

REPUBLIC OF SOUTH AFRICA
NATIONAL TREASURY



Provincial Budgets:

2001 Outcome and 2002 MTEF Budgets

31 July 2002

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EXECUTIVE SUMMARY

Provincial Budgets: 2001 Outcome and 2002 MTEF Trends

Highlights from 2001/02 provincial budgets:

- ✍ Provincial finances are in a healthy state
- ✍ Provinces have significantly improved their spending capacity. The most notable improvement is on capital expenditure, which grew massively by 44,7 per cent to R11 billion, from R7,6billion in 2000/01.
- ✍ Total provincial spending also increased significantly by over 10,9 per cent to R122,5 billion, compared to R110,5 billion in 2000/01.
- ✍ Social service expenditure increased to R100,3 billion, an increase of 10,7 per cent compared to R90,6 billion in 2000/01.

Highlights from 2002 MTEF provincial Budgets

- ✍ Provinces allocate substantial and increasing amounts to capital and the three social service functions. This has been made possible by the stable fiscal environment and strong real growth in provincial grants.
- ✍ Budgeted provincial expenditure for 2002/03 grows by 11,3 per cent to R136,4 billion. Capital budgets grow rapidly by 26,6 per cent to R14 billion in 2002/03, and to R18,3 billion in 2004/05.
- ✍ The share of social services (education, health and social development) grows from R100 billion in 2001/02 to R110 billion in 2002/03 and to R127 billion in 2004/05.
- ✍ The strong recovery in total expenditure and shifts in the composition of expenditure set the basis for accelerated delivery of better quality services.

BACKGROUND

1. Provinces are responsible for the delivery of social services such as social security grants, basic health care, school education and housing, and so receive the largest share of nationally raised revenue (about 56 per cent).
2. At the time of the tabling of the 2002 Budget, the provincial information contained in the *Budget Review* was preliminary, as provinces had not tabled their final budgets. Secondly, their 2001/02 financial year information was a projection based on nine months spending.
3. The National Treasury publishes this updated information on provincial budgets, to enable members of Parliament, provincial legislatures and the public to assess, and benchmark, each provincial budget. This information is normally published in the annual *Intergovernmental Fiscal Review* (expected later this year at the end of September or early October), this information is made available before that publication because of its importance to policy-makers.
4. The information presented here will enable members of the various legislatures, departmental officials and policy analysts to examine provincial and sectoral

budgets, and benchmark the budget of each province or department. In particular, it allows for an analysis of the budget profile of each province. It is up to policy-makers to examine the underlying reasons for any differences, and to assess whether this is due to preferred choices by the each province, historical legacy, demographic profile or any other reason. Each provincial executive council has also been requested to consider this report.

2001/02 preliminary revenue and expenditure outcomes

5. The information on 2001/02 provincial budget outcomes is based on financial statements submitted on or before 31 May 2002 to the Auditor-General for audit.

Revenue and expenditure

6. The key conclusion from the 2001/02 provincial budget outcome is that all provinces have been successful in improving their spending capacity compared to previous years. Provinces increased their total spending by 10,9 per cent to R122,5 billion in 2001/02, compared to the R110,5 billion spent in 2000/01. Capital spending improved substantially by 44,7 percent to R11,0 billion in 2001/02 compared to the R7,6 billion spent in 2000/01.
7. General spending capacity grew between 7,4 per cent in North West to 19 per cent in Mpumalanga. Eight of the nine provinces show marked growth in their budgeted capital expenditure ranging from 20,7 in Western Cape to 99 per cent in Free State, with North West being the only province with a moderate growth of 6,6 per cent.

Table 1: Summary of provincial expenditure between 2000/01 and 2001/02

| | Total Expenditure | | | Total Capital Expenditure | | |
|---------------|-------------------|----------------|-------------------|---------------------------|---------------|-------------------|
| | 2000/01 | 2001/02 | Percentage growth | 2000/01 | 2001/02 | Percentage growth |
| Eastern Cape | 18,165 | 19,558 | 7.7% | 732 | 1,132 | 54.7% |
| Free State | 7,420 | 8,228 | 10.9% | 313 | 622 | 99.0% |
| Gauteng | 18,171 | 20,245 | 11.4% | 1,832 | 2,292 | 25.1% |
| KwaZulu-Natal | 21,810 | 25,093 | 15.1% | 1,692 | 2,716 | 60.5% |
| Limpopo | 14,527 | 15,656 | 7.8% | 719 | 1,249 | 73.7% |
| Mpumalanga | 7,045 | 8,381 | 19.0% | 605 | 959 | 58.6% |
| Northern Cape | 2,627 | 2,932 | 11.6% | 170 | 270 | 58.8% |
| North West | 9,219 | 9,902 | 7.4% | 629 | 670 | 6.6% |
| Western Cape | 11,514 | 12,517 | 8.7% | 951 | 1,147 | 20.7% |
| Total | 110,498 | 122,512 | 10.9% | 7,642 | 11,056 | 44.7% |

Note: "Capital" covers more than its economic definition, as it includes housing subsidies

8. The surplus is R1,9 billion (or 1,5 per cent of total revenue), a marked improvement compared to the 2000/01 surplus of R3,2 billion (or 2,8 per cent of total revenue).
9. Social services expenditure increased to R100,3 billion, an increase of 10,7 per cent compared to R90,6 billion in 2000/01.
 - a) Education spent R46,8 billion, an increase of R3,6 billion compared to 2000/01. Its share of the total expenditure was 38,2 per cent, and it spent 97,8 per cent of its adjusted budget. The share of education spending varied from 34 per cent in Western Cape to 42 per cent in Limpopo.
 - b) Health spent R29,7 billion, an increase of R3,3 billion over the previous year. It spent 99,7 per cent of its adjusted budget. Its share of the total expenditure was 24,2 per cent, but this varied greatly between provinces, from 17 per cent

for provinces without academic hospitals to a high of 33,6 per cent for Gauteng. The different shares are dependent on the number of academic hospitals in the five provinces.

- c) Education and health have personnel intensive budgets. The share of personnel expenditure in education was 88,8 per cent (R41,5 billion), and for health 59,4 per cent (R17,6 billion).
 - d) Social development expenditure increased to R23,8 billion, an increase of R2,9 billion over the previous year. Its share of the total provincial expenditure was 19,4 per cent. The provincial share of spending varied between the low share of 14,9 per cent in Gauteng, and the high share just under 24 per cent in the Eastern and Northern Cape. This large variance reflects the different demographic and income-generation profile between the various provinces.
10. The area of best improvement in provincial spending is capital expenditure, where spending rose by 44,7 per cent between 2000/01 and 2001/02, from R7,6 billion to R11 billion.
11. The share of personnel averages 55,2 per cent of provincial budgets but varies from 48,4 per cent in Northern Cape to 60,6 per cent in Limpopo. The share is also relatively high in Free State (58,2 per cent), North West (58 per cent) and Eastern Cape (56,3 per cent). These provinces that have inherited large staff numbers from former homelands.

2002/03 provincial MTEF budgets

12. Budgeted provincial expenditure for 2002/03 is R136,4 billion, which implies nominal growth of 11,3 per cent when compared with the estimated outcome for the previous financial year (2001/02). Over the three-year MTEF, it grows by an average of 8,7 per cent a year.
13. Provincial spending is anticipated to grow at an annual average rate of between 7,2 per cent in Western Cape and 9,5 per cent in Eastern Cape over the MTEF.
14. Capital budgets continue to grow rapidly, increasing by 26,6 per cent to R14 billion, compared to actual spending of R11 billion in 2001/02. It grows at 18,3 per cent a year over the next three years to reach R18,3 billion in 2004/05. As a share of the total provincial budget, capital expenditure rises from 9 per cent in 2001/02 to 10,3 per cent in 2002/03 and 11,6 per cent in 2004/05. In 2004/05, Gauteng will be devoting 18,2 per cent of its budget on capital, much higher than all other provinces. Limpopo, Northern Cape, Free State and Western Cape (which includes capital for education and health) budget less than other provinces at 8 per cent compared to the average of 11,7 per cent.
15. The share of social services (education, health and social development) is stable around 80,5 per cent over the next three years, and grows from R100 billion in 2001/02 to R110 billion in 2002/03 and to R127 billion in 2004/05.
- a) The highest growth is in social development. Social development budgets rise by 17,7 per cent between 2001/02 and 2002/03 from R23,8 billion to R28,1 billion.
 - b) Education grows by 8,6 per cent in 2002/03 to R51 billion compared to R47 billion in 2001/02. There is strong growth in capital expenditure, which doubles to R2 billion from R1 billion spent in 2001/02. Personnel budgets

grow, on average, by 4,8 per cent with only Limpopo and Northern Cape budgeting above 6,9 per cent.

- c) Health budgets grow 4,5 per cent to R30,9 billion in 2002/03, compared to the actual expenditure of R29,6 billion in 2001/02. Capital budgets in health grow at a moderate 7,9 per cent from 2001/02 to 2002/03, and personnel budgets even slower at 3,9 per cent.
16. The housing budget increases from R4,9 billion in 2001/02 to R5,5 billion in 2002/03 and is expected to grow over the next three years to R6,2 billion in 2004/05.
 17. The transport, roads and public works budget increases from R8,7 billion in 2001/02 to R9,9 billion in 2002/03 and is expected to grow to R11,4 billion in 2004/05.

2001/02 Provincial Spending Outcome

OVERVIEW

1. This report outlines the outcome of provincial spending for the 2001/02 financial year.
2. The report is based on the financial statements submitted on or before 31 May 2002 by heads of each provincial department to the Auditor-General for audit. Although major trends and conclusions are not expected to change, the figures in this report may change after audits of provincial financial statements are completed.

2001/02 PRELIMINARY OUTCOME

3. The key conclusion from the 2001/02 provincial budget outcome is that all provinces have been very successful in improving their spending capacity compared to previous years, including their spending on capital.
4. Provinces increased their total spending by 10,9 per cent¹ to R122,5 billion in 2001/02, compared to the R110,4 billion spent in 2000/01. Capital spending improved massively by 44,7 per cent to R11,0 billion in 2001/02 compared to the R7,6 billion spent in 2000/01.
5. Table 1 shows how the 10,9 per cent increase in total expenditure between 2001/02 and 2002/03 varied between provinces, from 7,4 per cent in North West to 18,9 per cent in Mpumalanga. Clearly all provinces increased their spending capacity in real terms.
6. The table also indicates how the massive 44,7 per cent growth in capital growth varied, from 6,6 per cent in North West to 98,9 per cent in Free State.

Table 1: Summary of provincial expenditure between 2000/01 and 2001/02

| | Total Expenditure | | | Total Capital Expenditure | | |
|---------------|-------------------|----------------|-------------------|---------------------------|---------------|-------------------|
| | 2000/01 | 2001/02 | Percentage growth | 2000/01 | 2001/02 | Percentage growth |
| Eastern Cape | 18 165 | 19 558 | 7.7% | 732 | 1 132 | 54.7% |
| Free State | 7 420 | 8 228 | 10.9% | 313 | 622 | 99.0% |
| Gauteng | 18 171 | 20 245 | 11.4% | 1 832 | 2 292 | 25.1% |
| KwaZulu-Natal | 21 810 | 25 093 | 15.1% | 1 692 | 2 716 | 60.5% |
| Limpopo | 14 527 | 15 656 | 7.8% | 719 | 1 249 | 73.7% |
| Mpumalanga | 7 045 | 8 381 | 19.0% | 605 | 959 | 58.6% |
| Northern Cape | 2 627 | 2 932 | 11.6% | 170 | 270 | 58.8% |
| North West | 9 219 | 9 902 | 7.4% | 629 | 670 | 6.6% |
| Western Cape | 11 514 | 12 517 | 8.7% | 951 | 1 147 | 20.7% |
| Total | 110 498 | 122 512 | 10.9% | 7 642 | 11 056 | 44.7% |

¹ All percentage growth figures are in nominal terms. The CPIX for the 2001/02 fiscal year was 6,6 per cent. (Source: Statistics SA)

7. Table 2 indicates how the better spending capacity has resulted in a lower effective surplus than the last three years, to R1,9 billion (or 1,5 per cent of total revenue) compared to the R3,2 billion surplus in 2000/01 (or 2,8 per cent of total revenue). The actual surplus of R3,9 billion (or 3,1 per cent of actual revenue) is inflated by the R2 billion allocated for social grant arrears on the last day of the financial year, and is therefore excluded to allow comparison with the effective surplus.
8. Excluding the R2 billion social arrears, the major contributors to the R1,9 billion effective surplus are Eastern Cape (R683 million), Free State (R266 million), Gauteng (R661 million) and Western Cape (R348 million). On the other hand, KwaZulu-Natal and North West ran deficits of R458 million and R35 million respectively, but these were funded from the surplus from previous years.

