	9,9%	11,7%	13,6%	13,1%	12,9%	13,2%
Total	**7,9%**	**7,5%**	**8,5%**	**9,8%**	**10,9%**	**11,4%**	**11,8%**

Source: National Treasury database.

Non-personnel non-capital spending on ordinary schools recovers

Table 4.9 shows non-personnel non-capital expenditure on public ordinary schools excluding head office and other components of the administration. Non-personnel non-capital expenditure on public ordinary schools rose slightly from R210 per learner in 1999/00 to R259 per learner in 2002/03. While this is an improvement, it is still relatively low. It appears that this is one of the components of expenditure that has been squeezed out by the rising share of personnel spending and increases in capital spending in the past.

The provinces with low non-personnel non-capital expenditure per learner for the Public Ordinary Schools Education Programme, also have low senior certificate pass rates. In 2002/03, these provinces spent on average R155 per learner, as opposed to the average expenditure of R468 per learner in Northern Cape, Gauteng and Western Cape. There appears to be a relationship between inadequate non-personnel non-capital resourcing and senior certificate results, indicating the need to reinforce this component of education expenditure.

Table 4.9 Non personnel non capital (npnc) expenditure – public schools only

	1999/00		2000/01		2001/02		2002/03	
R million	Actual	Per learner [1] (Rand)	Actual	Per learner [1] (Rand)	Actual	Per learner [1] (Rand)	Estimated actual	Per learner [1] (Rand)
Eastern Cape	212	92	261	123	355	175	394	190
Free State	250	325	152	204	145	206	213	308
Gauteng	509	350	387	270	347	240	685	463
KwaZulu-Natal	477	175	145	55	152	57	308	113
Limpopo	349	193	213	116	259	144	357	197
Mpumalanga	140	153	77	86	137	153	321	355
Northern Cape	93	461	113	574	108	555	108	554
North West	216	230	164	182	201	227	226	250
Western Cape	288	312	242	273	315	354	418	457
Total	**2 534**	**210**	**1 755**	**151**	**2 018**	**176**	**3 031**	**259**

1. Learner enrolment - only public schools.

Sources: Learner enrolment EMIS, national Department of Education; Expenditure data, National Treasury database.

Transfers and grants

Conditional grants make up a relatively small proportion of provincial education expenditure

Conditional grants in education amount to R409 million in 2002/03 and are used to fund financial management and quality enhancement, HIV/Aids education and early childhood development (ECD). The ECD grant is phased out after 2003/04 and in future the programme will be funded through the equitable share.

Largest conditional grant supports improvement in education management

The largest conditional grant to provinces is to support quality enhancement in education management and improved financial management in provincial education departments. This grant supports the strengthening of district management, various projects aimed at restoring the culture of learning and teaching in schools, and improving financial management capacity in provincial departments of Education.

Integrated Nutrition Programme to be managed by education departments

At present, the Integrated Nutrition Programme (INP) is implemented by the Department of Health. This grant is used for providing food to learners from poor households. Initially, there was under-expenditure on this programme, and funding for it did not grow. Now that there is evidence of improvement in the capacity to spend, funding for the programme is projected to grow substantially to R1 041 million in 2005/06. Plans are also afoot to shift the Integrated Nutrition Programme, currently administered by the Department of Health, to the Department of Education. It is envisaged that such a move would foster better co-ordination. The national Department of Education has started work on improving the impact and effectiveness of the Integrated Nutrition Programme for poor learners in the education system.

Higher Education

Higher Education follows on the Further Education and Training Band in education and spans levels 5 to 8 of the National Qualifications Framework. Studies in higher education lead to diplomas, degrees, professional qualifications and higher degrees, grouped together at the national level into 22 fields of specialisation, ranging from agriculture and renewable resources to social sciences and social studies. In 2000 there were 36 higher education institutions, consisting of 21 universities and 15 technikons, with a total of 591 161 students, 14 789 permanent educators and 24 002 temporary educators. The number of university students was 388 369, and 202 792 at technikons. At universities the largest field of specialisation was business, commerce and management (21,2 per cent of enrolments), followed by education (19,1 per cent). At technikons, business, commerce and management is by far the largest area of specialisation, with 30 per cent of students enrolled in this area. At universities about 22 per cent of students were enrolled in the natural sciences (as against the human sciences) and about 36 per cent at technikons.

Restructuring

The National Plan for Higher Education was released in March 2001 after which a National Working Group advised the Minister on the restructuring of the institutional landscape of higher education. The restructuring process involves the consolidation of higher education provisioning on a regional basis through the establishment of new institutional and organisational forms, including comprehensive institutions incorporating both university- and technikon-type qualifications, and reducing the number of higher education institutions through mergers. The restructuring will allow for increased access, including access to career-focused programmes. There will also be improved articulation between career-focused and academic programmes.

The restructuring will reduce the number of institutions from 36 to 21. National Institutes for Higher Education will be established in both Mpumalanga and Northern Cape, where there are no existing higher education institutions. The overall reduction of the number of institutions should improve equity, sustainability and productivity within the higher education system. The first merger took place on 1 April 2002 when the Natal Technikon and ML Sultan Technikon merged to establish the Durban Institute of Technology. This merger was followed by the incorporation of the Qwa-Qwa campus of the University of the North into the University of the Free State on 1 January 2003.

The Department will continue implementing the National Plan for Higher Education over the medium term, which will lead to more institutional mergers and programme rationalisation to minimise overlaps and duplication. R800 million was allocated over the MTEF to support this process, mainly for the re-capitalisation of undercapitalised institutions, personnel retrenchment costs, harmonising systems, facilitating the process and for physical infrastructure.

Funding

In 2003/04, the 21 universities will receive about R6 billion in transfers from the national Department of Education and the 14 technikons will receive R2,3 billion. Total transfers to these institutions will increase to R8,9 billion, up from R8,0 billion in 2002/03. This includes funds for institutional restructuring and funds for the National Student Financial Aid Scheme. Allocations to institutions are determined through a funding formula incorporating student numbers and types – such as contact versus distance learning, level of study and field of study – as well as the main components of costs. The finalisation and phased-in implementation of a new funding framework for higher education institutions is receiving priority attention. A new policy for the measurement and reward of research outputs at higher education institutions will also be implemented in the medium term. In addition to subsidy and earmarked funding from Government, higher education institutions also charge fees and receive revenue from other sources such as donors.

National Student Financial Aid Scheme

Government also funds needy students directly through loans and bursaries through the National Student Financial Aid Scheme. The Scheme is responsible for administering and allocating loans and bursaries to eligible students; developing criteria and conditions for granting loans and bursaries to eligible students in consultation with the Minister of Education, raising funds, recovering loans, maintaining and analysing a database and undertaking research for the better utilisation of financial resources, and advising the Minister on matters relating to student financial aid.

The student head count receiving awards from the National Student Financial Aid Scheme has increased from nearly 69 300 in 1996/97 to 88 800 in 2001/02, or to about 15 per cent of the higher education student population. The average expenditure per student in 2001/02 was R7 150. The Fund will receive R545 million from the national Department of Education in 2003/04, in addition to which it also manages contributions from higher education institutions and international donors. An increasing proportion of funding is coming from students repaying loans, and R209 million from this source of funding will be made available in 2003/04.

Key inputs into education delivery

Personnel

Educators make up 40 per cent of all civil servants

Education is labour intensive and the management of education personnel is central to the delivery of quality education. Education personnel constitute 40 per cent of all civil servants, and 59 per cent of civil servants in the provinces. Chapter 10 on Personnel provides additional detailed discussion on personnel.

Table 4.10 Education personnel

	2001			2002		
	Number of educators	Number of admin personnel	Ratio of educator to admin	Number of educators	Number of admin personnel	Ratio of educator to admin
Eastern Cape	66 555	8 778	7,6	66 770	8 502	7,9
Free State	24 096	5 331	4,5	24 039	5 586	4,3
Gauteng	45 981	14 974	3,1	47 225	14 831	3,2
KwaZulu-Natal	73 360	9 145	8,0	75 991	9 533	8,0
Limpopo	57 182	5 312	10,8	56 795	5 156	11,0
Mpumalanga	25 943	3 977	6,5	26 342	3 810	6,9
Northern Cape	6 688	2 383	2,8	6 612	2 314	2,9
North West	32 322	4 563	7,1	32 265	4 389	7,4
Western Cape	28 424	8 650	3,3	28 417	8 337	3,4
Total	**360 549**	**63 113**	**5,7**	**364 457**	**62 458**	**5,8**

Source: Persal, National Treasury.

Post provisioning model determines number of educator posts per school

In 1999, Government and educator unions signed an agreement on educator rationalisation and redeployment. Under the agreement, provincial education budgets are used for determining the overall number of posts available. Educator posts are then distributed to schools on a *pro rata* basis. A post provisioning model which calculates weighted learner enrolments by taking into account the maximum ideal class size applicable to a learning area or phase, the timetable load for educators, learner numbers, number of grades, whether there is more than one language as the medium of instruction, and learner disabilities was adopted.

Post provisioning model to be revised in 2003 and to emphasise educator needs of poor areas

In 2003, a revised post-provisioning model is being implemented. In addition to the factors included in the previous model, the revised model will take into account the requirements of Curriculum 2005 as well as the current arrangement of distributing educator posts in favour of poor areas. Provinces have set aside up to 5 per cent of their posts to allow extra educators to be placed at the poorest schools. The pool of posts intended for addressing inequities is allocated to schools on the basis of the resource targeting list. This is a requirement of the National Norms and Standards for school funding and will allow for a post distribution with a pro-poor bias. It is also envisaged that this model will address some of the concerns on intra-provincial inequalities in educator distribution.

364 457 educators in public school system

Based in part on distribution by the post provisioning model and, in part, on historical patterns, Table 4.10 outlines the provincial distribution of educators and education personnel for 2001 and 2002.

Although there was a decline in educators from 1996 to 1999, in 2001 educator numbers increased slightly, and the educator complement for 2002 stood at 364 457.

Non-educator personnel at stable levels

Non-educator personnel includes staff not employed in terms of the Employment of Educators Act (76 of 1998). Over the past three years this component of personnel has remained stable at around 63 000. In 2002, the national ratio for administration personnel to educator was 1: 5,8. In Limpopo, KwaZulu-Natal, Eastern Cape and North West the educator to administration personnel ratio is very low. This suggests that in these provinces, educators may be performing administrative responsibilities.

Educator qualifications

New system inherited a high number of under-qualified educators

After 1994, South Africa's education system was characterised by a high number of educators without suitable qualifications. This has been particularly evident in provinces where large components of former homeland administrations were incorporated. Since 1994, considerable efforts have gone into upgrading educator skills and formal qualifications.

Number of educators lacking in suitable qualifications has decreased

There has been notable progress in upgrading educator qualifications. Intensive educator training initiatives have contributed to a drop in the number of educators without suitable qualifications. For example, in KwaZulu-Natal, the number of educators without matric has been reduced from 1 757 in 1997 to none in 2002. However, nationally, there are still 68 000 educators who do not have the minimum qualification, which is matric plus three years of post-matric training.

Most educators now have tertiary qualifications

Based on data in the Personnel Salary Payment System (Persal) on educator qualifications, averaged for 2002, it is clear that a large component of educators have tertiary qualifications, as shown in Table 4.11. The national average of educators with a tertiary qualification is 84 per cent. In Gauteng and Western Cape, most educators have tertiary qualifications or four years (or more) post matric training.

Education skills training receiving attention

In April 2002, a total of 13 305 educators enrolled for the National Diploma in Education to upgrade their qualifications. The course is studied for two years on a part-time basis. In addition to initiatives to improve the formal qualifications of educators, there has been a considerable focus on education skills training. Educators unions and Government have agreed that each educator devotes 80 hours to ongoing professional development a year outside of learner contact time. This is in addition to the ongoing training of educators in Curriculum 2005 and the principles of Outcome Based Education (OBE).

Table 4.11 Educator qualifications 2002

	Matric	Underqualified Educators [1]	Matric + 3 years	Matric + 4 years	Total educators
Eastern Cape	386	12 860	31 565	22 343	66 770
Free State	758	4 717	9 535	9 786	24 039
Gauteng	123	3 334	14 625	29 267	47 225
KwaZulu-Natal	4 577	13 433	27 887	34 671	75 991
Limpopo	182	7 919	24 568	24 307	56 795
Mpumalanga	692	3 844	10 275	12 223	26 342
Northern Cape	70	854	2 405	3 354	6 612
North West	1 420	10 218	10 361	11 686	32 265
Western Cape	116	2 598	8 643	17 177	28 417
Total	**8 323**	**59 777**	**139 864**	**164 812**	**364 457**
Percentage of educators					**Total REVQ 13 and above**
Eastern Cape	0,6%	19,3%	47,3%	33,5%	80,7%
Free State	3,2%	19,6%	39,7%	40,7%	80,4%
Gauteng	0,3%	7,1%	31,0%	62,0%	92,9%
KwaZulu-Natal	6,0%	17,7%	36,7%	45,6%	82,3%
Limpopo	0,3%	13,9%	43,3%	42,8%	86,1%
Mpumalanga	2,6%	14,6%	39,0%	46,4%	85,4%
Northern Cape	1,1%	12,9%	36,4%	50,7%	87,1%
North West	4,4%	31,7%	32,1%	36,2%	68,3%
Western Cape	0,4%	9,1%	30,4%	60,4%	90,9%
Total	**2,3%**	**16,4%**	**38,4%**	**45,2%**	83,6%

1. Includes educators with highest qualifications: Matric, Matric + 1 year, Matric + 2 years.
Source: Persal, National Treasury.

Educator and whole-school evaluation in place

There is a growing awareness that, along with the formal upgrading of skills, educator performance needs to be formally assessed and evaluated. An educator developmental appraisal system has been implemented in all provinces, which ascertains the developmental needs of individual educators. Based on pre-agreed evaluation criteria encompassing a set of nine priorities, a system of whole-school evaluation has also been implemented. This evaluation is carried out internally by the school personnel and externally by appointed supervisors. Although not yet formalised, it is proposed that an evaluation system for enhanced remuneration be based on a combination of these two approaches.

Attrition rate high in Gauteng and Western Cape

According to a study conducted by the national Department of Education in 2001, the rate of attrition of permanent publicly employed educators was, on average, 15 000 educators a year. Provinces with higher levels of economic activity and job opportunities such as Gauteng and Western Cape are experiencing higher attrition rates. The education system produces an estimated 5 000 educators per year. However, in the medium term it is unlikely that the sector would acquire a deficit, as there is a stock of surplus and unemployed educators. To address possible longer-term concerns, the national Department of Education will be undertaking an educator supply and demand study.

Infrastructure

Improvement in school infrastructure

In 2000, an extensive School Register of Needs (SRN) was completed. The Register established a comprehensive record of the location and extent of all public ordinary school infrastructure. With the exception of Mpumalanga, which submitted separate data from the 2000 survey, all provinces registered an improvement in provisioning of classrooms, electricity connections and toilets between 1996 and 2000. At present, the national Department of Public Works is still responsible for paying municipal rates on government properties that are used by provincial education departments. In 2001/02 this amounted to R182 million.

Resource targeting

Non-personnel spending focuses on schools with greatest need

The 2000 school year saw the introduction of the National Norms and Standards for School Funding. The aim of this policy is to focus non-personnel expenditure on those schools with the greatest need. The resources targeted for distribution will, to some extent, address the infrastructure backlog and create an effective learning environment.

Mechanism for resource targeting

All provincial schools were assessed in terms of their physical conditions and the poverty levels of the community in which they are located. Schools were ranked from the poorest to the least poor, and then divided into five quintiles, based on the profile of learners, community location and infrastructure backlog. In each province, a ranked list of schools was developed and resources are now being targeted to those schools on the basis of the table below.

Resource targeting based on conditions of school and poverty of communities

School quintiles from the poorest to the least poor	Expenditure allocation	Cumulative percentage of schools	Cumulative percentage of non-personnel non-capital expenditure	Per learner expenditure indexed to average of 100
Poorest 20%	35% of the resources	20%	35%	175
Next 20%	25% of the resources	40%	60%	125
Next 20%	20% of the resources	60%	80%	100
Next 20%	15% of the resources	80%	95%	75
Least poor 20%	5% of the resources	100%	100%	25

Capital and current resources targeted for redistribution

Both current and capital expenditure are incorporated in the National Norms and Standards for School Funding. Categories such as water and electricity, teaching equipment and supplies, and learner support material are distributed according to the resource targeting list, while new classrooms and hostel costs are targeted mainly towards need and poverty redress.

Pervasive poverty remains a challenge for the education system

The development of the resource targeting system is an important step in attaining equity. However, it has become apparent that, given the extensive prevalence of poverty, the distinction between the poorest two quintiles and the next quintiles does not deal adequately with the challenge of inequity. Also, the resource targeting system is developed per province and only helps with intra-provincial equity. In some instances, the least poor of one province are much better funded than the poorest in another province.

Non-personnel funds transferred directly to section 21 schools

For schools that have full section 21 status, funds are transferred directly to the school governing body and expenditure is audited. However, for the majority of schools, funds are administered at a district or regional office level, and it is the effective management of the resources at this level that is critical.

Learner support material

Average expenditure on learner support material in 2002/03 was R126 per learner

A critically important component of the norms and standards funding categories is learner support material (LSM), which includes text books, stationery and, in some provinces, teaching aids. Table 4.12 reflects expenditure on learner support materials. For 2002/03, expenditure per learner improved but continued to be very low in some provinces - KwaZulu-Natal (R71 per learner) and North West (R70 per learner).

The 2003/04 budgets show marked growth in planned LSM expenditure of all provinces to a budget of R2,2 billion. Based on current trends in learner numbers, this should raise estimated per learner expenditure on LSM to about R190. Growth in per learner expenditure is particularly high in KwaZulu-Natal where LSM expenditure is budgeted to grow to R518 million. Appendix A.2.1 provides more detail on LSM expenditure and budgets.

Table 4.12 Learner support material expenditure

R million	2000/01 Actual	2000 Per learner (Rand)[1]	2001/02 Actual	2001 Per learner (Rand)[1]	2002/03 Estimated actual	2002 Per learner (Rand)[1]	2003/04 Budget	2003 Per learner (Rand)[2]
Eastern Cape	92,2	43	210,9	104	285,0	138	341,1	165
Free State	106,5	143	91,4	130	78,0	113	100,5	145
Gauteng	168,9	118	213,9	148	226,0	153	273,2	185
KwaZulu-Natal	192,4	73	181,8	68	192,3	71	518,3	191
Limpopo	131,5	72	209,6	117	285,0	157	425,0	234
Mpumalanga	48,9	54	92,1	103	212,0	235	241,6	267
Northern Cape	19,7	100	30,1	155	29,0	148	29,8	152
North West	54,6	61	57,0	65	63,1	70	152,0	168
Western Cape	55,3	62	77,0	87	108,5	118	131,0	143
Total	**870,1**		**1 163,8**		**1 478,9**		**2 212,6**	
Average		**75**		**101**		**126**		**189**

1. Learner enrolment - only public schools.

2. Per learner estimates for 2003/04 based on learner enrolment for 2002.

Source: Provincial Treasuries and provincial Departments of Education.

School governance and management

Greater decentralisation fosters better school management

Functional schools are the main building blocks of an effective education system. Devolving some of the critical management functions, including certain financial management and procurement functions, to schools as cost centres, is therefore vitally important.

Schools should be empowered to take decisions on the day-to-day running of their affairs, including aspects of the procurement function, within the parameters set in relevant national frameworks and taking account of their capacities. In recognition of this, Government encourages greater community involvement in running schools. Functional school management structures have been identified as a crucial element in enhancing school outputs and outcomes. The granting of section 21 status to schools also gives expression to this policy initiative.

More community involvement in local school governance is needed

The involvement of local communities in the governance of schools is a part of the 1994 reform initiatives. The South African Schools Act (84 of 1996)(SASA) requires that a school governing body (SGB) consisting of parents from the local community, be elected for each school. Fostering community involvement in local school governance is important for fostering greater accountability.

School governing bodies elected at each school

The roles of school governing bodies would include functions such as support to the educators and principal, the encouragement of voluntary community services at schools and general fundraising. In addition, schools that have been granted section 21 status in terms of the Act would have to take on additional financial management responsibility, though criteria determining the size of the state allocation to the school remain unchanged.

School governing bodies hire additional educators

A focus of a number of schools has been on hiring additional educators whose salaries are paid for by funds raised at school level. As can be expected, given the predominance of previous model C schools in Gauteng and Western Cape, these provinces have a large number of teachers appointed by school governing bodies.

Table 4.13 Number of educators appointed by school governing bodies

	1997	2001
Eastern Cape	– [1]	2 069
Free State	279	766
Gauteng	1 731	4 575
KwaZulu-Natal	1 653	4 312
Limpopo	429	676
Mpumalanga	437	846
Northern Cape	– [1]	265
North West	364	477
Western Cape	1 050	2 987
Total	**5 943**	**16 973**

1. Data not available.

Source: Annual Schools Survey,EMIS, national Department of Education.

School fees determined by school governing bodies

Determining school fees is an important responsibility of school governing bodies. Initial studies indicate that school fees for schools in the upper quintile of the funding norms range between R300 and R2 700 per learner, per year. For the other four quintiles, average fees are less than R200 per year. The South African Schools Act allows learners from households that cannot afford school fees to request exemption. Yet, evidence points to the non exemption and exclusion of learners who cannot afford fees because of the inability of their parents to afford school fees, or pay for uniforms, essential transport or additional stationery and books.

Education outputs

Results

High participation rates, but concern over dropout rate in secondary education

Ensuring access for all children to basic education has been a major success of the education reform process. Following the introduction of compulsory education, school enrolment rose to 12,3 million children registered as learners by 1996. This was an estimated increase of 2,6 million over the 1990 enrolment figures and an increase of 2,2 million over 1994 figures. Table 4.14 shows learner enrolment figures for 1996 to 2002.

Table 4.14 Learner enrolment (public ordinary schools and independent schools)

	1996	1997	1998	1999	2000	2001	2002
Eastern Cape	2 325 000	2 441 177	2 292 475	2 324 684	2 138 861	2 033 832	2 077 446
Free State	780 000	798 305	806 649	780 170	764 755	716 021	705 368
Gauteng	1 569 000	1 514 239	1 556 755	1 569 423	1 554 495	1 561 359	1 613 779
KwaZulu-Natal	2 772 000	2 919 096	2 813 786	2 772 225	2 663 360	2 698 453	2 757 278
Limpopo	1 823 000	1 838 272	1 848 054	1 823 017	1 845 265	1 816 189	1 839 079
Mpumalanga	931 000	885 856	935 878	930 624	911 779	903 997	914 353
Northern Cape	204 000	196 012	201 308	204 238	198 650	197 101	198 288
North West	946 000	938 780	955 306	946 160	909 906	893 144	916 463
Western Cape	963 000	908 610	954 732	963 358	916 384	918 030	945 239
Total	**12 313 000**	**12 440 347**	**12 364 943**	**12 313 899**	**11 903 455**	**11 738 126**	**11 967 293**

Sources: Learner numbers 1997-2002, EMIS, national Department of Education;
Learner numbers 1996, IGFR 2001.

Participation rates remain high. But high dropout rates are cause for concern. Figure 4.1 illustrates participation rates for primary and secondary enrolment since 1991. The high gross enrolment rates of more than 120 per cent in the mid-1990s have been reduced. This efficiency gain allows for a greater incidence of appropriately aged learners.

On average, for every 100 children that are in Grade 1, there are 52 in Grade 12. Although the growth in primary school learner numbers will impact on this data, this could still be suggestive of a high dropout rate in South African schools – especially evident in poorer rural communities.

Although improving, the throughput rate is still low

Only 30 per cent of candidates of the 18-year-old cohort passed the senior certificate examination (Grade 12) in 2001, the last year for which data are available. The average throughput rate is 17 per cent in the Eastern Cape and 27 per cent in Mpumalanga and Free State. Provinces with the highest throughput rates are Western Cape (40 per cent) and Limpopo (35 per cent). Progression rates – the proportion of learners proceeding to the next level each year – are also improving.

Figure 4.1 Gross enrolment rates for primary and secondary schools from 1991 to 2000

Gross enrolment rates compare the enrolment in the education system to the appropriately-aged cohort in the population

Learner educator ratio of 32:1

Table 4.14 shows, the impact of the redistribution of educators through redeployment and post provisioning strategies within provinces. Compared to 1996 – with a learner: educator ratio of 40:1 in some instances - the 2001 and 2002 learner: educator ratios have improved. Although data are for different years, there is convergence between the learner: educator and learner: classroom ratios, indicating that the problem of educators without classrooms is progressively being addressed.

Table 4.15 Learner[1] : Classroom and Learner[1] : Educator[2] ratios

	2000	2002
	L : C	L : E
Eastern Cape	43	31
Free State	33	29
Gauteng	33	31
KwaZulu-Natal	40	36
Limpopo	40	32
Mpumalanga	48	34
Northern Cape	26	30
North West	34	28
Western Cape	31	32
Average	**38**	**32**

1. Learner enrolment - only public schools.

2. Educator numbers - only state funded.

Source: School Register of Needs, 2000 Survey.

Senior certificate results greatly improved

The final year (Grade 12) pass rate should not be the only measure of success in a school system, although it is very important. At present, it is the only nationally set examination, and, once due consideration has been given to specific regional socio-economic conditions, it can serve as an inter-provincial comparative indicator. As a national average, there has been a steady improvement in the pass rate from 49 per cent in 1996 to nearly 69 per cent in 2002. Pass rates improved in all the provinces. The most dramatic increase in the pass rate has been in Limpopo, with a pass rate of 69,5 per cent in 2002 compared to a pass rate of 35,1 per cent in 1998. The Northern Cape and Western Cape have exceptionally good pass rates, at 89,9 per cent and 86,5 per cent, respectively.

Table 4.16 Number of senior certificate passes: 2001 and 2002

	2001		2002	
	Learners	% of learners that wrote senior certificate	Learners	% of learners that wrote senior certificate
Eastern Cape	28 825	45,6%	33 286	51,8%
Free State	15 703	59,0%	17 777	70,7%
Gauteng	47 368	73,6%	50 941	78,1%
KwaZulu-Natal	58 620	62,8%	68 973	70,7%
Limpopo	48 971	59,5%	49 644	69,5%
Mpumalanga	18 136	46,9%	22 222	55,8%
Northern Cape	5 571	84,2%	5 309	89,9%
North West	22 963	62,5%	24 637	67,8%
Western Cape	31 049	82,7%	32 985	86,5%
Total	**277 206**	**61,7%**	**305 774**	**68,9%**

Source: Report on the Senior Certificate Examination, (EMIS, national Department of Education).

Gauteng and Western Cape have the highest number of university-entrance passes

It is also important to look at the 'quality' of the pass rate and the number of matric endorsements, which means university entrance level passes. The highest number of endorsements occurs in Gauteng and Western Cape, which have highly qualified educators. It is interesting to note that KwaZulu-Natal – a largely rural province with adverse socio-economic conditions in the rural areas, and which did incorporate a self governing territory - has consistently produced a high number of endorsements. Thus is in spite of a high learner: educator ratio and a low per capita expenditure.

Table 4.17 Number of matric endorsements: 2001 and 2002

	2001		2002	
	Learners	Endorsement as a % of senior certificate passes	Learners	Endorsement as a % of senior certificate passes
Eastern Cape	4 133	6,5%	5 189	8,1%
Free State	3 853	14,5%	4 733	18,8%
Gauteng	13 697	21,3%	14 172	21,7%
KwaZulu-Natal	15 697	16,8%	17 636	18,1%
Limpopo	10 994	13,4%	12 517	17,5%
Mpumalanga	3 701	9,6%	4 317	10,8%
Northern Cape	975	14,7%	1 081	18,3%
North West	5 279	14,4%	5 285	14,5%
Western Cape	9 378	25,0%	10 118	26,5%
Total	**67 707**	**15,1%**	**75 048**	**16,9%**

Source: Report on the Senior Certificate Examination, (EMIS, national Department of Education).

Shortage of technically skilled workforce obstacle to economic growth

The shortage of an appropriately skilled workforce has been recognised as one of the major obstacles to economic growth in South Africa. In 2000, the Human Sciences Research Council (HSRC) conducted a survey of 273 organisations to assess their skill shortages: 76 per cent indicated that they do not have adequate skilled human resources and 54 per cent of organisations that need engineers experienced problems in recruiting these professionals. Learners need to be prepared for a workplace that demands sophisticated and technologically orientated skills, and a solid base in mathematics and science is an essential requirement for this.

Tables 4.17 and 4.18 present the senior certificate mathematics and physical science results. Only a small percentage of senior certificate students write mathematics (33 per cent); of these students only 56,1 per cent passed, and within this, an even smaller number passed on the higher grade level. The same pattern prevails for physical science.

Table 4.18 Mathematic - Grade 12 learners and pass rates for 2002

Province	Learners passing HG	Learners passing HG as % of those that wrote	Learners passing SG	Learners passing SG as % of those that wrote	Learners passing LG	Learners passing LG as % of those that wrote	Learners who wrote exam	% who wrote and passed
Eastern Cape	1 334	3,4%	14 713	37,7%	4 783	12,3%	38 992	53,4%
Free State	1 191	8,8%	6 356	46,8%	1 338	9,9%	13 579	65,4%
Gauteng	6 092	14,5%	18 988	45,1%	3 360	8,0%	42 144	67,5%
KwaZulu-Natal	4 513	6,8%	23 296	34,8%	6 714	10,0%	66 859	51,6%
Limpopo	1 440	4,1%	11 307	32,1%	2 792	7,9%	35 223	44,1%
Mpumalanga	929	4,6%	6 457	32,3%	1 761	8,8%	20 005	45,7%
Northern Cape	344	14,3%	1 511	62,9%	187	7,8%	2 403	85,0%
North West	1 006	5,0%	7 348	36,5%	1 906	9,5%	20 149	50,9%
Western Cape	3 679	17,0%	11 313	52,3%	1 788	8,3%	21 635	77,6%
Total	**20 528**	**7,9%**	**101 289**	**38,8%**	**24 629**	**9,4%**	**260 989**	**56,1%**

Source: Report on the Senior Certificate Examination, (EMIS, national Department of Education).

Table 4.19 Physical Science - Grade 12 learners and pass rates for 2002

Province	Learners passing HG	Learners passing HG as % of those that wrote	Learners passing SG	Learners passing SG as % of those that wrote	Learners passing LG	Learners passing LG as % of those that wrote	Learners who wrote exam	% who wrote and passed
Eastern Cape	1 331	5,6%	10 531	44,5%	5 229	22,1%	23 655	72,3%
Free State	1 584	17,9%	4 154	47,0%	1 218	13,8%	8 847	78,6%
Gauteng	6 658	24,4%	13 072	47,9%	3 172	11,6%	27 302	83,9%
KwaZulu-Natal	6 157	17,5%	16 620	47,2%	4 753	13,5%	35 202	78,2%
Limpopo	2 474	12,5%	8 570	43,1%	1 866	9,4%	19 863	65,0%
Mpumalanga	1 269	9,5%	5 260	39,4%	2 163	16,2%	13 364	65,0%
Northern Cape	311	20,8%	940	62,8%	162	10,8%	1 496	94,5%
North West	1 434	11,7%	5 507	45,1%	2 118	17,3%	12 223	74,1%
Western Cape	3 670	30,8%	6 109	51,3%	1 197	10,1%	11 903	92,2%
Total	**24 888**	**16,2%**	**70 763**	**46,0%**	**21 878**	**14,2%**	**153 855**	**76,4%**

Source: Report on the Senior Certificate Examination, (EMIS, national Department of Education).

Conclusion

This chapter shows that substantial progress has been made in transforming education. Notable achievements are evident in a range of indicators such as meaningful enrolment, improved learner: educator ratios, improved infrastructure and a rising matric pass rate. Spending on school education has grown by 10,1 per cent over the last three years, and will continue to grow by 8,3 per cent over the MTEF.

However, there still remain some key challenges for the sector to resolve. The provincial education departments will have to dedicate effort towards improving their financial management, as the 2001/02 audit reports reveal that only Free State and Mpumalanga received unqualified audit reports. The remaining seven provinces and the national Department all received qualified audit reports.

The sector also needs to enhance its capacity to spend its capital budgets, and to ensure that sufficient funds are spent for non-personnel non-capital expenditure.

While attempting to assess service delivery trends, the *Review* also points to the unavailability of credible non-financial information. The 2003/04 strategic plans represent the first attempt to formalise and standardise measurable objectives and performance targets for education.

In addition to senior certificate results, provincial education departments will be measured against indicators such as absenteeism levels, repetition and dropout rates and numeracy in grades 3 and 6. Together with the annual report, the strategic plans will form the basis of reporting on performance. In addition, a process to complement the quarterly financial reports with performance measures on non-financial outputs, will be initiated.

5

Health

Introduction

South Africa has a large health sector

South Africa's public and private health care system contributes approximately 8 per cent of South Africa's GDP. Two of the largest components are medical aid scheme contributions of about R41 billion, and expenditure by provincial health departments of around R33,2 billion in 2002/03. Close to 7 million South Africans are covered by medical aid schemes. The majority are predominantly covered by public health services, which comprise 13,3 per cent of consolidated national and provincial non-interest expenditure. Private medical aid scheme contributions were approximately R5 900 per beneficiary in 2002 (R490 per month), approximately six times provincial health expenditure of R911 per uninsured person.

All three spheres perform aspects of the health function

Each of the three spheres of Government plays a role in the delivery of health services. The national Department of Health focuses mainly on policy, legislation, national programmes and international liaison. The major delivery responsibility rests with provinces with combined budgeted health expenditure amounting to R36,9 billion in 2003/04, including conditional grants. Of this, about R6,0 billion is budgeted for out-of-hospital primary health care. Local Government also plays a role in relation to environmental health and clinic based primary health care services. Combined budgeted spending of the six largest municipalities, or metros, amounts to R1,1 billion in 2002-03[1].

Significant growth in health budgets

Provincial health budgets rise significantly in 2003/04, in keeping with the expansionary fiscal stance of the 2003 Budget. This is also in order to strengthen the health sector in particular and to intensify a range of specific programmes.

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[1] Throughout this review, "2002-03" is used to cover the municipal financial year from 1 July 2002 to 30 June 2003. In contrast "2002/03" is used to cover the national and provincial financial year, from 1 April 2002 to 31 March 2003. Similarly for other financial years.

Key features of the provincial health budgets are:

- Substantial funding increases especially for health services in previously disadvantaged provinces
- Large increases in the Hospital Revitalisation Programme
- Increases for the Integrated Nutrition Programme
- Further strengthening of the Enhanced Response to HIV/Aids Strategy
- R500 million rising to R1 billion additional funding annually for a new system of rural incentives and a scarce-skills strategy for the health sector.

Significant reforms introduced in this year's budgets include a new standardised budget programme structure for health and, improved uniform formats for the nine provincial strategic plans. The new framework for tertiary health services funding is now operational and is being strengthened by the Modernisation of Tertiary Services project.

Overall budget and expenditure trends

Provincial health spending continues to show strong growth over the MTEF period

Table 5.1 shows that provincial health expenditure is budgeted to increase from about R33,2 billion in 2002/03 to R36,9 billion in 2003/04, and further rise to R42,9 billion by 2005/06. This reinforces the acceleration in health expenditure, which started in 2000/01. This year, provincial expenditure on health is budgeted to grow by 10,9 per cent. This follows significant growth rates of 9,5 per cent in 2000/01, 12,7 per cent in 2001/02 and 11,7 per cent in 2002/03. The step-up in expenditure in 2001/02 is associated mainly with the turnaround in capital expenditure, including increases in the funding for the Hospital Revitalisation Programme.

Strongest growth in most disadvantaged provinces

Strong growth going forward applies specifically to some of the most disadvantaged provinces. Against an average growth rate of 10,9 per cent for all provinces in 2003/04, health budgets grow by 22,7 per cent in Mpumalanga, 22,1 per cent in Northern Cape, 20,9 per cent in North West and 16,9 per cent in Eastern Cape. These increases create the basis for substantial improvements in health services. Rapid growth in health budgets of historically disadvantaged provinces continues over the medium term.

Health expenditure will constitute 21,6 per cent of provincial expenditure in 2005/06, down from 24,1 per cent in 1999/00. This is mainly due to faster growth in social security grants and non-social services expenditure.

Table 5.1 Health expenditure by province

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Eastern Cape	3 496	3 790	3 892	4 377	5 118	5 711	6 314
Free State	1 589	1 777	1 954	2 242	2 475	2 720	2 935
Gauteng	5 605	5 942	6 838	7 675	8 112	8 681	9 121
KwaZulu-Natal	5 110	5 772	7 030	7 534	8 056	8 677	9 208
Limpopo	2 221	2 524	2 664	3 180	3 466	3 845	4 167
Mpumalanga	1 147	1 117	1 457	1 712	2 102	2 315	2 503
Northern Cape	433	468	517	604	737	810	890
North West	1 384	1 561	1 699	1 949	2 357	2 604	2 963
Western Cape	3 125	3 451	3 706	3 964	4 430	4 653	4 841
Total	**24 110**	**26 403**	**29 757**	**33 238**	**36 852**	**40 014**	**42 942**
Percentage growth							
Eastern Cape		8,4%	2,7%	12,4%	16,9%	11,6%	10,6%
Free State		11,8%	9,9%	14,8%	10,4%	9,9%	7,9%
Gauteng		6,0%	15,1%	12,2%	5,7%	7,0%	5,1%
KwaZulu-Natal		12,9%	21,8%	7,2%	6,9%	7,7%	6,1%
Limpopo		13,7%	5,5%	19,4%	9,0%	10,9%	8,4%
Mpumalanga		-2,6%	30,4%	17,6%	22,7%	10,1%	8,1%
Northern Cape		8,1%	10,6%	16,7%	22,1%	9,8%	9,9%
North West		12,8%	8,8%	14,7%	20,9%	10,5%	13,8%
Western Cape		10,4%	7,4%	7,0%	11,7%	5,0%	4,0%
Total		**9,5%**	**12,7%**	**11,7%**	**10,9%**	**8,6%**	**7,3%**

Western Cape includes capital works i.r.o Health on voted on Public Works.

Health departments receive substantial additions to their baselines

The 2002 health budgets set out forward estimates for 2003/04 and 2004/05. These have been revised upwards substantially in the 2003 MTEF. Table 5.2 shows additions to baseline health budgets for the two years by provinces. The 2003 provincial budgets add R3,4 billion to provincial health baselines for 2003/04 and R4,6 billion in 2004/05. With these revisions to baselines, provincial health budgets grow by 10,9 per cent in 2003/04 or 4,5 per cent in real terms. Growth moderates somewhat over the medium term but real average annual growth still averages 3,3 per cent between 2002/03 and 2005/06, following an average annual real increase of about 2,6 per cent between 1999/00 and 2002/03.

Table 5.2 Additional funds added to baseline health budgets

R million	2003/04	2004/05
Eastern Cape	689	1 136
Free State	299	384
Gauteng	373	551
KwaZulu-Natal	703	822
Limpopo	356	450
Mpumalanga	214	278
Northern Cape	113	135
North West	300	400
Western Cape	385	400
Total	**3 432**	**4 558**

Comparing to 2003/04 and 2004/05 allocations stated in 2002 budget statements.

Expenditure per capita

There is a wide gap in per capita spending across provinces

The estimates of per capita spending set out in Table 5.3 are calculated on total provincial expenditure and include conditional grants. They show that, based on budgeted spending for 2003/04, health spending per uninsured person ranges from R627 in Limpopo to R1 668 in Gauteng. Although there are inequities in the health system across provinces, this is largely due to the historical distribution of tertiary hospitals and the training of health professionals. These components are mainly funded through conditional grants and are concentrated in the large urban centres.

Phased reconfiguration of conditional grants will improve equity in future

The reconfiguration of conditional grants, which started in 2001/02, will result in a more equitable distribution of resources among provinces. It will see the share of conditional grant funding going to Western Cape declining from 23,9 per cent to 18,5 per cent, while Gauteng's share will drop from 38,4 per cent to 31,3 per cent. These will be coupled with increases in the shares of other provinces that previously received little or no funding through these grants. However, phased redistribution and strong growth in overall expenditure will minimise the impact on services of the change in the distribution of resources.

Narrowing of gap between provinces

Table 5.3 shows that because of the above average growth in allocations to health in Eastern Cape, North West and Mpumalanga, the gap between provinces reduces over the medium term. However, despite the redistribution, the gap remains constant in the case of Limpopo throughout the MTEF period.

Table 5.3 Expenditure per capita (public sector users)

Rand	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Expenditure per capita including conditional grants							
Eastern Cape	572	606	610	668	769	841	906
Free State	711	782	849	969	1 049	1 138	1 201
Gauteng	1 203	1 279	1 450	1 580	1 668	1 758	1 800
KwaZulu-Natal	660	751	902	939	1 006	1 069	1 105
Limpopo	451	498	511	586	627	676	709
Mpumalanga	445	433	554	635	770	832	873
Northern Cape	624	680	745	876	1 042	1 135	1 231
North West	449	511	548	628	740	806	898
Western Cape	1 043	1 128	1 183	1 261	1 377	1 425	1 457
Average	**689**	**749**	**830**	**911**	**992**	**1 058**	**1 107**
Expenditure excluding conditional grants per capita as a % difference from the national average							
Eastern Cape	-0,9%	-7,6%	-13,6%	-13,9%	-14,2%	-13,5%	-12,4%
Free State	-0,8%	2,7%	2,2%	8,2%	2,0%	3,4%	4,3%
Gauteng	41,5%	39,8%	44,0%	52,3%	44,3%	45,4%	43,2%
KwaZulu-Natal	-0,2%	8,6%	15,3%	5,4%	9,2%	7,6%	6,4%
Limpopo	-21,2%	-24,0%	-29,6%	-27,3%	-29,4%	-28,8%	-29,3%
Mpumalanga	-22,8%	-35,0%	-23,9%	-19,9%	-14,1%	-12,8%	-12,6%
Northern Cape	1,3%	0,3%	-3,9%	1,6%	2,7%	3,7%	6,6%
North West	-21,4%	-20,2%	-23,2%	-21,7%	-16,5%	-15,7%	-9,8%
Western Cape	14,5%	21,3%	15,6%	14,7%	16,7%	14,4%	12,8%

Expenditure by economic classification

Strengthening of capital and other non-personnel inputs

The medium term sees a continuation of the trend of the past three years towards a further small reduction in the share of personnel in overall health expenditure from 64,2 per cent in 1999/00 to 56,4 per cent in 2005/06, within the context of growing overall resources going to the sector. Excluding transfers, this allows for further strengthening of capital inputs (8 per cent) and spending on non-personnel non-capital inputs (28,4 per cent), which should both accelerate and improve service delivery.

Table 5.4 Expenditure by economic classification

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05 Medium-term estimates	2005/06
Current	23 103	25 088	27 505	30 807	33 823	36 894	39 523
Personnel expenditure	*15 472*	*16 408*	*17 773*	*19 320*	*21 226*	*22 699*	*24 206*
Transfer payments	*1 932*	*2 193*	*2 046*	*2 315*	*2 680*	*2 910*	*3 120*
Other current expenditure	*5 699*	*6 487*	*7 686*	*9 172*	*9 918*	*11 286*	*12 197*
Capital	1 007	1 315	2 251	2 431	3 029	3 120	3 419
Total	**24 110**	**26 403**	**29 757**	**33 238**	**36 852**	**40 014**	**42 942**
Percentage of total							
Current	95,8%	95,0%	92,4%	92,7%	91,8%	92,2%	92,0%
Personnel expenditure	64,2%	62,1%	59,7%	58,1%	57,6%	56,7%	56,4%
Transfer payments	8,0%	8,3%	6,9%	7,0%	7,3%	7,3%	7,3%
Other current expenditure	23,6%	24,6%	25,8%	27,6%	26,9%	28,2%	28,4%
Capital	4,2%	5,0%	7,6%	7,3%	8,2%	7,8%	8,0%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Personnel expenditure

Personnel cost pressure and declining numbers

After the 1996 wage agreement, personnel expenditure absorbed increasing proportions of health budgets and crowded out other health expenditure. In the context of these personnel cost pressures and the need to remain within budgets, health sector personnel numbers declined substantially in the late 1990s, as departments strove to remain within budget. As Table 5.5 shows, personnel numbers in health fell by 11 486 people in 2000/01 but have stabilised somewhat since then. The decrease in personnel numbers by 1 460 people during 2002/03 is mainly due to the transfer of staff from provincial departments to the National Health Laboratory Service. This is a public entity, which is the preferred provider for laboratory services to provinces, and therefore does not represent a loss of staff to the sector.

Declining personnel share but strong growth over medium term

Due to the declining trend in personnel numbers and the containment of growth in remuneration in recent years, personnel expenditure has declined in real terms over the period 1999/00 to 2002/03. Table 5.4 shows that this has led to the personnel share of expenditure declining from 64,2 per cent in 1999/00 to 58,1 per cent in 2002/03. Over the medium term, personnel budgets are projected to grow in real terms but will continue to decline as a proportion of health spending.

Table 5.5 Number of personnel in provincial health departments

	1998/99	2000/01	2001/02	2002/03	2003/04	Employees per 1000 public user population
Eastern Cape	36 744	31 951	31 077	29 433	28 498	4,4
Free State	14 483	15 246	15 049	14 463	14 459	6,2
Gauteng	45 005	43 097	42 817	43 285	42 578	8,9
KwaZulu-Natal	50 039	48 191	48 811	49 543	49 373	6,2
Limpopo	23 993	23 607	23 843	23 569	23 550	4,4
Mpumalanga	11 367	11 188	11 335	11 242	11 038	4,1
Northern Cape	3 356	3 952	4 043	4 166	4 178	6,0
North West	16 881	16 068	15 438	15 623	15 332	4,9
Western Cape	26 576	23 658	25 139	24 768	23 977	7,8
Total	**228 444**	**216 958**	**217 552**	**216 092**	**212 983**	**5,8**

Initiatives to improve distribution and retention of personnel

The increase in personnel budgets of 9,9 per cent in 2003/04 and continued real growth over the medium term provide for two key initiatives to ensure appropriate levels and geographical distribution of health professionals in the public sector. The first strategy is to increase the existing rural allowance and to broaden its scope to a wider range of health professions. This is aimed at facilitating the deployment of large numbers of health professionals to rural areas. Table 5.6 shows the population served by a single health worker of each category by province. For example one dentist in Eastern Cape must serve a public sector population of 190 117 people. This analysis demonstrates both inequities in personnel distribution and gives some sense of scarcity of particular professional groups.

Table 5.6 Population served per public sector health worker: February 2003

	Doctor (non-specialist)	Medical specialist	Profes-sional nurse	Dentist	Pharma-cist	Physio-therapist	Occupa-tional therapist	Speech therapist	Dietician	Radio-grapher
Eastern Cape	8 825	47 529	1 278	190 117	53 662	237 646	554 507	950 583	475 292	26 616
Free State	422	11 342	786	71 491	31 881	45 369	3 932	157 279	65 533	14 212
Gauteng	273	3 398	606	25 458	18 994	29 117	31 575	79 714	54 635	8 104
KwaZulu-Natal	4 362	15 641	901	145 607	27 239	43 289	79 291	170 391	148 304	21 528
Limpopo	8 544	92 129	1 001	141 736	48 067	106 302	76 774	197 418	110 554	60 084
Mpumalanga	5 772	143 698	1 124	54 605	35 003	75 841	65 006	151 681	60 672	5 056
Northern Cape	823	6 635	1 079	74 066	47 535	86 076	99 526	244 986	109 821	49 763
North West	3 352	39 296	776	64 303	32 151	5 441	101 047	235 777	70 733	24 391
Western Cape	2 979	2 746	796	28 074	13 789	32 126	33 152	135 489	61 103	691
Total	**4 829**	**10 403**	**910**	**65 406**	**29 578**	**55 698**	**64 722**	**172 793**	**98 282**	**17 878**
Ratio of highest to lowest	3,2	52,3	2,1	7,5	3,9	8,2	16,7	7,0	8,7	8,7

Scarce-skills strategy to recruit and retain a range of health professionals

The second is a scarce-skills strategy, which is being devised to improve recruitment and retention of a range of health professional categories in the public service. This strategy addresses the fact that over 90 per cent of pharmacists, dentists and psychologists practise in the private sector, and the loss suffered from the high level of emigration of skilled professionals. Table 5.7 shows the number of health professionals in selected categories in the public service. Employee numbers in several professions have increased in 2003, following the initiation of compulsory community service for seven additional professions. As the rural and scarce-skills strategies are progressively implemented it is expected that these numbers will increase even more in future.

Table 5.7 Trends in number of health professionals in provincial health departments

	Dec 2001	Feb 2003	Change[1]	Community service posts filled 2003	Ratio of filled posts to community service posts
Professional nurse	41 063	40 846	-217	–	–
Medical practitioners	7 363	7 694	331	1 072	7,2
Medical specialists and registrars	3 807	3 571	-236	–	–
Radiographer	2 058	2 078	20	214	9,7
Pharmacists	1 239	1 256	17	344	3,7
Dental practitioners	625	568	-57	164	3,5
Dental specialists	44	63	19	–	–
Physiotherapists	455	667	212	290	2,3
Occupational therapist	399	574	175	192	3,0
Psychologists	259		-259	116	–
Dieticians	250	378	128	147	2,6
Speech therapist	118	215	97	123	1,7

1. Some of the decreases are due to establishment of NHLS (111 specialists and 47 medical practitioners).

Table 5.7 also shows the number of community service posts by professional group, which provides a useful indication of the size of the annual cohort going from undergraduate training into services. The ratio of filled posts to community service posts provides a useful indication of average duration of retention in the public sector.

Non-personnel non-capital expenditure

Strong recovery in non-personnel non-capital expenditure

Non-personnel non-capital expenditure in health includes medicines, laboratory services, surgical consumables and other supplies. These are critical for the delivery of quality health services. During the late 1990s, as personnel expenditure grew rapidly, this component came under substantial pressure. From 2000/01, non-personnel non-capital expenditure has recovered and grew substantially in 2001/02 by 18,5 per cent, and in 2002/03 by 19,3 per cent. Strong growth is maintained over the medium term.

As a percentage of total expenditure, non-personnel non-capital expenditure (excluding transfers) increased from 23,6 per cent in 1999/00 to 27,6 per cent in 2002/03, and is projected to increase to 28,4 per cent in 2005/06.

Monitoring health input costs necessary to contain price increases

While health budgets have grown substantially in nominal terms, the generally higher price increases for critical health inputs such as blood products and pharmaceuticals tend to absorb a substantial proportion of the growth. More work is required to explore a range of options for containing price increases in the health sector, including stimulating domestic production; improved relations with suppliers; longer-term contracts; collective purchasing; and improved supply chain management. Given the recent strengthening of the Rand, the sector needs to focus on its supply chains to ensure that price reductions are passed on to public sector providers.

Provincial gap in per capita expenditure is narrowing

As Table 5.8 shows, non-personnel expenditure in Eastern Cape, Limpopo and North West is lower than the average. The gap between the low and high per capita spending by province has been closing between 1999/00 and 2002/03 as a result of increases in historically disadvantaged provinces. Significant increases in per capita spending are evident in Mpumalanga, Limpopo (albeit off a very low base) and North West.

Table 5.8 Non-personnel current expenditure excluding transfers (Rand per capita)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Average annual growth	
R/capita	**Actual**	**Actual**	**Actual**	**Estimated actual**	**Medium-term estimates**			**1999/00 - 2002/03**	**2002/03 - 2005/06**
Eastern Cape	103	123	138	140	132	184	207	10,8%	13,9%
Free State	168	201	241	305	332	361	386	22,0%	8,2%
Gauteng	354	378	458	516	522	580	588	13,4%	4,5%
KwaZulu-Natal	147	194	219	240	254	269	279	17,8%	5,1%
Limpopo	78	114	117	167	171	192	205	28,9%	7,1%
Mpumalanga	136	50	208	245	292	320	342	21,7%	11,8%
Northern Cape	180	204	205	257	282	336	399	12,6%	15,8%
North West	105	111	125	183	200	236	288	20,3%	16,3%
Western Cape	243	272	291	347	381	387	398	12,6%	4,7%
Total	**163**	**184**	**219**	**257**	**269**	**301**	**319**	**16,4%**	**7,5%**

Capital expenditure

Turnaround in capital expenditure

Health capital expenditure allocations have tripled between 1999/00 and 2003/04, as reflected in Table 5.9. A substantial turnaround in health capital expenditure started in 2001/02, with expenditure in that year virtually doubling to R2,3 billion.

Successes in hospital revitalisation

A key factor in the turnaround in capital expenditure has been the improvement in expenditure on the Hospital Revitalisation Grant. From expenditure of R85 million in its inception year (1998/99), expenditure grew to a projected R694 million in 2002/03. From 2002/03 the Grant targets the funding of large strategic revitalisation projects, such as major upgrading, replacement and transformation of hospitals. Management of the Grant has been improved and planning strengthened by building on provincial strategic position statements and the national Integrated Health Planning Framework. This ensures that sustainability is a key component of planning. A long-term plan for revitalising all public hospitals in the country has also been developed.

Further additions to Hospital Revitalisation Grant over the medium term

To further strengthen capital financing and address backlogs, a substantial step-up in the Hospital Revitalisation Grant is made in the 2003 Budget. This is intended to fund upgrading or replacement of additional 18 hospitals. Nine large revitalisation projects were initiated in 2002/03 and 492 small rehabilitation projects have been completed. The Hospital Revitalisation Grant increases to over R1 billion by 2005/06. Detailed business plans have been prepared for the planned projects. Growth in overall provincial health capital expenditure slows down over the medium term from the average annual growth of 34,1 per cent between 1999/00 to 2002/03, but substantial real growth is maintained. Capital expenditure grows particularly fast in Mpumalanga, Northern Cape, North West and Western Cape.

Two large hospitals have been completed

In addition to real progress made in revitalising a range of hospitals, some key projects have been finalised or are nearing completion. Construction of the Nkosi Albert Luthuli Hospital near Durban was completed in 2001/02 and the hospital is now in operation. The KwaZulu-Natal health department in partnership with private sector companies manages the hospital in terms of a groundbreaking public-private partnership arrangement. The Nelson Mandela Hospital in Umtata has also been completed, and so has the first phase of work at the Pretoria Academic Hospital. National Government funded about 50 per cent of the construction costs.

