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Revenue and expenditure trends

■ Introduction

The performance of the intergovernmental system in general, and provinces in particular, is important in improving the quality of life of South Africans. Between 2005/06 and 2008/09, the expenditure framework of the South African intergovernmental system focused on sustaining growth and macroeconomic stability, while accelerating development and the creation of employment opportunities. The sustained delivery of social and economic services over the past 10 years has ensured that government not only meets its set strategic objectives, but through the optimal allocation and utilisation of financial resources, has reduced poverty and vulnerability among South Africa's most marginalised communities.

The global financial crisis has significantly impacted on the world economy environment, negatively affecting South Africa's growth prospects. These new and largely unforeseen circumstances have called for necessary fiscal policy adjustments to ensure that government is able to bring about quality service delivery in the context of a reduced fiscal envelope. This is vital for now and the period ahead to ensure that the economy continues to grow and to improve the living standards of all South Africans.

The global financial crisis has significantly impacted on the world economy environment, negatively affecting South Africa's growth prospects

Despite these and other challenges, provincial expenditure trends indicate that government has continued to focus on the following broad priorities to achieve its developmental objectives:

- strengthening the education system to ensure further investment in people and skills development to raise productivity
- improving the health system to ensure an efficient and effective response to people's health care needs, particularly the poor;

mitigating the impact of HIV and AIDS; and responding to tuberculosis and other chronic illnesses

- expanding social welfare services and building stronger capacity within non-governmental welfare organisations
- increasing investment in infrastructure and industrial capital, which includes the rehabilitation and expansion of road networks
- improving the regulation of markets and public entities, and fighting poverty and inequality through efficient public service delivery, expanded employment levels, income support and empowerment.

These broad priorities, which directly inform government budgets, have become a key instrument in cooperative governance. There has been progress in building a good understanding of the roles between the different spheres in relation to their concurrent functions. However, given the prevailing economic environment, the financing of concurrent functions is proving to be a challenge and continuous work is required to further strengthen intergovernmental coordination.

This chapter gives an overview of:

- provincial revenue trends: 2005/06 to 2011/12
- provincial expenditure trends: 2005/06 to 2011/12
- provincial expenditure trends by economic classification: 2005/06 to 2011/12.

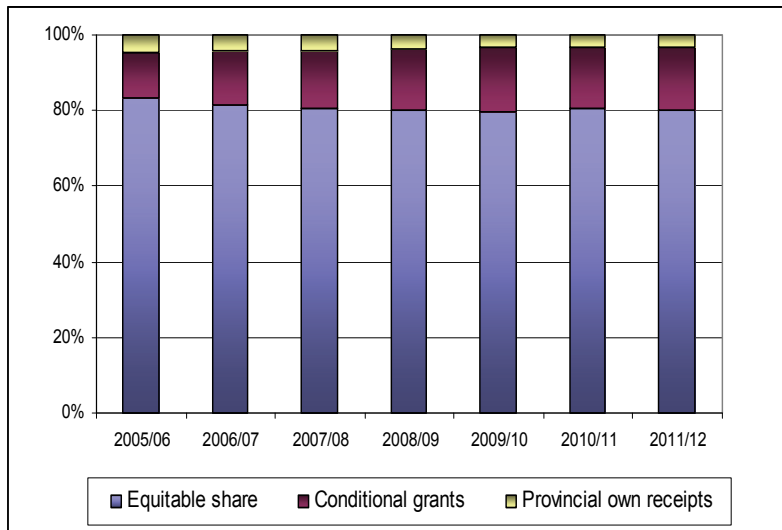
■ Provincial revenue trends: 2005/06 – 2011/12

The largest share of provincial funding is in the form of national transfers, which consist of each province's equitable share and conditional grants. Provincial own revenue constitutes a small portion of total provincial revenue, comprising only 3.3 per cent in 2009/10.

National transfers to provinces have consistently contributed to more than 95 per cent of total provincial revenue. Between 2005/06 and 2008/09, transfers rose from R153.7 billion to R245.2 billion and they are set to grow further to R335.9 billion by 2011/12. This represents an average annual growth rate of 11.1 per cent over the MTEF period.

Figure 1 shows the shares of total provincial revenue from 2005/06 to 2011/12.

Figure 1: Shares of total provincial revenue, 2005/06 – 2011/12



The provincial equitable share

Throughout the period under review, the provincial equitable share has consistently comprised the largest share of national transfers to provinces. As the main source of provincial funding it is used to provide basic services and other functions that are in line with government's strategic objectives. Between 2005/06 and 2008/09, it grew rapidly, at an average annual rate of 14.8 per cent to R204 billion. Due to the steady increase in the allocation of new and existing conditional grants, the provincial equitable share has decreased in terms of its share of national transfers. It declined from 83.7 per cent in 2005/06 to 80.1 per cent in 2008/09, and then levelling off at around 79 per cent over the MTEF period.

