

BUDGET STATEMENT 1

Budget Overview

1. BUDGET STRATEGY - OVERVIEW

Budget Statement 1 provides a general overview of the medium term budget for the province of KwaZulu-Natal commencing in 2003/04. The document summarises the main budget aggregates and revenue, and sketches the expenditure profile of the province. It provides an insight into the hard strategic policy choices which the provincial government had to make in compiling the budget. The provincial government made these choices against a backdrop of inexorable and competing expenditure pressures and a stagnant and even deteriorating socio-economic profile.

The document reviews the fiscal performance of the province over the last five years, and summarises the challenges confronting the province in the medium term as it struggles to increase revenue and curtail expenditure in the interests of sustainable and balanced budgets. Finally, it provides information on service delivery performance and targets in the main areas of service delivery.

In preparing for the 2003/04 Medium Term Expenditure Framework (MTEF) budget, the provincial government initiated a comprehensive review of its strategic planning and budgeting processes. The need for this review was brought about by a number of factors.

In the first instance, in the 2002/03 financial year the province was challenged by serious expenditure pressures in all three social sector departments, namely health, education and social welfare. These expenditure pressures combined to cause a projected deficit of approximately R820 million, the highest deficit since the disastrous performance in 1997/98 when provincial expenditure exceeded revenue by R1.2 billion. The mounting fiscal pressures on the provincial government, combined with the inter-related scourges of widespread unemployment, poverty, and the HIV/AIDS epidemic, led to the realization that there was an urgent need for increased focus and prioritization in the government's strategic policy choices.

In particular, it had become apparent that the Provincial Growth and Development Strategy (PGDS), first crafted and approved in 1996, had become outdated and was in urgent need of revision. Lacking a review mechanism, the PGDS had failed to take account of the dramatic and profound changes which have taken place in the international, national and provincial arenas in the intervening period. On the international front, these changes include the march of globalization, the vicissitudes of international markets and exchange rates, the Asian crisis, and, in the African context, the New Economic Partnership for Development (NEPAD) initiative. On the national front, a number of constitutional and legislative developments have had a profound impact on the nature and structure of government at the national, provincial and local levels. In particular, the promulgation of the New Constitution in 1996 and the plethora of supporting Acts that followed, many of which aimed at regulating intergovernmental relations, profoundly changed the political, economic, social and legal landscape of the country. Within the province itself, several developments have occurred during the last six years with major implications for the province's growth and development strategy. These include the 1997/98 financial crisis, the spread of the HIV/AIDS pandemic and related health threats, increases in infrastructure backlogs, the implementation of the medium term expenditure framework, and various financial and budgetary reforms occasioned by the introduction of the Public Finance Management Act in 1999.¹

One of the key shortcomings of the original PGDS is that there have been no synergies and links between the eight programmes of the PGDS and the six provincial priorities² used as the basis for informing the provincial government's budgetary approach and processes in the last two years. This has been a serious weakness, and has complicated the task of drawing linkages between the programme-based provincial budget and the identified policy priorities.

¹ Much of the material in this overview is borrowed from the Provincial Treasury publication compiled in December 2002 "Towards a new Provincial Growth and Development Strategy".

² The six provincial policy priorities, as approved by the provincial Cabinet in October 2001, are: *Reducing poverty and inequality; Addressing the impact of HIV/AIDS; Re-engineering service delivery in government; Investing in infrastructure; Strengthening of governance; and Human capability development.*

Another factor providing impetus to the need to review the strategic planning and budgeting processes in the provincial government was the realization that a number of anomalies and disjunctions exist in the planning and budgeting processes themselves.

On an administrative level, chief among these deficiencies is the fact that the planning, budgeting, monitoring and reporting processes in most provincial government departments still tend to take place independently of one another – often with different officials involved in the different phases. This lack of integration between the various phases and processes in the annual budget cycle has of course serious implications for the accountability chain envisaged by the PFMA.

At an executive level, the problem has revolved principally around the *timing* of the interface between the executive and administrative levels of government in the annual planning and budget cycle. Of particular concern is the fact that certain Cabinet-level policy announcements and interventions which take place in January and February, including the annual Cabinet Indaba and Premier's State of the Province Address, occur too late to materially influence the departmental strategic plans and budgets which are tabled in the provincial Legislature in the March budget session. This in turn means that these interventions and policy announcements have limited impact in influencing the strategic resource allocations and expenditure priorities of departments for the financial year commencing on 1 April.

Taken together, expenditure pressures, changes in the external environment, and deficiencies in the existing planning and budgeting framework led to a number of important interventions and decisions at both the administrative and executive levels of the provincial government - decisions which have major implications for the provincial government's future strategic direction, policy choices and budgetary processes.

At the administrative level, the Management Committee chaired by the Director-General (MEXCO) commissioned an urgent review, with provincial Cabinet approval, of the existing Provincial Growth and Development Strategy. The review was to: (i) examine the degree of synergy between departmental strategic plans and the eight programmes of the PGDS with a view to revising and updating the latter, and (ii) establish the degree of alignment between the PGDS and the six provincial priorities. It is envisaged that a second phase of the review process will result in the formulation of an entirely new Growth and Development Strategy. The review process might well lead to a review of the provincial priorities themselves, at least in the way they are presently formulated and defined. There is a view that the six priority objectives overlap substantially, seriously compromising the efficient allocation of resources and making effective implementation and monitoring difficult if not impossible. In particular, the policy priorities as defined do not easily lend themselves to allocation of accountability, thereby undermining effective budget targeting and increasing duplication of effort.

Also at the administrative level, efforts continued throughout the period leading up to the formulation of the final budget proposals to build on the principles of performance budgeting piloted in the previous financial year (2002/03).

The 2003/04 MTEF budget was the first to be prepared in the context of the statutory requirement that departments prepare and table strategic plans on an annual basis, complete with performance measurement information and targets. To this end, the provincial Treasury and provincial departments have together in the past year directed a great deal of energy, in consultation with national government sectors and national Treasury, towards standardizing the format and structure of provincial strategic plans, so as to facilitate uniform performance measurement and reporting across sectors, and ultimately across provinces. There has also been a focused effort to ensure that departmental strategic planning processes themselves should be undertaken in the context of a strategic management framework which integrates the planning, budgeting, performance management and monitoring, annual review and reporting phases of the accountability cycle.