Table 5.9 Capital expenditure trends

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05	2005/06
					Medium-term estimates		
Eastern Cape	72	158	232	382	500	462	538
Free State	32	53	98	116	128	136	144
Gauteng	231	254	530	470	624	539	583
KwaZulu-Natal	343	383	784	819	816	924	967
Limpopo	218	226	225	297	285	309	336
Mpumalanga	30	25	48	86	171	195	233
Northern Cape	13	10	34	32	80	82	87
North West	17	76	112	107	187	210	265
Western Cape	50	130	189	121	238	262	266
Total	**1 007**	**1 315**	**2 251**	**2 431**	**3 029**	**3 120**	**3 419**
Expenditure on Hospital Revitilisation grant	140	323	550	695	718	912	1 027

Western Cape includes capital works i.r.o Health on voted on Public Works.

Health expenditure and service delivery by programme

New budget programme structure

Table 5.10 sets out the new structure for provincial health budgets, which has been introduced in 2003/04. The aim of the new budget structure is to enhance planning and monitoring of service delivery. One of the advantages of the new structure is the separation of different components of primary health care services, hospital services and emergency services. Primary health care services include clinics, community health services, community-based services, HIV/Aids and nutrition. Hospital services include district, provincial, psychiatric and tuberculosis hospitals; and Emergency Medical Services is separated out as a programme.

New format for strategic plans will enhance planning and monitoring of performance

The Department of Health in collaboration with National Treasury has developed a uniform strategic plan format, which all provinces could use to enhance the strategic planning process. The new formats have been used for the first time for the nine provincial plans, which accompany the 2003 provincial budgets. These contain measurable objectives and a substantial set of sectoral indicators against which forward progress can be monitored. The nine strategic plans provide important route maps for the period ahead. While substantial progress has been made in the first year of implementation, further improvements are anticipated, particularly in achieving greater alignment between budgets and strategic plans.

Table 5.10 New provincial budget structure from 2003/04

1. Administration	**5. Central hospital services**
1.1.Office of MEC	5.1. Central hospital 1
1.2. Management (Head Office)	5.2. Central hospital 2 etc.
2. District Health Services	**6. Health Sciences Training**
2.1. District management	6.1. Nursing Training Colleges
2.2. Clinics	6.2. Ambulance Training Colleges
2.3. Community Health Centres	6.3. Bursaries
2.4. Community based services	6.4. Primary health care training
2.5. Other Community health services	6.5. Training Other
2.6. HIV/Aids	**7. Health Care Support Services (Only where centralised)**
2.7. Nutrition	7.1 Laundries
2.8. Coroner services	7.2. Engineering
2.9. District hospitals	7.3. Orthotic & Prosthetic services
3. Emergency health services	7.4. Medicine Trading account
3.1. Emergency transport	**8. Health facilties**
3.2. Planned patient transport	8.1. Administration
4. Provincial Hospital Services	8.2. District health services
4.1. General hospitals	8.3 Emergency medical
4.2. T.B Hospitals	8.4 Provincial hospitals
4.3. Psychiatric/mental hospitals	8.5. Central hospitals
4.4. Chronic and sub-acute medical hospitals	8.6. Health science training
4.5. Dental training hospitals	8.7. Support services
4.6 Other specialised Hospitals	

Composition of expenditure by programme

Table 5.11 sets out health spending by programme and shows that the three programmes – District Health Services, Provincial Hospitals and Central Hospitals – account for the bulk of provincial health expenditure. In 2003/04 District Health Services receives 39,5 per cent, Provincial Hospitals receives 26,7 per cent and Central Hospitals receives 15,5 per cent of budgeted health spending. A key trend over the period 1999/00 to 2002/03 was the decline in the proportion of spending on Central Hospitals from 17,7 per cent in 1999/00 to 14,8 per cent in 2005/06. Smaller programmes, which have gained over the past three years and continue to gain over the medium term, are Emergency Health Services, Health Facilities and Administration.

Spending growth by programme

Over the period 1999/00 to 2002/03, spending in all programmes grew considerably, except for Central Hospitals and Other. Over the medium term, growth is fairly strong in most programmes, averaging 8,9 per cent. The lowest growth is in Central Hospitals at an average annual rate of 6,5 per cent. Health Facilities budget growth is 9,2 per cent a year after rapid growth over the past three years.

Table 5.11 Trends in expenditure on health programmes

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06	Average annual growth 1999/00 - 2002/03	2002/03 - 2005/06
Administration	934	960	1 187	1 351	1 593	1 621	1 747	13,1%	8,9%
District Health Services	9 896	10 994	12 051	13 073	14 560	15 947	17 200	9,7%	9,6%
Emergency medical services	684	772	812	1 290	1 471	1 563	1 672	23,6%	9,0%
Provincial hospitals	6 508	7 245	7 878	8 952	9 824	10 777	11 595	11,2%	9,0%
Central hospitals	4 278	4 821	5 022	5 243	5 706	5 992	6 334	7,0%	6,5%
Health sciences and Training	491	502	652	851	920	1 020	1 104	20,1%	9,1%
Support services	342	370	417	546	586	679	718	16,9%	9,6%
Health Facilities	899	584	1 542	1 833	2 012	2 235	2 388	26,8%	9,2%
Other	78	155	196	99	180	180	184	8,0%	23,1%
Total	**24 110**	**26 403**	**29 757**	**33 238**	**36 852**	**40 014**	**42 942**	**11,3%**	**8,9%**
Percentage of total									
Administration	3,9%	3,6%	4,0%	4,1%	4,3%	4,1%	4,1%		
District Health Services	41,0%	41,6%	40,5%	39,3%	39,5%	39,9%	40,1%		
Emergency medical services	2,8%	2,9%	2,7%	3,9%	4,0%	3,9%	3,9%		
Provincial hospitals	27,0%	27,4%	26,5%	26,9%	26,7%	26,9%	27,0%		
Central hospitals	17,7%	18,3%	16,9%	15,8%	15,5%	15,0%	14,8%		
Health sciences and Training	2,0%	1,9%	2,2%	2,6%	2,5%	2,5%	2,6%		
Support services	1,4%	1,4%	1,4%	1,6%	1,6%	1,7%	1,7%		
Health Facilities	3,7%	2,2%	5,2%	5,5%	5,5%	5,6%	5,6%		

Primary health care

Primary health care amounts to R6 billion in 2003/04 and grows sharply over the MTEF

Table 5.12 presents expenditure in selected areas of out-of-hospital, primary health care (PHC) excluding the HIV/Aids, nutrition and district hospital sub-programmes. For the first time, the new subprogramme structure disaggregates expenditure at the level of clinics, community health centres and community-based services. Budgeted primary health care expenditure is around R6 billion in 2003/04, and grows over the MTEF period.

Table 5.12 Selected primary health care expenditure and budgets

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06	Average annual growth 1999/00 - 2002/03	2002/03 - 2005/06
2.1 District Management	612	672	730	552	608	660	691	-3,4%	7,8%
2.2 Clinics	1 700	1 719	2 261	2 709	2 779	3 382	3 669	16,8%	10,6%
2.3 Community Health Centres	817	982	896	1 395	1 595	1 682	1 845	19,5%	9,8%
2.4 Community Based Services	283	365	296	488	685	490	532	19,9%	2,9%
2.5 Other Community Services	268	274	383	255	288	297	306	-1,6%	6,3%
Total	**3 680**	**4 012**	**4 566**	**5 399**	**5 955**	**6 511**	**7 043**	**13,6%**	**9,3%**
Total rand per capita	105	114	127	148	160	172	183		

Excludes HIV/AIDS, nutrition and district hospital subprogrammes.

Table 5.13 shows primary health care expenditure by province for 2003/04. It shows large inequalities between provinces in per capita expenditure. Limpopo, Eastern Cape and Mpumalanga have low expenditure in out-of-hospital primary health care services. This is partly due to the greater reliance by rural provinces on district hospitals to deliver primary health care. Nevertheless, more than any other health services, primary health care services are generally associated with improved health status. This means that increased focus on these areas is required.

Table 5.13 Primary health care expenditure

R million	2002/03 Estimated actual	2002/03 Rand per capita	2003/04 Budget	2003/04 Rand per capita
Eastern Cape	592	91	703	106
Free State	425	183	396	168
Gauteng	1 138	238	1 183	243
KwaZulu-Natal	1 288	163	1 392	174
Limpopo	378	70	417	75
Mpumalanga	328	122	405	148
Northern Cape	139	199	174	246
North West	456	145	548	172
Western Cape	654	213	738	237
Total	**5 398**	**148**	**5 955**	**160**

Trends in selected indicators of primary health care performance

Table 5.14 shows selected indicators of primary health care performance by province. At 2,3 visits a year, utilisation in terms of headcount is still lower than the desirable 3,5. Access is especially low in Mpumalanga (1,5 per capita), which has an under-developed primary health care infrastructure, and highest in Western Cape (3,8 per capita) which has a very well established system of community health centres, especially in the metropolitan area. Access to antenatal care is generally good, at about 79 per cent, with an average of 3,9 visits. Immunisation coverage of 70 per cent is still less than the desirable 85 per cent. At 64 per cent the tuberculosis (TB) cure rate is also lower than the desirable 85 per cent and is much lower in KwaZulu-Natal (49 per cent).

Table 5.14 Primary health care performance

	PHC visits 2001/02 (headcounts per capita)	Antenatal coverage rate (% having at least one visit) 2002	Antenatal visits per antenatal attender 2002	% children fully immunised at 1 year (ave of past 2 years)	TB cure rate 2000
Eastern Cape	2,3	77,0%	3,3	60,0%	59,0%
Free State	2,2	100,0%	4,3	82,0%	66,0%
Gauteng	2,3	78,0%	3,8	64,0%	70,0%
KwaZulu-Natal	2,0	89,0%	4,0	77,0%	49,0%
Limpopo	2,2	82,0%	3,9	67,0%	62,0%
Mpumalanga	1,5	100,0%	3,7	80,0%	65,0%
Northern Cape	2,8	63,0%	4,0	65,0%	63,0%
North West	2,7	82,0%	4,2	71,0%	66,0%
Western Cape	3,8	79,0%	4,7	65,0%	71,0%
Total	**2,3**	**79,0%**	**3,9**	**70,0%**	**64,0%**
Target	3-3,5			85,0%	85,0%
Total number	81 907 094	762 226	3 337 057	704 855	144 910

Indicators of burden of disease

Table 5.15 presents selected indicators of burden of disease. HIV/Aids prevalence is high but levelling off and will lead to substantially increasing workloads in health care facilities. Declining syphilis prevalence and sexually transmitted disease incidence suggest some successes of reproductive health programmes. TB cases associated with HIV/Aids continue to rise. After a substantial malaria epidemic in affected regions, which peaked in 2000, the incidence of malaria declined sharply in 2001, partly associated with improved control measures. The cholera outbreak peaked in 2001, showing that despite substantial progress in water supply, there remain significant underserved areas, particularly for sanitation. Measles cases have declined dramatically, suggesting improved primary care services for children.

Table 5.15 Burden of disease – selected epidemiological indicators

Infectious diseases	1998	1999	2000	2001
HIV prevalence antenatal %	22,8%	22,4%	24,5%	24,8%
HIV prevalence total pop %	7,6%	9,9%	9,6%-12,9%	11,4%
Syphilis prevalence % antenatal	10,8%	7,3%	4,9%	2,8%
Terminations of pregnancy	39 912	44 238	52 172	53 967
TB - cases	90 747	59 896	89 497	108 826
STI incidence per 1000 >15yrs			62,6	56,4
Malaria - cases	26 445	51 535	61 934	26 506
Cholera- cases per 100 000			24	221
Diarrhoea incidence <5 per 1000	286,4	144,8	165,0	133,0
Viral hepatis - cases per 100 000		1,6	3,4	3,4
Measles- cases	1 148	694	646	

Local government health services

Defining local government responsibilities in health services

To ensure a coherent framework for the provision of primary health care and to avoid legislative fragmentation of the primary health care function, recent work has proposed that municipal health services be defined narrowly to encompass environmental health services only. This will give provinces the bulk of responsibility for primary health care. If this approach is legislated and implemented by the departments of Health and Provincial and Local Government, it will entail a shift of functions to provinces in cases where local governments provide substantial primary health services. This will have significant fiscal implications for provinces. Resolving the financial and fiscal implications of this issue will be critical to establishing the district health system.

Metropolitan municipalities' spending on health

Table 5.16 reflects patterns of health care contributions by the six metropolitan municipalities for 2002-03. Collectively, their budgets total over a R1,1 billion, of which 67 per cent is derived from own revenue and 33 per cent derived from provincial subsidies. Municipalities spend their resources mainly on staffing clinics, antenatal and environmental health services, and to a limited extent on medicines.

Table 5.16 Local government health budgets 2002-03: Metropolitan municipalities

R thousand	Local government health budget 2002-03	Subsidy from provincial department	Own revenue contribution
Cape Town	308 887	87 937	220 950
Ekurhuleni	258 719	105 000	153 719
Johannesburg	198 320	72 000	126 320
eThekwini (Durban)	197 791	22 518	175 273
Tshwane (Pretoria)	84 708	40 000	44 708
Nelson Mandela (P.E.)	73 783	42 594	31 189
Total	**1 122 208**	**370 049**	**752 159**

HIV/Aids funding

Enhanced Response to HIV/Aids Strategy

One of the thrusts of the 2003 Budget is a further step-up in the Enhanced Response to HIV/Aids Strategy. This is a budgetary response to reinforce the national HIV/Aids plan, which the national Department of Health has developed, working jointly with National Treasury.

As the first phase of the Enhanced Response to HIV/Aids Strategy, Government increased earmarked funding for HIV/Aids in the 2002 Budget, from R345 million in 2001/02 to over R1 billion in 2002/03, rising to R1,8 billion in 2004/05 This focused on the basic preventive interventions such as life-skills, condoms, voluntary counselling and testing, prevention of mother-to-child transmission, support for the South African Aids Vaccine Initiative, co-funding the (R100 million per year) loveLife Programme, and proper treatment of sexually transmitted infections. It also provided funding to strengthen programme management at provincial level and began laying the foundation for the treatment and care response. The additions were effected through substantial increases to the equitable share over and above to the three conditional grants of the departments of Health, Education and Social Development.

This year's budget adds a further R3,3 billion to provincial allocations to be spent on Government's Enhanced Response to HIV/Aids Strategy over the MTEF. In addition to strengthening preventive programmes and supporting full rollout of the mother-to-child and post-exposure programmes (PEP), the 2003 Budget provides for a substantial boost to care and treatment programmes. This takes into account the additional costs arising from hospitalisation for HIV/Aids, treatment of opportunistic infections and TB, and for a progressive strengthening of medically appropriate treatment programmes over the medium term.

Increased earmarked allocations for HIV/Aids

Earmarked allocations for HIV/Aids have increased significantly, starting from 2002/03. The HIV/Aids conditional grant administered by the Department of Health will more than double from R210 million in 2002/03 to R535 million in 2005/06. Sharp growth in this grant presents a major challenge to provinces to scale up HIV/Aids programmes. Proposals have been tabled to allow more flexibility in the use of the grant for an allowable list of interventions and to improve its functioning. The new subprogramme in the revised budget structure also indicates that provincial departments add funding to the earmarked allocation from Government.

Hospitals

Hospital budgets amount to R22,6 billion in 2003/04

Trends in hospital expenditure and budgets are shown in Table 5.17. An amount of R22,6 billion is budgeted for hospitals in 2003/04. The new structure provides separate budget information for different categories of hospitals - psychiatric hospitals and tuberculosis hospitals - and introduces a category for provincial tertiary hospitals.

Table 5.17 Hospital expenditure and budgets

R million	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	Average annual growth	
	Actual	Actual	Actual	Estimated actual	Medium-term estimates			1999/00 - 2002/03	2002/03 - 2005/06
District	5 690	6 421	6 815	6 233	7 076	7 678	8 241	3,1%	9,8%
General (regional)	5 159	5 731	6 261	6 734	7 394	8 146	8 740	9,3%	9,1%
Provincial tertiary	591	760	685	800	879	926	993	10,6%	7,5%
Central	3 687	4 061	4 337	4 443	4 826	5 066	5 340	6,4%	6,3%
Psychiatric and mental handicap	924	1 039	1 094	1 236	1 338	1 468	1 624	10,2%	9,5%
TB	162	186	205	425	474	503	533	37,9%	7,8%
Chronic/subacute	46	50	57	189	203	218	230	60,2%	6,8%
Dental	129	139	155	175	191	203	212	10,7%	6,6%
Other specialised	87	100	101	195	224	239	256	30,9%	9,5%
Total	**16 475**	**18 487**	**19 710**	**20 430**	**22 605**	**24 447**	**26 169**	**7,4%**	**8,6%**

Table 5.18 Number of public hospital and semi-private beds

	Number of hospitals	Average beds per hospital	Number of beds by type of hospital						Beds per 1000 public users
			District	Regional	Tertiary	Central	Specialised	Total	
Eastern Cape	91	194	7 754	4 600			5 331	17 685	2,8
Free State	33	153	1 695	1 895	438	152	864	5 044	2,2
Gauteng	30	546	1 836	5 483		6 346	2 719	16 384	3,5
KwaZulu-Natal	73	373	11 239	6 356	456	2 533	6 671	27 255	3,5
Limpopo	43	251	6 282	1 879	882		1 771	10 814	2,1
Mpumalanga	29	143	2 040	1 164	326		620	4 150	1,6
Northern Cape	26	74	757	543			321	1 621	2,4
North-West	22	208	2 226	1 711			1 465	5 402	1,8
Western Cape	55	185	1 559	2 039		2 626	3 966	10 190	3,4
Total	**402**	**245**	**35 388**	**25 670**	**2 102**	**11 657**	**23 728**	**98 545**	**2,8**
Hospital admission per 1000 uninsured population: 2001/02									
Eastern Cape			35,6	18,2	–	–	16,3	70,1	
Free State			50,8	34,9	6,7	3,3	0,2	95,9	
Gauteng			22,9	68,4	–	58,3	2,2	151,8	
KwaZulu-Natal			73,2	40,2	2,7	7,0	4,6	127,7	
Limpopo			51,3	14,8	5,4	–	–	71,5	
Mpumalanga			46,9	21,8	6,2	–	0,4	75,3	
Northern Cape			107,6	85,5	–	–	1,2	194,3	
North-West			36,7	29,7	–	–	0,5	66,9	
Western Cape			47,4	49,2	–	47,3	10,8	154,7	
Average			48,7	35,3	2,3	13,4	5,2	104,9	
Total admissions			1 745 422	1 267 219	81 308	480 470	187 138	3 761 557	

In 2001 there were 402 hospitals and 98 545 beds

Table 5.18 shows that in 2001, there were 402 public and semi-private hospitals with a combined total of 98 545 beds. The wide variation in costs of hospital expenditure across provinces is largely a feature of the distribution of different bed types, each of which has very different unit costs. Western Cape, for example, has a high proportion of beds in central and regional hospitals where care is led by medical specialists. This is substantially more expensive than Limpopo, whose hospital configuration is largely based on district beds. Table 5.18 also shows significant variability in access to hospitals by way of patient admissions. Figures range from 66/1 000 in North West to 154/1 000 in Western Cape. The table also shows variability in the type of hospital across provinces and thus the level of sophistication of care that patients receive.

Trends in admissions remain stable in spite of HIV/Aids

Trends in hospital admissions have been fairly stable over the past two years. However, the proportion of admissions by patients who have HIV/Aids is rising, pointing to some displacement of other categories of patients. It appears that supply-side constraints such as reduced personnel and more costly non-personnel items are placing a ceiling on admissions. Comparisons of tables 5.3, 5.5, 5.6 and 5.18 show a close relationship between the distribution of budgets, personnel and hospital admissions by province, reinforcing the notion that utilisation is closely linked to supply.

Signs of improvement in hospital efficiency

The average length of stay in hospitals has declined over a decade and is at relatively efficient levels. However, bed occupancy rates, notably in district hospitals, are too low, with only 57 per cent of beds occupied. Hospital information systems are currently too weak to meaningfully present unit cost trends. It is essential that provinces improve their information systems, data usage and capacity to evaluate performance.

Table 5.19 Average length of stay (days) and bed occupancy (%)

Type of hospital	District	Regional	Central
Eastern Cape	5,4	6,9	–
Free State	3,2	5,9	5,3
Gauteng	3,9	4,4	6,5
KwaZulu-Natal	4,4	5,1	8,0
Limpopo	5,2	6,0	–
Mpumalanga	3,4	4,7	–
Northern Cape	2,8	3,2	–
North-West	4,1	5,0	–
Western Cape	2,6	4,4	5,2
South Africa	**4,2**	**5,0**	**6,3**
Bed occupancy	**District**	**Regional**	**Central**
Eastern Cape	44,0%	48,0%	–
Free State	60,0%	66,0%	73,0%
Gauteng	63,0%	70,0%	78,0%
KwaZulu-Natal	61,0%	69,0%	73,0%
Limpopo	60,0%	62,0%	–
Mpumalanga	56,0%	63,0%	–
Northern Cape	77,0%	95,0%	–
North-West	57,0%	74,0%	–
Western Cape	65,0%	88,0%	78,0%
South Africa	**57,0%**	**67,0%**	**80,0%**

A range of initiatives aimed at improving hospital services

A variety of interventions for addressing deficiencies and improving the quality of care in hospitals includes: improving hospital buildings through the Hospital Revitalisation Programme;

giving greater powers to hospital managers through decentralisation and delegation; recruiting and retaining staff through the rural and scarce-skills strategies; improving medical equipment; initiating complaints procedures; and auditing against quality standards. An important emerging tool to assess and document quality is through external accreditation, by organisations such as the Council of Health Services Accreditation of South Africa (COHSASA). This is an external body that provides detailed audits of quality standards in private and public hospitals. Provincial health departments are in the process of getting accreditation for approximately 65 public sector hospitals. KwaZulu-Natal is the most advanced and Table 5.20 provides a list of public hospitals that have reached either full accreditation or pre-accreditation status in that province.

Table 5.20 Accredited or pre-accredited hospitals in KwaZulu-Natal

Fort Napier	St. Mary's	Ladysmith
Grey's	Murchison	RK Khan
Townhill	St. Andrews	Hillcrest
Umgeni Care	Niemeyer	King George
Wentworth	CJ Memorial	Ngwelazana
McCords	Eshowe	Newcastle

Support services

The National Health Laboratory Service

The National Health Laboratory Service was established as an independent public entity in 2001/02, incorporating virtually all public sector laboratories, the South African Institute of Medical Research and the National Institute of Virology. The Service is the preferred provider of laboratory services to provincial health departments.

Conditional grants

Conditional grants make up a substantial proportion of health funding

Conditional grants make up a very significant component of provincial health funding, constituting around 20 per cent of health spending. Table 5.21 shows that health conditional grants amount to R7,4 billion in 2003/04 rising to R8,8 billion in 2005/06. Allocations to individual provinces and conditions pertaining to each grant are contained in the frameworks published with the Division of Revenue Bill, 2003. Several important reforms to the conditional grant system were introduced in the Division of Revenue Act of 2002. The Integrated Nutrition Programme, Hospital Revitalisation and HIV/Aids grants are substantially augmented in the 2003 Budget.

Government is stepping up the Integrated Nutrition Programme in a bid to fight child poverty

Funding for the Integrated Nutrition Programme has been increased to over R1 billion a year by 2005/06 in order to step up the Programme as part of Government's anti-poverty strategy. The increases are intended to offset food inflation and reach out to increased numbers of children and schools, including those doing Grade R, providing meals for at least 156 days a year in all provinces. Menus are also being standardised at nutritionally recommended levels.

The National Tertiary Services Grant funds individual tertiary care service units

In the 2002 Budget, following an intensive research and detailed costing process, the National Tertiary Services Grant was developed to replace the Central Hospitals, Redistribution of Specialised Services and part of the Health Professions Training and Research grants. As Table 5.22 shows, the new Grant is based on funding individual tertiary care service units in specific hospitals, such as the renal unit in the Johannesburg General Hospital. The Grant is thus more targeted than the previous grants. The first phase of the grant reform was based on actual expenditures in the designated units. The second reform phase, known as the Modernisation of Tertiary Services, focuses on a future desirable pattern of tertiary services and will more explicitly link service outputs to funding. Progress is being made with the support of 60 groups of specialist clinicians and preliminary reports may be accessed on website of the national Department of Health.

Table 5.21 Trends in conditional grants

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
National tertiary services	–	–	–	4 207	3 995	4 273	4 529
Central hospitals	3 075	3 112	3 270	–	–	–	–
Redistribution of specialised services	52	207	178	–	–	–	–
Health Professions Training and Development	–	–	–	1 269	1 333	1 434	1 520
Training and research	1 118	1 174	1 234	–	–	–	–
Integrated Nutrition Programme	460	534	489	642	809	950	1 042
Hospital revitilisation	140	323	550	694	718	912	1 027
HIV/AIDS	–	10	46	207	334	482	535
Hospital management and quality improvement	–	–	124	114	133	142	150
Nkosi Albert Luthuli academic hospital	189	74	298	–	–	–	–
Nelson Mandela Academic Hospital	41	95		–	–	–	–
Pretoria Academic	–	–	50	222	92	–	–
Total	**5 075**	**5 529**	**6 239**	**7 355**	**7 414**	**8 193**	**8 803**

Table 5.22 Selected tertiary service units funded by National Tertiary Services Grant

Cardiology – general	ENT – complex
Cardiology - complex and interventional	Hepatobiliary surgery
Dermatology	Intensive Care (surgical)
Endocrinology	Liver transplant
Gastroenterology	Renal transplant
Human Genetics	Neurosurgery
Hepatology	Opthalmology – general
Infectious Disease (not TB)	Opthalmology – complex
Lipidology	Orthopaedics – general
Nephrology (Renal Dialysis)	Orthopaedics – complex
Neurology	Plastic & Reconstructive Surgery
Pharmacology	Urology – complex
Respiratory Medicine	Specialised Paediatric surgery
Rheumatology	Specialised Neonatal surgery
Clinical Immunology	Neonatal ICU
Intensive Care	Tertiary Diagnostic Radiology (MRI & CT Scan)
Clinical Haematology	Nuclear Medicine
Clinical Haematology (Bone Marrow transplant)	Radiation Oncology
Burns Unit	Medical Oncology
Cardiothoracic	Oncological Surgery
Cardiothoracic Surgery (Heart transplantation)	Tertiary Psychiatry
Colorectal Surgery	Tertiary Obs & Gynae
Craniofacial Surgery	Vascular surgery
ENT – general	Spinal injury management centre

Health Professions Training and Development Grant facilitates redistribution of specialists

The Health Professions Training and Development Grant is in the first phase of its reform. A new component has been added to fund specified numbers of registrars and medical specialist trainers in provinces with the most severe shortage of specialists. Part of the grant is now contained in the National Tertiary Services Grant. This grant will need to be redesigned over the MTEF period and be better aligned with tertiary education funding.

The Hospital Management and Quality Improvement Grant

The Hospital Management and Quality Improvement Grant, which was previously part of the Finance Supplementary Grant administered by National Treasury, has now been formally established as a separate grant administered by the Department of Health. The new grant has been strengthened to support quality improvement initiatives and management reform and improvement in the sector.

Medical schemes

Amendments to legislation governing medical aid schemes under way

The Medical Schemes Amendment Bill was passed in 2001/02. Recent regulations were gazetted covering several areas, including widening the scope of prescribed minimum benefits to include chronic care benefits. The ‘Committee of Inquiry Report into a Comprehensive Social Security System’ was released and contains extensive recommendations for the phased establishment of a social health insurance system for South Africa.

Medical aid-related costs rise sharply

As Table 5.23 shows, medical aid schemes continue to face significant cost pressures with contributions rising by 19,9 per cent in 2001. Approximately R1,3 billion has gone to increases in accumulated funds, with schemes showing the first operating surpluses in years. However, increases in non-health expenditure amounting to 34,5 per cent are a cause for concern. They include increasing administration costs (41 per cent), re-insurance losses (61 per cent) and broker fees (26 per cent). Benefit payments increased 13,4 per cent despite some members trading down to reduced packages. Ongoing cost escalation in the industry will require interventions by a wide range of stakeholder groups.

Table 5.23 Trends in medical schemes

	2000	2001	Change	Change %
Beneficiaries	7 004 636	7 020 806	16 170	0,2%
Pensioner ratio	6,25	6,00		
Dependent ratio (Dependents/members)	1,59	1,57		
Gross contribution income (Rmil)	30 864	37 000	6 136	19,9%
Benefit payments (Rm)	27 157	30 800	3 643	13,4%
Non-health expenditure (Rm)	3 976	5 346	1 370	34,5%
Of which: Administration fees (Rm)	2 499	3 540	1 041	41,7%
Benefits+ non-health expend (Rm)	31 133	36 146	5 013	16,1%
Operating results (Rmil)	-1 041	278	1 319	
Net profit (includes investment income)	190	1 546	1 356	
Accumulated funds (Rm)	6 100	7 400	1 300	21,3%

Source: Registrar of Medical Schemes.

Medical schemes across the country are experimenting with a range of interventions in attempts to control escalating costs. It is clear that without better cost control, innovative design and more appropriate incentives, the proposed public sector medical scheme and any attempts at social health insurance may fail.

Conclusion

The 2003 provincial health budgets reflect significant growth in all components of expenditure. Critical elements in safeguarding and building service delivery in the sector are increased allocations for the Integrated Nutrition Programme, the Hospital Revitalisation Programme, the Enhanced Response to HIV/Aids Strategy and a new framework aimed at attracting and retaining health professionals with scarce skills and improving staffing in rural areas.

The new programme and subprogramme budget structure enhances the transparency of budgets and will provide strong support for improved planning and monitoring. The new strategic plan formats have been used to prepare the nine provincial health strategic plans that accompany these budgets.

6

Social development

Introduction

Supporting the poor through income support and welfare services

The social development sector supports the poor and vulnerable through direct income support and social welfare services. Income support payments (grants) are administered and funded by provinces with actual payment taking place through agents such as the Post Office and private cash payment contractors. Welfare services – such as probation and adoption services, child and family counselling and support services, and home and secure centres (including places of safety) for children and older persons – are delivered both by departments of social development and non-governmental organisations subsidised by the social development departments.

Social development departments have an expanding mandate

In recent years, departments of social development have been playing a bigger role in establishing income-generating opportunities for the poor, driving short-term food relief and caring for those infected and affected by HIV/Aids through the support of home-based care programmes. Provinces currently perform the bulk of Government's social security support programmes and welfare services. Local Government supports poor households by providing free basic services, while National Government formulates policy and norms and standards to guide the implementation of policies.

In the context of the high prevalence of poverty, exacerbated by the impact of HIV/Aids, these various areas of support are all critical to the protection of the vulnerable in our society.

Extension of safety net

Over the last five years, the social security safety net has expanded with the introduction of the Child Support Grant for children between the ages of 0 and 7 and improving access to a range of other grants. Further expansion of the Child Support Grant began on 1 April 2003 with the extension of the Grant to older children. Initially the extension is to 7 and 8 year-olds but by 2005/06 all poor children up to their 14th birthday will qualify for grants.

Increasing beneficiary numbers and expenditure

The extension of the safety net is one of the post-apartheid government's greatest successes. It has seen the number of social grant beneficiaries increase from 2,5 million in April 1997 to 5,6 million in March 2003. This, together with the increase in grant values over the period, has seen unprecedented and unparalleled growth in provincial social development expenditure. This growth is set to accelerate further in coming years, with a rapid increase in the relative size of social development budgets. This resulted in a sharp rise in the share of social development budgets in total provincial expenditure, from 19,4 per cent in 1999/00, to 21,6 per cent in 2002/03, rising to over 25,8 per cent by 2005/06.

Service delivery improvement a key focal area

In addition to the extension of the safety net and greater involvement in developmental activities such as income generation, food relief and home-based care, improvement in social grant delivery has been a key focal area. The strengthening of the capacity of the national Department of Social Development to support and monitor delivery and a range of other initiatives, especially the introduction of norms and standards for grant administration and payment, is becoming evident. This process was taken forward by Cabinet's in-principle approval of the establishment of a national public entity to take over the function of grant administration and delivery. To give effect to this decision, institutional and fiscal reorganisation will be a central process in the coming years. Co-operation on and standardisation of budget formats and strategic planning have also been introduced and will advance in coming years in order to support service delivery.

This chapter reviews government expenditure and the service delivery record in relation to direct income support, welfare services and other support to the poor, and focuses on the prospects for budgets going forward.

Provincial social development expenditure trends

Strong expenditure growth to 2002/03

Social development expenditure, and spending on social grants in particular, has grown very rapidly in recent years to accommodate the extension of the system of social grants and to strengthen other components of social welfare activities. While some of this growth was planned, some factors, such as the rapid increase in the number of disability grant beneficiaries after December 2001, have exerted unexpected pressure on grant budgets.

Accelerating growth after 2002/03

This rapid growth is projected to continue over the medium term, and even accelerate, given the further widening of the social safety net. The continued growth in expenditure reflects primarily the annual increases in social grants to protect the real value of social grants against inflation and the extension of the Child Support Grant. Aspects other than social grants, such as welfare services and care for those affected by HIV/Aids, add further pressure to social development budgets.

New growth trend

This trend of high real growth in budgets contrasts significantly with the trend reported in the *2001 Intergovernmental Fiscal Review*, namely marginal growth in social development budgets between 1997/98 and 2000/01.

Expenditure up to R31,2 billion in 2002/03

Table 6.1 shows that provincial social development expenditure grew from R19,4 billion in 1999/00 to an estimated actual R31,2 billion in 2002/03, an annual average expenditure growth of 17,3 per cent.

Growth rates are inflated by a special allocation of R2,0 billion in 2002/03 to pay arrears to beneficiaries. This follows an agreement by Government that beneficiaries should be entitled to grants from date of application, rather than date of approval of application. Excluding projected expenditure on this conditional grant (R1,2 billion), leads to an average annual growth rate over the period of 15,8 per cent per year.

Table 6.1 Provincial social development expenditure

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Personnel	832	921	1 031	1 195	1 447	1 550	1 656
Transfer payments	17 700	18 970	21 554	28 391	33 951	39 740	46 248
Other	842	1 006	1 252	1 662	2 410	2 845	3 344
Total	**19 374**	**20 897**	**23 837**	**31 247**	**37 808**	**44 135**	**51 248**
percentage change (average annual)	**1999/00 – 2002/03**				**2002/03 – 2005/06**		
Personnel	12,8%				11,5%		
Transfer payments	17,1%				17,7%		
Other	25,4%				26,3%		
Total	**17,3%**				**17,9%**		

Source: Provincial budgets

Budgets increase to R51,2 billion in 2005/06

By 2005/06 expenditure is expected to grow to R51,2 billion. Excluding expenditure on the special allocation for arrears from the base year, growth in projected expenditure accelerates at an average of 17,9 per cent per year over the three years to 2005/06. The strongest growth is in 2003/04, averaging 21,0 per cent across provinces.

Impact of extension of Child Support Grant

A significant proportion of the growth in social development budgets going forward is due to the new conditional grant to provinces for funding the extension of the Child Support Grant to children up to their 14th birthday. This grant is R1,1 billion in 2003/04, R3,4 billion in 2004/05 and R6,4 billion in 2005/06. Excluding this addition to baselines, social development budgets would have grown by an annual average 14,3 per cent over the medium term.

Growing relative importance of social development budgets

The growth in social development budgets will see a significant social development expenditure growing to 25,8 per cent of total provincial expenditure in 2005/06, compared to 19,4 per cent in 1999/00 and 21,6 per cent in 2002/03.

Personnel expenditure projected to grow

As Table 6.1 shows, growth is very rapid for all economic categories, but highest for other expenditure. Personnel expenditure is projected to grow substantially in real terms over the medium term. This may accelerate further as capacity is built for the extension of the Child Support Grant.

Table 6.2 Social development expenditure by economic classification

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05	2005/06
					Medium-term estimates		
Current expenditure	19 320	20 838	23 737	31 100	37 623	43 929	51 023
Transfer payments	17 700	18 970	21 554	28 391	33 951	39 740	46 248
Of which social security	*16 120*	*18 039*	*20 510*	*27 259*	*32 438*	*38 158*	*44 593*
Other current	1 620	1 868	2 183	2 709	3 671	4 188	4 775
Capital	54	59	100	147	185	206	225
Total	**19 374**	**20 897**	**23 837**	**31 247**	**37 808**	**44 135**	**51 248**
Percentage share							
Current expenditure	99,7%	99,7%	99,6%	99,5%	99,5%	99,5%	99,6%
Transfer payments	91,4%	90,8%	90,4%	90,9%	89,8%	90,0%	90,2%
Of which social security	*83,2%*	*86,3%*	*86,0%*	*87,2%*	*85,8%*	*86,5%*	*87,0%*
Other current	8,4%	8,9%	9,2%	8,7%	9,7%	9,5%	9,3%
Capital	0,3%	0,3%	0,4%	0,5%	0,5%	0,5%	0,4%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Social grant transfers

Growth in transfer payments has been fuelled primarily by growth in social grant expenditure. This has led to an increase in the relative expenditure on social security transfers, including arrear payments. Table 6.2 indicates that 87,2 per cent of social development expenditure in 2002/03 was for social security transfers. After declining somewhat in 2003/04, the proportion will rise again as the Child Support Extension Grant is phased in.

Dominance of social security expenditure in larger poor provinces

While social grant transfers dominate in all provinces, they absorb a much larger proportion of available resources in the larger poor provinces such as Eastern Cape (90,8 per cent in 2002/03), KwaZulu-Natal (88,4 per cent) and Limpopo (91,8 per cent). In fact, in these provinces, the Social Grants programme, including both transfers and administration, absorbs around 95 per cent of budgets.

Other transfers

Other transfers, which are mostly transfers to organisations for the delivery of welfare services and those related to poverty relief and home-based care, grew only marginally over the three years to 2002/03. They are, however, projected to grow more rapidly over the medium term, as support is extended to community and faith based organisations.

Strong growth in all provinces to 2002/03

Overall rapid expenditure growth between 1998/99 and 2002/03 was underpinned by similarly high rates of growth in all provinces individually. Growth accelerated towards the end of the period, the Child Support Grant was more widely accessed, with the average across provinces increasing from 7,9 per cent in 2000/01, to 14,1 per cent in 2001/02 and 31,1 per cent in 2002/03. Average annual growth over the period ranged from 9 per cent in Northern Cape to 21,2 per cent in Mpumalanga. Growth was significantly higher in some poorer provinces than in wealthier provinces, namely Gauteng and Western Cape, and in those with historically higher levels of coverage, namely Eastern Cape and Northern Cape.

Table 6.3 Social grants as percentage of total social development expenditure

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Estimated actual	Medium-term estimates		
Eastern Cape	87,7%	90,5%	90,4%	90,8%	88,3%	88,5%	89,1%
Free State	76,2%	81,7%	83,6%	83,1%	81,9%	82,8%	84,3%
Gauteng	72,3%	77,1%	77,4%	82,4%	80,4%	82,5%	84,4%
KwaZulu-Natal	85,7%	87,4%	88,0%	88,4%	87,5%	87,6%	87,7%
Limpopo	90,1%	91,9%	91,5%	91,8%	89,2%	89,1%	88,7%
Mpumalanga	86,6%	89,6%	89,5%	87,8%	88,1%	88,4%	88,5%
Northern Cape	77,6%	83,8%	82,1%	82,7%	77,4%	77,1%	78,0%
North West	83,9%	90,4%	84,6%	84,6%	85,7%	87,1%	87,3%
Western Cape	78,8%	79,1%	79,5%	84,4%	82,5%	84,3%	85,2%
Total	**83,2%**	**86,3%**	**86,0%**	**87,2%**	**85,8%**	**86,5%**	**87,0%**

Greater equity and equalisation of access

Higher growth in poorer provinces confirms the trend, already identified in the *2001 Intergovernmental Fiscal Review*, towards improvement in inter-provincial equity and towards equalisation of access to grants. The high average annual growth rates of around 20 per cent (17 per cent excluding arrear payments) in Free State, KwaZulu-Natal, Limpopo, Mpumalanga and North West also reflect more entitlement to the Child Support Grant in these provinces, given the larger proportions of young children and greater poverty.

Growth by province to 2003/04 varies

Behind an average expenditure growth for all provinces of 21 per cent in 2003/04, there is substantial provincial diversity. Growth is significantly above the national average in the Eastern Cape (29,7 per cent), North West (27,5 per cent) and Limpopo (24,4 per cent). Budget growth in Northern Cape is low, with the 2003/04 budget for transfers below estimated actual expenditure.

Strong medium-term growth in almost all provinces

All provinces, except Northern Cape, show strong growth over the medium term, averaging 17,9 per cent per year, even after excluding conditional allocations for the Child Support Grant. Most of this growth is, however, concentrated in 2003/04, with the average growth rate excluding the Child Support Extension Grant, coming down from 22,1 per cent in 2003/04 to 10,1 per cent in 2005/06. Nonetheless, there is significant real growth in individual provincial budgets in the third year, even after excluding the additional funding for the Child Support Extension Grant.

Table 6.4 Provincial social development budgets: 2002/03–2005/06

R million	2002/03 Adjusted budget	2002/03 Estimated actual [1]	2003/04[2] Budget	2004/05[2] Forward estimates	2005/06[2] Forward estimates	% Growth rates Estimated actual 2002/03 - 2003/04	% Growth rates Estimated actual 2003/04 - 2005/06
Eastern Cape	6 136	5 758	7 465	8 320	9 779	*29,7%*	*19,3%*
Free State	2 183	2 045	2 442	2 848	3 299	*19,4%*	*17,3%*
Gauteng	3 889	3 988	4 589	5 607	6 754	*15,0%*	*19,2%*
KwaZulu-Natal	6 782	6 765	7 944	9 455	11 014	*17,4%*	*17,6%*
Limpopo	4 399	4 004	4 980	5 912	6 923	*24,4%*	*20,0%*
Mpumalanga	2 097	2 057	2 464	2 856	3 254	*19,8%*	*16,5%*
Northern Cape	831	900	926	1 032	1 133	*2,9%*	*8,0%*
North West	2 612	2 530	3 225	3 776	4 356	*27,5%*	*19,9%*
Western Cape	3 213	3 200	3 773	4 328	4 737	*17,9%*	*14,0%*
Total	**32 142**	**31 247**	**37 808**	**44 135**	**51 248**	***21,0%***	***17,9%***
Transfer payments							
Eastern Cape	5 728	5 390	6 818	7 592	8 950	*26,5%*	*18,4%*
Free State	1 918	1 798	2 134	2 496	2 925	*18,6%*	*17,6%*
Gauteng	3 453	3 550	4 040	5 000	6 100	*13,8%*	*19,8%*
KwaZulu-Natal	6 163	6 157	7 185	8 543	9 915	*16,7%*	*17,2%*
Limpopo	4 080	3 715	4 498	5 323	6 194	*21,1%*	*18,6%*
Mpumalanga	1 874	1 857	2 237	2 597	2 959	*20,5%*	*16,8%*
Northern Cape	706	777	750	832	920	*-3,5%*	*5,8%*
North West	2 310	2 237	2 899	3 429	3 970	*29,6%*	*21,1%*
Western Cape	2 922	2 909	3 392	3 928	4 315	*16,6%*	*14,0%*
Total	**29 155**	**28 391**	**33 951**	**39 740**	**46 248**	***19,6%***	***17,7%***

1. *Includes R1 995 million Social grant arrears grant.*
2. *Child support extension grant of R10,9 billion over the period 2003/04 to 2005/06 included.*

Relatively bigger welfare budgets in poor provinces

Table 6.5 shows that the increase in relative importance of social development expenditure as a proportion of provincial budgets is true for all provinces except Northern Cape. There are, however, substantial differences in the proportion of budgets going to social development between provinces. The projected ratio for 2005/06 ranges from 20,5 per cent in Gauteng to 29,6 per cent in Eastern Cape. Poorer provinces generally spend a larger proportion of their budgets on social development than wealthier provinces.

Poorer provinces have more pensioners, disabled persons and young children

Differences in proportional spending on social development are to be expected, given the means-tested nature of benefits and demographic differences – poorer provinces have more poor pensioners, disabled persons and young children. Differential entitlement is accommodated through the redistributive nature of the equitable share formula, especially the welfare component. The rapid rise in the proportion of spending on social development, however, requires an assessment of the adequacy of redistribution through the formula, if the function remains with the provincial sphere.

Table 6.5 Social development as percentage of total provincial expenditure

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Estimated actual	Medium-term estimates		
Eastern Cape	23,6%	22,4%	23,8%	24,0%	26,7%	27,8%	29,6%
Free State	17,4%	17,0%	18,0%	20,3%	22,1%	23,3%	24,7%
Gauteng	14,4%	14,5%	14,9%	16,5%	17,0%	18,9%	20,5%
KwaZulu-Natal	20,9%	19,9%	20,1%	23,3%	24,1%	26,0%	27,7%
Limpopo	18,2%	18,2%	19,0%	21,7%	23,3%	25,2%	26,9%
Mpumalanga	17,7%	18,8%	18,1%	21,0%	21,7%	22,8%	23,8%
Northern Cape	27,6%	24,5%	23,7%	26,3%	23,6%	23,9%	24,1%
North West	18,1%	19,3%	20,6%	22,3%	24,4%	25,7%	27,1%
Western Cape	20,5%	19,2%	19,1%	21,9%	23,0%	24,6%	25,0%
Average	**19,4%**	**18,9%**	**19,4%**	**21,6%**	**22,9%**	**24,4%**	**25,8%**

2002/03 adjusted estimates go up to accommodate arrears and grants

Provincial social development budgets saw significant upward adjustment in the 2002/03 provincial adjusted estimates from approximately R28 billion to R32 billion. This was to accommodate the payment of arrears and to fund the second adjustment to grant values in October 2002. Funding for these outlays was provided through increased allocations to provinces through a special national appropriation in March 2002 and through the national 2002 Adjusted Estimates.

Table 6.6 Social development estimated expenditure as at 31 March 2003

R million	Adjusted Budget	Estimated Actual Expenditure	(Over)/Under Expenditure	% (Over)/ Under Expenditure
Eastern Cape	6 136	5 758	378	6,2%
Free State	2 183	2 045	138	6,3%
Gauteng	3 889	3 988	(100)	-2,6%
KwaZulu-Natal	6 782	6 765	17	0,3%
Limpopo	4 399	4 004	395	9,0%
Mpumalanga	2 097	2 057	40	1,9%
Northern Cape	831	900	(69)	-8,3%
North West	2 612	2 530	82	3,1%
Western Cape	3 213	3 200	13	0,4%
Total	**32 142**	**31 247**	**895**	**2,8%**

Projected underspending related to conditional grant for social grant arrears

Projected underspending for 2002/03 of R900 million relates mostly to the conditional grant for social grant arrears. It is anticipated that only R1,2 billion will be spent of the nearly R2,0 billion appropriated for this purpose. This reflects unforeseen delays in processing more complex cases and a need for verification of a range of system-generated payments. While expenditure for this purpose will continue in 2003/04, there is a likelihood of savings on this grant, implying that arrears payable were initially overestimated.

Service delivery trends: social grant beneficiaries

Beneficiary numbers are determined by:

- Demographic factors (growth rates of population in target groups)
- Poverty and income distribution (determining the numbers qualifying in terms of the means test)
- Policy or rule changes (determining eligibility)
- Efficiency in providing access to the intended target groups.

Range of factors driving beneficiary growth

In recent years, policy or rule changes have been the major factor behind a substantial increase in grant beneficiaries. Growth in beneficiaries over the last five years can be largely attributed to the introduction of the Child Support Grant. Certain other rule changes, particularly in relation to disability, also seem to be playing a role. However, other factors have also contributed: the South African population is ageing, leading to relatively faster growth of the elderly population; and there is evidence from the 2000 Income and Expenditure Survey that there has been a worsening of income distribution since 1995. Social development departments have also been marketing grants more proactively and there are, at least in some provinces, signs of improving administration.

Relatively large number of beneficiaries overall

In March 2003 just more than 5,6 million individuals received social grants (See Table 6.7). This implies that around 12 per cent of South Africans receive non-contributory, means tested income support. While many poor South Africans do not receive income support, a large and probably unique proportion in the context of the developing world, do receive such support.

Increasing number of beneficiaries of Child Support Grant

The most widely distributed grant at this stage is the Child Support Grant, with 2,5 million South African children under the age of seven receiving the Grant. While some provinces have not yet reached the estimated number of eligible children, the Western Cape and Gauteng have exceeded their eligibility targets. This grant was first introduced for poor caregivers of children between the ages of 0 and 7 in 1998 and replaced the state maintenance grant. The state maintenance grant, with about 400 000 child and parent beneficiaries in April 1998, was phased out between 1998 and 2000.

Other grants include Old Age, Disability and Care Dependency

Two million elderly women and men (over the age of 60 and 65 respectively) receive the Old Age Grant. Nearly 900 000 people receive the Disability Grant. Other, less frequent grants are the Foster Care Grant (133 309 beneficiaries), the Care Dependency Grant (56 150 beneficiaries) and the Grant-In-Aid (12 279 beneficiaries).

High coverage of Old Age Grant

Coverage of intended beneficiaries is generally high for the Old Age Grant, with nearly 76 per cent of all elderly people (women 60+ and men 65+) in receipt of grants. Recent work based on the 2000 Income and Expenditure Survey estimates that nearly 100 per cent of the eligible number of beneficiaries were receiving the Old Age Grant in 2003.

Given the difficulty in clearly defining and measuring disability, there are a range of views on the extent of coverage of the Disability Grant. These difficulties also hold for the Special Care Grant, the Care

Dependency Grant and the Foster Care Grant. Currently about 3,5 per cent of the population between the ages 17 and 66 receive the Disability Grant. About 18 per cent of the estimated number of orphans receives the Foster Care Grant. Four years after being instituted, the Child Support Grant goes to 2,5 million children against an estimated 3,4 million that are eligible.

Provincial distribution of beneficiaries reflects demographic structure and levels of income and economic activity

In March 2003 some 55 per cent of beneficiaries were in three provinces, namely Eastern Cape, KwaZulu-Natal and Limpopo, against a population share of these provinces of about 47 per cent, according to population and income estimates. Although Gauteng has nearly one-fifth of the country's population, only 12 per cent of its citizens receive grants – reflecting the demographic structure, high levels of economic activity, and income levels.

Growth in beneficiary numbers

Significant increases in beneficiary numbers between 1998 and 2003 show that, despite widespread criticism of the effectiveness of social development departments, they have succeeded in driving a very large expansion of the social safety net. In addition to the 2,5 million new Child Support Grant beneficiaries, nearly 300 000 additional old age beneficiaries and 237 000 disability beneficiaries gained access over the five-year period. After declining between 1997 and 2000, disability grants have been growing strongly, particularly towards the end of 2001/02 and during 2002/03. This is due to general economic conditions, regulatory change, changes in administrative practice and more intensive marketing of grants. Some of the less numerically strong grants have also expanded rapidly. The number of foster care beneficiaries expanded more than threefold between 1998 and 2003 and care dependency beneficiaries more than fivefold.

Great potential for further growth in beneficiary numbers

Given uncertainty about demographics, socio-economic conditions, economic prospects and administrative capacity, it is difficult to gauge future grant demand:

- Current policies with regard to the Child Support Grant will see significant growth in numbers: at least another 1 million children below the age of 7 are entitled to grants but have not registered. It is further estimated that about 3,2 million children between the ages of 6 and 14 will become eligible for the Child Support Extension Grant by March 2006.
- Given the pattern of ageing of South African society, the number of elderly is growing significantly faster than the rest of the population, at about 3,3 per cent per year over the next decade. This will result in continued growth in the number of old age beneficiaries.
- Partly depending on policy decision, eligibility for disability, foster care and care dependency grants will in all likelihood expand as the social and economic impact of HIV/Aids is felt more widely throughout society. Current regulatory uncertainty around the Disability Grant will also drive numbers upward and has to receive urgent attention.

Table 6.7 Trends in beneficiary numbers

	Apr-98	Apr-99	Apr-00	Apr-01	Apr-02	Mar-03	Average annual growth over period
Grant Type							
Old Age	1 697 725	1 812 695	1 860 710	1 877 538	1 903 042	2 000 041	3,3%
War Veterans	10 525	9 197	7 553	6 175	5 266	4 629	-15,1%
Disability	660 528	633 778	612 614	627 481	694 232	897 050	6,3%
Grant in Aid	9 183	8 496	8 748	9 489	10 332	12 279	6,0%
Foster Care	43 520	71 901	79 937	85 910	95 216	133 309	25,1%
Care Dependency	8 172	16 835	24 438	28 897	34 978	56 150	47,0%
Child Support Grant	–	34 471	352 617	974 724	1 907 774	2 513 693	192,2%
Total	**2 429 653**	**2 587 373**	**2 946 617**	**3 610 215**	**4 650 840**	**5 617 151**	**18,2%**
Province							
Eastern Cape	510 926	517 929	599 578	722 440	903 975	1 035 763	15,2%
Free State	160 719	157 204	164 717	205 003	275 018	356 518	17,3%
Gauteng	297 902	304 390	359 078	425 615	517 070	682 156	18,0%
KwaZulu-Natal	543 385	566 480	621 494	792 144	1 024 408	1 285 463	18,8%
Limpopo	251 909	324 550	395 284	491 680	646 972	784 082	25,5%
Mpumalanga	155 286	159 368	195 656	250 849	314 734	387 071	20,0%
Northern Cape	73 670	89 031	90 682	100 271	124 021	134 260	12,8%
North West	187 841	202 936	242 938	304 075	411 123	450 712	19,1%
Western Cape	248 015	265 485	277 190	318 136	433 520	501 126	15,1%
Total	**2 429 653**	**2 587 373**	**2 946 617**	**3 610 215**	**4 650 840**	**5 617 151**	**18,2%**

Historical numbers adjusted i.r.o. the phasing out of the state maintenance grant.
Source: Socpen

Social Grants Arrears

Regulation change and social grants arrears entitle beneficiaries to claim from date of application

The setting aside of certain regulations in terms of the Social Assistance Act (59 of 1992) meant that retrospectively to 31 March 1998, grant beneficiaries were entitled to benefits from date of application and not, as had been the practice, only from the date of approval. An amount of R2 billion was made available through a Special Appropriation Act and money flowed as a conditional grant to provinces.

