

Trends in provincial budgets

Introduction

Supported by strong real growth in non-interest expenditure nationally, the funding of provinces for the period 2003/04 to 2009/10 is on a sustained upturn. Over this period the equitable share, which makes up about 82 per cent of national transfers to provinces, grows at an average annual rate of 12,3 per cent. Conditional grants increase from R15,1 billion to R38,7 billion, while provincial own revenue grows from R6,1 billion to R8,5 billion. This puts provinces in a better position to implement pro-poor policies that aim to improve both access to public services and their efficacy and quality. These services include school education, health, social welfare services, housing, agriculture and transport.

Provincial budgets demonstrate that government is prioritising the provision of services that are targeted at reducing poverty and inequality. They make up 42,4 per cent of total non-interest spending and 10,5 per cent of GDP in 2007/08. Provincial own revenues continue to constitute a small proportion (about 3 per cent) of provincial revenue.

Government is prioritising provincial programmes

Approximately 73,4 per cent of total provincial spending (or 32,3 per cent of non-interest spending or 8 per cent of GDP) in 2007/08 is on social services (education, health and social welfare services). The specific programmes that receive substantial funding increases are discussed in detail in the sector chapters of this *Review*.

- Spending on school education is set to nearly double, from R60,3 billion in 2003/04 to R107,3 billion by 2009/10.
- Health spending grows by 9,9 per cent annually to R71,2 billion by 2009/10.
- Social welfare spending trebles to R8,7 billion by 2009/10.

The remaining 26,6 per cent of provincial budgets is allocated to other provincial functions including agricultural support to farmers, construction and maintenance of provincial roads, and the running of provincial administrations and governance.

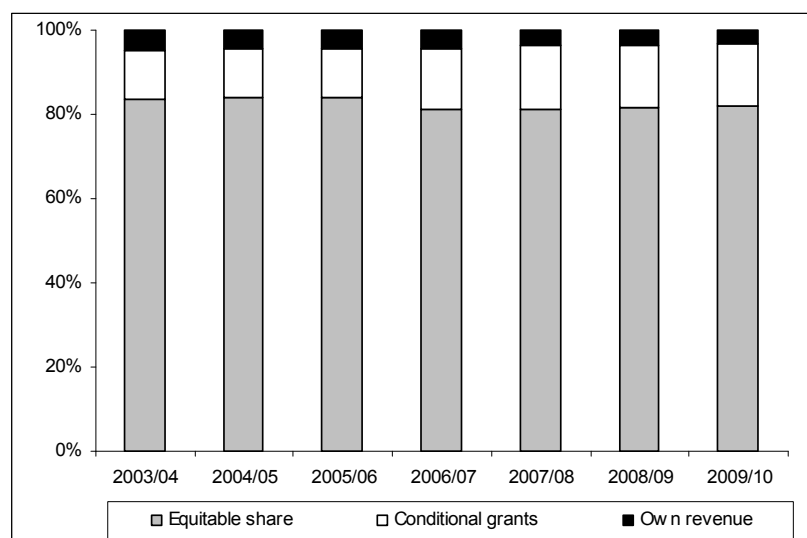
National transfers to provinces constitute 96,4 per cent of provincial revenue

Provincial revenue trends, 2003/04 – 2009/10

The equitable share and conditional grants from national government to provinces make up 96,4 per cent of total provincial revenues. Provincial own revenue remains a small portion of total provincial revenue, comprising only 3,6 per cent in 2007/08.

National transfers to provinces rose 13,2 per cent annually from R122,7 billion in 2003/04 to R178,2 billion in 2006/07 and are set to grow to R254,4 billion by 2009/10. This represents an average annual growth rate of 12 per cent from 2007/08 to 2009/10.

Figure 8.1 Shares of total provincial revenue, 2003/04 – 2009/10



The provincial equitable share

The equitable share constitutes, on average, 82 per cent of national transfers to provinces. Between 2003/04 and 2006/07, it grew rapidly, at a nominal average annual rate of 11,9 per cent to R150,8 billion. From 2007/08, the equitable share is budgeted to grow at 4,8 per cent annually in real terms to reach R215,8 billion by 2009/10.

The fast growth in the equitable share allows provinces discretion to expand a range of programmes

This is in line with government's prioritisation of social services – school education, health and social welfare services – which continue to be funded through the equitable share. The growth in the equitable share will also enable provinces to rehabilitate and maintain their road network; expand rural development through targeted agricultural support interventions; and support small business development.

