

**EMBARGOED: 14:00 8 April 2003**

**INTERGOVERNMENTAL FISCAL REVIEW  
ADDRESS TO THE NATIONAL COUNCIL OF PROVINCES  
TREVOR MANUEL, MINISTER OF FINANCE  
8 April 2003**

Madam Chair,  
Honourable Members,  
MEC's here present,  
Representatives of Provincial Legislatures  
Representatives Organised Local Government  
Ladies and Gentlemen

When tabling the 2003 Budget on 26 February this year, we stated that the Budget:

“...extends and strengthens our growth and development strategy and progressively realizes the social and economic rights of our people. It embodies a set of policies aimed at pushing back the frontiers of poverty whilst supporting growth and creating opportunities. It seeks to empower people by expanding their capabilities.”

We emphasised that accountability for service delivery is fundamental to achieving the outcomes that we seek.

We said, Madam Chair that ultimately responsibility stops here.

We, in Parliament, in provincial legislatures and in municipal councils are charged with ensuring that the funds we vote "... are responsibly and effectively employed". ...This means ensuring that our policies are implemented efficiently, courteously, honestly and enthusiastically. That people experience quality

service delivery. That we push back the frontiers of poverty. That we empower people by expanding their capabilities. And that we support growth and create opportunities.

The national Budget allocates 61,2 per cent of available funds to the provincial and local spheres of government. Now that provinces have tabled their 2003 Budgets and municipalities are about to table their 3-year budgets during May and June, we are pleased to report to this House how such funds have been allocated. More importantly, we report on the expenditure and service delivery trends in key sectors.

### **The IGFR**

Madam Chair, the *2003 Intergovernmental Fiscal Review* we table before you today demonstrates Government's commitment to account to Parliament and provincial legislatures on the use of public funds. It provides information on the 2003 provincial budgets tabled by MECs of Finance between 4 and 18 March 2003. It provides information on the 2002-03 municipal budgets. It accounts for public expenditures for the last three financial years - that is 1999/00 to 2001/02. It spells out in more detail spending plans for the nine provinces and 284 local governments, taking the focus on service delivery one step forward and enabling users to compare provincial and municipal service delivery standards and achievements.

As most members will recall, this is the fourth Review. Previous Reviews were published around September/October. We have brought the date of tabling earlier, with the objective of ensuring that Parliament, provincial legislatures and municipal Councils can use the Review when considering their own 2003 budgets. Provinces have delayed their second reading debate to enable portfolio committee hearings to consider the information set out in the Review. I wish to thank them for their latitude. The earlier tabling also allows Parliament to

provide guidance and inputs for the 2004 Budgets. Yes Madam Chair, Parliament can already now play a more pro-active role when approving budgets.

The tabling of the *Review* in the NCOP recognises the role that the NCOP in particular can and must play. It is our hope that the NCOP can be the portal through which the provincial and local spheres of government can participate more effectively in the budget allocation and accountability processes. It is our hope that the NCOP will spread the information, best practices and insights of the *2003 Intergovernmental Fiscal Review*, to provincial legislatures and municipal councils. To the extent that the NCOP succeeds in this objective, it will ensure that these elected bodies all play their part in holding provinces and municipalities accountable for the delivery of basic services, and to ensure that we are getting value for our money.

The Review considers provincial and local government budget and expenditure trends through the lens of eight sectors. These are school education, health, social development, housing, land and agriculture, roads and transport infrastructure, and the provision of water and electricity.

These areas are key among those that comprise the “social wage” that we deliver to our people. As the President noted in his State of the Nation Address earlier this year:

“[The social wage] has improved with each passing year. It includes the increased number of water and electricity connections, the patent improvements in teaching and learning in our schools, the acceleration of land restitution and redistribution programme, primary health care and free housing”

## **SPECIFIC TRENDS AND ISSUES**

In the 2003 Budget we tabled in Parliament allocates R171 billion, about 61 per cent of nationally raised revenue to provinces and local government. This *Review*

shows that, with increased national transfers and building on the robust fiscal position attained through prudent financial management, provinces are in a very firm position to deliver the crucial social services assigned to them by the Constitution.

The 2003 provincial budgets consolidated in this Review represent a real expression of cooperative governance. They reflect strong alignment to national priorities articulated in the *2002 Medium Term Budget Policy Statement* and subsequently in the *2003 Budget Review*. Provinces are budgeting R164 billion for their 2003/04 budgets.

