



MINISTRY OF FINANCE

REPUBLIC OF SOUTH AFRICA

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**PROVINCIAL BUDGETS AND EXPENDITURE REVIEW
ADDRESS TO THE NATIONAL COUNCIL OF PROVINCES
TREVOR MANUEL, MINISTER OF FINANCE**

15 SEPTEMBER 2005

Chairperson,
Honourable Members,
Members of Executive Councils of Provinces,
Representatives of Provincial Legislatures,
Ladies and Gentlemen

Eleven years into our young democracy, as we reflect on the path we have travelled, as South Africans we have cause to celebrate. We must celebrate because, through our collective leadership and cooperative relationship, out of a pariah state we have created a democracy and an intergovernmental system that works. Yes, we have created an intergovernmental system that has become envy on many countries.

Chairperson, eleven years ago, very few people would have predicted that today our country would be playing host to several

delegations from the developed and developing World who come to find out from us how we got where we are and how we manage to stay on course. While the pessimists in our midst tend to sell us short, the rest of the World appreciates what we have accomplished within a very short period.

Today, as an executive authority responsible for finance I am inundated with submissions from officials of the Treasury who are invited to conferences and workshops on intergovernmental relations, budgeting and financial management. Often the invitations are not asking them to come and learn. They are invited to go and teach: to share the practical experience of country.

Yes, Honourable Members, there is a lot to celebrate about being a South African today because by rising above petty party politics, in just over a decade, we have achieved what many countries across the globe have not been able to achieve in several decades of independence and freedom.

Chairperson and Honourable Members there are more reasons for feeling good to be a South African today. Eleven years into democracy:

- We have reduced debt service cost to about 3,5 percent of GDP;
- School education expenditure surpasses debt service cost by R17 billion;
- Enrolment at our schools exceeds 11 million;
- Over 10 million South Africans now benefit from different social security grants;

- Visits to our primary health care centres have risen to 2,4 times per uninsured person per year;
- We have built 1,8 million houses; and
- At the same time we have stepped infrastructure expenditure.

All of this, Chairperson and Honourable Members has been achieved through the resources that have been allocated to provinces through successive Division of Revenue Acts that have been passed by this House. It makes sense that we come back to this House to inform it about what has been delivered from expending those resources. That is what accountability is about. And that is what sustains democracy.

The Provincial Budgets and Expenditure Review

Chairperson, the Provincial Budgets and Expenditure Review we table before this House today is a barometer with which we attempt to measure the progress we have made in delivering services to our people.

The approach to this year's Review is different from previous ones in at least two respects.

Firstly, we have changed the name of this year's publication. We call it a "*Provincial Budgets and Expenditure Review*" because it does not include information on local government budgets and expenditure. A separate publication on local government will be published next year.

Secondly, we have had a two-day workshop with the National Council of Provinces in which delegates from provinces took part. Honorable Members have had copies of the book for almost a week now.

Later, Chairperson I shall propose Honourable Members who attended the workshop be asked to right a compulsory examination. In the interest of transparency we shall make the results public.

On a serious note, Chairperson and Honorable Members, I wish to thank the Chairperson Mr Mahlangu and the Honourable Mr Ralane for organising last week's workshop. We keenly await feedback from this House on whether the document does lend itself to assisting Parliament and Legislatures in exercising their oversight role. To us this is exceedingly important because the document is produced for elected representatives.

Why do we publish the Review?

Chairperson, we need not remind Honourable Members that there is no Constitutional obligation to publish a review of provincial budgets and expenditure. This is an obligation we impose on ourselves because we think that after Parliament and Legislatures have appropriated public funds to various functions, it is the right thing to come back and account on how the funds have been used.

So, the primary aim of publishing this *Review* is to strengthen the oversight role of elected representatives.

From time to time, as we reflect on the progress we are making with ensuring progressive realisation of the basic rights of our people we need to measure – quantitatively and qualitatively – the progress we are making. This *Review* is intended to contribute towards that process.

We cannot produce a *Review* such as this one as an end in itself. Rather, it must be a means to an end: for us as elected representatives that end is understanding where the resources we appropriate go; what services do they buy; who uses or benefits from them; and how do the beneficiaries' lives change as they benefit from the services.

Of course, the *Review* should also indicate to us where we are not achieving the goals we set ourselves so that remedial steps can be taken.