Table 8.1 Provincial revenue and expenditure, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Transfers from national	122 673	137 836	153 782	178 161	202 765	229 296	254 444
<i>of which:</i>							
<i>Equitable share</i>	107 538	120 885	135 292	150 753	171 271	193 474	215 784
<i>Conditional grants</i>	15 134	16 951	18 490	27 408	31 494	35 822	38 660
Provincial own receipts	6 133	6 239	7 379	7 954	7 673	8 101	8 530
Total receipts	128 805	144 075	161 161	186 115	210 438	237 397	262 974
Total expenditure	131 858	141 954	161 178	185 956	210 460	235 091	257 001
Surplus(+)/deficit(-)	-3 053	2 121	-18	159	-22	2 306	5 974
Share of total provincial revenue							
Transfers from national	95,2%	95,7%	95,4%	95,7%	96,4%	96,6%	96,8%
<i>of which:</i>							
<i>Equitable share</i>	83,5%	83,9%	83,9%	81,0%	81,4%	81,5%	82,1%
<i>Conditional grants</i>	11,7%	11,8%	11,5%	14,7%	15,0%	15,1%	14,7%
Provincial own receipts	4,8%	4,3%	4,6%	4,3%	3,6%	3,4%	3,2%
Total receipts	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: National Treasury provincial database

Conditional grants

Conditional grant transfers to provinces grew sharply from R15,1 billion in 2003/04 to R27,4 billion in 2006/07 and are set to grow further to R38,7 billion by 2009/10. Over the seven years under review, their share of national transfers rises from 12,3 per cent in 2003/04 to 15,4 per cent in 2006/07, and levels off thereafter to 15,2 per cent in 2009/10. The increase in conditional grant funding is only due to increases in levels of funding for existing grants. Substantial allocations have been made to the following grants over the MTEF period:

The number of conditional grants is kept in check

- The integrated housing and human settlement development grant increases from R6,7 billion in 2006/07 to R11,5 billion by 2009/10 to speed up the implementation of the comprehensive housing strategy.
- Most health grants, which make up 37,2 per cent of total conditional grants, are budgeted to grow from R10,2 billion in 2006/07 to R13,7 billion by 2009/10.
- The infrastructure grant to provinces, which supports the development and maintenance of social and economic infrastructure in provinces, grows from R5 billion in 2006/07 to R8 billion by 2009/10.

Table 8.2 Conditional grants to provinces, 2006/07 – 2009/10

R million	2006/07 Preliminary outcome	2007/08	2008/09	2009/10
		Medium-term estimates		
Agriculture	401	462	484	530
Agricultural disaster management grant	45	–	–	–
Comprehensive agricultural support programme grant	300	415	435	478
Land care programme grant	56	47	49	51
Arts and Culture				
Community library services grant	–	180	338	466
Education	1 713	1 906	2 201	1 501
Further education and training college sector recapitalisation grant	470	595	795	–
HIV and Aids (life skills education) grant	144	158	168	177
National school nutrition programme grant	1 098	1 153	1 238	1 324
Health	10 207	11 321	12 543	13 726
Comprehensive HIV and Aids grant	1 616	1 946	2 235	2 676
Forensic pathology services grant	562	551	467	422
Health professions training and development grant	1 520	1 596	1 676	1 760
Hospital revitalisation grant	1 527	1 907	2 283	2 582
National tertiary services grant	4 981	5 321	5 882	6 286
Housing				
Integrated housing and human settlement development grant	6 678	8 238	9 853	11 531
Land Affairs				
Land distribution: Alexandra urban renewal project grant	8	–	–	–
National Treasury				
Infrastructure grant to provinces	4 983	6 164	6 847	7 997
Sport and Recreation South Africa				
Mass sport and recreation participation programme grant	119	194	290	402
Trade and Industry				
Industrial development zones grant	58	–	–	–
Transport				
Gautrain rapid rail link grant	3 241	3 029	3 266	2 507
Total	27 408	31 494	35 822	38 660

Source: National Treasury provincial database

Provincial own revenue

Provincial own revenue remains sluggish

Provincial own revenue made up 4,3 per cent of total revenue for provinces in 2006/07, and declines to 3,2 per cent in 2009/10. The declining share is due to the strong growth in national transfers and conservative provincial own revenue budgets, which generally result in ‘over-collections’. Table 8.3 shows the composition of provincial own revenue.