At the executive level, in December 2002 the provincial Cabinet passed a resolution approving in principle a proposal to convene two annual Cabinet Indabas each year to provide strategic and policy direction to the provincial planning and budgeting processes.

The first Indaba would be held in April/May, with the main purpose of deciding the provincial policy priorities for the ensuing MTEF budget cycle commencing on 1 April of the following year. These policy priorities would then inform the departmental strategic planning and MTEF budgeting processes commencing in April/May and June respectively;

The second Cabinet Indaba would be convened in November of each year, with the objectives of:

- reviewing mid-year financial and service delivery performance;
- confirming/reviewing policy priorities for the MTEF commencing on 1 April of following year;
- approving the MTEF budget; and
- finalising inputs for the Premier's State of the Province Address.

It is confidently expected that the above-mentioned changes and reforms in the provincial government's planning framework and budgeting processes will in due course lead to significant improvements in synergies, efficiencies and alignment, with measurable benefits for the province and its peoples.

2. SOCIO-ECONOMIC OUTLOOK

Despite robust growth in revenue and expenditure in the provincial budgets since 1996 (see sections 4 and 5 below), the socio-economic profile of the province has hardly improved, and by some measures has even deteriorated. Although service delivery has improved, the enormity of the needs, as well as underlying factors militating against socio-economic progress, has meant that the provincial government would have to redouble its efforts if the province's socio-economic profile is to record any significant improvement. To this end, the government has begun revising its growth and development strategy with a view to laying the basis for more effective policy intervention and service delivery.

The following sections present an outline of the major demographic, social and economic features of the province.³

2.1 Demographics

In terms of land mass, KwaZulu-Natal is the third smallest province in South Africa. Despite its small size, the province has the highest population in the country, estimated at 8.8 million in 1996. Table 2.1, which gives *projected* population figures for provinces, indicates that the population increased to 9.5 million in 2001, reflecting a growth rate of 1.3 per cent per annum. This represents a decline from the previous year's five year average growth rate of 1.6 per cent - a factor almost certainly attributable to the HIV/AIDS pandemic, among others. As these figures only represent projections, they might not be exactly confirmed by the 2001 Census. Whatever be the case, the population of KwaZulu-Natal is negatively affected by internal migration. The *émigrés* usually return at old age only to dun and strain the provincial social security and health budgets. This phenomenon argues for an intergovernmental fiscal transfer formula that is not only redistributive but has a strong population component that accounts for this intergenerational effect of internal migration.

Table 2.1 Population distribution by province, 1996 and 2001

Province	1996		2001		Annual increase 1996-2001
	Number	% of total	Number	% of total	
Eastern Cape	6,495,179	15.4	6,814,778	15.0	0.8
Free State	2,755,678	6.5	2,913,253	6.4	1.0
Gauteng	7,782,920	18.4	8,561,238	18.8	1.7
KwaZulu-Natal	8,796,608	20.8	9,473,636	20.8	1.3
Mpumalanga	2,912,606	6.9	3,194,551	7.0	1.6
North-West	3,490,260	8.3	3,730,116	8.2	1.1
Northern Cape	854,196	2.0	904,620	2.0	1.0
Northern Province	5,082,503	12.0	5,468,034	12.0	1.3
Western Cape	4,034,513	9.6	4,412,802	9.7	1.6
Total	42,204,463	100.0	45,473,028	100.0	1.3

Source: Provincial Treasury (2002)

In terms of racial distribution, about 82.5 per cent of the population are black, 9.1 per cent are Asian, 6.9 per cent are white, and 1.4 per cent are coloured. The population is predominantly rural, with some 62

³ All data presented in this section is drawn from Chapter Three of the Provincial Treasury (2002) study "Towards a New Provincial Growth and Development Study".

per cent of the population living in rural areas. It is expected, however, that by the year 2020, the urban areas will be home to some 60 per cent of the population.

Table 2.2 below shows the population distribution according to age and gender. From the table it can be discerned that the percentage of the population in each age group decreases with age. The province has a broad based population pyramid and therefore a high dependency ratio. The distribution of the population has serious implications for policy planning as it *inter alia* determines the potential demand for dependency-related social security grants and other social services to the dependent population.

Interestingly, although the percentage of the population in each age group decreases with age, as table 2.2 shows, the annual growth rate of the various age groups increases with age, implying that the younger age groups are experiencing a lower growth rate as compared with the older age groups. For example, while the age groups 0 – 39 experienced an average annual growth rate of 1.1 per cent for the period under review, the 40 – 64 age groups exhibited an average annual growth rate of more than 2.9 per cent. One possible explanation of this general trend is the HIV/AIDS pandemic, as prevalence levels in the age groups 0 – 39 is much higher than in the groups 40 and older.

Table 2.2 Gender and age distribution, 1996 and 2001

Age	1996		2001		Annual growth rate (%)	
	Male	Female	Male	Female	Male	Female
0-4	550,054	542,507	558,357	558,380	0.3	0.5
5-9	518,287	510,339	531,495	530,585	0.4	0.7
10-14	508,874	504,629	516,313	513,014	0.2	0.3
15-19	470,679	476,034	505,657	505,035	1.2	1.0
20-24	423,964	447,315	451,606	467,830	1.1	0.8
25-29	341,371	380,973	388,822	424,742	2.3	1.9
30-34	287,150	333,855	326,010	369,799	2.3	1.8
35-39	257,834	293,807	278,565	331,965	1.3	2.2
40-44	219,379	243,318	240,145	287,350	1.6	3.0
45-49	184,671	208,266	194,142	228,775	0.9	1.6
50-54	142,428	164,358	164,059	200,388	2.5	3.7
55-59	112,699	135,990	123,404	155,990	1.6	2.5
60-64	83,549	107,789	94,613	123,845	2.2	2.5
65+	136,009	210,477	153,131	249,620	2.1	3.1
Total	4,236,948	4,559,657	4,526,319	4,947,318	1.1	1.4