Honourable Members, we must give effect to the PFMA by subscribing to the view that says, "*what is not measured cannot be managed*".

This *Review* must empower us to engage with budgets, departmental strategic plans, financial statements and annual reports differently. As elected representatives we should be able to draw the links among these documents.

Expenditure and service delivery highlights

In February, we tabled the Division of Revenue Bill, which was later passed by this House. This year's division revenue allocates R417,8 billion. Excluding debt service cost and a contingency reserve, this year's allocated expenditure amounts to R362,7 billion. Because provinces are at the epicentre of the delivery of pro-poor programmes, Parliament (including this House) saw it fit to allocate them R209,3 billion or 58 per cent of allocated expenditure. These generous allocations lay a basis for continued acceleration in spending in key provincial functions.

Social services

Education

Building on the foundation laid in the previous years, school education expenditure grows by 3,2 per cent in real terms (after taking account of inflation) in 2005/06 from R65,7 billion to R70,0 billion. This will further reinforce growth in spending per pupil and can be expected to set a basis for qualitative improvements in educational outcomes in the years ahead. Chairperson, growths of this magnitude in education spending should make an immense contribution to assisting South Africans get skills, which will enable them to gain access into labour market so that they can be gainfully employed.

Health

A similar trend can be observed in relation to health spending, which shows strong real growth of more than 5 per cent in 2005/06; rising from R40,6 billion to R45,8 billion. Delivery of quality health care requires personnel with specialised skills. The scarce skills strategy, which Government instituted in the health sector two years ago, is beginning to show positive results. Provinces increased their health personnel by over 3 500 in the eleven month period through February 2005.

Social Development

In relation to social development, Honourable Members may recall that the Division of Revenue for the 2005 Budget that was tabled in February reflected a change in the budget framework to provide for the consolidation of social security grants administration in a single national Agency. From this financial year, all social security grants-related expenditure is funded through two large conditional grants: the social assistance administration grant and the social assistance transfers grant.

Chairperson, this *Review* shows social development expenditure rising from 23,7 per cent in 2001/02 to 33,9 per cent in 2005/06: a phenomenal growth indeed. Accordingly, the number of beneficiaries over the same period rose from 3,6 million to 9,4 million.

Honourable Members the trends in social development expenditure invoke mixed feelings. While we welcome that most South Africans can now benefit from income support that is provided by Government we also cannot help but ask the question: are the trends in spending we see today consistent with the vision of a South Africa we want to see in the years to come? Do we want to create a nation that spends 3,2 per cent of its GDP on social security grants? Is our vision of a future South Africa one in which over 20 per cent of the population depends on welfare for their livelihood?

Chairperson and Honorable Members, as elected representatives, we must ask ourselves these questions because we want to check if current trends in the composition of expenditure keep us on course towards creating a developmental state.

Yes, we ask these questions not because we want to take away these benefits from fellow South Africans who may happen to be less fortunate than ourselves, but because we want to engage in future policy debates on the balance between welfare and other expenditure differently. We must understand the impact the decisions we take today have on future generations. That is what intergenerational equity is about.

Other provincial functions

Chairperson and Honourable Members, this year's provincial budgets provide for strong growth in spending on economic functions, including roads, agriculture and tourism. Together with

provincial administration and governance functions, these sectors comprise 18 per cent of total provincial expenditure. Their combined budgets amount to R37,0 billion in 2005/06. This is R4,1 billion more than what was spent on these functions 2004/05.

While allocations for infrastructure have risen sharply in recent years, the underspending of R2 billion or 20 per cent of adjusted capital budgets in the last financial year points to an urgent need to strengthen infrastructure planning, budgeting and project management capacity in provinces.

Conclusion

In conclusion, Chairperson and Honourable Members, while we celebrate the achievements of our democratic government in delivering services to our people equitably, we want to caution that more remains to be done. We cannot afford to be complacent. One of the areas that need urgent attention is the gathering a collation of non-financial information on the services that the various sectors deliver. For, only through assessing the quality of the public services that can establish whether government derives maximum values for every Rand it spends and thus be in position to tell whether we truly progressing towards creating a “Better Life for All”.

Chairperson, I now submit to this House the Provincial Budgets and Expenditure Review.

Thank you