The provincial equitable share continues to be the largest share of national transfers

Table 2.1 Provincial revenue and expenditure, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
R million							
Transfers from national	153 668	178 161	205 014	245 220	280 319	309 704	335 925
<i>of which:</i>							
Equitable share	134 706	150 753	172 862	204 010	231 051	253 670	272 934
Conditional grants	18 962	27 408	32 153	41 210	49 268	56 034	62 991
Provincial own receipts	7 321	8 076	9 402	9 388	9 598	10 254	10 830
Total revenue	160 989	186 236	214 417	254 609	289 917	319 958	346 755
Total expenditure	161 183	185 812	213 432	263 656	290 593	313 134	338 881
Surplus(+)/deficit(-)	-194	424	985	-9 047	-676	6 824	7 874
Share of total provincial revenue							
Transfers from national	95.5%	95.7%	95.6%	96.3%	96.7%	96.8%	96.9%
<i>of which:</i>							
Equitable share	83.7%	80.9%	80.6%	80.1%	79.7%	79.3%	78.7%
Conditional grants	11.8%	14.7%	15.0%	16.2%	17.0%	17.5%	18.2%
Provincial own receipts	4.5%	4.3%	4.4%	3.7%	3.3%	3.2%	3.1%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury provincial database

The provincial equitable share grows by an average annual rate of 4.9 per cent in real terms over the next three years

Over the next three years, the provincial equitable share is projected to grow at an average annual real growth rate of 4.9 per cent. This reflects healthy growth over and above the rising inflation rate and will enable provincial government to provide sufficient support to core focus areas relating to social services – school education, health and social welfare services.

Conditional grants

The type and number of conditional grants reflect the evolution of the inter-governmental fiscal system

In addition to the provincial equitable share, provinces also receive a proportion of their transfers from national government in the form of conditional grants. These can be further classified into three main types of provincial conditional grants:

- Schedule 4 grants supplement various programmes partly funded by provinces, such as infrastructure and central hospitals.
- Schedule 5 grants are specific purpose allocations to provinces.
- A schedule 8 grant, introduced for 2009/10, is an incentive grant intended to incentivise provinces and municipalities to meet or exceed prescribed targets.

To streamline the delivery of programmes, government agreed to further rationalise the conditional grant system as follows:

- a number of new conditional grants introduced in 2008/09: the Ilima/Letsema projects under the agriculture vote, and the overload control and Sani Pass roads grants, both under the transport vote (these will continue over the MTEF period)
- the expanded public works programme incentive grant aimed at providing incentives for provinces and municipalities to increase spending on labour intensive programmes
- the public transport operations grant, to allow for improved monitoring and control of expenditure related to bus subsidies and other transport related issues
- the technical secondary schools recapitalisation grant to provide for the refurbishment of technical high schools
- the health disaster response (cholera) grant and housing disaster relief grant, to deal with the costs attributable to various natural disasters.

The increase in conditional grant funding is mainly due to increased levels of funding for existing grants over the MTEF period.

- Most health grants, which make up 33.9 per cent of total conditional grants in 2008/09, are budgeted to grow from R14 billion in 2008/09 to R19.2 billion by 2011/12. This represents an average annual increase of 11.2 per cent over the MTEF period.

Table 2.2 Conditional grants to provinces, 2008/09 – 2011/12

R million	2008/09	2009/10	2010/11	2011/12
	Pre-audited outcome	Medium-term estimates		
Agriculture	884	877	1 117	1 437
Agricultural disaster management grant	123	60	–	–
Comprehensive agricultural support programme grant	614	715	862	979
Ilima/Letsema projects grant	96	50	200	400
Land care programme grant: Poverty relief and infrastructure development	51	51	55	58
Arts and Culture	344	441	494	524
Community library services grant	344	441	494	524
Education	2 909	2 572	3 931	4 978
Education disaster management grant	22	–	–	–
Further education and training college sector recapitalisation grant	795	–	–	–
HIV and AIDS (life skills education) grant	165	177	188	199
National school nutrition programme grant	1 927	2 395	3 663	4 579
Technical secondary schools recapitalisation grant	–	–	80	200
Health	13 958	15 578	18 013	19 172
Comprehensive HIV and AIDS grant	2 885	3 476	4 312	4 633
Forensic pathology services grant	594	492	557	590
Health disaster response (cholera) grant	–	50	–	–
Health professions training and development grant	1 679	1 760	1 865	1 977
Hospital revitalisation grant	2 665	3 186	3 881	4 172
National tertiary services grant	6 134	6 614	7 398	7 799
Housing	10 178	12 592	15 027	17 222
Housing disaster relief grant	–	150	–	–
Integrated housing and human settlement development grant	10 178	12 442	15 027	17 222
National Treasury	7 384	9 249	11 315	13 091
Infrastructure grant to provinces	7 384	9 249	11 315	13 091
Provincial and Local Government	30	–	–	–
Internally displaced people management grant	30	–	–	–
Public Works	889	1 148	1 496	1 962
Devolution of property rate funds grant	889	997	1 096	1 162
Expanded public works programme incentive grant	–	151	400	800
Sport and Recreation South Africa	293	402	426	452
Mass sport and recreation participation programme grant	293	402	426	452
Transport	4 340	6 409	4 215	4 153
Gautrain rapid rail link grant	3 266	2 833	341	–
Overload control grant	9	10	11	–
Public transport operations grant	–	3 532	3 863	4 153
Sani Pass roads grant	30	34	–	–
Transport disaster management grant	1 035	–	–	–
Total	41 210	49 268	56 034	62 991

Source: National Treasury provincial database

- The integrated housing and human settlement development grant grows significantly, at an average annual rate of 19.2 per cent, from R10.2 billion in 2008/09 to R17.2 billion by 2011/12, in an

effort to speed up the implementation of the comprehensive housing strategy.