Source: Provincial Treasury (2002)

Should this trend continue, the growth potential of the provincial economy will be adversely affected, with relatively smaller percentages of the population in the most productive age categories, and greater percentages in the age-related dependency categories. The implications would include: a decline in the gross geographic product; a significant increase in cost to business and the public sector health services through the treatment of HIV/AIDS and its related opportunistic diseases, as well as increasing levels of absenteeism; declining levels of service delivery in labour intensive social sectors such as education and health; and a serious threat to the stability/viability of pension funds.⁴

⁴ A ray of hope in an otherwise bleak picture of the HIV/AIDS pandemic in the province emerged from the recently released findings of a Nelson Mandela Foundation/HSRC Study of HIV/AIDS prevalence in the country. The study found that whereas it was previously estimated that KwaZulu-Natal had the highest prevalence rate in the country, it actually only rated fourth among the provinces with an estimated prevalence rate of 11.7 per cent. In the category of females aged 15-49 years, the study estimated the prevalence rate in KwaZulu-Natal to be 19.5 per cent, much lower than the findings of a 2001 Department of Health survey which estimated prevalence in this category as 33.5 per cent.

2.2 Income, poverty and inequality

This section focuses attention on the social and economic well-being of the people of the province. Conversely, it examines how well the province is meeting the developmental needs of the population, and highlights the provincial government's attempts to address issues of poverty and inequality – identified as the single most important provincial policy priority.

The province's GGP per capita, whether looked at in nominal or real terms, is considerably below the national figure. In real terms the provincial GGP per capita fell between 1996 and 2000. In current prices, the GGP per capita for the province increased from R8,619 in 1996 to R10,821 in 2000, reflecting an increase of 25.5 per cent over the period. Compared to the national figure of R13,410 in 1996, and R17,708 in 2000, the province's GGP per capita in both years was considerably lower than average. Also, the increase of 25.5 per cent in the province's per capita GGP over the period was considerably below the increase of 32.1 per cent of the national per capita GDP. In constant (1995) prices, the provincial per capita GGP actually fell from R7,942 in 1996 to R7,787 in 2000, reflecting a drop of some 2 per cent over the period! In contrast, the national figure increased from R12,340 to R12,626, or 2.3 per cent, over the same period.

Table 2.3 presents information on per capita income and per household income for the various racial groups. The table shows that income is extremely unequally shared between the race groups. The unequal distribution is evident both in the levels and changes in income between the races. In terms of per capita income, the range was from R4,936 for blacks to R42,428 for whites in 1996, and from R6,895 for blacks to R53,658 for whites in 2000. This means that while the per capita income of blacks increased by R1,959 or 39.7 per cent between 1996 and 2000, the increase for whites was R11,230 or 26.5 per cent. The figures also show that the per capita income for whites was 8.6 times the per capita income of blacks in 1996, dropping to 7.8 times in 2000. Even the *increase* in per capita income for whites in 2000 was 1.6 times the total per capita income of blacks for the same year. Asians and coloureds experienced the highest increase in per capita income during the period, with 45.3 per cent increase for Asians and 42.2 per cent for coloureds.

Table 2.3. Income per capita and income per household, 1996 and 2000
(rands per annum in current prices)

Race Group	Income Per Capita				Income per Household			
	1996	2000	Changes: 1996-2000		1996	2000	Changes: 1996-2000	
			Amount	%			Amount	%
Black	4,936	6,895	1,959	39.7	26,783	35,165	8,382	31.3
White	42,428	53,658	11,230	26.5	119,583	149,415	29,832	24.9
Coloured	14,081	20,021	5,940	42.2	56,670	80,085	23,415	41.3
Asian	17,578	25,544	7,966	45.3	75,315	106,167	30,852	41
Total South Africa	8,973	12,028	3,055	34	44,377	56,678	12,301	27.7

Source: Provincial Treasury (2002)

The thrust of these rather depressing findings is confirmed, with one or two notable exceptions, when one compares the *Gini* coefficient and Human Development Index (HDI) for the province to those of other provinces, as well as the national norm.

Table 2.4 shows the HDI and the Gini coefficient per province for 1996 and 2001. The Gini coefficient measures the degree of inequality in the distribution of income and wealth in a country, with a coefficient closer to zero signifying a higher degree of equality in income and wealth distribution, whilst a coefficient closer to unity indicates a greater degree of inequality in the distribution of income and wealth.

The HDI is a composite index for comparing how successful a nation or a group is in meeting its human needs. The three variables embodied in the human development index are life expectancy, literacy and

purchasing power. The HDI of a country or a group varies between zero and one; the closer a country is to unity, the higher it ranks in terms meeting the human needs of its population.

Table 2.4 Human development index and Gini coefficient per province, 1996 and 2001

Province	Gini coefficient			Human development index		
	1996	2001	% change	1996	2001	% Change
Eastern Cape	0.60	0.63	5.66	0.50	0.53	5.10
Free State	0.59	0.62	5.16	0.54	0.56	3.50
Gauteng	0.58	0.61	4.22	0.68	0.70	2.59
KwaZulu-Natal	0.60	0.63	5.86	0.53	0.56	5.66
Mpumalanga	0.59	0.62	4.92	0.51	0.55	6.60
Northern Cape	0.58	0.60	2.90	0.55	0.57	3.54
Northern Province	0.58	0.62	7.26	0.46	0.51	10.16
North-West	0.55	0.58	4.88	0.51	0.53	4.91
Western Cape	0.55	0.58	4.99	0.67	0.68	1.20
South Africa	0.60	0.63	5.00	0.57	0.59	3.51

Source: Provincial Treasury (2002)

It can be seen that KwaZulu-Natal and the Eastern Cape have the highest Gini coefficient. The two provinces have equal levels of Gini coefficients in 1996 and 2001 of 0.60 and 0.63 for each year respectively, indicating that income inequality in these provinces is high and worsening.

With regard to the human development index, in 1996 KwaZulu-Natal had an HDI of 0.53. This increased slightly to 0.56 in 2001, indicating a slight improvement in the satisfaction of the human needs of the inhabitants of the province. It must be emphasised however that this improvement notwithstanding, the province's HDI remains below the national average of 0.57.