Table 8.3 Provincial own receipts by category, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Preliminary outcome	Medium-term estimates		
Tax receipts	3 307	3 526	4 311	4 815	4 896	5 230	5 575
<i>Casino taxes</i>	651	723	896	1 065	1 102	1 180	1 246
<i>Horse racing taxes</i>	103	90	97	124	117	124	130
<i>Liquor licences</i>	14	18	19	20	37	42	47
<i>Motor vehicle licences</i>	2 538	2 695	3 300	3 606	3 640	3 885	4 151
Sale of goods and services other than capital assets	1 237	1 289	1 352	1 432	1 531	1 611	1 706
Transfers received	7	90	70	99	133	115	83
Fines, penalties and forfeits	103	108	107	97	105	115	119
Interest, dividends and rent on land	967	781	993	973	825	848	876
Sales of capital assets	235	73	116	107	44	47	53
Financial transactions in assets and liabilities	277	371	431	431	140	136	118
Total	6 133	6 239	7 379	7 954	7 673	8 101	8 530
Percentage of total provincial own revenue							
Tax receipts	53,9%	56,5%	58,4%	60,5%	63,8%	64,6%	65,4%
<i>Casino taxes</i>	10,6%	11,6%	12,1%	13,4%	14,4%	14,6%	14,6%
<i>Horse racing taxes</i>	1,7%	1,4%	1,3%	1,6%	1,5%	1,5%	1,5%
<i>Liquor licences</i>	0,2%	0,3%	0,3%	0,3%	0,5%	0,5%	0,5%
<i>Motor vehicle licences</i>	41,4%	43,2%	44,7%	45,3%	47,4%	48,0%	48,7%
Sale of goods and services other than capital assets	20,2%	20,7%	18,3%	18,0%	19,9%	19,9%	20,0%
Transfers received	0,1%	1,4%	0,9%	1,2%	1,7%	1,4%	1,0%
Fines, penalties and forfeits	1,7%	1,7%	1,4%	1,2%	1,4%	1,4%	1,4%
Interest, dividends and rent on land	15,8%	12,5%	13,5%	12,2%	10,8%	10,5%	10,3%
Sales of capital assets	3,8%	1,2%	1,6%	1,3%	0,6%	0,6%	0,6%
Financial transactions in assets and liabilities	4,5%	5,9%	5,8%	5,4%	1,8%	1,7%	1,4%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: National Treasury provincial database

Own revenue is budgeted to decline from R8,0 billion in 2006/07 to R7,7 billion in 2007/08 and is expected to recover slightly to R8,5 billion by 2009/10. The decline in budgeted own revenue is despite the growth in the vehicle population, and the upward revision of motor vehicle licence fees, which provide a major revenue source for provinces.

Provincial own revenue collections fluctuate

Table 8.4 shows that the amount of revenue collected is closely linked to the size of the provincial economy. The table also highlights the fact that most provinces' MTEF forecasts of own revenue continue to be inconsistent, compared to past performance. When comparing 2007/08 own revenue budgets against the preliminary outcome for 2006/07, seven of the nine provinces are expecting negative growth in own revenues, with Eastern Cape, Mpumalanga and North West

Forecasting of provincial own revenue appears conservative

indicating that they expect own revenue to decline by more than 11 per cent.

Table 8.4 Provincial own receipts, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million	Outcome			Preliminary outcome	Medium-term estimates		
Eastern Cape	654	353	679	769	614	650	680
Free State	339	416	448	489	465	499	533
Gauteng	1 564	1 701	1 930	2 188	2 171	2 340	2 516
KwaZulu-Natal	1 002	1 051	1 160	1 280	1 423	1 497	1 595
Limpopo	486	416	460	477	469	468	491
Mpumalanga	319	338	363	382	338	355	384
Northern Cape	102	114	111	127	139	146	154
North West	337	378	491	527	439	470	495
Western Cape	1 330	1 471	1 736	1 715	1 614	1 675	1 683
Total	6 133	6 239	7 379	7 954	7 673	8 101	8 530
Percentage growth (average annual)	2003/04 – 2006/07			2007/08 – 2009/10			
Eastern Cape	5,6%			5,2%			
Free State	13,1%			7,0%			
Gauteng	11,8%			7,7%			
KwaZulu-Natal	8,5%			5,8%			
Limpopo	-0,7%			2,4%			
Mpumalanga	6,1%			6,7%			
Northern Cape	7,7%			5,2%			
North West	16,0%			6,2%			
Western Cape	8,8%			2,1%			
Total	9,1%			5,4%			

Source: National Treasury provincial database

Provincial budgets and expenditure trends

Preliminary outcome for 2006/07

There are signs that some provinces are improving their spending capacity

The spending capacity of most provinces has improved markedly over the years. By 31 March 2007, provinces reported spending totalling R186 billion or 15,4 per cent more than the financial year ended 31 March 2006. Table 8.5 shows that in total, provinces underspent their adjusted budgets by R2,1 billion or 1,1 per cent in 2006/07. This represents an improvement from underspending of R2,8 billion or 1,7 per cent in 2005/06.