Consistent with the priorities set out in the MTBPS, provincial budgets prioritise pro-poor social services, which together amount to R133,6 billion or 80,8 per cent of total provincial spending.

Provinces are succeeding in curtailing growth in personnel expenditure. The downward trend, which started three years ago, is set to continue over the MTEF, resulting in a further decline in the share of personnel from 51,6 per cent in 2002/03 to 46,4 per cent in 2005/06. This will release more resources for delivery, with non-personnel expenditure expected to rise to over 53 per cent by 2005/06.

Income support continues to be one of our weapons for fighting poverty, in the short term. One of government's greatest achievements is the increase in the number of social grant beneficiaries, which increased from 2,5 million in April 1997 to 5,6 million in March 2003.

As we extend the child support grant to children until their fourteenth birthday over the next three years we expect to add no less than 3 million more beneficiaries. This will see budgeted total spending on social security grants rising from R27,3 billion in 2002/03 to R44,6 billion in 2005/06, including the R1,1 billion, R3,4 billion and R6,4 billion Child Support Extension Grant. The

Review shows that the share of social development spending will rise to 26 per cent of provincial spending in 2005/06.

### *Education*

Total education spending grows by 4,6 per cent in real terms from R53,1 billion to R58,9 billion in 2003/04. The highest growth is in non-personnel non-capital expenditure. This is expected to help the sector allocate increasing amounts to learner support materials and reinforce improvements in the quality of school education. Spending on education capital over the next three years is budgeted to be R10,3 billion.

The Review also deals with outputs in education. On the one hand, it considers provincial performance in respect of matriculation pass rates. On the other, it reviews provincial attainment in maths and science – key requirements for a skilled work force. The Review indicates that only 7,9 per cent of learners attain maths on the higher grade, while 38,8 per cent pass maths on the standard grade. South Africa's challenge is to encourage more learners to register and pass maths on the higher grade, ensuring that we amass appropriate for a growing economy.

### *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.

Improving health service delivery largely depends on having the right skills in the right place. Additional resources over the next three years provide for the costs of hiring and deploying personnel with scarce skills in the sector, such as doctors and pharmacists. Strong growth in provincial health budgets also enables the sector to improve the equitable distribution and retention of health

professionals across the country. In particular, this intervention facilitates the deployment of large numbers of health professionals to rural areas.

Quality health care also depends on adequate medicine and drug availability. Over the next three years, strong growth in non-personnel spending in health allows hospitals and clinics to ensure sufficient supplies of medicines, drugs and other medical necessities. Growth in health budgets also provides for rollout of prevention-of-mother-to-child transmission and for acceleration of appropriate treatment programmes for HIV/Aids and related diseases.

## **NON –SOCIAL SERVICES**

In addition to social services, provinces also budget for housing, provincial roads, agriculture, economic affairs, the environment and tourism, and other administrative 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.

Madam Chair, the ability of our economy to grow fast on a sustained basis in future depends on how much we invest in infrastructure development, including roads and other transport infrastructure. Government has spent R11,6 billion on national and provincial roads between 1999/00 and 2001/02. Spending by provinces accounts for R8,9 billion (or 77 per cent), which resulted from strong growth of about 28 per cent annual average over this period. The provincial budgets for roads grow by 9,8 per cent over MTEF period to R6 billion in 2005/06.

Local Government roads budgets are also significant. Spending on municipal roads is estimated at about R1,8 billion in 2002/03, with the six metros accounting for about 50 per cent, or R892 million.

## *Agriculture and land*

At the request of this House, Madam Chair and Honourable members, this year's Review includes a chapter on agriculture and land. Inclusion of such a chapter could not have come at a better time than now, when parts of the country are confronted with the threat of food security.

Currently, the combined budget for the national and provincial departments of Agriculture amounts to R4,1 billion, increasing by 13,3 per cent from R3,5 billion in 2002/03, and rising to R4,5 billion in 2005/06. Provincial agriculture budgets account for 75 per cent of spending on agriculture, and for the strong growth, rising by 17,6 percent in 2002/03, from R2,6 billion to R3,1 billion 2003/04. Provincial budgets are projected to further grow by an average of 9,3 per cent, to reach R3,4 billion in 2005/06.