Table 2: Summary of provincial surplus/deficit(-) positions as at 31 March 2002

| R million | Actual expenditure | Including backpayment of social grant arrears | | | Excluding backpayment of social grant arrears | | |
|---------------|--------------------|---|--------------------|--|---|--------------------|--|
| | | Actual revenue | Surplus/deficit(-) | % Surplus/deficit(-) on actual revenue | Actual revenue | Surplus/deficit(-) | % Surplus/deficit(-) on actual revenue |
| Eastern Cape | 19 558 | 20 691 | 1 133 | 5.5% | 20 241 | 683 | 3.4% |
| Free State | 8 228 | 8 656 | 429 | 5.0% | 8 493 | 266 | 3.1% |
| Gauteng | 20 245 | 21 098 | 854 | 4.0% | 20 906 | 661 | 3.2% |
| KwaZulu-Natal | 25 093 | 24 996 | -97 | -0.4% | 24 635 | -458 | -1.9% |
| Limpopo | 15 656 | 16 189 | 533 | 3.3% | 15 767 | 111 | 0.7% |
| Mpumalanga | 8 381 | 8 730 | 349 | 4.0% | 8 643 | 262 | 3.0% |
| Northern Cape | 2 932 | 3 005 | 73 | 2.4% | 2 954 | 22 | 0.8% |
| North West | 9 902 | 9 963 | 61 | 0.6% | 9 868 | -35 | -0.4% |
| Western Cape | 12 517 | 13 041 | 524 | 4.0% | 12 865 | 348 | 2.7% |
| Total | 122 512 | 126 368 | 3 857 | 3.1% | 126 368 | 1 862 | 1.5% |

9. Despite their improved spending capacity, provinces over-estimated their spending and planning capacity and voted the relatively large additional amount of R6 billion in their adjustments budgets. This resulted in underspending² of R4,6 billion despite the fact that provinces spent 96,4 per cent of their higher adjusted budget. Table 3 indicates that provinces total *adjusted* budget increased to R127 billion from R121 billion, financed mainly from roll-over amounts of R3,2 billion and additional funding from national government of R2,7 billion.
10. Provinces spent R1,5 billion more than their original budget of R121 billion, which suggests that the underspending problem appears to be a planning problem, reflecting over-optimism in spending capacity. The largest underspending was in the Eastern Cape which spent 88,8 per cent of its adjusted budget, or R2,5 billion, followed by Free State at R534 million. These amounts are closely related to their relatively large additional adjustments allocations of R2,4 billion and R681 million, and reflects past problems (i.e. roll-overs from 2000/01). Better planning capacity will reduce underspending if more realistic (and lower) expenditure levels are budgeted for.

² The surplus and underspending are different concepts. Both use actual total spending (R122,5 bn), but compare it to different totals. The surplus/deficit compares spending to total actual revenue (R126,4 bn) collected in that financial year, whilst underspending compares spending to total adjusted budget, which includes roll-overs from the previous financial year (R127,1 bn).

Table 3: Summary of total provincial expenditure as at 31 March 2002

| R million | 2000/01 | 2001/02 | | | | | |
|---------------|----------------|-----------------|------------------------------|----------------|--------------------------------|--------------------------|---|
| | Actual | Original budget | Adjusted budget ¹ | Actual | Actual as % of adjusted budget | (Over)/under expenditure | % (Over)/under-spending (adjusted budget) |
| Eastern Cape | 18 165 | 19 643 | 22 024 | 19 558 | 88.8% | 2 466 | 11.2% |
| Free State | 7 420 | 8 080 | 8 761 | 8 228 | 93.9% | 534 | 6.1% |
| Gauteng | 18 171 | 20 146 | 20 543 | 20 245 | 98.5% | 298 | 1.5% |
| KwaZulu-Natal | 21 810 | 23 869 | 25 082 | 25 093 | 100.0% | -11 | 0.0% |
| Limpopo | 14 527 | 15 558 | 15 987 | 15 656 | 97.9% | 331 | 2.1% |
| Mpumalanga | 7 045 | 8 661 | 8 773 | 8 381 | 95.5% | 392 | 4.5% |
| Northern Cape | 2 627 | 2 782 | 2 993 | 2 932 | 98.0% | 61 | 2.0% |
| North West | 9 219 | 9 829 | 10 055 | 9 902 | 98.5% | 152 | 1.5% |
| Western Cape | 11 514 | 12 451 | 12 855 | 12 517 | 97.4% | 338 | 2.6% |
| Total | 110 498 | 121 019 | 127 072 | 122 512 | 96.4% | 4 561 | 3.6% |

1) Adjusted budget of R127 072 million excludes the R1 995 million for Social Grant Arrears

SPENDING IN KEY PROVINCIAL FUNCTIONS

11. Social services spending totaled R100,3 billion in 2001/02. The share of social services averages 81,9 per cent of total provincial spending, varying between 75 per cent in Mpumalanga and Northern Cape to 85 per cent in KwaZulu -Natal.
12. Spending in the three social services sectors was relatively high at 98,7 per cent of the adjusted budget, comprising 97,8 per cent for education, 99,6 per cent for health and 97,8 per cent for social development. Housing spent 86,7 per cent of its total adjusted budget.
13. Table 4 shows actual spending as at 31 March 2002. Education expenditure is R46,8 billion, and reflects an increase of R3,6 billion compared to 2000/01. The share of education expenditure comprises 38 per cent of total provincial spending, a decline compared to the 39,3 per cent share³ in 2000/01 (and 40,0 per cent in 1999/00). The share also varies significantly between provinces, from 34 per cent in Western Cape to 42 per cent in Limpopo.
14. Though its share has declined compared to the 90,7 per cent share in 2000/01, personnel expenditure is still relatively high at 88,8 per cent of total education expenditure, or R41,6 billion. It varies in provinces between 83,3 per cent in Northern Cape to 91,8 per cent in Limpopo. Apart from Limpopo, the share of personnel expenditure in education is also relatively high in Eastern Cape (91,1%) and North West (90,6%).

³ The figures on the share of education, health and social welfare for previous financial years are taken from the 2001 Intergovernmental Fiscal Review (available on website www.treasury.gov.za).

Table 4: Provincial Education expenditure as at 31 March 2002

| R million | Adjusted budget | Actual | (Over)/under expenditure | % (over)/under expenditure | % share of Education to actual provincial expenditure ¹ | % share of personnel to actual expenditure |
|---------------|-----------------|---------------|--------------------------|----------------------------|--|--|
| Eastern Cape | 8 118 | 7 863 | 255 | 3.2% | 40.2% | 91.1% |
| Free State | 3 382 | 3 174 | 208 | 6.6% | 38.6% | 88.2% |
| Gauteng | 7 507 | 7 268 | 239 | 3.3% | 35.9% | 84.2% |
| KwaZulu-Natal | 9 347 | 9 266 | 81 | 0.9% | 36.9% | 89.0% |
| Limpopo | 6 819 | 6 673 | 146 | 2.2% | 42.6% | 91.8% |
| Mpumalanga | 3 336 | 3 331 | 5 | 0.2% | 39.7% | 88.8% |
| Northern Cape | 1 028 | 1 022 | 7 | 0.7% | 34.8% | 83.3% |
| North West | 4 029 | 3 972 | 57 | 1.4% | 40.1% | 90.6% |
| Western Cape | 4 339 | 4 273 | 66 | 1.5% | 34.1% | 86.9% |
| Total | 47 907 | 46 842 | 1 065 | 2.3% | 38.2% | 88.8% |

1) Compares actual education expenditure to total actual provincial expenditure in each province

15. Table 5 shows health expenditure amounted to R29,6 billion, an increase of R3,3 billion on the previous year. The share of health averaged 24 per cent of total provincial spending, similar to its share in 2000/01. The share of health spending varies greatly between provinces, with the four provinces without any central/ academic hospitals at around 17 per cent. Those provinces with central/academic hospitals have a significantly higher health share, between 19,9 per cent in Eastern Cape to 33,8 per cent in Gauteng.

16. Personnel expenditure in health was R17,6 billion or 59,4 per cent of its budget, varying between 53,5 per cent in Gauteng to 68,2 per cent in North West. The 59,4 per cent average share of personnel continues to decline compared to previous years (64,2 per cent in 1999/00 and 62,0 per cent in 2000/01).

Table 5: Provincial Health expenditure as at 31 March 2002

| R million | Adjusted budget | Actual | (Over)/under expenditure | % (over)/under expenditure | % share of Health to actual provincial expenditure ¹ | % share of personnel to actual expenditure |
|---------------|-----------------|---------------|--------------------------|----------------------------|---|--|
| Eastern Cape | 4 221 | 3 892 | 329 | 8.5% | 19.9% | 57.7% |
| Free State | 1 970 | 1 953 | 17 | 0.9% | 23.7% | 63.3% |
| Gauteng | 6 771 | 6 838 | -66 | -1.0% | 33.8% | 53.5% |
| KwaZulu-Natal | 6 744 | 7 033 | -289 | -4.1% | 28.0% | 59.3% |
| Limpopo | 2 719 | 2 664 | 55 | 2.1% | 17.0% | 65.2% |
| Mpumalanga | 1 517 | 1 457 | 60 | 4.2% | 17.4% | 55.7% |
| Northern Cape | 509 | 517 | -8 | -1.6% | 17.6% | 62.5% |
| North West | 1 735 | 1 699 | 36 | 2.1% | 17.2% | 68.2% |
| Western Cape | 3 579 | 3 581 | -2 | -0.1% | 28.6% | 62.7% |
| Total | 29 765 | 29 634 | 131 | 0.4% | 24.2% | 59.4% |

1) Compares actual health expenditure to total actual provincial expenditure in each province

17. Table 6 shows that social development expenditure was R23,8 billion, an increase of R2,9 billion over the previous year. The social development share averaged 19,4 per cent of total provincial spending, varying between a low of 14,9 per cent in Gauteng, to a high of just under 24 per cent in the Eastern and Northern Cape.

Table 6: Provincial Social Development expenditure as at 31 March 2002

| R million | Adjusted budget | Actual | (Over)/under expenditure | % (over)/under expenditure | % share of Social Development to actual provincial expenditure ¹ |
|---------------|-----------------|---------------|--------------------------|----------------------------|---|
| Eastern Cape | 5 301 | 4 630 | 671 | 14.5% | 23.7% |
| Free State | 1 519 | 1 483 | 36 | 2.4% | 18.0% |
| Gauteng | 2 934 | 3 018 | -83 | -2.8% | 14.9% |
| KwaZulu-Natal | 4 902 | 5 049 | -147 | -2.9% | 20.1% |
| Limpopo | 2 986 | 2 969 | 17 | 0.6% | 19.0% |
| Mpumalanga | 1 580 | 1 531 | 49 | 3.2% | 18.3% |
| Northern Cape | 681 | 701 | -20 | -2.8% | 23.9% |
| North West | 2 048 | 2 042 | 7 | 0.3% | 20.6% |
| Western Cape | 2 402 | 2 378 | 24 | 1.0% | 19.0% |
| Total | 24 353 | 23 800 | 553 | 2.3% | 19.4% |

¹) Compares actual social development expenditure to total actual provincial expenditure in each province

18. Housing and Community Development expenditure totalled R3,6 billion.

CAPITAL EXPENDITURE

19. Provincial capital budgets increased significantly by R5 billion to R12,9 billion in 2001/02, or 60 per cent compared to the 2000/01 financial year. The additional adjustments allocation of R3 billion is very large, as it reflects new allocations, roll-overs and corrects classification errors.