- The infrastructure grant to provinces, which supports the development and maintenance of social and economic infrastructure in provinces, grows from R7.4 billion in 2008/09 to R13.1 billion by 2011/12. This is an average annual increase of 21 per cent over the MTEF period.
- The Gautrain Rapid Rail Link grant decreases from 2008/09 to 2009/10 by 13.3 per cent as a result of the Gautrain project nearing completion. A loan of R4.2 billion, which is allocated to the Gauteng province in 2009/10, was agreed on to assist the province in its contribution to the Gautrain project.

It is clear that there continues to be very strong growth in conditional grants over the MTEF period, with total grant allocations increasing from R41.2 billion in 2008/09 to R63 billion in 2011/12. This represents an average annual growth of 15.2 per cent over the MTEF period.

Provincial own revenue

Own revenue constitutes 3.3 per cent of total revenue for provinces in 2009/10 and remains fairly stable over the MTEF period, declining marginally to 3.1 per cent in 2011/12. In 2008/09, own revenue collected was R9.4 billion and in 2011/12 it is expected to increase to R10.8 billion. The implication is that provinces are budgeting for a minimal decrease at a real average annual rate of 0.2 per cent over the MTEF period. Provinces tend to understate their projected own revenues over the MTEF period, which generally results in over-collections. The reason for this seems to be that provinces do not want to commit these funds in their budgets, but would rather use the over-collections as in-year discretionary funding.

Table 2.3 shows that own revenue is made up of tax receipts (casino taxes, horse racing taxes, liquor licences and motor vehicle licences), non-tax receipts, transfers received, sales of capital assets and other own revenue categories. Between 2005/06 and 2008/09, the share of tax receipts in provincial own revenue increased from 59.2 per cent to 59.9 per cent and is projected to grow to 64.8 per cent by 2011/12.

This trend is mainly due to motor vehicle licence fees, the most significant tax, which decreased from 45.1 per cent of total provincial own revenue in 2005/06 to 44 per cent in 2008/09, and is set to rise to 47.4 per cent by 2011/12. Casino tax revenue grew from 12.5 per cent of total provincial own revenue in 2005/06 to 14.1 per cent in 2008/09 and is expected to grow to 15.2 per cent by 2011/12. The drop in non-tax revenue is due to a sharp decline in some of the categories of non-taxes, which includes interest on bank balances and investments. Probable reasons for the decline are the reduction in provincial cash balances and conservative projections by provinces.

Provincial own revenue is budgeted to reach R10.8 billion or 3.1 per cent of total provincial revenue

Motor vehicle licence fees are the biggest source of revenue for provinces

Table 2.3 Provincial own receipts by category, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
Tax receipts	4 337	4 825	5 398	5 623	6 227	6 613	7 014
<i>Casino taxes</i>	916	1 084	1 265	1 325	1 458	1 539	1 649
<i>Horse racing taxes</i>	92	104	121	150	130	139	145
<i>Liquor licences</i>	23	21	24	19	73	80	86
<i>Motor vehicle licences</i>	3 305	3 616	3 988	4 129	4 565	4 856	5 135
Sale of goods and services other than capital assets	1 280	1 403	1 759	1 989	2 004	2 136	2 249
Transfers received	69	77	159	144	85	22	12
Fines, penalties and forfeits	92	98	117	145	139	148	156
Interest, dividends and rent on land	1 019	1 142	1 401	956	840	1 073	1 147
Sales of capital assets	108	106	113	103	96	60	68
Financial transactions in assets and liabilities	416	426	454	427	206	201	184
Total	7 321	8 076	9 402	9 388	9 598	10 254	10 830
Percentage of total provincial own revenue							
Tax receipts	59.2%	59.7%	57.4%	59.9%	64.9%	64.5%	64.8%
<i>Casino taxes</i>	12.5%	13.4%	13.5%	14.1%	15.2%	15.0%	15.2%
<i>Horse racing taxes</i>	1.3%	1.3%	1.3%	1.6%	1.4%	1.4%	1.3%
<i>Liquor licences</i>	0.3%	0.3%	0.3%	0.2%	0.8%	0.8%	0.8%
<i>Motor vehicle licences</i>	45.1%	44.8%	42.4%	44.0%	47.6%	47.4%	47.4%
Sale of goods and services other than capital assets	17.5%	17.4%	18.7%	21.2%	20.9%	20.8%	20.8%
Transfers received	0.9%	1.0%	1.7%	1.5%	0.9%	0.2%	0.1%
Fines, penalties and forfeits	1.3%	1.2%	1.2%	1.5%	1.5%	1.4%	1.4%
Interest, dividends and rent on land	13.9%	14.1%	14.9%	10.2%	8.7%	10.5%	10.6%
Sales of capital assets	1.5%	1.3%	1.2%	1.1%	1.0%	0.6%	0.6%
Financial transactions in assets and liabilities	5.7%	5.3%	4.8%	4.5%	2.2%	2.0%	1.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury provincial database

Table 2.4 shows that the amount of own revenue collected between 2005/06 and 2008/09 is fairly stable, averaging at 8.6 per cent annually. Between 2008/09 to 2011/12, provinces project to collect on average 4.9 per cent annually.