In summary, despite the slight improvement in the human development index, the province has the highest level of inequality in the distribution of income and wealth in the country. With a relatively low level of human development and a high degree of inequality, there is a clear need for better targeting of social services to the poor to ensure that they have improved access to social amenities.

Nor is the picture any more encouraging when one compares standard poverty indicators by province, as illustrated in Table 2.5 below.

Table 2.5 Poverty indicators by province, 1996 and 2001

Province	Number of people living in poverty		Percentage of people living in poverty		Poverty gap in R million	
	1996	2001	1996	2001	1996	2001
Eastern Cape	3,529,337	4,595,943	54.3	61.1	4,209	7,491
Free State	1,064,101	1,544,311	38.6	46.5	1,056	2,121
Gauteng	1,734,321	2,424,301	22.3	26.5	1,801	3,464
KwaZulu-Natal	3,989,665	5,081,149	45.4	49.9	4,215	7,307
Mpumalanga	1,363,735	1,717,750	46.8	50.5	1,468	2,497
North-West	1,547,000	2,092,318	44.3	51.2	1,648	3,059
Northern Cape	281,631	392,604	33.0	40.0	289	552
Northern Province	2,934,578	3,471,826	57.7	61.7	3,494	5,527
Western Cape	656,213	933,721	16.3	18.7	666	1,319
South Africa	17,100,581	22,253,922	40.5	48.9	18,846	33,337

Source: Provincial Treasury (2002)

Table 2.5 shows three poverty indicators for the provinces in 1996 and 2001. May (1998)⁵ has defined 'poor' households as households who expend less than R352.53 per month per adult equivalent, while the 'ultra poor' expend less than R193.77 per adult equivalent. The poverty rate refers to the percentage of the population that can be classified as poor given this definition. The poverty gap measures the difference between the expenditure of those classified as poor and the poverty line.

From the table it can be seen that KwaZulu-Natal in absolute terms had the highest number of people living in poverty in 1996 and 2001. In terms of the poverty rate or the percentage of people living in poverty, poverty in the province increased from 45.4 per cent in 1996 to 49.9 per cent in 2001. With regard to the poverty gap, the province had the highest poverty gap in 1996 and the second highest in 2001.

The percentage increase in the poverty rate for KwaZulu-Natal from 1996 to 2001 (9.9%) is among the lowest compared to other provinces, and is well below the increase in the national rate (14.72%). This notwithstanding, and despite government's efforts, more people in absolute and relative terms were living in poverty in the province in 2001 than in 1996. This represents a major developmental challenge for the provincial government.

2.3 Economic indicators

There is of course a strong causal relationship between the underlying economic indicators of the province and the socially-focused indicators presented above. The fact is that the provincial economy's performance in the last decade has been anaemic to say the least, and well below the national average. This is in stark contrast to the 1980s when the provincial economy grew at a much faster rate than the national average.

Table 2.6 indicates that the growth rate of the province's gross geographical product (GGP) of 2.1 per cent recorded for the period 1980-1989 was much higher than the corresponding national figure of 1.6 per cent. Since 1990, however, the performance of the provincial economy has been much less encouraging.

The provincial economy contracted by an average of 0.8 per cent over the period 1990-1996, compared to the national growth rate of 1.4 per cent. Growth however resumed in the 1996-2000 period, but was very weak. During this period, the GGP recorded an annual average growth of 1 per cent, compared to the national average GDP growth of 1.8 per cent per annum. The weak growth of the province's GGP continued in the 2000-2002 period, with an annual average rate of 1.3 per cent, much lower than the national average of 2 per cent.

Table 2.6 The performance of the KwaZulu-Natal provincial economy

Period	National GDP Growth (%)	KZN GGP Growth (%)	Contribution of KZN GGP to National GDP	
			Period	% Contribution
1980-1989	1.6	2.1	1990	15.0
1990-1996	1.4	-0.8	1996	13.2
1996-2000	1.8	1	2000	12.6
2000-2002	2.0	1.3	2002*	12.5

Source: Provincial Treasury (2002)

* projection

⁵ May J. (1998) "Poverty and inequality in South Africa". Praxis Publishing, Durban.

The weak growth of the provincial economy is reflected in the decline of its contribution to the national economy. The contribution of its GGP to the GDP has declined steadily, from 15 per cent in 1990 to an estimated 12.5 per cent in 2002, reducing the province from the second to the third highest contributor to national GDP. Western Cape has replaced the KZN as the second highest contributor to GDP, accounting for an estimated share of 19.3 per cent in 2002. Gauteng leads all the provinces with an estimated contribution of 36.2 per cent to GDP in 2002.

The sectoral distribution of the gross geographical product, and relative sectoral growth rates, reveals important structural changes between 1996 and 2002, as tables 2.7 and 2.8 below indicate.

Table 2.7 Gross Geographic Product by sector, 1990-2002
(in constant 1995 prices)

Sector	1990		1996		2000		2002*	
	000 Rands	%	000 Rands	%	000 Rands	%	000 Rands	%
Agriculture	4,355,035	6.0	2,614,833	3.8	2,725,617	3.8	2,795,186	3.8
Mining	1,136,596	1.5	669,198	1.0	466,609	0.7	425,133	0.6
Manufacturing	19,703,513	27.1	20,764,519	30.1	21,007,012	29.2	20,815,695	28.2
Electricity	1,224,977	1.7	1,812,480	2.6	2,249,174	3.1	2,454,145	3.3
Construction	2,838,625	3.9	2,341,277	3.4	2,088,556	2.9	2,244,192	3.0
Trading	10,950,506	15.1	9,138,435	13.2	9,084,857	12.6	9,264,161	12.5
Transport	8,270,802	11.4	7,620,602	11.0	9,062,530	12.6	9,583,080	13.0
Financial serv.	10,275,569	14.1	9,046,880	13.1	10,217,379	14.2	10,668,032	14.5
Community serv.	13,934,065	19.2	15,040,712	21.8	15,045,200	20.9	15,597,421	21.1
TOTAL	72,689,689	100	69,048,936	100	71,946,934	100	73,847,044	100