Good progress being made in payment of arrears

The payment of social grant arrears is well on track. Payment was staggered by grant type to allow administration to cope with arrears as well as regular payments. Up to the end of December 2002, 1,4 million beneficiaries had been paid their arrears. Partly because of apparent initial overestimates of arrears and dedicated verification of payment instructions by provinces, there will be some savings on this allocation.

War Veterans Grant

War veterans beneficiary numbers (for those who took part in the World War I, World War II and the Korean wars) decline strongly by approximately 15 per cent, on average, from April 1998 to March 2003, a decline from 10 441 to 4 628 beneficiaries.

Social grant value adjustments

Recent increases have compensated for inflation, maintaining the real value of grants

Since July 1997, social grants have been increased at least annually, and sometimes more often, to compensate for inflation. On 1 April 2003 the maximum value of the larger grants (Old Age, Disability and Care Dependency) increased by R60 to R700. The Child Support Grant increased to R160, significantly up from its original value of R100. While there was some decline in the real values of grants during the 1990s, increases in recent years have compensated fully for inflation.

Table 6.8 Value of social grants, by grant type

	Rand value of grants, per month, with effect from …							
Type of Grant	**07/97**	**07/98**	**10/98**	**07/99**	**07/00**	**07/01**	**10/02**	**04/03**
Old Age	470	490	500	520	540	570	640	700
War Veterans	488	508	518	538	558	588	658	718
Disability	470	490	500	520	540	570	640	700
Grant in aid	80	90	90	94	100	110	130	150
Foster Care	340	350	360	374	390	410	460	500
Care Dependency	470	490	500	520	540	570	640	700
Child Support Grant	–	100	100	100	100	110	140	160

Social grant administration and payments

Improvements in grant administration

In 1997, under the Social Assistance Act, the administration and management of social assistance was assigned to provinces. Provinces are responsible for administration, financing and payment of social grants. Although this is aligned with the decentralised nature of Government, it has in certain instances caused fragmentation of the national social grant administrative and management system and uneven access to grants between provinces.

To overcome further fragmentation and improve service delivery, national and provincial social development departments have invested in:

- A grant administration and management improvement programme, driven through enhanced monitoring and support by the national Department of Social Development and through the implementation of norms and standards for grant payment and administration
- Continuous enhancement of the social payment and information system (Socpen)
- Expansion of the social grant administration and management units
- Development of an assessment tool for disability grants to assist community-based panels in the assessment and approval of these grants.

National public entity proposed for grant administration

In 2002 Cabinet gave in-principle approval for the establishment of a public entity at the national level to take responsibility for administration and payment of grants. Work is currently proceeding to fully investigate the implications of this function shift to the national level and delivery through an entity at arm's length from Government.

A key motivation for the establishment of such an entity is to reduce fragmentation and differential access between provinces; to allow for economies of scale; to establish a contracting relationship between government department and service provider; and to enhance flexibility in procurement and staffing. Such a step will also allow for a clear separation of the functions of policy making and delivery, enabling increased focus.

Growth in personnel expenditure

Table 6.9 shows that personnel expenditure in provinces grew from R0,8 billion to R1,2 billion over the period 1999/00 to 2002/03, an annual average growth of 12,8 percent. Personnel expenditure is projected to grow significantly over the three years to 2005/06 from R1,0 billion to R1,7 billion, at an annual average rate of 11,5 per cent. These high rates apply to almost all provinces and reflect some expansion of capacity to deal with increasing demands. In recent years there has also been a growing tendency towards the outsourcing of the payment function.

Table 6.9 Social development personnel expenditure by province

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	124	140	160	191	209	218	227
Free State	94	102	103	120	162	179	188
Gauteng	134	152	175	194	233	254	276
KwaZulu-Natal	149	166	183	202	243	255	268
Limpopo	62	67	73	92	118	113	120
Mpumalanga	36	39	49	62	76	82	88
Northern Cape	37	44	49	53	75	85	95
North West	84	95	110	131	154	166	183
Western Cape	113	115	129	150	176	198	211
Total	**832**	**921**	**1 031**	**1 195**	**1 447**	**1 550**	**1 656**

Diverse mechanisms for payment of grants

Table 6.10 illustrates the mechanisms and costs for grant payment. All provinces have now outsourced payment to either the Post Office or third-party contractors. In December 2002, 4,8 million payments were made. The bulk of these (74 per cent) were through private payment contractors as identified in the table. Another 11,5 per cent of payments was done through the Automated Clearing Bureau (Banks) and 7,3 per cent through the Post Office.

Costs of payment vary from province to province

As is evident from the table, costs per transaction (calculated on the maximum value of the old age grant) vary widely between provinces, from R30 in KwaZulu-Natal to about R17 in Western Cape. A range of initiatives is ongoing to reduce the cost associated with payment. Among these are discussions with banks in an attempt to shift a larger proportion of beneficiaries to banks, and negotiating public-private partnerships, which ensure increased risk-sharing and competitive pricing.

Table 6.10 Number of pay-points, cost to administer a grant and operating contracter

	Number of Pay-points	Costs to administer a grant per province (R/c)			Contractor operating in province
		3rd party contractor	Post office	Bank: 1 day service	5 day service
Eastern Cape	2 175	31,50	14,27	0,74	All Pay and CPS
Free State	215	28,35	N/A	0,75	All Pay
Gauteng	166	24,61	N/A	1,09	All Pay
KwaZulu-Natal	2 598	30,14	30,14	0,90	CPS
Limpopo	1 964	17,52	12,92	0,63	CPS
Mpumalanga	289	23,22	12,52	0,72	Empilweni
Northern Cape	205	22,70	N/A	0,75	CPS
North West	854	23,78	12,98	0,88	CPS
Western Cape	293	16,73	9,00	1,54	All Pay
Total	**8 759**				
Average		**24,28**	**15,31**	**0,89**	

Developmental social welfare services and developmental and support services

Social welfare services organised around specific target groups

Traditional welfare services focus on a continuum of care, ranging from preventative counselling services, to treatment or care in facilities or community-based care centres and after-care services. Programmes are commonly organised in terms of specific target groups, leading to programmes for treatment and prevention of substance abuse; care of older persons; crime prevention, rehabilitation and victim empowerment, services to the disabled; and child and youth care and protection. Service delivery is either by Government directly or through the subsidisation of non-profit organisations.

Focus on developmental, community and relief activities

In recent years social development departments have also started to play a more important role in poverty relief through income-generating projects, food relief and dealing through home and community-based care with those infected and affected by HIV/Aids.

Lack of clarity about spending and service delivery trends

Given a lack of uniformity, to date, in the classification of welfare services as well as weak information systems, it is difficult to be conclusive about spending and service delivery trends for welfare services across provinces. Because of the greater need for specialised care and the fact that it is largely unmet, it is commonplace to argue that social welfare services require greater priority and funding in future. Demand for these services will grow because of the impact of HIV/Aids on communities and households, and an increase in reported cases of child abuse, neglect and exploitation.

Real growth in welfare services and developmental support

While growth is moderate for welfare services (Programme 3 in the new budget structure), growth has been more substantial for developmental and support services (Programme 4). Welfare services in provinces expand by an average of 13,2 per cent between 2002/03 and 2005/06, and are projected to exceed R2 billion by 2005/06.

Although from a low base, Programme 4 is expected to have expanded by nearly 21 per cent per year over the same period.

Children in conflict with the law transferred to social development facilities

Over the period 1999/00 to 2002/2003, the national and provincial departments of social development assessed an estimated 1 500 cases of children awaiting trial in police cells and in correctional services facilities. Some of these children were returned to their family while others were either placed in diversion programmes or transferred to social development facilities. In order to reduce the number of children awaiting trial in adult facilities, provinces have: expanded child and youth justice diversion programmes and the Community-based Supervision Programme; increased the number of secure care facilities and one-stop justice centres; assisted in the reprioritisation of children's cases in court; and supported the improvement of legal representation for children and probation services. Once new legislation is in place there will be budgetary implications for building the new system.

Diversion and places of safety for children in conflict with the law

In January 2002, 41 secure care centres and places of safety were operational. These can accommodate 3 239 children but are currently accommodating only 1 767 children. Legislative and policy changes such as the introduction of the Child Justice Bill, 2002, have been effected to facilitate the transformation of welfare services and to divert children in conflict with the law away from the criminal justice system into alternative mechanisms.

Shelters for abused women,

Provincial departments facilitated the development of a strategy on shelters. There are currently 46 shelters across the provinces accommodating abused women and their children for between one week and six months. Less than half of the centres are currently subsidised by the provincial departments.

Other institutions include homes for the disabled, children's homes and drug treatment centres

Other institutions either run or subsidised by social development departments are homes for the disabled (96 across all provinces), children's homes (179), homes for the aged and drug treatment centres. Some provincial departments also continue to support day care centres for children.

Provinces manage the majority of victim empowerment projects

Provincial departments also co-ordinate the inter-departmental Victim Empowerment Programme, established in 1999. There are now 119 victim empowerment projects, of which the provinces manage 104. In 2001, the Department conducted an audit of the projects as a first phase of an impact assessment. Forty-five per cent of the projects are in rural areas. It is estimated that the programme has reached 247 560 people, with volunteers playing an important role in support to victims.

Home-based care for HIV/Aids victims

Provinces have established pilots for the Home-Based Care/Community Care Programme for children and families infected and affected by HIV/Aids, targeting 55 sites. This programme aims to implement effective and affordable home/community based care and support models integrated with poverty alleviation programmes, in order to meet the basic needs of families and children living with HIV/Aids.

Food relief programme administered in partnership with relief organisations and social development departments

To mitigate the food crisis experienced in 2002/03, Government allocated R230 million in that year and R400 million for each of the next three years. Initially the programme is focusing on social facilitation and distribution of food parcels to the most vulnerable. Delivery is taking place in co-operation with the Independent Development Trust, the National Development Agency, a range of relief organisations and provincial social development departments. In future, direct provision of food would be complemented by the support of food production in poor households through production starter packs' and community production centres. Direct provision of food is seen as providing short-term support to households, while processes are activated to link them to other mechanisms for poverty relief, such as food production, social grants and income-generating projects. Over the medium term the food relief programme will be managed through a conditional grant to provinces (see Table 6.11).

Disaster relief victims given financial assistance

During 2001/02, a total of four disasters were declared covering 16 areas in the provinces of Western Cape (Cape Flats, Macassar, Wallacedene, Mooitrap, Khayelitsha C and Kalbaskraal); KwaZulu-Natal (Estcourt and Ladysmith); Eastern Cape (Mt Ayliff, Mt Frere, Maluti and Umzimkulu); and North West (Naledi and Huhudi Township in Vryburg). A total of 20 537 claims were processed from these disasters (excluding KwaZulu-Natal where claims are still outstanding). The 19 671 victims of the floods in Western Cape were given financial assistance during the reporting period.

Key issues

A range of key issues with regard to welfare services and developmental support is currently receiving attention. The most central factor is the consideration of appropriate service delivery and funding models. Given the increasing poverty and vulnerability challenges in the country, these are high priorities.

Conditional grants in social development

Table 6.11 shows the conditional grants channelled to provinces via the national Department of Social Development for the delivery of specific development and delivery of services in provinces. The most prominent are the nearly R2,0 billion for arrears in 2002/03, the new Child Support Extension Grant, totalling R10,9 billion, over the medium term, and the Food Relief Grant of R388 million per year over the medium term.

After initial sluggishness, spending on the grant for community and home-based care has accelerated. There will be significant savings on the grant for arrear payments mostly because of the overestimate of arrears payable.

Table 6.11 Transfers and spending of conditional grants

	2000/01	2001/02		2002/03		2003/04	2004/05	2005/06
R million	Actual	Transfers	Actual	Transfers	Estimated actual	Medium-term estimates		
Child Support	13	–	–	–	–	–	–	–
Criminal Justice System	1	–	–	–	–	–	–	–
Financial management	14	10	14	11	12	–	–	–
HIV/Aids	2	13	14	48	47	66	70	74
Victim empowerment	0	–	–	–	–	–	–	–
Women flagship	2	1	1	–	–	–	–	–
Food security	–	–	–	–	–	388	388	388
Child support extension grant	–	–	–	–	–	1 100	3 400	6 400
Social grant arrears grant	–	1 995	–	–	1 183	–	–	–
Total	**32**	**2 019**	**30**	**58**	**1 241**	**1 554**	**3 858**	**6 862**
Under-spending	–	–	2 003	–	817	–	–	–
Roll overs	–	13	–	1 999	–	–	–	–

Conclusion

The extension of the safety net from 2,5 million beneficiaries in 1997 to 5,6 million at the end of the 2002/03 financial year represents one of government's greatest successes in the fight against poverty.

Social grants however comprises over 87 per cent of total provincial social development budgets, and the very success of this programme has led to a lower or declining share of their budget for social welfare services. Apart from their funding needs for these services, there is little information on the type of services offered by provincial departments, on their relationship with, and support for, non-governmental or welfare organisations, and on their need with regard to social and other welfare professionals. Much work needs to be done to improve information in this area.

Need to improve financial management

A further area of improvement is in the area of financial management. Apart from the social development department in Mpumalanga which received an unqualified audit report for its 2001/02 financial statements, all other provincial social development departments received qualified reports, with seven of these being severe qualifications.

The social development sector also faces significant challenges over the coming years:

- The need to efficiently implement policy changes regarding grants and particularly the extension of access to grants, which involve very large numbers of new beneficiaries. Administrative and information systems capacity must be strengthened.
- The improvement of grant service delivery, partly through improving current practices but in the medium term also through establishing the appropriate institutional framework that is envisaged, including the public entity for grant administration and delivery.

- Building an enhanced social development sector response to the impact of HIV/Aids on communities.
- Clarifying and building service delivery models and financing mechanisms for welfare services, to ensure evaluation and monitoring of the sector.
- Ensuring sustainability of the grant system through eliminating fraud and inefficiencies, and establishing regulatory certainty in a range of areas such as disability and foster care grants.

7

Agriculture and land

Introduction

Agricultural sector is important for South Africa

Agriculture is an important sector for the South African economy, for its impact on job creation, rural development, food security and foreign exchange. Current estimates indicate that primary agriculture, which refers to farm level production, accounts for approximately 4 per cent of GDP. However, the contribution of the sector is more significant when the input and processing sectors are considered.

Stakeholders include private sector, farmer unions and NGOs

The agricultural sector includes all activities relating to actual farming, supplies of inputs, and processing and distribution functions that add value to farm products. Commercial farming plays a dominant role in the agricultural sector. However, small, subsistence and emergent farming are also important because of their impact on poverty reduction and job-creation in the rural areas. Key stakeholders comprise farmers unions, co-operatives and voluntary associations; Agriculture South Africa; National African Farmers Union; non-governmental organisations (NGOs) and the agri-industry. Other government departments involved in the agricultural sector are Land Affairs and Water.[1]

All three spheres share some responsibility for agriculture

The major role played by Government is to create an environment that is conducive to the development and growth of the sector through implementing policies and institutionalising food production and farmer support systems. Different aspects of the role are shared among the three spheres of Government. Agriculture is a Schedule 4A concurrent function in terms of the Constitution, shared between both national and provincial governments. In contrast, water is shared between national and local governments, while land is a national function only.

Droughts and price fluctuations impact on food security

Food security is a major priority for Government, given the large numbers of rural and urban poor. Poor people in South Africa spend a large proportion of their income on food and are thus most vulnerable to fluctuations in food prices. Government needs to take into account the effects that global markets have on the price of basic food-stuffs

[1] Related chapters are chapter 11 on Water and Sanitation and chapter 12 on Electricity.

like maize and agricultural products and the implications for poor households. The production of maize is affected by fluctuations in climate and market conditions. The emergent and developing agricultural sector is also constrained by the lack of available land, water and quality technical support services.

Features of the sector pre-1994

Before 1994, the agricultural sector was highly regulated, with subsidies and financial concessions available only to white commercial farmers and often at high costs to Government. Protectionist policies and barriers to entry, including access to land further constrained the potential of the agricultural sector. The 1913 and 1936 Land Acts and subsequent apartheid policies dispossessed most black South Africans from their land, forcing them out of agriculture except as low wage farm workers, often under exploitative conditions, or condemning them to subsistence farming in former homelands.

Post-1994 government policy interventions transform agricultural sector

Since 1994, Government has implemented a series of reforms, which include:

- Implementing a comprehensive land reform programme, which includes restitution, tenure reform and redistribution
- Broadening access to agriculture by black people particularly women and youth
- Deregulating the marketing of agricultural products
- Reform of the marketing, finance, research and extension systems that support agriculture
- Trade reforms which included tariffs on farm commodities and the general liberalisation of agriculture trade including free trade agreements
- The application of labour legislation to the agricultural sector.

This chapter reviews government spending on agriculture. It sets out an analysis of expenditure trends and the contribution of provincial budgets to the development of the sector. It concludes with an analysis of service delivery trends focusing on existing programmes and the challenges the sector still faces in ensuring that agriculture impacts positively on food security, economic growth, alleviating poverty and increasing employment.

Government's role in agriculture

The role of the three spheres of Government in the agricultural sector

This section outlines the roles of the various departments across the three spheres of Government.

National Government plays its role through the departments of Agriculture and Land Affairs, and various public entities. Provinces play their role through their departments of Agriculture, and the agricultural public entities. Local governments are involved in the allocation of land that they own for agriculture use and in the provision of water to urban and rural households. In addition, local governments administer fresh produce markets, abattoirs, food safety standards, and property taxes.

The national Department of Agriculture formulates government policy for agriculture. Its role is to facilitate transformation in order to create a united and prosperous sector. The Department develops policy frameworks, and norms and standards for delivery; ensures equitable distribution of national resources; and facilitates access by historically disadvantaged individuals/groups to essential agricultural support services.

National Department formulates polices and norms and standards for delivery

The provincial departments of Agriculture play an important role in implementing agricultural policies. They are responsible for ensuring effective use of agricultural land, and for supporting the implementation of the Land Reform for Agricultural Development (LRAD) programme. They assist in identifying beneficiaries of land redistribution beneficiaries, and in ensuring that plans for proposed land-use projects are economically and environmentally sustainable. Both the national Department of Land Affairs and provincial departments of Agriculture have district and local officers whose function is to mobilise, train and support land reform beneficiaries to access land and use it effectively. They have to co-ordinate with municipalities, and ensure that agricultural and land priorities are taken into account in their Integrated Development Plans.

Provincial departments of agriculture implement national policy

The national Department of Agriculture is supported by state agencies that provide various services to provincial departments of Agriculture and farmers. Key among these is the Agricultural Research Council (ARC), which promotes research and innovation. The National Agricultural Marketing Council (NAMC) regulates marketing, and the Land Bank has a mandate to provide wholesale and retail funds to farmers. The ARC and NAMC receive grants from the national Department of Agriculture. Specialised agencies include Onderstepoort Biological Products Ltd (OBP) and the Perishable Products Export Control Board (PPECB).

State agencies provide services to provinces

A key input for agriculture is the availability of water resources, with irrigated agriculture accounting for 59 per cent of national water resources. The national Department of Water Affairs and Forestry (DWAF) is the custodian of water resources, and is responsible for formulating policy. It administers the National Water Act (36 of 1998), which seeks to ensure sustainable and equitable use of water resources, regulating the access and management of water for agricultural use. The Act also provides for mechanisms for increasing small-scale farmers' access to water resources.

The Department of Water Affairs and Forestry determines access to irrigation water

Budgets and expenditure trends in agriculture

Provincial departments of Agriculture are structured differently across provinces. In most provinces, Agriculture is combined with other functions, such as Conservation, Environmental Affairs and Tourism and Land, to form a single department. Four provinces – Eastern Cape, Free State, Northern Province, and recently the Western Cape, have stand-alone departments of Agriculture.

Agriculture is combined with other functions in most provinces

Review covers spending on agriculture

This review focuses on agriculture, and separates its budgets from those for non-agricultural activities. Some of the figures are therefore estimates rather than actual figures.

Growth in spending varies widely among provinces

Table 7.1 shows that the combined budget for the national and provincial departments of Agriculture increases to R4,1 billion in 2003/04, an increase of 13,3 per cent compared to the R3,5 billion projected spending in 2002/03. At the end of the three-year MTEF, combined budgets for agriculture will total R4,5 billion, reflecting average growth of 8,9 per cent over the next three years. In 1999/00 the combined budget for agriculture was R2,5 billion.

Table 7.1 Provincial spending on agriculture: 1999/00 – 2005/06

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Estimated	Medium-term estimates		
R million				actual			
Eastern Cape	444	451	563	565	735	688	718
Free State	104	118	120	151	170	178	186
Gauteng	36	41	34	39	42	45	50
KwaZulu-Natal	200	371	432	489	547	580	614
Limpopo	562	656	581	706	788	917	992
Mpumalanga	112	118	168	167	195	206	216
Northern Cape	50	60	53	69	90	97	84
North West	220	220	262	294	328	332	351
Western Cape	74	87	108	141	188	200	210
Total provinces	**1 803**	**2 123**	**2 322**	**2 621**	**3 083**	**3 243**	**3 421**
National[1]	**657**	**705**	**843**	**895**	**1 034**	**1 016**	**1 120**
Total	**2 460**	**2 828**	**3 165**	**3 515**	**4 117**	**4 258**	**4 541**
Percentage of total provincial expenditure							
Eastern Cape	2,7%	2,5%	2,9%	2,4%	2,6%	2,3%	2,2%
Free State	1,6%	1,6%	1,5%	1,5%	1,5%	1,4%	1,4%
Gauteng	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
KwaZulu-Natal	1,0%	1,7%	1,7%	1,7%	1,7%	1,6%	1,5%
Limpopo	4,4%	4,5%	3,7%	3,8%	3,7%	3,9%	3,9%
Mpumalanga	1,7%	1,7%	2,0%	1,7%	1,7%	1,6%	1,6%
Northern Cape	2,0%	2,3%	1,8%	2,0%	2,3%	2,2%	1,8%
North West	2,7%	2,4%	2,6%	2,6%	2,5%	2,3%	2,2%
Western Cape	0,7%	0,8%	0,9%	1,0%	1,1%	1,1%	1,1%
Average	**1,9%**	**2,0%**	**1,9%**	**1,9%**	**1,9%**	**1,9%**	**1,8%**
Growth rates		**1999/00 - 2002/03**		**2002/03 - 2003/04**		**2002/03 - 2005/06**	
Eastern Cape		8,4%		30,1%		8,3%	
Free State		13,3%		12,7%		7,2%	
Gauteng		2,9%		7,0%		8,1%	
KwaZulu-Natal		34,7%		11,8%		7,9%	
Limpopo		7,9%		11,6%		12,0%	
Mpumalanga		14,3%		16,8%		8,9%	
Northern Cape		11,3%		30,3%		6,7%	
North West		10,0%		11,5%		6,2%	
Western Cape		23,8%		33,7%		14,2%	
Total provinces		**13,3%**		**17,6%**		**9,3%**	
National		**10,9%**		**13,6%**		**7,8%**	
Total Provinces and National[1]		**12,6%**		**13,3%**		**8,9%**	

1. Excludes conditional grant: Land care projects (included in provinces).

Sources: Provincial Departments of Agriculture; National Treasury 2003 Estimates of National Expenditure.

Budget of national Department of Agriculture

The budget of the national Department of Agriculture constitutes about 25 per cent of the combined national and provincial agriculture budget in 2003/04. It increases from R895 million in 2002/03 to R1 billion in 2003/04 and to R1,1 billion at the end of the MTEF, reflecting average growth of 7,8 per cent over the MTEF. National spending on agriculture grew faster between 2001/02 and 2003/04 due to an allocation of R85 million for flood relief, to restore and rehabilitate agricultural land and assets for communities in Limpopo and Mpumalanga following the floods in 1999 and 2000. About 30 per cent of the national Department of Agriculture budget is a transfer to the Agricultural Research Council (ARC) whose activities support adaptive research and extension services of provinces.

An allocation amounting to R25 million is included in the national Department's budget for poverty alleviation in 2002/03, of which R24 million is transferred to provinces for the implementation of the Land Care Programme. The Land Care Programme supports the development of infrastructure, and facilitates productive and sustainable land use. The Programme is funded from the earmarked poverty allocation which ends in 2003/04, and is budgeted at R38 million.

Grants for land redistribution and restitution

The budget for the implementation of the land reform programme is included in the vote of the Department of Land Affairs. The Department budgets for redistribution and restitution grants given to beneficiaries. The allocation for land reform grants increases strongly from R0,8 billion in 2002/03 to R1,6 billion in 2005/06, or by 26 per cent per annum. This is more than double the allocations between 1999/00 (R440 million) and 2001/02. It is anticipated that the rate of settlement of land claims will increase over the MTEF with the finalisation of legal and administrative processes on the claims.

Provincial agriculture budgets grow by 9,3 per cent over the MTEF

Most spending (around 75 per cent) on agriculture is by provinces, which grows from R2,6 billion in 2002/03 to R3,1 billion in 2003/04 and R3,4 billion in 2005/06, an annual average growth of 9,3 per cent. Provincial agriculture budgets have grown rapidly at an annual average of 13,3 per cent, from R1,8 billion in 1999/00.

Growth in spending varies widely among provinces over the MTEF, with the highest rate in Western Cape (14,2 per cent), followed by Limpopo (12 per cent) and Mpumalanga (8,9 per cent) – all growing above the national average.

Poorer provinces spend more on agriculture

Agricultural budgets comprise about 1,9 per cent of total provincial budgets, varying between a high of 3,8 per cent in Limpopo, Eastern Cape (2,4 per cent) and North West (2,5 per cent), to the lowest in Western Cape (1,0 per cent) and Gauteng (0,2 per cent). It is the poorest provinces which incorporated former homelands that budget higher shares for agriculture. This is also reflected in the fact that close to 80 per cent of total agriculture spending is in four provinces: Limpopo (26 per cent), Eastern Cape (24 per cent), KwaZulu-Natal (18 per cent), and North West (11 per cent). However, in 2003/04, two-thirds, or R2 billion of the R3 billion provincial agriculture budgets, are for personnel, rather than agricultural activities.

More poverty alleviation grants for agricultural activities

This review does not cover other agricultural expenditure effected through national and other provincial departmental budgets. These relate particularly to the poverty alleviation programme through the Local Economic Development Programme (LED) under the Department of Provincial and Local Government, and the Community Public Works Programme under the Department of Public Works. A key issue to consider in reviewing these programmes is whether line function departments of Agriculture are not better placed to support agricultural programmes in order for them to have a sustainable impact on poverty alleviation initiatives. Activities would include setting up farms and training.

Spending on Personnel in Provincial Agriculture

Personnel spending takes up highest share of budgets

The greatest challenge facing provincial budgets is to reduce the share of their personnel expenditure in poor provinces, in order to fund and support agricultural priorities. Table 7.2 shows that personnel expenditure increased from R1,4 billion to R1,8 billion between 1999/00 and 2002/03, reflecting a growth of about 9,2 per cent. It continues to rise at 7,4 per cent per annum to R2,2 billion in 2005/06. Compared to its share of 75,7 per cent in 1999/00, it declines to 67,7 per cent in 2002/03, and is expected to fall to 64,3 per cent in 2005/06.

Most provinces have reduced personnel numbers

The total number of provincial employees in agriculture is 23 460, with the bulk of these in Limpopo (8 249), Eastern Cape (5 419), and KwaZulu-Natal (3 865). Personnel budgets absorb a very high share in the provinces that inherited homelands, as is evident in Limpopo (74,8 per cent), Free State and North West (both around 68,6 per cent), and Eastern Cape and Mpumalanga (both around 60,0 per cent). Many of the personnel in these provinces were absorbed through the amalgamation of various homeland departments and agricultural schemes into a single provincial department of Agriculture. These personnel are mainly low and unskilled workers, and not the skilled personnel required to provide support services to farmers. Most of these personnel are supernumeraries: Eastern Cape (3 066) and Limpopo (5 543) account for the majority. These excess personnel cost Eastern Cape R196 million and Limpopo R255 million per year, respectively. This is in contrast with Gauteng, Western and Northern Cape, which inherited very small departments of Agriculture.

Table 7.2 Provincial personnel spending in agriculture: 1999/00 – 2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06	Current personnel number
Eastern Cape	379	369	400	406	444	464	483	5 419
Free State	82	89	88	103	117	122	128	1 282
Gauteng	16	25	31	32	34	36	40	185
KwaZulu-Natal	132	238	265	279	324	340	351	3 865
Limpopo	474	511	468	541	589	624	663	8 249
Mpumalanga	48	71	101	100	117	124	129	1 060
Northern Cape	42	34	36	38	46	49	54	414
North West	140	153	191	210	225	237	248	2 301
Western Cape	50	55	59	65	93	98	103	685
Total	**1 364**	**1 544**	**1 639**	**1 774**	**1 989**	**2 094**	**2 199**	**23 460**
Percentage of total agriculture expenditure								
Eastern Cape	85,3%	81,8%	71,0%	71,9%	60,4%	67,4%	67,3%	
Free State	79,5%	75,3%	73,4%	68,1%	68,7%	68,7%	68,7%	
Gauteng	45,7%	61,2%	89,4%	81,5%	81,0%	80,5%	80,5%	
KwaZulu-Natal	66,0%	64,0%	61,3%	57,0%	59,2%	58,5%	57,2%	
Limpopo	84,4%	77,8%	80,5%	76,7%	74,8%	68,1%	66,8%	
Mpumalanga	42,8%	60,0%	60,0%	60,0%	60,0%	60,0%	60,0%	
Northern Cape	84,0%	56,0%	68,6%	55,0%	51,3%	51,0%	65,0%	
North West	63,3%	69,6%	72,7%	71,5%	68,6%	71,3%	70,5%	
Western Cape	67,6%	63,4%	54,9%	46,4%	49,2%	48,9%	48,9%	
Total	**75,7%**	**72,7%**	**70,6%**	**67,7%**	**64,5%**	**64,6%**	**64,3%**	
Growth rates		**1999/00 - 2002/03**		**2002/03 - 2003/04**		**2002/03 - 2005/06**		
Eastern Cape		2,3%		9,3%		5,9%		
Free State		7,6%		13,7%		7,5%		
Gauteng		24,8%		6,4%		7,7%		
KwaZulu-Natal		28,2%		16,3%		8,0%		
Limpopo		4,5%		8,9%		7,0%		
Mpumalanga		27,9%		16,8%		8,9%		
Northern Cape		-3,4%		21,6%		12,8%		
North West		14,6%		7,1%		5,7%		
Western Cape		9,2%		41,9%		16,3%		
Total		**9,2%**		**12,1%**		**7,4%**		

Source: Provincial Departments of Agriculture.

Non-personnel Spending Trends

Spending on non-personnel accounts for 35 per cent of the budget

The focus for the agricultural sector is how it spends its non-personnel budgets, to provide complementary support services to farmers and infrastructure development. Table 7.3 shows that spending on non-personnel reflects strong average growth of 13 per cent annually over the MTEF period, from R846 million in 2002/03 to R1,2 billion in 2005/06. This allocation has grown off the low base of R439 million in 1999/00. The share of non-personnel expenditure to the total provincial agriculture budget increases from 24,3 per cent in 1999/00 to 32,3 per cent in 2002/03, and to 35,7 per cent at the end of the MTEF.

Spending on capital is about 9,9 per cent of total provincial budget

Spending on capital constitutes about 9,9 per cent of the total provincial budget in 2003/04, or about 28 per cent of non-personnel budgets. Capital expenditure increased from R37 million in 1999/00 to R201 million 2002/03, and is expected to reach R313 million in 2005/06. KwaZulu-Natal and Limpopo account for around 48 per cent of the capital budget in 2003/04. Besides providing for office equipment and vehicles, part of the capital budget is to revive farming infrastructure. This includes irrigation schemes, fencing, community wool sheds and boreholes for livestock farming. Provinces, have indicated that they are spending R245 million on agriculture infrastructure, some of which is not classified as capital.

Revitalisation of irrigation schemes will create opportunities for small-scale farmers

The agricultural sector has identified the revitalisation of irrigation schemes in the former homeland areas for the settlement of small-holder farmers as a key programme expected to contribute towards increased access to irrigation by historically marginalised farmers. These programmes are also aimed at job creation and increasing food production among small-holder farmers.

Table 7.3 Provincial non-personnel spending in agriculture: 1999/00 – 2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	65	82	163	159	291	224	235
Free State	21	29	32	48	53	56	58
Gauteng	20	16	4	7	8	9	10
KwaZulu-Natal	68	134	167	210	223	240	263
Limpopo	88	146	113	165	199	292	330
Mpumalanga	64	47	67	67	78	83	86
Northern Cape	8	27	17	31	44	47	29
North West	81	67	72	84	103	95	104
Western Cape	24	32	49	75	96	102	107
Total	**439**	**579**	**683**	**846**	**1 094**	**1 149**	**1 222**
Percentage of total agriculture expenditure							
Eastern Cape	14,7%	18,2%	29,0%	28,1%	39,6%	32,6%	32,7%
Free State	20,5%	24,7%	26,6%	31,9%	31,3%	31,3%	31,3%
Gauteng	54,3%	38,8%	10,6%	18,5%	19,0%	19,5%	19,5%
KwaZulu-Natal	34,0%	36,0%	38,7%	43,0%	40,8%	41,5%	42,8%
Limpopo	15,6%	22,2%	19,5%	23,3%	25,2%	31,9%	33,2%
Mpumalanga	57,2%	40,0%	40,0%	40,0%	40,0%	40,0%	40,0%
Northern Cape	16,0%	44,0%	31,4%	45,0%	48,7%	49,0%	35,0%
North West	36,7%	30,4%	27,3%	28,5%	31,4%	28,7%	29,5%
Western Cape	32,4%	36,6%	45,1%	53,6%	50,8%	51,1%	51,1%
Total	**24,3%**	**27,3%**	**29,4%**	**32,3%**	**35,5%**	**35,4%**	**35,7%**

Source: Provincial Departments of Agriculture.

Non-personnel recurrent expenditure is critical for supporting poor farmers

A very important part of non-personnel recurrent expenditure (non-personnel non-capital) is to provide key support services like livestock dipping, vaccination and other veterinary services to prevent the outbreak of animal diseases, transport to facilitate movement of extension/veterinary officers, and start-up capital to resource-poor farmers as grants or revolving funds. These services are critical for the development of small, and subsistence farming, and (together with social grants for pensioners and child support) have a significant impact on alleviating poverty in rural areas. Changes since 1994 have led to these essential services being neglected, as personnel budgets tended to squeeze out these services. This is particularly evident in provinces like Limpopo, North West and Eastern Cape, which carry significant amounts of livestock owned by poor farmers. It is critical that more rural provinces revive these services.

Non-personnel and non-capital spending accounts for about R789 million in 2003/04, or 25,6 per cent of the total provincial agriculture budget, and rises by 10,2 per cent per annum over the MTEF period to reach R909 million in 2005/06. The allocation in Limpopo declines by 1,1 per cent in 2003/04, even though it recovers somewhat over the MTEF.

Trends by Programme

Public spending shifts to developing small-scale farmers

Public spending on agriculture has been redirected from supporting the commercial sector, to developing and supporting emergent and historically disadvantaged farmers, including subsistence and small-scale commercial farmers. The national Department of Agriculture is mainly responsible for policy development and regulatory services. Agriculture programmes include extension services/farmer support, veterinary and regulatory services, research and innovation (including adaptive on-station and on-farm trials), promotion of agricultural production and agri-business projects. It should be noted that all the allocations per programme in this section include personnel expenditure, and thus mask the much lower allocation available for non-personnel within these programmes.

Provinces spend 41 per cent of agriculture budgets on extension services

Table 7.4 shows that the highest spending in provinces in 2003/04 is on extension services (41,0 per cent), followed by spending on administration, (19,7 per cent), veterinary services (11,3 per cent), and research (10,6 per cent).

Provincial expenditure on extension services grows by an average 12,4 per cent per annum, from R1 035 million in 2002/03 to R1 263 million in 2003/04, reaching R1 468 million in 2005/06. This is slower than the 17,1 per cent per annum increase from R644 million in 1999/00 to R1 billion in 2002/03. Poorer provinces spend most on extension activities, with KwaZulu-Natal and Limpopo accounting for 66,9 per cent spending on extension activities (Table 7.5). This compares with Northern Cape and Gauteng, which account for less than 2 per cent each. Eastern Cape has the largest administration programme as it includes supernumeraries.

Table 7.4 Provincial spending in agriculture by programme

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Administration	324	410	521	533	607	650	691
Extension services	644	743	933	1 035	1 263	1 383	1 468
Education and training	37	51	58	70	78	88	88
Research	148	141	188	237	328	282	303
Veterinary services	282	246	250	276	348	364	382
Agric production	91	114	170	191	242	255	275
Other	276	418	202	278	218	220	213
Total	**1 803**	**2 123**	**2 322**	**2 621**	**3 083**	**3 243**	**3 421**
Percentage of total agriculture expenditure							
Administration	18,0%	19,3%	22,4%	20,3%	19,7%	20,1%	20,2%
Extension services	35,7%	35,0%	40,2%	39,5%	41,0%	42,6%	42,9%
Education and training	2,0%	2,4%	2,5%	2,7%	2,5%	2,7%	2,6%
Research	8,2%	6,6%	8,1%	9,0%	10,6%	8,7%	8,9%
Veterinary services	15,7%	11,6%	10,7%	10,5%	11,3%	11,2%	11,2%
Agric production	5,1%	5,4%	7,3%	7,3%	7,8%	7,9%	8,0%
Other	15,3%	19,7%	8,7%	10,6%	7,1%	6,8%	6,2%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: Provincial Departments of Agriculture.

Through extension programmes departments provide services to farmers that facilitate and encourage the productive use of land. Services provided include training on appropriate production methods; marketing; forming and maintaining links with research institutes in order to communicate the needs of farmers and disseminate new technology; mobilising farmers into organised groups in order to purchase inputs collectively; marketing outputs; and accessing financing.

Table 7.5 Provincial agriculture spending by programme: 2003/04

R million	Administration	Extension services	Education and training	Research	Veterinary services	Agric production	Other	Total
Eastern Cape	236	144	–	138	121	52	45	735
Free State	50	30	10	10	23	26	20	170
Gauteng	4	19	–	–	19	–	1	42
KwaZulu-Natal	91	297	12	63	68	12	5	547
Limpopo	119	548	27	12	17	56	9	788
Mpumalanga	20	55	14	17	35	53	2	195
Northern Cape	14	9	–	5	9	15	38	90
North West	41	119	–	68	37	21	41	328
Western Cape	32	42	15	16	19	7	57	188
Total	**607**	**1 263**	**78**	**328**	**348**	**242**	**218**	**3 083**
Percentage of total								
Eastern Cape	38,9%	11,4%	0,0%	42,1%	34,8%	21,4%	20,6%	23,9%
Free State	8,3%	2,4%	13,2%	3,0%	6,5%	10,8%	9,4%	5,5%
Gauteng	0,6%	1,5%	0,0%	0,0%	5,3%	0,0%	0,4%	1,4%
KwaZulu-Natal	15,0%	23,5%	15,8%	19,1%	19,4%	4,8%	2,3%	17,7%
Limpopo	19,6%	43,4%	34,3%	3,6%	5,0%	23,1%	4,3%	25,6%
Mpumalanga	3,2%	4,3%	17,5%	5,2%	10,1%	22,1%	0,7%	6,3%
Northern Cape	2,3%	0,7%	0,0%	1,4%	2,6%	6,2%	17,4%	2,9%
North West	6,8%	9,5%	0,0%	20,7%	10,7%	8,7%	18,7%	10,6%
Western Cape	5,2%	3,3%	19,2%	4,9%	5,6%	3,0%	26,2%	6,1%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: Provincial Departments of Agriculture.

National Department of Agriculture spend 14 per cent of its budget on farmer support programmes

Table 7.6 shows that the national Department of Agriculture spent 14 per cent (R128 million) of its budget on farmer support programmes in 2002/03. These are mainly directed towards formulating policies and strategies to support provincial extension programmes. Key services provided under this programme include redistribution of state land, support training and the settlement of new farmers.

Spending on regulatory functions to ensure health and safety

The regulation of agricultural products to ensure health and safety is an important strategic function for the agricultural sector, and is provided at both the national and provincial spheres. The national Department of Agriculture projects to spend about R152 million in 2002/03, increasing to R255 million in 2005/06. These amounts constitute about 17 per cent of its budget. The regulatory activities focus on managing risks associated with animal and plant diseases and the use of genetically modified organisms. In addition to monitoring compliance with norms and standards, the Department is also responsible for import/export control services in order to ensure that agricultural products are safe for human consumption, adherence to international protocols and to help provinces respond to outbreaks of diseases.

Table 7.6 Spending by National Department of Agriculture and reform grants

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05	2005/06
					Medium-term estimates		
Agriculture							
Administration	113	107	126	142	153	163	172
Farmer support and development	11	12	100	128	146	60	77
Sustainable resources management and use	396	400	393	391	441	427	445
National agricultural regulatory services	101	135	154	152	185	207	255
Communication and information management	29	46	56	68	76	82	87
Other programmes	27	23	43	38	70	77	84
Sub total	**676**	**723**	**871**	**919**	**1 072**	**1 016**	**1 120**
Land Affairs							
of which							
Restitution	164	265	291	391	855	940	1 063
Land Reform	276	253	444	402	430	477	523
Sub total	**440**	**518**	**735**	**794**	**1 285**	**1 417**	**1 586**
Total	**1 115**	**1 241**	**1 606**	**1 712**	**2 358**	**2 433**	**2 706**
Percentage of total national agriculture expenditure							
Administration	16,7%	14,7%	14,5%	15,5%	14,3%	16,0%	15,3%
Farmer support and development	1,6%	1,7%	11,5%	13,9%	13,6%	5,9%	6,9%
Sustainable resources management and use	58,6%	55,3%	45,1%	42,6%	41,2%	42,0%	39,8%
National agricultural regulatory services	14,9%	18,6%	17,6%	16,5%	17,3%	20,4%	22,8%
Communication and information management	4,3%	6,4%	6,4%	7,4%	7,1%	8,1%	7,7%
Other programmes	4,0%	3,2%	4,9%	4,1%	6,5%	7,6%	7,5%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: National Treasury, Estimates of National Expenditure

Provinces carry out regulatory function for animal health

The key regulatory service that provinces are mandated to implement relates to animal health, which is mostly budgeted under the Veterinary Services programme. Provincial expenditure on Veterinary Services decreased by 0,8 per cent from R282 million in 1999/00 to a projected R276 million in 2002/03. Spending is expected to recover over the MTEF period, rising by an average of 11,4 per cent per annum, with strong growth of 26 per cent in 2003/04. Provinces that spend most on Veterinary Services are Eastern Cape, KwaZulu-Natal and North West, which together project to spend more than 60 per cent of total spending on the programme in 2002/03. The programme is important in ensuring that provinces are able to combat the spread of livestock diseases through animal inspections, vaccinations and dipping, and to respond to outbreaks, such as foot and mouth disease.

Foot and mouth disease was effectively contained and eliminated

Mpumalanga, KwaZulu-Natal and Limpopo experienced the outbreak of foot and mouth disease in 2001/02, which they were able to contain and eliminate with the support of the national Department. The reduction in the allocation in 2000/01 and 2001/02 to below the level of preceding years may explain one of the reasons for the outbreak of animal diseases, resulting from the failure to continually and regularly implement preventive measures such as dipping and vaccinating animals.

South Africa has to prevent diseases coming in from other countries

Containing the outbreak of animal diseases and the inflow of unauthorised genetically modified products from neighbouring countries requires specialised and efficient border control services to support regulatory activities. This service is provided by the South African Police, and the customs division of the South African Revenue Services. In 2001/02 the national Department of Agriculture erected electric fencing in some of the areas bordering the neighbouring countries in a drive to prevent the resurgence of the diseases.

Agricultural projects target employment

Provinces support employment creation through targeted projects to promote agri-business enterprises among poor communities in rural and peri-urban areas. About 3 per cent of provincial agriculture budgets are spent on providing training that covers not only technical aspects of production, but also skills in business development and the management and provision of start-up financing. A unit was established in the national Department in 2001/02 to promote the development of agricultural business enterprises. Its function is also to regulate the partnerships within the sector, such as emerging farmers, agri-SMMEs (small, medium and micro enterprises) and the private sector including commercial farmers. The Eastern Cape includes R70 million in its budget for a new programme – the Massive Food Production Programme, aimed at poverty alleviation. This allocation will be spent on providing agricultural inputs and mechanisation.

Research supports improved productivity

Spending on research constitutes about 4 per cent of total provincial agriculture budgets. Over 80 per cent of spending on research takes place in Eastern Cape, KwaZulu-Natal, and North West. Provinces conduct adaptive research, mostly linked to research stations run by agricultural colleges. Regional research is also supported by the Agricultural Research Council, which has research stations located in provinces. Each province supports research into farm enterprises most suitable for the region. The objective is to enhance productivity and minimise costs. For instance, research in Western Cape focuses on grape varieties, whereas Eastern Cape focuses on small livestock, such as goats and sheep.

Training improves capacity of extension services

Although training takes a relatively small portion of the budgets (less than 3 per cent), it is one of the key strategies for supporting extension programmes. Through this programme, the provincial departments of Agriculture fund long-term training at agricultural colleges and short-term courses to upgrade the skills of extension officers. Funding also goes to developmental programmes, especially to empower emerging farmers and to develop SMMEs in agri-business.

Land Ownership Patterns

Legacy of skewed distribution of land based on race

In 1994, the democratic government inherited an agricultural sector that continues to be characterised by strong dualism. It reflected an unequal land ownership structure based along racial lines. Table 7.7 shows land distribution patterns prior to land reform. Of the

100 million hectares of land with potential for farming, only 17 per cent has a high potential for arable (crop, horticulture) farming, and the remaining 83 per cent is suitable for extensive livestock farming. Total land under commercial farming amounts to 86 million hectares or 86 per cent of total farmland. This land is farmed by about 61 000 large-scale units (averaging 1 400 hectares) and is predominantly owned by white farmers. There are no recent statistics on land ownership patterns to show any progress made in reversing the imbalance.

Farming in former homelands is mostly for subsistence

On the other hand, as many as 1,3 million households in the former homelands are engaged in subsistence or small-scale farming, cultivating the remaining 14 per cent (arable plus grazing) of total farmland. An indicator of the severity of land shortage in these areas is given by the ratio of arable land to rural population, which is 0,2 hectares per person compared to 2,5 hectares per person in commercial agriculture.

Most irrigable land is owned by white farmers

Large-scale commercial farmers have benefited from their greater access to irrigated facilities and flood protection measures, and from previous government subsidies before 1994. Approximately 15 000 medium to large-scale commercial farmers use an irrigated area of about 1,2 million hectares. On the other hand, 40 000 small-holders account for 40 000 – 50 000 hectares in the development schemes of the former homelands, most of which need major rehabilitation. The area under community irrigated vegetable gardens accounts for another 50 000 hectares and is operated by some 150 000 growers.[2]

Land reform programme to redress inequities

Government has prioritised land reform as a necessary measure to ensure broad-based participation and easy entry by black farmers into the agricultural mainstream. After 1994, a land reform programme aimed at addressing inequities and injustices of apartheid was put in place. The programme includes the following elements:

- Restitution of land rights, which requires restoring ownership of land or providing financial compensation to victims of forced removals
- Redistribution of land to individuals or communities for agricultural production and settlement
- Reforming tenure to enable individuals or communities to gain legal tenure of land.

Land redistribution programme reviewed to improve delivery

A review of the programme has led to accelerated implementation and the need to ensure that capacity is developed for the productive use of acquired land. A new vehicle, the Land Reform for Agricultural Development (LRAD), has been created to fast-track the delivery of land for farming to the historically disadvantaged. It is a more flexible intervention programme than its predecessor, as it provides for varying objectives like food safety-net projects, co-operative projects, equity schemes and commercial production. It also gives beneficiaries access to a range of support measures in accordance with their objectives and resources. The redesign of the programme strengthens

[2] Source: Report on Special Food Security for South Africa, Department of Agriculture, May 2002

the market-assisted land redistribution approach of the earlier land reform programme.

Table 7.7 Size of farmland, landuse and ownership

Hectares (thousand)	Total agricultural land: Farm land	Total agricultural land: Arable land	Commercial agriculture sector: Farm land	Commercial agriculture sector: Arable land	Commercial agriculture sector: No of farm units	Developing agriculture sector: Total Land	Developing agriculture sector: Arable land	Developing agriculture sector: No of farm units
Eastern Cape	14 818	1 172	10 816	644	6 338	4 002	529	310 400
Free State	11 760	4 221	11 572	4 187	11 272	188	35	32 400
Gauteng	829	439	829	439	2 342	–	–	–
KwaZulu-Natal	6 529	1 200	3 439	839	5 037	3 089	361	414 000
Limpopo	10 548	1 700	7 154	1 170	7 273	3 395	531	299 300
Mpumalanga	4 979	1 735	4 486	1 597	4 675	493	138	89 100
Northern Cape	29 544	454	29 544	454	6 730	–	–	–
North West	10 098	3 361	6 786	2 408	7 512	3 313	952	147 400
Western Cape	11 561	2 455	11 561	2 455	9 759	–	–	–
Total	**100 666**	**16 737**	**86 187**	**14 193**	**60 938**	**14 480**	**2 546**	**1 292 600**

	% share		% of total land	
Eastern Cape	14,7%	7,0%	73,0%	54,9%
Free State	11,7%	25,2%	98,4%	99,2%
Gauteng	0,8%	2,6%	100,0%	100,0%
KwaZulu-Natal	6,5%	7,2%	52,7%	69,9%
Limpopo	10,5%	10,2%	67,8%	68,8%
Mpumalanga	4,9%	10,4%	90,1%	92,0%
Northern Cape	29,3%	2,7%	100,0%	100,0%
North West	10,0%	20,1%	67,2%	71,6%
Western Cape	11,5%	14,7%	100,0%	100,0%
Total	**100,0%**	**100,0%**	**85,6%**	**84,8%**

Source: Department of Agriculture, "Abstract of Agriculture Statistics", 2002, compiled from Development of South Africa, "Survey of Land Utilisation in South Africa", 1991, and Statistics South Africa, "Census of Agriculture, 1993 and "Agriculture Survey", 1996.

LRAD programme also redistributes land to commonage projects

The LRAD has two distinct components: transfer of agricultural land to specific individuals or groups, and commonage projects, which aim to increase access to municipal and tribal land for agricultural purposes.

Concrete targets for land reform

Government’s land reform vision is to redistribute 30 per cent of land available for agriculture among previously disadvantaged citizens over a maximum period of 15 years. This translates to about 25 million hectares. The minimum target is to distribute 1,2 million hectares of agricultural land per year.

Service delivery trends and challenges

High levels of food insecurity in more rural provinces

Even though South Africa is considered to be self-sufficient in food production, an estimated 1,5 million[3] children suffer from malnutrition, and 14 million people are vulnerable to food insecurity.

[3] Source: Report on Special Food Security for South Africa, Department of Agriculture, May 2002

The greatest need for food security is in poorer provinces like the Eastern Cape, Limpopo and KwaZulu-Natal.

Besides land reform, Government has undertaken a series of reforms to reorientate the agricultural systems and related support services to ensure better access for historically disadvantaged small-scale farmers. This is premised on the understanding that agriculture, especially the small-scale sector, can be productive and efficient and contribute to job creation and food security at the household level in rural and peri-urban areas.

Progress with land reform programme

Some progress has been made to redistribute land

Land reform started slowly in 1994. The focus in the first two years was on refining policy, and building delivery institutions and capacity. The land redistribution undertaken by the Department of Land Affairs has so far mainly relied on the purchase of private land. The Department of Agriculture is implementing farmer settlement programmes on state land.

A total of 1,5 million hectares of land has been transferred under the redistribution programme to about 129 093 households between 1994 and December 2002 (Table 7.8). Approximately 80 per cent of approved transfers occurred between 1997 and 2002. There has been a steady increase in redistribution of land per year, starting with about 12 000 hectares in 1995, and reaching a peak of 244 500 hectares in 1999. The rate of transfer declined slightly in 2000 because of a moratorium on approving projects, pending the review of the programme. The pace picked up again in 2001, with the launch of LRAD, which removed some of the impediments in the original programme. However, the annual delivery rate of 250 000 hectares is still far short of the envisaged 1,2 million hectares a year.

Wide variations in the size of land per province

The size of land and number of benefiting households vary widely among provinces. Northern Cape takes up 37 per cent of transferred land, followed by KwaZulu-Natal with 16 per cent. The number of households benefiting from transferred land ranges from about 2 303 in Gauteng to about 40 000 in Eastern Cape. Gauteng has the lowest share of transferred land (less than 1 per cent) and benefiting households, with the smallest size of land per household at 3 hectares. Besides Northern Cape, the more predominantly rural provinces have redistributed most of the land, but with wide variations in the number of households and size of land per household. Free State has distributed more land per household (22 hectares), followed by KwaZulu-Natal (15 hectares), Limpopo (10 hectares), and Eastern Cape (4 hectares).

Table 7.8 Trends in land redistribution up to December 2002

	Ha	No of Households	Size of land per household
Eastern Cape	144 245	39 955	4
Free State	147 101	6 627	22
Gauteng	7 189	2 303	3
KwaZulu-Natal	233 206	15 612	15
Limpopo	75 995	7 459	10
Mpumalanga	139 297	16 847	8
Northern Cape	534 297	5 016	107
North West	78 554	25 345	3
Western Cape	94 173	9 929	9
Total	**1 454 057**	**129 093**	**11**
Percentage of total			
Eastern Cape	9,9%	31,0%	
Free State	10,1%	5,1%	
Gauteng	0,5%	1,8%	
KwaZulu-Natal	16,0%	12,1%	
Limpopo	5,2%	5,8%	
Mpumalanga	9,6%	13,1%	
Northern Cape	36,7%	3,9%	
North West	5,4%	19,6%	
Western Cape	6,5%	7,7%	
Total	**100,0%**	**100,0%**	

Source: Department of Land Affairs, December 2002.