20. Despite the R3 billion adjustments, actual capital expenditure at the end of March was R11 billion, an increase of about 45 per cent above the R7,6 billion spent the previous year. Table 7 sets out capital expenditure by province.

Table 7: Summary of total provincial capital expenditure as at 31 March 2002

| R million | 2000/01 | 2001/02 | | | | | | | |
|----------------------------|--------------|----------------------------------|-------------------------|--------------|-------------------------|---------------|--------------------------------|--------------------------|---|
| | Actual | Total provincial adjusted budget | Original capital budget | Adjustments | Adjusted capital budget | Actual | Actual as % of adjusted budget | (Over)/under expenditure | % share of actual capital exp. to actual provincial exp. ³ |
| Eastern Cape | 732 | 22 024 | 1 335 | 510 | 1 846 | 1 132 | 61.3% | 714 | 5.8% |
| Free State | 313 | 8 761 | 550 | 287 | 837 | 622 | 74.4% | 215 | 7.6% |
| Gauteng | 1 832 | 20 543 | 1 584 | 1 058 | 2 642 | 2 292 | 86.7% | 350 | 11.3% |
| KwaZulu-Natal ¹ | 1 692 | 25 082 | 2 386 | 406 | 2 792 | 2 716 | 97.3% | 77 | 10.8% |
| Limpopo | 719 | 15 987 | 1 091 | 215 | 1 306 | 1 249 | 95.6% | 58 | 8.0% |
| Mpumalanga | 605 | 8 773 | 1 006 | 104 | 1 110 | 959 | 86.4% | 150 | 11.4% |
| Northern Cape | 170 | 2 993 | 210 | 72 | 282 | 270 | 95.8% | 12 | 9.2% |
| North West | 629 | 10 055 | 645 | 250 | 894 | 670 | 75.0% | 224 | 6.8% |
| Western Cape | 951 | 12 855 | 972 | 261 | 1 233 | 1 147 | 93.0% | 86 | 9.2% |
| Total | 7 642 | 127 072 | 9 779 | 3 163 | 12 942 | 11 056 | 85.4% | 1 886 | 9.0% |

1) Includes KwaZulu-Natal Housing Fund, which is classified as current expenditure, for comparison purposes

2) "Capital" covers more than its economic definition, as it includes major maintenance and housing subsidies

3) Compares actual capital expenditure to total actual provincial expenditure in each province

21. The share of capital spending to total provincial spending averaged 9 per cent, but varied greatly between provinces. Mpumalanga, Gauteng and KwaZulu-Natal spent around 11 per cent of their budget on capital, but poor provinces like Eastern Cape, Free State, North West and Limpopo spent between 5,7 to 8 per cent of their budget on capital. Given the extent of the backlogs in poor provinces, it is clear that there is much scope to increase capital budgets in these provinces, particularly as they improve on their spending capacity.

22. Table 8 shows spending on roads, public works and transport. Actual capital spending was R3,2 billion or 94,9 per cent of their total budget, only R171 million less than the adjusted capital budget. Except for the North West roads and public works department which spent only 46 per cent of its budget, all other provincial roads and public works departments appear to have very good capacity to spend on capital.

Table 8: Provincial capital expenditure: Public Works, Roads and Transport as at 31 March 2002

| R million | Provincial adjusted budget | Capital adjusted budget | Actual | Actual as % of capital adjusted budget | (Over)/ under expenditure | % (over)/ under expenditure | % share of total actual capital exp. ² |
|---------------------------|----------------------------|-------------------------|--------------|--|---------------------------|-----------------------------|---|
| Eastern Cape | 1 515 | 245 | 267 | 108.7% | -21 | -8.7% | 23.6% |
| Free State | 654 | 215 | 217 | 100.9% | -2 | -0.9% | 34.9% |
| Gauteng | 1 034 | 417 | 429 | 102.8% | -12 | -2.8% | 18.7% |
| KwaZulu-Natal | 1 423 | 793 | 794 | 100.1% | -1 | -0.1% | 29.2% |
| Limpopo | 1 195 | 356 | 356 | 100.0% | -0 | 0.0% | 28.5% |
| Mpumalanga | 784 | 411 | 344 | 83.7% | 67 | 16.3% | 35.9% |
| Northern Cape | 298 | 140 | 123 | 88.0% | 17 | 12.0% | 45.7% |
| North West | 943 | 204 | 94 | 46.3% | 109 | 53.7% | 14.1% |
| Western Cape ¹ | 1 255 | 593 | 580 | 97.8% | 13 | 2.2% | 50.6% |
| Total | 9 099 | 3 374 | 3 204 | 94.9% | 171 | 5.1% | 29.0% |

1) The capital budget for health is located on the Public Works vote in the Western Cape

2) Compares actual public works expenditure on capital to total provincial capital spending in each province

23. Table 9 shows that *provincial health departments* spent 85,2 per cent or R2,1 billion out of an adjusted capital budget of R2,5 billion. The weakest capacity on capital spending was in the Free State and Eastern Cape health departments, where spending was below 60 per cent.

Table 9: Provincial capital expenditure: Health as at 31 March 2002

| R million | Health adjusted budget | Capital adjusted budget | Actual | Actual as % of capital adjusted budget | (Over)/ under expenditure | % (over)/ under expenditure | % health capital share of total prov capital exp. ² |
|---------------------------|------------------------|-------------------------|--------------|--|---------------------------|-----------------------------|--|
| Eastern Cape | 4,221 | 413 | 241 | 58.3% | 172 | 41.7% | 21.3% |
| Free State | 1,970 | 121 | 62 | 51.5% | 59 | 48.5% | 10.0% |
| Gauteng | 6,771 | 628 | 530 | 84.4% | 98 | 15.6% | 23.1% |
| KwaZulu-Natal | 6,744 | 727 | 784 | 107.8% | -57 | -7.8% | 28.9% |
| Limpopo | 2,719 | 247 | 225 | 91.2% | 22 | 8.8% | 18.0% |
| Mpumalanga | 1,517 | 139 | 90 | 64.8% | 49 | 35.2% | 9.4% |
| Northern Cape | 509 | 37 | 34 | 92.6% | 3 | 7.4% | 12.7% |
| North West | 1,735 | 158 | 132 | 83.9% | 25 | 16.1% | 19.7% |
| Western Cape ¹ | 3,579 | 70 | 64 | 91.9% | 6 | 8.1% | 5.6% |
| Total | 29,765 | 2,538 | 2,162 | 85.2% | 376 | 14.8% | 19.6% |

1) The capital budget for health is located on the Public Works vote in the Western Cape

2) Compares actual health expenditure on capital to total provincial capital spending (actual) in each province

24. Table 10 shows how the share of actual capital spending as a share of the provincial health budget varies. It varies from a low budget share of 1,8 per cent in Western Cape and 3,2 per cent in Free State to the highest share of 11,1 per cent in KwaZulu-Natal. The overall average share of capital in terms of actual health spending was 7,3 per cent, lower than the 8,5 per cent provinces had budgeted to spend for capital. This deviation from budgeted share was particularly significant in Free State, Eastern Cape and Mpumalanga.

Table 10: Provincial capital expenditure: Health as at 31 March 2002

| R million | Health adjusted budget | Capital adjusted budget | Adjusted capital budget as % of provincial adjusted budget | Provincial estimated actual | Capital estimated actual | Actual capital exp. as % of provincial actual ² |
|---------------------------|------------------------|-------------------------|--|-----------------------------|--------------------------|--|
| Eastern Cape | 4,221 | 413 | 9.8% | 3,892 | 241 | 6.2% |
| Free State | 1,970 | 121 | 6.1% | 1,953 | 62 | 3.2% |
| Gauteng | 6,771 | 628 | 9.3% | 6,838 | 530 | 7.8% |
| KwaZulu-Natal | 6,744 | 727 | 10.8% | 7,033 | 784 | 11.1% |
| Limpopo | 2,719 | 247 | 9.1% | 2,664 | 225 | 8.4% |
| Mpumalanga | 1,517 | 139 | 9.1% | 1,457 | 90 | 6.2% |
| Northern Cape | 509 | 37 | 7.3% | 517 | 34 | 6.6% |
| North West | 1,735 | 158 | 9.1% | 1,699 | 132 | 7.8% |
| Western Cape ¹ | 3,579 | 70 | 1.9% | 3,581 | 64 | 1.8% |
| Total | 29,765 | 2,538 | 8.5% | 29,634 | 2,162 | 7.3% |

1) The capital budget for health is located on the Public Works vote in the Western Cape

2) Compares actual health capital expenditure to total actual provincial health expenditure

25. Table 11 shows that the provincial education capital expenditure shows a similar trend. Though capital expenditure was 2,3 per cent of total education spending, it varied between the low shares in Northern Cape (0,2%), Western Cape (1,2%), Limpopo (1,5%), Northern Cape (1,6%) and Free State (1,9%) to the high 3,3 per cent share in KwaZulu-Natal. However, the budgeted shares were much higher for Eastern Cape (3,4%), Free State (3,4%) and North West (2,3%).

Table 11: Provincial capital expenditure: Education as at 31 March 2002

| R million | Education adjusted budget | Capital adjusted budget | Adjusted capital budget as % of provincial adjusted budget | Provincial estimated actual | Capital estimated actual | Actual capital exp. as % of provincial actual ² |
|---------------------------|---------------------------|-------------------------|--|-----------------------------|--------------------------|--|
| Eastern Cape | 8,118 | 276 | 3.4% | 7,863 | 206 | 2.6% |
| Free State | 3,382 | 116 | 3.4% | 3,174 | 59 | 1.9% |
| Gauteng | 7,507 | 253 | 3.4% | 7,268 | 191 | 2.6% |
| KwaZulu-Natal | 9,347 | 265 | 2.8% | 9,266 | 307 | 3.3% |
| Limpopo | 6,819 | 112 | 1.6% | 6,673 | 97 | 1.4% |
| Mpumalanga | 3,336 | 97 | 2.9% | 3,331 | 93 | 2.8% |
| Northern Cape | 1,028 | 2 | 0.2% | 1,022 | 2 | 0.2% |
| North West | 4,029 | 91 | 2.3% | 3,972 | 62 | 1.6% |
| Western Cape ¹ | 4,339 | 55 | 1.3% | 4,273 | 51 | 1.2% |
| Total | 47,907 | 1,267 | 2.6% | 46,842 | 1,069 | 2.3% |

1) The capital budget for education is located on the Public Works vote in the Western Cape

2) Compares actual education capital expenditure to total actual provincial education expenditure

26. Table 12 shows that provincial education departments spent R1 billion of their R1,3 billion capital budget. Though average spending was 84,3 per cent, expenditure by the Free State education department was relatively slow at 51,3 per cent.

