

# Introduction

Under a carefully managed expansionary fiscal policy stance, the South African economy has achieved sustained growth of between 3,1 per cent and 4,9 per cent between 2003 and 2006. Building on these strengths, the past four years have seen an acceleration in the progressive realisation of social and economic rights that are enshrined in the Constitution.

Over this period, prudent fiscal management saw debt service cost falling, while spending on social programmes like education, health, housing and social welfare services continued to grow strongly in real terms. Education spending remains the largest expenditure item on consolidated government accounts.

Fuelled by investments in a range of components in infrastructure – revitalisation of hospitals, building of schools and classrooms and selected provincial economic infrastructure projects – capital expenditure has been growing sharply up to 2006/07. This lays a solid foundation for even more robust economic growth in the period ahead.

Using financial and non-financial data for the period 2003/04 to 2009/10, this *Provincial Budgets and Expenditure Review* analyses trends in spending in six sectors: education, health, social development, housing, agriculture and land, and roads and transport. Four conclusions can be drawn from this:

- First, provincial expenditure across all sectors analysed has been growing strongly in real terms putting departments in a position to deliver more services for improving people's lives.
- Second, where information is available, it suggests that, at the aggregate level, service delivery in provincial departments is accelerating. This means that access to most services has improved, which makes the ideal of "a better life for all" more real.
- Third, service delivery information is not always readily available to stand against expenditure data for the efficiency of spending to be assessed.

*Strong growth in spending on social programmes between 2003/04 and 2006/07*

*The Review analyses trends in spending in six sectors*

- Finally, despite the undeniable progress, there are still a number of challenges. Innovative policy, implementation and monitoring interventions are required to ensure that policy intentions lead to the desired outcomes.

## **The South African intergovernmental system**

The efficacy of the intergovernmental system depends largely on well coordinated policy, planning, budgeting, implementation and reporting. This is necessary both between and within the spheres and is effected at the technical, executive and legislative levels through various forums that have been established for this purpose.

Expenditure of public resources and delivery of public services takes place within the broader context of governance. So, before going into a detailed discussion on spending and service delivery trends, this *Review* presents an overview of the intergovernmental system and the intergovernmental fiscal system.

*By international standards, South Africa's inter-governmental system shows some strengths*

Compared to intergovernmental systems internationally, South Africa's intergovernmental system has demonstrated a number of strengths. This is primarily borne out by the fact that there is seldom the need for different spheres to resolve differences in court. There are three main reasons for this:

- First, particular legislation reinforces the spirit of cooperative governance by directing organs of state to try to resolve issues outside of the judicial system. This includes the Public Finance Management Act (1999), the Municipal Finance Management Act, (2003), the Intergovernmental Relations Framework Act (2005) and the annual Division of Revenue Act.
- Second, there are deep and transparent budget and policy formulation processes.
- Third, the legal framework underpinning South Africa's intergovernmental system is not highly prescriptive or rigid. This allows for a lot of discretion and flexibility.

## **Functional responsibilities and cooperative governance**

*Provinces are key implementers of policy in respect of concurrent functions*

The Constitution establishes three spheres of government: national, provincial and local, that are "... distinctive, interrelated and interdependent". It enjoins them to observe principles of cooperative governance. The Constitution delineates public functions into two categories. Those that are concurrent (shared between different spheres) and those that are exclusive (performed by one sphere only).

### *Concurrent functions*

Concurrent functions include policy-making, legislation, implementation, monitoring and performance assessment. Functions like school education, health services, social welfare services, housing

and agriculture are shared between national and provincial governments.

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 responsible mainly for implementation in line with the nationally determined frameworks. Provincial departments therefore have large budgets for implementing government programmes, while the national departments have a relatively small share for these functions.

### ***Exclusive functions***

Each sphere of government has specific exclusive functions. For national government, these include national defence, the criminal justice system (safety and security, courts), higher education and certain administrative functions (home affairs, collection of national taxes). These take up a large portion of national government's budget. Exclusive functions for provinces include provincial roads, ambulance services and provincial planning.