Table 8.5 Provincial expenditure as at 31 March 2007

	Adjusted budget	Pre-liminary outcome	Pre-liminary outcome as % of adjusted budget	Over(-)/under	% over(-)/under adjusted budget	% share of total provincial expenditure	2005/06 audited outcome	Year-on-year growth
R million								
Eastern Cape	27 530	26 923	97,8%	607	2,2%	14,5%	23 663	13,8%
Free State	11 883	12 297	103,5%	-414	-3,5%	6,6%	10 684	15,1%
Gauteng	35 136	34 748	98,9%	388	1,1%	18,7%	27 107	28,2%
KwaZulu-Natal	37 429	36 955	98,7%	474	1,3%	19,9%	33 333	10,9%
Limpopo	23 722	23 908	100,8%	-186	-0,8%	12,9%	20 914	14,3%
Mpumalanga	12 832	12 690	98,9%	142	1,1%	6,8%	11 611	9,3%
Northern Cape	4 510	4 569	101,3%	-59	-1,3%	2,5%	3 956	15,5%
North West	15 532	15 017	96,7%	515	3,3%	8,1%	13 143	14,3%
Western Cape	19 458	18 850	96,9%	608	3,1%	10,1%	16 767	12,4%
Total	188 031	185 956	98,9%	2 075	1,1%	100,0%	161 178	15,4%

Source: National Treasury provincial database

The aggregate expenditure figures mask areas where spending capacity might still be low. For instance, the bulk (R1,2 billion) of the underspending in 2006/07 was in education. Within education, it was on personnel (R436,6 million), goods and services (R962,7 million) and capital (R78,5 million). As Table 8.6 shows, the other sectors that contributed to the underspending were housing (R556 million), social development (R120 million), agriculture (R92,3 million) and administrative functions like provincial treasuries (R278,5 million). In most cases underspending represents goods, services and infrastructure that have not been delivered. It also represents a divergence between objectives and outcomes, and for this reason it needs to be minimised. Departments of health overspent their budget by R379 million.

Underspending in 2006/07 was largely in education

Table 8.6 Provincial expenditure by sector as at 31 March 2007

	Adjusted budget	Pre-liminary outcome	Pre-liminary outcome as % of adjusted budget	Over(-)/under	% over(-)/under adjusted budget	% share of total provincial expenditure	2005/06 audited outcome	Year-on-year growth
R million								
Social Services	138 684	137 785	99,4%	899	0,6%	74,1%	123 317	11,7%
Education	80 122	78 963	98,6%	1 158	1,4%	42,5%	71 981	9,7%
Health	53 269	53 648	100,7%	-379	-0,7%	28,9%	47 116	13,9%
Social Development	5 293	5 173	97,7%	120	2,3%	2,8%	4 220	22,6%
Non-social Services	49 347	48 171	97,6%	1 176	2,4%	25,9%	37 862	27,2%
Works, roads and transport	21 608	21 810	100,9%	-202	-0,9%	11,7%	15 664	39,2%
Housing and local government	10 413	9 857	94,7%	556	5,3%	5,3%	7 918	24,5%
Other	17 326	16 505	95,3%	821	4,7%	8,9%	14 280	15,6%
Total	188 031	185 956	98,9%	2 075	1,1%	100,0%	161 178	15,4%

Source: National Treasury provincial database

Aggregate provincial budgets and expenditure trends, 2003/04 – 2009/10

As the preceding sectoral chapters have shown, on the back of strong growth in funding, provincial spending on each of the functions is growing strongly in real terms. Per capita and other indicators also reflect sustained improvement, but quality indicators do not always show gains commensurate with the increases in spending.

Between 2003/04 and 2006/07, total provincial expenditure grew substantially, from R131,8 billion to R186 billion, a real annual growth rate of 7,4 per cent. This level of growth has put provinces in a better position to accelerate delivery across all sectors.

The 2007 provincial MTEF budgets, set out in table 8.7, show that provinces have budgeted to spend R210,5 billion in 2007/08, or R24,5 billion (13,2 per cent) more than in 2006/07. From 2007/08, provincial expenditure will increase by an annual 10,5 per cent to R257 billion in 2009/10.