Progress in land redistribution varies from province to province

The amount of land distribution per province is also determined by the size and potential of land for farming. For instance, Northern Cape accounts for the largest size of land (30 per cent) with a sparse population. Also, less than 20 per cent of this land is suitable for crop farming for most of the land is arid and far more suitable for extensive livestock farming. This requires more hectares per household for commercial farming. On the other hand, Gauteng has less potential for farming due to its size and urban nature, and is better suited for farming enterprises like poultry, dairy and vegetables.

State farms are another source of land for redistribution. The programme for settling farmers on state land is run by the national Department of Agriculture. Land lease arrangements are the most common mechanism for disposing state farms. Where an option to purchase is exercised, it is processed through the LRAD programme.

Disposal of state land, mainly through land lease arrangements contribute to land reform

Table 7.9 shows the size of state land suitable for agriculture which has been targeted for redistribution. The targeted land does not cover all agricultural state land as some of the land has pending restitution claims.

Table 7.9 Disposal of state land

	Targeted ha for disposal	Progress in land disposal		
		Hectares	No. of households	Size of land per household
Eastern Cape	161 363	51 029	640	80
Free State	36 364	71 523	79	905
Gauteng	20 401	52 498	284	185
KwaZulu-Natal	48 472	36 610	1 170	31
Limpopo	270 777	128 180	355	361
Mpumalanga	27 853	17 474	127	138
Northern Cape	49 931	50 824	23	2 210
North West	36 459	44 062	458	96
Western Cape	17 380	3 860	807	5
Total	**669 000**	**456 060**	**3 943**	**116**
Percentage of total				
Eastern Cape	24,1%	11,2%	16,2%	
Free State	5,4%	15,7%	2,0%	
Gauteng	3,0%	11,5%	7,2%	
KwaZulu-Natal	7,2%	8,0%	29,7%	
Limpopo	40,5%	28,1%	9,0%	
Mpumalanga	4,2%	3,8%	3,2%	
Northern Cape	7,5%	11,1%	0,6%	
North West	5,4%	9,7%	11,6%	
Western Cape	2,6%	0,8%	20,5%	
Total	**100,0%**	**100,0%**	**100,0%**	

Source: National Department of Agriculture, December 2002.

The current target is to redistribute a total of 669 000 hectares of land owned by the state. The Department has settled farmers on a total of 456 060 hectares. This is about 68 per cent of targeted land, and 23,8 per cent of total redistributed land. About 85 per cent of farmers settled on state land have opted for lease arrangements. The average size of transferred state land per household amounts to 116 hectares, ranging from 2 210 hectares in Northern Cape to 5 hectares in Western Cape. The size of state land reflects higher hectarage per household compared to the overall redistribution programme, as this was transferred mainly for commercial production. North West, Gauteng and Free State exceeded their targets, reflecting faster resolutions of land claims than anticipated.

More than 50 per cent of land claims are settled

Table 7.10 indicates progress with the implementation of the restitution programme. Approximately 69 000 claims have been made with the Restitution Commission. About 72 per cent of these claims are urban. Although rural claims only constitute about 28 per cent, they involve more people as most rural claims concern communities compared to urban claims, which largely affect individuals. A total of 36 279 claims have been settled, involving about 85 000 households. The settlement of claims involves restoration of land or financial compensation. Most of the settled claims are in urban areas and involve financial compensation. The total financial compensation paid for settled claims up to December 2002 amounts to R1,2 billion. The rural claims mostly involve restoration of land. To date, about 512 912 hectares of land have been restored, at a cost of R431 million, which translates into R840 per hectare. The total land transferred under redistribution and restitution programme amounts to 2 million hectares.

Table 7.10 Progress with restitution as at December 2002

	Number of claims settled	Land restored	Number of households	Land costs R million	Financial compensation R million
Eastern Cape	11 045	29 577	21 953	98	405
Free State	1 150	6 665	1 655	8	12
Gauteng	7 373	3 453	7 898	18	225
KwaZulu-Natal	8 640	70 603	17 485	69	378
Limpopo	777	34 504	10 472	85	20
Mpumalanga	558	21 626	5 997	11	24
Northern Cape	450	279 759	4 187	57	5
North West	1 053	61 470	8 245	66	26
Western Cape	5 233	5 255	7 113	20	143
Total	**36 279**	**512 912**	**85 005**	**431**	**1 237**

Source: Department of Land Affairs, Restitution website, as at December 2002.

Land redistributed for variety of uses

Table 7.11 indicates the most prevalent uses for transferred land under the redistribution programme. Before the redesign of the redistribution programme into LRAD, projects also included land for settlement purposes, mostly for subsistence farming. Table 7.11 shows that the farming projects take a variety of forms, including commonages, which are owned by municipalities or tribal authorities; and equity schemes, which involve mostly farmworkers buying equity into commercial farms. Land redistributed mainly for settlement purposes amounts to 29 per cent. Commonages (33 per cent) are mostly found in Northern Cape (84 per cent) and Gauteng (10 per cent). The land transferred primarily for agricultural purposes amounts to 22 per cent. Equity schemes account for one per cent and they are found mostly in Western Cape (47 per cent) and Mpumalanga (27 per cent). Most of the land redistribution before LRAD was to groups, as the previous programme did not provide flexibility for individual access to land.

Table 7.11 Types of land use for transferred land

Land use option/Sub-programmes	Land used
Municipal commonages	33%
Farm style equity schemes	1%
Settlement	29%
LRAD	22%
Other	15%

Source: Department of Land Affairs, Redistribution Programme Transfers, December 2002.

Provision of agricultural services

Land reform increases demand for agricultural services

The success of the land reform programme hinges not only on the achievement of targets set for redistribution, but also on whether it supports sustainable increases in employment and income levels, and increased food security at the household level. The land reform programme increases demand for agricultural support services to provide for the needs of the emerging and subsistence farmers.

Resource-poor farmers need effective extension services

Provision of the quantity and quality of services required to boost productive capacity of resources to poor farmers remains a challenge. Although these farmers experience the same constraints as commercial farmers, they require more direct support from extension officers, and they face greater constraints in accessing finance. The present extension service results from the merging of two services: one rendering services to commercial farmers and composed of a relatively small number of generally well-qualified personnel, and the other serving farmers in the homelands and self-governing territories.

Current extension service is inadequate

When previous administration staff were absorbed into the new provincial administration, agricultural services in the former homelands were considered inadequate. It was apparent that the education level of former homelands staff was low. Most lacked practical farming skills, and their expertise was limited and often irrelevant to the needs of their clients. With the ratio of extension officers to farmers averaging 1:700, plus lack of transport, the extension service is ill-equipped to provide effective service. Hence, even with the limited land in the homelands, less than 50 per cent is used productively.

Training in agricultural skills takes place in 11 colleges across the country

There are 11 agricultural colleges in the country that offer courses which contribute to the development of skills in agriculture. The colleges are spread throughout the country, except in Gauteng and Northern Cape, which do not have a resident college. Nine colleges are managed by the provincial departments of Agriculture. The total number of students registered average less than 3 000 a year, and about 70 per cent are male. In terms of the White Paper on the Transformation of Higher Education, the programmes offered by the colleges fall within the scope of higher education under the Department of Education.

Colleges to be incorporated into the higher education system

Since 1991, the colleges have been undergoing transformation to eliminate racial biases in the institutions. The colleges provide both non-formal training and formal courses offering higher certificates and diplomas. The non-formal courses include short courses designed for emerging or small-scale farmers' development, particularly those benefiting from the land reform programme. The national departments of Agriculture and Education have completed a review of these colleges. The review indicates the need to incorporate these colleges into the higher education system, and the need to train more agricultural scientists[4]. Current problems include outdated curricula, lack of key personnel, large variations in allocation of funding per college, and under-funding for maintenance and expansion of learner support infrastructure (such as poultry houses and irrigation).

Agricultural Research Council supports resource-poor farmers

The Agricultural Research Council (ARC) is the main source of research expertise in the agricultural sector. It has a number of institutes with specific know-how, which are undergoing re-orientation to support technology development for resource poor farmers. The Council is attempting to balance the needs of the commercial sector and the subsistence sector as well as emerging

[4] Source: Incorporating the Colleges of Agriculture into the higher Education Sector, Report by Technical Task Team, 2000

farmers from the land reform programme. However, there is poor co-ordination between the ARC and the extension services, due to poor provincial involvement. Consequently, ARC researchers are forced to play an extensive role in extension services for disseminating technology, which reduces their time for research activities.

Land reform increases demand for rural infrastructure

Increased land reform is creating additional demands for infrastructure, including improvement of rural roads to facilitate access to agricultural markets. Where the land reform programme creates communities, such as in the restoration of land, the beneficiaries also need access to municipal and other services.

Land Bank provides finance to emerging farmers

Lack of capital undermines the efficiency of farming enterprises, and inhibits the productive use of newly acquired land. This is the case particularly for the poor, who are normally not considered credit worthy, or who do not have collateral security where the land is communally owned. The Department of Agriculture was directly involved in extending credit to farmers until 1997, and today the Land Bank is the sole public institution that has the mandate to provide a full range of retail and wholesale financial services for small-scale farmers. Low, medium to high-risk clients can access long, medium, and short-term loans to meet all financial needs including land, equipment purchases, asset improvement and production credit. Most of the beneficiaries of land reform are too poor to qualify for loans from commercial banks.

Land Bank supports LRAD

The Land Bank administers a grant on behalf of the national Department of Land Affairs, in order to provide loans and grants for emerging farmers to acquire land. Provincial departments of Agriculture also have small programmes to finance farmers and agri-industries. These programmes are sometimes funded by donors and involve giving farmers starter packages or financial grants. Free State runs the biggest donor-funded poverty alleviation programme, which supports the development of income-generating projects in agriculture.

Poor farmers need to form collective structures

Farmer co-operatives have played an important role among commercial farmers. They have strengthened their position in the market, thus ensuring better prices through collective bargaining for input supplies, products, and providing market information. Currently co-operatives serve mostly commercial farmers and they are in most cases not accessible to emerging farmers. The provincial departments of Agriculture are encouraging the development of organised structures and co-operatives among poor farmers so that they can collectively acquire inputs and access markets and finance.

Special programme for food security and land care

Department of Agriculture has developed a framework for increasing food security

The Department of Agriculture has developed a Special Programme for Food Security (SPFS) with the support of the Food Agricultural Organisation, and it implements the Land Care Programme. The SPFS provides a framework for focusing more sharply on increasing production in food deficit areas, improving the stability of supplies and generating rural employment. The design of the programme allows for maximising the use of the land in the small-holder sector through the development of a low-cost irrigation and water management system. The key strategy is to rehabilitate the existing irrigation schemes, expand communal vegetable gardens and backyard gardens. It also aims to improve dry land cultivation through appropriate soil and water conservation technologies and better land husbandry practices that will result in increased agricultural production intensity and diversity.

Land Care Programme supports increased land productivity

The Land Care Programme is a community-based programme, with an integrated approach to sustainable use and management of natural agricultural resources. Land degradation and water scarcity are major problems influencing land productivity and sustainability. This problem is prevalent in former homelands due to overcrowding and lack of information about the consequences of their land management decisions. The objective of the programme is to encourage and empower communities to take responsibility for the management of their resources in order to support food security and job creation through increased productivity. The Programme has been implemented on a limited scale to provide lessons and develop skills in local communities.

Conclusion

Government has laid foundation for fast-tracking land reform, which will strengthen agricultural sector

Agriculture has great potential to assist in the fight to alleviate poverty in rural areas. Given the apartheid legacy, the expansion of agricultural opportunities to poor rural communities is closely linked to access to land and water. Redressing the past imbalances in land ownership must be balanced against the need to sustain the predominantly commercial farming sector, so that the agricultural sector can continue to supply food to the consumer at reasonable prices, and remain internationally competitive. To date, significant progress has been made in creating a platform for increasing access to land by the historically disadvantaged, through land reform. The redesign of redistribution has established a solid base for greater collaboration between the departments of Agriculture and Land Affairs at national and provincial levels and farmers' unions, in fast-tracking access to land by the historically disadvantaged.

Government needs to extend support to emerging and small-scale farmers

The key challenge facing Government is to expand its support services for emerging and small-scale farmers. However, departments of Agriculture in poor provinces are unable to provide the necessary support, as their budgets for such activities are squeezed out by personnel expenditure. Over two-thirds of provincial budgets are dedicated for the payment of salaries of large numbers of low-skilled staff, and they are not skilled to provide the support services required by emerging and small-scale farmers.

Over the past seven years, however, great progress has been made in expanding access to land for new entrants. This programme needs to be complemented by farmer support programmes. The inadequate agricultural services to support farmers in the former homelands has resulted in under-utilisation of land.

Need for more accurate information on small-holder farming sector

Lack of reliable statistics on the size of the small-holder farming sector, such as number, location and type of livestock owned, and utilisation and output of the cropping patterns, undermines effective planning and targeting of service delivery. There is a need for a systematic process to develop and update the database for all types of farmers and their needs in order to ensure that farmer support programmes are well targeted, and to assess the results of land reforms and support.

Improving financial management in agriculture

A key area of improvement for all provinces is in the reporting system for agricultural and related activities, including the need for uniform strategic plan formats and budget programmes, as well as the quality of reporting in annual reports. Improvements on the quality of financial management are also necessary, as the national department and 4 provincial agriculture departments (Free State, KwaZulu-Natal, Mpumalanga and Western Cape) received unqualified audit reports for the 2001/02 financial year. Five provinces (Eastern Cape, Gauteng, Limpopo Northern Cape and North West) all received qualified audit reports.

8

Roads and transport

Introduction

A good transport system is necessary for efficient functioning of the economy. Investment in transport supports both growth and development. It creates economic opportunities and facilitates the movement of people, resources, and outputs to industries and markets and enables people to access social services. The importance of the sector is further reflected by the direct contribution it makes to GDP, at 10 per cent.

Efficient transport contributes to economic growth and development

Roads infrastructure and the public transport system in South Africa reflect the disparities arising from previous patterns of spatial development, which were created by apartheid policies. Although the country has developed a good road network to provide for mobility and accessibility, a significant portion of the rural population is still affected by poor accessibility and mobility. Safety of roads and rail is another area of strategic importance within the transport sector due to the high economic and social costs associated with accidents.

Government aims to improve infrastructure and reduce costs of public transport

Provincial roads and traffic are an exclusive Schedule 5A provincial function, while municipal roads, traffic and parking are exclusive Schedule 5B municipal functions. In contrast, public transport is a concurrent Schedule 4A national and provincial function, and municipal public transport is a Schedule 4B concurrent municipal function. Due to the evolving nature of the intergovernmental fiscal system, it is difficult to provide a comprehensive picture of government spending on public roads and transport.

The Constitution divides responsibility for transport among the three spheres of government

The national Department of Transport plays a largely facilitative and regulatory role. It develops the policy and legislative framework, which is implemented through provincial departments, local Government and public entities. Transport policy is spelt out in the 1996 White Paper on National Transport Policy. The Moving South Africa project, which began in 1997, outlines negotiated transport strategies. The National Land Transport Transition Act (22 of 2000) (NLTTA), sets out a framework for integrated land transport planning and service delivery across provinces and local Government.

National Government develops policy to be implemented by provinces and local government

National Government has established agencies to support delivery in roads and public transport

The national Department of Transport has a number of agencies that are mandated to deliver transport infrastructure and oversee transport regulation. The South African National Roads Agency (SANRA) manages the construction of roads. The agency responsible for services and regulation of rail transport is the South African Rail Commuter Corporation (SARCC). Other regulatory bodies include the Road Traffic Management Corporation, which is expected to enhance co-operation between the three spheres of Government on road traffic management and law enforcement; and the Cross-Border Road Transport Agency, which regulates cross-border passenger, freight and road transport. Other agencies are mandated to regulate air traffic and civil aviation.

Provinces and local Government are responsible for traffic management

Provincial and local Government are responsible for roads within their area of responsibility, transport planning, and regulation in terms of the framework set out by the Act. They are responsible for traffic management and road safety in terms of Road and Traffic Acts. The organisational arrangements also differ between provinces, as the delivery of roads falls under departments of Public Works, Roads, Transport or even Safety and Security, which may be merged or totally separate from the other departments.

This chapter reviews public transport sector policy and spending trends

This chapter presents a consolidated picture of national and provincial spending in key specific functions within the transport sector. The chapter has three parts. The first part discusses spending and delivery of roads and commuter rail infrastructure. The second part reviews spending trends in public transport subsidies and planning, and highlights the progress made in transforming the public transport system as envisaged by the NLTTA. The third part focuses on traffic management, regulation and road safety.

Part one: Roads and commuter rail infrastructure

This section focuses on roads infrastructure, and gives a brief overview of spending on commuter rail infrastructure. The commuter rail function is carried out by national Government.

The road network

Extensive road network of 752 000 km

South Africa has an extensive road network of approximately 752 000 km. It comprises 532 000 km of proclaimed national, provincial and municipal roads, and about 220 000 km of unclassified roads. Most of the unproclaimed roads are access roads, serving rural communities.

Northern Cape has the largest road network and Gauteng the smallest

Table 8.1 shows that the provincial and national road network comprises 336 000 km of the proclaimed road network, with the rest of the proclaimed roads falling under municipalities. It shows that there is a fairly close relationship between the size, measured by the land area of a province, and the extent of its total road network. As the smallest province, Gauteng has the lowest share of total roads (2,2 per cent), while Northern Cape covers a large area and accounts for the largest provincial road network of 20,5 per cent. Eastern Cape, Mpumalanga, North West and Western Cape all show almost the same percentage for land area and proportion of provincial road network, indicating fairly even nationwide development - at least in terms of spatial access.

Table 8.1 Proclaimed provincial and national roads network by type

	Area (km^2)	Paved km	Gravel km	Access km	Total km	Road Network Density (m per km^2)	No of registered vehicles - thousands	Vehicles per km of provincial road
Eastern Cape	169 600	6 233	34 718	7 631	48 582	286	471	9,7
Free State	129 480	7 070	22 046	20 000	49 116	379	440	9,0
Gauteng	18 810	3 487	1 771	2 410	7 668	408	2 618	341,4
KwaZulu-Natal	92 307	6 651	16 178	14 200	37 029	406	972	26,0
Limpopo	123 280	6 403	16 829	10 578	33 810	234	298	10,3
Mpumalanga	78 370	7 062	10 517	7 479	25 058	320	416	16,6
Northern Cape	361 800	5 630	53 725	12 023	71 378	197	154	2,2
North West	116 190	6 723	19 161	10 017	35 901	309	392	10,9
Western Cape	129 370	7 172	24 991	7 822	39 985	309	1 188	29,7
Total provincial	**1 219 207**	**56 431**	**199 936**	**92 160**	**348 527**	**282**	**6 949**	**20,2**
National (SANRA)		**7 200**			**7 200**			
Total	**1 219 207**	**63 631**	**199 936**	**92 160**	**355 727**			
Percentage of total provincial road network								
Eastern Cape	13,9%	12,8%	71,5%	15,7%	13,9%			
Free State	10,6%	14,4%	44,9%	40,7%	14,1%			
Gauteng	1,5%	45,5%	23,1%	31,4%	2,2%			
KwaZulu-Natal	7,6%	18,0%	43,7%	38,3%	10,6%			
Limpopo	10,1%	18,9%	49,8%	31,3%	9,7%			
Mpumalanga	6,4%	28,2%	42,0%	29,8%	7,2%			
Northern Cape	29,7%	7,9%	75,3%	16,8%	20,5%			
North West	9,5%	18,7%	53,4%	27,9%	10,3%			
Western Cape	10,6%	17,9%	62,5%	19,6%	11,5%			
Total	**100,0%**	**16,2%**	**57,4%**	**26,4%**	**100,0%**			

Sources: National Department of Transport; National Department of Transport's Report on road accidents during the 2002 festive season; Road infrastructure strategic framework; Provincial Departments of Transport and Roads.

Only 16,2 per cent of provincial roads are paved

The quality of provincial roads varies from province to province as well as regionally within provinces. Table 8.1 shows that nationally, only 16,2 per cent of provincial roads are paved, while 57,4 per cent are gravel roads and 26,4 per cent are access roads. Gauteng has the largest relative proportion of paved road at 45,5 per cent. Eastern Cape, Northern Cape, and Free State have less than 15 per cent of surfaced road network The largest gravel and access road networks are found in the Eastern Cape, Northern Cape and Free State. In addition to other factors, such as the extent of historical disrepair on provincial roads, unsurfaced roads increase the need for continual maintenance, which means ongoing recurrent expenditure.

Gauteng has highest number of vehicles per kilometre on its roads

The extent of the potential utilisation of roads is another important indicator of future spending requirements. The rate of utilisation determines the extent and timing of road maintenance. Over-utilisation also results in traffic congestion. Potential utilisation can be inferred from road density and the number of vehicles per kilometre of provincial road reflected in Table 8.1. The provincial road network densities do not show as great a variation as the vehicle densities. The variation ranges from just below 200m/km^2 for Northern Cape, and doubles to just over 400 m/km^2 for Gauteng and KwaZulu-Natal, indicating fairly even development and access nationwide. However, the number of vehicles per kilometre highlights the contrast in utilisation: six of the nine provinces register less than 20 vehicles per kilometre of road, while Gauteng's figures are 341 vehicles per kilometre.

The indicators for the extent of road network and utilisation show that the problems faced by Gauteng are distinctly different from those of other provinces. Gauteng has a relatively higher population density, good roads, but high congestion. It therefore needs to examine other solutions to its transportation problems, such as alternative modes and network expansion. Other provinces are faced with issues around the efficient spending for providing access to people who have never had access, and making choices about maintenance versus upgrading of existing roads.

Budget and spending on roads and rail infrastructure

The focus is on roads and rail

The national Department of Transport budgets for expenditure on national roads and commuter rail infrastructure. Both these allocations are transfers to agencies that implement the programmes on behalf of the national Department of Transport. These transfers increased at an annual average of 9 per cent, from R900 million in 1999/00 to R1,9 billion in 2002/03. Transfers between 1999/00 and 2000/01 focused mainly on roads. Government's programme of investing in rail rolling stock started in 2001/02 with the allocation of R490 million, increasing to R691 million in 2002/03. Government plans to inject R2 billion over the MTEF into the rehabilitation of commuter rail rolling stock[3].

The investment in rail infrastructure focuses on the renewal of infrastructure rather than increased capacity. The current assets of the South African Rail Commuter Corporation comprise 319 stations, 2 240 km of electrified single rail track and 360 train sets with a total of 4 564 coaches.

Gautrain is first provincial rail project

Provinces and local Government have generally not been involved with the rail sector. However, Gauteng is proceeding with constructing the biggest commuter rail project in the last 20 years. The province's Gautrain project will link Johannesburg to Pretoria and the Johannesburg International Airport. This project is anticipated to cost R7,4 billion to construct. Construction is expected to begin within the next two years. The projected contribution of the province over the construction period amounts to R5,7 billion. The province has budgeted R659 million in 2003/04, increasing to R2,5 billion in

[3] Source: National Treasury (2003) Estimates of National Expenditure

2005/06, to a total of R4,2 billion over the MTEF period. This allocation is part of the Blue IQ Programme which falls under the provincial treasury budget, while the transport department will be responsible for implementation.

National and roads budgets increase from R5,9 billion to R7,5 billion at end of MTEF

Table 8.2 shows actual and budgeted expenditure for national and provincial roads infrastructure. It is projected to increase by 7,1 per cent, from R5,9 billion in 2002/03 to R6,4 billion in 2003/04 and to R7,5 billion in 2005/06, reflecting an annual average growth of about 8,2 per cent. Aggregate spending in the earlier years increased by 24 per cent per year from R3,2 billion in 1999/00 to R4,8 billion in 2001/02.

Table 8.2 Provincial and national expenditure on roads

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual[1]	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	154	288	560	1 091	975	1 065	1 115
Free State	218	158	301	338	281	320	337
Gauteng	355	365	381	458	448	478	519
KwaZulu-Natal	505	655	851	878	1 214	1 389	1 520
Limpopo	321	579	560	618	765	690	907
Mpumalanga	182	216	381	479	467	520	606
Northern Cape	97	104	119	128	165	187	195
North West	227	270	203	304	383	413	445
Western Cape	198	332	333	442	391	484	570
Total provincial	**2 257**	**2 967**	**3 689**	**4 736**	**5 089**	**5 546**	**6 214**
National	**900**	**701**	**1 067**	**1 203**	**1 271**	**1 240**	**1 315**
Total	**3 157**	**3 668**	**4 756**	**5 939**	**6 360**	**6 786**	**7 529**
Percentage of total provincial spending							
Eastern Cape	0,9%	1,6%	2,9%	4,5%	3,5%	3,6%	3,4%
Free State	3,3%	2,1%	3,7%	3,4%	2,5%	2,6%	2,5%
Gauteng	2,1%	2,0%	1,9%	1,9%	1,7%	1,6%	1,6%
KwaZulu-Natal	2,6%	3,0%	3,4%	3,0%	3,7%	3,8%	3,8%
Limpopo	2,5%	4,0%	3,6%	3,3%	3,6%	2,9%	3,5%
Mpumalanga	2,8%	3,1%	4,5%	4,9%	4,1%	4,2%	4,4%
Northern Cape	3,8%	3,9%	4,0%	3,7%	4,2%	4,3%	4,1%
North West	2,8%	2,9%	2,0%	2,7%	2,9%	2,8%	2,8%
Western Cape	1,8%	2,9%	2,7%	3,0%	2,4%	2,7%	3,0%
Total	**2,3%**	**2,7%**	**3,0%**	**3,3%**	**3,1%**	**3,1%**	**3,1%**

1. Often estimated actual is distorted by roll overs from previous financial year.

Source: Provincial Departments of Transport and Roads.

National roads are funded through budget transfers from the national Department of Transport to the South African National Roads Agency, and from user charges on toll roads, while provincial roads are funded through the provincial budget.

Provinces account for largest share of roads budgets

Provinces account for most spending on roads. Their road budgets will increase by 7,5 per cent, from R4,7 billion in 2002/03 to R5,1 billion in 2003/04. They are projected to rise further by 9,5 per cent a year over the MTEF, reaching R6,2 billion in 2005/06. This follows strong growth in spending averaging 28 per cent between 1999/00 and 2001/02, due to the turnaround in provincial spending on roads in 2000/01. This turnaround was partly due to the R895 million in national grants allocated to fund the rehabilitation of infrastructure which was damaged by floods in 2000/01, and the introduction of the provincial infrastructure grant in 2001/02. The grant for reconstructing infrastructure damaged by flood benefited Limpopo, KwaZulu-Natal, Mpumalanga, Eastern Cape, Free State and North West.

The share of roads in provincial budgets declines over the MTEF

Budgeted spending for 2003/04 comprises 3,1 per cent of the total provincial budget, increasing from 2,3 per cent in 1999/00, but lower than the projected 3,3 per cent in the current year. On average, the share of roads budget remains constant at 3,1 per cent over the MTEF period. However, there is great variation among provinces. Provinces generally project high levels of spending for the current year, yet most project a decline in the share of spending in subsequent years. Rollovers from the past years account for increased amounts in the current financial year, which also reflects renewed optimism about improving spending capacity. Of all the provinces, Gauteng has the lowest share of its total budget on roads. The share declines consistently over the seven-years under review, from 2,1 per cent in 1999/00 to a projected 1,6 per cent in 2005/06. In pursuing other options for its congestion on the roads, the province is putting resources into the construction of high-speed train infrastructure. Provinces reflecting consistent growth in their budgets are KwaZulu-Natal and North West. Eastern Cape, Free State and Limpopo reflect fluctuations in their allocations and a decline in the share of roads over the MTEF. Fluctuating allocations for roads over the MTEF create difficulties for effective delivery of roads as they undermine good planning and capacity-building for implementation.

Spending on construction amounts to R2,2 billion in 2002/03

After accounting for spending on maintenance, provinces project to spend R2,2 billion of their allocation on constructing, reconstructing and upgrading roads in 2002/03. Following budgeted decline in spending to R1,9 billion in 2003/04, expenditure is projected to rise to R2,5 billion in 2005/06. There is significant fluctuation in the allocation to construction and upgrading in roads across most provinces. Eastern Cape, Free State and Gauteng report a consistent decline as total budgeted amounts for maintenance increase over the years, while reporting some decline in the total allocation for roads.

Transfer to SANRA increase to R1,3 billion in 2005/06

The transfer to SANRA for national roads amounts to R1,2 billion in 2002/03, and increases to R1,3 billion in 2005/06. The Agency receives slightly less than 25 per cent of the national and provincial roads budget, for about 6 per cent of the country’s paved road network. The national roads network is relatively expensive to maintain because it consists mainly of freeways and dual carriage roads, the highest quality of roads in the country.

The private sector contributes towards funding construction of national road networks

In addition to funding from Government, the construction of national roads network is funded by private sector through private-public partnerships and borrowing arrangements. Roads under SANRA are classified into three categories in terms of funding arrangements – concession toll roads, state toll and non-toll roads. Concession toll roads are financed, maintained and operated by private sector companies through concession agreements. These currently account for 18 per cent of national roads, amounting to 1 296 km. State toll roads are funded through loans obtained from the private sector, which are backed by government guarantees. These loans are repaid through toll income. The state toll roads account for 595 km, constituting about 8 per cent of the national road network. Maintenance on these roads is funded by transfers from the national transport budget. Non-toll roads, making up 5 309 km, are funded through appropriated funds transferred to SANRA.

74 per cent of national roads are non-toll roads

National Government has also funded SANRA to implement poverty alleviation projects in roads, as part of its contribution to Integrated Sustainable Rural Development Programme. The Agency received R435 million between 1999/00 and 2002/03 from special poverty alleviation programme allocations. This was used to implement labour-intensive road projects in rural areas, including upgrading gravel roads, and constructing drainage structures and roadside facilities to accommodate pedestrians in Eastern Cape, Limpopo, KwaZulu-Natal, Free State and Western Cape.

Local governments have large roads budgets

Local government roads budgets are also significant. The total capital budget for roads, pavements and stormwater for 2002-03[1] is estimated to be at least R1,8 billion, with almost equal budgets between the six metros (R892 million), and the district and local municipalities (R896 million). Cape Town is budgeting the highest at R216 million, followed by eThekwini (R180 million), Ekurhuleni (R177 million), Johannesburg (R122 million), Nelson Mandela (R126 million) and Tshwane (R70 million)

Spending on road maintenance

Timely maintenance reduces costs

The quality of the road network depends on what, when, and how maintenance is performed. Roads deteriorate over time due primarily to traffic volumes, environmental influences (such as floods) and overloading. For these reasons roads have to be maintained throughout their life to ensure that they deliver the benefits envisaged. The timing of maintenance is crucial as delays escalate the costs of maintenance.

Road maintenance to rise to 60 per cent of provincial roads budgets in 2003/04

Provinces have to maintain approximately 57 000 km of paved roads, and approximately 300 000 km of unsurfaced roads. Provincial spending on maintenance is projected to increase by 24,2 per cent from R2,5 billion in 2002/03 to R3,2 billion in 2003/04 (Table 8.3). Spending is budgeted to increase by 13,9 per cent on average over the MTEF, to reach R3,8 billion in 2005/06. Road maintenance as a proportion of provincial roads budget increases from 52 per cent in 2002/03 to 60 per cent in 2003/04.

[1] "2002-03" is used to cover the municipal financial year from 1 July 2002 to 30 June 2003. In contrast "2002/03" is used to cover the national and provincial financial year, from 1 April 2002 to 31 March 2003. Similarly for other financial years.

Table 8.3 Provincial spending on road maintenance

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05	2005/06
					Medium-term estimates		
Eastern Cape	37	40	497	553	750	851	899
Free State	186	136	170	144	138	157	169
Gauteng	144	227	285	315	330	392	427
KwaZulu-Natal	275	329	452	613	778	842	899
Limpopo	320	559	495	532	661	590	787
Mpumalanga	51	148	128	146	174	192	197
Northern Cape	67	57	59	66	65	68	80
North West	180	183	88	97	134	140	152
Western Cape	174	58	59	73	123	121	140
Total	**1 434**	**1 737**	**2 233**	**2 539**	**3 153**	**3 353**	**3 750**

Percentage growth	Average annual 1999/00 - 2002/03	2002/03 - 2003/04	Average annual 2002/03 - 2005/06
Eastern Cape	146,3%	35,6%	17,6%
Free State	-8,2%	-4,2%	5,5%
Gauteng	29,8%	4,8%	10,7%
KwaZulu-Natal	30,6%	26,9%	13,6%
Limpopo	18,5%	24,2%	13,9%
Mpumalanga	42,0%	19,2%	10,5%
Northern Cape	-0,5%	-1,5%	6,6%
North West	-18,6%	38,1%	16,2%
Western Cape	-25,1%	68,5%	24,2%
Total	**21,0%**	**24,2%**	**13,9%**

Source: Provincial Departments of Transport and Roads.

Growth in maintenance spending varies among provinces

Table 8.3 shows that most provinces are progressively increasing their allocation for maintenance as they increase their roads budgets. However, the pattern varies across provinces. KwaZulu-Natal, Limpopo, Mpumalanga and Gauteng account for the strong growth in maintenance over the seven-year period. But spending in North West, Western Cape, Free State and Northern Cape fluctuates, reflecting shifting priorities between upgrading and rehabilitation, inconsistency in the classification of spending, and decline in the overall budget for roads.

Service delivery trends in roads infrastructure

Provinces prioritise spending on paved roads

Table 8.4 gives a breakdown of completed and planned major provincial projects that address backlogs in construction, upgrading and rehabilitation of roads. Completed road projects in 2001/02 amount to 2 615 km of roads (This excludes upgrading and construction of bridges). The table shows that with the exception of KwaZulu-Natal and Northern Cape, most provinces prioritise spending on surfaced road projects as opposed to unsurfaced roads. This may be due to the importance of mobility between regions as these roads provide connections to national roads. There may also be some roads which have been upgraded from gravel to paved roads. Gravel and access roads, which are less expensive to maintain, are often neglected, resulting in higher future rehabilitation costs for these roads.

Table 8.4 Completed and proposed projects

	Completed projects in 2001/02			Proposed projects in 2002/03		
Number	Surfaced roads	Unsurfaced roads	Total	Surfaced roads	Unsurfaced roads	Total
Eastern Cape	31	49	80	513	450	963
Free State	232	69	301	269	69	338
Gauteng	212	1	213	298	1	299
KwaZulu-Natal	51	556	607	64	447	511
Limpopo	216	123	339	86	–	86
Mpumalanga	120	90	210	260	110	370
Northern Cape	150	300	450	66	24	90
North West	250	18	268	375	200	575
Western Cape	85	62	147	87	55	142
Total	**1 347**	**1 268**	**2 615**	**2 018**	**1 356**	**3 374**

Source: Provincial Departments of Transport and Roads.

Roads projects improve safety and access of rural communities to major service centres

Table 8.5 indicates the two major or provincial strategic road projects completed in 2002/03. Although some of these projects are not large in budgetary terms, they reflect the importance attached to increased community access, safety, job creation and empowerment of black-owned economic enterprises. For instance, the Free State project for re-gravelling roads in Qwa Qwa is considered very important because it improves access to rural communities which are mostly dependent on taxis for transport. In the case of KwaZulu-Natal, the erection of the Edendale footbridge over the busy highway is seen as a positive step for road safety. This bridge provides access to the Edendale Hospital. Before the erection of the bridge, many pedestrians risked fatal accidents when attempting to cross the busy highway to gain access to medical care.

In Limpopo, the completed paved road projects between Sibasa, Makula and Mhinga improved accessibility to taxis servicing the various communities on that route. The upgrading of the Bochum to Blouberg road is an important project, as it links the various communities to police services and clinics. This link also forms part of a future link between Maputo and Botswana. In Western Cape, investment in the road between Wingfield and Malmesbury was made in the interest of road safety.

Table 8.5 Completed projects in 2002/03

Province	Type of Work	Cost of project R million	Number of Km	Location of road
Eastern Cape				
Project 1	Idutywa - Willowvale: Upgrade	50,7	26	Idutywa - Willowvale
Project 2	Qora River Bridges	6,5		
Free State				
Project 1	Regravelling of roads in Qwaqwa	20,0	50	Qwaqwa area
Project 2	Repair of bridges in Qwaqwa	9,0	5 bridges	Qwaqwa area
Gauteng				
	1386 Moloto Road	41,3	21	Pretoria to Moloto
	K102 Phases II and II a (Dobsonville)	1,7	2	Access to Dobsonville from R558
KwaZulu-Natal				
Project 1	Construction of new footbridge serving the Edendale hospital, as a result of the high number of pedestrian fatalities.	1,3	0	P7-1: Pietermaritzburg - Edendale
Project 2	Upgrade to high standard blacktop road	40,0	22	P54: Nqutu - Blood River Station
Limpopo				
Project 1	Upgrading	8,4	9	Bochum - Blouberg (Link communities with the Blouberg hospital & forms part of a future link - Maputo - Botswana)
Project 2	Upgrading	8,2	8	Sibasa - Mukula - Mhinga (High vehicle counts, impassable during rain, link many villages - important access road - link police station, at the same time extensive flood damage was addressed.)
Mpumalanga				
Project 1: P30/1 Portion c	New Construction	24,7	17	Middleburg - Bethal
Project 2: P17/6 Phase 1	Rehabilitation	17,2	25	White River - Numbi
Northern Cape				
Project 1	Rehabilitation	25,0	114	Hanover-DeAar-Britstown
Project 2	Upgrading	8,7	12	N14 turn off to Pella
North West				
Project 1	Rehabilitation of Road P47/2	7,6	32	Koster to Swartruggens
Project 2	Surfacing of Road D313	18,0	27	Morokweng to Leniesdeel
Western Cape				
Project 1	Road rehabilitation	50,0	22	Wingfield to Malmesbury
Project 2	Road rehabilitation/ upgrade	50,0	12	Vredenburg to Saldanha

Source: Provincial Departments of Transport and Roads.

SANRA has completed 55 roads projects in the rural areas of Eastern Cape and Limpopo

The poverty alleviation funding through SANRA has facilitated implementation of projects that generated employment in rural communities. It has also increased access to markets, capacity-building, and promoted community involvement in safety. For instance, the allocations made between 1999/00 and 2001/02 enabled SANRA to implement 55 engineering projects. These were mainly focused on re-gravelling rural roads, building drainage systems and carrying out minor bridge works in the Eastern Cape and Limpopo. Local communities, including women, benefited in terms of jobs and skills development.

Labour-based road maintenance creates economic opportunities in rural areas

Addressing the current backlog in maintenance and upgrading of gravel and access roads could also create economic opportunities in the rural areas. The construction and rehabilitation of gravel access roads can be provided through labour-intensive methods and is conducive to greater involvement of SMMEs. The approach, KwaZulu-Natal adopted, to meet the rural roads requirement is very instructive here. The province has prioritised rural access roads and a methodology for setting priorities and creating an enabling environment for economic empowerment of communities, especially women (see Box 1). The achievements of this programme provide good lessons for Government. However, the choice made by KwaZulu-Natal to prioritise rural access roads may have meant that less funds are available to maintain the primary road network.

Proposed reclasification of roads will improve efficiency

The transport sector is in the process of finalising a new classification of roads. The classification redefines the road network in a way that is expected to ensure that it is planned and managed in a rational and efficient manner. The framework categorises roads according to the function they perform and assigns the appropriate authority to take over the responsibility. The new classification system has seven distinct classes that range from the class 1 – primary network that forms the principal avenue of mobility and communication, to class 7 – roads that have special functions.

Reclassification of roads will increase national roads to 20 000km

According to this classification, some provincial roads will be included as part of the strategic road network for which national Government is responsible. It is proposed that the national roads managed by SANRA increase to 20 000 km. Provinces have already started handing over some of their road network to SANRA, amounting to 4 500 km for the 2003 MTEF. The new classification will also ensure that unproclaimed roads, which are mostly rural, are properly classified into the rural road network and assigned to the appropriate authority.

KwaZulu-Natal Roads Department's strategy for rural roads

Since 1997, KwaZulu-Natal has championed the roads delivery programme that incorporates stakeholders in communities in planning, prioritising and budgeting for the development and maintenance of rural roads. The rural roads development programme is underpinned by the Road to Wealth and Job Creation initiative which was adopted by the transport sector as a strategy to fast-track job creation through the development of a balanced road network. The Road to Wealth and Job Creation initiative in KwaZulu-Natal has three key components: First, the development of road plans with Rural Road Transport Forums (RRTF). These plans identify projects through a prioritisation methodology, involving community participation, which grew out of the Community Access Road Needs Study (CARNS – published in 1997).

The Forums include representation from all stakeholders, including AmaKhosi, district councils, women, youth and business. The Department of Transport implemented an intensive training programme designed to build the capacity of the Forums to engage with the process in an informed and orderly manner. The Forums are involved in prioritising projects to maintain, upgrade and develop provincial road networks, after having previously focused on access roads.

The flagship programme, known as Zibambele, targets poverty alleviation. This is a form of routine road maintenance using labour-intensive methods in which a family or household is contracted and provided with tools to maintain a specific length of road on a part-time basis. The system has been introduced as a cost effective means of maintaining the road network in deep rural communities. The families that are contractors are those identified by the communities as the most destitute; 95 per cent of contracts have gone to women-headed households.

Part two: Public transport

The Act defines a framework for planning and management of public transport

Public transport is a concurrent Schedule 4A function between the national and provincial spheres of Government in the Constitution, but municipal public transport is a Schedule 4B concurrent function falling within the sphere of local Government. The Constitution does not define municipal public transport nor public transport.

The National Land Transport Transition Act defines the responsibilities of provinces and municipalities in relation to planning and management of land transport. The Act requires that both spheres prepare transport plans in line with the framework developed by the national Department of Transport. It also provides for the establishment of local transport authorities by municipalities to improve local transport service delivery. Transport authorities are expected to develop transport plans and then oversee their implementation, develop local land transport policy, and perform financial planning and management for land transport functions. These include transport planning, infrastructure, operations, services, maintenance, monitoring and administration.

Provinces and municipalities are responsible for public transport planning

The National Land Transport Transition Act also sets out the mechanisms for transforming the transport subsidy system, and for formalising the taxi industry. Many of the current bus subsidies come from past arrangements, and do not reflect new public transport priorities. Though provinces assist in administering payments of these bus subsidies, this remains a national function, as the national Department retains the right to make all final approvals in the procurement of bus services. The aim is to devolve this function to provinces and municipalities after the process of transformation and restructuring the transport subsidy system is completed. Municipalities are responsible for planning and regulating municipal public transport and many run their own bus services.

Expenditure trends in public land transport

Bus and rail subsidies take up more than 60 per cent of budget

Public transport subsidies are intended to provide affordable public transport to low-income households which, as a result of apartheid laws, live far from the industrial and urban centres where they are employed. Table 8.6 shows expenditure trends in transport subsidies on the national Department of Transport Vote. Subsidies for rail and buses take up about 60 per cent of the Vote. Transport subsidies increased by 5,7 per cent per year on average, from R2 960 million in 1999/00 to R3 496 million in 2002/03. The allocation further rises by an average of 7,4 per cent per year over the MTEF, to R4 334 million in 2005/06.

Table 8.6 Expenditure transport subsidies and planning

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Public Transport Operations	**2 929**	**3 174**	**3 089**	**3 423**	**3 733**	**4 042**	**4 263**
Bus Operations	1 323	1 426	1 715	1 847	2 044	2 158	2 279
Rail Operations	1 595	1 747	1 366	1 564	1 679	1 874	1 974
Taxi Operations	12	1	8	12	10	10	11
Transport Planning	**30**	**22**	**38**	**73**	**64**	**67**	**71**
NLTTA Implementation	–	–	0	33	22	23	25
Land Transport Pilot Projects - Urban Transport Fund	–	–	–	–	32	44	47
Urban Transport Fund	30	22	38	40	9	–	–
Total	**2 960**	**3 196**	**3 128**	**3 496**	**3 796**	**4 109**	**4 334**
Percentage growth		8,0%	-2,1%	11,8%	8,6%	8,2%	5,5%
Percentage of total national transport budget							
Public Transport Operations	**72,1%**	**77,4%**	**62,6%**	**58,7%**	**64,6%**	**65,6%**	**66,1%**
Bus Operations	32,6%	34,8%	34,7%	31,7%	35,4%	35,0%	35,3%
Rail Operations	39,3%	42,6%	27,7%	26,8%	29,1%	30,4%	30,6%
Taxi Operations	0,3%	0,0%	0,2%	0,2%	0,2%	0,2%	0,2%
Transport Planning	**0,7%**	**0,5%**	**0,8%**	**1,2%**	**1,1%**	**1,1%**	**1,1%**
NLTTA Implementation	0,0%	0,0%	0,0%	0,6%	0,4%	0,4%	0,4%
Land Transport Pilot Projects - Urban Transport Fund	0,0%	0,0%	0,0%	0,0%	0,6%	0,7%	0,7%
Urban Transport Fund	0,7%	0,5%	0,8%	0,7%	0,2%	0,0%	0,0%
Total	**72,9%**	**78,0%**	**63,3%**	**59,9%**	**65,7%**	**66,7%**	**67,2%**

Source: National Treasury, 2003 Estimates of National Expenditure.

Rail subsidies amount to R1,6 billion in 2003/04

Table 8.6 indicates that subsidies for rail operations increase by 7,4 per cent from R1,6 billion in 2002/03 to R1,7 billion in 2003/04. They are projected to grow to about R2 billion in 2005/06. Rail subsidies are administered through the South African Rail and Commuter Corporation (SARCC). The Corporation has contracted Metrorail Services, a division of Transnet, to provide commuter rail services on its behalf. Commuter rail services are provided in cities in four provinces – Gauteng, Western Cape, KwaZulu-Natal, and Eastern Cape.

Bus subsidies benefit major urban centres

Bus subsidies account for 53 per cent of total national transport[2] subsidies. Over the full seven-year period, bus subsidies will have

[2] National transport spending refers to budget and expenditure at national level by the Department of Transport

increased by an average of 9,5 per cent a year, from R1,2 billion in 1999/00 to R2,3 billion in 2005/06. Table 8.7 shows the allocation of national bus subsidies between provinces. The major beneficiary of national bus subsidy funding is Gauteng (40 per cent in 2002/03) followed by KwaZulu-Natal (21 per cent), and Western Cape (12 per cent). These subsidies benefit the mostly urban provinces because they have been targeted at former black townships and homelands around the major urban areas. The Gauteng allocation includes 32 per cent or R213 million, which subsidises the movement of people to Gauteng from KwaNdebele in Mpumalanga. The provinces that get the smallest slice of the national subsidy allocation are Northern Cape and North West.

Table 8.7 National bus subsidies to provinces: 1999/2000-2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	41	46	56	62	67	70	74
Free State	72	81	97	96	113	119	126
Gauteng	488	551	661	723	781	825	871
KwaZulu-Natal	289	326	392	379	448	473	500
Limpopo	44	50	60	72	73	77	81
Mpumalanga	121	137	164	162	190	201	212
Northern Cape	4	5	6	12	13	14	15
North West	18	21	25	40	24	25	27
Western Cape	171	193	232	260	335	353	373
Total	**1 248**	**1 409**	**1 691**	**1 806**	**2 044**	**2 158**	**2 279**

Source: National Department of Transport.

Provinces also spend on bus subsidies from their own budgets

Besides bus subsidies from the national budget (which are not reflected on provincial budgets), provinces budget for transport management and planning, reflected in Table 8.8. In some provinces this allocation includes additional funding for transport subsidies in areas not covered by the national subsidies. Provinces also subsidise scholar transport, which falls under education budgets.

Strong growth in provincial spending on public transport planning and management

Provincial expenditure on public transport, and transport management and planning increased by 32 per cent per year from R383 million in 1999/00 to R896 million in 2002/03. It is projected to rise to R982 million in 2005/06. This growth in budget supports the policy shift through the introduction of the National Land Transport Transition Act, as it places great emphasis on transport planning and formalising the minibus taxi industry. It also reflects a growing demand for affordable public transport services within provinces, where they are not funded directly by the national Department of Transport. North West allocates the highest proportion of its budget (32,2 per cent) to public transport in 2003/04. The province spent on average R200 million a year of its budget on bus subsidies. The province has an inherited subsidy system for transport from rural areas into towns, administered through its own company – North West Transport Investment. Other provinces that allocate a significant portion of their budgets for public transport are Eastern Cape (15,2 per cent), Limpopo (13,3 per cent), and Gauteng (13,1 per cent).

This is unlike other provinces where the funding for bus subsidies from the national Department is focused on urban transport.

Service delivery trends in public transport

Bus subsidies benefit 1,8 million commuters a year

Roughly 1,8 million bus commuters have been subsidised in the 2002/03 financial year. This excludes bus subsidies paid by provinces and any expenditure by municipalities. On average, each subsidised bus passenger costs national Government approximately R198 per month. The average bus subsidy per passenger trip is R4,51.

Table 8.8 Spending on public transport and transport management and planning

R thousand	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05	2005/06
					Medium-term estimates		
Eastern Cape	58 849	60 804	59 225	140 391	136 861	156 450	165 554
Free State	1 477	5 568	8 423	14 337	15 284	12 475	17 336
Gauteng	61 282	66 088	106 575	110 184	118 435	129 372	129 372
KwaZulu-Natal	20 015	17 915	19 704	21 714	29 461	31 229	33 103
Limpopo	42 519	33 956	69 492	114 743	119 804	127 903	145 660
Mpumalanga	26 677	26 306	34 550	47 055	53 177	55 310	52 467
Northern Cape	1 298	3 467	3 600	47 377	44 776	52 473	53 235
North West	171 143	118 663	206 551	320 317	290 610	288 742	269 429
Western Cape	–	–	7 170	80 254	92 894	107 990	115 522
Total	**383 260**	**332 767**	**515 290**	**896 371**	**901 302**	**961 944**	**981 678**
Percentage of total							
Eastern Cape	15,4%	18,3%	11,5%	15,7%	15,2%	16,3%	16,9%
Free State	0,4%	1,7%	1,6%	1,6%	1,7%	1,3%	1,8%
Gauteng	16,0%	19,9%	20,7%	12,3%	13,1%	13,4%	13,2%
KwaZulu-Natal	5,2%	5,4%	3,8%	2,4%	3,3%	3,2%	3,4%
Limpopo	11,1%	10,2%	13,5%	12,8%	13,3%	13,3%	14,8%
Mpumalanga	7,0%	7,9%	6,7%	5,2%	5,9%	5,7%	5,3%
Northern Cape	0,3%	1,0%	0,7%	5,3%	5,0%	5,5%	5,4%
North West	44,7%	35,7%	40,1%	35,7%	32,2%	30,0%	27,4%
Western Cape	0,0%	0,0%	1,4%	9,0%	10,3%	11,2%	11,8%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: National Treasury Database.

Bus subsidy system is being changed to allow for more competition and better targeting

As part of the restructuring of the transport subsidy system, Government instituted interim contracts in 1997, which were to be converted by provinces into competitive tender contracts within a three-year period. By the end of 2000/01, 55 per cent of interim contracts had been converted. This process was halted in 2001/02 by a high court interdict granted against the Western Cape government. The interdict restrained it from implementing the tender contract system on the basis of the National Land Transport Transition Act's requirement that bus contracts be preceded by, and in compliance with, transport plans. As transport plans were not in place, the tender process was postponed and no further interim contracts have been converted in 2001/02. This process is continuing in the current year. This phased approach to converting interim contracts is considered to be a key strategy for achieving the objective of retargeting the subsidies in order to reduce inequities that exist between and within provinces.

The new bus subsidy contracting system benefits SMMEs

A positive aspect of the conversion to tendered bus contracts is the opportunity these contracts present to small operators. The tender process is supported by a programme to train emerging operators to access these opportunities. Currently, 10 per cent of subsidised bus services and 23 per cent of the total bus subsidy allocation goes to SMME companies.

Provinces make progress in transforming taxi industry

Provinces have also implemented the National Land Transport Transition Act's requirements for formalising and regulating the taxi industry. The formalisation process includes registration of associations and non-members through the Office of the Registrar, and democratisation, which involves establishing minibus taxi leadership through elections at the regional and national level.

All provinces have now established democratically elected taxi councils. The democratisation process was concluded with the election of members of the South African Taxi Council (Santaco) in September 2001. This council will represent the interests of the industry in business meetings with various stakeholders at national level. Given the importance of this structure, the national Department of Transport contributes about R10 million a year over the MTEF towards the funding of its operations. Training of the operators is also a key strategy for empowering the taxi industry. The Transport Education and Training Authority (TETA) is now operational, and part of its mandate is to develop training courses for the minibus taxi industry.

Establishment of transport authorities delayed as governance structures are being reconsidered

No transport authority has yet been established, as the governance arrangements are not fully aligned with the subsequent development of the new municipalities, after the National Land Transport Transition Act was enacted. eThekwini is the first municipality that is considering establishing a transport authority. However, recent parliamentary hearings on the Municipal Finance Management Bill on municipal entities confirm the governance difficulties with some types of municipal entities, particularly where councillors serve as board members, and where the entities are jointly owned by more than one municipality.

Rail subsidies benefit 2,2 million commuters per day

The rail transport allocation subsidises 2,2 million passengers per day, with 2 400 trips scheduled per weekday and 1 800 services during weekends. Growing urban sprawl and peripheral urban development have led to increased demands for public transport to facilitate the movement of people to places of work in industrial and commercial centres. This increases the need to expand commuter rail infrastructure.

Part three: Road traffic management and safety

Provinces and municipalities are responsible for traffic law enforcement

The implementation of road traffic management and safety programmes is the responsibility of provinces and municipalities as mandated by the National Road Traffic Act (93 of 1989), and Road Traffic Act (29 of 1989). Provinces are responsible for law enforcement on their roads, which involves overloading control, vehicle and driver roadworthiness and speed limit enforcement; vehicle and driver licensing; and testing. Municipalities enforce traffic laws within their jurisdiction, and operate driver licensing and vehicle testing centres on behalf of provinces.

National Government sets legislative framework for traffic management

National Government supports traffic management and safety by setting policy and the legislative framework, developing road traffic information systems, and enhancing innovative road traffic practices and technology. Government has also established the Road Traffic Management Corporation (RTMC), mandated by national legislation, to strengthen and ensure co-ordination between spheres in traffic management activities.