Source: Provincial Treasury (2002)

* projection

Table 2.8 Average annual growth rates of real GGP (%)

Sector	1990-1996	1996-2000	2000-2002
Agriculture, forestry & fishing	-5.8	1.0	1.2
Mining and quarrying	-5.9	-6.8	-4.4
Manufacturing	0.8	0.3	-0.4
Electricity, gas & water	6.8	5.5	4.5
Construction	-2.7	-2.6	3.7
Trading and catering	-2.7	-0.1	0.9
Transportation & communication	-1.3	4.4	2.8
Finance, real estate & business serv.	-1.9	3.1	2.2
Community services	1.3	0.0	1.8
TOTAL	-0.8	1	1.3

Memorandum item: National average

Source: Provincial Treasury (2002)

In the first place, the predominance of the manufacturing sector in the provincial economy is noteworthy, although the sector's performance has been very weak. On average, the manufacturing sector accounted for some 28.6 per cent of the GGP, in real terms, in each year between 1996 and 2002 (Table 2.7). Compared to the average contribution of some 37 per cent in the 1980s and 29.5 per cent in the early 1990s, the sector's contribution to the GGP shows a steady decline. Indeed Table 2.8 shows that the manufacturing sector grew in real terms by an average of 0.8 per cent in 1990-1996, 0.3 per cent in 1996-2000, and shrank by an average of 0.4 per cent over 2000-2002. Despite the weak performance of the

manufacturing sector, it is still the single most important sector in the provincial economy, contributing the highest to the GGP.

Trading and catering services have also emerged as an important sector, although the contribution of the sector to the GGP has been declining since 1990. The share has steadily declined from 15.1 per cent in 1990 to an estimated 12.5 per cent in 2002 (Table 2.7).

The contribution of the transport and communications sector to the GGP witnessed a steady increase during the period, from 11.4 per cent in 1990 to a projected 13 per cent in 2002 (Table 2.7). In real terms, however, output from the transport and communications sector fell by an average of 1.3 per cent in 1990-1996, but growth resumed thereafter, reaching a high of 4.4 per cent in 1996-2000. In the 2000-2002 period, output from the sector was projected to grow by an annual average of 2.8 per cent (Table 2.8).

It is noteworthy that agriculture and the mining sector are becoming less important in terms of their contribution to the GGP, despite the comparative advantage that the province has in agriculture. According to Table 2.7 agriculture's contribution to the GGP in real terms dropped sharply from 6 per cent in 1990 to a constant 3.8 per cent in each year after 1996. The sector experienced a severe decline in 1990-1996, when output fell by an average of 5.8 per cent in real terms in each year. The sector recovered thereafter, with output growing by an average of 1 per cent in each year of 1996-2000, and by a projected average growth rate of 1.2 per cent in 2000-2002 (Table 2.8). This rather weak performance of agriculture is not entirely surprising, as much of the provincial government's effort in agriculture has not had sufficient time to bear fruit and is directed at encouraging small-scale farming.

Regarding employment, a comparison between the situation in 1996 and 2000 reveals some interesting if disturbing trends (Table 2.9).

Table 2.9 Formal employment by sector, 1996-2000

Sector	1996		2000		Changes 1996-2000	
	No.	% share	No.	% share	No.	%
Agriculture, forestry & fishing	108,926	10.3	104,019	10.5	-4,907	-4.5
Mining and quarrying	12,753	1.2	6,818	0.7	-5,935	-46.5
Manufacturing	293,000	27.8	249,141	25.2	-43,859	-15.0
Electricity, gas & water	8,329	0.8	7,914	0.8	-415	-5.0
Construction	51,238	4.9	48,945	5.0	-2,293	-4.5
Trading and catering	98,624	9.4	112,244	11.4	13,620	13.8
Transportation & communication	52,706	5.0	39,979	4.1	-12,727	24.1
Finance, real estate & business services	76,829	7.3	78,652	8.0	1,823	2.4
Community services	249,015	23.6	236,026	23.9	-12,989	5.2
Household services	102,647	9.7	102,848	10.4	201	0.2
TOTAL	1,054,666	100.0	986,585	100.0	-67481	-10.4

Source: Provincial Treasury (2002)

A total of 67,481 jobs, or 10.4 per cent, were lost in the formal sector between 1996 and 2000. The manufacturing sector shed some 43,859 formal jobs between 1996 and 2000, representing 15 per cent of the total manufacturing formal employment in 1996. Even so, the manufacturing sector continued to be the largest employer in the formal sector, with its share declining from 27.8 per cent in 1996 to 25.2 per cent in 2000. Together with agriculture, mining, construction, transportation and community services, these six sectors shed a total of 82,710 formal jobs between 1996 and 2000. Over the same period, the trading sector created additional 13,620 formal jobs - not enough to offset the number of jobs lost in the agriculture, mining, manufacturing, construction, transportation and community services sectors put together.

Tables 2.10 and 2.11 present data on unemployment numbers and rates, respectively. Unemployment is defined broadly to include those looking for work and those not looking for work but would accept work if it was offered to them.

Table 2.10 Unemployment by race, 1996 - 2000

Race Group	1996		2000		Changes: 1996-2000	
	No.	% share	No.	% share	No.	%
Black	860,064	93.7	989,852	94	129,788	15.1
White	12,281	1.3	17,545	1.7	5,264	42.9
Coloured	9,654	1.1	9,357	0.9	-297	-3.1
Asian	36,255	3.9	36,311	3.4	56	0.1
Total South Africa	918,254	100	1,053,065	100	134,811	14.7

Source: Provincial Treasury (2002)

The figures indicate that both the numbers of unemployed and unemployment rates increased between 1996 and 2000. The number of unemployed people in the province increased by 134,811, or 14.7 per cent, over the four years, to 1,053,065. Of these, 94 per cent were blacks and 53.5 per cent were women. The number of unemployed blacks increased from 860,064, or 93.7 per cent of the total unemployed in the province in 1996 to 989,852 or 94 per cent of the total unemployed in the province in 2000. This indicates that between 1996 and 2000, the number of unemployed blacks increased by 129,788. The corresponding figure for whites was 5,264, and for Asians, the increase was only 56. Coloureds managed to reduce their number of unemployed by 297 to 9,357 in 2000.