Table 8.7 Provincial expenditure, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	21 723	21 598	23 663	26 923	31 009	34 878	37 083
Free State	8 921	9 706	10 684	12 297	13 309	15 031	16 731
Gauteng	23 704	24 787	27 107	34 748	40 312	43 747	46 976
KwaZulu-Natal	25 494	28 033	33 333	36 955	43 515	49 006	54 660
Limpopo	16 515	18 729	20 914	23 908	25 312	28 648	31 755
Mpumalanga	9 025	10 032	11 611	12 690	16 211	17 825	19 559
Northern Cape	3 137	3 321	3 956	4 569	5 663	6 345	7 027
North West	10 186	11 111	13 143	15 017	14 412	16 345	18 164
Western Cape	13 154	14 636	16 767	18 850	20 717	23 267	25 045
Total	131 858	141 954	161 178	185 956	210 460	235 091	257 001
Percentage growth (average annual)	2003/04 – 2006/07			2007/08 – 2009/10			
Eastern Cape	7,4%			9,4%			
Free State	11,3%			12,1%			
Gauteng	13,6%			7,9%			
KwaZulu-Natal	13,2%			12,1%			
Limpopo	13,1%			12,0%			
Mpumalanga	12,0%			9,8%			
Northern Cape	13,4%			11,4%			
North West	13,8%			12,3%			
Western Cape	12,7%			10,0%			
Total	12,1%			10,5%			

Source: National Treasury provincial database

The composition of provincial spending

Social service dominate provincial budgets

Table 8.8 shows that expenditure on social services (education, health and social development) is set to nearly double over the seven-year period from R100,5 billion in 2003/04 to R187,2 billion in 2009/10.

As most expenditure on social services goes to programmes that meet the needs of poor people and households, the significant growth in expenditure should go a long way in ensuring access to improved services, and thus a better life for all South Africans.

Table 8.8 Consolidated provincial expenditure, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Education	60 255	64 670	71 981	78 963	88 719	98 505	107 327
Health	36 987	40 599	47 116	53 648	59 252	64 939	71 182
Social development	3 209	3 650	4 220	5 173	6 550	7 875	8 735
Total social services	100 452	108 919	123 317	137 785	154 520	171 320	187 245
Non-social services	31 406	33 035	37 862	48 171	55 940	63 771	69 756
Total	131 858	141 954	161 178	185 956	210 460	235 091	257 001
Percentage growth (average annual)	2003/04 – 2006/07		2006/07 – 2007/08		2007/08 – 2009/10		
Social services	11,1%		12,1%		10,1%		
Education	9,4%		12,4%		10,0%		
Health	13,2%		10,4%		9,6%		
Social development	17,3%		26,6%		15,5%		
Non-social services	15,3%		16,1%		11,7%		
Total	12,1%		13,2%		10,5%		

Source: National Treasury provincial database

There is strong growth in social services spending. But because non-social services grows at three times the rate of growth in social services spending, the latter's share in the total provincial budget declined from 76,2 per cent in 2003/04 to 72,9 per cent by 2009/10. This calls for a careful examination of spending trends in specific sectors. It also calls for the need to check which provinces show marked shifts in proportional shares, and whether these shifts are consistent with the objectives of effecting equity across provincial public services.

*Declining shares
require careful
monitoring*

Figure 8.2: Composition of provincial spending

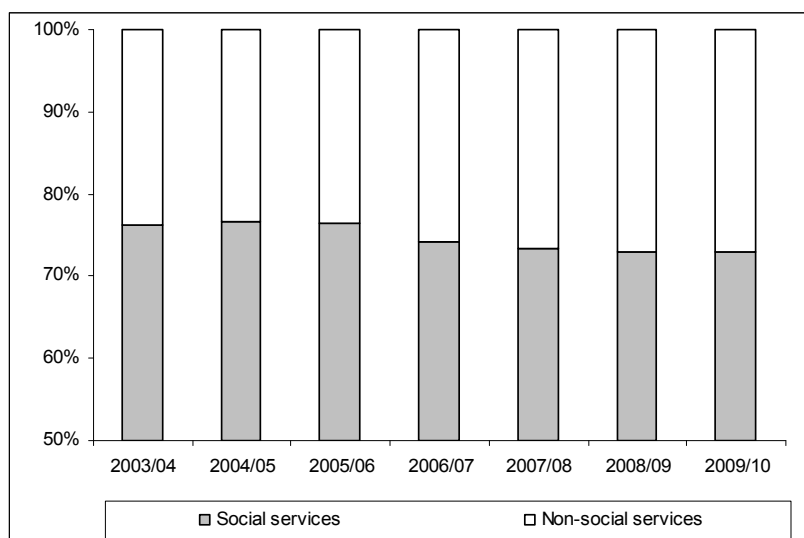


Figure 8.2 shows that the share of education and health spending is declining, while the share of social development is increasing. The

declining shares in education and health are mainly due to much faster spending growth in other areas of provincial spending.