Expenditure trends in road traffic management and safety

Expenditure on traffic regulation has grown strongly in the past three years

Table 8.9 shows aggregate spending on the national and provincial votes on traffic regulation and road safety. Expenditure increases from R571 million in 1999/00 to R1,0 billion in 2002/03. The total budget is projected to increase to R1,2 billion in 2005/06.

Included in the national transport allocation are transfer payments to regulatory bodies that have been established through national legislation. The transfer payments for traffic regulation and management currently make up less than 30 per cent of the allocation, but they have increased significantly from R18 million in 2001/02 to a projected R48 million in 2003/04[3]. This reflects Government's efforts to improve compliance with traffic regulation and safety standards. The allocation over the MTEF will be spent on the Railway Safety Regulator, the Road Traffic Management Corporation, Road Traffic Operation Policy and Information Management, and overloading control.

The Road Traffic Management Corporation is expected to enhance government capacity to improve road safety

The Railway Safety Regulator is a new safety regulator, which will start operating in 2003/04. The Regulator is mandated to strengthen the enforcement of safety laws in rail transport. The Road Traffic Management Corporation's aim is to promote a uniform strategy for road traffic management across spheres. It is expected to enhance the transport sector's capacity to effectively implement the Road to Safety Strategy, which was launched in November 2001. One of the Strategy's most important components is the Arrive Alive Campaign, which is now operational throughout the year.

[3] Source: Estimates of National Expenditure

Table 8.9 Spending on road traffic management and safety by province

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Estimated	Medium-term estimates		
R thousand				actual			
Eastern Cape	55 072	50 848	63 802	65 577	71 811	67 021	70 389
Free State	6 506	63 027	78 900	62 642	66 555	71 301	75 576
Gauteng	133 578	170 039	93 561	137 434	102 388	115 524	115 524
KwaZulu-Natal	123 819	156 247	158 550	192 981	202 100	213 482	225 690
Limpopo	55 694	68 798	74 152	107 953	115 096	122 846	130 831
Mpumalanga	34 216	49 328	48 514	100 271	70 612	78 584	82 164
Northern Cape	13 455	20 806	19 517	27 556	33 063	36 240	37 922
North West	58 563	49 742	72 469	80 742	131 132	133 785	141 092
Western Cape	29 424	27 450	45 983	75 945	88 787	111 190	119 919
Total provincial	**510 327**	**656 285**	**655 448**	**851 100**	**881 544**	**949 973**	**999 107**
National	**60 826**	**53 935**	**101 416**	**166 719**	**168 996**	**178 604**	**196 106**
Total	**571 153**	**710 220**	**756 864**	**1 017 819**	**1 050 540**	**1 128 577**	**1 195 213**
Percentage of total provincial							
Eastern Cape	10,8%	7,7%	9,7%	7,7%	8,1%	7,1%	7,0%
Free State	1,3%	9,6%	12,0%	7,4%	7,5%	7,5%	7,6%
Gauteng	26,2%	25,9%	14,3%	16,1%	11,6%	12,2%	11,6%
KwaZulu-Natal	24,3%	23,8%	24,2%	22,7%	22,9%	22,5%	22,6%
Limpopo	10,9%	10,5%	11,3%	12,7%	13,1%	12,9%	13,1%
Mpumalanga	6,7%	7,5%	7,4%	11,8%	8,0%	8,3%	8,2%
Northern Cape	2,6%	3,2%	3,0%	3,2%	3,8%	3,8%	3,8%
North West	11,5%	7,6%	11,1%	9,5%	14,9%	14,1%	14,1%
Western Cape	5,8%	4,2%	7,0%	8,9%	10,1%	11,7%	12,0%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: National Treasury Database.

Arrive Alive Campaign focuses on law enforcement and communication

The Arrive Alive Campaign started on a pilot basis in 1997. Since the pilot project, the Campaign has been implemented by all provinces, with the support of municipal traffic officers, through funds donated by the Road Accident Fund. The Campaign focuses mainly on traffic control, enforcement and communication. Provinces and municipalities implement the law enforcement actions within an agreed framework that is reviewed annually.

58 per cent of Arrive Alive funds were spent in Gauteng

It is estimated that between 1997 and 2002, spending on the Arrive Alive Campaign was about R200 million[4]. Gauteng received the largest allocation of 58 per cent, followed by KwaZulu-Natal and the Western Cape (11 per cent each). The other provinces have received almost equal portions of the remaining 20 per cent of the funds. The Arrive Alive Campaign deals with only one aspect of road traffic management. Other aspects are included in the Road to Safety Strategy. These are organised around three themes: the road and regulatory environment, which cover traffic information systems, fraud and corruption, training of officers, and testing stations; the road user, which covers driver fitness, education, pedestrian safety; and the vehicle, which covers testing and registration.

Provinces account for most spending on road safety

Most of the spending on road traffic control and enforcement occurs in provinces, which account for over 70 per cent of aggregate

[4] Source: National Department of Transport

spending on road traffic control[5]. (This excludes local government expenditure). Table 8.9 shows that provincial spending on traffic management and road safety has grown by an annual average of 18,6 per cent between 1999/00 and 2002/03, from R510 million to R851 million. This is expected to continue to grow by 5,5 per cent over the 2003 MTEF to reach R999 million in 2005/06.

Transport budgets in three provinces – Free State, Northern Cape, and KwaZulu-Natal – are heavily weighted towards these regulatory activities, with over 50 per cent of their total transport allocation in 2002/03 being spent on road traffic management and safety. By contrast, North West will spend only 17,8 per cent of its transport allocation on traffic management and road safety.

Government spends on upgrading traffic control centres

The assessment of driver licensing and overloading control centres in 2000/01 showed that more than 21 per cent were not compliant with minimum statutory standards. The national Government allocated R46 million over the MTEF to complement provinces' budgets to accelerate the implementation of the project aimed at improving weighbridges. Table 8.10 shows aggregate spending on capital in transport by provinces. It shows that provinces spend an average of 12 to 13 per cent of their transport budget on capital, excluding roads. The capital allocation has been fluctuating, but it increases steadily at 7,3 per cent per year over the medium term from R19 million in 2003/04 to R238 million in 2005/06. Provinces that have significantly increased spending on capital are Western Cape, North West and Eastern Cape. Part of this spending is to upgrade traffic control centres including vehicle and taxi facilities, driver testing facilities and overloading control.

SANRA invests in overload control centres

Overloading of heavy-duty vehicles has been identified as a key cause of the fast deterioration of road infrastructure. Since a major portion of heavy-duty vehicles use national roads over long distances, SANRA has implemented two major overloading control schemes along the N4 Maputo Development Corridor and on the N3. These schemes involve the construction of facilities, five-year contracts with toll road concessionaires for the provision and support of an electronic system, and an agreement with Mpumalanga and Gauteng provinces to enforce traffic laws.

[5] Aggregate expenditure excludes spending on traffic management by municipalities due to a lack of information. Spending on traffic management is likely to be quite sizeable for metros because of the size of newly established Metro Police units. Metro police enforce traffic laws, as well as municipal by-laws.

Table 8.10 Capital spending on transport

R thousand	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Eastern Cape	5 074	1 829	7 731	5 532	5 582	45 921	48 482
Free State	–	486	636	1 565	2 753	761	814
Gauteng	2 833	1 445	2 870	1 745	1 732	3 116	3 464
KwaZulu-Natal	9 589	19 737	20 854	19 270	27 759	29 289	31 047
Limpopo	1 292	7 407	3 191	11 689	7 771	9 293	9 897
Mpumalanga	6 249	5 895	2 625	1 830	13 425	21 532	22 048
Northern Cape	1 448	477	241	17 597	13 958	14 752	13 971
North West	1 464	4 244	636	25 034	30 668	24 108	6 383
Western Cape	200	3 135	12 380	53 572	86 992	101 690	102 537
Total	**28 149**	**44 656**	**51 165**	**137 833**	**190 640**	**250 462**	**238 643**
Percentage of total transport spending							
Eastern Cape	2,4%	1,0%	3,7%	1,9%	1,8%	14,2%	14,3%
Free State	0,0%	0,6%	0,6%	1,5%	2,6%	0,7%	0,7%
Gauteng	1,1%	0,5%	1,2%	0,7%	0,6%	1,1%	1,2%
KwaZulu-Natal	5,3%	7,9%	7,9%	7,6%	8,1%	8,1%	8,1%
Limpopo	0,7%	3,6%	1,2%	3,3%	2,1%	2,4%	2,3%
Mpumalanga	9,5%	7,6%	2,4%	1,1%	8,2%	12,1%	12,3%
Northern Cape	7,1%	1,7%	0,9%	19,9%	16,3%	15,3%	14,1%
North West	0,5%	1,3%	0,2%	4,3%	5,9%	4,6%	1,3%
Western Cape	1,9%	30,7%	61,8%	43,1%	64,2%	58,5%	56,6%
Average	**3,2%**	**6,1%**	**8,9%**	**9,3%**	**12,2%**	**13,0%**	**12,3%**

Source: National Treasury Database.

Service delivery issues for road traffic management and safety

Road safety still a major challenge

A key outcome of improved transport regulation is improved safety. Approximately 5,5 million vehicles are registered in the country. Road safety statistics show that transport safety is still a major problem. Approximately 468 000 traffic accidents occur annually, of which an average of 31 000 are fatal or involve serious injuries. In order to assess whether there is some improvement in road safety trends, the number of accidents and fatalities have to be judged against the background of other factors such as the increase in the number of registered vehicles and the number of kilometres travelled. The only information that is available is on the number of registered vehicles.

The surveys undertaken by the national Department of Transport have shown that one of the major causes of accidents on the road is lack of road discipline among road users. It is evident that the major strategy for combating road accidents is more effective law enforcement.

Effective law enforcement requires adequate human resources

Human resources are central to effective law enforcement. Table 8.11 shows the number of traffic officers employed in a province, by provincial Government, metros (metropolitan police) and other municipalities. It shows that although metro police are found only in three provinces, they have the largest number of traffic personnel

(48 per cent), followed by provincial traffic officials (38 per cent). About 73 per cent of metro police are in Gauteng, 15 per cent in Western Cape, and 12 per cent in KwaZulu-Natal. Gauteng's provincial Government employs only 12 per cent of the traffic officers in the province.

Table 8.11 Provincial and local government traffic personnel

	Local Authority	Metros	Provinces	Total Provincial	Km patrolled per traffic officer	Traffic officer per 10000 vehicles
Eastern Cape	222	–	289	511	175	12
Free State	188	–	357	545	139	15
Gauteng	157	2 800	385	3 342	21	14
KwaZulu-Natal	131	460	455	1 046	137	8
Limpopo	87	–	608	695	56	26
Mpumalanga	117	–	259	376	80	14
Northern Cape	77	–	61	138	667	11
North West	56	–	419	475	80	14
Western Cape	121	566	192	879	137	8
Total	**1 156**	**3 826**	**3 025**	**8 007**	**166**	**13**

Source: Report on road accidents during the 2002 festive season, Department of Transport, 6 March 2003.

Rural provinces require more traffic policing during holiday seasons

In the more rural provinces, provincial governments employ most of the traffic officers. The largest number of provincial traffic officers are in Limpopo (20 per cent), KwaZulu-Natal (15 per cent) and the North West (14 per cent). On average there are 13 traffic officers per 10 000 vehicles across the three spheres. Rural provinces, such as Limpopo, Eastern Cape, and Free State, have to patrol a longer road network although they have fewer vehicles. While these provinces do not have much traffic during the year, during holidays they experience peak traffic flows. As a result, a high proportion of accidents and casualties during holiday seasons occurs in these provinces. This may suggest that there are inadequate numbers of traffic officers available to effectively combat traffic offences, especially during holiday seasons.

More accidents occur at night

Information on accidents indicates that the number of traffic accidents is significantly higher at night, and traffic law enforcement personnel do not work during these peak accident times. Law enforcement is generally confined to normal office hours and to weekdays from Monday to Friday, with a few exceptions. Law officers only work during non-office hours on an overtime basis. One of the key areas of reform is in this area, to align conditions of work and work hours to the peak accident periods.

Government is strengthening efforts to combat road users' disregard of the law

Both national and provincial governments have embarked on a number of initiatives to improve the effectiveness of the traffic control function. These include the effective implementation of the Road to Safety Strategy, reviewing traffic legislation, devising a demerit points system for traffic offences, and developing the new computerised learner driver licensing system.

Conclusion

Transport infrastructure, operating subsidies, traffic regulation and safety are critical to the growth of any economy. Expenditure in roads reflect strong annual growth of about 28 per cent between 1999/00 and 2002/03, but future trends reflect a declining share of allocations for roads in most provinces.

More than any other sector, the transport and roads sector is divided between the three spheres of Government, and requires the highest level of co-operation. This co-operation is critical for current implementation of infrastructure projects and traffic enforcement. It is even more critical for developing a common planning vision, and in particular, developing affordable 10 to 20-year plans. Currently, co-operation at this level appears to be minimal or ineffective.

There is little doubt that transport budgets need to be prioritised over the next few years by all spheres of Government, but additional funds will only be spent effectively if the transport sector modernises its working systems and co-ordinates and plans more effectively. Transport and public works departments must deal with the very real problems of managing personnel by reducing excess personnel, attracting better skills, and reforming conditions of service. They also need to manage and rationalise systems.

Another specific area of improvement is in the quality of financial management. Only two provincial roads departments, the national Department of Transport and the National Roads Agency received unqualified audit reports for the 2001/02 financial year. The remaining six provincial departments all received severe qualified audits.

9

Housing

Introduction

The provision of low-cost housing is one of Government's core pro-poor programmes adopted in 1994. The programme helps households to access housing with secure tenure, at a cost that they can afford. Since 1994, Government has contributed R19 billion to just under 1,5 million low-cost housing opportunities[1], providing shelter, security of tenure, running water, sanitation and electricity to over 6 million people. A further R13,5 billion is budgeted over the next three years.

Government has contributed to just under 1,5 million housing opportunities

Despite these enormous achievements, housing delivery remains a major challenge. In providing and improving housing for low-income earners much needs to be overcome in relation to affordability, and planning, design and management of the built environment. The rising demand for low-cost housing makes the challenge particularly daunting. Government continues to explore ways to speed up delivery and contribute to the development of sustainable settlements. While the initial housing programmes have dealt largely with the poorest households (those earning less than R1 500 per month), greater focus is also necessary for households with income between R1 500 and R3 500 and even beyond that.

The rising demand for low-cost houses makes the challenge rather daunting

The 2003 MTEF reinforces the shift towards medium-density housing and rapid land release to address the urban demand for housing, without negating rural demand. It also uses other fiscal mechanisms like new tax incentives, which allows for special depreciation allowances for taxpayers who invest in the construction and refurbishment of buildings in underutilised designated urban areas.

Addressing the urban need for housing

In recent years, Government has sought to foster greater integration and co-ordination between housing delivery and complementary programmes with the view to creating more sustainable and functional communities. A number of infrastructure grants support the provision

Greater integration and co-ordination between housing delivery and complementary programmes

[1] The term "housing opportunities" is used to indicate that housing subsidies are used in different ways to facilitate access to housing and not only to construct housing units.

of the social and economic infrastructure necessary for sustainable settlements, and they are now to be integrated into the new Municipal Infrastructure Grant (MIG). In examining housing delivery challenges it is necessary to consider other institutional and organisational challenges facing the sector. This chapter provides an overview of budget and non-budget issues related to housing. It focuses on expenditure, sources of revenue and service delivery indicators, as well as strategies to improve service delivery. It reviews the housing subsidy grant, the human resettlement and redevelopment grant and social housing.

Low-cost housing provision in the intergovernmental context

The Constitution (Act 108 of 1996) contains the guiding principles for housing provision. The Constitution does not define the specific roles of the three spheres of government in meeting basic rights. The right to have access to adequate housing is enshrined in the Bill of Rights.

The importance of decentralising the housing function

A critical policy challenge for housing is to facilitate appropriate devolution of functions and powers to provincial and local government spheres, while at the same time ensuring that national processes and policies essential to a sustainable national housing development process are in place. In terms of the Constitution, housing is a shared or concurrent Schedule 4A function between the national and provincial governments, with no role for local government. The Housing Act (107 of 1997) elaborates on the different roles, defining key national and provincial responsibilities, and also assigns a role to local government, for a municipality that is accredited in terms of the Act. It also establishes various statutory bodies and provides for the termination of housing arrangements that existed in previous political dispensations.

The role of National Government

National Government is responsible for the Development of Housing Policy

Through the national Department of Housing, national Government is responsible for national housing policy. It establishes and facilitates a sustainable housing development process in consultation with every provincial housing department and the national organisation representing municipalities (SALGA[2]). The national housing policy outlines the funding framework for housing development, and negotiates and secures an allocation from the state budget for housing. The policy provides for allocations to provincial governments, municipalities and other national housing institutions that implement national programmes.

National Government supports provincial and local governments in housing development and also monitors performance

National Government develops the national housing code, which facilitates the effective implementation of national housing policy. The national housing code contains all administrative guidelines relating to public sector housing development and develops norms and standards for housing delivery. It promotes consultation on housing

[2] South African Local Government Association

development issues across all spheres of Government, and with all other stakeholders. It also supports provincial and local governments in developing their administrative capacity for housing development and monitors their performance through the National Housing Data Bank and Information System.

The role of Provincial Governments

Through the provincial departments of housing, provincial governments are responsible for developing provincial housing policy within the national framework. They legislate on housing matters that fall within their provincial boundaries, as long as the legislation is not in conflict with national legislation.

Provinces approve housing subsidies and projects, and provide support to municipalities

Provincial governments promote and co-ordinate housing development and implement national and provincial housing programmes in the province within the framework of national housing policy. They approve housing subsidies and projects and provide support for housing development to municipalities. They also assess municipalities' applications for accreditation to administer national housing programmes, and monitor the performance of accredited municipalities.

The role of Local Government

Local Government promotes developers or acts as developer

Municipalities ensure that, within the framework of national and provincial legislation and policy, constituents within their jurisdictional areas have access to adequate housing. They initiate, plan, co-ordinate and facilitate appropriate housing development within their boundaries, either by promoting developers to undertake projects or by playing the role of developer.

Municipalities provide bulk services like water, electricity, roads and sanitation

Municipalities are instrumental in providing bulk engineering services like roads, water, sanitation and electricity, where there are no other service providers. These services are funded through the Consolidated Municipal Infrastructure Programme (CMIP).

Accredited municipalities also administer housing programmes

When officially accredited, municipalities administer any national housing programme in their areas of jurisdiction. Accreditation empowers a municipality to undertake similar functions to provincial governments in that it receives, evaluates and approves or denies applications for subsidies. It also prepares a local housing strategy and sets housing delivery goals.

Municipalities provide land for housing development

Municipalities also set aside, plan and manage land for housing and development.

Organisational Information

Five provinces perform housing functions only

Provincial departments of housing are organised in two ways. Four perform housing functions only, and five[3] perform both housing and

[3] Eastern Cape, Free State, Limpopo, Northern Cape and North West

local government functions. The current manner in which these departments are organised makes cross-provincial comparison difficult. Therefore, the focus of this chapter is mainly on the administration of the Housing Subsidy and the Housing Resettlement and Redevelopment grants, which form the bulk of low-cost housing finance.

Expenditure on housing subsidies

Over R19 billion housing subsidy capital transfers effected to households since 1994

Since 1994, through the provinces, Government has effected housing subsidy capital transfers worth over R19 billion. These capital transfers have been used to acquire sites and build top structures.

Estimated outcome for 2002/03

Spending on housing appears to slow down in 2002/03

Table 9.1 shows projected actual provincial expenditure on the Housing Subsidy Grant for 2002/03. The total budget was adjusted by R946 million (of which R885 million were rollovers) to R4,7 billion. Spending on housing subsidies for 2002/03 is estimated to be R3,7 billion. This shows an increase of R599 million or 19,1 per cent compared to 2001/02, but is estimated to be R955 million or 20,4 per cent lower than the 2002/03 Adjusted Budget. Only North West and Western Cape project to spend their entire 2002 adjusted budgets. The slow spending in Gauteng (83,9 per cent), Mpumalanga (70,8 per cent) and KwaZulu-Natal (89 per cent) is partially due to slow progress of the Presidential Job Summit Rental Housing Programme. Spending in Eastern Cape is very low at 37,1 per cent.

Actual expenditure may be higher as the figures are still based on expenditure for 10 months up to January 2003 and on projections for the last two months. Spending, however, is expected to slow down. A greater challenge facing housing is the slow rate at which subsidies are approved in 2002/03 as noted in Table 9.5 later in the chapter. Given that housing expenditure in any year is largely for subsidies and projects approved in previous years, this slower approval rate is expected to result in slower spending over the next three years.

Table 9.1 Actual expenditure outcome for 2002/03 for SA Housing Subsidy grant

R million	2002/03 Budget	2002/03 Adjusted budget	2002/03 Estimated actual outcome	Actual outcome as % of adjusted budget
Eastern Cape	571	805	298	37,1%
Free State	283	288	283	98,4%
Gauteng	802	1 215	1 019	83,9%
KwaZulu-Natal	709	862	767	89,0%
Limpopo	382	388	365	93,9%
Mpumalanga	242	348	246	70,8%
Northern Cape	76	77	50	64,7%
North West	302	324	324	100,0%
Western Cape	373	379	379	100,0%
Total	**3 740**	**4 686**	**3 731**	**79,6%**

Source: National Treasury database.

Rollovers are declining, but might rise if spending in 2002/03 slows down

Table 9.2 shows a decrease in rollovers across provinces between 1995/96 and 2000/01, from R2,2 billion or 71 per cent of housing funds in 1995/96, to R519 million or 20,2 per cent in 2000/01. The level of rollover was R458 million or 11,8 per cent in 2001/02 and is expected to increase to R885 million or 25,1 per cent of the housing allocation in 2002/03. Of this rollover, R240 million is unspent funds from the Job Summit Rental Housing Programme in Gauteng, KwaZulu-Natal and Mpumalanga, collectively.

Table 9.2 Rollovers on SA Housing Subsidy grant

	1995/96		2000/01		2001/02		2002/03	
R million	Actual rollover	% of allocation	Actual rollover	% of allocation	Actual rollover	% of allocation	Actual rollover	% of allocation
Eastern Cape	451	*88,0%*	29	*8,5%*	205	*41,4%*	224	*44,2%*
Free State	137	*73,0%*	144	*164,0%*	72	*32,9%*	–	*0,0%*
Gauteng	375	*52,0%*	109	*14,8%*	28	*4,4%*	400	*52,1%*
KwaZulu-Natal	464	*77,0%*	136	*28,9%*	56	*9,1%*	142	*20,4%*
Limpopo	330	*95,0%*	(15)	*-6,6%*	50	*0,0%*	–	*0,0%*
Mpumalanga	124	*61,0%*	98	*83,1%*	43	*0,0%*	102	*32,9%*
Northern Cape	32	*40,0%*	–	*0,0%*	–	*0,0%*	0	*0,0%*
North West	215	*88,0%*	18	*9,9%*	–	*0,0%*	17	*6,4%*
Western Cape	100	*39,0%*	–	*0,0%*	4	*0,0%*	–	*0,0%*
Total	**2 228**	***71,0%***	**519**	***20,2%***	**458**	***11,8%***	**885**	***25,1%***

Source: National Treasury database.

Expenditure and budget trends: 1999/00 to 2005/06

Table 9.3 sets out provincial spending and budgets for housing development for the period 1999/00 to 2005/06. Total provincial spending on housing subsidies increased at an annual average rate of 13,2 per cent between 1999/00 and 2002/03. The high spending in Gauteng is mainly due to R400 million rolled over from 2001/02.

Table 9.3 SA Housing Subsidy grant – expenditure and forward estimates

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
R million	Actual	Actual	Actual	Estimated Actual	Medium-term estimates		
Eastern Cape	341	470	305	298	642	599	635
Free State	88	218	252	283	325	386	409
Gauteng	737	610	560	1 019	924	1 117	1 185
KwaZulu-Natal	471	560	665	767	796	748	794
Limpopo	228	272	387	365	426	370	392
Mpumalanga	118	153	309	246	275	296	314
Northern Cape	56	58	65	50	86	89	95
North West	181	262	259	324	348	421	447
Western Cape	351	341	329	379	423	446	473
Total	**2 571**	**2 945**	**3 132**	**3 731**	**4 246**	**4 474**	**4 745**

Source: National Treasury database.

Spending on housing expected to accelerate over the MTEF

The 2003 Budget provides R13 billion worth of subsidies for the next three years, bringing total actual and budgeted spending on housing opportunities to R32 billion since 1994. Spending is budgeted to increase by 13,8 per cent from an estimated R3,7 billion in 2002/03 to

R4,2 billion in 2003/04, and at an annual average rate of 5,2 per cent to R4,3 million in 2005/06.

Shift towards medium density housing

There is a substantial shift in funding towards predominantly urban provinces, while the needs of rural provinces will continue to be addressed. Allocations to Gauteng, KwaZulu-Natal, Eastern Cape and Western Cape show substantial growth over the next three years. The growth in these provinces is to provide for medium-density housing in urban areas, in line with the demand for these types of settlements.

Human Resettlement and Redevelopment Grant

Building of sustainable and functional communities is a priority

The Human Resettlement and Redevelopment Grant aims to build sustainable and functional urban communities. It identifies and addresses the nature of and underlying reasons for dysfunctional urban communities and environments and provides funding to make them more functional, while at the same time attracting other resources. Spending on the Grant remains slow. For 2002/03, R87,3 million was rolled over from the previous year, resulting in an adjusted budget of R193,3 million. Spending is estimated to be R97,9 million or 50,6 per cent of the total 2002/03 adjusted budget. It is budgeted to increase to R109 million in 2003/04 and to R122 million by 2005/06.

Consolidated Municipal Infrastructure Programme (CMIP)

Municipalities provide bulk infrastructure to complement housing delivery

Housing must be viewed in relation to other infrastructure programmes that complement housing delivery, in particular ones that provide bulk infrastructure like water, roads, sanitation and electricity. In addition to spending on housing opportunities, since 1994 Government has spent over R5 billion on bulk infrastructure needed for housing development through its Consolidated Municipal Infrastructure Programme. Government plans to spend a further R8 billion over the next three years to bring expenditure on bulk infrastructure to R13 billion by 2005/06. This programme will be incorporated into the broader Municipal Infrastructure Grant (MIG) to be phased in over the next three years. The new grant will expand funding beyond bulk infrastructure to upgrade and improve former black townships and build community infrastructure.

Housing delivery in perspective

The housing backlog

Reducing the backlog

A broad definition of backlog in housing takes into account the level of overcrowding, the need for additional dwellings, the number of inadequate dwellings, and population growth or household formation. Traditional dwellings are not included as a backlog in this definition. The more than 1,46 million houses built since 1994 reduced the backlog to just over 2 million.

The housing backlog is more acute in urban areas and ranges from 500 000 in Gauteng to 316 000 in Western Cape.[4] These urban provinces adopt rapid land release policies that aim at addressing the pressing need for land. Rapid land release provides land with bulk infrastructure initially, and beneficiaries can make use of further subsidies later, to put up the top structure.

The Housing Subsidy Programme

Government adopts an incremental approach to housing delivery

The Housing Subsidy Programme is Government's main housing assistance vehicle. In 1994, the Housing Subsidy Programme replaced all previously racially based government subsidy programmes, other than where commitments under previous programmes were already made. The scheme is intended to help households access housing with secure tenure, at a cost they can afford, and of a standard that satisfies health and safety requirements. A beneficiary may only receive the subsidy once, except where the scheme allows for deviations from this provision. The Housing Subsidy Scheme has an incremental approach in that it provides a household with an opportunity to move into a house without debt. Further improvements can then be made as the household's financial position improves.

Substantial increases in subsidy levels ensure good quality homes

Table 9.4 shows how subsidy levels have changed over time. Housing subsidy levels increased between 26,9 and 49,1 per cent in 2002/03 for earners falling in the income bands of R3 500 per month and below. These increases also impact on the different categories of subsidy. The high growth is mainly to protect the real value of these subsidies and to improve the quality of the houses built. The impact of inflation on the income bands should also be taken into account, as the monthly equivalent of R3 500 is much higher today than when the Housing Subsidy Scheme was introduced. To further enhance the impact of these subsidies and to increase their outreach, consideration should be given to increase the qualification threshold for the subsidies to income levels above R3 500 and to collapse the income bands.

Table 9.4 Subsidy levels

Income bands	2001/02	2002/03	% growth
Income less than R 1500 per month	16 000	20 300	26,9%
Income between R1 501 and R2 500 per month	10 000	14 900	49,0%
Income between R2 501 and R3 501	5 500	8 200	49,1%
For the aged, disabled and indigent	16 000	22 800	42,5%

Source: National Department of Housing.

[4] 2003 Strategic Plans of Western Cape and Gauteng.

Housing subsidies approved

Just under 1,8 million housing subsidies were approved up to December 2002

Table 9.5 shows that just under 1,8 million housing subsidies were approved since the inception of the programme in 1994 to December 2002. Up to 2000/01, there is strong positive correlation between number of approved subsidies and expenditure trends. In 2001/02 approved subsidies decreased by about 26 887 or 8 per cent from 246 988 in 2000/01 to 226 101 in 2001/02. This trend suggests a slowing pace of delivery. Although it is still too early to determine, it appears that the slowing down continues in 2002/03. In 2002/03, only 94 049 subsidies were approved up to December 2002. Provincial housing departments project to spend R3,7 billion (including 2001/02 rollovers). Given the multi-year nature of construction, it appears spending on subsidies approved in previous years is accommodated in the 2002/03 financial year. In addition, the variation between subsidies approved and projected spending suggests that transfers are made to municipalities, which in turn, are slow to implement the programme.

Table 9.5 Subsidies approved: 1994 to December 2002

	1994–98	1998/99	1999/00	2000/01	2001/02	2002/03	Total	% share
Eastern Cape	70 683	17 504	15 048	61 070	45 769	3 212	213 286	12,0%
Free State	37 048	19 270	16 618	12 320	12 574	5 809	103 639	5,9%
Gauteng	197 714	115 847	60 176	44 224	57 141	41 892	516 994	29,2%
KwaZulu-Natal	156 323	25 598	8 785	26 544	45 098	11 760	274 108	15,5%
Limpopo	64 765	17 251	66 324	2 039	2 533	6 839	159 751	9,0%
Mpumalanga	41 574	4 229	18 173	29 229	11 421	5 043	109 669	6,2%
Northern Cape	22 622	3 005	2 074	6 371	4 023	2 040	40 135	2,3%
North West	74 179	8 516	8 114	42 124	7 583	410	140 926	8,0%
Western Cape	78 531	14 760	38 219	23 067	39 959	17 044	211 580	12,0%
Total	**743 439**	**225 980**	**233 531**	**246 988**	**226 101**	**94 049**	**1 770 088**	**100,0%**

Source: National Department of Housing.

48 per cent of subsidy beneficiaries are female-headed households

Table 9.6 shows the number of subsidies approved according to gender. The number of beneficiaries is lower than the number of actual subsidies approved because some beneficiaries may have received more than one subsidy, as the housing policy allows for this in specific circumstances. Government's housing policy is gender sensitive and 718 679 or 47,8 per cent of subsidy beneficiaries between 1994 and December 2002 were female-headed households. Moreover, women are playing an active role in the housing environment as developers and as employees.

Table 9.6 Number of subsidies approved according to gender up to December 2002

	Beneficiaries	Number of male headed households	Number of female headed households	% female headed households
Eastern Cape	248 486	124 192	124 294	50,0%
Free State	114 933	62 547	52 386	45,6%
Gauteng	368 818	191 566	177 252	48,1%
KwaZulu-Natal	216 327	104 638	111 689	51,6%
Limpopo	88 550	32 838	55 712	62,9%
Mpumalanga	94 609	44 118	50 491	53,4%
Northern Cape	50 890	30 484	20 406	40,1%
North West	97 693	55 718	41 975	43,0%
Western Cape	222 308	137 834	84 474	38,0%
Total	**1 502 614**	**783 935**	**718 679**	**47,8%**

Source: National Department of Housing.

Table 9.7 shows subsidies approved per category of subsidy by province from 1994 to December 2002. The bulk of approved subsidies (over 88 per cent or 1,55 million) were project-linked. The share of project-linked subsidies approved is over 90 per cent in Gauteng, Western Cape and Northern Cape. Project-linked subsidies help beneficiaries acquire ownership of fixed residential properties for the first time through projects approved by provincial housing departments.

Project-linked subsidies make up 88 per cent of total approvals

Table 9.7 Subsidies approved per category of subsidy: 1994 to December 2002

	Project Linked	Individual	Consolidation	Institutional	Relocation	Total
Eastern Cape	184 933	17 623	7 566	2 200	964	213 286
Free State	76 206	18 867	7 658	900	8	103 639
Gauteng	478 229	21 536	10 222	4 940	2 067	516 994
KwaZulu-Natal	226 132	11 960	24 434	11 503	79	274 108
Limpopo	143 044	13 330	3 375	–	2	159 751
Mpumalanga	92 905	13 901	2 500	100	263	109 669
Northern Cape	31 094	8 468	568	–	5	40 135
North West	125 518	7 435	3 403	4 350	220	140 926
Western Cape	192 571	10 278	8 528	203	–	211 580
Total	**1 550 632**	**123 398**	**68 254**	**24 196**	**3 608**	**1 770 088**

Source:National Department of Housing.

Individual Subsidy

The individual subsidy helps beneficiaries acquire ownership of fixed residential properties for the first time, and buy existing homes or homes in projects not approved by provincial housing departments. Since 1994, 7 per cent or 123 398 of approved subsidies were in this subsidy category. The share of individual subsidies approved is particularly high in Northern Cape (21 per cent), Free State (18 per cent) and Mpumalanga (13 per cent).

Consolidation Subsidy

The consolidation subsidy provides a ‘top-up’ amount to owners of serviced sites to provide or upgrade a top structure on the site. This subsidy is available to a beneficiary who has already received state assistance to acquire a serviced residential site under a previous subsidy scheme, on the basis of ownership, leasehold or deed of grant. Beneficiaries of serviced sites are eligible to apply for the consolidation subsidy for constructing or upgrading a top structure on the property. Over 4 per cent or 68 254 subsidies approved thus far were for consolidation purposes. The share of consolidation subsidies approved is relatively high in KwaZulu-Natal (36 per cent), Gauteng (15 per cent), Western Cape (12 per cent), Eastern Cape (11 per cent) and Free State (11 per cent).

Institutional Subsidy

The institutional subsidy mechanism is specifically targeted at institutions that provide tenure arrangements alternative to immediate ownership to subsidy beneficiaries. These include tenure arrangements such as rental, instalment sale, shareblock or co-operative tenure. The mechanism provided a R16 000 subsidy per beneficiary household, to institutions that provide housing for those beneficiaries. Up to December 2002, over 1,4 per cent of all subsidies approved were institutional, with a greater share in KwaZulu-Natal (4,2 per cent) and North West (3,1 per cent). The high percentage in KwaZulu-Natal is mainly due to the Cato Manor housing development project.

Limited support for defaulting borrowers of mortgage loans

Relocation assistance is offered to defaulting borrowers of mortgage loans, who were three months in arrears with their instalments on 31 May 1995 or 31 August 1997 (depending on the agreement entered into by Government and the financial institution concerned), and whose loans cannot be rehabilitated. It helps them to right-size to affordable housing. However, the mechanism has hardly been used as only 0,2 per cent of subsidies approved since 1994 was for relocation.

People's Housing Process gives support to beneficiaries who want to build their homes themselves

The People's Housing Process provides for people who want to enhance their subsidies by building their homes themselves. It provides support to beneficiaries to access consolidation, project-linked, institutional and rural housing subsidies as well as other support measures. Experience has shown that if beneficiaries are given the chance either to build houses themselves or to organise the building of houses themselves, they can build better houses for less money, as they can:

- Save on labour costs by doing some of the building work themselves or by getting their neighbours, friends and families or others to help them
- Avoid having to pay a profit element to developers if they build houses themselves or organise for those houses to be built, and
- Optimise their decisions by using opportunities for trade-offs.

Public Sector Hostel Redevelopment Programme

Government funds upgrading and conversion of hostels

The Public Sector Hostel Redevelopment Programme provides funding for the upgrading and conversion of hostels owned by public sector institutions, with the exception of those owned by municipalities that are intended solely for the use of their employees. The aim is to create humane living conditions and to provide affordable and sustainable housing opportunities on either a rental or ownership basis. The programme allows for rental for single persons or families or ownership in line with the Housing Subsidy Scheme. In Gauteng the conversion of hostels into self-sustainable units resulted in 5 811 beds in 2001/02, bringing the total beds under this programme in the province to 83 690 beds.

Houses completed or under construction

Government contributed to 1,5 million housing opportunities

Thus far, according to the national Department of Housing, through the Housing Subsidy Scheme, Government has contributed towards providing just under 1,5 million housing opportunities, benefiting approximately 6 million people, at an average of 4,1 people per household. Table 9.8 shows the number of houses completed or under construction by province.

Table 9.8 Houses completed or under construction: 1994 to December 2002

	1994–1998	1998/99	1999/00	2000/01	2001/02	April to December 2002	Total
Eastern Cape	48 734	29 659	21 345	44 021	11 816	54 046	209 621
Free State	37 043	20 391	8 177	26 088	9 005	421	101 125
Gauteng	149 076	28 726	144 575	25 911	20 233	18 806	387 327
KwaZulu-Natal	96 021	53 105	28 997	28 547	14 379	12 231	233 280
Limpopo	26 851	22 899	12 401	20 996	16 667	500	100 314
Mpumalanga	30 757	16 838	4 808	16 457	14 584	21 575	105 019
Northern Cape	15 434	3 387	3 600	7 148	3 588	97	33 254
North West	42 264	18 367	12 944	17 609	17 385	16 751	125 320
Western Cape	69 155	34 575	26 916	17 730	16 634	2 358	167 368
Total	**515 335**	**227 947**	**263 763**	**204 507**	**124 291**	**126 785**	**1 462 628**

Source:National Department of Housing.

Pace of housing delivery appears to be slowing down

Annual figures indicate that delivery peaked in 1997/98, with 322 638 houses completed. This high number in 1997/98 may reflect carry-through of projects from the previous two years, after the start of the new housing policy in 1994. Thereafter, delivery appears to correlate with the number of subsidies approved in the previous financial year up to 2000/01. Despite evidence of improvement, the pace of delivery continues to be below the required rate of low-income household formation (estimated at 200 000 households per year). Of the total houses built over the period, 26,5 per cent were in Gauteng, 15,9 per cent in KwaZulu-Natal, 14,3 per cent were in the Eastern Cape and 11,4 per cent in the Western Cape. The other five provinces collectively built 31,8 per cent of the total.

Some blockages in the housing sector persist

In 2001/02 delivery was substantially slower, with 124 291 houses completed or under construction. The slow pace seems set to continue in 2002/03, with 126 785 houses built or under construction as at December 2002. The slowing down in the approval rate of subsidies in 2002/03 will slow down expenditure over the next three years. This suggests that, despite the progress made since 1994, some blockages remain in the housing sector. Possible factors causing slower delivery include:

- Non-availability of suitable land for low-cost housing and slow processing of land transfer. Government is exploring ways to build houses in better located land;

- Poor planning which can result in late completion of new contracts with developers;
- Limited project-management and administrative capacity in some provincial departments of housing and local authorities. This resulted in delays in township establishment; and in certain cases, delays resulting in increased costs and top-up funding to finish projects;
- In a few cases, adverse weather patterns resulted in project delays.

Social housing

Social housing is an alternative tenure option which refers to housing held in ownership, without any immediate transferral of ownership after the unit is constructed and which is administered by an institution on behalf of qualifying beneficiaries. Tenure options are mainly rental, co-operatives and instalment sale.

There is evidence of growing/demand for medium-density housing

Indications are that there is considerable need for rental housing among low-income earners. The housing subsidy mechanism has recently been adjusted, starting with the 2002/03 Budget, to take into account the need for rental housing, especially in more urban provinces. To this end, housing policy in urban areas is shifting towards medium-density housing projects run by housing institutions. This shift must take place within the constraints of affordability and the management capacity of housing institutions.

Medium-density housing needs further stimulus

The subsidy structure for medium-density housing differs from other housing subsidies. For medium-density housing, the subsidy is set at R27 000 with the beneficiary expected to contribute R27 000 (from own funds, through loans or savings). While the increase in the subsidy is expected to speed up delivery of social housing, steps must be taken to address the issue of affordability. The current income threshold of R3 500 per month to qualify for this subsidy appears low and most often potential beneficiaries in this income group are not in a position to afford this category of housing. Consideration is being given to include higher income bands in this category of subsidy to facilitate affordability and stimulate this market.

Slow start to Presidential Job Summit Pilot Project

The Presidential Job Summit Pilot Project on Housing was identified as a national Presidential Lead Project. This was mainly to meet the demand for rental housing for the R1 500 and R3 500 per month income groups, as the existing subsidy mechanisms do not provide for this. The aim of the project was to provide 45 000 units by 2003/04. Steps are being taken to get the programme off the ground and to accelerate delivery:

- At the end of 2001, the Social Housing Foundation established a Job Summit Division specifically to facilitate and support capacity building within social housing institutions in Mpumalanga, Gauteng and KwaZulu-Natal as part of the Pilot Project.
- The National Housing Finance Corporation has been tasked to manage the Job Summit projects. It will undertake the financing and is currently developing suitable models.

A number of housing institutions play a critical role in the development and management of social housing. Table 9.9 shows that 40 social housing institutions have been established, which manage about 108 projects with a potential yield of nearly 25 000 social housing units. The bulk of the projects are greenfields and refurbishment or upgrading projects. The tenure options in social housing are mainly co-operative, instalment sale, rental or a combination of these.

The bulk of social housing projects are greenfields and refurbishment or upgrading

Table 9.9 Delivery of social housing institutions from 1994

	Number of social housing institutions	Number of social housing units		Number of social housing projects	
		Target	Established	Target	Established
Eastern Cape	7	3 082	909	13	5
Free State	1	300	300	1	1
Gauteng	16	13 075	9 398	62	51
KwaZulu-Natal	4	3 438	3 058	13	12
Limpopo	–	–	–	–	–
Mpumalanga	3	1 501	501	3	1
Northern Cape	–	–	–	–	–
North West	2	–	–	2	–
Western Cape	7	3 521	3 021	14	9
Total	**40**	**24 917**	**17 187**	**108**	**79**

Excludes Presidential Job Summit Rental Housing Project.
Source: Social Housing Foundation.

Through support from the Social Housing Foundation, social housing institutions delivered over 17 000 social housing units countrywide up to November 2001. Gauteng accounts for over 50 per cent of social housing stock in the country. The need for social housing is more acute in Gauteng relative to other provinces, given the high number of temporary residents who come to the province to seek employment and then return to their home provinces after a number of years. Since 1996, Gauteng has delivered over 9 000 social housing units or 2,3 per cent of total houses constructed or under construction. The Newtown Village, which accommodates 351 families; the conversion of the Landrost Hotel; and the Elangeni rental housing project in downtown Johannesburg are some of the projects successfully undertaken in Gauteng. Western Cape and KwaZulu-Natal delivered over 3 000 units each. Delivery in predominantly urban provinces is much higher than in other provinces but Mpumalanga and Eastern Cape are expected to develop substantial stock over the next few years due to the Job Summit Programme in Mpumalanga, Coega and East London, Industrial Development Zones (IDZs) developments in the Eastern Cape.

Since 1996, Gauteng has delivered over 9 000 social housing units

Significant rental stock was developed before1994, with loan funding from the previous National Housing Commission and various own affairs statutory bodies. The properties include vacant serviced sites, single houses per stand, flats, and properties disposed on deed of sale where persons are required to repay outstanding balances. After 1994, the housing stock was transferred to provinces and municipalities, and

Significant stock was developed prior to 1994 managed by provincial housing boards and municipal housing departments.

Local Government and Housing Delivery

Municipalities facilitate housing delivery through their role in providing land and bulk infrastructure and services for low-cost housing. In addition, they play a key role in upgrading formal settlements, relocating informal settlements, managing rental stock, redeveloping hostels and providing high density housing units falling under their jurisdiction. Financing these programmes is done mainly through Government's Housing Subsidy Scheme and the Consolidated Municipal Infrastructure Programme. The demand for land within eThekwini and the City of Johannesburg municipal boundaries is high and estimated at 180 000 and 217 000 stands respectively.

Though very few municipalities are accredited in terms of the Housing Act, many provinces transfer housing subsidy funds to municipalities, but there is little information available on the extent of such transfers.

Rental Stock

Municipalities also have inherited housing stock from former white municipalities, which they manage and collect rental from. Similar to the housing stock inherited by provincial departments, municipalities are not collecting all the revenue due from rentals. Such arrears complicate attempts to transfer such rental housing stock to households. Both the transfer and arrear-discount processes require close co-ordination between provinces and municipalities, for any action by the one sphere generates similar expectations of the other sphere. However, information on all municipal housing stock was not available for the Review, but the following two municipalities illustrate the extent of such municipal housing stock.

eThekwini

eThekwini municipality's original rental stock, excluding hostels, amounted to 20 338. To date, 4 900 duplexes and 3 064 flats have been sold as freehold tenure through the discount benefit scheme. It is anticipated that a further 1 500 units will be sold in 2003/04. The remainder of the stock will administered by the housing department of the municipality and is currently being marketed for sale. Payment patterns are poor, as current tenants are low-income households or indigent people. Steps are currently under way to transfer the indigent tenants to development projects under Government's Housing Subsidy Scheme. Income raised through rental is approximately R15 million. The municipality inherited seven hostel complexes from the KwaZulu-Natal Provincial Government, comprising of 37 571 beds. Rental income from these hostels is negligible and the municipality receives a R12,7 million annual subsidy from the province for this stock. The municipality is in the process of upgrading the hostels to improve living conditions and to encourage the payment of rentals.

City of Johannesburg

The municipality transferred 63 249 housing units to households mainly in former black townships through the discount benefit scheme. Currently, the municipality's stock has 145 073 housing units of which 87 044 are in a bad state of repair and will require upgrading. Presently, R5 million per year is being spent to maintain and refurbish current stock. The municipality owns a further 27 hostels containing 47 010 hostel beds, of which over 50 per cent will need further upgrading. A programme is under way to convert the 10 000 staff hostel beds into family units. In addition, the Diepkloof Hostel is being used as a rental housing pilot. The municipality intends to upgrade, convert and have the stock transferred to households by 2005. The Johannesburg Social Housing Company, a property management company, is responsible for the management of the rental stock.

Disposal of stock through the discount benefit scheme

The discount benefit scheme applies to all state financed housing units already constructed or contracted for before 30 June 1993 and allocated to individuals before 15 March 1994. Under this scheme, tenants received a discount on the price of the property to enable them to buy it, or a deduction on the amount outstanding. Beneficiaries received a maximum discount of up to R7 500 on the price of the property. This discount could cover the full purchase price of the property and where there is an outstanding balance on the purchase price, the tenant finances this with either savings or a mortgage loan. The scheme does not cover arrears for service charges. Arrear service charges are paid by the Provincial Housing Development Funds to municipalities and recovered from the tenants or debts through the billing systems.

Over 1 million properties transferred through the discount benefit scheme

In terms of the discount benefit scheme, from 1994 to December 2002, over 1 million residential properties (mainly in townships) were transferred to households. As Table 9.10 shows, the bulk of transfers were made in the Eastern Cape, Gauteng, KwaZulu-Natal and Mpumalanga. Some houses were also transferred to municipalities.

Table 9.10 Properties transferred

	Properties transferred
Eastern Cape	158 404
Free State	72 449
Gauteng	173 516
KwaZulu-Natal	358 792
Limpopo	14 485
Mpumalanga	106 404
Northern Cape	25 718
North West	90 798
Western Cape	59 664
Total	**1 060 230**

Source: National Department of Housing.

Challenges facing low-cost housing delivery

Integrated development is the main focus

Government's housing policy has a strong commitment to provide housing opportunities to low-income citizens. While great strides have been made, housing delivery continues to be fragmented, meaning that the housing policy vision has only been partially met. In some instances, current patterns of housing delivery fail to extend benefits beyond shelter only.

Unavailability of suitable land, the lack of an integrated approach and limited access to housing finance, are some of the factors hampering sustainable housing delivery.

Non-availability of suitable land

Non-availability of suitable land for low-cost housing developments close to areas of employment and economic activity

The non-availability of suitable land for low-cost housing developments close to areas of employment and economic activity remains one of the biggest challenges facing the low-cost housing sector. Over the past 10 years, most housing projects have been located on the periphery of cities and have not been co-ordinated with transport infrastructure to link up with centres of economic activity. This results in increased cost for low-income households to commute to and from work.

Limited role played by municipalities

Some municipalities perceive low-cost housing as a cost to them

The provision of low-cost housing increases the demand for other services like water, sanitation, electricity, refuse removal and maintenance of some of the infrastructure. In most cases, great numbers of recipients of housing subsidies are unable to pay for municipal services. In the absence of a policy on complementary and affordable basic services or on indigence, the non-payment for these services results in substantial debts for municipalities, discouraging them from playing an active role in the provision of housing for this market.

The role of municipalities in housing development is limited

Municipalities play a limited direct role in housing development, generally as developers and in providing bulk and connector infrastructure, as well as services like water and sanitation. Co-ordination of initiatives at the local level is often weak. Other roles that municipalities should play in addition to developer, need to be explored.

Policies and strategies are not co-ordinated

Housing delivery requires not only bulk infrastructure (water, electricity and roads) and housing units, but also properly integrated communities and a built environment with the necessary social and economic infrastructure. Many housing projects do not have a holistic approach and do not take the totality of basic needs of communities into account. In a number of cases, housing projects are not supported by adequate schools, roads, clinics and retail facilities.

More needs to be done to ensure integrated development

The rate of delivery (1,5 million since 1994) shows that great strides have been made in implementing the housing policy and addressing the backlog, but substantial work lies ahead in achieving sustainable integrated settlements. Continuing slow and fragmented delivery suggests that there is not a clear and uniform implementation strategy for the national housing policy, which is undoubtedly aimed at improving the plight of the poor. Delivery mechanisms that will achieve the vision and mission of housing policy need to be improved.

National Housing Summit

Housing policy is currently being reviewed through a consultative process that will culminate in a National Housing Summit during 2003. The Summit is expected to achieve consensus on future direction for housing policy and explore ways to improve co-ordination in the implementation of policy.

Finances and low levels of income

Access to private sector finance remains difficult for low income earners

Despite Government's attempts to normalise the housing environment, access to finance is a huge constraint as the private sector is still reluctant to invest in townships and new housing developments. This is mainly due to negative perceptions of crime and repayment risks. The Housing Subsidy Scheme is incremental and beneficiaries are often not in a position to augment the subsidy to improve the property through savings or loans. The ability to enhance the values of their capital investment or asset is diminished, reducing the likelihood of beneficiaries migrating to bigger and better housing.

Low incomes also hamper households' efforts to improve their housing.[5] Employment, income and housing are interrelated and the level of income of the poor is too low and unstable for them to improve their housing environment on their own. In addition, the higher incidence of HIV/Aids, tuberculosis and other illnesses caused or exacerbated by the poor's living conditions further reduces the share of income that could have been earmarked for housing.

Affordability hampers the poor's ability to improve their housing environment

Certain aspects of the current approach to low-cost housing appear to reinforce dependency rather than self-sustainability among households. The policy results in low-income earners or the poor depending on Government to provide for basic shelter without beneficiaries taking sufficient steps to contribute to the improvement of their own well-being through savings or 'sweat equity'. In a policy shift, Government agreed that each housing subsidy beneficiary, excluding the disabled, pensioners and the indigent, would contribute at least R2 479 when accessing a subsidy. This contribution can be made through savings, loan financing or 'sweat equity as for the People's Housing Process. This contribution will also provide for cover protection under the National Homebuilder Registration Council. This shift in policy has resulted in slower housing delivery, as most beneficiaries are unable to raise their own contribution to be able to access the subsidy.

Approach to housing could have unintended consequences

Normalising the housing environment

Since the inception of its housing programme in 1994, Government has sought ways of developing integrated housing settlements by addressing the fragmented nature of housing delivery. Interventions have largely been in planning and access to private sector finance for beneficiaries and emerging contractors.

Integrated housing developments

Government programmes targeted at integrated development aim to provide sustainable settlements by reducing the fragmented nature of housing delivery. Some of these programmes, like the Integrated Serviced Land, Alexandra Renewal, and Cato Manor projects aim to develop sustainable communities by developing social and economic infrastructure in addition to housing.

Legislative interventions

Despite Government's attempts to normalise the housing environment, poverty, unemployment and low repayment rates continue to deter private sector involvement in low-cost housing. Mortgage lending in this sector is non-existent.

5 Sustainable Housing Policy and Practice: Reducing constraints and expanding horizons within housing delivery, Ambrose Adebayo and Pauline Adebayo (July 2001)

Home Loan and Mortgage Disclosure Act

Through the Home Loan and Mortgage Disclosure Act (63 of 2000), Government seeks to promote greater transparency in lending institutions. Lending institutions are required not only to provide information on the number of home loans approved, but also to show the number of loans not approved and reasons for non-approval. The Act will be implemented after its regulations are published.

Community Re-investment Bill

The Community Re-investment Bill, currently under discussion, complements the Disclosure Act. The Bill aims to address failure by financial institutions to provide home loans for low and middle-income groups by compelling home loan financing institutions to set aside a portion of their home loan funding to the unserviced sections of the housing sector.

The role of national housing public entities

Sustainable low-cost housing requires a joint effort between Government and the private sector. Access to finance for contractors, especially emerging contractors, and homeowners is a fundamental issue. Through the national Department of Housing, Government has initiated a number of strategies to encourage private sector participation in low-cost housing finance. These strategies are driven mainly by schedule 3 public enterprises (in terms of the Public Finance Management Act (1 of 1999) (PFMA), which report to the Minister of Housing.

Servcon Housing Solutions (Pty) Ltd

Servcon normalises the lending environment by managing non-performing loans

Servcon Housing Solutions' mandate is derived from agreements between the Department of Housing, representing Government, and the Banking Council, representing participating banks. Servcon is mandated to manage the disposal of properties owned by banks as a result of non-performing loans in selected areas at the cut-off date of 31 August 1997. In addition, Servcon supports home ownership, where possible, by offering alternative options to those who cannot afford their own accommodation, and improving the viability of non-performing housing debt.

