

**PROVINCIAL BUDGETS AND EXPENDITURE REVIEW
2003/04 TO 2009/10
ADDRESS TO THE NATIONAL COUNCIL OF PROVINCES
MINISTER OF FINANCE TREVOR A MANUEL, MP**

5 SEPTEMBER 2007

Chairperson

Deputy Chairperson

Honourable Members

Ladies and Gentlemen

Accountability is what sets apart successful democracies from failed ones. Democracies the world over are as good as the institutions that make them up. Yes, democracies succeed or fail because the institutions that constitute their life blood work or fail to work. While the regular holding of elections is an essential ingredient for democracy, it is by no means sufficient to ensure that democracy is deepened and its benefits are enjoyed by all citizens.

As South Africans, our endeavour to deepen democracy must entail deliberate and concerted efforts to strengthen our institutions of democracy. And we must start here. We must start by strengthening the oversight capacity of Parliament by enabling it to hold all those entrusted with the responsibility of using public resources for the creation of a better life for all to account.

Information is essential to accountability and oversight

Timely availability of reliable information on the delivery of public services is an essential tool for exercising oversight. Today we table before the NCOP the *Provincial Budgets and Expenditure Review* (formerly called the Intergovernmental Fiscal Review) which sets out trends in provincial spending and budgets for a seven-year period: 2003/04 to 2009/10. Let me remind this house, we do this because we appreciate its contribution in empowering you, the elected representative to hold us, the executive, to account for the resources you have allocated to our respective departments to use for the betterment of the lives of our people, and not because there is any legal obligation on us to publish this document.

During budget debates Ministers and MECs make promises. They enter into “contracts” with Parliament and legislatures to deliver services to the citizens. Surely, as the house that allocates resources to the three spheres of government through the Division of Revenue Act you deserve to know what the money buys. This Review places Honourable Members in a position more effectively to assess the progress we are making towards progressively realising the social and economic rights enshrined in the *Bill of Rights*. It enables you to determine whether we are making good progress towards effecting equity and equality in the delivery of services to our people. Do feel free to ask tough questions where you detect failure from whoever is charged with the responsibility to execute their public mandate. We should not mask the fact that achieving our developmental agenda is not an easy task. Our people deserve honesty.

While our fiscal policy stance has adjusted from time to time, we remained focused on providing more resources to fund the services that are vital in bringing about positive change to the lives of our people: school education, health, social welfare services, housing (which are delivered mainly by provinces).

Under a carefully managed expansionary fiscal stance, public spending has been growing at about 8,4 per cent a year in real terms since 2003/04, faster than growth and in population size. While we should feel good that we now have more resources at our disposal, the real test is in our ability to take advantage of the expanded fiscal envelope to accelerate the process of measuring improving on the quality of life of our people. Parliament must keep the executive focused on the attainment of the commitments we made in the People's Contract. This is what the people who elected us expect, and this is what we must deliver.

The Review we are tabling before you today is important because it is a measure of whether the policy objectives we set three years ago have been achieved. It lays the basis for agreement on areas that might require review and refocusing. It provides Parliament with the information it needs to engage the executive on the effectiveness of our policies. Where we detect inadequacies we must be bold enough to change direction.

The main trends

When members examine the trends in this Review they will notice that spending has been increasing across all sectors. The social services programmes which include education, health and social welfare services have been growing quite strongly.

Education

Fuelled by robust growth in national transfers to provinces, total provincial education expenditure grew at 5,3 per cent above inflation between 2003/04 and 2009/10. It is not an accident that, today; education spending is the largest item on the budget.

Between 2003/04 and 2006/07 government has built 407 new schools and over 18 000 classrooms. The numbers of learners enrolling for matriculation have risen, and so have the numbers that pass the matric exam. Provincial reports also indicate the increased participation rate among female children that stood at 98 per cent in 2006, up from 93 per cent in 2003. This lays a solid basis for empowering our women leaders of tomorrow.

The no-fee schools policy introduced last year covers 13 912 schools benefiting about 5 million learners. This goes a long way towards further improving access to education and thus realizing the constitutional right of access to a basic education. In the current financial year R3 billion is budgeted for the implementation of no-fee schools.

We have also invested R520 million in the re-equipping and refurbishment of the further education and training in the past two years. The investment is promising good returns. Enrolments in the fields of engineering and science are rising. This will make a dent to the skills shortage in these areas.

We should derive some encouragement from the positive trends that are emerging from interventions such as the *Dinaledi* Schools initiative which promotes mathematics and science education. Pass rates in these schools are higher. So we should look at expanding this kind of initiative.

In spite of all these notable accomplishments, we all should not hide from the tough challenges that we still face. If we compare South Africa with countries like India, Turkey and Chile, the value per rand invested in education is less than the equivalent value obtained in these other countries. Further, the senior certificate pass rate has declined from 70,7 per cent in 2004 to 66,6 per cent in 2006. We should also note that an even harder challenge is whether those passing matric are also equipped to find jobs or further their education. As a country we should take collective responsibility to support the education sector in its endeavour to address the curriculum content and quality challenges we face, and improve links with out-of-school training.