Figure 8.3: Composition of provincial spending

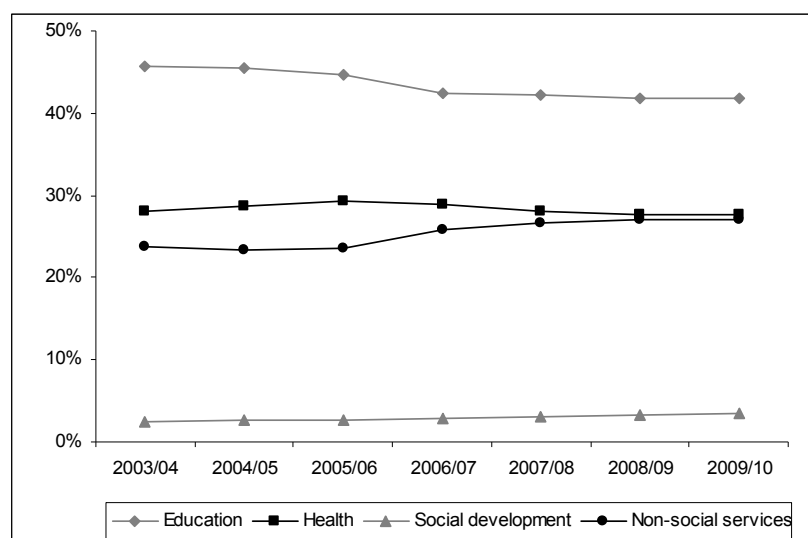


Table 8.9 Consolidated provincial expenditure, 2003/04 – 2009/10

R million	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Preliminary outcome	Medium-term estimates		
Shares of total provincial expenditure							
Social services	76,2%	76,7%	76,5%	74,1%	73,4%	72,9%	72,9%
Education	45,7%	45,6%	44,7%	42,5%	42,2%	41,9%	41,8%
Health	28,1%	28,6%	29,2%	28,9%	28,2%	27,6%	27,7%
Social development	2,4%	2,6%	2,6%	2,8%	3,1%	3,3%	3,4%
Non-social services	23,8%	23,3%	23,5%	25,9%	26,6%	27,1%	27,1%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Social services expenditure as percentage of provincial expenditure							
Eastern Cape	73,2%	75,3%	76,8%	77,6%	76,8%	76,8%	76,4%
Free State	77,1%	77,2%	78,9%	75,2%	73,6%	72,6%	72,9%
Gauteng	77,4%	77,5%	78,3%	68,3%	69,5%	69,3%	70,5%
KwaZulu-Natal	80,8%	80,4%	79,1%	78,0%	75,8%	73,0%	72,1%
Limpopo	72,9%	75,5%	74,2%	73,6%	73,0%	74,1%	74,0%
Mpumalanga	73,8%	73,3%	74,9%	75,7%	74,3%	75,2%	75,4%
Northern Cape	71,8%	71,5%	71,8%	71,5%	71,2%	71,5%	71,5%
North West	72,5%	72,3%	70,4%	70,1%	67,2%	66,4%	66,1%
Western Cape	79,1%	78,6%	76,6%	74,6%	75,6%	75,2%	75,4%
National average	76,2%	76,7%	76,5%	74,1%	73,4%	72,9%	72,9%

Source: National Treasury provincial database

Low income households rely heavily on public services

Poorer, more rural provinces tend to have higher shares in social services than the richer more urban provinces. Table 8.9 further shows that the share of non-social services spending in total provincial spending is set to grow from 23,8 per cent in 2003/04 to 27,1 per cent

by 2009/10. Actual spending on non-social services more than doubles from R31,4 billion in 2003/04 to R69,8 billion in 2009/10. This trend is mainly due to:

- Sharp increases in the housing subsidy programme: this grows from R4,6 billion in 2003/04 to R11,5 billion by 2009/10, to speed up housing delivery and the development of sustainable human settlements.
- Large investments in provincial road construction, rehabilitation and maintenance: provincial roads budgets grow from R5,8 billion in 2003/04 to R13,4 billion by 2009/10.
- The expanded public works programme: most of this is on the budgets of public works and transport departments. Through this programme government aims to provide people with income earning opportunities such as acquiring skills that will improve their chances of getting employment in the future.
- Large economic infrastructure investments by Gauteng and KwaZulu-Natal: Gauteng will spend R25 billion on the construction phase of the Gauteng Rapid Rail Link, which is scheduled for completion by 2010. KwaZulu-Natal plans to spend R6 billion on the Dube Trade Port by 2010.