Table 2.11 Unemployment rate by race and gender, 1996-2000

Race Group	1996			2000		
	Male	Female	Total	Male	Female	Total
Black	42.2	54.3	48.1	43.3	55	49
White	4.5	5.3	4.8	6.4	6.5	6.5
Coloured	23.1	22.2	22.7	19.7	19.1	19.4
Asian	12	14.6	13	11.4	12.4	11.8
Total South Africa	33.4	45.1	38.8	34.5	45.8	39.7

Source: Provincial Treasury (2002)

The unemployment rate for the province as a whole rose from 38.8 per cent in 1996 to 39.7 per cent in 2000. The rates varied enormously between racial groups, from 4.8 per cent for whites to 48.1 per cent for blacks in 1996, and from 6.5 per cent for whites to 49.0 per cent for blacks in 2000. While blacks and whites experienced increases in unemployment rates, coloureds and Asians witnessed a drop in their unemployment rates. For coloureds, the rate dropped from 22.7 per cent in 1996 to 19.4 per cent in 2000, and for Asians from 13 per cent to 11.8 per cent over the same period. The unemployment rates also varied greatly between gender groups, with females having the highest unemployment rate, except for coloured females. Coloured females have a lower unemployment rate compared to coloured males. The rates range from 5.3 per cent for white females to 54.3 per cent for black females in 1996, and from 6.5 per cent for white females to 55 per cent for black females in 2000. The unemployment rate for all females rose from 45.1 per cent in 1996 to 45.8 per cent in 2000.

2.4 Summary

In summary, the key socioeconomic features of the province since 1996 are as follows:

- The province has the highest population in the country, and it is growing at the rate of 1.3 per cent per annum. The population is predominantly rural with some 62 per cent of the people living in the rural areas;
- The province has a broad based population pyramid and therefore a high dependency ratio;
- The province has the highest level of inequality in the distribution of income and wealth in the country, with income extremely unequally shared between race groups;
- KwaZulu-Natal in absolute terms had the highest number of people living in poverty in the period 1996 to 2001;
- The distribution of poverty is overwhelmingly concentrated in black households and in rural areas;
- The province's GGP per capita in the period 1996-2000 was considerably lower than the national average;
- Unemployment rose by 134,811 between 1996 and 2000, increasing the unemployment rate from 38.8 per cent to 39.7 per cent over the period;
- The economic growth rate, as measured by GGP, was very weak, averaging 1 per cent per annum in 1996-2000, compared with a national average of 1.8. This has caused the contribution of the province's economy to GDP to fall from 13.2 per cent in 1990-1996 to a projected 12.5 per cent in 2000-2002;
- The manufacturing sector continues to be predominant in the economy even though growth in the sector has been very weak and shrinking – manufacturing growth rate declined from an annual average of 0.3 per cent in 1996-2000 to – 0.4 per cent in 2000-2002;
- Agriculture's contribution to the provincial economy has declined since the early nineties despite the province's obvious comparative advantage in this sector.

This socio-economic profile of the province and the relatively poor economic performance in the last decade suggest the need to rethink the provincial development strategy. It is of course true that the public sector constitutes only a relatively small part of the total provincial economy, and therefore cannot be held solely or even primarily responsible for the poor economic performance in the last decade. There were many extraneous political, social and economic developments which contributed to the poor economic growth rates in the province in the last decade over which the provincial government had little or no influence. These facts notwithstanding, it is clear that the provincial government has a responsibility to help create conditions conducive to a resumption of sustained economic growth in the province. This is of critical importance, for while it is conceded that economic growth by itself does not necessarily lead to development or a reduction in inequality, there is no question that without growth there can be no sustained development.

3. BUDGET PROCESS AND THE MEDIUM-TERM EXPENDITURE FRAMEWORK

3.1 Background

As was the case in the previous financial year, the approach adopted in evaluating departmental budget proposals for the 2003/04 medium-term expenditure framework (MTEF) was based on the estimated contribution of these proposals to the six provincial policy priorities. The six policy priorities were approved by the provincial Cabinet in October 2001 and reconfirmed in January 2002 as the base policy framework for the development of the 2003/04 MTEF budget.

The six provincial policy priorities are:

- **Reducing poverty and inequality** - this is to be achieved through poverty relief projects, social security grants, rural access roads, job creation initiatives, and the Provincial Growth and Development Strategy (PGDS), etc.
- **Reducing the impact of HIV/AIDS and cholera** - to be achieved through a review of cost of medical treatment and hospitalisation, institutional and home-based care, education/information/awareness campaigns, selected social security grants and welfare projects/institutions, nutrition schemes, etc.
- **Re-engineering service delivery in government** – this involves systems design/ improvement aimed at improving delivery of basic services (e.g. pension payout systems, FinMip, reform of the procurement system, etc.).
- **Investing in infrastructure** - this involves building, rehabilitation and maintenance of social and economic infrastructure (e.g. schools, hospitals, parks, water supply, roads, ports, telecommunication, energy, etc.).
- **Strengthening of governance** - this would be accomplished through improvement of Cabinet support units, policy formulation and coordination, PGDS, inter- and intra- departmental as well as inter-sphere co-ordination, improving safety and security, and support to municipalities.
- **Human capability development** - this involves skills development, training, capacity-building, etc.

The decision by the provincial Cabinet to retain the six policy priorities as the policy framework for the 2003/04 MTEF had the singular advantage that the priorities were known at the very beginning of the budget process, i.e. in April 2002. Departments were able to develop their respective strategic plans within the framework of the provincial policy priorities, and these strategic plans were then used as the basis for formulating the MTEF budget proposals. Indeed, the Treasury Guideline document (issued to departments on 27 May 2002) explicitly listed the provincial priorities and reminded departments that these priorities should inform both the strategic planning and budget preparation processes. The purpose of this was to reinforce the importance of integrating the strategic planning and budgeting processes, as mentioned in the opening section of this document.