Health

Health expenditure has been growing by about R3 billion a year above inflation since 2003/04. With strong growth sustained over the MTEF, per capita spending per uninsured person is projected to reach R500 per uninsured family per month by 2009/10.

We have also stepped up investment in health infrastructure. This has facilitated refurbishment and rehabilitation of 40 hospitals across the nine provinces. The health sector also has good examples of how government can join hands with the private sector to accelerate delivery. The world class Inkosi Albert Luthuli Hospital in KwaZulu-Natal is an example of a good PPP.

Primary health care has been considerably strengthened in line with the policy objectives of government of bringing services to where people live. Accordingly, primary health care recorded 20 million more patient visits a year than eight years ago.

Our interventions through the scarce skills and rural allowances are also showing good results. Since 2004 the health sector has been able to employ 31 710 additional health care workers, 7 000 of these are professionals.

Provincial reports also confirm that the health sector is implementing a systematic and comprehensive response to HIV and Aids. Under the auspices of the national strategic plan approximately 264 000 persons were on treatment at the start of the current financial year, up from about 143 000 a

year ago. It is anticipated that the number of people on treatment will exceed 300 000 by the 31 March 2008. The sector is budgeting to have over 600 000 persons on treatment by 2010.

So, the policy commitments we have made with respect to health are funded. I say this not to suggest that our health system does not face challenges. The emergence of multi-drug resistant and extreme-drug resistant strains of TB is a challenge. But this is not unique to South Africa. It is world wide a challenge. These strains of TB kill about 1,7 million people across the world each year. Notwithstanding these challenges, our health system is on a sound footing. We need to stay the course with the interventions.

Social welfare services

Following the shifting of social security grants administration from the provinces to the South African Social Security Agency, provincial social development departments have been able to focus on the remaining social welfare and development services. Combined social welfare services budgets more than doubled over the seven years covered in this Review. They grow from R2,0 billion to R5,6 billion. Although as a share of total provincial budgets this function remains modest its importance for the well-being of the aged and vulnerable children and persons with disabilities cannot be overemphasised. So the strong projected growth in the combined provincial budgets for this sector is welcome.

Other provincial functions

Over the period covered by this Review provinces are increasing their budgets for “other” provincial functions, from R31,4 billion in 2003/04 to R69,8 billion in 2009/10. This includes substantial investment in roads and public buildings. This is investment in the productive capacity of the facilities through which public services are delivered.

Housing remains a critical component of provincial non-social services expenditure. To date government has spent a cumulative amount of R40 billion on the housing programme. Over 3 million subsidies have been approved over the same period. In the period ahead, we need to narrow the gap between subsidies issued and actual houses constructed, for only when subsidies are converted to homes shall we succeed in making a dent on the housing backlog. Parliament and provincial legislatures must play a vigorous role to ensure that such houses actually get built, and get built quickly. Municipal councillors surely also should play a greater role in ensuring the quality of houses being built.

Resource allocation in the context the intergovernmental system

One of the major successes of our democracy has been the creation of a system of intergovernmental relations founded on the principle of cooperative governance. This system has matured over the years and has served us very well. But it would be remiss of me to pretend that the system is perfect. In this

regard I want to touch on areas in which our cooperative governance arrangements could be improved.

The efficacy of any intergovernmental system depends on its ability to foster strong linkages between policy making and resource allocation. Our intergovernmental system is predicated on the view that Cabinet decides the vertical split of nationally raised revenue between the three spheres. We arrive at the vertical division of revenue after a thoroughgoing consultative process, which takes into account future priorities and the capacity of each sphere to raise its own revenue. We then apply a revenue-sharing formula which seeks to redistribute the share allocated to the provincial sphere to enable provinces that inherited areas that were previously neglected to “equalise” their spending.

Would it be unreasonable to ask this house, as the institution charged with looking after the interest of provinces to monitor whether we are succeeding in achieving inter- and intra-provincial equity in the delivery services. For our part as the National Treasury we undertake a very thorough benchmarking of each province’s budget against the national priorities and funding norms where these exist. But the main responsibility for provincial resource allocation remains with the Provincial Executive Councils. The area of alignment between national policies and provincial budgets is but one of the areas that we need to examine as we move forward. And I hold the view that this house has a central role to play in this regard.

I am appealing to this house to find a way of staying engaged with the budget process beyond the passing of the Division of Revenue Bill.

Conclusion

I want to end by reminding members of three issues that I have previously raised.

The first of these is the need to examine how we redesign our intergovernmental system such that the link between policy making, on the one hand, and the budgeting implementation, on the other hand, is strengthened. This is important for concurrent functions.

The second area relates to the assignment of powers and functions across spheres. Our constitution states that a function must be assigned to the sphere that can deliver it more effectively. The review of the intergovernmental system presents a unique opportunity to move functions around to meet this criterion.

Finally, I raised the issue of accountability and oversight, again in respect of concurrent functions. The “policy process on the system of provincial and local government” that has been instituted by my colleague Minister Mufamadi is a step in the right direction and I want to urge members to participate fully in the process as it is central to the work of this house and the functioning of our democracy. As I said in the beginning, without accountability there can be no democracy.

Thank you