The variation between these two periods may be attributed to the prevailing economic outlook, which has resulted in provinces' MTEF forecast of own revenue to be even more conservative. Projected growth over the MTEF period in most provinces is minimal, with a number of provinces projecting to collect less in each year, compared to the collection rate in 2008/09.

Provincial own revenue forecasting is generally conservative

Table 2.4 Provincial own receipts by province, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
Eastern Cape	679	800	1 008	967	704	803	838
Free State	448	489	546	581	617	654	698
Gauteng	1 906	2 161	2 755	2 355	3 035	3 256	3 451
KwaZulu-Natal	1 227	1 446	1 557	1 702	1 645	1 919	2 070
Limpopo	392	451	444	535	560	597	618
Mpumalanga	351	391	466	518	480	510	590
Northern Cape	111	127	141	170	141	150	167
North West	493	517	465	627	597	624	651
Western Cape	1 714	1 693	2 019	1 935	1 818	1 741	1 748
Total	7 321	8 076	9 402	9 388	9 598	10 254	10 830
Percentage growth (average annual)	2005/06 – 2008/09			2008/09 – 2011/12			
Eastern Cape	12.5%			-4.7%			
Free State	9.1%			6.3%			
Gauteng	7.3%			13.6%			
KwaZulu-Natal	11.5%			6.7%			
Limpopo	10.9%			5.0%			
Mpumalanga	13.8%			4.4%			
Northern Cape	15.2%			-0.5%			
North West	8.4%			1.3%			
Western Cape	4.1%			-3.3%			
Total	8.6%			4.9%			

Source: National Treasury provincial database

■ Provincial expenditure trends: 2005/06 – 2011/12

Pre-audited outcome of 2008/09

Provinces are showing a marked improvement in their spending capacity

The spending capacity of most provinces has improved markedly over the years. By 31 March 2009, provinces reported spending totalling R263.7 billion or 101.6 per cent against their adjusted budgets for 2008/09. In total, provinces overspent their adjusted budgets by R4.1 billion or 1.6 per cent in 2008/09. This represents a significant improvement in spending of R50.2 billion or 23.5 per cent from 2007/08.

Overspending in 2008/09 was largely in education and health

The reason for the bulk of the aggregate provincial over-expenditure figure is the overspending in education and health departments. Within these sectors, overspending relates mainly to personnel. The education personnel budget overspent by R2.5 billion, and the health personnel budget overspent by R2 billion. Health goods and services overspent by R1 billion, while capital under spending amounted to R1.3 billion in health.

Personnel was the main contributor to overspending

Table 2.5 Provincial expenditure by province as at 31 March 2009 (2008/09 financial year)

	Adjusted budget	Pre-audited outcome	Pre-audited outcome as % of adjusted budget	Over(-) exp	under exp	% over(-) /under adjusted budget	% share of total provincial expenditure	2007/08 outcome	Year-on-year growth
R million									
Eastern Cape	39 390	39 000	99.0%	–	390	1.0%	14.8%	30 216	29.1%
Free State	16 271	16 055	98.7%	–	216	1.3%	6.1%	13 275	20.9%
Gauteng	48 605	52 063	107.1%	-3 458	–	-7.1%	19.7%	41 736	24.7%
KwaZulu-Natal	53 201	55 509	104.3%	-2 308	–	-4.3%	21.1%	44 483	24.8%
Limpopo	30 562	30 662	100.3%	-100	–	-0.3%	11.6%	24 735	24.0%
Mpumalanga	20 436	20 068	98.2%	–	369	1.8%	7.6%	16 265	23.4%
Northern Cape	7 114	7 097	99.8%	–	17	0.2%	2.7%	5 935	19.6%
North West	17 724	17 587	99.2%	–	137	0.8%	6.7%	15 264	15.2%
Western Cape	26 223	25 615	97.7%	–	609	2.3%	9.7%	21 523	19.0%
Total	259 527	263 656	101.6%	-5 866	1 738	-1.6%	100.0%	213 432	23.5%

Source: National Treasury provincial database

Table 2.6 shows that spending on public works, roads and transport was also a contributor to overspending (R2.8 billion). The main reason for the overspending in this sector was the Gautrain project, which overspent its budget by R2.8 billion.