In the 2001/02 financial year, Servcon achieved its primary objective by disposing of 41,8 per cent of its portfolio properties. By December 2002, the agency had disposed of 50 per cent of its portfolio properties, against a target of 40 per cent. The number of properties in the portfolio declined from 33 322 to 16 798 by December 2002, with a total value of R613 million.

Thubelisa Homes

Thubelisa relocates mortgage defaulters to more affordable homes

Thubelisa Homes, a Section 21 company, was established in 1998 as a contracting vehicle to create rightsizing stock, and is linked to the Servcon programme. Rightsizing is a process whereby occupants of bank-owned properties who have defaulted on their mortgage loans, are assisted in relocating to more affordable houses.

The National Urban Reconstruction and Housing Agency

Nurcha offers bridging finance to emerging developers and contractors

The National Urban Reconstruction and Housing Agency's (Nurcha) mission is to expedite housing delivery for low-income households over the short to medium term. Its main function is to release private sector finance for low-cost housing. It provides guarantees to banks to encourage them to make bridging finance loans available to emerging developers and contractors, when banks are not prepared to approve loans without additional security.

Nurcha has had limited success as lending institutions are still unwilling to make unsecured loans, even when they are backed by a Nurcha guarantee. The goal is to scale down this initiative, except where it is part of the savings-linked lending programme, where a loan is granted on the basis of a savings record. The guarantee exposure was reduced from R23 million to R19 million during 2002/03, while the value of loans issued has risen from R5,7 million to R10,5 million.

The National Housing Finance Corporation

The NHFC funds intermediaries to promote broader access to housing finance

Government established the National Housing Finance Corporation (NHFC) in May 1996 to support intermediaries in promoting broader access to finance for low- and middle-income families. The NHFC's mandate is to build adequate and sustainable capacity within the organisations it funds, and partner with organisations to pioneer new finance and housing delivery options. Its mission is to:

- Develop and fund institutions providing affordable housing finance to low income groups at the retail level
- Develop and fund institutions offering a variety of tenure options for residential purposes, in the under- and unserviced segments of the housing market
- Mobilise savings into the housing process, through appropriate intermediaries.

Speeding up loan financing over the next three years

Since its inception in 1996, the NHFC has disbursed R1,2 billion and approved facilities totalling R1,5 billion. Through its lending activities more than 82 897 new housing units will be built over the next three years, with over 164 996 loans originated and facilitated through intermediaries. A total of 25 new and emerging institutions will have been set up.

The NHFC is the implementing agent for the Job Summit Housing Project

The NHFC has been appointed as implementing agent for the Job Summit Housing Project and the pilot phase is expected to provide 15 000 homes in KwaZulu-Natal, Mpumalanga and Gauteng over the next three years. The next phase of the project will provide 35 000 homes, with the intention of stepping up the programme to 150 000 homes if the initial projects prove successful. Substantial private sector funding will be required for this ambitious project and the NHFC has therefore increased the capacity of its treasury department accordingly. The first phase of implementation is expected to begin within the next few months.

Social Housing Foundation

Setting up social housing institutions that provide low-income housing

The Social Housing Foundation assists in the delivery of housing to low income communities by offering alternative forms of tenure to immediate ownership. Its specific focus is to assist in setting up social housing institutions that provide housing to low-income households. It works primarily with emerging institutions by offering capacity-building and technical support.

South African Housing Trust

The SA Housing Trust has been disestablished

Government disbanded the South African Housing Trust and agreed that the remaining assets and liabilities revert to Government. The NHFC will manage the collection of loan payments on behalf of Government and provision will be made to fund the liabilities of the Trust from the budget of the National Treasury until they are fully paid up or Government directs otherwise. This is in terms of the Disestablishment of the South African Housing Trust Limited Act (26 of 2002), which was proclaimed on 5 December 2002.

National Home Builders Registration Council

Providing consumers with warranty protection

The National Home Builders Registration Council (NHBRC) is a Section 21 company established in terms of the Housing Consumers Protection Measures Act (95 of 1998). Its purpose is to provide housing consumers with quality assurance through warranty protection against defects in new homes and to provide protection against any failure of builders to comply with their obligations in terms of the Act. The warranty scheme is now extended to low-cost housing delivered through project-linked government subsidies.

For the year ended March 2002, the Council registered 5 776 homebuilders. Approximately 43 per cent of homebuilders registered in 2001 did not renew their registrations. It enrolled 37 438 houses in 2002, an increase of about 24 per cent, compared to the 30 104 houses that enrolled in the year ending 2001. Complaints received were 2 998 in 2002 - an increase of 39 per cent on the 1 859 complaints received in 2001. The Council’s warranty scheme provides for structural integrity in any registered residential buildings for up to five years. It is therefore required to retain funds in reserve to cover these contingent liabilities.

Rural Housing Loan Fund

Facilitating housing finance in rural areas

The Rural Housing Loan Fund (RHLF) was incorporated in 1997 as a subsidiary of the NHFC. Its main business is to raise money and or lend money as a wholesale lending institution, to enable retail institutions to provide loans to low income earners to finance housing in rural areas. The RHLF is no longer a subsidiary of the NHFC but has been an entity in its own right since April 2002.

The RHLF channelled funds to homeowners in a number of rural areas in all nine provinces of South Africa, through 20 medium and small retail lenders. Of these, 11 were established and assisted directly by the RHLF: 10 are commercial and the RHLF owns an equity stake in these, and one is a non-government-organisation. Six are black or women-led. By the end of March 2002, the RHLF had committed R199 million and disbursed R160 million to its retail lenders. The intermediaries on-lent the funds to some 35 000 low-income households for new houses, house extensions, home improvements, repairs and water and electricity connections in all nine provinces.

Future considerations

Housing sector plans to be tabled for the 2004 Budget

Provincial housing departments are tabling better quality strategic plans with their 2003/04 budgets. The strategic plans are still of variable quality and make cross-provincial comparison and performance measurement difficult.

Ensuring that strategic plans are aligned to planning, budgeting, monitoring and reporting

The immediate challenge facing all provincial departments is to ensure that strategic and performance planning is developed and synchronised with the entire planning, budgeting, monitoring and reporting framework that the PFMA is seeking to put in place. Strategic and performance plans must be linked to medium term expenditure budgets. For this reason, the measurable objectives in the strategic plans should be linked to the programme structure of the department's vote. It is expected that more uniform formats will be implemented next year, for the 2004 Budget:

- This will also make it possible for annual reports to report on performance. The 2001/02 annual reports for Gauteng, Western Cape, Mpumalanga and Northern Cape made some attempt to provide relevant non-financial performance information, but the following areas were generally neglected: Performance against measurable objectives per programme (main division) and on conditional grants programmes
- Links between past subsidies and current spending, and the multi-year spending on housing projects (for example, how much the 2001/02 expenditure relates to 1996 subsidies, 1997 subsidies, 1998 subsidies, 1999 subsidies, and so on)
- Clear linkages between spending and specific subsidy projects
- New subsidies issued in 2001/02, and the expected expenditure pattern for new and existing subsidy projects
- Subsidy and housing information per municipality
- Stock of old housing stock, rental collections, spending on maintenance of such homes, and progress on transfer of houses
- Co-ordination with CMIP grant programme
- Accreditation of municipalities.

Improving financial management in housing

A second area of reform is in the quality of financial management. Whilst the national department and 4 provincial housing departments (Free State, KwaZulu-Natal, North West and Western Cape) received unqualified audit reports for the 2001/02 financial year, five provinces (Eastern Cape, Gauteng, Mpumalanga, Limpopo and Northern Cape) received severe audit reports. The SA Housing Fund also received a qualified audit.

Conclusion

The chapter shows that Government has made great strides in providing housing with security of tenure and basic services such as electricity and water to needy people and substantial progress has been made in transforming the sector.

Since 1994 Government spent R19 billion on creating housing opportunities and plans to spend a further R13,5 billion over the next three years. Despite not accomplishing its goal of 350 000 houses per year, Government's low-cost housing delivery remains a world first and is commendable.

However, much remains to be done to overcome the housing backlog and to develop sustainable settlements. Looking ahead integrated housing development and co-ordination needs to be strengthened. Local government, particularly metropolitan municipalities, needs to play a much greater role in housing delivery.

10

Personnel

Introduction

One of the key cross-cutting issues affecting all spheres of Government is personnel management. Due to the labour-intensive nature of service delivery in the public sector, personnel costs, structures, incentives, benefits and procedures constitute a significant cost in financial terms and in relation to management effort. This chapter deals first with personnel issues as they relate to provincial Government and then as they relate to local Government.

Personnel management is key to improving service delivery

There are a total of 1,6 million employees in the public sector. The biggest employer is the provincial sphere. Of the 700 000 employees, education employs 426 913, the majority of which are educators, and health employs 216 092. Municipalities employ about 210 000, with the six metros employing half of the total. In national Government, the major employers are safety and security (131 560) and defence (75 290), with significant but smaller numbers in justice (15 562), water affairs (9 843) and labour (3 872). It is estimated that there are around 150 000 employees in public entities like Eskom and Transnet, and the Road Accident Fund. It is important that sectoral considerations be taken into account when considering the approach for public employees.

Although staff at national and provincial level may be employed under one of five Acts, they all fall under one regulatory framework and belong to one pension fund. The Acts that national and provincial staff are employed under are:

Public sector regulated by a plethora of legislative regimes

- Public Service Act (103 of 1994)
- Employment of Educators Act (76 of 1998)
- SA Police Services Act (68 of 1995)
- National Prosecuting Authority Act (32 of 1998)
- SA National Defence Force Act (71 and 72 of 1995).

For people employed in terms of the Public Service Act, Employment of Educators Act and SA Police Service Act, their conditions of service are determined in the Public Service Coordinating Bargaining Council (PSCBC). Salary increases for employees of the National

Prosecuting Authority are not determined in the PSCBC but other conditions of service are. Employees of the SA National Defence Force are not covered by agreements in the PSCBC.

Local government employees are employed by individual municipalities, each with its own remuneration structure, pension and medical aid arrangements and salary level. In fact, within municipalities, it is possible to have more than one personnel dispensation due to the way in which local Government has evolved. The South African Local Government Association (Salga) represents local governments in collective bargaining with local government unions.

Personnel policy at national and provincial level regulated by the Department of Public Service and Administration

In addition to public servants at national, provincial or local level, public entities, boards, commissions and councils also employ a significant number of people. At present, the personnel dispensation for national and provincial non-business public entities is only partially regulated by the Department of Public Service and Administration. There are differences in the dispensations covering the public service and these entities. Local authorities also employ people in various utilities that often have different personnel arrangements from the local authority. Government is moving towards drawing in non-business public entities into some of the provisions that exist in the public service. National Government has decided on the principle of 'one public service' for the whole country. While this chapter does not deal explicitly with this issue, it raises the many challenges facing Government in achieving this objective. These relate particularly to achieving the optimal balance between the benefits of increased uniformity and the need for some kind of differentiation.

Provincial personnel management

A brief summary of personnel policy developments

Public Service Act and Regulations provide key legal frameworks

While personnel policy in the public service is regulated by a myriad of legislative frameworks, the Public Service Act is the central piece of legislation; the Public Service Regulations play a key role in the structuring and functioning of the public service.

Personnel policy can be divided into three phases

Personnel policy developments between 1994 and 2003 can be divided into three phases. The first phase ran from 1994 to 1997. During this phase, policy focused on creating a unified public service, removing the fragmentation of the past, ending racial discrimination and aligning the public service with the new intergovernmental framework set out in the Interim Constitution. For example, in education, prior to 1994, there were 17 different departments (four white departments, one Indian, one coloured, one for Africans within the borders of South Africa and ten for the homelands and self-governing territories). A single national education department and nine provincial departments were created. Also, a single salary structure was introduced which ended racial discrimination and provided salary increases for many employees.

The second policy development phase ran from 1997 to 2000, when policy focused on consolidation of the transformation process, scaling back the cost increases provided in the 1996 salary agreement, rationalising and right-sizing the public service and aligning personnel costs with public priorities and expenditure levels. Public service regulations came into effect, creating a framework for decentralised management. Personnel costs fell in real terms by about 0,7 per cent a year between 1998/99 and 2000/01. Over the same period, the number of people employed fell from 1 100 784 to 1 034 971 or by 2 per cent a year. The number of people fell faster than total expenditure implying that in real terms, unit labour costs rose by about 1 per cent a year.

Fiscal policy has allowed for closer alignment with policy objectives

In 2001, Government announced a new, more growth-oriented fiscal stance. Success in bringing down debt service costs had begun to release resources for real spending increases. The 2001 Budget signalled a third phase in personnel policy. This phase sought to use the extra fiscal space to improve service delivery in targeted areas. Government sought to provide small real increases in unit labour costs, resources to increase employment in the health and criminal justice sectors, the development of a more uniform pay progression system designed to reward experience and performance and to provide for retrenchments in specific areas. Public sector employment rose to about 1 065 333 in 2002/03. In 2002, public servants received a 9 per cent salary increase which was below the rate of inflation. As a result, total personnel costs continued to grow slower than the rate of inflation.

Going forward, total public service employment is projected to continue to rise by about 1 to 1,5 per cent a year while personnel expenditure is expected to rise by about 2 to 3 per cent a year. These are broad averages that would have a differential impact on different sectors and provinces.

There are four broad elements to this present phase of personnel policy development:

- The signing of a multi-year salary agreement benchmarked to inflation, aimed at protecting the real level of public service salaries.
- A pay progression system to replace the rank and leg promotions system is presently being implemented. The new system will reward experience and satisfactory performance. Different sectors will develop their own approaches to grade progression and career pathing.
- Efforts to increase employment, particularly in the criminal justice and health sectors:
  - SA Police Services have begun recruiting 21 000 additional personnel for a sector policing strategy
  - Provincial health departments are increasing employment to expand services and to manage the impact of HIV/Aids on the health system

  - Pilot projects currently under way are looking at home-based care and step-down alternatives to hospital treatment currently under way
  - The education sector has introduced an innovative model for pre-school education that is likely to increase employment in the sector
  - There are also a number of sectors where retrenchment is likely to be used to reduce the number of surplus employees.
- Government is presently studying employee benefits structures. Proposals on medical aid restructuring, pension rule changes and home-owners allowance are under consideration. The objective of Government is to make these benefits more equitable and sustainable.

While Government is implementing the policy objectives outlined above, the creation of a unified civil service where elements of uniformity and differentiation are keenly balanced is being discussed.

Personnel policy must be driven by delivery requirements

Personnel policy must be driven by service delivery imperatives. Where increasing salaries to attract scarce skills to rural areas is required, Government should be willing to allow for such differentiation. Where increasing employment is likely to improve the quality of service, then budgets should reflect this policy objective. However, where personnel costs are crowding out non-personnel spending, retrenchment must be considered. The use of performance incentives to improve services is an option that all sectors are considering. Managers are now encouraged to make choices about the personnel regime likely to increase service delivery in a sustainable manner.

Professionals in the public sector

Apart from the reforms establishing a management service, Government is considering its approach to professionals in the public service, like educators, doctors, pharmacists, nurses, social workers and engineers. The 2003 Budget makes the first attempt to deal with some of the financial challenges facing Government in relation to attracting and retaining scarce skills in the health sector.

Broad personnel trends

Personnel costs stabilised after sharp increase in 1996

Personnel expenditure at a provincial level has been declining in real terms since 1998/99. During the period 1999/00 to 2002/03, personnel expenditure declined by about 0,2 per cent a year in real terms. During the same period, employment fell by about 1 per cent a year. This implies that during this period when aggregate personnel costs were declining, the cost per employee was rising in real terms. Real unit labour costs rose about 0,7 per cent a year over the period.

Most of the decline in personnel expenditure was a result of an explicit policy to reduce personnel costs in order to increase capital and non-personnel expenditure. In addition, provinces sought to reverse the negative effects of the 1996 salary agreement on their budgets.

Table 10.1 Provincial personnel expenditure by sector: 1999/00 – 2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05	2005/06
Education	36 221	39 308	41 531	46 046	49 322	52 718	55 813
% growth		*8,5%*	*5,7%*	*10,9%*	*7,1%*	*6,9%*	*5,9%*
Health	15 472	16 408	17 773	19 320	21 226	22 699	24 206
% growth		*6,1%*	*8,3%*	*8,7%*	*9,9%*	*6,9%*	*6,6%*
Social Development	832	921	1 031	1 195	1 447	1 550	1 656
% growth		*10,7%*	*11,9%*	*16,0%*	*21,1%*	*7,1%*	*6,8%*
Other	6 615	7 168	7 310	8 269	9 148	9 833	10 402
% growth		*8,4%*	*2,0%*	*13,1%*	*10,6%*	*7,5%*	*5,8%*
Total	**59 140**	**63 805**	**67 645**	**74 829**	**81 143**	**86 800**	**92 077**
% growth		***7,9%***	***6,0%***	***10,6%***	***8,4%***	***7,0%***	***6,1%***
CPIX	***6,9%***	***7,8%***	***6,6%***	***10,9%***	***6,1%***	***5,1%***	***5,1%***

Personnel costs grew slower than inflation between 1997 and 2002

On a sectoral level, the most significant declines have been in education where real expenditure declined about 0,1 per cent a year from 1999/00 to 2002/03. In health, personnel spending declined 0,7 per cent a year with social development personnel spending rising over 4,1 per cent a year in real terms, albeit off a low base. Non-social services personnel spending also declined by 0,6 per cent a year over the period. Part of this decline is due to the higher than expected inflation in 2002/03 (CPIX averaging 10,9 per cent) while salaries were increased by 9 per cent.

Budgeted figures signal faster growth going forward

Budgeted figures for the period 2003/04 to 2005/06 reflect Government's commitment to moderately expand personnel spending in real terms, mainly through increasing employment in the health sector and proposed salary increases for doctors and other medical professionals. In addition, provinces have been asked to budget for an 8 per cent increase in 2003/04 while inflation is expected to average 6,1 per cent for the fiscal year.

Trends differ in each province

Personnel expenditure trends differ by province. In KwaZulu-Natal and Northern Cape, real expenditure over the period went up. In the other seven provinces, expenditure declined with the Western Cape experiencing the largest real decline.

Over the MTEF period, provinces have budgeted for real growth in spending of about 2 per cent to cater for pay progression, reflecting a desire to increase employment in health and the cost of upgrading educator qualifications.

Provincial personnel spending dropped to 51,6 per cent in 2002/03

Limpopo has been able to reduce its personnel expenditure from 65,4 per cent of total expenditure in 1999/00 to 56,6 per cent by 2002/03. While personnel spending in Eastern Cape is set to rise by 12,3 per cent in 2002/03, the province experienced large real declines in the previous three years. Total personnel spending falls from 59,1 per cent of total spending in 1999/00 to 51,6 per cent in 2002/03.

Table 10.2 Provincial personnel expenditure by province: 1999/00 – 2005/06

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04	2004/05	2005/06
					Medium-term estimates		
Eastern Cape	10 238	10 662	11 196	12 571	13 274	14 359	15 115
% growth		*4,1%*	*5,0%*	*12,3%*	*5,6%*	*8,2%*	*5,3%*
Free State	4 273	4 641	4 791	5 331	5 904	6 348	6 800
% growth		*8,6%*	*3,2%*	*11,3%*	*10,7%*	*7,5%*	*7,1%*
Gauteng	9 290	10 092	10 489	11 547	12 129	12 917	13 692
% growth		*8,6%*	*3,9%*	*10,1%*	*5,0%*	*6,5%*	*6,0%*
KwaZulu-Natal	11 190	12 384	13 580	15 008	16 328	17 335	18 386
% growth		*10,7%*	*9,7%*	*10,5%*	*8,8%*	*6,2%*	*6,1%*
Limpopo	8 370	8 979	9 498	10 451	11 473	12 250	13 031
% growth		*7,3%*	*5,8%*	*10,0%*	*9,8%*	*6,8%*	*6,4%*
Mpumalanga	3 882	4 200	4 415	5 070	5 597	6 063	6 577
% growth		*8,2%*	*5,1%*	*14,8%*	*10,4%*	*8,3%*	*8,5%*
Northern Cape	1 236	1 322	1 408	1 545	1 795	1 933	2 079
% growth		*6,9%*	*6,5%*	*9,8%*	*16,2%*	*7,7%*	*7,6%*
North West	4 899	5 369	5 730	6 178	6 842	7 271	7 722
% growth		*9,6%*	*6,7%*	*7,8%*	*10,8%*	*6,3%*	*6,2%*
Western Cape	5 762	6 157	6 539	7 127	7 800	8 324	8 676
% growth		*6,9%*	*6,2%*	*9,0%*	*9,4%*	*6,7%*	*4,2%*
Total	**59 140**	**63 805**	**67 645**	**74 829**	**81 143**	**86 800**	**92 077**
% growth		***7,9%***	***6,0%***	***10,6%***	***8,4%***	***7,0%***	***6,1%***
CPIX	***6,9%***	***7,8%***	***6,6%***	***10,9%***	***6,1%***	***5,1%***	***5,1%***

Provinces are the largest employer in the public sector

Staff employed at national and provincial level are referred to as public service employees. When staff employed by local governments, non-business entities such as the SA Revenue Service, and public corporations are added, this group is referred to as the public sector. Provinces, collectively, are the largest employer in the public sector, employing about 48 per cent of people. KwaZulu-Natal is the single largest employer with 9,6 per cent of employers in the broader public sector. National departments employ about 20 per cent, local governments 13,3 per cent and 9,3 per cent work in public business enterprises. Of the 13,3 per cent employed by local Government, the six metro councils employ about half or 6,6 per cent of staff in this category.

Table 10.3 Personnel numbers and costs in the public sector: 2002/03

	Number of people	Estimated cost R million	Cost per person Rand
Eastern Cape	123 942	12 571	101 424
Free State	53 994	5 331	98 739
Gauteng	115 717	11 547	99 789
KwaZulu-Natal	151 754	15 008	98 897
Limpopo	109 946	10 451	95 058
Mpumalanga	49 965	5 070	101 477
Northern Cape	15 559	1 545	99 327
North West	64 888	6 178	95 206
Western Cape	67 665	7 127	105 336
Sub total	**753 428**	**74 829**	**99 319**
National government	311 905	36 118	115 798
Local governments	210 000		
Metro councils	*105 409*		
Non-business public entities	166 994		
Business enterprises	134 702		
Total	**1 577 029**		

Changes in employee numbers have driven personnel costs

In order to understand what has been driving personnel costs lower over the past few years, it is important to look at trends in the number of personnel per province and per sector. In the whole public sector, including national departments, personnel numbers have been dropping steadily since 1996. Employment in the public service (national and provincial governments) stood at 1,2 billion in 1996. In 2002, the public service employed 1,0 billion. This is a reduction of 151 252 or 12,8 per cent from the 1996 level.

Provincial management capacity lacking

National departments have a higher unit cost than provinces. Because much of the policy making role in Government resides at national level, national departments employ a higher proportion of senior managers and policy analysts. In spite of employing 70 per cent of all public servants, provinces only employ about 40 per cent of the senior managers, or SMS staff, in the country, with national Government employing the rest.

Table 10.4 Personnel numbers by province and sector: 1999/00 – 2002/03

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Actual	% average growth: 1999/00-2002/03
Eastern Cape	131 857	127 262	124 701	123 942	-2,0%
Free State	58 509	57 042	55 300	53 994	-2,6%
Gauteng	111 495	108 040	112 017	115 717	1,2%
KwaZulu-Natal	155 065	148 710	150 415	151 754	-0,7%
Limpopo	113 902	111 761	112 152	109 946	-1,2%
Mpumalanga	50 492	49 197	50 612	49 965	-0,3%
Northern Cape	15 241	15 162	15 545	15 559	0,7%
North West	64 922	63 203	64 108	64 888	0,0%
Western Cape	68 796	68 298	67 704	67 665	-0,6%
Sub total	**770 279**	**748 675**	**752 554**	**753 428**	**-0,7%**
By sector					
Education	432 898	421 330	423 661	426 913	-0,5%
Health	223 701	216 958	217 552	216 092	-1,1%
Social development			12 473	12 978	
Other			98 868	97 445	
Total			**752 554**	**753 428**	

Public service policy issues

Rising unit labour costs in the late 1990s

Even though general salary increases have been in line with inflation, rank and leg promotions, increasing costs of medical aid, general promotions and general wage drift have resulted in rising unit labour costs. There were also special salary increases for police in 1998 and 2001, and for prosecutors in 2000 and it is anticipated that a revised pay dispensation will be applicable to medical professionals in 2003. This average is further distorted by the fact that rank and leg promotions mainly benefited lower level people in health and police. With the exception of the police, prosecutors and lower level staff in health, most public servants did not receive a real salary increase during this period.

The bulk of staff in the public service work in the social service functions. While Gauteng and Western Cape employ 6,1 per cent and 7,0 per cent of their staff in the non-social service departments respectively, Limpopo province employs 23,6 per cent of its staff in these departments. Eastern Cape, Free State, Mpumalanga and North West all employ in excess of 15 per cent of their staff in non-social service departments.

Surplus staff inherited from former homelands

Poorer provinces also employ many lowly-skilled workers, many of whom are not needed, and are categorised as ‘supernumeraries’. Provinces that incorporated the former bantustans are saddled with surplus personnel that tie up resources that could be used for infrastructure development or social services. Departments that are affected include Public Works, Roads and Agriculture. Other specific departments like Education in Limpopo may also be affected. There are a large number of unskilled workers in some departments like Agriculture and Housing.

Resolution 7 of 2002 designed to aid right-sizing

In 2002, Government and labour unions signed a restructuring agreement (Resolution 7 of 2002) focusing on redeployment and retraining and paving the way for retrenchments where needed. However, the nature of the agreement places a burden on managers in terms of developing strategic plans and human resource plans and attempting to redeploy staff. In general, the public service faces shortages in the health and criminal justice sectors but has surpluses in sectors such as public works, transport and agriculture. To date, this resolution has not resulted in significant numbers of people being redeployed or retrenched. The resolution terminates in June 2003 and the situation may have changed by then.

Attrition rates in the public sector are difficult to measure. However, provincial data for 2001 suggests that about 3,4 per cent of non-educator staff resigned in that year. This translates into about 12 000 personnel. The bulk of these resignations are in health. For educators, attrition stand at about 10 000 educators per year.

Slow restructuring in the public service

The present moratorium on public sector hiring may further exacerbate the shortage of critical personnel, although an approach which deals with the filling of critical vacancies has been adopted. Initial evidence from provinces with large numbers of surplus staff suggests that progress in implementing Resolution 7 has been slow. A well-functioning civil service should allow for the smooth exit and entrance of staff in order to keep service delivery at optimal levels.

Government restructures pension fund

Government has tabled a set of amendments to the Government Employees Pension Fund aimed at providing more flexibility to the employer with regard to contributions to the Fund. The array of benefits is being improved, introducing an orphans allowance and more generous monthly adjustments to civil service pensions. In addition, Government hopes to improve governance of the Fund through a more representative board of trustees.

Shift towards one medical aid for all public servants

Cabinet has approved a process to investigate the creation of one medical aid scheme, with differential cover options, for all national and provincial employees. This proposed new scheme aims to provide all civil servants with medical cover. Presently, about 300 000 civil servants do not have medical aid. In addition, through economies of scale and tightly negotiated contracts with suppliers, it is hoped that unit costs will be managed down over time. However, a shift to full cover for everyone will cost about R2 billion more. A comprehensive HIV/Aids management programme will be an element of this new scheme.

Public sector bargaining arrangements

Bargaining arrangements highly centralised

Staff in provinces receive salary increases negotiated through the Public Service Coordinating Bargaining Council (PSCBC). There are sectoral chambers for education, health and welfare, police and the general public service. These sectoral chambers do not negotiate issues relating to general salary increases, medical aid and pension issues. Their mandate is effectively derived from issues delegated to it by the PSCBC.

A Cabinet Committee called the Mandate Committee provides government negotiators with their bargaining mandate. The Ministers on this Committee include Finance, Education, Health, Defence, Correctional Services, Justice and Safety and Security. The Committee is chaired by the Minister for Public Service and Administration.

At a technical level, there are bilaterals between the Treasury and the Department of Public Service and Administration on personnel policy issues. There is also an employer forum consisting of officials from the nine premiers' offices and from national departments represented on the Mandate Committee ('major employers').

Mandating arrangements not entirely in line with intergovernmental system

The mandating arrangements in the public sector and the technical committees that support them need to reflect the intergovernmental nature of Government. Presently, provinces are represented by premiers' offices, resulting in a provincial rather than sectoral perspective. The challenge is to ensure that specific sectoral and provincial treasuries, such as education and health, are also represented in labour negotiations and mandating arrangements.

Decentralised management and strong human resource departments

A further issue is the need for key provincial departments like education and health to improve the quality of regional managers and human resource sections. First, these departments have to provide services in all areas, and have their personnel such as educators and nurses spread in these areas, in schools, hospitals and clinics.

Second, given the large number of personnel, these departments require quick and effective mechanisms to hire, motivate, discipline or fire staff. Often, simple disciplinary cases take years to complete purely because of a high degree of incompetence in human resource sections in these departments. Simple tasks like managing leave and sick leave forms and personnel files are neglected, resulting in liabilities to Government. It is critical that the human resource leadership in the head offices of these departments modernise their approach, delegate appropriately to regions, and ensure quick resolution of disciplinary problems.

Education

Educators are largest bloc of civil servants

Education represents the single largest arena of public service employment. The nine provincial education departments employ about 427 000 people of which about 364 000 are educators; the remaining 62 000 work in support roles.

Personnel policy aims to improve equity and teaching quality

The single biggest objective of education policy at present is to consolidate the gains made in extending access, to make further improvements towards equity and to massively improve the quality of education, particularly school education. There are three main personnel policy issues in education:

- A new pay progression system for educators is being implemented this year, over time rewarding educators with longer periods of service. In addition, a performance incentive system is being developed to encourage good performance on either a classroom basis or for entire schools. At this stage, there is no incentive for educators to work in rural areas or additional incentives to attract skills for maths and science educators.

- The need to train and retrain the present core of educators to meet the needs of a new education system, new curricula and new demographics.
- The need to respond to the impact of HIV/Aids in a highly labour-intensive service on a teaching core that is characterised as 'high risk'.

Remuneration system does not reward experience

The present pay system for educators is relatively attractive for new entrants. However, after five to eight years, the salary structure is relatively uncompetitive. The challenge is to redesign the pay structure to retain good, experienced educators, but to also attract new entrants into the profession. If starting salaries are too low, attracting people to the profession would be difficult. However, if salaries are not increased in real terms as people progress through the system, attrition rates will remain high.

After about five years of decline, educator numbers have stabilised, and are increasing in some provinces. The total number of educators went up by 1,1 per cent in 2002. The number of non-educators decreased marginally. Non-educator staff refers to all staff employed by provincial education departments but who do not play a direct educational role. That is, they either work in administrative functions at head office or district offices, or they fulfil administrative, security or cleaning roles at schools. School-based administrators often improve the effective functioning of the school.

Table 10.5 Number of staff in provincial education departments

	2001	2002	% change
Eastern Cape	**75 333**	**75 272**	**-0,1%**
Educators	66 555	66 770	0,3%
Non-educators	8 778	8 502	-3,1%
Free State	**29 427**	**29 624**	**0,7%**
Educators	24 096	24 039	-0,2%
Non-educators	5 331	5 585	4,8%
Gauteng	**60 955**	**62 056**	**1,8%**
Educators	45 981	47 225	2,7%
Non-educators	14 974	14 831	-1,0%
KwaZulu-Natal	**82 504**	**85 525**	**3,7%**
Educators	73 360	75 991	3,6%
Non-educators	9 145	9 533	4,2%
Limpopo	**62 494**	**61 951**	**-0,9%**
Educators	57 182	56 795	-0,7%
Non-educators	5 312	5 156	-2,9%
Mpumalanga	**29 920**	**30 152**	**0,8%**
Educators	25 943	26 342	1,5%
Non-educators	3 977	3 810	-4,2%
Northern Cape	**9 071**	**8 926**	**-1,6%**
Educators	6 688	6 612	-1,1%
Non-educators	2 383	2 314	-2,9%
North West	**36 885**	**36 654**	**-0,6%**
Educators	32 322	32 265	-0,2%
Non-educators	4 563	4 389	-3,8%
Western Cape	**37 073**	**36 755**	**-0,9%**
Educators	28 424	28 417	0,0%
Non-educators	8 650	8 337	-3,6%
Total	**423 661**	**426 913**	**0,8%**
Educators	360 549	364 457	1,1%
Non-educators	63 112	62 457	-1,0%

Management capacity lacking at school and district level

International trends in education are in line with South Africa's drive to decentralise certain management functions to school and school districts. To ensure that this policy works, it is important to build management capacity at school level among school managers and parents serving on school governing bodies. In time, each school would become a cost centre where both financial and non-financial performance can be measured and reported to the public.

To ensure that these reforms are successful, provincial education departments need to employ human resource experts at a high level and provide stronger technical capacity at the school district level.

Disciplinary issues are major area of policy work

A key factor not covered in traditional personnel policy discussions is that some educators are ill-disciplined in that they come to school late, do not teach for the required hours per day, do not plan lessons appropriately and do not assist in extra-curricular activities. In extreme circumstances, educators come to school under the influence of alcohol and some have been accused of child abuse and rape. The Minister of Education has amended legislation and regulations dealing with sexual relations between educators and learners. Disciplinary cases relating to such offences are being fast-tracked and, to date, 12 educators have been dismissed. However, more needs to be done to reinforce the power of school governing bodies in disciplinary cases.

The Department of Education has argued that there is a correlation between non-educator resources and school performance. A well functioning school should, as a minimum, employ a secretary, two or three gardeners or caretakers, one or two security assistants and at least one other administrative assistant to do typing, duplication, managing of school equipment and the like. At present, few provinces can afford these staff. Some schools employ such people from funds raised on their own, but most poor schools lack these resources.

Innovative ECD personnel model makes early childhood education viable

The new Early Childhood Development (ECD) model has introduced an innovative personnel model to reduce the costs of employing care-givers while increasing the flexibility with which they are employed and managed. As the rollout of early childhood education becomes a more formal part of provincial budgets, employment in this sector should rise moderately. It is important that a realistic cost structure for these employees is maintained to protect the long-term sustainability of the ECD model.

Provinces often neglect in-service training

In-service training is a critical element of improving the quality of education, particularly because new teaching methodologies and curricula are being introduced. An agreement between unions and the employer states that educators will avail themselves for 80 hours a year (or two weeks) of training during their school holidays. It is not clear how provinces are performing in this area. Gauteng sends about one quarter of its staff to 40 hours of training. This translates into 10 hours per educator. Anecdotal evidence indicates that most in-service training is still done during school hours and not during school holidays as stated in collective agreements.

Concerns that rate of supply of educators may be too low

Since educator training has been moved into the higher education sphere, understanding of the sector in terms of data or expenditure has weakened. Information on how many educators are being trained and in what subjects is not readily available. Preliminary data suggest that as few as 3 500 educators are currently being trained. Given that attrition in the sector is 10 000, long-term human resources strategies need to be developed.

In addition, while the costs to the state of training educators in universities is about the same as in educator training colleges, the cost to the student is much higher. This will impact negatively on educator supply and the demographic profile of potential educators. Very few provinces use bursaries to train educators in specific subjects and to bind them to the public service for a period of time.

Health

Health personnel policy needs attention

Personnel policy in health has been a neglected area since the 1996 right-sizing agreement. This agreement provided generously to nurses and even to doctors and other health professionals. Since then, the personnel situation in health has been cause for concern.

In general, the problem is simple to characterise. Declining employee numbers and increased patient loads have increased workloads dramatically. As pressure from demoralised and stretched workers has impacted on policy, salaries have risen for nurses and lower level health staff. This has placed constraints on resources resulting in posts not being filled when staff leave. This further increases workloads and the cycle continues.

In general, the solution has to be to increase employment in the sector to reduce workloads to more acceptable levels. Improving health infrastructure, equipment, the conditions in hospitals and clinics and the availability of medicines are other critical factors in improving worker morale.

However, there are specific categories of health workers that need to be better remunerated. These categories of workers are at the top of the health system: doctors, specialists, pharmacists and in some provinces, chief professional nurses.

Salaries of medical professionals is too low

The starting salary of a doctor in the public sector is R115 575. The maximum a doctor can earn is R191 292 a year. The maximum that a medical specialist can earn is R225 385. The highest paid brain surgeon in the public sector is on a deputy director level. Pharmacists start at R62 585 and peak at R107 348. The highest a nurse can earn is also R107 348 a year.

With the salaries of health professionals this low, attracting and retaining good people in the public health system is becoming more difficult. South Africa is battling to retain its skilled health staff and within the country, the public sector is battling against competition from the private sector.

The *2001 Intergovernmental Fiscal Review* detailed the number of doctors and specialists per 100 000 citizens per province. The *Review* showed stark disparities between provinces. Although some of these disparities are intended, in that resources for tertiary and quaternary health services are directed at certain provinces, the disparities even extend to professions such as dentists and pharmacists.

2003 Budget provides resources to address low pay

The 2003 Budget provided about R750 million a year to upgrade the remuneration packages of doctors and other medical professionals. The Treasury and departments of Health and Public Service and Administration are in the process of developing a package of measures to increase remuneration for these categories within MTEF allocations. The main proposals centre on increasing rural allowances, increasing general salaries and expanding the number of community service posts. These measures should be implemented by 1 July 2003.

Further work needed to make sure decentralisation in health works

The decentralisation of powers to hospitals began with the appointment of CEOs for the 10 biggest hospitals. As part of this effort to improve hospital management, it is envisaged that powers relating to personnel management and finance would be transferred to these CEOs. However, more work needs to be done to deepen this decentralisation process to ensure better management and accountability.

Table 10.6 Health personnel by province 2002[1]

	Doctors generalists	Specialist doctors	Other profes-sional medical	Profes-sional nurses	Other nurses	Other staff	Total
Eastern Cape	638	68	458	5 731	4 097	17 843	28 835
Free State	598	121	408	3 024	2 639	6 888	13 678
Gauteng	1 745	1 419	1 646	8 153	9 780	21 926	44 669
KwaZulu-Natal	1 228	227	875	9 033	13 104	24 658	49 125
Limpopo	447	24	492	5 247	6 036	11 251	23 497
Mpumalanga	459	18	869	2 302	2 569	4 408	10 625
Northern Cape	202	21	235	915	947	1 862	4 182
North West	388	52	269	3 040	4 198	7 782	15 729
Western Cape	1 025	1 272	837	4 076	6 681	10 932	24 823
Total	**6 730**	**3 222**	**6 089**	**41 521**	**50 051**	**107 550**	**215 163**

1. The totals in this table may not correspond to those in table 3 due to a difference in the date on which data was downloaded.

Community service system for doctors is working

In general, the community health service system seems to have worked in placing doctors in rural areas. However, these successes are not uniform. Some provinces have frozen existing posts to accommodate the community service doctors. This has not increased the number of doctors serving in rural areas. Rather, these doctors have displaced existing doctors and it is not clear how widespread this problem is. What is clear is that the community service scheme has the potential to draw doctors into areas where they would otherwise not go. A more streamlined system to recruit and place doctors needs to be developed to counter the slow, bureaucratic processes that prevail.

Poor facilities and equipment also needs to be deal with

Strategic challenges for provinces are to provide better financial remuneration for medical professionals and other staff with scarce skills, to improve the facilities and equipment that workers rely on and to manage cost-pressures from lower level personnel in a responsible and sustainable manner.

Public works and supernumeraries

Most surplus staff are in non-social service departments

In general, provinces have a shortage of skilled personnel in the non-social service departments and a surplus of lower-level staff inherited from former homelands. While a restructuring agreement, ending in June 2003, has been signed with unions providing for a 12-month window to deal with this problem, progress in implementing the agreement has been slow. At the same time, the moratorium on recruiting staff has hampered efforts to increase the skills profile of these departments.

Table 10.7 Analysis of non-social service staff - 31 March 2003

Number of civil servants	Agri-culture	Transport, Roads & Public Works	Housing & Local Govern-ment	Other	Sub-total: Non-social Services	% of staff in province
Eastern Cape	5 247	7 161	1 481	2 629	16 519	13,3%
Free State	1 232	4 962	463	1 784	8 440	15,6%
Gauteng	462	4 704	1 056	2 928	9 150	7,9%
KwaZulu-Natal	3 909	7 327	2 639	1 107	14 982	9,9%
Limpopo	8 368	8 861	4 667	2 702	24 599	22,4%
Mpumalanga	1 963	3 534	992	1 135	7 624	15,3%
Northern Cape	306	107	330	653	1 396	9,0%
North West	2 210	5 850	508	1 301	9 870	15,2%
Western Cape	658	1 413	516	2 279	4 866	7,2%
Total	**24 356**	**43 920**	**12 652**	**16 518**	**97 445**	12,9%

Source: 2003/04 Provincial Budget Statements

There is a clear skills mismatch between the areas where there are staff shortages and where there are surpluses. It is not possible to solve this problem with redeployments only. While unemployment is a serious concern, particularly in poorer provinces, carrying surplus staff for over eight years places a burden on poor provinces' ability to improve social services or to enhance infrastructure spending.

Limpopo employs 22,4 per cent of its staff in non-social service functions

As Table 10.7 illustrates, provinces that incorporated former homelands employ a significant proportion of their staff in the non-social service functions. This reduces the ability of these provinces to increase expenditure on social services or on infrastructure. Provinces such as Western Cape and Gauteng can afford to dedicate a higher proportion of their spending to social services and to infrastructure investment. While poorer provinces are treated favourably through the equitable share formula, the staffing and cost structure prevents them from reducing backlogs in facilities or in social services.

Local government personnel issues

Local government personnel issues similar to those faced by provinces in 1996

While services delivered by local government may not be as labour-intensive as provincial services, personnel policy issues are a critical element in the transformation of this sphere. The main personnel issues at local government level are high total personnel costs, the cost of merging a number of municipalities each with different pay systems, the structure of employee benefits, the skills level of staff and the personnel implications of creating municipal entities dealing with utilities such as water and electricity. The issues raised here are very similar to personnel issues faced by provinces in 1996: the costs of amalgamating former departments with different pay systems, high costs of employee benefits and skills mismatches in relation to services delivered. Similar challenges include the need to separate management from other staff and developing a professional stream.

Key challenge is to attract quality people while moderating total personnel costs

The quality of human resources is key to building a local government sector founded on respect for citizens' rights, courteous and efficient service delivery, modernisation of systems and honest, accountable government. The role of local government has changed considerably since the adoption of the White Paper on Local Government in 1998. Local governments are expected to transform from being mere providers of standard services to a passive public, into innovative institutions responding to the varied and diverse needs of the community, promoting economic development and facilitating service partnerships to enhance service delivery and overcome the massive backlogs. At the minimum, in order to improve service delivery and expand services to communities where services do not exist or are underdeveloped, local governments will have to free up resources to provide for basic services and increase capital expenditure.

Two linked challenges from a human resources point of view flow from the above set of developmental obligations for local government. First, local government requires advanced skills and competencies within the administration, which can be very costly. Second, municipalities are expected to moderate their overall personnel budget to free up resources to expand the delivery of services to citizens.

Trends in employment costs

Over half of local government staff are employed by the six metro councils

Local Government in total employs about 210 000 people, approximately half of whom are employed by the six metropolitan councils. Table 10.8 gives the total number of employees working in the metropolitan councils. Of the staff employed in district and local municipalities, about 7 per cent are employed by districts and 43 per cent by local municipalities. It is not known to what extent the new division of functions gazetted on 3 January 2003 by the Minister of Provincial and Local Government will affect this distribution, as staff are shifted between district and local municipalities.

A large proportion of staff at local government level work in services that are traded. These services include water, sanitation and electricity. The Municipal System Act (33 of 2000) allows for the creation of local public entities. This does not preclude the possibility of a direct subsidy to the service. Furthermore, a number of municipalities have outsourced functions such as refuse-removal and road works. These nuances make it difficult to get an accurate indication of trends in employment and costs of employment.

Table 10.8 Number of staff in the six metro councils – 2002

Metropolitan Council	No. of employees
Nelson Mandela	7 523
Ekurhuleni	14 614
City of Johannesburg	24 209
eThekwini	17 729
City of Cape Town	26 517
City of Tshwane	14 817
Total	**105 409**

Personnel costs make up about a third of local government spending

Personnel costs on average make up about 30 per cent of local government expenditure. This percentage share is higher if the purchase of bulk water and electricity and intra-municipal transfers are excluded. In some districts, it is even as high as 56 per cent due to the fact that these municipalities focus mainly on planning and development type functions.

Personnel costs rising as a share of spending

Over the past five years, personnel costs have been rising; both in real terms and as a percentage of total spending. Factors driving personnel costs differ significantly across municipalities and in different time periods. However, in the main, the amalgamation of smaller municipalities into larger ones and the resultant pressure to equalise salaries have driven up total personnel costs. Also, generous employee benefits such as leave payouts, retirement provisions and medical aid subsidies have increased costs too.

Municipal employees generally earn higher than their counterparts in national and provincial departments. As shown in Table 10.9, in the top 18 municipalities, salaries, wages and allowances amount to 30 per cent of total expenditure. The average annual employee salary cost across these municipalities is about R107 000. This means that on average, employees in these municipalities earn R8 900 per month. The combined salary bill in the 18 municipalities in the 2002-03[1] financial year was R13,9 billion.

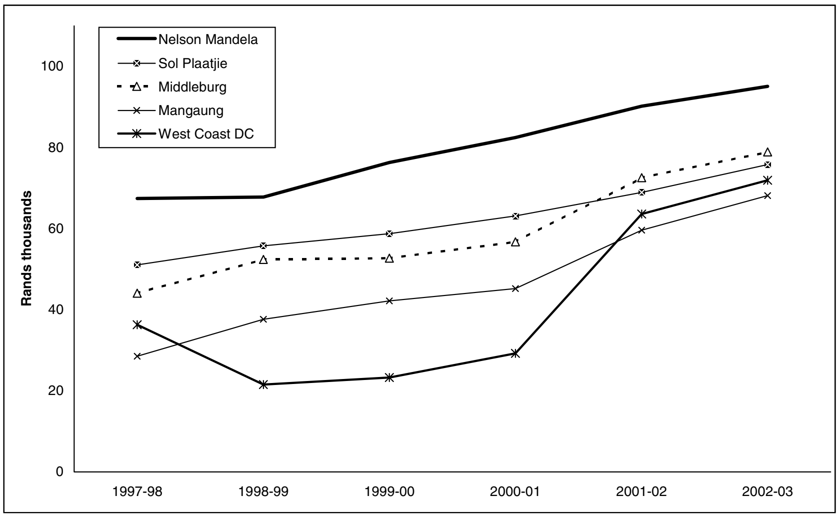
Table 10.9 Salaries and wages as a % of expenditure – 2002-03

	Salaries, Wages and Allowances (R million)	Number of employees	Salary, wages & allowances as a % of expenditure	Average annual salaries R/c
City Of Johannesburg	2 583	24 209	26,5%	106 683.96
Cape Town	2 526	26 517	32,1%	95 250.01
eThekwini	2 436	17 729	32,3%	137 395.40
Ekurhuleni Metro	1 842	14 614	25,0%	126 043.30
City Of Tshwane	1 714	14 817	33,1%	115 705.76
Nelson Mandela	715	7 523	34,8%	95 062.64
Buffalo City	369	4 509	36,8%	81 735.48
Mangaung	312	3 831	28,5%	81 523.54
Msunduzi	313	3 355	31,5%	93 295.63
Polokwane	147	1 346	33,5%	109 298.72
Rustenburg	129	1 438	22,1%	89 434.95
Umhlathuze	160	1 835	30,5%	87 279.63
Drakenstein	136	1 620	35,2%	84 018.10
Sol Plaatje	118	1 549	29,9%	76 276.85
Mbombela	112	1 161	32,9%	96 869.99
Govan Mbeki	121	1 584	36,3%	76 626.39
Stellenbosch	94	991	35,9%	94 815.08
Mafikeng	61	831	49,4%	73 256.16
Total	**13 888**	**129 459**	**30,1%**	**107 281.82**

Figure 10.1 shows the growth in nominal costs per municipal employee in a sample of five municipalities. The order of the rise in nominal average costs is quite significant.

[1] Throughout this review, "2002-03" is used to cover the municipal financial year from 1 July 2002 to 30 June 2003. In contrast "2002/03" is used to cover the national and provincial financial year, from 1 April 2002 to 31 March 2003. Similarly for other financial years.

Figure 10.1 Cost per employee from 1997-98 to 2002-03



Salary increases above inflation since 1997-98.

In the 2002-03 financial year the average employee cost was R95 063 for Nelson Mandela Municipality, R81 500 for Mangaung, R76 200 for Sol Plaatje, R78 870 for Middelburg and R71 906 for West Coast District Council compared to 1997-98 figures of R67 433, R28 538, R51 041, R44 076 and R36 306 respectively. This means that these municipalities were paying each employee on average 41 per cent, 186 per cent, 51 per cent, 79 per cent and 98 per cent more in nominal terms in the period 2002-03 than in the period 1997-98. Given that the consumer price index went up by 40,5 per cent the same period, most municipalities gave significant real increases over the period. The data also indicates that the steepest rise was in 2001-02, the first year of the new municipal boundaries.

Amalgamation drives up salary costs

This usually meant an upward adjustment of salaries to the highest common denominator increasing average costs even though the overall growth in number of employees has not been substantial. If this explanation is correct, future increases in average costs should be moderate.

There has been a substantial real increase in councillor allowances from 1997-98 to 2002-03 in the selected municipalities. Unfortunately reliable historical data for senior managers and lower ranked staff are not available and so they are not included, but anecdotal evidence indicates that senior officials are earning relatively high salaries. Table 10.10 gives a breakdown of the staff structure and the percentage of total salary consumed by each job category in six municipalities.

Table 10.10 Management and non-management costs

	Mangaung		Amatole		Middelburg		Rustenburg		Klerksdorp		Swartland	
	% of total staff	% of total staff costs	% of total staff	% of total staff costs	% of total staff	% of total staff costs	% of total staff	% of total staff costs	% of total staff	% of total staff costs	% of total staff	% of total staff costs
Managers	12,3%	29,6%	36,3%	61,8%	14,8%	30,1%	1,1%	2,4%	8,1%	26,8%	8,3%	19,6%
Non-managers	87,7%	70,4%	63,7%	38,2%	85,2%	69,9%	98,9%	97,6%	91,9%	73,2%	91,7%	80,4%

Managers as a proportion of staff

Non-management staff, who make up the largest proportion of staff, consume proportionately less of the total salary bill with management consuming as much as 24 per cent of costs. In the sample above, managers constitute 13,5 per cent of staff on average and consume 28,4 per cent of staff costs.

In a larger sample it was found that managers make up 11 per cent of staff in category B municipalities and consume 27 per cent of staff costs, while in Category C municipalities they make up 24 per cent and consume 32 per cent of staff costs. At national and provincial government levels, senior managers make up about 0,4 per cent of staff and consume about 1,1 per cent of costs.

Local government bargaining arrangements

Collective bargaining at local government level

Salaries and benefits of local government staff are negotiated through the South African Local Government Bargaining Council (SALGBC). Bargaining arrangements at the local level can be described as centralised collective bargaining. The structure of the SALGBC has been criticised for being highly inflexible in that it does not allow for matters affecting individual local municipalities from being addressed in a decentralised way. The South African Local Government Association (Salga) is of the view that collective bargaining should occur at all levels, albeit within nationally determined norms and standards as this can build effective employer/employee relations at the local level.

The SALGBC has been primarily pre-occupied with wage negotiations only, often at the expense of major transformation issues such as the racial disparities in employment conditions, retirement fund arrangements, medical aid provisions and conditions of service.

Employee distribution by sector

Table 10.11 shows the distribution of municipal staff per sector in a sample of municipalities.

Municipal data not uniform and consistent

When interpreting the table, it must be noted that different municipalities define services differently. In particular, the 'other' category differs from place to place.

Table 10.11 Number of employees per sector

	eThekwini	Johannes-burg	Mangaung	Nelson Mandela	Buffalo City	Tshwane
Electricity	2 226	1 970	518	747	289	2 092
Water	1 430	2 533	156	501	251	445
Sewerage & sanitation	1 224		142	480	319	522
Refuse	549	3 778	460	376	617	758
Housing	323	845	100		46	302
Health	750	837	166	526	624	398
Policing	1 209	2 500			102	1 496
Other	10 018	11 746	2 693	4 893	2 261	8 831
Total no of employees	**17 729**	**24 209**	**4 235**	**7 523**	**4 509**	**14 844**
Employees per sector as a proportion of total employees						
Electricity	12,6%	8,1%	12,2%	9,9%	6,4%	14,1%
Water	8,1%	10,5%	3,7%	6,7%	5,6%	3,0%
Sewerage & sanitation	6,9%	0,0%	3,4%	6,4%	7,1%	3,5%
Refuse	3,1%	15,6%	10,9%	5,0%	13,7%	5,1%
Housing	1,8%	3,5%	2,4%	0,0%	1,0%	2,0%
Health	4,2%	3,5%	3,9%	7,0%	13,8%	2,7%
Policing	6,8%	10,3%	0,0%	0,0%	2,3%	10,1%
Other	56,5%	48,5%	63,6%	65,0%	50,1%	59,5%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Employee distributions low within major services

The number of employees in the major service sectors (electricity, water, sewerage and sanitation and refuse collection) is quite low suggesting that these services are not very labour intensive. On average these services account for about 30 per cent of staff. Property rates and general services on the other hand take up over 50 per cent of staff in the above sample of municipalities. In Mangaung, 70 per cent of staff are found in property rates and other general services.

In Johannesburg, of the 11 746 staff shown as 'other', 2 548 work in parks, 2 200 in roads, 1 264 in corporate services, 1 200 in finance,1 100 in the bus service, 1 050 in emergency services and the balance in social development, planning and libraries. In eThekwini, of the 10 018 staff in the 'other' category, 2 223 work in parks, culture and recreation, 2 004 in emergency services and 1 355 in transport, with the remainder in corporate services and planning.