While noting the tremendous progress made with land redistribution and restitution, the chapter highlights the need to revitalise and to strengthen extension support services for developing farmers. Of the 69 000 claims lodged with Restitution Commission, a total of 36 279 claims have been settled, involving about 85 000 households. The total financial compensation paid for settled claims up to December 2002 amounts to R1,2 billion, and about 512 912 hectares of land have been restored, at a cost of R431 million. 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.

## **LOCAL GOVERNMENT BUDGETS**

Local government budgets for 2002-03 total about R74,5 billion, including capital of R13,1 billion. The 3 biggest metros have budgets of around R10 billion (Johannesburg, Cape Town, eThekweni (Durban)).

Local government systems are nascent, yet gaining momentum in their delivery capacity. As we continue to strengthen local capacity, financial management and

accountability, we look forward to enhanced service delivery in this sphere of government. Local government has to follow the road built by provinces, implementing similar reforms. The Municipal Financial Management Bill to be passed this year lays the basis for municipal financial management reforms and improved service delivery.

Government has called for the rollout of free basic services as one of its major policy initiatives. There is marked progress in the delivery of free basic water – to date, over 76 per cent of municipalities are now providing free basic water to communities. And over 3,5 million households have been electrified since 1994, whilst 34 per cent of households still remain unserved, with 51 per cent being in rural areas.

The major backlog for both electricity and water is in the rural areas, where on-grid electricity and piped water is not economical, and hence other types of supply mechanisms are required.

The biggest issue in local government is to contain personnel expenditure, which has risen sharply in the past few years, and is around 32 per cent of operating budgets. If the purchase of bulk water and electricity is taken off, this percentage reaches around 45 per cent. This increasing share trend is in stark contrast to the declining share trend for provinces. Other challenges relate to the collection of revenue, and reducing the unbilled water and electricity losses. Local governments lag behind provinces in implementing recent budget reforms like three-year budgets, and the provision of good information. It is our hope that once the Municipal Finance Management Bill is passed later this year, municipalities will follow the same road as provinces over the next 3 to 5 years.

I would like to thank the Minister of Provincial and Local Government and the Department of Provincial and Local Government for publishing the local government budget allocations in the Division of Revenue Bill on Budget Day, four months ahead of the municipal financial year. Early publication of municipal



allocations from national government will enable municipalities to incorporate these allocations into their budgets, improving planning and budgeting and enhancing delivery.

## **CONCLUSION**

Madam Chair, having told you about budget allocations, I want to point out that as elected representatives we would have failed South Africans if we were to be satisfied to simply know that national government and provinces spend about R260 billion a year on various goods and services. It is simply not enough to know that we spend R2,2 billion on learner support materials. We must know whether and when the books reached the schools. How many pupils benefited, and how that impacts on teaching and learning. It is only through paying attention to such non-financial details that we can continually challenge ourselves to do better every year.

We need to focus on the outputs and outcomes to be delivered by all three spheres of government. Whilst the achievements of the last three years in relation to financial management are commendable and represent something to be proud of, the question still lingers; are we doing enough?

Madam Chair, this Review, read in conjunction with other documents presented by the National Treasury, assists us in carrying out our oversight responsibilities. It enables us to satisfy ourselves to the maximum degree that delivery is taking place as we intend when we vote budgets. The question is whether we shall rise to the challenge. And I dare say Madam Chair more documents are coming our way in this respect. Current reforms, which include submission to Parliament and provincial legislatures of strategic and performance plans setting out departmental plans and measurable objectives for each programme, are coming our way. Of course, in a few months we shall be receiving departmental annual reports and financial statements for the financial year, which has just ended.

The challenge is to be able to make meaningful use of them, to bring this information down to the public, to their ward councilors. A government, alive to its responsibilities to build a deep democracy must continually appraise its own performance. It must ask itself the questions that this *Review* attempts.

These are tough questions with no easy solutions. This is what we offer the National Council of Provinces as a subject for detailed examination. As I have already stated, we invite distinguished members to analyse the report in the finest detail. We wait to be advised on in this House on how we should take the process forward. This, Honourable Chairperson, is an enormous undertaking in the building of accountable government.

Let us build the caring democracy that the Constitution entreats us to. Let us reinforce our social contract to accelerate change, ensuring that life for our people changes for the better. Let us undertake this today, together!

Madam Chair, I submit now to this House the 2003 IGFR.