Table 2.6 Provincial expenditure by sector as at 31 March 2009 (2008/09 financial year)

	Adjusted budget	Pre-audited outcome	Pre-audited outcome as % of adjusted budget	Over(-) exp	under exp	% over(-) /under adjusted budget	% share of total provincial expenditure	2007/08 outcome	Year-on-year growth
R million									
Social services	188 771	190 917	101.1%	-2 146	–	-1.1%	72.4%	157 140	21.5%
Education	106 657	107 550	100.8%	-893	–	-0.8%	40.8%	88 377	21.7%
Health	73 606	75 030	101.9%	-1 424	–	-1.9%	28.5%	62 582	19.9%
Social development	8 508	8 336	98.0%	–	171	2.0%	3.2%	6 181	34.9%
Non-social services	70 757	72 739	102.8%	-1 983	–	-2.8%	27.6%	56 292	29.2%
Works, roads and transport	30 265	33 097	109.4%	-2 832	–	-9.4%	12.6%	24 897	32.9%
Housing and local government	15 084	15 056	99.8%	–	29	0.2%	5.7%	11 935	26.1%
Other	25 407	24 586	96.8%	–	821	3.2%	9.3%	19 460	26.3%
Total	259 527	263 656	101.6%	-4 639	511	-1.6%	100.0%	213 432	23.5%

Source: National Treasury provincial database

In aggregate, personnel expenditure shows overspending of R4.2 billion, while capital expenditure continues to reflect under spending of R1.9 billion. Other sectors that reflect under spending are social development (R171.2 million), agriculture (R186.4 million) and administrative functions like provincial treasuries (R8.2 million).

In some cases, under spending represents goods and services and infrastructure that have not been delivered. On the other hand, the implications of overspending in provincial departments as a whole, are that such expenditure will translate into unauthorised expenditure and has affected provincial bank balances negatively. This reduces the fiscal space for provinces to spend on their targeted areas in the years

ahead, resulting therefore in slow service delivery. The risk associated with under spending may be directly related to a lack of capacity to adequately and timely implement plans, which may have a negative impact on the quality of services delivered.

Aggregate provincial budgets and expenditure trends, 2005/06 – 2011/12

Provincial expenditure trends over the seven-year period reflect strong growth in funding and spending of the various sectors. Although a broad real growth in expenditure may seem healthy, this could be offset by significant overspending and minimal under spending within provincial budgets. Per capita and other indicators also reflect sustained improvement, but quality indicators do not always show gains that are commensurate with the increases in spending.

Table 2.7 Provincial expenditure by province, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
R million							
Eastern Cape	23 718	26 904	30 216	39 000	42 635	45 931	49 650
Free State	10 676	12 298	13 275	16 055	18 374	20 290	21 729
Gauteng	27 090	34 740	41 736	52 063	55 259	55 915	60 675
KwaZulu-Natal	33 333	36 881	44 483	55 509	60 463	66 245	71 682
Limpopo	20 914	23 862	24 735	30 662	34 476	38 111	41 157
Mpumalanga	11 613	12 686	16 265	20 068	22 545	24 633	26 661
Northern Cape	3 955	4 568	5 935	7 097	7 941	8 788	9 516
North West	13 137	15 024	15 264	17 587	19 866	22 195	24 331
Western Cape	16 747	18 849	21 523	25 615	29 034	31 027	33 482
Total	161 183	185 812	213 432	263 656	290 593	313 134	338 881
Percentage growth (average annual)	2005/06 – 2008/09			2008/09 – 2011/12			
Eastern Cape	18.0%			8.4%			
Free State	14.6%			10.6%			
Gauteng	24.3%			5.2%			
KwaZulu-Natal	18.5%			8.9%			
Limpopo	13.6%			10.3%			
Mpumalanga	20.0%			9.9%			
Northern Cape	21.5%			10.3%			
North West	10.2%			11.4%			
Western Cape	15.2%			9.3%			
Total	17.8%			8.7%			

Source: National Treasury provincial database

Between 2005/06 and 2008/09, total provincial expenditure grew substantially, from R161.2 billion to R263.7 billion, a real average annual growth rate of 9.1 per cent. This level of growth has put provinces in a better position to accelerate delivery across all sectors. The 2009 provincial MTEF budgets, set out in table 2.7, show that provinces have budgeted to spend R290.6 billion in 2009/10, or R26.9 billion (10.2 per cent) more than in 2008/09. From 2009/10, provincial expenditure is set to increase by an average annual rate of 8 per cent to R338.9 billion in 2011/12.

The composition of provincial spending

In an effort to maintain healthy economic growth while bridging the economic divide between the wealthy and the poor, the focus of public finances is heavily skewed towards the development of people through social services spending (education, health and social development). This is evident in the spending trends as social services expenditure is set to more than double over the seven-year period from R123.3 billion in 2005/06 to R254.5 billion in 2011/12, at an average annual rate of 12.8 per cent. Most expenditure on social services goes to programmes that support poor communities in their endeavours to seek economic opportunities and self-reliance.