Remuneration and benefits

Municipal manager salaries generally higher than public service equivalents

As the *2001 Intergovernmental Fiscal Review* indicated, municipal employees have conditions of service and salary bands very distinct from National and Provincial government. For example, smaller category B municipalities pay managers at a level comparable to an assistant or deputy director in the public service, while bigger category B municipalities pay between deputy director-general to director-general level. Category A municipalities usually pay at levels above that of a director-general. Other conditions of service are similarly varied.

In 2002, following a tense labour dispute, an agreement was signed providing for salary increases over a three-year period and a minimum wage for the sector. To date, 11 municipalities have indicated that they cannot pay the minimum wage because of financial constraints. This means that 96 per cent of municipalities comply with or are in the position to pay the basic minimum monthly wage of R2 300. This amount increases to about R3 700 when all benefits are included, giving an annual basic minimum package in local Government of about R44 400. This is close to the minimum wage levels within the public service generally.

Personnel benefits 40 per cent of staff costs

Pension and medical aid benefits are the next major cost drivers. The costs of staff benefits have a knock-on effect of up to 40 per cent on overall personnel costs at municipal level. Salga has set itself a target of reducing the costs of benefits to 30 per cent over a two-year period.

The *2001 Intergovernmental Fiscal Review* published information (Table 8.3 of that publication) on the employer and employee contributions to various municipal pension funds. This information indicated that in some municipalities, the employer paid up to 26 per cent as a contribution. Further or new information to revise this table was not available from the Financial Services Board in time for inclusion in this *Review*.

Pre-1994 agreements sometimes hamstring municipalities

Agreements signed before 1994 also have a huge impact on personnel costs. For example, Johannesburg Metro has a total liability of R3,9 billion arising from pre-1994 agreements, of which R1,5 billion is an unfunded liability on its pension fund. Apartheid-era municipalities agreed to a set of very generous benefits which are difficult to reduce today. The Pension Funds Adjudicator commented that many local authority pension funds amended their rules to introduce extremely generous retrenchment benefits during the political transition. The aim seems to have been either to prevent retrenchments by making dismissal too expensive or to provide retrenched employees with substantial termination packages. In Johannesburg's case the benefits entered into by the previous council included accumulated leave, sick leave, annual bonuses and the buying of bonus years. Clearly, the generous nature of the pre-1994 agreements can cause serious problems of unfunded liabilities as demonstrated in the Johannesburg case, and may impact negatively on the service delivery capacity of municipalities.

Critical information relating to the nature of municipal pension schemes, their financial health and the extent of contingent liabilities was not readily available from municipalities or the Financial Services Board (FSB) for this *Review*. The Board was, however, able to provide a broad overview of municipal pension funds, their assets and membership size. In 2001, there were 94 municipal pension funds with combined assets of R32,3 billion. These funds have 145 996 active members and 20 968 non-contributing members.

Attempts to rationalise pension and medical aid benefits

Local governments have initiated processes to address huge inefficiencies and inequalities in the provision of pension and medical aid benefits. In relation to medical aid, Salga is proposing the introduction of norms that could limit employer contributions to

60 per cent of monthly medical aid cost up to a maximum cash value of R1 429 a month. If successful, this will have the effect of bringing local government medical benefits closer to the norm within the public service. The restructuring of municipal pension funds is critical to managing costs going forward. The overall employer contributions to pension funds are still above the national and industry average of 15 per cent. In addition, many municipal pension funds have generous purchase of service and retrenchment rules. A proposal to consider one single pension fund for municipal workers is presently being discussed.

E-Jo'burg Pension Fund

The City of Johannesburg inherited 13 pension funds. Most of the funds fall into the defined benefit funds category, but provide different benefits with historically racially-based memberships. The mainly white fund (Johannesburg Municipal Pension Fund) has an employer contribution of 20 per cent of pensionable salary while the next largest fund with mainly black employees (City of Johannesburg Pension Fund) has an employer contribution of 16 per cent. Some of the funds also have a 13^{th} cheque benefit, which gets paid out of the City's budget every year. This benefit is being challenged by the City and is presently under litigation. Heads of departments have a service bonus benefit in terms of which they receive an additional year of pensionable service for every year that they are employed, and other employees receive a year for every five years. The City is proposing to stop funding this benefit. Members of the pension funds also enjoy generous buy-back options and tax exemptions on pensions. In terms of the latter, however, the benefit has fallen away, in line with new tax dispensations. The exemption from tax now only applies to the period prior to 1998. Moreover, these benefits can be lost if the employee left the council and the money is transferred to a private sector fund.

This created problems for Johannesburg at two levels. Approximately 15 000 of its 28 000 employees were shifted to various utilities, agencies and corporations (UACs). The tax dispensation treated the UACs as private companies meaning that employees faced losing the tax benefit on pensions. An amendment to the tax legislation averted the problem, where UACs are now treated in terms of the Municipal Systems Act and not as private agencies. However, for the 2 000 odd employees that were retrenched due to outsourcing and privatisation, Johannesburg had to make good on the tax benefit and paid out the benefit to the retrenched employees at considerable cost.

The racial inequities and onerous benefits prompted Johannesburg to launch a single fund. Legal technicalities have delayed the process, but Johannesburg issued a fresh legal notice to rationalise its pension funds by June 2003. The central thrust of the change will be a single pension fund for all employees. In addition, Johannesburg intends to make this fund a defined contributions fund with employer contributions pegged at 15 per cent.

Need to balance service expansion with resource constraints

The local government sphere has witnessed dramatic changes over the years. The demarcation process and 2000 elections ushered in the final phase of the local government transformation. The shifting of powers and functions between and within spheres threw up a range of new challenges for municipalities. In addition the restructuring of the electricity distribution sector also poses a huge challenge from a human resource point of view. Municipalities need to manage these challenges in a way that allows them to improve their service delivery record without placing further cost pressures on taxpayers. While, the new public financial management regime places more emphasis on outcomes, this does not mean that municipalities should ignore input controls such as human resources.

Municipal employees could be incorporated into the public service

Given that half of all municipal employees work in the metros, a differentiated approach could be adopted to absorb municipal employees into the public service. Generally, the metros pay the highest salaries, and incorporating such employees into the public service will be difficult as this would result in a large cost increase for national and provincial governments. For example, a nurse or a metro police officer earns more than a nurse in a provincial clinic or a member of the police in the SAPS. However, most employees in the non-metros probably earn salaries that are more comparable with national and provincial government employees, and it is possible that these municipal employees could be more easily incorporated into the public service. The task would then be to incorporate metro employees.

Electricity restructuring will impact on personnel management

The restructuring of the electricity industry will also have an impact on the approach adopted towards creating one public service. At issue is whether the employees of a public business enterprise like a regional electricity distributor (RED) will also be incorporated into the public service. However, given that most electricity employees are in the metros will mean that the average salary packages in REDs will be forced upwards to the highest metro level. Chapter 12 on electricity indicates that currently, the average cost per employee in Tshwane Metropole is R123 250, R110 678 in Nelson Mandela Metropole, R113 525 in Mangaung, and R83 055 in George. Though the average salary is not known for distribution workers in Eskom, such salaries may be higher than current metro salaries and this could place cost pressures on the REDs.

Conclusion

Improving skills, motivating workers and managing cost: a tough balancing act

Both provincial and local Government face similar challenges. In general, provinces are ahead of local Government in restructuring personnel regimes. Nevertheless, both spheres are focusing on improving their skills profile, dealing with surplus staff, attracting professional and managerial expertise and improving work performance. Dealing with these issues in a relatively tight budget environment adds to the complexity. In addition, there is a need to balance the drive towards uniformity with the managerial necessity of diversity.

Performance management needed

Personnel management must be driven by long-term service delivery objectives. Balancing resources with attracting and retaining staff with an appropriate skills mix is not an easy task. While numerous reforms have been effected in the public sector, more needs to be done to improve performance. Performance-based remuneration and reward systems are not being used widely in the public sector. While measuring performance in the delivery of public services is not easy, it must be attempted. Creative, innovative managers are required and more flexible personnel frameworks need to be adopted.

11

Water and sanitation

Introduction

Government priority is to provide 6 kilolitres of water free to all households

Clean water is the most significant resource for reducing poverty, diseases, and improving the quality of life of poor South Africans. Available water is also important for promoting rural development and increasing food security. Government has made the provision of water to all South Africans a high priority, and is implementing a free basic water policy of up to 6 kilolitres free per month to all households.

Water is also critical for the development of the agricultural sector, for commercial, emerging and subsistence farming and other economic activities.

As a water-poor country with erratic rainfall patterns, South Africa has to manage its water resources carefully if it is to meet social and economic needs. To meet this challenge, the establishment of a coherent policy and regulatory framework, appropriate to the physical realities of South Africa is essential. This must go hand-in-hand with establishing institutions capable of implementing the policy.

Institutional support required to roll out sanitation programme

Recent outbreaks of cholera have emphasised the need for prioritising sanitation, which falls under the municipal water services function. This is particularly relevant in the context of the large number of unplanned settlements and overcrowding, resulting in effluent run-off into nearby streams and rivers. Government has developed a comprehensive policy on sanitation but its implementation requires the development of financial and institutional structures to support the municipalities which are responsible for delivery.

The national Department of Water Affairs and Forestry's budget for water resources and services is R3,1 billion for 2002/03, local Government budgets for water services are estimated at R11,0 billion in 2002-03[1], while the Water Boards budgeted R4,0 billion. In 2002/03 a total of 9 900 personnel are employed in the national

[1] These totals cannot be added for a consolidated total, as the three budgets include transfers between them (for example, from the national Department to Water Boards and municipalities).

department, 6 800 by Water Boards and around 12 000 by municipalities for their water activities.

Policy and legislative framework

The South African water sector is complex, with a wide range of organisations contributing to the development of water resources. The public sector plays a key role in the water sector. Apart from a few public-private partnerships, the private sector plays a minor role in the direct provision of water services, but does play an important supporting role.

South African policy and legislation distinguishes between water resources and water services. In terms of the Constitution, water services (retail distribution) are a concurrent Schedule 4B municipal function. Water resource management (for dams and rivers), on the other hand, is an exclusive national government function.

Municipalities and water services

The responsibility for water services rests primarily with municipalities as established under the Water Services Act (108 of 1997). The Act assigns municipalities the water services authority (WSA) function. The actual delivery of services is undertaken by water services providers (WSPs) appointed by the water services authority. Whilst most municipalities are water service providers, some municipalities utilise municipal entities (Johannesburg Water, Erwat (Ekurhuleni)), water boards or contracted service providers (e.g. community based organisations) as their water service providers.

National government and water boards

The national Department of Water Affairs and Forestry (DWAF) performs functions in both water resources, such as dams and rivers, and water services, which are mainly bulk water services provided by the 15 Water Boards. In addition to outlining the framework for water service provision and its regulation, the Water Services Act provides for the establishment of Water Boards.

The Act distinguishes between primary and secondary activities of Water Boards. The primary activity is seen to be the provision of bulk water to users like municipalities, by bringing water from dams and rivers (water resources) to local reservoirs. The regional Water Boards abstract, treat and transport bulk water to service providers like municipalities. As a secondary activity, some Water Boards also undertake retail water supply on behalf of poorly capacitated municipalities, and operate bulk waste water works.

Municipalities as water service authorities

New division of powers and functions takes effect on 1 July 2003

While metropolitan municipalities are the water service authorities for their jurisdiction, this power is divided differently in two-tiered municipalities. A recent gazette (no 24228 of 3 January 2003) issued by the Minister of Provincial and Local Government makes this determination, taking into account regional and capacity considerations. This new division of functions takes effect on

1 July 2003, and may involve reallocating the assets, liabilities, personnel and budgets between the two types of municipalities.

Five public-private partnerships in water sector

Current arrangements also allow for public-private partnerships, where private companies are contracted to provide water on behalf of a municipality. There are currently five public-private partnership concessions in Dolphin Coast, Mbombela (Nelspruit), Queenstown, Stutterheim and Fort Beaufort. There are also a range of public-public partnerships in terms of which Water Boards provide retail water services with operating agreements in areas such a Harrismith and Maluti-a-Phofung.

The water services policy also recognises the role of community-based organisations as water services providers, particularly for small-scale rural water services schemes. An effective policy framework to ensure that these community-based organisations receive an appropriate share of the financial transfers intended for water service provision has still to be developed within the context of service providers in terms of the Municipal Systems Act.

DWAF transferring water schemes to municipalities

The Department of Water Affairs and Forestry is also undertaking water services provision, operating 512 large water schemes and a further 1 032 rudimentary schemes serving approximately 8 million people, mainly in the former homeland areas. The Department is in the process of transferring these schemes to municipalities over the next three years. However, many municipalities are reluctant to take transfer, citing unwillingness to take over existing staff and the need for further financial resources to upgrade or maintain them.

Free basic services

6 kl free of charge to all households

One of Government's key objectives is the free provision of up to 6 kilolitres (kl) of water to all households. Most municipalities appear to be making progress in implementing free basic services. The Department of Water Affairs and Forestry estimates that 76 per cent of municipalities provided at least the first 6kl of water free during 2002. A small number of municipalities provided more than this: !Kei!Kariep, (formally, Eksteenkuil, Kakamas, Keimoes and Kenhardt), Gammagara (Deben, Kathu) and Umvoti (Kranskop, Greytown) provided between 10 kl and 12 kl of free water. At the other extreme, a few municipalities supplied only the first 1,2 kl or 3 kl free.

About one third of municipalities outside Gauteng currently provide their whole jurisdiction with water services, while the remainder is provided by external providers (national department, Water Boards and community-based organisations).

Challenge to roll out sanitation

The free basic policy does not extend to sanitation beyond the provision of basic levels of on-site sanitation such as the ventilated improved pit toilet (VIP), which has minimal operating costs. There is little information available on how municipalities are providing sanitation services to poor households. A sanitation policy for communities with access to water-borne sanitation is under development by DWAF.

Trends in expenditure and budgets

National Government

Table 11.1 shows expenditure and budgets for the national Department of Water Affairs over a seven-year period from 1999/00 to 2005/06. This period includes the three-year MTEF, starting in 2003/04. In 2002/03 the budget amounted to R 3,7 billion. Over the seven-year period, the programmes receiving the bulk of the budget are Water Resource Management, receiving an average of 24 per cent of the total budget, and Water Services, receiving an average of 59 per cent of the total budget.

Table 11.1 Budget of the National Department of Water Affairs and Forestry

R thousand	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Administration	182 965	190 265	211 373	225 917	237 071	251 129	267 210
Water Resource	550 751	723 586	904 470	1 161 485	1 056 113	768 061	827 376
Water Services	1 591 583	1 786 540	1 932 744	1 944 155	2 439 722	2 287 241	2 487 539
Forestry	350 998	341 226	434 468	401 134	353 637	347 935	371 410
Total	**2 676 297**	**3 041 617**	**3 483 055**	**3 732 691**	**4 086 543**	**3 654 366**	**3 953 535**
Growth		*13,7%*	*14,5%*	*7,2%*	*9,5%*	*-10,6%*	*8,2%*

Source: 2003 Estimates of National Expenditure.

Fiscal resources in the water sector

Table 11.2 shows the transfers from the national Department to local government. The national budget provides R1,0 billion for capital programmes on basic water and sanitation infrastructure in 2002/03 and R700 million for the operation of water services. The capital budget grows from R600 million in 1999/00 to R1,1 billion in 2003/04. During the seven-year period, over R6,2 billion goes to infrastructure. The operational support budget grows from R727 million in 1999/00 to R836 million in 2003/04. The total funding provided for operational support from 1999/00 to 2005/06 amounts to just over R5,5 billion.

Part of the capital grant and the operational subsidy is provided directly to municipalities, or indirectly as allocations-in-kind to fund investments in, and operation of, specific water projects in that municipality. It is the intention of national Government to phase in all allocations for municipal services to local Government, either through the equitable share or the new Municipal Infrastructure Grant.

Table 11.2 DWAF transfers to local government

R million	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Institutional Support	3	4	5	–	–	–	–
Basic Water and Sanitation Infrastructure	612	725	757	999	1 102	948	1 037
Operations of Water Resources	727	786	692	700	836	858	934
Total	**1 342**	**1 515**	**1 454**	**1 699**	**1 938**	**1 806**	**1 971**
Growth		*12,9%*	*-4,0%*	*16,8%*	*14,1%*	*-6,8%*	*9,1%*

Source: 2003 Estimates of National Expenditure.

Community Water Supply and Sanitation Programme

The Department of Water Affairs and Forestry's 2000/01 annual report outlines the activities of the Community Water Supply and Sanitation Programme. The programme implemented 590 water services projects serving 1,6 million people with water and/or sanitation infrastructure; it held 2 227 community awareness meetings during the 2000/01 financial year; and it employed over 17 000 people nationwide, through the 'Improved Health through Sanitation and Hygiene' (WASH) awareness campaigns.

For the 2001/02 financial year, the programme's total expenditure was in excess of R1,2 billion. This included the R175,4 million in transferred funds to district municipalities. During this financial year, 81 water and sanitation projects were completed, 95 899 jobs were created and over 1,6 million people were served.

Though provinces do not generally play a role in water and sanitation, some provincial housing or local government departments also provide grants to municipalities for this purpose. For example, the Gauteng housing department has budgeted R43,0 million for this purpose in 2002/03 and R98,8 million over the MTEF period. Figures from other provinces were not available.

Water boards

Combined revenue for Water Boards total R4,5 billion in 2002/03

Table 11.3 provides a summary of the budgets for the Water Boards for the 2001/02 and 2002/03 financial years. The Boards combined revenue figures grow by 9,7 per cent from R4,1 billion in 2001/02 to R4,5 billion in 2002/03. The combined capital budget grew by 13,9 per cent from R587 million to R 669 million and combined operating budget grew by 10,3 percent from R1,8 billion to R2 billion over the corresponding period. The figures exclude cost of sales (raw water costs) however, net operating income of over R700 million for 2001/02 is reported.

Five Water Boards generate 91 per cent of all revenues, with Rand Water (R2,6 billion) and Umgeni (R800 million) by far the largest. The value of the combined assets amount to about R10,9 billion, with an external debt of just over R7,3 billion. Capital spending among the 15 Water Boards varies, with Rand Water and Umgeni making capital investments during 2001/02 of R276 million and R192 million, respectively. Capital against revenue for Rand Water amounted to 10,9 and 10,1 per cent for 2001/02 and 2002/03 while in the case of Umgeni this was 26 and 25 per cent, respectively. However, in many other Water boards capital spending amounts to zero.

Table 11.3 Income and Expenditure of Water Boards

R thousand	Revenue		Capital Expenditure		Operating Expenditure	
	2001/02 Actual	2002/03 Estimated actual	2001/02 Actual	2002/03 Estimated actual	2001/02 Actual	2002/03 Estimated actual
Albany Coast	2 115	1 968	1 358	1 966	1 448	1 347
Amatola	54 321	62 139	5 252	13 989	30 378	45 462
Bloem	92 692	114 656	4 750	2 300	55 798	69 156
Botshelo	79 907	85 000	–	–	80 077	82 000
Bushbuckridge	9 351	102 901	44 916	22 856	15 962	38 095
Ikangala	1 920	79 869	–	56	2 054	79 749
Lepelle	132 431	135 146	–	–	73 382	79 565
Magalies	86 818	86 132	–	27 400	37 957	46 720
Mhlathuze	124 166	144 200	60 500	119 600	84 842	101 600
Namakwa	8 866	9 753	–	–	6 769	7 446
Overberg	12 284	14 206	512	1 172	11 435	12 290
Pelladrift	5 149	5 786	–	–	5 045	5 774
Rand Water	2 513 342	2 616 000	276 100	266 400	1 031 534	1 077 400
Sedibeng	239 631	260 053	1 857	11 103	122 712	143 162
Umgeni	738 503	802 446	192 266	202 248	287 414	247 848
Total	**4 101 496**	**4 520 255**	**587 511**	**669 090**	**1 846 806**	**2 037 614**

Source: Department of Water Affairs and Forestry.

Information on Water Boards to be made available by DWAF

The Department of Water Affairs and Forestry will make the detailed information on the Water Boards' medium-term budgets available when it completes the annual review of Water Board Business Plans. According to the *2002 Estimates of National Expenditure*, over the medium term from 2001/02 to 2004/05, an amount of R420 million is due to be transferred to the Water Boards from the Department's budget.

Municipal Budgets

Municipalities spend close to R11 billion on water and sanitation

Although municipalities have not yet ring-fenced their water and sanitation operations to generate separate budgets, it is estimated that municipalities will spend about R11 billion for the 2002-03 municipal year. Annexure C provides disaggregated operating and capital budgets. Operating income is estimated to be over R9 billion, with expenditure for the purchase of bulk water at R4,4 billion, salaries in the region of R2 billion, and close to R600 million for repairs, maintenance and general consumables. The capital budget is R2 billion with the six metro municipalities spending in the region of R700 million.

Table 11.4 shows water and sanitation budgets for district (category C) municipalities amounts to R297 million, which is close to 10 per cent of the R2,3 billion budget of local (category B) municipalities. The figure is reflective of bulk water purchases and does not capture all the associated costs involved in the water and sanitation function.

The low district budgets for water and sanitation reflect the current division of the water and sanitation function with local municipalities. It is not clear how these budgets will change once the new division of functions is implemented from 1 July 2003, particularly in cases where the district municipality becomes responsible for this function.

District municipalities spend less

Table 11.4 Water and sanitation expenditure by category of municipalities

	Operating		Capital		Total		% Change
R thousand	2001-02	2002-03	2001-02	2002-03	2001-02	2002-03	
Category A (Metros)	2 947 644	3 400 552	683 776	708 041	3 631 420	4 108 593	13,1%
Category B (Locals)	1 184 621	1 309 067	682 852	1 024 293	1 867 473	2 333 360	24,9%
Category C (Districts)	32 773	50 197	302 411	246 643	335 184	296 840	-11,4%
Total	**4 165 038**	**4 759 816**	**1 669 039**	**1 978 977**	**5 834 077**	**6 738 793**	**15,5%**

Source: National Treasury Local Government Database.

Municipalities are not in a position to report separately on their rural services. Before 1994, services to rural areas were not provided by former white municipalities, but by homeland governments and regional water providers. Some of these projects were transferred to the Department of Water Affairs and Forestry directly, and are yet to be transferred to new municipalities. Given that water is probably the biggest priority for rural areas, it is critical that the capacity of municipalities to provide water to rural areas be improved. The fact that piped water is expensive for sparsely populated areas makes this challenge a difficult one.

Delivery in rural areas remains a challenge

Government's objective is to ensure access to water within 200 metres of all households. However, this is made difficult in rural areas, as homesteads are often more than 200 metres apart, hence in some cases the delivery point is further than the 200 metres. It is only since the local government elections of 2000 and the attribution of powers and functions in January 2003, that it has been possible for local governments to take over the water service function for their entire areas. For these reasons of legacy and costs, it is mainly the Water Boards, the national Department and districts that have been providing water to rural areas, rather than local municipalities.

Analysing municipalities by size of budget

Table 11.5 presents municipal budget categorised in different bands. This provides a different analytical perspective on capital budgets for local Government. The municipalities have been divided into six groups:

- Metros: Six municipalities with 31 per cent of households
- B1: Secondary cities: top 21 local municipalities with 18 per cent of households
- B2: Local municipalities with a medium to large town as core: 31 municipalities with 9 per cent of households
- B3: Local municipalities with a small town or several small towns as core and with a relatively small rural population: 119 municipalities with 20 per cent of households

- B4: largely rural municipalities: 60 municipalities with 22 per cent of households)
- District municipalities.

The table indicates the low levels of capital budgeted by the poor rural B4 local municipalities and districts. In analysing the data, the recent decision to divide the assignment of powers and functions between district and local municipalities should be taken into account. Given that the greatest backlogs are in the B4 municipalities, it is not clear whether the small budgets reflect the lack of funds, poor spending capacity or other problems.

Table 11.5 Water and sanitation capital expenditure by municipal group - 2001

Group	House-holds	Water			Sanitation			Total capex
		Capex (R'000)	Capex per household (Rand)	% of all munic capex	Capex (R'000)	Capex per household (Rand)	% of all munic capex	(all municipal services) (R'000)
Metros	2 526 639	546 745	216	10,0%	313 159	124	6,0%	5 238 173
Group B1s	1 473 426	202 266	137	17,0%	72 891	49	6,0%	1 169 721
Group B2s	719 867	35 861	50	12,0%	24 456	34	8,0%	289 120
Group B3s	1 697 044	113 567	67	18,0%	4 809	29	8,0%	616 490
Group B4s	1 829 033	60 657	33	29,0%	10 782	6	5,0%	211 115
Districts	5 836 300	177 597	30	36,0%	13 647	2	3,0%	493 226
Total	**8 246 000**	**1 136 693**	**81**	**14,0%**	**484 745**	**34**	**6,0%**	**8 017 845**

Source: National Treasury Local Government Database.

Using the same division, Table 11.6 provides a summary of the way municipalities anticipate financing their capital expenditure for water.

Table 11.6 Capital financing by source (all municipal services) - 2001

Group	Capital Financing						
	Grants			Loans	Internal	Other	Total
R million	National	Provincial	Total				
Metros	292	658	950	788	2 578	922	5 238
Group B1s	133	125	258	317	356	238	1 170
Group B2s	49	37	86	33	129	41	289
Group B3s	169	73	243	38	179	157	616
Group B4s	124	5	130	0	24	57	211
Districts	163	92	255	5	89	144	493
Total	**931**	**991**	**1 922**	**1 181**	**3 355**	**1 560**	**8 018**
% Distribution	12,0%	12,0%	24,0%	15,0%	42,0%	19,0%	100,0%

Source: National Treasury Local Government Database.

The best indicator of water and sanitation budgets is in the metros and large local municipalities. Although the water and sanitation budgets are not ring-fenced, they still provide valuable information on operating expenditure and income and planned capital for 2002-03 for a selected number of municipalities.

Analysis from selected sample of municipalities

The National Treasury sample of 18 municipalities accounts for just over R7 billion in income from this function. Annexure C provides details on selected municipalities. Planned capital expenditure is R1 billion, or 13,5 per cent of total income. The operating expenditure is primarily the cost of bulk water purchase and does not include staff and other costs associated with this service. This explains the large difference ("surplus") of R3,6 billion between income (R7,2 billion) and expenditure (R3,6 billion), which reduces significantly once salary, administrative, repair and maintenance charges are deducted. It is therefore difficult to assess whether municipalities profit from their water and sanitation function, or to what extent such activities have to be subsidised from other income sources.

Case study of Johannesburg Water

Johannesburg is one of the few municipalities that has begun to ring-fence its water and sanitation activity, by establishing the Johannesburg Water municipal entity in 2001. Table 11.7 shows that the purchase of bulk water makes up 44 per cent of its spending, salary costs make up 13 per cent, but may be masked by the extent of contracted services, which if included push this amount up to 20 per cent; a provision for bad debtors makes up 6 per cent; and a contribution to the metropolitan council makes up 4,5 per cent of total budgets for 2002-03. The Johannesburg Water case study shows that water and sanitation operated at a small deficit, indicating the need, even in metros, to fund water and sanitation services from other revenue. The actual deficit for Johannesburg Water may be larger, as not all water and sanitation support functions have been apportioned.

Table 11.7 Multi-year Budget for Johannesburg Water: 2002-03

Total Income and Expenditure	Revised	Budget	Forecast	
R millions	**2001/02**	**2002/03**	**2003/04**	**2004/05**
Income	1 947 000	2 180 917	2 428 243	2 649 702
Expenditure	2 064 208	2 246 460	2 430 539	2 634 299
Income				
User Charges for Services	1 941 000	2 163 276	2 407 460	2 627 597
Other Income	6 000	17 641	20 783	22 105
Total operating income	**1 947 000**	**2 180 917**	**2 428 243**	**2 649 702**
Expenditure				
Employee Costs - Wages & Salaries	193 732	229 930	254 887	291 503
Employee Costs - Social Contributions	45 443	53 934	59 788	68 377
Bad Debts	156 000	171 845	189 892	205 768
Depreciation	128 088	136 000	148 000	159 000
Repairs and Maintenance	57 170	11 613	12 298	12 943
Interest Expense - External borrowings	178 600	159 000	176 000	188 000
Bulk Purchases	844 000	983 353	1 087 293	1 200 945
Contracted Services	139 500	167 832	155 123	145 793
General Expenses - Other	197 190	232 953	247 258	261 979
Direct operating expenditure	**1 939 723**	**2 146 460**	**2 330 539**	**2 534 299**
Internal Transfers				
Contributions to Johannesburg	100 000	100 000	100 000	100 000
Internal Charges	24 485			
Total operating expenditure	**2 064 208**	**2 246 460**	**2 430 539**	**2 634 299**
Deficit/(surplus)	**117 208**	**65 543**	**2 296**	**-15 403**

Source: Johannesburg Budget.

Water losses

The high level of water losses is cause for concern

A major problem in most municipalities is the extent of unaccounted-for water, which includes physical losses as well as water not billed and/or paid for. Unaccounted-for water is an important performance indicator, as it measures both business efficiency in metering, billing and collection, as well as technical efficiency in the maintenance and repair of infrastructure.

Table 11.8 shows the unaccounted for water that ranges from 10 per cent to 42 per cent. The lower range losses may be understated by non-reporting. Unaccounted-for water in the City of Johannesburg, eThekwini and Nelson Mandela metropolitan areas fall between 20 per cent and 42 per cent. Some of these losses are the result of poor infrastructure in former black townships, like leakage of pipes which cannot be identified, illegal water connections; and physical losses. In resolving this problem, municipalities will have to spend considerable resources on repairing, upgrading or replacing existing infrastructure. The new Municipal Infrastructure Grant announced in the 2003 Budget will help municipalities to fund such projects.

Table 11.8 Unaccounted-for figures from Rand Water survey - 2001

Rand Water supply area	Water bought (Ml/yr)	Water sold (Ml/yr)	Unaccounted-for water Percentage
Johannesburg	392 000	227 000	42,0%
Tshwane (Pretoria)	122 000	93 000	24,0%
Mogale City (Krugersdorp)	20 000	17 000	15,0%
Other areas			
Cape Town	295 000	259 000	12,0%
eThekwini (Durban)	267 000	182 000	32,0%
Nelson Mandela (Port Elizabeth)	68 000	54 000	20,0%
Mangaung (Bloemfontein)	48 000	43 000	10,0%

Source: Rand Water Survey.

Personnel in the water sector

Approximately 29 000 staff employed in the water sector

The water sector employs about 29 000 employees between the national Department of Water Affairs and Forestry, Water Boards and municipalities working in this sector. Table 11.9 provides numbers of people employed in the Department's different programmes. Employee numbers in the Water Resources Management Programme have risen from 3 364 in 1999/00 to 4 104 in 2003/04, representing a 22 per cent increase. The overall per employee cost is R65 000 in 2002/03. DWAF estimates that 8 168 personnel are expected to be transferred to local government over the next three years.

Table 11.9 Personnel numbers and costs for DWAF

Number	1999/00	2000/01	2001/02	2002/03	2003/04
Administration	650	730	772	772	772
Water Resources Management	3 364	3 866	4 023	4 104	4 104
Water Services	54	76	74	74	74
Forestry	935	1 978	1 843	4 893	4 893
Total personnel numbers	**5 003**	**6 650**	**6 712**	**9 843**	**9 843**
Total personnel expenditure (R'000)	306 389	373 294	406 708	641 067	585 929
Personnel unit cost (R'000)	61,24	56,13	60,59	65,13	59,53

Source: 2003 Estimates of National Expenditure.

Table 11.10 indicates the number of staff employed by Water Boards, the population they serve and their associated costs.

Rand Water is the biggest employer in the sector

The 15 Water Boards employ over 6 700 personnel at an average salary of R 117 235 per annum. Rand Water is the biggest employer, with 3 172 staff. Its total personnel expenditure amounts to R423 million per annum, or an average cost per employee of R133 417. The average cost per employee for Amatola is R108 407 and for Mhlatuze, R198 780. It should be noted that Pelladrift Water Board, in the Northern Cape is operated by Anglo mines and Ikangala Water Board only commenced operations during 2000.

Table 11.10 Staffing at water boards - 2002/03

Water board	Population served (R '000)	Service area (sq km)	Staff (no)	Personnel costs	Average costs (R' 000)
Rand Water	10 000	18 001	3 172	423 200	133
Umgeni Water	4 302	32 000	1 050	112 342	107
Sedibeng Water	1 600	86 000	595	27 967	47
Lepelle Northern	1 000	82 000	263	32 628	124
Mhlathuze Water	380	37 000	164	32 600	199
Bloem Water	800	35 150	244	28 830	118
Ikangala Water	1 530	4 008	6	26 118	4 353
Botshelo Water	821	49 858	388	34 000	88
Amatola Water	1 200	43 400	233	25 259	108
Bushbuck Ridge	1 200	12 320	282	26 472	94
Magalies Water	800	35 000	281	14 693	52
Overberg Water	2 070	6 700	70	6 393	91
Pelladrift Water	7	9 531	–	–	–
Namakwa Water	45	1 487	26	1 930	74
Albany Coast Water	10		6	2 427	404
Total	**25 765**	**452 455**	**6 780**	**794 858**	**117**

Source:Department of Water Affairs and Forestry.

Salaries in municipalities differ considerably

Personnel information for municipalities is only available for a sample of selected municipalities. Table 11.11 reflects the average cost per employee in metropolitan areas at R96 000, compared to R63 000 in medium sized municipalities, with an overall average of R88 000. It also shows that over 8 000 personnel are employed in the six metropolitan municipalities. It is not clear to what extent the coming shifts in the water service function between some category B and C municipalities will increase personnel costs.

Table 11.11 Water and sanitation services budgeted employee costs: 2002-03

Municipality	Budgeted No. of employees	Total cost of employees R'000	Average costs R'000
City of Johannesburg	2 533	283 864	112
eThekwini (Durban)	2 654	228 930	86
Ekurhuleni (East Rand)	1 270	112 088	88
Tshwane (Pretoria)	967	110 101	114
Nelson Mandela (Port Elizabeth)	981	74 119	76
Total Metros	**8 405**	**809 102**	**96**
Buffalo City (East London)	570	28 274	50
Mangaung (Bloemfontein)	298	35 219	118
Msunduzi (Pietermaritzburg)	316	6 848	22
Polokwane (Pietersburg)	103	5 446	53
Rustenburg	153	8 798	58
Umhlathuze (Richardsbay)	230	16 968	74
Drakenstein (Paarl)	187	13 114	70
Sol Plaatje (Kimberley)	244	12 526	51
Mbombela (Nelspruit)	64	4 696	73
Govan Mbeki (Highveld East)	230	14 772	64
Stellenbosch	142	11 108	78
Mafikeng	76	5 554	73
Total largest 12 municipalities	**2 613**	**163 323**	**63**
Total largest 17 municipalities[1]	**11 018**	**972 425**	**159**

1. Data for Cape Town not available.

Source: National Treasury Local Government Database.

Table 11.12 provides an analysis of selected municipalities, from the perspective of staff cost to total cost. These range from 32 per cent in Cape Town to 41 per cent in Randfontein. The table shows the wide variations in different municipalities. Particularly in the case of water supply, the variations can be attributed to the following:

- The extent to which the municipality runs a bulk service
- The complexity of bulk and distribution networks, including storage reservoirs and purification plants
- The extent to which services are performed through alternative mechanisms or service providers
- The levels of services offered and the age of the distribution network.

Table 11.12 Staff expenditure as a proportion of total expenditure for a selection of municipalities - 2001

	Water supply			Sanitation		
R thousand	Total	Staff	%	Total	Staff	%
Laingsburg	224	160	71,0%	281	207	74,0%
Saldanha				5 013	1 489	30,0%
Randfontein	3 695	1 525	41,0%	8 114	2 892	36,0%
Nelson Mandela (Port Elizabeth)	194 800	35 300	18,0%	126 300	32 600	26,0%
Buffalo City (East London)	58 313	13 776	24,0%	43 528	14 106	32,0%
Mogale City (Krugersdorp)	61 622	3 665	6,0%	12 801	3 253	25,0%
eThekwini (Durban)	898 524	116 832	13,0%	282 024	108 866	39,0%
Cape Town	613 034	193 961	32,0%	478 883	85 210	18,0%
Sol Plaatje (Kimberley)	56 262	3 634	6,0%	25 690	8 892	35,0%
Mangaung (Bloemfontein)	161 405	18 365	11,0%	32 216	12 056	37,0%
Nokeng Tsa Taemane	5 961	144	2,0%	2 161	1 009	47,0%
Lesedi (Heidelberg)	14 732	1 484	10,0%	6 419	1 206	19,0%

Source: National Treasury Local Government Database.

Water resources

Water users

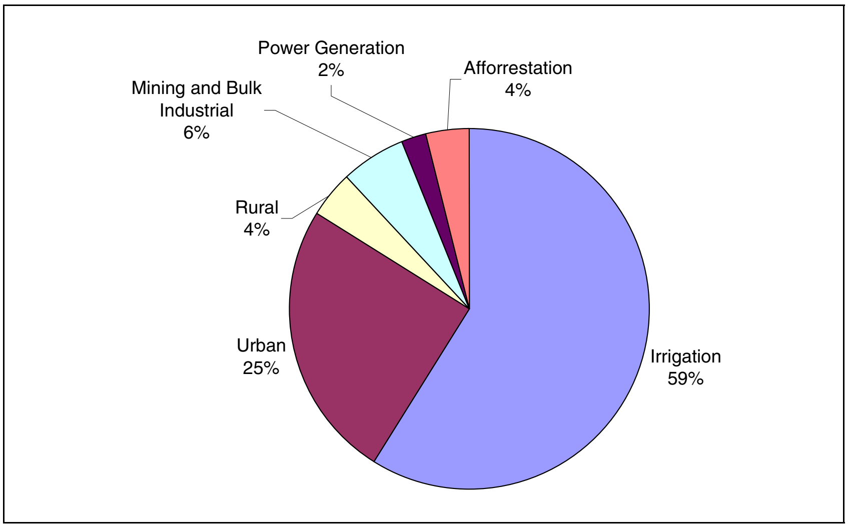
The many users of water fall into the following categories:

- Domestic (both rural and urban)
- Commercial: including offices; shops; 'dry' industries that do not use water for processing; and institutions such as schools, churches and recreation facilities
- Industrial and Mining, where water is used in the production process
- Irrigation and Agriculture
- The Environment is sometimes considered a water user since between 10 and 25 per cent of available water is reserved to sustain aquatic ecosystems

Agriculture is the biggest user of water

The largest users of water resources are the agriculture, urban and mining sectors: irrigation consumes 59 per cent, followed by urban (25 per cent), industrial and mining (6 per cent), rural and afforestation (4 per cent each) and power generation (2 per cent).

Figure 11.1: Sectoral breakdown of water use in South Africa



Source: Department of Water Affairs and Forestry

Irrigation

Figure 11.1 reflects the high consumption levels for irrigation users. Irrigation water is supplied in a number of ways:

- By water user associations, which are currently in transition from former Irrigation Boards
- Directly by the Department of Water Affairs and Forestry if they are running the schemes. (These are in the process of being transferred to Water User Associations (WUAs)
- Direct abstraction by individual farmers.

There are over 300 Water User Associations and Irrigation Boards. While the smaller organisations are not monitored on a regular basis, information is available for larger areas, such as the Breede area in the Western Cape and the Komati area in Mpumalanga.

Water consumption

In terms of the Constitution, municipalities are responsible for providing water to domestic, commercial and certain industrial and mining consumers, particularly in urban areas. Table 11.14 provides information on the split between the three categories. The splits are important for a number of reasons. In particular, the proportion of domestic to total consumption is an important indicator of viability as non-domestic consumers are more able to afford water services. Further, each group of users usually has different water supply and sanitation tariffs.

Table 11.13 Split of municipal water consumption - 2001

	Domestic	Commercial and institutional	Wet industries
Ngqushwa	98%	2%	0%
Laingsburg	73%	27%	0%
Randfontein	71%	15%	14%
Nelson Mandela (Port Elizabeth)	66%	19%	15%
Tshwane (Pretoria)	57%	23%	20%

Source: National Treasury Study.

Consumption patterns vary widely

The figures in Table 11.13 indicate the wide variety in shares of users, with domestic consumption having a smaller share in a municipality which has a higher level of economic development. For example, Ngqushwa, a largely rural municipality in the Eastern Cape (Amatola district), with a low level of commercial and industrial economic activity, has a 98 per cent share for domestic users. In contrast, Tshwane, with a high level of commercial and industrial activity, has a lower 57 per cent share for domestic users.

Table 11.14 shows patterns of consumption in a selected sample of municipalities.

Table 11.14 Water consumer profile in selected municipalities: 2002-03

Number	Mafikeng	Rustenburg	Msunduzi
Domestic / residential consumers	58 980	68 482	43 238
Commercial consumers	1 000	4 404	2 301
Industrial and mining consumers	20	170	775
Irrigation and agricultural consumers	–	29	–
Total	**60 000**	**73 085**	**46 314**

Source: National Treasury Survey (March 2003).

Access to water resources

Table 11.15 outlines how the Department of Water Affairs and Forestry assesses current and future water resources needs and deficits.

The areas indicated in the table below do not correlate with new municipal boundaries, so it is difficult to provide any detailed analysis linking water resource needs to municipalities. For the country as a whole, the overall balance shows a surplus. However, regional differences are apparent, with more than half the water management areas showing a deficit in terms of water requirements.

Table 11.15 Reconciliation of water requirements and availability for year 2000 - million m^3/annum

Water Management Area	Reliable local yield [1]	Transfers In	Local Requirements	Transfers Out	Balance
Limpopo	282	19	325	–	-24
Luvuvhu/Letaba	310	–	334	13	-37
Crocodile West and Marico	693	656	1 328	10	11
Olifants	611	172	971	8	-196
Inkomati	943	–	1 048	148	-253
Usutu to Mhlatuze	1 010	32	693	114	235
Thukela	738	–	338	497	-97
Upper Vaal	1 723	1 443	1 204	1 481	481
Middle Vaal	201	791	389	605	-2
Lower Vaal	50	651	653	–	48
Mvoti to Umzimkulu	527	34	828	–	-267
Mzimvubu to Keiskamma	855	–	375	–	480
Upper Orange	4 557	2	968	3 105	486
Lower Orange	-1 007	1 886	834	54	-9
Fish to Tsitsikamma	437	571	902	–	106
Gouritz	277	–	342	1	-66
Olifants/Doring	335	3	373	–	-35
Breede	868	1	637	203	29
Berg	501	203	738	–	-34

1. The amount that can reliably be provided 98 years out of 100.

Source: Department of Water Affairs and Forestry.

Water management areas

The National Water Act lays the basis for the establishment of catchment management agencies and water user associations responsible for water resources management.

Development of catchment management strategy

Within each Water Management Area, the Act envisages the creation of a Catchment Management Agency (CMA). This is a statutory river-basin organisation responsible for the integrated management of water resources and securing the participation of local stakeholders in decision-making. The primary role of the agencies is to develop a catchment management strategy outlining the framework and objectives of water resources management within the management area. The strategy must be consistent with the national water resources strategy and include measures for resource protection. Feasibility studies are currently under way for the establishment of Catchment Management Agencies. To date, only one is close to being set up, and the Department is till carrying out catchment management functions.

The National Water Act also makes provision for Water User Associations (WUAs). In effect, these are co-operative institutions of individual water users who wish to undertake water-related activities for their mutual benefit. Most associations serve farmers and are based at the former irrigation boards.

Finally, in the absence of a single utility structure for major water resource development, special-purpose vehicles such as the Trans Caledon Tunnel Authority have been established to support the implementation of major multi-user projects.

Water resource development

In many parts of South Africa, access to reliable sources of water is only possible through water resource development. The construction of dams and transfer schemes enables available resources to be appropriately managed.

Water resource development and management key to sustainability

Traditionally, the financing of water resource development has been through the national Department's budget for larger multi-purpose schemes. Where the needs of a single user can be met from a single project, financing is effected through the relevant user sector, such as agriculture, mining and municipalities.

In terms of the water pricing policy, users are expected to pay for the costs of making water available. In 2001/2, the Department of Water Affairs and Forestry sold water to the value of R1,8 billion; this was up from R1,6 billion in 2000/01. This system is enabling more water resource development projects to be funded from user charges. This includes the R25 billion Lesotho Highlands Water Project and the soon-to-be-constructed R1,5 billion Berg River project which will increase water supply to the Western Cape peninsula. Smaller-scale projects such as the R160 million Bivane Dam near Pongola in KwaZulu-Natal and the R340 million platinum pipeline in Limpopo have been funded by agricultural and mining water users.

High costs involved in large-water projects

The process of water resource development is being hindered by the 'lumpiness' of large water projects. The establishment of special-purpose vehicles such as the Trans Caledon Tunnel Authority is an example of how a project can be handled. The Department is currently preparing proposals to establish a National Water Utility, which would be able to pool funding requirements and support projects from the cash flow of the existing stock of large water infrastructure. The utility would also ensure that the stock of national water infrastructure, presently valued at approximately R55 billion, is properly maintained.

Tariffs and pricing policy

The water pricing chain

In evaluating water pricing, it is helpful to distinguish the pricing of water resources (bulk, 'raw' water) and water services as provided by municipalities, as they are regulated by separate policies and regulations. It is also necessary to consider the pricing of interventions to protect water quality. These include water services, waste water treatment, as well as pollution control and waste discharge pricing mechanisms.

Municipal water services prices

When assessing trends in pricing for water services, it is best to begin by considering the price at the end of the chain – the price set by the retail sector, namely municipalities – and then to consider the impact of the cost of providing water to the retail distributors. The pricing of bulk water varies substantially from site to site and it is thus difficult to provide a general analysis of costs and pricing trends.

Price increases fuel inflation

The most independent analysis of pricing trends in water is from the CPI index of Stats SA. The water component's average annual percentage increase was 13,2 per cent in 2002, 10,4 per cent in 2001 and 10,1 per cent in 2002. The Governor of the Reserve Bank has noted with concern the adverse impact on Government's inflation target of such significant real increases through administered prices. The Department of Water Affairs and Forestry points out that the period under review coincides with a process of substantial municipal restructuring. In many cases, the tariff adjustments reflect the incorporation of high-cost, low-income communities by municipalities.

Cost of bulk water supply

In addition, a major component of the cost of retail water derives from the cost of bulk water supply. This is illustrated in Gauteng, where large new projects are required to provide additional water. As in many other parts of the world, the costs of bulk water rises with each new project as earlier cheap options are exhausted and water has to be brought from more distant, and expensive, sources. In addition, in terms of the national water policy, pricing is recognised as an efficient mechanism for allocating water between different users and the cost of raw water will rise as a function of its scarcity.

Retail pricing

At the municipal level, tariff structures are regulated by the Department of Water Affairs and Forestry in terms of the Water Services Act. The majority of municipalities apply a rising block tariff of which the first block, from 0 to 6 kl/month is free.

Cross-subsidisation through block tariffs

The rising block tariff mechanism is used to generate a local cross-subsidy to supplement the equitable share. A portion of the equitable share is to be used for basic service provision.

Table 11.16 shows that the first 6kl per month are provided free by most municipalities. However, within the 7 to 10kl range the tariff varies considerably. For example, the tariff for this range is R2,49 in Johannesburg and R4,15 in Tshwane. Note that the higher rate here impacts directly on poor households whose consumption exceeds 6kl. The tariff structure is reversed, however, when comparing the range up to 30kl. Johannesburg charges R5,81 compared to Tshwane at R4,51. This reflects a small penalty rate for high-end users in Johannesburg. Water consumption at 30kl will cost R139,44 in Johannesburg, R108,24 in Tshwane, and R148,10 in eThekwini.

Block tariffs penalise high consumption

While the rising block tariff approach is easy to administer, as it is universal, there is some evidence to suggest that poor households using more than 6 kl per month are adversely affected due to the steep increase in tariffs after the free 6 kl. This raises an important issue on the appropriateness of indigent policies adopted by municipalities. An important factor which limits cross subsidisation within local jurisdictions is the ratio of rich to poor consumers. For this reason, the continued use of a portion of the equitable share allocation to municipalities will continue to be needed to provide free basic water.

Table 11.16 Service Charges - 2002

	City of Johannes-burg	City of Tshwane	Musina Municipality	Nkomazi Municipality (Malelane)	Emthanjeni Local Municipality	eThekwini Municipality	
						Semi-Pressure	Full Pressure
First 6kl	Free	Free	Free		Free	Free	Free
7-10 kl	R2,49 per kl	R4,15 per kl		R40,00 basic charge R1,70 per kl	R23,43 basic charge and R2,72 per kl	R3,55 per kl (up to 30 kl)	R29,10 basic charge (up to 12 kl) or R41,60 basic charge (greater than 12kl) and R3,55 per kl (up to 30 kl)
11-15kl	R4,48 per kl	R4,42 per kl		R40,00 basic charge R1,70 per kl	R23,43 basic charge and R2,72 per kl		
16-20kl	R5,00 per kl	R4,46 per kl		R40,00 basic charge R1,70 per kl	R23,43 basic charge and R2,72 per kl		
20-40kl	R5,81 per kl	R4,51 per kl		R40,00 basic charge R1,70 per kl			
Greater than 40kl	R7,09 per kl	R4,87 per kl		R40,00 basic charge R1,70 per kl		R10,65 per kl (greater than 30 kl)	R41,60 basic charge (greater than 12kl) and R10,65 per kl (greater than 30 kl)
7-75kl			R3,01 per kl	R40,00 basic charge R1,70 per kl			
Greater than 76kl			R3,11 per kl	R40,00 basic charge R1,70 per kl			

Source: National Treasury Survey.

Table 11.17 shows the results of a Rand Water Board study based on a sample of municipalities, tracking trends in billing for 20kl over a period of five years. The information reflects variances as great as 50 per cent between the providers. Apart from Tshwane, the study points to real increases in most municipalities in the sample, from 1,5 per cent to as much as 8,6 per cent in real terms.

Table 11.17 Comparison of water bills and trends in bills for a sample of large municipalities

Municipality	Bill for 20kl/month of water – 2001/02	Increase in bill over 5 years in real terms
Johannesburg	53	1,4%
Tshwane (Pretoria)	60	-3,5%
Ekurhuleni (East Rand)	69	2,1%
Mogale City (Krugersdorp)	63	3,7%
Emfuleni (Vaal)	85	6,6%
Cape Town	36	1,8%
Nelson Mandela (Port Elizabeth)	84	8,6%

Source: Rand Water Survey.

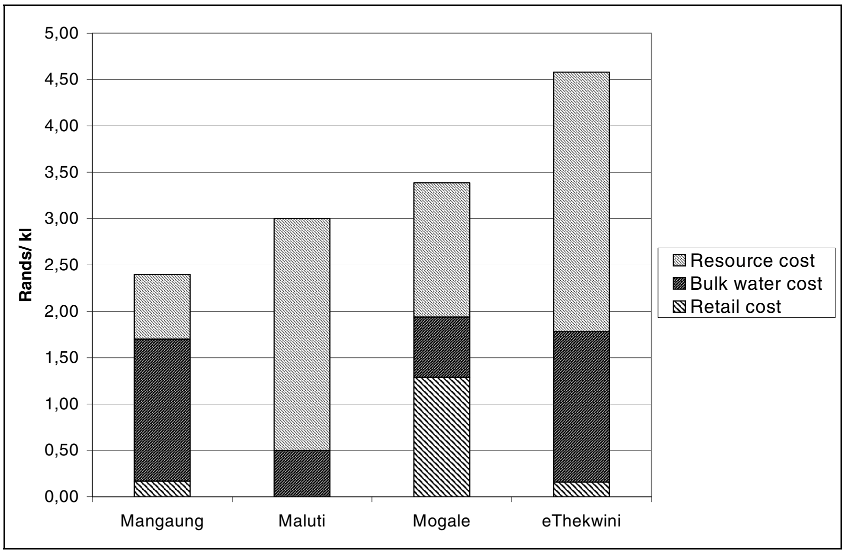
Mangaung experiences high bulk water costs while eThekwini has high retail costs

Figure 11.2 illustrates three situations where a Water Board is involved in the supply chain. The fourth scenario shows a situation in a rural area with a very good source of supply, where the resource and bulk costs are small.

The build-up of retail tariffs can be illustrated as follows:

- Mogale City in Gauteng is supplied with bulk water by Rand Water which gets its supply from the Vaal system which is augmented from the Lesotho Highlands water scheme. The pricing is made up of 41 per cent in resource costs, 15 per cent in bulk costs and 44 per cent in retail costs.
- eThekwini Metro gets its water from Umgeni Water, which draws from a number of sources, with a large portion from the Umgeni River. The pricing is made up of 6,5 per cent in resource costs, 30 per cent in bulk costs and 63,5 per cent in retail costs.
- Mangaung, which obtains bulk water from Bloem Water, which gets its water from the Caledon River, shows approximately 12,5 per cent in resource costs, 62,5 per cent in bulk water costs and retail costs of 25 per cent.
- Maluti Villages in Alfred Nzo district in the Eastern Cape, gets water from springs in the Maluti mountains, requiring no treatment and no pumping. The infrastructure is grant-funded and therefore no capital charges are included. The pricing is made up of bulk costs at 16 per cent and retail costs at 84 per cent.

Figure 11.2: Build up of water supply tariff



Source: PDG Study.

Rand Water and Umgeni had real increases over the past 5 years

The figure indicates that Rand Water and Umgeni Water have had annual increases of 8 per cent and 6 per cent respectively in real terms over the last five years[2]. On average the tariffs have increased by 2,9 per cent per annum over the last two years, in real terms, but by 12,7 per cent for the three years before that. This suggests an overall increase of 7,5 per cent for the last five years per annum in real terms (adjusted for inflation). As indicated above, the reason attributed by the Water Boards for the high increase in earlier years in the case of Umgeni relates to the additional costs of providing water in townships which were previously under separate administrations as well as previously unserved rural areas. In the case of Rand Water, it is primarily due to the rapidly increasing raw water charge paid for water from the Vaal system, augmented by water from the Lesotho Highlands scheme.

Annexure C provides further information on monthly household bills for a sample set of municipalities. The sample represents a small and large household, and charges for property taxes, electricity, water, sanitation and refuse removal.