*Exclusive functions for provinces include provincial roads, ambulance services and provincial planning*

### **Towards a review of the intergovernmental system**

Through the Department of Provincial and Local Government, government has started a process of reviewing the system of provincial and local government in South Africa. This began with the publication of 65 questions in August 2007. The questions were addressed to the public at large, civil formations, universities, organised civil society, and various public institutions. The responses will culminate in a white paper on provinces and a report on local government by the end of 2008.

*Review of the intergovernmental system launched in August 2007*

Policy making, budgeting, implementation and accountability for concurrent functions test the robustness of South Africa's intergovernmental system from time to time. Despite the strong evidence confirming the soundness of South Africa's intergovernmental system, concurrent functions do occasionally present particular challenges.

- First, sometimes there is misalignment between policy objectives and resource allocation. This can cause a divergence between policy intentions and actual outcomes. Budgets are an important link between policy objectives and policy outcomes. Policies that are not funded or that are inadequately funded are hardly implemented, and their objectives are therefore not properly realised. While this is not common it has been known to happen.
- The second challenge relates to accountability for delivery: which sphere or political office bearer is to be held accountable for delivery of functions that are concurrent? Sometimes the wrong sphere is blamed. A policy might fail because it has been badly

designed. In that case it is not appropriate to blame the implementer. Conversely, a policy might not deliver intended outcomes because it has not been properly funded, and this could be due to decisions at the provincial level. In this case it is not appropriate to blame the policy maker. It is critical that these factors are considered when issues of accountability arise.

- The third area requiring careful evaluation is whether the assignment or configuration of certain functions lends itself to inefficiency and ineffectiveness. Here, the Constitution provides very valuable guidance by allowing functions to be assigned to the sphere that will administer them most effectively.

## **Provincial finances**

*Provincial governments accounted for 42 per cent of total government expenditure in 2007/08*

Combined provincial budgets account for 42 per cent of total government non-interest expenditure in 2007/08. The bulk of this (96,4 per cent) is funded from national transfers comprising of an equitable share of R171,3 billion and conditional grants of R31,5 billion, while provincial own revenues amounted to R7,7 billion or 3,6 per cent.

Provincial budgets are spent on social services like education, health and social welfare services; economic functions include agriculture and roads; and provincial governance and administration include the legislature, provincial treasury, local government and housing. As the figures in table 1.1 show, the provincial share of nationally raised revenues rises by a percentage point from 42,4 to 43,4 per cent. Below are some of the priorities which informed the provincial share of revenues:

- strengthening the education system to ensure further investment in people and the skills needed to sustain and speed up economic growth
- bolstering the health system to ensure an efficient and effective response to people's health care needs
- expanding social welfare services and building stronger partnerships with non-governmental welfare organisations
- accelerating housing delivery
- upgrading of economic infrastructure, which includes the rehabilitation and expansion of road networks.