Table 12: Provincial capital expenditure: Education as at 31 March 2002

| R million | Education adjusted budget | Capital adjusted budget | Actual | Actual as % of capital adjusted budget | (Over)/ under expenditure | % (over)/ under expenditure | % share of total actual capital exp. |
|---------------------------|---------------------------|-------------------------|--------------|--|---------------------------|-----------------------------|--------------------------------------|
| Eastern Cape | 8,118 | 276 | 206 | 74.7% | 70 | 25.3% | 18.2% |
| Free State | 3,382 | 116 | 59 | 51.4% | 56 | 48.6% | 9.6% |
| Gauteng | 7,507 | 253 | 191 | 75.3% | 62 | 24.7% | 8.3% |
| KwaZulu-Natal | 9,347 | 265 | 307 | 115.9% | -42 | -15.9% | 11.3% |
| Limpopo | 6,819 | 112 | 97 | 86.2% | 15 | 13.8% | 7.7% |
| Mpumalanga | 3,336 | 97 | 93 | 95.9% | 4 | 4.1% | 9.7% |
| Northern Cape | 1,028 | 2 | 2 | 92.8% | 0 | 7.2% | 0.8% |
| North West | 4,029 | 91 | 62 | 68.8% | 28 | 31.2% | 9.3% |
| Western Cape ¹ | 4,339 | 55 | 51 | 93.7% | 3 | 6.3% | 4.5% |
| Total | 47,907 | 1,267 | 1,069 | 84.4% | 198 | 15.6% | 9.7% |

1) The capital budget for education is located on the Public Works vote in the Western Cape

2) Compares actual education expenditure on capital to total actual provincial capital spending

27. Table 13 shows provincial spending on housing. Overall, provinces spent 85,5 per cent or R3,6 billion out of a budget of R4,2 billion.

Table 13: Provincial capital expenditure: Housing as at 31 March 2002

| R million | Provincial adjusted budget | Capital adjusted budget | Actual | Actual as % of capital adjusted budget | (Over)/ under expenditure | % (over)/ under expenditure | % share of total actual capital exp. ² |
|----------------------------|----------------------------|-------------------------|--------------|--|---------------------------|-----------------------------|---|
| Eastern Cape | 1,127 | 715 | 296 | 41.4% | 419 | 58.6% | 26.2% |
| Free State | 472 | 298 | 267 | 89.6% | 31 | 10.4% | 42.9% |
| Gauteng | 938 | 819 | 778 | 95.0% | 41 | 5.0% | 33.9% |
| KwaZulu-Natal ¹ | 964 | 769 | 672 | 87.5% | 96 | 12.5% | 24.8% |
| Limpopo | 777 | 424 | 430 | 101.2% | -5 | -1.2% | 34.4% |
| Mpumalanga | 451 | 381 | 400 | 105.1% | -19 | -5.1% | 41.8% |
| Northern Cape | 145 | 79 | 78 | 99.4% | 0 | 0.6% | 29.0% |
| North West | 541 | 364 | 336 | 92.2% | 28 | 7.8% | 50.1% |
| Western Cape | 489 | 345 | 330 | 95.8% | 15 | 4.2% | 28.8% |
| Total | 5,904 | 4,195 | 3,588 | 85.5% | 606 | 14.5% | 32.5% |

1) Includes KwaZulu-Natal Housing Fund, which is classified as current expenditure, for comparison purposes

2) Compares actual housing capital expenditure to total actual provincial capital expenditure

28. Table 14 shows spending on other capital at R1 billion out of R1,6 billion adjusted budget.

Table 14: Other provincial capital expenditure as at 31 March 2002

| R million | Other functions adjusted budget | Capital adjusted budget | Actual | Actual as % of capital adjusted budget | (Over)/ under expenditure | % (over)/ under expenditure | % share of total actual capital exp. ¹ |
|---------------|---------------------------------|-------------------------|--------------|--|---------------------------|-----------------------------|---|
| Eastern Cape | 7,043 | 196 | 121 | 61.9% | 75 | 38.1% | 10.7% |
| Free State | 2,283 | 87 | 17 | 19.1% | 70 | 80.9% | 2.7% |
| Gauteng | 4,292 | 525 | 364 | 69.4% | 161 | 30.6% | 15.9% |
| KwaZulu-Natal | 6,604 | 238 | 158 | 66.5% | 80 | 33.5% | 5.8% |
| Limpopo | 4,478 | 167 | 142 | 84.7% | 26 | 15.3% | 11.3% |
| Mpumalanga | 2,685 | 82 | 32 | 39.1% | 50 | 60.9% | 3.3% |
| Northern Cape | 1,013 | 24 | 32 | 134.7% | -8 | -34.7% | 11.8% |
| North West | 2,807 | 78 | 46 | 58.2% | 33 | 41.8% | 6.8% |
| Western Cape | 3,192 | 170 | 121 | 71.3% | 49 | 28.7% | 10.6% |
| Total | 34,397 | 1,568 | 1,033 | 65.9% | 535 | 34.1% | 9.3% |

1) Compares actual housing capital expenditure to total actual provincial capital expenditure

PERSONNEL TRENDS

29. Table 15 below indicates that provinces spent R68 billion on personnel, R545 million more than the original budget. The original personnel budget was relatively low as it reflected an increase of only 5,3 per cent over 2000/01 actual spending, lower than the 6 per cent inflation increase indicated in April 2001. Further, some original budgets did not cater for the R850 once off payment to non-managerial staff.

Table 15: Summary of total provincial personnel expenditure as at 31 March 2002

| R million | 2000/01 | 2001/02 | | | | |
|---------------|---------------|-----------------|-----------------|---------------|--------------------------------|---|
| | Actual | Original budget | Adjusted budget | Actual | Actual as % of adjusted budget | % share of Personnel to actual provincial expenditure |
| Eastern Cape | 10 661 | 10 717 | 11 064 | 11 008 | 99.5% | 56.3% |
| Free State | 4 629 | 4 858 | 4 888 | 4 795 | 98.1% | 58.3% |
| Gauteng | 9 930 | 10 879 | 10 611 | 10 581 | 99.7% | 52.3% |
| KwaZulu-Natal | 12 300 | 13 398 | 13 653 | 13 579 | 99.5% | 54.1% |
| Limpopo | 9 065 | 9 350 | 9 451 | 9 496 | 100.5% | 60.7% |
| Mpumalanga | 4 168 | 4 343 | 4 438 | 4 418 | 99.6% | 52.7% |
| Northern Cape | 1 307 | 1 411 | 1 485 | 1 420 | 95.6% | 48.4% |
| North West | 5 305 | 5 427 | 5 626 | 5 746 | 102.1% | 58.0% |
| Western Cape | 6 122 | 6 654 | 6 573 | 6 539 | 99.5% | 52.2% |
| Total | 63 487 | 67 038 | 67 790 | 67 583 | 99.7% | 55.2% |

30. The share of personnel averages 55,2 per cent of provincial budgets but varies from a low of 48,4 per cent in Northern Cape to 60,6 per cent in Limpopo. Other provinces with a relatively high share of personnel are Free State (58,2 per cent), North West (58 per cent) and Eastern Cape (56,3 per cent). All these are provinces that have inherited previous homeland administrations.

PROVINCIAL OWN REVENUE

31. Provincial own revenue constituted R4,9 billion or about 3,9 per cent of total revenue. Actual own revenue is estimated to exceed budgeted revenue (as adjusted) by R940 million, or 23,3 per cent of provincial own revenue. The actual revenue collected represents an increase of 10 per cent above 2000/01 levels.
32. The R940 million revenue collected over budgeted revenue was a major contributor towards the provincial surplus. In order to reduce such a surplus further, provinces will have to improve on their revenue forecasts, and take into account actual revenue collected in the previous financial years.

Table 16: Summary of total provincial own revenue as at 31 March 2002

| R million | 2000/01 | 2001/02 | | | | | | |
|---------------|--------------|-----------------|--|-----------------|--|--------------------|------------------------------|--------------------------|
| | Actual | Original budget | Year to year growth in % (actual 2000/01 to original budget 2001/02) | Adjusted budget | Year to year growth in % (actual 2000/01 to adjusted budget 2001/02) | Actual own revenue | % growth to actual collected | Over/ (under) collection |
| Eastern Cape | 395 | 291 | -26.4% | 471 | 19.3% | 474 | 0.7% | 3 |
| Free State | 306 | 265 | -13.3% | 265 | -13.3% | 334 | 26.1% | 69 |
| Gauteng | 1 168 | 1 042 | -10.8% | 1 042 | -10.8% | 1 308 | 25.6% | 267 |
| KwaZulu-Natal | 904 | 589 | -34.8% | 589 | -34.8% | 984 | 67.0% | 395 |
| Limpopo | 321 | 353 | 10.2% | 301 | -6.0% | 265 | -12.1% | -36 |
| Mpumalanga | 155 | 193 | 24.4% | 193 | 24.4% | 238 | 23.1% | 45 |
| Northern Cape | 66 | 82 | 22.9% | 107 | 60.6% | 146 | 37.2% | 40 |
| North West | 425 | 368 | -13.4% | 368 | -13.4% | 264 | -28.4% | -105 |
| Western Cape | 774 | 691 | -10.8% | 692 | -10.6% | 955 | 38.0% | 263 |
| Total | 4 514 | 3 874 | -14.2% | 4 028 | -10.8% | 4 968 | 23.3% | 940 |

CONDITIONAL GRANTS

33. Table 17 is a summary of conditional grant expenditure to provinces. Of the total conditional grant funds available of R16,1 billion, including the R2 billion for social grant arrears, 84,7 per cent or R13,6 billion was spent. This means that R544 million was not spent if the social security arrears grant is excluded.

Table 17: Summary of provincial conditional grant expenditure as at 31 March 2002

| R million | Original budget | Adjusted budget | Additional allocation | Estimated actual transferred | Estimated actual expenditure | Actual expenditure as % of actual transferred |
|---|-----------------|-----------------|-----------------------|------------------------------|------------------------------|---|
| Agriculture | – | 28 | 28 | 28 | 14 | 47.8% |
| Poverty Relief and Infrastructure Development | – | 22 | 22 | 22 | 13 | 58.5% |
| Land Care Projects | – | 6 | 6 | 6 | 0 | 7.9% |
| Education | 298 | 298 | – | 297 | 234 | 78.9% |
| Early Childhood Development | 21 | 21 | – | 21 | 6 | 28.8% |
| Financial Management and Quality Enhancement | 213 | 213 | – | 213 | 183 | 86.0% |
| HIV/AIDS | 64 | 64 | – | 63 | 45 | 71.8% |
| Health | 5 957 | 5 984 | 27 | 5 984 | 6 116 | 102.2% |
| Central Hospitals ¹ | 3 271 | 3 271 | – | 3 271 | 3 271 | 100.0% |
| HIV/AIDS | 34 | 54 | 20 | 54 | 46 | 84.8% |
| Hospital Rehabilitation | 500 | 500 | – | 500 | 550 | 109.9% |
| Integrated Nutrition Programme | 582 | 582 | – | 582 | 489 | 83.9% |
| Nkosi Albert Luthuli Academic Hospital | 104 | 104 | – | 104 | 298 | 287.4% |
| Pretoria Academic | 50 | 50 | – | 50 | 50 | 100.4% |
| Redistribution of Specialised Health Services | 182 | 189 | 7 | 189 | 178 | 94.5% |
| Professional Training and Research ¹ | 1 234 | 1 234 | – | 1 234 | 1 234 | 100.0% |
| Housing | 3 326 | 3 629 | 303 | 3 625 | 3 157 | 87.1% |
| Housing Subsidy | 3 226 | 3 529 | 303 | 3 529 | 3 132 | 88.8% |
| Human Settlement (Urban Development) | 100 | 100 | – | 96 | 25 | 26.1% |
| Provincial and Local Government | – | 163 | 163 | 163 | 99 | 61.1% |
| Local Government Support | – | 160 | 160 | 160 | 99 | 62.0% |
| Disaster Relief | – | 3 | 3 | 3 | 0 | 0.2% |
| National Treasury | 3 048 | 3 948 | 900 | 3 948 | 3 948 | 100.0% |
| Provincial Infrastructure ¹ | 800 | 1 400 | 600 | 1 400 | 1 400 | 100.0% |
| Supplementary Allocation ¹ | 2 248 | 2 248 | – | 2 248 | 2 248 | 100.0% |
| Mpumalanqa Section 100(1)(a) Agreement ¹ | – | 300 | 300 | 300 | 300 | 100.0% |
| Social Development | 23 | 2 019 | 1 996 | 2 019 | 30 | 1.5% |
| Financial Management and Social Security System | 10 | 10 | – | 10 | 14 | 134.9% |
| HIV/AIDS | 13 | 13 | – | 13 | 14 | 114.9% |
| Woman Flagship | – | 1 | 1 | 1 | 1 | 102.8% |
| Social Grant Arrears | – | 1 995 | 1 995 | 1 995 | – | 0.0% |
| Total | 12 652 | 16 068 | 3 417 | 16 064 | 13 598 | 84.6% |

