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Introduction

Underpinned by a carefully managed expansionary fiscal stance over the past 15 years, great strides have been made to accelerate the progressive realisation of social and economic rights that are enshrined in the Constitution.

Prudent fiscal management saw non-interest spending falling, while spending on social programmes like education, health, human settlements and social development continued to grow strongly in real terms. Collectively, education and health spending at 32.4 per cent of government spending and 8.9 per cent of GDP, remains the largest expenditure items on consolidated government accounts.

The *Provincial Budgets and Expenditure Review: 2005/06 – 2011/12* 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. This *Review* analyses trends in spending in six sectors: education, health, social development, human settlements, agriculture and land, and roads and transport. The following conclusions can be drawn from this:

The Review analyses trends in six sectors

- 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, it suggests that, at the aggregate level, service delivery in provincial departments is accelerating. This means that access to most services continues to improve. However, questions around the quality of services remain.
- Third, service delivery information is not always readily available to stand against expenditure data for the efficiency of spending to be assessed.

- Finally, despite the progress, there are still a number of challenges. A change in approach to the delivery of services is needed. The entire system of delivery will have to be modernised to ensure that policy intentions lead to the desired outcomes.

Provincial finances

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 human settlements. Provinces play a key role in improving access to better-quality services, supporting labour intensive services and infrastructure programmes, and investing in infrastructure and services that raise the long-term growth potential of the economy and facilitate higher exports.

Provincial governments accounted for 42.5 per cent of total government expenditure in 2009/10

Combined provincial budgets account for 42.5 per cent of total government non-interest expenditure in 2009/10. Approximately 96.5 per cent of this is funded from national transfers comprising of an equitable share of R231.1 billion and conditional grants of R49.3 billion, while provincial own revenues amounted to R9.6 billion or 3.3 per cent.

Table 1.1 Division of nationally raised revenue, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Revised estimate	Medium-term estimates		
R million							
State debt cost	50 912	52 192	52 877	54 281	55 268	60 140	66 826
Non-interest expenditure	365 772	418 000	488 622	579 626	683 295	732 214	782 145
Percentage increase	14.4%	14.3%	16.9%	18.6%	17.9%	7.2%	6.8%
Total expenditure	416 684	470 192	541 499	633 907	738 563	792 354	848 971
Percentage increase	13.1%	12.8%	15.2%	17.1%	16.5%	7.3%	7.1%
Contingency reserve	–	–	–	–	6 000	12 000	20 000
Division of available funds							
National departments	192 425	210 168	242 632	288 277	343 077	352 788	361 255
Provinces	156 665	181 331	208 669	247 729	284 519	309 704	335 925
Equitable share	135 292	150 753	172 862	204 010	231 051	253 670	272 934
Conditional grants ^{1, 2}	21 374	30 578	35 808	43 719	53 468	56 034	62 991
Local government	16 682	26 501	37 321	43 620	49 698	57 722	64 964
Equitable share	9 643	18 058	20 676	25 560	23 847	29 268	31 890
Conditional grants	7 038	8 443	16 645	18 060	19 052	20 912	24 543
General fuel levy sharing with metropolitan municipalities	–	–	–	–	6 800	7 542	8 531
Total	365 772	418 000	488 622	579 626	677 295	720 214	762 145
Percentage shares							
National departments	52.6%	50.3%	49.7%	49.7%	50.7%	49.0%	47.4%
Provinces	42.8%	43.4%	42.7%	42.7%	42.0%	43.0%	44.1%
Local government	4.6%	6.3%	7.6%	7.5%	7.3%	8.0%	8.5%

1. The 2005/06 to 2008/09 financial years include comparative numbers for the public transport operations grant introduced to provinces during the 2009 MTEF.

2. The Gauteng rapid rail link loan is included in the 2009/10 financial year.

Source: Budget Review 2009

As the figures in table 1.1 show, the provincial share of nationally raised revenues rises by a percentage point from 42.8 per cent in 2005/06 to 44.1 per cent in 2011/12. Below are some of the priorities which inform 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 to improve the health profile of the country
- expanding social welfare services and building stronger partnerships with non-governmental welfare organisations
- accelerating housing delivery and at the same time building cohesive, caring and sustainable communities
- implementing government's comprehensive rural development strategy linked to land and agrarian reform and food security
- upgrading of economic infrastructure, which includes the rehabilitation and expansion of road networks.

The South African intergovernmental system

Expenditure of public resources and delivery of public services takes place within the broader context of cooperative 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.

The efficacy of the intergovernmental system depends largely on well coordinated policy, planning, budgeting, implementation and reporting. The system is underpinned by:

- First, a less rigid legislative framework which reinforces cooperative governance. This includes the Intergovernmental Fiscal Relations Act (1997), the Intergovernmental Relations Framework Act (2005), Public Finance Management Act (1999), the Municipal Finance Management Act (2003), and the annual Division of Revenue Act.
- Second, deep and transparent budget and policy formulation processes.

Despite strong evidence confirming the soundness of South Africa's intergovernmental system, concurrent functions do occasionally present particular challenges and continue to test the robustness of South Africa's intergovernmental system.

Concurrent functions do occasionally present particular challenges

- First, there is sometimes imperfect alignment between policy making 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.

A number of initiatives to further improve the intergovernmental fiscal system are under way. These include reforms to improve the planning, budget, implementation and accountability cycle; funding mega-projects and infrastructure projects; and funding concurrent functions.

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.
- *Chapter 2* 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.
- *Chapters 3, 4 and 5* analyse trends in expenditure in social sectors: *education, health and social development*. It is clear that, 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 6* deals with *human settlements* funding and delivery. It shows that over the life of the housing programme, 2.6 million housing units have been completed or are in the process of completion.
- *Chapter 7* discusses *agriculture and land* issues and indicates that 5.4 million hectares have been redistributed under the auspices of the land restitution and redistribution programmes, giving access to land to 1 729 323 households. Support to emerging farmers is being provided under the umbrella of the comprehensive agricultural support programme.
- *Chapter 8* 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.