**Table 1.1 Division of nationally raised revenue, 2003/04 – 2009/10**

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Revised estimate	Medium-term estimates		
<b>R million</b>							
State debt cost	46 313	48 851	50 912	52 178	52 916	52 967	50 915
Non-interest expenditure	282 396	319 690	365 848	418 436	480 957	541 231	599 386
<i>Percentage increase</i>	15,4%	13,2%	14,4%	14,4%	14,9%	12,5%	10,7%
<b>Total expenditure</b>	<b>328 709</b>	<b>368 541</b>	<b>416 760</b>	<b>470 614</b>	<b>533 873</b>	<b>594 198</b>	<b>650 301</b>
<i>Percentage increase</i>	12,8%	12,1%	13,1%	12,9%	13,4%	11,3%	9,4%
Contingency reserve	–	–	–	–	3 000	8 000	13 000
<b>Division of available funds</b>							
<b>National departments</b>	<b>148 201</b>	<b>168 046</b>	<b>195 384</b>	<b>213 470</b>	<b>240 881</b>	<b>262 092</b>	<b>286 333</b>
<b>Provinces</b>	<b>122 673</b>	<b>137 836</b>	<b>153 782</b>	<b>177 887</b>	<b>202 765</b>	<b>229 296</b>	<b>254 444</b>
Equitable share	107 538	120 885	135 292	150 753	171 271	193 474	215 784
Conditional grants	15 135	16 951	18 490	27 134	31 494	35 822	38 660
<b>Local government</b>	<b>11 521</b>	<b>13 808</b>	<b>16 682</b>	<b>27 079</b>	<b>34 311</b>	<b>41 843</b>	<b>45 608</b>
Equitable share	6 350	7 678	9 643	18 058	20 676	23 775	29 444
Conditional grants	5 171	6 131	7 038	9 021	13 636	18 069	16 164
<b>Total</b>	<b>282 396</b>	<b>319 690</b>	<b>365 848</b>	<b>418 436</b>	<b>477 957</b>	<b>533 231</b>	<b>586 386</b>
<i>Percentage shares</i>							
National departments	52,5%	52,6%	53,4%	51,0%	50,4%	49,2%	48,8%
Provinces	43,4%	43,1%	42,0%	42,5%	42,4%	43,0%	43,4%
Local government	4,1%	4,3%	4,6%	6,5%	7,2%	7,8%	7,8%

Source: Budget Review 2007

The *Provincial Budgets and Expenditure Review: 2003/04 – 2009/10* assesses whether the expansionary fiscal stance in general and the growth in provincial spending in particular has translated into better service delivery and an improved quality of life.

*Most provinces' financial data affected by re-demarcation*

A number of changes impact on this year's *Review*:

- Because of the re-demarcated provincial boundaries, the provincial specific data used in the *Review* is not comparable over the whole seven-year period for provinces affected by the demarcation. So, the data for the period 2003/04 to 2006/07 are based on the old provincial boundaries, while the data for the 2007/08 to 2009/10 period are based on the new provincial boundaries.
- Service delivery information is based on the old provincial boundaries, as reporting on the financial and non-financial performance of provinces is based on data up to 31 March 2007.
- Reporting on other administrative provincial functions like legislatures, offices of the premier, provincial treasuries and departments of local governments is important for giving a full picture of provincial finances. The budgets of these functions per province are included as an annexure at the end of this publication to allow for easy comparison between provinces.

## Chapter overview

This *Review* has eight chapters:

- The *introductory chapter* is an overview of the intergovernmental system. It reaffirms some of the strengths of the intergovernmental system and identifies areas that could be improved. In this regard it refers to the review of the intergovernmental system that government launched in August 2007.
- *Chapters 2, 3 and 4* analyse trends in expenditure in social sectors: *education, health and social welfare services*. On the back of an enlarged fiscal envelope and the good groundwork of previous years, there is greater access to these services. Equity and equalisation of spending is improving, but outcomes are not improving at a commensurate rate.
- *Chapter 5* deals with *housing* funding and delivery. It shows that over the life of the housing programme, 2,4 million houses have been completed, are under construction, or sites have been prepared for construction to begin.
- *Chapter 6* discusses *agriculture and land* issues and indicates that 1,7 million hectares have been redistributed under the auspices of the land restitution and redistribution programmes, giving access to land to 251 862 households. Support to emerging farmers is being provided under the umbrella of the comprehensive agricultural support programme.
- *Chapter 7* covers *roads and transport* issues. Investment on roads infrastructure is increasing considerably. This will contribute to the faster movement of goods, people and services, thus reducing the cost of doing business.
- *Chapter 8* discuss overall *trends in provincial revenues and expenditure* for the seven-year period covered in the *Review*. The trends show that national transfers to provinces are growing strongly, laying a solid foundation for real growth in provincial spending.