1) These grants are treated as general revenue by provinces, so, actual spending against them cannot be measured
For purposes of this table they are assumed to be fully spent

CONCLUSION

34. Provinces have significantly improved their spending capacity, and their finances are in a very healthy state. Total provincial spending increased by over 10,9 per cent to R122,5 billion, compared to R110,5 billion in 2000/01.
35. Social service expenditure increased to R100,3 billion, an increase of 10,7 per cent compared to R90,6 billion in 2000/01.
36. Provinces have been very successful in increasing their capital expenditure to R11 billion, which represents a massive increase of 44,7 per cent compared to the 2000/01 financial year. However, there is scope to still increase both budgetary resources and spending capacity, to address backlogs particularly in poorer provinces.
37. The share of personnel expenditure also varies, with many of the provinces that inherited homeland administrations spending significantly more than other provinces.
38. Two areas of improvement for provincial budgets are in the areas of own revenue projections and the adjustments budget process. Provinces set themselves up for failure by incorporating relatively large roll-overs from previous years into their adjusted budgets.
39. The turn-around in provincial finances since 1997/98 has created the fiscal space that enables provinces to give effect to national policy priorities such as infrastructure delivery, expansion of the social security net and strengthening the health sector. The key question for government as a whole is to what extent the turn-around in finances reflects an improvement or expansion in service delivery, and whether government is getting value for money.

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2002/03 Provincial MTEF Budgets

2002/03 BUDGET AND THE MTEF

1. This report provides an overview of 2002/03 provincial budgets. A more detailed analysis of the 2002 provincial Medium-Term Expenditure Framework (MTEF) budgets will be published in the 2002 Intergovernmental Fiscal Review to be released in late September or early October.
2. The report highlights trends in total budget, capital, personnel, provincial own revenue, and the budgets for education, health, welfare and "other functions".

Background

3. This analysis uses the unaudited financial statements for the 2001/02 financial year, as submitted to the Auditor-General on 31 May 2002. Analysis of the 2001/02 expenditure outcome is contained in Annexure A.
4. The analysis does not take the R1 995 million payment of social security grants arrears into account. This has a negligible impact, as this cost is not carried into the future.

Consolidated overview

5. Table 1 shows revised growth rates⁴ by province and aggregate provincial expenditure between 2001/02 and 2004/05. Budgeted expenditure for 2002/03 is R136,4 billion, compared to the actual expenditure estimate of R122,5 billion for 2001/02, growing at 11,3 per cent. Over the three year MTEF period, it grows at an annual average rate of 8,7 per cent.

Table 1: Total provincial spending: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 | 2003/04 | 2004/05 | % Growth rates: Estimated actual | |
|---------------|-----------------|------------------|----------------|-------------------|----------------|-------------------------------------|-----------------|
| | Adjusted budget | Estimated actual | Budget | Forward estimates | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 22 024 | 19 558 | 22 393 | 24 060 | 25 722 | 14.5% | 9.6% |
| Free State | 8 761 | 8 228 | 9 264 | 9 941 | 10 704 | 12.6% | 9.2% |
| Gauteng | 20 543 | 20 245 | 22 536 | 25 181 | 26 390 | 11.3% | 9.2% |
| KwaZulu-Natal | 25 082 | 25 093 | 27 109 | 29 570 | 31 644 | 8.0% | 8.0% |
| Limpopo | 15 987 | 15 656 | 17 663 | 19 150 | 20 274 | 12.8% | 9.0% |
| Mpumalanga | 8 773 | 8 381 | 9 261 | 10 121 | 10 795 | 10.5% | 8.8% |
| Northern Cape | 2 993 | 2 932 | 3 238 | 3 498 | 3 736 | 10.4% | 8.4% |
| North West | 10 055 | 9 902 | 10 945 | 11 769 | 12 630 | 10.5% | 8.4% |
| Western Cape | 12 855 | 12 517 | 13 978 | 14 535 | 15 343 | 11.7% | 7.0% |
| Total | 127 072 | 122 512 | 136 386 | 147 825 | 157 236 | 11.3% | 8.7% |

⁴ The contingency reserve allocation of R3,3 billion for 2002/03 in the actual budget is excluded from these numbers. The contingency reserve for 2003/04 is R5 billion and 2004/05 is R9 billion.

Social Services Budgets

6. Table 2 shows consolidated expenditure by department between 1998/99 and 2004/05. The total envelope available for social services rises by 9,6 per cent from R100,3 billion in 2001/02 to R109,9 billion in 2002/03 and is projected to grow over the MTEF at an average annual rate of 8,1 per cent.

Table 2: Consolidated provincial expenditure according to department

| R million | 1998/99 Actual | 1999/00 Actual | 2000/01 Actual | 2001/02 Estimated actual | 2002/03 Budget | 2003/04 Forward estimates | 2004/05 Forward estimates |
|---|-------------------|-------------------|-------------------|--------------------------------|-------------------|------------------------------|------------------------------|
| Education | 38 723 | 39 828 | 43 255 | 46 842 | 50 865 | 54 392 | 57 546 |
| Health | 23 025 | 24 110 | 26 421 | 29 634 | 30 972 | 33 332 | 35 361 |
| Welfare | 18 441 | 19 373 | 20 929 | 23 800 | 28 055 | 31 252 | 33 693 |
| Housing and community development | 4 286 | 3 952 | 4 507 | 4 940 | 5 487 | 5 932 | 6 243 |
| Other functions | 12 659 | 12 793 | 15 385 | 17 295 | 20 542 | 22 617 | 24 034 |
| Contingency reserve | – | – | – | – | 464 | 301 | 359 |
| Total expenditure | 97 133 | 100 055 | 110 498 | 122 512 | 136 386 | 147 825 | 157 236 |
| Total revenue | 97 699 | 103 614 | 113 734 | 126 368 | 136 398 | 147 159 | 157 025 |
| Surplus/(deficit) | 566 | 3 559 | 3 237 | 3 857 | 12 | -667 | -211 |
| Categories of spending | | | | | | | |
| Spending on social services | 80 188 | 83 311 | 90 606 | 100 276 | 109 891 | 118 976 | 126 600 |
| Spending on other functions | 16 944 | 16 744 | 19 892 | 22 235 | 26 494 | 28 849 | 30 636 |
| Percentage shares of total expenditure | | | | | | | |
| Social services | 82.6% | 83.3% | 82.0% | 81.9% | 80.6% | 80.5% | 80.5% |
| Other functions (Incl. Housing) | 17.4% | 16.7% | 18.0% | 18.1% | 19.1% | 19.3% | 19.3% |
| Contingency reserve | – | – | – | – | 0.3% | 0.2% | 0.2% |

7. Table 3 shows variations in the 2001/02 share of social services budgeted across provinces compared to the national average of 81,9 per cent. These vary from a low of 75 per cent in Mpumalanga and Northern Cape, to a high of 85 per cent in KwaZulu-Natal. The variations are explained by differences in demographic profiles, conditional grant funding and provincial budget choices. In particular, provinces with central/academic hospitals (Gauteng, Western Cape, KwaZulu-Natal and Free State) have higher social service shares, given the relatively large conditional grant for health (R6,4 billion or 4,7 per cent of provincial budgets).

Table 3: Shares of provincial social spending to total spending

| Percentage shares | 2001/02 | | 2002/03 | 2003/04 | 2004/05 |
|-------------------|-----------------|------------------|--------------|-------------------|--------------|
| | Adjusted budget | Estimated actual | Budget | Forward estimates | |
| Eastern Cape | 80.1% | 83.8% | 80.7% | 81.8% | 80.4% |
| Free State | 78.4% | 80.3% | 77.8% | 78.0% | 78.5% |
| Gauteng | 83.8% | 84.6% | 81.9% | 79.4% | 79.5% |
| KwaZulu-Natal | 83.7% | 85.1% | 84.0% | 83.5% | 83.6% |
| Limpopo | 78.3% | 78.6% | 79.2% | 79.4% | 80.6% |
| Mpumalanga | 73.3% | 75.4% | 78.6% | 78.9% | 79.2% |
| Northern Cape | 74.1% | 76.4% | 75.5% | 75.6% | 75.3% |
| North West | 77.7% | 77.9% | 79.2% | 79.6% | 79.4% |
| Western Cape | 80.3% | 81.7% | 78.7% | 80.3% | 80.3% |
| Total | 80.3% | 81.9% | 80.6% | 80.5% | 80.5% |

Personnel expenditure

8. Table 4 shows that personnel expenditure declines as a share of the total by 2,8 per cent, from 55,1 per cent in 2001/02 to 52,3 per cent in 2002/03, and is expected to decline further to 51,2 per cent in 2004/05.

Table 4: Consolidated provincial expenditure according to economic classification

| R million | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 |
|---|---------------|----------------|----------------|------------------|----------------|-------------------|----------------|
| | Actual | Actual | Actual | Estimated actual | Budget | Forward estimates | |
| Economic classification | | | | | | | |
| Current expenditure | 90 915 | 93 630 | 102 856 | 111 455 | 121 927 | 130 998 | 138 564 |
| <i>of which personnel expenditure</i> | 57 049 | 59 056 | 63 487 | 67 583 | 71 344 | 76 004 | 80 530 |
| Capital expenditure (Incl. Housing) | 6 218 | 6 426 | 7 642 | 11 056 | 13 994 | 16 526 | 18 314 |
| Contingency reserve | – | – | – | – | 464 | 301 | 359 |
| Total expenditure | 97 133 | 100 055 | 110 498 | 122 512 | 136 386 | 147 825 | 157 236 |
| Percentage shares of total expenditure | | | | | | | |
| Current expenditure | 93.6% | 93.6% | 93.1% | 91.0% | 89.4% | 88.6% | 88.1% |
| <i>of which personnel expenditure</i> | 58.7% | 59.0% | 57.5% | 55.2% | 52.3% | 51.4% | 51.2% |
| Capital expenditure (Incl. Housing) | 6.4% | 6.4% | 6.9% | 9.0% | 10.3% | 11.2% | 11.6% |
| Contingency reserve | – | – | – | – | 0.3% | 0.2% | 0.2% |

9. Personnel budgets grow by 5,6 per cent from R67,5 billion in 2001/02 to R71,3 billion in 2002/03, and continue to rise by 6 per cent over the MTEF. The education and health sectors project lower growth of 4,9 per cent and 5,5 per cent in 2002/03 respectively.

Non-personnel expenditure

10. Non-personnel expenditure grows by 18,4 per cent from R54,9 billion in 2001/02 to a budgeted level of R65 billion in 2002/03. It is projected to grow 11,8 per cent a year over the MTEF to reach R76,7 billion in 2004/05. This excludes a contingency reserve of R464 million in 2002/03, R300 million in 2003/04 and R358 million in 2004/05.
11. Non-personnel expenditure includes, among other categories, social security grants, capital, maintenance and key inputs like textbooks, learner support material, drugs and medicines. In 2002/03, transfer payments which include social grants, total R25,3 billion, capital R14 billion and grants to local government R274,5 million.