In addition to the above, the cost of financing all the components of provincial administration is also reflected in non-social services spending. These include premiers' offices, legislatures, provincial treasuries, and in some provinces, economic affairs departments. Detailed information on these functions per province is included as part of the data at the end of this publication.

Provincial expenditure trends by economic classification, 2003/04 – 2009/10

Compensation of employees

One of the remarkable successes of provincial budgeting and financial management has been the containment of the share of personnel spending. Although compensation of employees still takes up the largest share of provincial budgets, it has been declining moderately over time from 61,2 per cent in 2003/04 to 56,1 per cent in 2006/07 and is set to decline further to 54,4 per cent by 2009/10.

The services that provinces deliver require personnel. Provinces employ over 810 000 employees as educators, health workers, administrators and general support staff. It is thus commendable that they have been able to free up some resources for investment in infrastructure and to procure other inputs that enable them to deliver quality services. The impact of this on workloads needs to be monitored over time.

The share of personnel costs in provincial budgets is dropping ...

... but provinces still remain the largest employer

Table 8.10 Provincial expenditure on compensation of employees, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	13 358	14 322	15 148	16 527	18 640	20 249	21 281
Free State	5 687	6 189	6 719	7 212	7 993	8 816	9 655
Gauteng	12 624	13 381	14 301	15 876	18 883	20 317	21 681
KwaZulu-Natal	16 125	17 923	19 640	21 624	25 025	27 303	30 023
Limpopo	11 466	12 416	13 623	14 818	15 852	17 440	19 187
Mpumalanga	5 470	5 923	6 762	7 478	9 503	10 293	10 981
Northern Cape	1 722	1 956	2 137	2 408	3 115	3 455	3 779
North West	6 834	7 269	7 986	8 594	7 845	8 664	9 696
Western Cape	7 471	8 178	8 853	9 726	11 285	12 393	13 524
Total	80 758	87 557	95 169	104 264	118 140	128 931	139 806
Percentage of total expenditure							
Eastern Cape	61,5%	66,3%	64,0%	61,4%	60,1%	58,1%	57,4%
Free State	63,8%	63,8%	62,9%	58,7%	60,1%	58,6%	57,7%
Gauteng	53,3%	54,0%	52,8%	45,7%	46,8%	46,4%	46,2%
KwaZulu-Natal	63,3%	63,9%	58,9%	58,5%	57,5%	55,7%	54,9%
Limpopo	69,4%	66,3%	65,1%	62,0%	62,6%	60,9%	60,4%
Mpumalanga	60,6%	59,0%	58,2%	58,9%	58,6%	57,7%	56,1%
Northern Cape	54,9%	58,9%	54,0%	52,7%	55,0%	54,4%	53,8%
North West	67,1%	65,4%	60,8%	57,2%	54,4%	53,0%	53,4%
Western Cape	56,8%	55,9%	52,8%	51,6%	54,5%	53,3%	54,0%
Total	61,2%	61,7%	59,0%	56,1%	56,1%	54,8%	54,4%

Source: National Treasury provincial database

Education is the largest contributor to provinces' expenditure on compensation of employees in 2007/08. Its share was R69,2 billion or 58,6 per cent of total provincial spending on compensation of employees, followed by health, at R32,9 billion or 27,8 per cent.

Table 8.11 Provincial employment status as at 31 July 2007 by sector

	Education	Health	Social develop-ment	Agriculture	Other	Total
Province						
Eastern Cape	74 947	33 606	1 563	3 214	8 927	122 257
Free State	30 185	16 431	1 327	1 132	7 385	56 460
Gauteng	69 292	45 467	2 363	819	8 103	126 044
KwaZulu-Natal	97 224	63 820	2 419	3 435	10 085	176 983
Limpopo	61 679	31 497	1 071	4 614	12 913	111 774
Mpumalanga	41 913	16 379	n/a	1 886	6 832	67 010
Northern Cape	11 423	5 796	702	445	2 460	20 826
North West	31 932	15 353	n/a	1 856	8 467	57 608
Western Cape	38 084	26 219	1 565	824	4 995	71 687
Total	456 679	254 568	11 010	18 225	70 167	810 649

Source: National Treasury provincial database

Social services functions are personnel intensive sectors. Provincial education and health departments together employ over 711 000 employees, making up R91,3 billion or 87,6 per cent of total provincial compensation of employees expenditure in 2006/07. Clearly, managing personnel numbers and expenditure is crucial to

their success. Conversely, any shortcomings in personnel management could undermine the finances of these departments and would have knock-on effects on the provinces as a whole.