Table 11.18 shows tariffs paid to water service providers from a sample set of municipalities. The table also reflects retail prices charged to different consumer categories, and the number of connections and cut-offs. Msunduzi pays R2,29 per kl while Mafikeng pays R1,64 per kl for bulk water. Mafikeng is therefore able to charge lower tariffs to its end users.

[2] It is unclear on the methodology used in arriving at these figures.

Table 11.18 Pricing and tariffs: Water and sanitation: 2002-03 budgeted

R per Kl	Mafikeng	Rustenburg	Msunduzi
Tariff paid to Water Service Provider	R 1,64	R 2,31	R 2,29
category			
Domestic/ Residential Consumers	R 4,20	R 4,70	R 5,62
Commercial Consumers	R 2,30	R 4,05	R 5,86
Industrial and Mining Consumers	R 4,20	R 4,05	R 5,86
Irrigation & Agricultural Consumers	R 4,20	N/A	N/A
Number of connections to consumers	12 000	43 885	400
Number of cut-offs/ Disconnections	N/A	6 000	N/A

Source: National Treasury Survey (March 2003).

Sanitation

Little information available on sanitation services

The provision of sanitation is expensive for water-borne systems. This is because waste water must be transported away from the users. Waste water reticulation is more expensive than water supply infrastructure and the waste water must be treated to a high standard before it is discharged back into the rivers for re-use by other consumers. These costs impact on the provision of free basic services. As an example, there appears to be considerable variety in municipalities on their sanitation tariff policy. Tshwane municipality charges a fee per toilet connection for residential users irrespective of water consumption or household numbers. Sewerage charges for a household in the City of Johannesburg are based on plot size, while in Cape Town charges are based on the metered amount of water consumed.

Conclusion

The financial structure of the water sector is complex, reflecting both the financing of trading services in a municipal context and the financing of natural resource management and development.

The Department of Water Affairs and Forestry has established a policy and regulatory framework which is being implemented and is now increasingly focusing on the monitoring of the performance of water management institutions.

In the area of water services, a system of regulatory oversight of Water Boards has been established, which is producing a regular flow of structured financial data. The situation in the municipal context is less clear since the new municipalities have not yet established effective financial systems which allow sectoral reporting and analysis.

However, given the need to protect scarce water resources, and yet at the same time make such services accessible to poor South Africans and ensure that pricing policies do not undermine inflation targets, Government faces a considerable challenge. This also relates to Government's role as both provider and regulator, in particular the regulation of monopolistic pricing tendencies, and the need to ensure that inefficiencies by water suppliers are reduced and not passed on to consumers. Government is reviewing its whole approach to the price-setting process in the public sector.

The provider and regulator roles also raise other issues. For example, the water and electricity sectors are structured differently, and deal with the role of the regulator differently. While the electricity sector is moving towards establishing regional distributors, in the water sector this role is performed by municipalities and Water Boards. The question that arises is to what extent there should be consistency in the approach in the two sectors, without weakening the local sphere's role in the provision of these services.

In the area of water resources, the Department of Water Affairs and Forestry is building its resource economics capacity to be able to manage the challenges of inter-sectoral allocation and financing. These will become more acute as demand increases from a finite supply of available water.

The area of sanitation also requires further information to ensure that an appropriate policy for free basic sanitation is developed. It is also necessary to ensure that the impact of waste water generated by water-borne sanitation systems can be managed without damaging the water resource.

12

Electricity

Introduction

The electricity sector plays a key role in both economic and social development. Together with housing and water, Government has prioritised the provision of electricity to all households to improve the standard of living, and to alleviate poverty in South Africa.

Electrification of households is one of Government's priority programmes

South Africa has some of the cheapest electricity in the world. This lowers the cost of doing business and supports growth and employment. The highly successful housing electrification programme has shown the benefits of expanding domestic access to electricity.

The electricity industry consists of three main functions: generation, transmission and distribution. Generation is the process of producing electricity, transmission takes place via the high voltage long distance network, and distribution involves the local wires that deliver electricity to consumers. Coupled with these engineering functions are business and financial structures, such as the electricity retail sales operation.

Government is a key player in the electricity sector

The national and local spheres of Government play key roles in the electricity sector. National Government does not play a direct role, but is an agent through the wholly-owned public company Eskom, which owns the vast majority of generating (about 96 per cent) and transmission capacity. It also distributes electricity to major industrial users, business and households. Eskom and municipality distribution networks often overlap. Municipalities are the key distributors of electricity to households and businesses, and a few municipalities, such as Johannesburg, Tshwane, Cape Town and eThekwini metropolitan municipalities, currently still play a role in generation.

Municipalities are involved in distribution

The Constitution empowers municipalities with responsibility for the reticulation of electricity. The current arrangements in distribution are the result of the apartheid legacy, where the previously white municipalities distributed electricity to white areas, and Eskom to black townships and some previous homeland areas. The few regional electricity utilities providing electricity to previous homelands were absorbed into Eskom around the time of the country's democratisation.

Department of Minerals and Energy sets the policy and regulatory framework for the industry

Through the Department of Minerals and Energy, Government sets the framework for the operation of the industry, as outlined in the White Paper on Energy of 1998 and the restructuring framework for the supply (generation and transmission) and distribution sides of the industry. The National Electricity Regulator (NER) also plays a key role in the sector, as it licenses distributors, oversees both quality standards within the sector and regulates tariffs set by Eskom and municipalities.

The next few years will see the electricity industry undergoing restructuring

The electricity sector faces considerable challenges in the next few years, as it undergoes significant restructuring. The goal of restructuring is to create an industry which is competitive at the levels of generation, transmission and distribution. This is a common approach in many countries, and its benefits are expected to arise from the price reducing effects of competition, the greater predominance of economic as opposed to engineering imperatives, and the ability to fully regulate the uncompetitive parts of the industry.

Focus is on restructuring the distribution and supply industries

Government has made two major decisions on restructuring. The first is to restructure the Electricity Distribution Industry (EDI). In 2001, Government determined that the distribution of electricity be separated from municipalities and Eskom, and merged into six regional electricity distributors (REDs) wholly owned by municipalities.

The second decision is to restructure the electricity supply industry (ESI). The ESI restructuring involves three key aspects: the sale of 30 per cent of Eskom's generating capacity to private investors, with a black empowerment equity stake of at least 10 per cent of capacity; the separation of Eskom into several generation clusters and a separate transmission company; and the introduction of an electricity market, which will ensure competition between the different electricity generators. These reforms will begin during the course of 2003.

Role of local Government

This chapter covers both the current state of play in the industry, and the future it faces, with the focus on local Government. The chapter should be read in conjunction with other chapters on local Government, particularly Chapter 3 on local government finances, *Annexure C* on specific municipal budgets, and Chapter 10 on personnel.

Electrification and free basic services

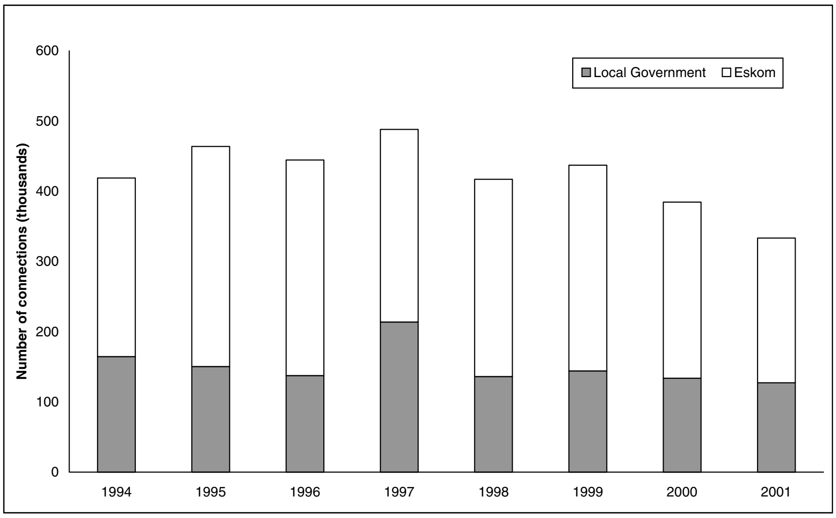
3,5 million homes have been electrified since 1994

One of Government's key objectives is the electrification of all households, and the provision of free basic electricity to poor households. The electrification programme must rate as one of the most significant achievements by this country, and unprecedented internationally, as 3,5 million homes have been electrified since 1994. This translates into over 435 000 homes per annum. Figure 12.1 shows connections that have been made since 1994. The electrification programme is expected to continue over the medium term, committing R3,3 billion in the 2003 MTEF.

30 per cent of households without electricity

Despite the inroads made in electrifying homes in urban centres, there is still a significant backlog. Nationally, the backlog is estimated to be around 34 per cent of households without electricity. These may persist due to the high rate of increase in informal settlements. The biggest backlogs are in rural areas, with 51 per cent of households still without electricity. The biggest backlogs are in KwaZulu-Natal, Eastern Cape and Limpopo provinces, with the former two provinces having 64 per cent and 62 per cent respectively of rural households without electricity.

Figure 12.1 Overview of electrification performance since 1994



Source: Department of Minerals and Energy

Backlogs have been reduced but remain high in rural areas

The overall level of backlogs in urban areas has been reduced to an average of 23 per cent, with the highest levels of backlog in KwaZulu-Natal at (33,0 per cent), Gauteng (28,1 per cent), Mpumalanga (24,2 per cent), and Northern Cape (22,7 per cent). The high level in Gauteng is probably indicative of increasing informal settlements, and suggests that further inroads in electrification in urban areas may be linked to the expansion of formal housing to such households, and the provision of free basic services.

Table 12.1 Percentage of non-electrified households as at end of 2001

	Total (%)	Rural (%)	Urban (%)
Eastern Cape	41,5	62,3	9,5
Free State	28,6	50,5	18,9
Gauteng	29,3	57,5	28,1
KwaZulu-Natal	46,7	64,4	33,0
Limpopo	37,7	41,9	12,5
Mpumalanga	28,1	30,9	24,2
Northern Cape	29,3	40,8	22,7
North West	29,5	45,9	3,3
Western Cape	17,7	31,4	16,1
National	33,9	50,9	22,8

Source: NER.

Electricity consumption

Table 12.2 outlines electricity consumption across the provinces, and the use of energy by different customer sectors within provinces, in 2000.

Table 12.2 Electricity consumption by sector

MWh 1000's	Total electricity sales	Domestic	Agriculture	Mining	Manufacturing	Commercial	Transport	General
Eastern Cape	5 755	2 032	221	3	2 061	764	180	494
Free State	7 368	1 531	238	4 057	993	442	90	805
Gauteng	52 039	14 492	495	5 166	9 764	8 644	710	2 769
KwaZulu-Natal	34 282	5 336	405	174	20 321	3 092	2 808	2 143
Limpopo	14 275	1 374	433	8 076	3 143	518	210	504
Mpumalanga	36 628	2 288	629	3 550	27 866	575	520	1 200
Northern Cape	2 177	495	239	597	218	183	224	201
North West	16 947	3 074	467	9 669	2 646	349	162	179
Western Cape	19 177	5 465	1 086	775	8 189	1 881	701	1 079
Total	**188 648**	**36 087**	**4 213**	**32 067**	**75 201**	**16 448**	**5 605**	**9 374**

Source: NER.

Total electricity consumption is 188 648 megawatts-hours. The manufacturing sector makes up 40 per cent, followed by the domestic sector at 19 per cent and mining at 17 per cent.

Gauteng consumes the largest share of electricity

At the provincial level, the biggest user of electricity is Gauteng followed by Mpumalanga.

Table 12.3 provides information on electricity sales by customer classes. In 2002 the total number of residential customers exceeded 3,3 million, while the agricultural and commercial customer bases are 79 000 and 48 000 respectively. In the same year, re-distributors account for 40 per cent of Eskom sales followed by the industrial sector at 28 per cent.

Table 12.3 Eskom sales of electricity to categories of customers

	Number of Customers		%	GWh Sold		%
	2001	2002	Change	2001	2002	Change
Redistributors (municipalities)	989	734	-25,8%	72 189	74 636	3,4%
Residential	3 159 990	3 283 848	3,9%	7 301	7 888	8,0%
Commercial	35 534	48 514	36,5%	6 407	6 483	1,2%
Industrial	3 416	3 215	-5,9%	48 664	51 581	6,0%
Mining	1 337	1 252	-6,4%	31 923	32 549	2,0%
Agriculture	72 519	79 125	9,1%	4 224	4 009	-5,1%
Traction	600	511	-14,8%	3 481	3 259	-6,4%
Distr International	46	5	-89,1%	286	228	-20,3%
Eskom International	8	8	0,0%	6 710	6 956	3,7%
Internal	424	440	3,8%	326	368	12,9%
Total	**3 274 863**	**3 417 652**	**4,4%**	**181 511**	**187 957**	**3,6%**

Source: Eskom Annual Report 2002.

Table 12.4 shows the customer profiles for a sample of municipalities, measured in terms of number of consumers. It is evident that the residential customers are the biggest consumer segment, followed by commercial users.

Table 12.4 Electricity consumer profile in selected municipalities: 2002-03

	Residential Consumers	Commercial users	Industrial and Mining	Agricultural and Pre-Paid users	Total
Tshwane (Pretoria)	302 171	7 056	811	5 295	315 333
Ekurhuleni (East Rand)	278 711	14 952	6 778	3 634	304 665
Msunduzi (Pietermaritzburg)	55 892	7 482	–	–	63 374
Drakenstein (Paarl)	24 017	3 094	1 640	–	28 551
Rustenburg	15 573	2 599	Unavailable	10 472	28 644
eThekwini (Durban)	471 875	43 432	814	–	516 121

Source: National Treasury Survey.

Free basic services

R300 million allocated for free basic electricity

The implementation of a free basic electricity policy relates to the provision of appropriate levels of service. Government has allocated R300 million for the provision of free basic electricity to poor households nationally as part of the local government equitable share of nationally raised revenue. These funds will be allocated to municipalities. Regular reporting by municipalities on the rollout of this policy in their respective jurisdictions is imperative for Government to measure this policy.

50 kWh free electricity per month for grid connections

The provision of free basic electricity in terms of the grid-connected customers will be made on a self-targeting basis, where poor households choose the benefit from subsidies, subject to being connected to a reduced level of supply (10Amps). This means that a poor household, legally connected to the national grid at a metered point of supply, will be issued with free basic electricity of 50kWh per month. The average cost of this benefit is about R25 and will depend on prevailing service provider tariffs.

The free basic electricity allocation will enable a poor household to have sufficient energy for lighting, ironing, water heating, TV and radio.

Subsidy of R48 per month for non-grid connections

In the case of consumers using non-grid electricity supply technologies, a capped maintenance and operational cost of R48 per month is made available to assist households connected to Solar Home Systems (SHS). These systems can provide sufficient electricity for a small black and white TV, basic lighting and a small radio.

It is estimated that a further 15 000 households will benefit this year and a rollout to 300 000 households by 2007 is planned.

The major challenge for the electrification programme now lies in the rural areas. Given the low household density levels associated with high capital and running costs and lower revenue earning capacity, the rollout will be more expensive than for urban areas.

Government funds electrification through the Department of Minerals and Energy

The Department of Minerals and Energy began funding the National Electrification Programme (NEP) in April 2001. It was previously funded through Eskom, which was exempt from corporate taxes. Eskom is still responsible for the implementation of the programme in its supply areas. The operating costs continue to be the responsibility of the licensed distributors. According to its 2002 annual report, Eskom spent R546 million in 2002 (R441 million in 2001) and electrified 211 628 homes (209 535 in 2001), including those of farmworkers for and on behalf of the Department of Minerals and Energy. Eskom has honoured its three-year commitment made in 1999 to electrify a further 600 000 homes between 2000 and 2002, exceeding this target by 77 186 household connections.

Eskom plays a crucial role in electrification of schools

Eskom has also undertaken a limited programme to electrify schools and clinics. As from 2003, the Eskom Development Foundation no longer funds the schools and clinics electrification programme as this is now all funded by the Department of Minerals and Energy. Funding from the Foundation amounts to R9,6 million covering 197 schools and clinics in 2001, and R4,0 million covering 61 schools and clinics in 2002. The bulk of funds amounting to R3 million covering 109 schools and clinics in 2001 and R41 million covering 915 schools and clinics in 2002, was funded by the Department of Minerals and Energy.

The primary responsibility for this electrification resides with provincial departments of Education and Health, but they provide very little information on progress made in this area. From a policy perspective it is preferable if the electrification of schools and clinics is funded from provincial budgets directly.

R3,3 billion for electrification over the next three years

Government currently funds electrification through grants to municipalities and Eskom. It provides funding for electricity infrastructure through the electrification capital grant and other infrastructure grants. The 2003 Budget provides R1,1 billion in each of the first two years and R1,2 billion in the third year of the MTEF. Linked to the costs of electrification are the costs of providing free basic electricity, that Government funds through the equitable share allocation to municipalities, which allocates funds for the provision of basic services to poor households. The provision of these funds is also meant to reduce the pressure on cross-subsidisation between urban and rural areas, and between industrial and domestic customers.

Municipalities are key to successful rollout of free basic electricity…

The challenge for municipalities is to ensure the smooth rollout of free basic services, including electricity. The results of a recent survey on the implementation of free basic services among 202 municipalities, conducted by National Treasury and the Department of Provincial and Local Government, revealed that most municipalities are providing free basic services, albeit to varying degrees.

… but services among municipalities are not standardised

The approach to providing free basic electricity also differs, with some municipalities providing a certain level of kilowatts free and others providing rebates through their tariff policy. The majority of municipalities provide between 10kWh to 50kWh free. Two of the municipalities surveyed provide more than the first 50kWh of electricity free. These are Stellenbosch, which provides the first 70kWh free, and Polokwane (formerly Pietersburg), which provides the first 100kWh of electricity free. In terms of the survey, for electricity, the number of poor households (measured by 4,5 persons in each household) benefiting from the provision of free basic services is 1,3 million. Currently Eskom does not provide free basic electricity to the poor in its distribution areas in former black townships and homelands. This poses a major challenge for Government and it is hoped that new legislation will formalise the relationship between Eskom and municipalities through service-level agreements.

The structure of the electricity industry

Players in the electricity sector

This section outlines the size of the electricity industry, Eskom and municipalities in relation to their budgets, assets, number of employees, and number of connections.

Electricity generation dominates the electricity, gas, steam and water sector – accounting for about 90 per cent of total production in this sector. The energy sector's average contribution to gross domestic product for the past 10 years was 3,6 per cent, with electricity contributing 3,4 per cent on average.

Outputs in the electricity sector reflect trends in overall economic performance

The sector's output is typically determined by the strength of the overall economy. Furthermore, structural changes in demand have taken place, with the economy generally moving towards more capital-intensive and energy-intensive methods of production. Electricity demand has also increased because of the electrification programme aimed at making electricity accessible to communities which previously did not have access.

It should be noted that because very few municipalities run electricity as a separate cost centre, it is difficult to provide accurate figures for municipalities. This is further complicated by the fact that as municipalities have been restructured three times since 1993, resulting in break-ups and mergers, and are still consolidating their activities, the information provided at this stage is only estimates. In particular, liabilities for the electricity function cannot be easily attributed to the function because of the consolidated nature of capital funding and the separation of all other liabilities of the municipality.

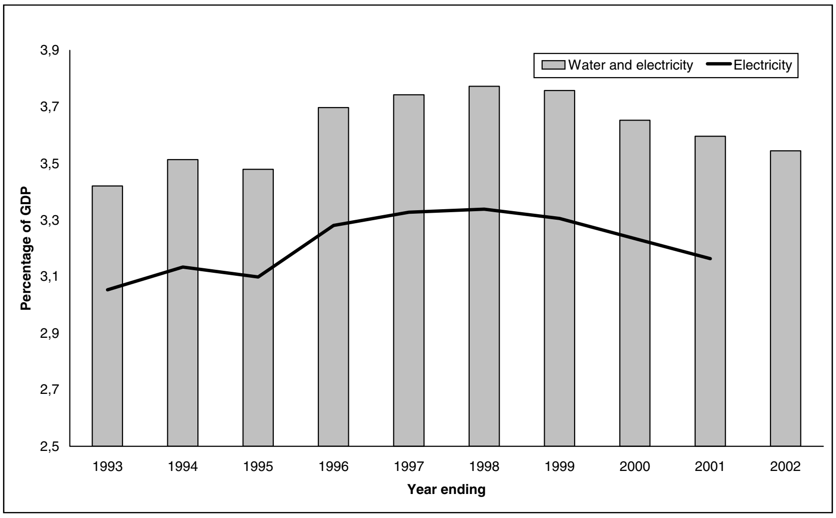
Electricity revenue runs into billions

Eskom recorded electricity revenue of R28 billion in 2002, while municipalities are estimated to generate around R20 billion, or a third of their aggregate budgets.

Historical background to electricity distribution

Historically, municipalities funded the network needed to distribute electricity to both domestic and industrial customers in towns and cities. However, black townships were excluded from municipal distribution, as Eskom, which also serviced peri-urban and rural areas, was responsible for distribution. Eskom played an increasingly important role in distribution through the housing electrification programme in black townships in the late 1980s and 1990s. The assets for electricity generation, transmission and distribution in former homeland areas were also transferred to Eskom. Eskom also provides electricity directly to very large industrial consumers of electricity, such as aluminium smelters and mining.

Figure 12.2 Electricity and water as percentage of GDP



Source: National Treasury derived from Stats SA data

Role of municipalities in electricity distribution

There are currently 177 municipal distributors, of greatly varying sizes. Eskom distributes 60 per cent of the electricity sold to 40 per cent of the total number of electricity customers, while municipalities distribute 40 per cent of electricity to 60 per cent of the customers.

This analysis will not consider the distribution of electricity to large industrial users, but will rather focus on the domestic household and business users. It should be noted, however, that given local Government's constitutional responsibility for electricity reticulation, and the right of municipalities to impose a levy on municipal services, is subject to national regulation. There is a need to clarify how, and to what extent, municipalities can levy taxes on various categories of users of electricity, including major industrial, businesses and domestic consumers. Government is in the process of developing a policy to guide and regulate municipalities in the exercise of this power. This is in the context of the broader economic objective of supporting industrial growth and businesses, and the need to replace municipal electricity surpluses in future.

Future role of municipalities envisaged to change

Because of the inherited arrangement which existed under apartheid, no municipality in South Africa provides electricity directly to all its residents or businesses in that municipality, as it shares this responsibility with Eskom. In order to give effect to the Constitution, current municipal legislation recognises municipalities as the service authority, and Eskom as a service provider contracted by the municipality to provide electricity within that municipality. This legislative vision will begin to take effect from this financial year onwards. Municipalities and Eskom are to formalise their relationship and sign service level agreements to regulate Eskom's activities within that municipality. Because of the fragmented delivery of electricity within each municipality, comprehensive information on the provision of electricity per municipality, which would include the amount of electricity and retail pricing, is not available. Even major metropolitan municipalities have little information on the provision of electricity in former black townships, which were serviced by Eskom, or even the tariff rates for residents of these areas.

Tariffs and subsidies

Uncompetitive industry structure creates inefficiencies

One of the most critical areas for reform in the electricity sector is the tariff-setting process. Tariff structures are currently very complicated, inequitable and opaque. Tariff complexity arises from the lack of competition in generation and transmission, the diverse and discriminatory tariff structures between types of users, and exemptions adopted by municipalities.

Provision of free electricity is a challenge for municipalities

Municipalities face the challenge of providing free basic electricity to poor residents, and affordable and cheap electricity for all other domestic users and businesses. Municipalities are also expected to limit any increases to the below-inflation targets set by national Government, in order to achieve low inflation targets. It is difficult for municipalities to achieve these objectives if bulk suppliers like Eskom continue to increase their prices at rates higher-than-inflation.

Extent of cross-subsidisation has implications for economic activity

Municipalities have also inherited antiquated and discriminatory pricing policies, which tend to undermine national economic objectives. For example, under apartheid municipalities, businesses generally paid higher tariffs than residents, and thus effectively cross-subsidised residents. This policy did not impose an undue burden on businesses, as the subsidy was targeted at a relatively small number of domestic users, drawn from minority communities. However, now that services have been expanded to majority and poor communities, this policy potentially imposes very high costs on businesses. This, in effect, undermines one of Government's objectives of promoting job-creation through greater business activity.

Different forms of cross-subsidies

There are several forms of cross-subsidies inherent in the tariff system. The most significant are cross-subsidies between different types of customers, while there are also cross-subsidies within customer classes. In general, cross subsidies arise in different ways: in some areas domestic and agricultural customers are cross-subsidised by industrial customers; and in other areas the system operates in the opposite way. For example, there are special arrangements with large industrial users that can negotiate quantity discounts and other incentives.

There are also geographic cross-subsidies, emanating from two sources. Eskom has uniform tariffs across the country, although the cost of running a distribution network in one area will not be equal to that of another area, leading to cross-subsidisation. There are also cross-subsidies paid through the transmission network. Transmission prices do not reflect the true cost of carrying electricity to the areas of the country that are far from generators, in particular the Western Cape, Northern Cape and Eastern Cape. These areas are therefore effectively subsidised by those close to the generators, Mpumulanga, Gauteng and Limpopo in particular.

Pricing behaviour varies widely across municipalities

There is a very wide range of tariffs between different municipalities. In some cases tariffs for low-use domestic consumers range from 23c per kWh to 120c per kWh. This, in part, reflects the different levels of the municipal surpluses, but also different tariff structures (the levels of cross subsidies) and the effect of very different customer bases and networks. Some municipalities will have to have relatively high tariffs due to the high costs of running their networks. *Annexure C* contains electricity charges on two types of households for a selection of municipalities.

Table 12.5 Sample of municipal tariffs on electricity - 2002

	Residential			Business
	Basic tariff per month	Residential	Free service	
Johannesburg	-	0,233 r/kwh	50 kwh	R500 basic tariff per month and 0,114 r/kwh
Tshwane (Pretoria)	-	0,343r/kwh	50 kwh	-
Musina (Messina)	-	0,306 r/kwh	-	0,358 r/kwh
Nkomazi (Malelane)	-	0,297 r/kwh	-	R59,70 basic tariff and 0,285 r/kwh
Emthanjeni	R26,63	0,346 r/kwh	-	R42,62 basic tariff and 0,346 r/kwh

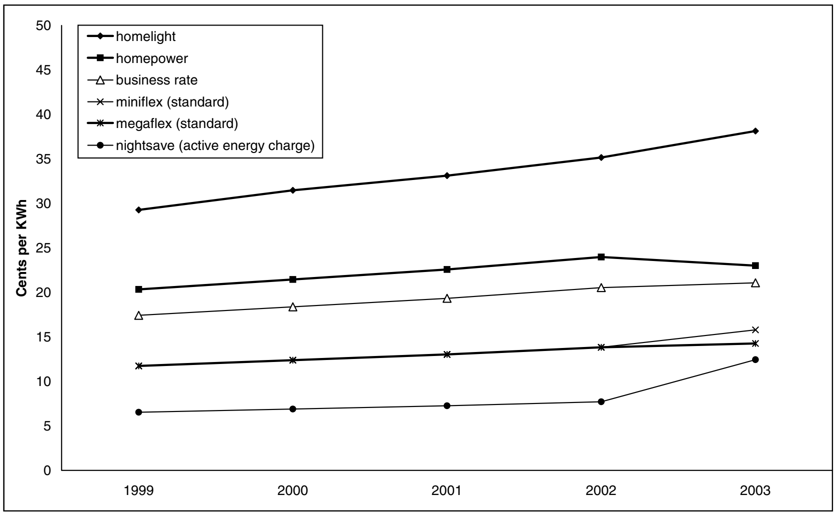
Source: National Treasury Survey.

Pricing system is not transparent

Bulk pricing strategies are also opaque and not disclosed. The latest annual report of Eskom for 2002, provides no information on bulk prices per municipality, nor on its pricing strategy. Municipalities with their own alternative generating capacity claim that they have been able to negotiate better prices from Eskom than those for municipalities with no alternative. Figure 12.3 shows the paths of different Eskom tariffs over time. The homelight tariff is used by small domestic grid-connected consumers; homepower applies to larger domestic customers; and the remaining tariffs apply to businesses, with the largest customers using megaflex.

The chart shows that domestic tariffs are higher than business tariffs, and also that tariffs tend to fall as customers get larger. This is in part due to the use of the standard tariff for miniflex and megaflex, whose peak time tariffs are higher than those for domestic consumers. It also reflects the higher costs of delivering electricity to domestic customers and the economies of scale achieved larger consumers.

Figure 12.3 Eskom tariffs - 1999 to 2003



Source: Eskom

Cross-subsidies should not lead to inefficiencies

Cross-subsidies are rarely efficient, as the true cost of electricity is not reflected in the price. This leads to inefficient allocation of resources. Where there are social benefits from lower electricity prices these should ideally be funded from external direct subsidies (as with free basic electricity), or at least be set out in a clear and transparent policy.

The NER regulates Eskom's pricing

The current tariff setting process is not ideal. Eskom tariffs are actively regulated by the National Electricity Regulator (NER). However, this is within a limited overall framework, done annually and based on Eskom's rate of return on assets. The regulation of municipal tariffs is also limited, if only because it is not possible for the Regulator to actively regulate so many varied tariffs. Very little consideration is given to government's inflation targets and on the impact on consumers.

During 2002, the NER approved a general price increase of 8,4 per cent for 2003 (6,0 per cent in 2002), which is above the South African Reserve Bank's inflation target for 2003. Such increases are of great concern to Government, as it is unclear to what extent this impacts on efficiency, and cross-subsidisation of non-core activities.

Plans are afoot to expand the role of the regulator

Government is seeking to expand both the authority and capacity of the NER to regulate effectively and prudently. The Energy Regulation Bill proposes a regulatory regime that would enable the NER to regulate all electricity tariffs that it believes are in need of its oversight. Government is also working to unravel the tangle of cross-subsidies and to set out a clear policy on their use. It is also in the process of assessing how regulatory agencies like the NER take into account broader economic objectives, such as inflation targets, competitiveness and consumer interests. Regulatory agencies are more effective in regulating monopolistic pricing practices and forcing efficiency gains by suppliers. It is also imperative that regulators fully comprehend the fiscal transfer system, and that redistribution for basic services is better effected through national transfers than through cross-subsidisation.

Government's role in redistribution

The critical issue is how best to fund services for poor communities, and to what extent a sector like electricity should be self-sufficient. It is desirable to have a system that is transparent and well targeted to ensure effective policy outcomes, whether through a taxation system or transfer system. There is limited scope for cross-subsidisation at the level of local Government due to its limited geographical and fiscal base. National Government therefore plays a more critical role in redistributing resources.

National grants are the best form of subsidisation

It is the view of national Government that poor households are best subsidised through national grants, rather than cross-subsidisation between consumers. The current local government equitable share formula is designed to provide funding for these services. To the extent that there are subsidies, these must be transparent. In spite of national Government confirming this approach in the last budget, key price-setters such as Eskom, municipalities and the NER appear to focus only on the rate of return for the sector. This is why they argue for higher prices, and higher levels of cross-subsidisation between consumers. This approach has tended to undermine national Government's macroeconomic objectives. In this context, the Governor of the Reserve Bank has warned against the adverse effect of administered prices, as in the electricity sector.

Municipal and Eskom budgets for electricity

R20 billion budgeted for electricity

The municipal budgets for electricity are estimated to be at least R20 billion. The biggest municipalities alone project to purchase R8,2 billion of electricity in 2002-03, with their electricity budgets totalling R13,2 billion. Electricity comprises the largest component of municipalities' budgets.

Larger municipalities derive significant income from electricity distribution

Table 12.6 shows the operating and capital budgets of a sample of selected municipalities. These budgets show the extent of spending in these areas. Generally, the larger municipalities are more financially reliant on the distribution of electricity for both their operating expenditure and income budgets. Electricity income of about R2 billion comprises 33 per cent of the Tshwane budget. For Nelson Mandela Metropole, this amount is just over R800 million. These amounts exclude annual maintenance spending.

Capital funding is also sizeable, at R89 million for Tshwane, R82 million for Nelson Mandela Metropole and R58 million for Mangaung.

Table 12.6 Electricity income and expenditure in selected municipalities: 2002-03

R thousand	Operating expenditure	Operating income	Maintenance expenditure	Capital expenditure
Mangaung (Bloemfontein)	358 159	382 326	44 722	58 093
Tshwane (Pretoria)	1 716 198	1 999 351	192 794	88 659
Nelson Mandela (Port Elizabeth)	826 281	826 281	14 083	81 617
George	93 030	98 832	5 340	4 934
Knysna	36 266	47 721	1 974	4 761
Middelburg	79 284	88 232	3 622	3 536

Source: National Treasury Survey.

Collection of revenue remains a major challenge

Table 12.7 shows the number of connections, cut-offs, billings and tariffs in different Eskom sales areas. A major challenge facing both Eskom and municipalities is the collection of revenue. Municipalities are struggling to collect all billed revenue. Neither is Eskom doing any better. Eskom's 2002 annual report indicated a total of R4,2 billion in local debtors, including rising levels of outstanding bills in its central region, mainly in Soweto. Reports indicate a decreasing compliance from 61 per cent in 2001 to 36 per cent in 2002. Bad and doubtful debtors amounted to R337 million in 2002, compared to R169 million in 2001. Significantly, Eskom's attempts to write off such arrears will create expectations for municipalities to do the same. It is important that Eskom and municipalities co-ordinate how they manage and execute write-offs.

Table 12.7 Eskom electricity sales per selected municipality

Region	Area	No. of connections		No. of cut-offs		Total billed (R'm)		Rate (R/kwh)		Payment levels (%)	
		2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Western	Cape Town	60 477	56 345	24 491	30 465	186	206	0,29	0,32	98	100
Southern	Buffalo City	84 511	75 427	31 142	34 399	58	81	0,32	0,34	100	100
North Eastern	Tshwane	50 081	47 733	33 381	61 804	117	127	0,33	0,33	79	60
Northern	Polokwane	142 136	146 113	52 212	55 053	153	204	0,34	0,36	92	98
Central	Randfontein, Benoni, Vereniging, Soweto	235 665	222 090	164 602	67 197	524	611	0,27	0,29	61	57
	Soweto (ring-fenced)	*117 952*	*117 420*	*86 734*	*33 242*	*188*	*217*	*0,29*	*0,31*	*61*	*36*
North Eastern	Mangaung	26 413	18 498	2 126	3 191	88	74	0,28	0,30	100	100
Eastern	eThekwini	56 125	49 404	1 851	4 521	174	223	0,29	0,31	98	100

Source: Eskom.

Table 12.8 indicates the extent of bulk purchases, sales and estimated losses in the larger municipalities. The losses range from 13 per cent in the case of Nelson Mandela Metropole to 7 per cent in Middelburg.

Table 12.8 Budget (GWhs): 2002-03

	Total bulk purchases	Total sales to all customers	Estimated technical losses
Mangaung (Bloemfontein)	1 248	1 175	73
Tshwane (Pretoria)	7 899	6 921	978
Nelson Mandela (Port Elizabeth)	3 098	2 915	412
George	362	349	19
Knysna	165	150	2
Middelburg	304	282	22

Source: National Treasury Survey.

Cost of employment to the sector

Table 12.9 shows the employee costs for a sample of municipalities. The average cost per employee in Johannesburg is R148 000, R123 250 in Tshwane Metropole, R110 678 in Nelson Mandela Metropole, R113 525 in Mangaung, and R83 055 in George. These differences will pose a challenge for the restructuring process, as wages from the different municipalities are to be standardised. Regional electricity distributors will need to contain the share of personnel costs, by ensuring that wages and salaries do not tend towards the highest salaries in the highest-paying municipalities.

Table 12.9 Employee costs: 2002-03

	No. of employees	Total cost of employees R'000	Average costs R'000
Johannesburg	1 970	291 562	148
Mangaung (Bloemfontein)	518	58 806	114
Tshwane (Pretoria)	2 092	257 838	123
Nelson Mandela (Port Elizabeth)	747	82 677	111
George	117	9 717	83
Knysna	43	3 944	92
Middelburg	75	6 661	89

Source: National Treasury Survey.

Through municipalities and Eskom, the electricity sector is a large employer. Different municipalities show varying average salary costs and conditions of service. Eskom employed 29 359 people in 2002. The average salary of Eskom employees to be transferred to regional distributors is not known, but is probably higher than most municipalities. Exact personnel numbers for municipalities are not available, though they are estimated to be in the region of 25 000 employees nationally.

Reforms in the distribution industry

Challenges in reforming the industry

The current electricity distribution industry is fragmented, with one very large distributor, several medium-sized players, and many very small players. This diffuses skills, reduces efficiencies and puts small municipal distributors under significant pressure. These distributors often have overlapping boundaries, like between Eskom and the municipalities, with consequent inefficiencies. Coupled with this are wide variations in tariffs within and across municipalities.

In restructuring of the distribution industry, Government's aim is to create economically viable, efficient service providers capable of contributing to local economic development.

Industry reforms aimed at improving efficiency

In reforming the industry, benefits should accrue from increased efficiency and more coherent pricing. Eliminating overlaps increases efficiency – for example, through sharing facilities – and creates economies of scale; and rationalising tariffs ensures that prices are consistent across different classes of consumers, which sends out the right economic signals.

However, there are also significant risks and costs involved in the move to regional distribution. Perhaps the largest is the risk that these do not become effective and financially sustainable operations. If the regional distributors do not function properly, the quality of service delivery will fall and they will be financially unsustainable.

Regional distributors will also need to have comprehensive and coherent tariff structures, as this will help both maintain financial sustainability and realise some of the potential gains from moving to regional operations.

Finally, the costs of creating the regional distributors will need to be minimised. Much of this is related to the costs of transferring assets, liabilities and staff, but there are also costs associated with the new regional structure and their treatment of facilities. It will be particularly important that the implementation of regional distributors seeks to minimise these costs by making as much use as possible of existing infrastructure.

Restructuring moves to implementation phase

The restructuring process is now moving into the implementation phase. Restructuring begins with the creation of the EDI Holding Company, wholly owned by national Government. The Company will essentially be a project company, with its core mandate to achieve the restructuring of the industry and the creation of financially viable regional distributors.

The regional distributors are to be built up in an organic manner, through Eskom distribution divisions, consisting of the individual ring-fenced entities, and the large municipal distributors. This is set to happen by the end of 2004. The remaining municipal distributors will be incorporated over the following 18 months, and setting up the regional distributors should be completed by mid-2006.

A key role of the EDI Holding Company will be to oversee the ring fencing of electricity businesses, particularly within municipalities, which will have to ensure that their electricity businesses can be transferred as stand-alone entities. Similarly, the Eskom distribution business will need to be ring fenced as stand-alone entities.

Creation of financially viable regions central to reforms

The proposed regional geographical boundaries have been determined according to a number of criteria. The underlying aim has been to create financially viable regional distributors, with tariffs that do not vary too much across the supply area. The final boundaries will be subject to a very detailed analysis of the individual networks and financial viability. It is proposed that the new areas contain a good mix of areas with high and low concentrations of electricity consumption, in order to provide a sound base. The challenge facing such regional distributors is that the local level of cross-subsidies should be sustainable and reflect little variance in user tariffs. The capacity of regional distributors to raise revenue does not depend only on its customer mix, but is directly related to tariff levels. This is constrained by the objective of having similar tariffs between the different regional distributors.

Future role of Eskom might change

An important factor will be how the ownership of the regional distributors will be determined. It may be based on the ownership of assets or the extent to which the asset base is aligned to customers and income-generation potential. Given local Government's constitutional mandate, it is probable that Eskom will not play a role as service authority for electricity distribution, particularly for households and businesses. This may mean the complete divestiture of Eskom in the distribution business and all assets being transferred to municipalities so it can be owned and operated at local government level. This option will greatly enhance local accountability and strengthen local governance and customer relationships.

However, the regional distributors face the further challenge of ensuring effective governance as they will be co-owned by many municipalities. Recent parliamentary hearings on the Municipal Finance Management Bill have outlined some of the difficulties of effective governance when a municipal entity ownership is shared between two or more municipalities.

Further challenges of restructuring

The transfer of staff will be a major challenge for restructuring, as conditions of service need to be harmonised. The lessons from the transfer of staff from former R293 towns must be utilised, as well as the lessons from amalgamating various parts of previous municipalities after the demarcation process. It is critical that all support staff are also transferred to the new institution if municipalities are not to be left with surplus staff after the restructuring. In addition, apart from asset transfers, an even more difficult challenge is to identify what liabilities incurred for electricity in the past will be transferred, including loans, and medical and pension liabilities.

Effects of restructuring on municipal revenues

One of the biggest challenges facing the creation of regional electricity distributors is the effect on the finances of municipalities. Municipalities currently earn significant amounts of surplus income from their electricity function, which they use to fund general municipal expenditure. This surplus is earned through municipal distributors charging significantly more for their electricity than it costs them to deliver it. It is in effect a local levy on electricity, but one that is not consistently applied across a municipality, as Eskom customers do not pay such a tax to the municipality (though they may do to Eskom). Imposing this levy would not necessarily be harmful to the sector or economy, especially if it is regulated by national legislation.

Case study: Johannesburg – City Power

Johannesburg is one of the few municipalities to ring-fence electricity revenue and expenditure. Table 12.10 outlines the budget of the municipal entity, City Power.

Table 12.10 Multi-year Budget for City Power: 2002-03

Total Income and Expenditure	2001/02	2002/03	2003/04	2004/05
R million	**Revised**	**Budget**	**Forecast**	
Income	2 458	2 620	2 873	3 142
Expenditure	2 814	2 856	3 007	3 163
Income				
User Charges for Services	2 410	2 569	2 820	3 087
Other Income	48	51	53	55
Total operating income	**2 458**	**2 620**	**2 873**	**3 142**
Expenditure				
Employee Costs - Wages & Salaries	186	236	240	237
Employee Costs - Social Contributions	44	55	56	56
Bad Debts	153	167	183	201
Depreciation	150	144	153	162
Repairs and Maintenance	63	73	68	64
Interest Expense - External borrowings	152	114	135	160
Bulk Purchases	1 550	1 661	1 769	1 884
Contracted Services	181	82	78	70
General Expenses - Other	108	97	98	102
Direct operating expenditure	**2 587**	**2 629**	**2 780**	**2 936**
Internal Transfers	–	–	–	–
Contributions to Johannesburg	227	227	227	227
Total operating expenditure	**2 814**	**2 856**	**3 007**	**3 163**
Operating deficit/(surplus)	357	236	134	21
Less Tax	-8	–	–	–
Deficit/(surplus)	**349**	**236**	**134**	**21**

Source: City of Johannesburg Medium Term Budget 2002/03 to 2004/05.

Survey of electricity surpluses

Table 12.11 is a further study and uses two sources of data: the work carried out by Price Waterhouse Coopers (PwC) for the EDI restructuring in 2000, and a South African Local Government Association (Salga) survey in 2001. The results vary somewhat, but they are broadly similar, suggesting that the orders of magnitude are correct. The results show that the surpluses are large, and that they vary significantly across the municipalities. For example, the Salga survey suggests that the surplus ranges from 2.7 per cent in uMhlathuze to 37.1 per cent in Khara Hais. Other research also puts the surplus as significantly above 10 per cent of sales, but below 15 per cent.

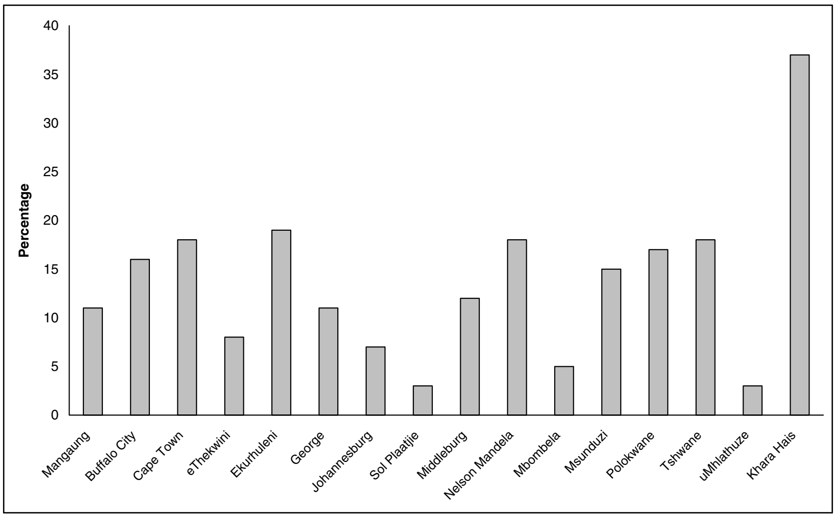
Table 12.11 Ring-fenced sample study

Municipality	2000 PwC Historic Surplus		2001 SALGA survey - Ringfenced Surplus	
R thousand				
Mangaung (Bloemfontein)	35 137	12,70%	40 831	11,25%
Buffalo City (East London)	36 812	15,90%	n/a	n/a
Cape Town	306 824	18,20%	n/a	n/a
eThekwini (Durban)	70 950	3,30%	170 483	7,54%
Ekurhuleni (East Rand)	246 174	14,10%	402 494	19,23%
George	8 784	11,50%	10 210	11,92%
Johannesburg	245 650	11,60%	164 309	6,82%
Sol Plaatje (Kimberley)	3 127	3,40%	n/a	n/a
Middelburg	13 231	19,40%	9 588	12,01%
Nelson Mandela	107 403	16,60%	129 493	17,81%
Mbombela (Nelspruit)	3 784	4,70%	n/a	n/a
Msunduzi (Pietermaritzburg)	14 268	4,90%	50 638	14,60%
Polokwane (Pietersburg)	20 891	16,60%	n/a	n/a
Tshwane (Pretoria)	211 881	13,00%	306 436	18,34%
uMhlathuze (Richardsbay)	6 204	3,20%	4 576	2,64%
Khara Hais (Upington)	11 605	28,00%	16 871	37,11%

Source: PwC (2000) and SALGA survey (2001).

Figure 12.4 shows the variation in size of the implicit levy on electricity. Figure 12.5 sets out the contribution to income that the electricity distribution function provides, compared to rates income.

Figure 12.4 Historic Municipal Sales as a percentage of sales

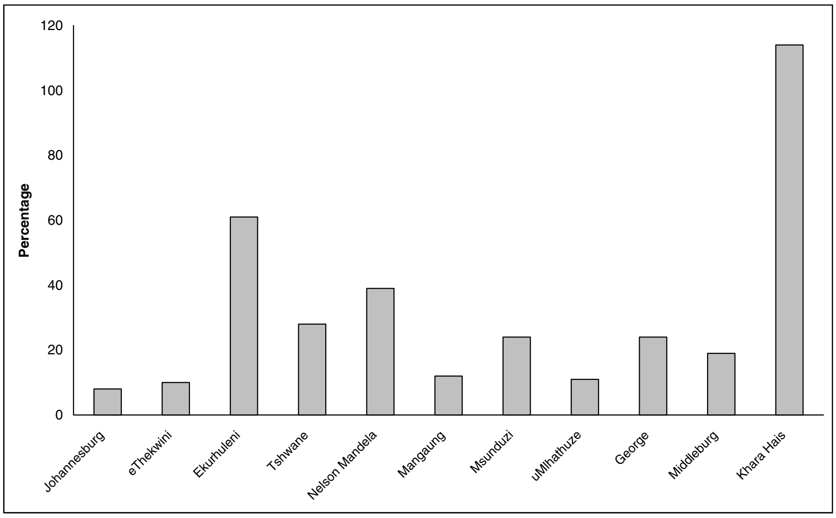


Source: PDG study on Electricity Distribution Reform 2002

EDI restructuring will affect income stream of municipalities

The proposed EDI reforms to the electricity function will have a negative effect on this income stream for municipalities, unless this is made good through another mechanism. Government recognises the importance of this and has stated that lost income will be replaced. There are two main options for an alternative: a local government levy on electricity sales within its jurisdiction, or a specific grant from national Government. National Government will therefore carry out a comprehensive review during 2003 of the local government fiscal system. This will investigate whether a levy on electricity should be introduced, and the extent to which additional national grants may have to compensate municipalities for the loss of electricity.

Figure 12.5 Surplus as a percentage of rates income



Source: PDG study on Electricity Distribution Reform 2002

Associated effects of restructuring on municipalities

Municipalities electricity distribution functions also have important indirect influences on municipal finances. Currently, almost all municipalities run joint billing systems for their services. When the reforms are implemented electricity could be billed separately. This could potentially do two things: first, reduce the efficiencies of the system and increase costs; and second, lead to reduced payment for other municipal services as municipalities used to apply electricity as a credit control mechanism. However, the reforms may provide an opportunity for improving the efficiency of municipal billings systems, and be a force for positive change.

A further potential financial impact on municipalities is the weakening of their balance sheets and the consequent implications for credit ratings. If municipalities are perceived to be in a weaker financial position, this will lower their credit rating, thus increasing their costs of borrowing for other capital investments and reducing their access to private sector financing. This in turn would place a heavier reliance on national grants to fund infrastructure backlogs.

The overall impact of EDI reform is therefore still unclear, as it can be a source of potential liabilities, particularly in relation to future investment and unpaid consumer bills. This is because of the potentially negative impact on municipal credit ratings and the removal of electricity as a credit control mechanism.

Ring fencing of electricity functions in municipal budgets

A key transition cost in the establishment of regional distributors will be the ring-fencing of municipal electricity distribution functions. All assets, liabilities, employees and functions linked to municipalities' electricity distribution function must be identified for transfer. Where distributors are ring fenced, such as in Mangaung and Johannesburg, this is relatively simple, as they can be transferred as a complete operation. However, where this is not the case the functions and associated assets, liabilities and employees need to be identified and valued before they can be transferred. The setting up of City Power in Johannesburg as a separate entity highlights the challenges faced by municipalities to completely separate electricity from other activities of the municipality.

Implications for budgets, income, expenditure, assets, liabilities and staff

In summary, the impact of restructuring will have significant implications for municipalities, including assets and liabilities, which remain to be quantified.

Other implications include:

- Six metro budgets reduced by at least R12,5 billion
- Municipal budgets reduced from R74 billion to an estimated R45 billion
- Municipal employees reduced by an estimated 25 000 staff.

The impact of supply and transmission restructuring

This chapter has focused on the distribution aspects of the electricity industry, and the establishment of regional distributors, as this will have the most direct impact on municipalities. However, the wider restructuring of the electricity sector will play a significant role in the pricing of electricity.

Effect of competition on cost of supply and transmission

The creation of an electricity market, accompanied by increased competition in the provision of generation capacity and a separate regulated transmission network, will lead to more efficient use of the country's economic resources. Competition between generators, coupled with market forces, will help ensure that generation is as efficient as possible, and that the regional distributors purchase least-cost electricity. A stand-alone regulated transmission network will also ensure costs are contained, through the use of regulated charges. Finally, and perhaps critically, the market will help ensure that decisions about investment in new generation and transmission capacity are driven by economic considerations.

The creation of a more efficient electricity sector will lead to lower prices for electricity being paid by regional distributors, and therefore lower consumer prices.

Electricity generation

Imbalances in supply and demand

Electricity is currently very cheap in South Africa due to significant overcapacity in generation, coupled with the age of generation plants. The overcapacity leads to low prices because of a supply and demand imbalance. Excess supply implies low prices, as it is often cheaper to run the generating plants than to shut them down.

Linked to oversupply lowering prices is the age of generation plants and the use of historical cost pricing in determining costs. Many of the costs of building generators, which led to the very steep increases in electricity prices in the 1980s, have been written down through depreciation. The NER's use of these depreciated historical costs in setting Eskom's rate of return and prices leads to lower tariffs. If much higher replacement costs were used, tariffs would be significantly higher, to reflect the cost of replacing the generating assets.

Electricity demand increasing at 3 per cent per annum

While the oversupply of generation and the use of historical cost pricing leads to the very low current prices, this situation is not expected to continue. Electricity demand is increasing rapidly, at an estimated 3 per cent a year, due to economic growth, electrification and the expansion of electricity-intensive industries. In the next few years this growth will lead to a need for new generating capacity which will have implications for future tariffs.

Much of Eskom's current generating capacity consists of very large coal-fired plants. While a new plant on this scale will not need to be built, it does provide an idea of the cost of generating new capacity. It is estimated that to build a plant of a similar size would cost R32 billion, and the cost will have to be passed on to electricity consumers. This is regardless of whether the investment is made by the private sector or Eskom.

Challenge to produce cost-effective electricity

The bulk of the electricity supplied by Eskom is produced by coal-powered stations. The challenge for Eskom is to produce electricity cost-effectively, while maintaining appropriate environmental standards. Through improved technology, more than 99 per cent of ash is extracted from the combustion gas before it is released into the atmosphere.

It is inevitable that electricity tariffs will rise over the coming years, as there will be an increasing need to pay for new generating and transmission capacity. However, the restructuring of the industry should help mitigate some of the need for these price rises. This will be effected through the more efficient use of resources, both in regional distributors by limiting the current duplication, and in generation, by increasing competition and the efficiency of investment decisions.

Conclusion

The electricity sector needs reform. The future is to be built around regional distributors, coupled with a competitive generation sector. Competitive generation will lead to increased efficiency and relatively lower prices for energy. However, the extent to which final consumers see improved service delivery, implementation of free basic services and greater efficiency will depend on the performance of the regional distributors and their accountability to their customers.

The current distribution industry suffers from fragmentation, and there is significant room for improvement in the industry's efficiency and effectiveness. A less fragmented and more efficient industry should be able to provide better service delivery. The key to achieving this lies in the oversight role of key stakeholders, the governance framework of the regional distributors and the effectiveness of the NER.

The NER will need to report regularly and publicly on the progress of the regional distributors in achieving service delivery targets, cost containment measures, tariffs for different users and financial sustainability. These could act as a trigger for outside intervention in the regional distributors, to ensure that the quality of the supply of electricity is maintained at acceptable levels. In addition, regional distributors will need to have effective governance arrangements. The most critical issue for the restructuring is in managing the impact on local government and ensuring that services are not adversely affected during the transition.

Achieving all this will depend on the efficiency of the transition process, and the completion of several key policies. Three key remaining policies need to be finalised: the regulation framework for regional distributors; the tariff regime for regional distributors; and the replacement of the municipal electricity surplus.