Capital expenditure

12. Table 5 shows capital expenditure per province between 2001/02 and 2004/05. Provinces spent R11 billion for infrastructure development in 2001/02 out of a budgeted R12,9 billion. Capital expenditure as reported by provinces is not strictly all capital in an economic sense, as it also includes maintenance budgets and housing subsidies.
13. For 2002/03, provinces set aside a combined R14 billion for capital expenditure. This represents growth of 26,5 per cent over the R11 billion spent in 2001/02, increasing further by 19,9 per cent over the MTEF to R18,3 billion in 2004/05.

Table 5: Provincial capital expenditure: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 Budget | 2003/04 Forward estimates | 2004/05 | % Growth rates: Estimated actual | |
|--|-----------------|------------------|-------------------|------------------------------|---------------|-------------------------------------|---------------------|
| | Adjusted budget | Estimated actual | | | | 2001/02- 2002/03 | 2001/02- 2004/05 |
| Eastern Cape | 1 846 | 1 132 | 2 280 | 2 545 | 3 543 | 101.4% | 46.3% |
| Free State | 837 | 622 | 680 | 757 | 891 | 9.3% | 12.7% |
| Gauteng | 2 642 | 2 292 | 3 347 | 4 693 | 4 812 | 46.0% | 28.1% |
| KwaZulu-Natal | 2 792 | 2 716 | 2 768 | 3 288 | 3 512 | 1.9% | 9.0% |
| Limpopo | 1 306 | 1 249 | 1 419 | 1 611 | 1 583 | 13.7% | 8.2% |
| Mpumalanga | 1 110 | 959 | 900 | 999 | 1 083 | -6.1% | 4.1% |
| Northern Cape | 282 | 270 | 273 | 272 | 298 | 1.1% | 3.4% |
| North West | 894 | 670 | 985 | 1 097 | 1 294 | 46.9% | 24.5% |
| Western Cape | 1 233 | 1 147 | 1 343 | 1 265 | 1 298 | 17.1% | 4.2% |
| Total | 12 942 | 11 056 | 13 994 | 16 526 | 18 314 | 26.6% | 18.3% |
| Percentage share of total provincial budget | | | | | | | |
| Eastern Cape | 5.1% | 10.2% | 10.6% | 13.8% | | | |
| Free State | 7.1% | 7.3% | 7.6% | 8.3% | | | |
| Gauteng | 11.2% | 14.9% | 18.6% | 18.2% | | | |
| KwaZulu-Natal | 10.8% | 10.2% | 11.1% | 11.1% | | | |
| Limpopo | 7.8% | 8.0% | 8.4% | 7.8% | | | |
| Mpumalanga | 10.9% | 9.7% | 9.9% | 10.0% | | | |
| Northern Cape | 9.0% | 8.4% | 7.8% | 8.0% | | | |
| North West | 6.7% | 9.0% | 9.3% | 10.2% | | | |
| Western Cape | 8.9% | 9.6% | 8.7% | 8.5% | | | |
| Total | 8.7% | 10.3% | 11.2% | 11.6% | | | |

"Capital" covers more than its economic definition, as it includes maintenance and housing subsidies

14. In terms of the trend for each province, Table 5 indicates that at the end of the MTEF period in 2004/05, Gauteng will be devoting 18,2 per cent of its budget on capital. Most other provinces devote a far lower share, with the lowest in Limpopo, Northern Cape, Free State and Western Cape all around 8 per cent compared to the average of 11,6 per cent over the MTEF. If it is accepted that the optimal share should be at least as high as the overall average of 11,6 per cent, then six of the nine provinces will have to increase their capital budgets even faster than they do currently.
15. Table 6 shows that capital spending in education shows rapid growth of 87,9 per cent between 2001/02 and 2002/03 and an annual average growth of 41,4 per cent over the MTEF. Though the share of the capital budget averages 1,9 per cent of the total budget at the end of the MTEF, it is relatively low in the Western and Northern Cape at 0,1 and 0,5 per cent respectively. However, the Western Cape capital budget for education is not as low, as it is located in its public works department budget.

Table 6: Provincial Education capital expenditure: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 | 2003/04 | 2004/05 | % Growth rates: | |
|--|-----------------|------------------|--------------|-------------------|--------------|------------------|-----------------|
| | Adjusted budget | Estimated actual | Budget | Forward estimates | | Estimated actual | |
| | | | | | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 276 | 206 | 406 | 422 | 764 | 96.6% | 54.7% |
| Free State | 116 | 59 | 144 | 155 | 206 | 142.8% | 51.4% |
| Gauteng | 253 | 191 | 405 | 503 | 519 | 112.4% | 39.7% |
| KwaZulu-Natal | 265 | 307 | 520 | 775 | 822 | 69.2% | 38.8% |
| Limpopo | 112 | 97 | 238 | 287 | 330 | 146.1% | 50.5% |
| Mpumalanga | 97 | 93 | 150 | 164 | 178 | 61.3% | 24.4% |
| Northern Cape | 2 | 2 | 12 | 17 | 19 | 428.1% | 102.1% |
| North West | 91 | 62 | 115 | 145 | 165 | 84.9% | 38.4% |
| Western Cape ¹ | 55 | 51 | 20 | 20 | 21 | -61.8% | -26.3% |
| Total | 1 267 | 1 069 | 2 009 | 2 488 | 3 024 | 87.9% | 41.4% |
| Percentage share of total provincial budget | | | | | | | |
| <i>Eastern Cape</i> | <i>0.9%</i> | <i>1.8%</i> | <i>1.8%</i> | <i>3.0%</i> | | | |
| <i>Free State</i> | <i>0.7%</i> | <i>1.6%</i> | <i>1.6%</i> | <i>1.9%</i> | | | |
| <i>Gauteng</i> | <i>0.9%</i> | <i>1.8%</i> | <i>2.0%</i> | <i>2.0%</i> | | | |
| <i>KwaZulu-Natal</i> | <i>1.2%</i> | <i>1.9%</i> | <i>2.6%</i> | <i>2.6%</i> | | | |
| <i>Limpopo</i> | <i>0.6%</i> | <i>1.3%</i> | <i>1.5%</i> | <i>1.6%</i> | | | |
| <i>Mpumalanga</i> | <i>1.1%</i> | <i>1.6%</i> | <i>1.6%</i> | <i>1.7%</i> | | | |
| <i>Northern Cape</i> | <i>0.1%</i> | <i>0.4%</i> | <i>0.5%</i> | <i>0.5%</i> | | | |
| <i>North West</i> | <i>0.6%</i> | <i>1.1%</i> | <i>1.2%</i> | <i>1.3%</i> | | | |
| <i>Western Cape¹</i> | <i>0.4%</i> | <i>0.1%</i> | <i>0.1%</i> | <i>0.1%</i> | | | |
| Total | 0.8% | 1.5% | 1.7% | 1.9% | | | |

1) The capital budget for education is located on the Public Works vote in the Western Cape

16. Table 7 shows that health capital spending will grow moderately at 6,3 per cent between 2001/02 and 2002/03 and annual average growth of 11,3 per cent over the MTEF. Though the capital share of the provincial budget averages 1,9 per cent at the end of the MTEF, it remains relatively low in the Free State and Western Cape at 0,4 and 0,3 per cent respectively. However, part of the Western Cape capital budget for health is not as low, as it is located in its public works department budget.

Table 7: Provincial Health capital expenditure: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 Budget | 2003/04 Forward estimates | 2004/05 Forward estimates | % Growth rates: Estimated actual | |
|--|-----------------|------------------|-------------------|------------------------------|------------------------------|-------------------------------------|---------------------|
| | Adjusted budget | Estimated actual | | | | 2001/02- 2002/03 | 2001/02- 2004/05 |
| Eastern Cape | 413 | 241 | 369 | 607 | 695 | 53.1% | 42.4% |
| Free State | 121 | 62 | 36 | 38 | 40 | -42.2% | -14.1% |
| Gauteng | 628 | 530 | 715 | 829 | 827 | 34.9% | 16.0% |
| KwaZulu-Natal | 727 | 784 | 546 | 557 | 654 | -30.4% | -5.8% |
| Limpopo | 247 | 225 | 224 | 230 | 261 | -0.5% | 5.1% |
| Mpumalanga | 139 | 90 | 139 | 158 | 189 | 54.6% | 28.1% |
| Northern Cape | 37 | 34 | 34 | 41 | 44 | -1.0% | 9.1% |
| North West | 158 | 132 | 195 | 215 | 226 | 47.4% | 19.5% |
| Western Cape ¹ | 70 | 64 | 42 | 45 | 47 | -33.8% | -9.7% |
| Total | 2 538 | 2 162 | 2 299 | 2 720 | 2 982 | 6.3% | 11.3% |
| Percentage share of total provincial budget | | | | | | | |
| <i>Eastern Cape</i> | 1.1% | 1.6% | 2.5% | 2.7% | | | |
| <i>Free State</i> | 0.7% | 0.4% | 0.4% | 0.4% | | | |
| <i>Gauteng</i> | 2.6% | 3.2% | 3.3% | 3.1% | | | |
| <i>KwaZulu-Natal</i> | 3.1% | 2.0% | 1.9% | 2.1% | | | |
| <i>Limpopo</i> | 1.4% | 1.3% | 1.2% | 1.3% | | | |
| <i>Mpumalanga</i> | 1.0% | 1.5% | 1.6% | 1.7% | | | |
| <i>Northern Cape</i> | 1.1% | 1.0% | 1.2% | 1.2% | | | |
| <i>North West</i> | 1.3% | 1.8% | 1.8% | 1.8% | | | |
| <i>Western Cape¹</i> | 0.5% | 0.3% | 0.3% | 0.3% | | | |
| Total | 1.7% | 1.7% | 1.8% | 1.9% | | | |

1) The capital budget for health is located on the Public Works vote in the Western Cape

17. Table 8 shows that Public Works, Roads and Transport capital expenditure grows by 21,2 per cent between 2001/02 and 2002/03 and at an annual average rate of 14,6 per cent over the MTEF. It increases to 3,1 per cent of the total provincial budget at the end of the MTEF, but the Limpopo budget is relatively low at 1,5 per cent. Whilst most of this budget is primarily for provincial roads, these budgets may include other capital and maintenance expenditure. In the Western Cape, it also includes capital budgets for education and health.

Table 8: Provincial Public Works, Roads and Transport capital expenditure: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 Budget | 2003/04 Forward estimates | 2004/05 | % Growth rates: Estimated actual | |
|--|-----------------|------------------|-------------------|------------------------------|--------------|-------------------------------------|-----------------|
| | Adjusted budget | Estimated actual | | | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 245 | 267 | 741 | 650 | 1 129 | 177.9% | 61.8% |
| Free State | 215 | 217 | 174 | 204 | 228 | -19.8% | 1.7% |
| Gauteng | 417 | 429 | 473 | 551 | 617 | 10.3% | 12.9% |
| KwaZulu-Natal | 793 | 794 | 819 | 989 | 1 100 | 3.3% | 11.5% |
| Limpopo | 356 | 356 | 400 | 396 | 312 | 12.3% | -4.3% |
| Mpumalanga | 411 | 344 | 262 | 303 | 342 | -23.8% | -0.2% |
| Northern Cape | 140 | 123 | 106 | 85 | 94 | -13.7% | -8.6% |
| North West | 204 | 94 | 267 | 306 | 390 | 183.0% | 60.5% |
| Western Cape ¹ | 593 | 580 | 642 | 609 | 617 | 10.6% | 2.1% |
| Total | 3 374 | 3 204 | 3 884 | 4 093 | 4 829 | 21.2% | 14.7% |
| Percentage share of total provincial budget | | | | | | | |
| <i>Eastern Cape</i> | | 1.2% | 3.3% | 2.7% | 4.4% | | |
| <i>Free State</i> | | 2.5% | 1.9% | 2.0% | 2.1% | | |
| <i>Gauteng</i> | | 2.1% | 2.1% | 2.2% | 2.3% | | |
| <i>KwaZulu-Natal</i> | | 3.2% | 3.0% | 3.3% | 3.5% | | |
| <i>Limpopo</i> | | 2.2% | 2.3% | 2.1% | 1.5% | | |
| <i>Mpumalanga</i> | | 3.9% | 2.8% | 3.0% | 3.2% | | |
| <i>Northern Cape</i> | | 4.1% | 3.3% | 2.4% | 2.5% | | |
| <i>North West</i> | | 0.9% | 2.4% | 2.6% | 3.1% | | |
| <i>Western Cape¹</i> | | 4.5% | 4.6% | 4.2% | 4.0% | | |
| Total | | 2.5% | 2.8% | 2.8% | 3.1% | | |

1) The capital budget for education and health is located on the Public Works vote in the Western Cape

18. Table 9 shows Housing capital expenditure growing sharply by 10,7 per cent between 2001/02 and 2002/03 and at an annual average rate of 9,1 per cent over the MTEF. The growth is mainly due to upward revision of housing subsidy grant baselines by R300 million, R579 million and R574 million between 2002/03 and 2004/05.