Social services account for over 72.3 per cent of provincial budgets in 2009/10

Table 2.8 Consolidated provincial expenditure per sector, 2005/06 – 2011/12

R million	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
Education	71 981	78 948	88 377	107 550	118 534	132 002	143 776
Health	47 071	53 649	62 582	75 030	82 359	91 999	99 140
Social development	4 220	5 153	6 181	8 336	9 279	10 512	11 590
Total social services	123 272	137 750	157 140	190 917	210 172	234 513	254 506
Non-social services	37 911	48 062	56 292	72 739	80 422	78 621	84 375
Total	161 183	185 812	213 432	263 656	290 593	313 134	338 881
Percentage growth (average annual)	2005/06 – 2008/09		2008/09 – 2009/10		2009/10 – 2011/12		
Social services	15.7%		10.1%		10.0%		
<i>Education</i>	14.3%		10.2%		10.1%		
<i>Health</i>	16.8%		9.8%		9.7%		
<i>Social development</i>	25.5%		11.3%		11.8%		
Non-social services	24.3%		10.6%		2.4%		
Total	17.8%		10.2%		8.0%		

Source: National Treasury provincial database

Although spending on social services (as opposed to non-social services) over the seven-year period shows healthy growth, the share of social services spending declined from 76.5 per cent in 2005/06 to 72.4 per cent in 2008/09; it is set to increase slowly over the MTEF period to 75.1 per cent in 2011/12. This share of provincial spending will have to be carefully monitored if the focus of provinces is to be consistent with the objective of achieving equity across provincial public services.

Figure 2 shows that the share of education, health and social development spending is decreasing, while the share of non-social services is increasing.

Figure 2: Composition of provincial spending, 2005/06 – 2011/12

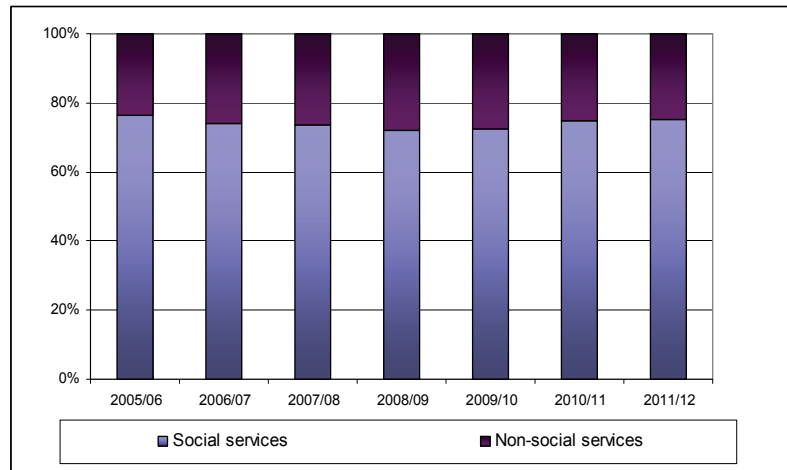


Table 2.9 further shows that the share of non-social services spending in total provincial spending increased from 23.5 per cent in 2005/06 to 27.6 per cent in 2008/09. The increase may be attributable to higher investment in other functions, which include the Gautrain project and infrastructure related to the 2010 FIFA World Cup, as well as the associated strengthening of the public transport and communications systems. Provincial expenditure on non-social services more than doubles, from R37.9 billion in 2005/06 to R84.4 billion in 2011/12. This represents an average annual growth rate of 14.3 per cent.

Table 2.9 Consolidated provincial expenditure shares, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
Percentage							
Shares of total provincial expenditure							
Social services	76.5%	74.1%	73.6%	72.4%	72.3%	74.9%	75.1%
<i>Education</i>	44.7%	42.5%	41.4%	40.8%	40.8%	42.2%	42.4%
<i>Health</i>	29.2%	28.9%	29.3%	28.5%	28.3%	29.4%	29.3%
<i>Social development</i>	2.6%	2.8%	2.9%	3.2%	3.2%	3.4%	3.4%
Non-social services	23.5%	25.9%	26.4%	27.6%	27.7%	25.1%	24.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Eastern Cape	14.7%	14.5%	14.2%	14.8%	14.7%	14.7%	14.7%
Free State	6.6%	6.6%	6.2%	6.1%	6.3%	6.5%	6.4%
Gauteng	16.8%	18.7%	19.6%	19.7%	19.0%	17.9%	17.9%
KwaZulu-Natal	20.7%	19.8%	20.8%	21.1%	20.8%	21.2%	21.2%
Limpopo	13.0%	12.8%	11.6%	11.6%	11.9%	12.2%	12.1%
Mpumalanga	7.2%	6.8%	7.6%	7.6%	7.8%	7.9%	7.9%
Northern Cape	2.5%	2.5%	2.8%	2.7%	2.7%	2.8%	2.8%
North West	8.2%	8.1%	7.2%	6.7%	6.8%	7.1%	7.2%
Western Cape	10.4%	10.1%	10.1%	9.7%	10.0%	9.9%	9.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury provincial database

Further details of this trend are:

- Large investments in provincial road construction, rehabilitation and maintenance: provincial roads infrastructure budgets grow from R7.6 billion in 2005/06 to R16.3 billion by 2011/12. This represents a 6.3 per cent annual growth over the MTEF period.
- 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, which will improve their chances of getting employment in the future.
- Large economic infrastructure investments by Gauteng province: Gauteng will spend R9.8 billion over the MTEF period on the construction of the Gautrain Rapid Rail Link.
- 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, departments of economic affairs. Detailed information on these functions per province is included in the data tables at the end of this publication.