The Provincial Treasury used a relatively simple methodology to evaluate the relative contribution of the departmental budgetary proposals to the stated provincial policy priorities. The weights accorded to the policy priorities for the evaluation process were as follows:

• Reducing poverty and inequality	30%
• Investing in infrastructure	20%
• Re-engineering service delivery	15%
• Addressing the impact of HIV/AIDS	15%
• Strengthening of governance	10%
• <u>Human capability development</u>	<u>10%</u>

Total	100%
--------------	-------------

Once again, departments compiled a set of policy and budgetary proposals that involved changes (an increase) to the baseline budget. The Provincial Treasury rated each proposal on a percentage basis (higher rating = higher likely contribution), and used the (weighted) ratings to assist the provincial Medium-Term Expenditure Committee (MTEC) assess the respective merits of departments' requests for additional funds.

However, the provincial policy priorities were not the only determining factor in the evaluation of request for additional funding. The evaluation also considered the following factors:

- historical departmental expenditure trends;
- capacity to effectively and efficiently spend additional allocations;
- the extent to which a department has attempted to fund the option/proposal through reprioritisation within its baseline allocation;
- generic and sectoral expenditure pressures; and
- statutory/constitutional obligations over which the province has no discretion.

3.2 The evaluation process and MTEC recommendations for the 2003/04 MTEF budget

Departments submitted their MTEF budget proposals to the Provincial Treasury in August for preliminary evaluation. In September, the Medium Term Expenditure Committee⁶ met to formally consider the departmental proposals.

The departmental requests for additional funding exceeded the amount of additional funding (over baseline) available for allocation in the first year of the MTEF. Additional funding requested by departments amounted to R3.3bn in 2003/04, R4.0bn in 2004/05 and R4.6bn in 2005/06. In 2003/04, additional revenue available to the province for distribution was lower than the amount requested by departments, as Table 3.1 illustrates.

**Table 3.1 Additional revenue available for allocation: 2003/04-2005/06.
(in 000 rands)**

REVENUE SOURCE	2003/04	2004/05	2005/06
Additional Funding from National Government	3,338,776	4,790,312	6,266,171
<i>Equitable share</i>	2,863,023	3,747,681	4,573,929
<i>Conditional grants</i>	475,753	1,042,631	1,692,242
MTEF Balance Brought Forward	395,021	458,867	486,399
TOTAL AVAILABLE REVENUE (excluding conditional grants)	3,258,044	4,205,548	5,060,328
Additional funding requested by departments	3,353,828	4,024,368	4,562,183
SHORTFALL	95,784	(181,180)	(498,145)

Budgeting often requires policy makers to make hard policy choices between competing priorities and needs. The 2003/04 MTEF budget process was no exception. In preparing its final recommendations to

⁶ In a departure from previous practice whereby departmental budget proposals were evaluated by a Treasury Committee chaired by the MEC for Finance and including the chairpersons of key portfolio committees in the provincial Legislature, in May 2002 the provincial Cabinet decided to dissolve the Treasury Committee in favour of a Medium Term Expenditure Committee comprising of the Head of Provincial Treasury, the chairpersons of the Technical Clusters, the SGM: Budget and Procurement, and representatives from the inter-governmental relations division of National Treasury. The move was aimed at bringing the province into line with the practice adopted in most other provinces.

Cabinet, the MTEC had to consider a number of generic cost factors, as well as national and sectoral priorities and expenditure pressures. These included:

- Inflation related adjustments resulting from higher than anticipated inflation projections for the MTEF – 6.5per cent for 2003/04, 5.3per cent for 2004/05, and 4.8 per cent in 2005/06;
- Higher salary adjustments than originally projected in the previous MTEF;
- Social Welfare pressures and priorities:
 - the carry-through cost of mid-year increases in social security grants of R10 in child grants to R20 in other grants;
 - A further increase of R10 in all grants from April 2003, and its carry-through costs;
 - Accelerating take-up rates of child support, care dependency and disability grants;
 - Implementation of norms and standards and the Child Justice Bill; and
 - Increased support for social development services, including support for NGO's.
- Health sector pressures and priorities:
 - Restructuring of remuneration of certain categories of professional health personnel with scarce skills;
 - The step up of HIV/AIDS prevention and treatment, including the roll-out of the Prevention of Mother to Child Transmission (PMTCT) and post exposure prophylaxis;
- Education priorities:
 - The continued expansion of early childhood development (ECD) and adult basic education and training (ABET);
 - The need to reduce classroom and infrastructural backlogs;
- Other provincial functions – the additional allocations from National Treasury were also intended to make provision for further acceleration of social and economic infrastructure investment with a view to supporting service delivery, economic development and job creation.

The MTEC submitted its MTEF budget recommendations to Cabinet on 2 December 2002 after having carefully considered the full range of these cost factors, expenditure pressures and sectoral priorities, as well as the provincial priorities, of course. In the event, a further submission to Cabinet had to be made in February 2003 following the late allocation of further additional funding to the province from the national government, occasioned by further revisions to the national fiscal projections. The funding included a conditional grant to the Department of Social Welfare for the phased extension of the Child Support Grant to include children up to the age of fourteen. A final submission was made to Cabinet in May 2003 following the request for additional funding for 2003/04 from three departments, namely, Office of The Premier, Traditional and Local Government Affairs, and Provincial Parliament.

The allocation of the additional revenue available to the province over the MTEF period, as approved by Cabinet, is presented in Table 3.2 below.