Table 9: Provincial Housing capital expenditure: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 | 2003/04 | 2004/05 | % Growth rates: Estimated actual | |
|--|-----------------|------------------|--------------|-------------------|--------------|-------------------------------------|-----------------|
| | Adjusted budget | Estimated actual | Budget | Forward estimates | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 715 | 296 | 579 | 628 | 583 | 95.5% | 25.3% |
| Free State | 298 | 267 | 310 | 344 | 402 | 16.1% | 14.6% |
| Gauteng | 819 | 778 | 845 | 966 | 1 209 | 8.6% | 15.8% |
| KwaZulu-Natal | 769 | 672 | 719 | 789 | 739 | 6.9% | 3.2% |
| Limpopo | 424 | 430 | 410 | 456 | 408 | -4.5% | -1.7% |
| Mpumalanga | 381 | 400 | 283 | 307 | 316 | -29.3% | -7.5% |
| Northern Cape | 79 | 78 | 103 | 112 | 123 | 32.2% | 16.5% |
| North West | 364 | 336 | 338 | 365 | 438 | 0.6% | 9.3% |
| Western Cape | 345 | 330 | 387 | 427 | 449 | 17.1% | 10.8% |
| Total | 4 195 | 3 588 | 3 976 | 4 395 | 4 668 | 10.8% | 9.2% |
| Percentage share of total provincial budget | | | | | | | |
| <i>Eastern Cape</i> | 1.3% | 2.6% | 2.6% | 2.6% | 2.3% | | |
| <i>Free State</i> | 3.0% | 3.3% | 3.3% | 3.5% | 3.8% | | |
| <i>Gauteng</i> | 3.8% | 3.8% | 3.8% | 3.8% | 4.6% | | |
| <i>KwaZulu-Natal</i> | 2.7% | 2.7% | 2.7% | 2.7% | 2.3% | | |
| <i>Limpopo</i> | 2.7% | 2.3% | 2.3% | 2.4% | 2.0% | | |
| <i>Mpumalanga</i> | 4.6% | 3.1% | 3.0% | 3.0% | 2.9% | | |
| <i>Northern Cape</i> | 2.6% | 3.2% | 3.2% | 3.2% | 3.3% | | |
| <i>North West</i> | 3.3% | 3.1% | 3.1% | 3.1% | 3.5% | | |
| <i>Western Cape</i> | 2.6% | 2.8% | 2.9% | 2.9% | 2.9% | | |
| Total | 2.8% | 2.9% | 3.0% | 3.0% | 3.0% | | |

Provincial own revenue

19. Although own revenue constitutes about 4 per cent of total revenue for provinces, it remains an important revenue source. Table 10 shows own revenue trends between 1998/99 and 2004/05.
20. The projections for provincial revenue appear overly conservative in all provinces, resulting in budgeted revenue for 2002/03 of R4 billion, or just R885 million less than actual revenue collected in 2001/02 (a decline of 17,8 per cent). Provinces risk higher surpluses in the event actual revenue significantly exceeds budgeted revenue, unless such additional funds can be quickly utilised during the financial year.

Table 10: Total own revenues by province

| R million | 1998/99 Actual | 1999/00 Actual | 2000/01 Actual | 2001/02 Estimated actual | 2002/03 Budget | 2003/04 Forward estimates | 2004/05 Forward estimates |
|--------------------------|-------------------|-------------------|-------------------|--------------------------------|-------------------|------------------------------|------------------------------|
| Eastern Cape | 421 | 374 | 395 | 474 | 400 | 450 | 500 |
| Free State | 251 | 262 | 306 | 334 | 306 | 346 | 415 |
| Gauteng | 929 | 1 046 | 1 168 | 1 308 | 1 105 | 1 182 | 1 274 |
| KwaZulu-Natal | 432 | 613 | 904 | 984 | 647 | 712 | 841 |
| Limpopo | 295 | 247 | 321 | 265 | 273 | 300 | 307 |
| Mpumalanga | 194 | 363 | 155 | 238 | 195 | 205 | 215 |
| Northern Cape | 79 | 79 | 66 | 146 | 87 | 93 | 93 |
| North West | 304 | 321 | 425 | 264 | 272 | 293 | 299 |
| Western Cape | 528 | 733 | 774 | 955 | 798 | 843 | 836 |
| Total | 3 433 | 4 039 | 4 514 | 4 968 | 4 083 | 4 425 | 4 779 |
| Percentage growth | | | | | | | |
| Eastern Cape | | -11.1% | 5.5% | 20.1% | -15.6% | 12.5% | 11.1% |
| Free State | | 4.3% | 16.7% | 9.3% | -8.4% | 13.1% | 19.8% |
| Gauteng | | 12.5% | 11.7% | 12.0% | -15.6% | 7.0% | 7.8% |
| KwaZulu-Natal | | 41.9% | 47.3% | 8.9% | -34.2% | 10.0% | 18.1% |
| Limpopo | | -16.2% | 29.8% | -17.4% | 3.1% | 10.0% | 2.1% |
| Mpumalanga | | 87.3% | -57.2% | 53.1% | -18.0% | 5.1% | 4.9% |
| Northern Cape | | 0.0% | -15.7% | 120.4% | -40.4% | 6.7% | 0.0% |
| North West | | 5.6% | 32.4% | -38.0% | 3.0% | 7.8% | 2.1% |
| Western Cape | | 39.0% | 5.6% | 23.4% | -16.4% | 5.7% | -0.9% |
| Total | | 17.6% | 11.8% | 10.1% | -17.8% | 8.4% | 8.0% |

Provincial surpluses/deficits

21. Table 11 summarises unallocated amounts and expected outcomes by province between 2002/03 and 2004/05. Provinces are budgeting for balanced budgets in 2002/03 and small deficits of R666 million in 2003/04 and R211 million in 2004/05. Savings from previous years will finance these surpluses. Given unrealistically low revenue projections, these estimated deficits are likely to be surpluses.

Table 11: Projected surpluses/deficits between 2002/03 and 2004/05

| R million | 2002/03 | | | | 2003/04 | | 2004/05 | |
|---------------|----------------|------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Total revenue | Estimated actual | Contingency reserve | Surplus/Deficit (-) | Contingency reserve | Surplus/Deficit (-) | Contingency reserve | Surplus/Deficit (-) |
| Eastern Cape | 22 393 | 22 393 | 89 | - | 67 | - | 50 | - |
| Free State | 9 264 | 9 264 | 100 | - | 100 | - | 100 | - |
| Gauteng | 22 798 | 22 536 | - | 262 | - | -550 | - | -128 |
| KwaZulu-Natal | 27 109 | 27 109 | - | - | - | - | - | - |
| Limpopo | 17 663 | 17 663 | - | - | - | - | - | - |
| Mpumalanga | 9 311 | 9 261 | 45 | 50 | 45 | 50 | 50 | 50 |
| Northern Cape | 3 238 | 3 238 | - | - | - | - | - | - |
| North West | 10 945 | 10 945 | 46 | - | 42 | - | 65 | - |
| Western Cape | 13 678 | 13 978 | 184 | -300 | 46 | -167 | 93 | -133 |
| Total | 136 398 | 136 386 | 464 | 12 | 301 | -667 | 359 | -211 |

22. Unlike previous years in which provinces tended to set aside significant reserves, the 2002 Budget's total unallocated funds amount to R464 million in 2002/03, R301 million in 2003/04 and R359 million in 2004/05. These contingency reserves will, however, be revised upwards by at least R1 billion if provinces do not revise their revenue (and resulting expenditure) estimates.

SECTORAL ANALYSIS

Education

23. Table 12 shows trends in education budgets between 2001/02 and 2004/05. The total budgeted provincial allocation on education for 2002/03 is R50,9 billion. This is an increase of 8,6 per cent compared to the 2001/02 preliminary outcome. The projected annual average growth rate is 7,1 per cent over the MTEF.

Table 12: Provincial Education budgets: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 | 2003/04 | 2004/05 | % Growth rates: Estimated actual | |
|---------------------------|-----------------|------------------|---------------|-------------------|---------------|-------------------------------------|-----------------|
| | Adjusted budget | Estimated actual | Budget | Forward estimates | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 8 118 | 7 863 | 8 571 | 8 922 | 9 275 | 9.0% | 5.7% |
| Free State | 3 382 | 3 174 | 3 480 | 3 698 | 3 967 | 9.6% | 7.7% |
| Gauteng | 7 507 | 7 268 | 7 915 | 8 604 | 8 989 | 8.9% | 7.3% |
| KwaZulu-Natal | 9 347 | 9 266 | 9 899 | 10 837 | 11 505 | 6.8% | 7.5% |
| Limpopo | 6 819 | 6 673 | 7 385 | 7 810 | 8 407 | 10.7% | 8.0% |
| Mpumalanga | 3 336 | 3 331 | 3 654 | 4 019 | 4 280 | 9.7% | 8.7% |
| Northern Cape | 1 028 | 1 022 | 1 138 | 1 236 | 1 306 | 11.4% | 8.5% |
| North West | 4 029 | 3 972 | 4 290 | 4 500 | 4 840 | 8.0% | 6.8% |
| Western Cape | 4 339 | 4 273 | 4 533 | 4 766 | 4 977 | 6.1% | 5.2% |
| Total | 47 907 | 46 842 | 50 865 | 54 392 | 57 546 | 8.6% | 7.1% |
| Personnel spending | | | | | | | |
| Eastern Cape | 6 910 | 7 161 | 7 257 | 7 692 | 8 154 | 1.3% | 4.4% |
| Free State | 2 826 | 2 800 | 2 954 | 3 134 | 3 334 | 5.5% | 6.0% |
| Gauteng | 6 216 | 6 118 | 6 433 | 6 755 | 7 093 | 5.2% | 5.1% |
| KwaZulu-Natal | 8 323 | 8 251 | 8 692 | 9 311 | 9 881 | 5.3% | 6.2% |
| Limpopo | 6 140 | 6 124 | 6 581 | 7 058 | 7 580 | 7.5% | 7.4% |
| Mpumalanga | 2 940 | 2 960 | 3 099 | 3 431 | 3 536 | 4.7% | 6.1% |
| Northern Cape | 873 | 851 | 933 | 985 | 1 039 | 9.5% | 6.9% |
| North West | 3 602 | 3 600 | 3 801 | 3 981 | 4 267 | 5.6% | 5.8% |
| Western Cape | 3 691 | 3 716 | 3 896 | 4 083 | 4 260 | 4.9% | 4.7% |
| Total | 41 521 | 41 580 | 43 646 | 46 430 | 49 144 | 5.0% | 5.7% |

24. Education personnel expenditure grows by 5 per cent between 2001/02 and 2002/03 and 5,7 per cent per annum over the MTEF.
25. Non-personnel expenditure is budgeted to grow by 37,2 per cent from R5,3 billion to R8,4 billion in 2002/03. This puts the average annual non-personnel increase to 16,9 per cent over the MTEF.