Provincial expenditure trends by economic classification, 2005/06 – 2011/12

Compensation of employees

The services that provinces deliver require personnel. Provinces employ almost 849 000 employees as educators, health workers, administrators and general support staff. It is thus imperative that provinces invest in resources for adding and strengthening personnel capacity and to procure other inputs that enable them to deliver quality services.

One of the remarkable successes of provincial budgeting and financial management between 2005/06 and 2008/09 has been the containment of the share of personnel spending. Although compensation of employees has been a major cost driver and takes up the largest share of provincial budgets, it has been declining moderately over time, from 59.1 per cent in 2005/06 to 55.2 per cent in 2008/09 and is set to further decline to 54.8 per cent by 2011/12.

The share of personnel costs in provincial budgets is set to decline over the MTEF period

Some of the challenges in personnel budgets relate to the occupational specific dispensation (OSD) for educators and health professionals. Agreements were reached and signed in late 2007 and early 2008 for both these sector professionals, but due to late changes in the OSD policy and the lack of understanding of the phasing-in processes in some provinces, certain unforeseen problems arose. Most provinces faced challenges with the implementation of OSD, which resulted in the misallocation of the funding levels of education and health professionals, putting a severe strain on provincial personnel budgets in 2008/09.

Higher than anticipated inflation also put pressure on provincial personnel budgets in 2008/09

The higher than anticipated inflation rate was also a contributing factor to the pressure experienced in provincial personnel budgets in 2008/09. In terms of resolution 1 of 2007, the wage agreement (which excludes costs associated with the OSD) was about 3 per cent higher than what provinces had planned for. Although provinces received some assistance, reprioritisation within provinces' overall budgets was necessary to cover any shortfalls.

Table 2.10 Provincial expenditure on compensation of employees, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
R million							
Eastern Cape	15 146	16 524	18 614	22 931	24 999	27 740	29 956
Free State	6 719	7 212	8 070	9 634	10 570	11 374	12 043
Gauteng	14 300	15 881	19 046	23 289	25 639	27 319	29 501
KwaZulu-Natal	19 695	21 795	25 834	31 111	33 284	36 734	39 250
Limpopo	13 660	14 817	16 166	19 518	20 706	22 384	24 173
Mpumalanga	6 798	7 530	9 358	11 745	13 102	14 380	15 385
Northern Cape	2 136	2 407	3 198	3 886	4 301	4 585	4 865
North West	7 986	8 586	8 423	9 886	11 091	12 057	12 941
Western Cape	8 853	9 726	11 268	13 445	14 875	16 231	17 476
Total	95 294	104 479	119 976	145 443	158 567	172 804	185 591
Percentage of total expenditure							
Eastern Cape	63.9%	61.4%	61.6%	58.8%	58.6%	60.4%	60.3%
Free State	62.9%	58.6%	60.8%	60.0%	57.5%	56.1%	55.4%
Gauteng	52.8%	45.7%	45.6%	44.7%	46.4%	48.9%	48.6%
KwaZulu-Natal	59.1%	59.1%	58.1%	56.0%	55.0%	55.5%	54.8%
Limpopo	65.3%	62.1%	65.4%	63.7%	60.1%	58.7%	58.7%
Mpumalanga	58.5%	59.4%	57.5%	58.5%	58.1%	58.4%	57.7%
Northern Cape	54.0%	52.7%	53.9%	54.7%	54.2%	52.2%	51.1%
North West	60.8%	57.2%	55.2%	56.2%	55.8%	54.3%	53.2%
Western Cape	52.9%	51.6%	52.4%	52.5%	51.2%	52.3%	52.2%
Total	59.1%	56.2%	56.2%	55.2%	54.6%	55.2%	54.8%

Source: National Treasury provincial database

Table 2.10 show that in 2009/10, KwaZulu-Natal (R33.3 billion), Gauteng (R25.6 billion), Eastern Cape (R25 billion) and Limpopo (R20.7 billion) have the largest budgets for compensation of employees. Collectively, these four provinces account for more than 65 per cent of total provincial spending on compensation of employees.

The social services sectors are personnel intensive

Social services functions are personnel intensive sectors. Provincial education and health departments together employ over 740 000 employees, making up R126.8 billion or 87.2 per cent of total provincial compensation of employees expenditure in 2008/09. Given the large share of compensation of employees in provincial budgets, it is crucial that provinces monitor and accurately evaluate those in charge of expenditure and personnel. Any shortcomings in personnel management could undermine the finances of provincial departments and would have knock-on effects on the provinces as a whole.

Table 2.11 Provincial employment status per sector as at 31 July 2009

	Education	Health	Social develop -ment	Agriculture	Other	Total
Province						
Eastern Cape	83 956	36 947	2 885	3 450	10 269	137 507
Free State	30 922	15 964	1 629	1 160	6 942	56 617
Gauteng	70 435	46 785	2 963	787	8 647	129 617
KwaZulu-Natal	101 091	65 955	2 542	3 340	10 330	183 258
Limpopo	64 213	31 700	1 866	4 165	13 665	115 609
Mpumalanga	43 455	17 067	1 534	1 879	8 370	72 305
Northern Cape	12 294	5 551	861	465	2 697	21 868
North West	29 998	16 572	1 145	1 816	7 144	56 675
Western Cape	39 366	27 859	1 707	942	5 600	75 474
Total	475 730	264 400	17 132	18 004	73 664	848 930

Source: Vulindlela

Education was the largest contributor to provinces' expenditure on compensation of employees in 2008/09. Its share was R84 billion or 57.8 per cent of total provincial spending on compensation of employees, followed by health at R42.8 billion or 29.4 per cent.