Education spending on compensation of employees grows from the previous year by 10,5 per cent in 2007/08, 9,8 per cent in 2008/09 and 8,3 per cent in 2009/10. Health spending on compensation of employees grows by 14,4 per cent in 2007/08, 8,9 per cent in 2008/09 and 9,2 per cent in 2009/10.

In 2007/08, KwaZulu-Natal (R25 billion), Gauteng (R18,9 billion), Eastern Cape (R18,6 billion) and Limpopo (R15,9 billion) have the largest budgets for compensation of employees. Collectively, these four provinces account for more than 66 per cent of total provincial spending on compensation of employees.

Payments for capital assets

Capital expenditure includes spending on physical assets such as construction and rehabilitation of buildings, roads and other immovable assets, but excludes capital transfers. Capital expenditure continues to be the fastest growing item in provincial expenditure.

Table 8.12 Provincial payments for capital assets¹, 2003/04 – 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million	Outcome			Preliminary outcome	Medium-term estimates		
Eastern Cape	1 987	1 465	1 499	1 875	2 537	2 928	3 394
Free State	516	526	629	1 075	1 332	1 569	1 790
Gauteng	1 557	1 885	2 131	2 518	2 880	2 899	3 209
KwaZulu-Natal	2 305	2 354	3 366	3 542	4 556	4 867	5 870
Limpopo	897	1 313	1 246	1 855	1 711	2 130	2 257
Mpumalanga	630	762	1 065	1 068	1 493	1 768	1 945
Northern Cape	198	219	370	570	567	626	732
North West	605	602	985	1 365	1 245	1 392	1 490
Western Cape	942	1 056	1 472	1 705	1 620	1 752	1 859
Total	9 637	10 181	12 763	15 573	17 941	19 932	22 545
Percentage of total expenditure							
Eastern Cape	9,1%	6,8%	6,3%	7,0%	8,2%	8,4%	9,2%
Free State	5,8%	5,4%	5,9%	8,7%	10,0%	10,4%	10,7%
Gauteng	6,6%	7,6%	7,9%	7,2%	7,1%	6,6%	6,8%
KwaZulu-Natal	9,0%	8,4%	10,1%	9,6%	10,5%	9,9%	10,7%
Limpopo	5,4%	7,0%	6,0%	7,8%	6,8%	7,4%	7,1%
Mpumalanga	7,0%	7,6%	9,2%	8,4%	9,2%	9,9%	9,9%
Northern Cape	6,3%	6,6%	9,4%	12,5%	10,0%	9,9%	10,4%
North West	5,9%	5,4%	7,5%	9,1%	8,6%	8,5%	8,2%
Western Cape	7,2%	7,2%	8,8%	9,0%	7,8%	7,5%	7,4%
Total	7,3%	7,2%	7,9%	8,4%	8,5%	8,5%	8,8%

1. Excludes capital transfers and subsidies.

Source: National Treasury provincial database

38,7 per cent of capital spending is on roads and transport

This grew by 17,4 per cent annually between 2003/04 and 2006/07 and is budgeted to grow to R22,5 billion by 2009/10. This is nearly two and a half times 2003/04 levels. Table 8.12 sets out the capital budgets of provinces.

Public works, roads and transport are the largest contributors to total provincial capital spending in 2007/08, with preliminary expenditure at R6,9 billion (38,7 per cent), followed by health at R5,5 billion (30,6 per cent), and then education at R3,8 billion (21,4 per cent).

Preliminary capital spending outcomes show R411,7 million underspending in provinces

In 2006/07, provinces tabled budgets of R14,7 billion for capital. Capital budgets subsequently increased to R16,1 billion during the tabling of the adjustments budgets towards the end of the financial year. The preliminary expenditure outcomes show total provincial underspending of R411,7 million or 2,6 per cent of the total adjusted capital budgets.

Conclusion

True to the commitment government has made of delivering pro-poor services, which are largely the responsibility of provinces, national transfers to this sphere increase strongly between 2003/04 and 2009/10. While additional resources are targeted at supporting policy initiatives and programmes in education, health, social development and housing, the non-social services budgets are also growing strongly in real terms.

Within a growing fiscal envelope provinces have been able to contain personnel spending, while allowing spending on non-personnel items to rise fairly rapidly. This should contribute towards improving the quality of services.