Health

26. Table 13 shows trends in health budgets between 2001/02 and 2004/05. Budgeted provincial health allocations increase from a projected outcome of R29,6 billion in 2001/02 to R30,9 billion in 2002/03, and is projected to rise to R35,4 billion in 2004/05. This represents growth of 4,4 per cent between 2001/02 and 2002/03 and projected average annual growth of 6 per cent over the MTEF.

Table 13: Provincial Health budgets: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 | 2003/04 | 2004/05 | % Growth rates: Estimated actual | |
|---------------------------|-----------------|------------------|---------------|-------------------|---------------|-------------------------------------|-----------------|
| | Adjusted budget | Estimated actual | Budget | Forward estimates | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 4 221 | 3 892 | 3 917 | 4 429 | 4 575 | 0.6% | 5.5% |
| Free State | 1 970 | 1 953 | 2 053 | 2 176 | 2 335 | 5.1% | 6.1% |
| Gauteng | 6 771 | 6 838 | 7 213 | 7 739 | 8 129 | 5.5% | 5.9% |
| KwaZulu-Natal | 6 744 | 7 033 | 6 996 | 7 352 | 7 855 | -0.5% | 3.8% |
| Limpopo | 2 719 | 2 664 | 2 913 | 3 109 | 3 394 | 9.4% | 8.4% |
| Mpumalanga | 1 517 | 1 457 | 1 657 | 1 888 | 2 037 | 13.7% | 11.8% |
| Northern Cape | 509 | 517 | 563 | 624 | 675 | 8.8% | 9.2% |
| North West | 1 735 | 1 699 | 1 920 | 2 057 | 2 203 | 13.0% | 9.1% |
| Western Cape | 3 579 | 3 581 | 3 741 | 3 957 | 4 157 | 4.5% | 5.1% |
| Total | 29 765 | 29 634 | 30 972 | 33 332 | 35 361 | 4.5% | 6.1% |
| Personnel spending | | | | | | | |
| Eastern Cape | 2 492 | 2 247 | 2 380 | 2 522 | 2 681 | 5.9% | 6.1% |
| Free State | 1 241 | 1 237 | 1 282 | 1 356 | 1 436 | 3.7% | 5.1% |
| Gauteng | 3 605 | 3 660 | 3 891 | 4 114 | 4 336 | 6.3% | 5.8% |
| KwaZulu-Natal | 4 081 | 4 173 | 4 205 | 4 432 | 4 726 | 0.8% | 4.2% |
| Limpopo | 1 699 | 1 738 | 1 876 | 2 048 | 2 187 | 8.0% | 8.0% |
| Mpumalanga | 823 | 811 | 874 | 1 048 | 1 068 | 7.7% | 9.6% |
| Northern Cape | 328 | 323 | 345 | 371 | 399 | 6.7% | 7.3% |
| North West | 1 145 | 1 159 | 1 236 | 1 340 | 1 455 | 6.6% | 7.9% |
| Western Cape | 2 263 | 2 246 | 2 472 | 2 614 | 2 747 | 10.0% | 6.9% |
| Total | 17 678 | 17 594 | 18 562 | 19 846 | 21 035 | 5.5% | 6.1% |

27. Health personnel expenditure grows by 5,5 per cent between 2001/02 and 2002/03 and will increase by 6,1 per cent a year over the next three years. The respective growth rates for non-personnel are 3 and 5,9 per cent for the same periods.

Social Development

28. Table 14 shows trends in social development spending between 2001/02 and 2004/05. Unlike other functions, the bulk of the welfare budget (about 90 per cent) are transfer payments, while the remaining 10 per cent is split between personnel expenditure (4,3 per cent) and non-personnel expenditure (5,7 per cent).

Table 14: Provincial Social Development budgets: 2001/02 - 2004/05

| R million | 2001/02 | | 2002/03 Budget | 2003/04 Forward estimates | 2004/05 | % Growth rates: Estimated actual | |
|--------------------------|-----------------|------------------|-------------------|------------------------------|---------------|-------------------------------------|-----------------|
| | Adjusted budget | Estimated actual | | | | 2001/02-2002/03 | 2001/02-2004/05 |
| Eastern Cape | 5 301 | 4 630 | 5 582 | 6 325 | 6 839 | 20.6% | 13.9% |
| Free State | 1 519 | 1 483 | 1 670 | 1 880 | 2 105 | 12.6% | 12.4% |
| Gauteng | 2 934 | 3 018 | 3 332 | 3 648 | 3 868 | 10.4% | 8.6% |
| KwaZulu-Natal | 4 902 | 5 049 | 5 879 | 6 488 | 7 105 | 16.4% | 12.1% |
| Limpopo | 2 986 | 2 969 | 3 699 | 4 284 | 4 536 | 24.6% | 15.2% |
| Mpumalanga | 1 580 | 1 531 | 1 971 | 2 079 | 2 236 | 28.7% | 13.5% |
| Northern Cape | 681 | 701 | 744 | 786 | 832 | 6.2% | 5.9% |
| North West | 2 048 | 2 042 | 2 456 | 2 807 | 2 986 | 20.3% | 13.5% |
| Western Cape | 2 402 | 2 378 | 2 722 | 2 955 | 3 187 | 14.5% | 10.2% |
| Total | 24 353 | 23 800 | 28 055 | 31 252 | 33 693 | 17.9% | 12.3% |
| Transfer payments | | | | | | | |
| Eastern Cape | 4 871 | 4 333 | 5 294 | 6 018 | 6 509 | 22.2% | 14.5% |
| Free State | 1 301 | 1 300 | 1 439 | 1 629 | 1 837 | 10.7% | 12.2% |
| Gauteng | 2 521 | 2 636 | 2 868 | 3 152 | 3 327 | 8.8% | 8.1% |
| KwaZulu-Natal | 4 442 | 4 576 | 5 241 | 5 762 | 6 275 | 14.5% | 11.1% |
| Limpopo | 2 773 | 2 749 | 3 433 | 3 980 | 4 189 | 24.9% | 15.1% |
| Mpumalanga | 1 363 | 1 410 | 1 742 | 1 806 | 1 956 | 23.6% | 11.5% |
| Northern Cape | 577 | 597 | 625 | 653 | 680 | 4.6% | 4.4% |
| North West | 1 802 | 1 795 | 2 189 | 2 521 | 2 680 | 22.0% | 14.3% |
| Western Cape | 2 152 | 2 143 | 2 450 | 2 661 | 2 869 | 14.3% | 10.2% |
| Total | 21 802 | 21 539 | 25 282 | 28 182 | 30 321 | 17.4% | 12.1% |

29. Budgeted provincial social development allocations increase by 18 per cent from a preliminary outcome of R23,8 billion in 2001/02 to R28 billion in 2002/03, and is projected to rise 12,3 per cent to R33,7 billion in 2004/05.

Other functions

30. "Other functions" include Agriculture, Legislature, Public Works, Roads and Transport, Housing and Local Government.
31. The housing budget increases from R4,9 billion in 2001/02 to R5,5 billion in 2002/03 and is expected to grow over the next three years to R6,2 billion in 2004/05. The transport, roads and public works budget increases from R8,7 billion in 2001/02 to R9,9 billion in 2002/03 and is expected to grow to R11,4 billion in 2004/05. The core of both the Roads and Housing budgets are capital in nature, and discussed above under the section on capital.
32. The tables attached to this review provide information on all departmental budgets, but these are often not comparable, as departments often perform different functions. The total budget for "other departments" (including housing

and roads) increases from the baseline preliminary expenditure outcome of R22 billion to R26,4 billion or 19,2 per cent in 2002/03. The average annual growth rate for the MTEF is 11,3 per cent.

33. Spending on personnel in “other functions” is budgeted to grow by 6,8 per cent between 2001/02 and 2002/03 and at an annual average rate of 6,6 per cent over the MTEF.
34. Spending on non-personnel in “other sectors” is budgeted to grow by 22,3 per cent between 2001/02 and 2002/03 and at an annual average rate of 12,9 per cent over the MTEF. Provinces are increasingly allocating more resources to the non-social sectors. Part of this increase can be attributed to infrastructure funding.

CONCLUSION

35. The 2002 provincial MTEF budgets are generally credible from an aggregate perspective, and provided adequately for national priorities. The budgets grow by 11,3 per cent in 2002/03 compared to actual spending in 2001/02, and at 8,7 per cent over the three-year MTEF.
36. The budgetary resources for the three key social services (education, health and social development) grow by 9,6 per cent from R11 billion in 2001/02 to R110 billion in 2002/03, or at an annual average rate of 8,1 per cent over the next three years.
37. The biggest growth rate is for capital expenditure, which is estimated to increase by 26,5 per cent in 2002/03 to R14 billion compared to R11 billion spent in 2001/02. This growth is also rapid over the next three years at 19,9 per cent per annum. However, six of the nine provinces are still significantly below the average budgeted share of 11 per cent for their capital budgets, and should they develop their spending capacity, may need to grow their capital budgets even faster over the next five years.
38. Though provinces have demonstrated that their spending capacity continues to improve, they face a formidable challenge to spend their increased capital budgets over the next three years.
39. There is also a related challenge on personnel and capital budgets, depending on the approach towards 2001/02 roll-overs and own revenue.
 - 39.1. Provinces (in the aggregate) appear to be underbudgeting for personnel, particularly in health and education. This is a risk as the pressure created may squeeze out other non-personnel expenditure during the financial year.
 - 39.2. Provinces appear to be conservative in their own revenue forecasts, and so risk a higher-than-anticipated surplus should actual revenue exceed budgeted revenue. Some of this could be used to offset pressures in other areas such as personnel budgets.
 - 39.3. Provinces risk underspending on capital if they are too lenient in allowing 2001/02 roll-overs on capital budgets.

40. However, provinces can reduce risks to their budgets if the extra revenue collected and funds rolled-over are directed towards correcting their personnel budgets in health and education, and towards critical (recurrent) inputs like textbooks and other learner support material, medicines and maintenance budgets.
41. Strategic plans have been tabled by all provincial departments for the 2002/03 financial year. Though the strategic plans for a sector may not be comparable between provinces this year, they are expected to lay the basis for more comparable strategic plans for the 2003/04 Budget. These strategic plans will lay the basis for developing non-financial indicators to measure service delivery performance, as well as the development of minimum standards for non-financial information.

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| <h2 style="margin: 0;">Provincial Budget Tables</h2> |
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Provincial summary

| | |
|--|-----------------|
| Total actual and budgeted expenditure and revenue by province | <i>Table C1</i> |
| Total actual and budgeted expenditure and revenue by functional area | <i>Table C2</i> |
| Adjustments to total actual and budgeted expenditure by province | <i>Table C3</i> |

Provincial social services

| | |
|---|-----------------|
| Total actual and budgeted expenditure on education services by province | <i>Table C4</i> |
| Total actual and budgeted expenditure on health services by province | <i>Table C5</i> |
| Total actual and budgeted expenditure on welfare services by province | <i>Table C6</i> |

Detailed tables

Provincial tables

| | |
|---------------|------------------|
| Eastern Cape | <i>Table C7</i> |
| Free State | <i>Table C8</i> |
| Gauteng | <i>Table C9</i> |
| KwaZulu-Natal | <i>Table C10</i> |
| Limpopo | <i>Table C11</i> |
| Mpumalanga | <i>Table C12</i> |
| Northern Cape | <i>Table C13</i> |
| North West | <i>Table C14</i> |
| Western Cape | <i>Table C15</i> |

Detailed tables for each province

For each province, the following six tables are provided:

- ?? Summary of actual and budgeted revenue and expenditure
- ?? Actual and budgeted revenue
- ?? Actual and budgeted expenditure, by department
- ?? Education actual and budgeted expenditure, by programme
- ?? Health actual and budgeted expenditure, by programme
- ?? Welfare actual and budgeted expenditure, by programme