Education spending on compensation of employees in 2009/10 grows from the previous year by 7.7 per cent, 8.7 per cent in 2010/11 and 7.8 per cent in 2011/12. Health spending on compensation of employees grows by 7.5 per cent in 2009/10, 10.3 per cent in 2010/11 and 7.1 per cent in 2011/12.

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 one of the fastest growing items in provincial expenditure.

Due to the longer timeframes of most capital projects and other capital expenditure, spending still remains below overall spending trends. Increased investment in social and industrial infrastructure has been a recurring theme in government's agenda, and is necessary to stimulate economic growth and improve the quality of life of all South Africans. There have been marked improvements in capital expenditure and this may partly be attributed to the infrastructure development improvement programme (IDIP), which was introduced in 2004/05. This capacity-building programme was designed to address problems relating to the planning and management of public sector infrastructure delivery. The goal of the programme is to contribute to the Accelerated Shared Growth Initiative for South Africa (ASGISA) by improving the efficiency and effectiveness of the delivery of public sector infrastructure through developing and institutionalising best practice systems and tools, and building capacity.

Capital expenditure grew by 21.5 per cent annually between 2005/06 and 2008/09 and is budgeted to grow to R31.3 billion by 2011/12. This is nearly two and a half times the 2005/06 level. Table 2.12 sets out the capital budgets of provinces.

Capital expenditure excludes capital transfers made by provinces

The IDIP is a major contributor to the improvements in capital expenditure

Table 2.12 Provincial payments for capital assets¹, 2005/06 – 2011/12

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
	Outcome			Pre-audited outcome	Medium-term estimates		
R million							
Eastern Cape	1 536	1 875	2 214	3 076	3 439	3 894	4 433
Free State	629	1 075	1 300	1 639	2 061	2 410	2 669
Gauteng	2 132	2 494	2 813	3 365	3 717	4 189	4 699
KwaZulu-Natal	2 945	3 011	3 458	6 080	5 615	6 708	7 469
Limpopo	1 242	1 857	1 398	2 090	2 438	3 112	3 558
Mpumalanga	1 068	1 068	1 369	1 876	2 145	2 401	2 653
Northern Cape	370	570	679	754	936	1 108	1 190
North West	991	1 481	1 264	1 425	1 622	1 950	2 143
Western Cape	1 472	1 705	1 675	1 912	2 393	2 361	2 517
Total	12 386	15 134	16 171	22 216	24 367	28 133	31 333
Percentage of total expenditure							
Eastern Cape	6.5%	7.0%	7.3%	7.9%	8.1%	8.5%	8.9%
Free State	5.9%	8.7%	9.8%	10.2%	11.2%	11.9%	12.3%
Gauteng	7.9%	7.2%	6.7%	6.5%	6.7%	7.5%	7.7%
KwaZulu-Natal	8.8%	8.2%	7.8%	11.0%	9.3%	10.1%	10.4%
Limpopo	5.9%	7.8%	5.7%	6.8%	7.1%	8.2%	8.6%
Mpumalanga	9.2%	8.4%	8.4%	9.3%	9.5%	9.7%	10.0%
Northern Cape	9.4%	12.5%	11.4%	10.6%	11.8%	12.6%	12.5%
North West	7.5%	9.9%	8.3%	8.1%	8.2%	8.8%	8.8%
Western Cape	8.8%	9.0%	7.8%	7.5%	8.2%	7.6%	7.5%
Total	7.7%	8.1%	7.6%	8.4%	8.4%	9.0%	9.2%

1. Excludes capital transfers and subsidies.

Source: National Treasury provincial database

Public works, roads and transport are the largest contributors to total provincial capital spending in 2008/09 (43.3 per cent), with pre-audited expenditure at R9.6 billion, followed by health (26.9 per cent) at R6 billion, and then education (21.2 per cent) at R4.7 billion.

Pre-audited capital spending outcomes show under spending of R1.9 billion in provinces

In 2008/09, provinces tabled budgets of R22.2 billion for capital expenditure. Capital budgets subsequently increased to R24.1 billion during the tabling of the adjustments budgets towards the end of the financial year. The pre-audited expenditure outcomes show total provincial under spending of R1.9 billion or 8 per cent of the total adjusted capital budgets.

Conclusion

Slowing economic growth due to the global financial crisis has put pressure on provincial government revenues and reduced the fiscal space for increased expenditure. However, the provincial government will have to carefully manage its tight fiscal envelope to enable the state to sustain growth in expenditure on social services and investments in the period ahead.

Government as a whole will continue to focus on programmes that alleviate poverty and strengthen the social safety net, and other core priorities that would lay the foundations for faster economic growth and a better life for all South Africans.