**Table 3.2 Allocation of additional revenue (excluding conditional grants)
(in 000 rands)**

DEPARTMENT	2003/04	2004/05	2005/06
OFFICE OF THE PREMIER	1,820		
Office accommodation	1,820		
EDUCATION	1,028,938	1,169,149	1,251,812
Shortfall in ICS	335,188	341,536	341,536
Appointment of educators (grade 0 plus PPN)	342,000	362,520	382,459
Infrastructure backlogs	50,000	150,000	200,000
Learner support materials	301,750	315,093	327,817
HEALTH	571,876	617,132	627,889
Shortfall in ICS	178,419	178,419	178,419
Roll-out of PMTCT	126,457	134,713	143,470
Shortage of professional health personnel	153,000	204,000	256,000
Non-personnel, non-capital	73,000	50,000	50,000
Ambulance fleet	41,000	50,000	
SOCIAL WELFARE	1,152,569	1,557,344	2,045,743
PROVINCIAL TREASURY	(119,562)	115,512	297,300
Changes to MTEF balance	(119,562)	115,512	297,300
PROVINCIAL PARLIAMENT	31,076	5,557	5,865
Backpay in respect of new salary structure	4,752	-	-
Increase in constituency & secretarial allowance	472	596	784
SITA recurrent cost	1,091	1,200	1,320
Increase in MPs salaries (statutory amount)	3,761	3,761	3,761
Office accommodation	21,000		
AGRICULTURE & ENVIRONMENTAL AFFAIRS	29,900	30,943	32,059
Shortfall in ICS	14,900	15,943	17,059
KZN Wildlife - basic conservation services	10,000	10,000	10,000
- campaign against spread of <i>chromolaena odorata</i>	5,000	5,000	5,000
ECONOMIC DEVELOPMENT & TOURISM	10,000	10,000	10,000
KZN aviation & charter strategy for tourism promotion	10,000	10,000	10,000
TRADITIONAL & LOCAL GOVERNMENT AFFAIRS	1,580		
Chamber & office accommodation for Traditional Leaders	1,580		
TRANSPORT	179,226	242,044	303,261
Shortfall in ICS	14,226	17,044	18,261
African renaissance roads upgrading program	50,000	100,000	150,000
Regravelling of provincial main road network	40,000	50,000	60,000
Regravelling of district road network	25,000	25,000	25,000
Gravelling of rural roads	50,000	50,000	50,000
TOTAL ALLOCATION	2,887,423	3,747,681	4,573,929

In line with the last several budgets, the lion's share of the additional allocations went to the three social sector departments, as illustrated in Table 3.3 below.

Table 3.3 Percentage share of additional allocations

Sector/Department Percentage	Additional allocation		
	2003/04	2004/05	2005/06
Social Sector	91.6	90.6	89.6
Education	29.6	24.5	20.0
<i>Equitable share</i>	34.3	31.2	27.4
<i>Conditional grants</i>	0.5	0.3	0.2
Health	20.1	17.1	14.0
<i>Equitable share</i>	19.0	16.5	13.7
<i>Conditional grants</i>	26.8	19.2	14.7
Social Welfare	41.9	49.0	55.6
<i>Equitable share</i>	38.4	41.6	44.7
<i>Conditional grants</i>	63.8	76.0	84.9
Other Sector	8.4	9.4	10.4
<i>Equitable share</i>	8.3	10.8	14.2
<i>Conditional grants</i>	8.9	4.5	0.2
Total	100.0	100.0	100.0

The final revised departmental allocations for the 2003/04 MTEF period are presented in Table 3.4.

Table 3.4 Departmental budget, 2002/03 - 2005/06

R000	2002/03	2003/04	2004/05	2005/06	Average annual growth 2002/03 - 2005/06
1. Premier	135,553	138,242	144,249	152,904	4.1
2. Provincial Parliament	76,954	111,374	90,565	95,973	7.6
2. Agriculture	709,928	789,239	828,932	877,927	7.3
4. Economic Development	163,063	191,392	206,812	218,621	10.3
5. Education	9,899,106	11,868,056	12,677,469	13,451,380	10.8
6. Provincial Treasury (Operational Budget)	144,034	147,667	159,983	169,581	5.6
MTEF Balance (on Provincial Treasury's Budget)	273,597	251,059	574,379	783,699	42.0
7. Health	6,995,729	8,055,650	8,676,830	9,207,565	9.6
8. Housing	895,063	980,118	943,117	991,546	3.5
9. Safety and Security	15,589	16,355	17,123	18,150	5.2
10. Royal Household	18,804	20,076	21,319	22,598	6.3
11. Trad & LG Affairs	397,419	460,046	482,182	471,859	5.9
12. Transport	1,191,532	1,554,799	1,752,697	1,905,302	16.9
13. Welfare	5,879,089	7,944,070	9,455,028	11,013,861	23.3
14. Works	314,017	380,146	403,198	427,390	10.8
TOTAL	27,109,477	32,908,289	36,433,883	39,808,356	13.7

4. SUMMARY OF BUDGET AGGREGATES AND FINANCING

4.1 Budget Aggregates

Table 4.1 presents an overall summary of the province's actual revenue and expenditure for the years 2000/01 and 2001/02, budgeted revenue and expenditure for the 2002/03 financial year, and budgeted revenue and expenditure for the MTEF period commencing in the 2003/04 financial year. Budget aggregates are presented in order to determine trends in provincial revenue and expenditure in terms of economic classification. As will be explained in detail in section 7 below, the ability of a government to accomplish policy objectives is a function of its fiscal performance – in particular of its revenue capacity relative to its expenditure requirements.

Table 4.1 Provincial budget summary

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
National transfers	21,720,945	24,012,263	27,515,811	32,196,289	35,593,099	38,917,125
Equitable share	19,692,520	21,729,330	25,303,942	29,279,286	31,937,519	34,455,157
Conditional grants	2,028,425	2,282,933	2,211,869	2,917,003	3,655,580	4,461,968
Own revenue	904,668	985,669	647,305	712,000	840,784	891,231
Total revenue	22,625,613	24,997,932	28,163,116	32,908,289	36,433,883	39,808,356
Current outlays	15,774,698	17,259,029	18,693,449	20,650,728	22,387,256	24,012,595
Capital outlays	1,266,428	2,255,961	2,295,284	3,155,758	3,547,497	3,827,683
Transfers	4,758,252	5,546,204	7,995,214	9,101,803	10,499,130	11,968,078
Unallocated contingency reserve						
Total expenditure	21,799,378	25,061,194	28,983,947	32,908,289	36,433,883	39,808,356
Lending						
Surplus/(deficit) before financing	826,235	(63,262)	(820,831)	0	0	0
Financing			820,831			
of which						
Provincial roll-overs			280,606			
Provincial Cash resources			192,297			
Funding for Regulation 11*			360,928			
Suspension to ensuing year			(13,000)			
Surplus/(deficit) after financing	826,235	(63,262)	0			

* This amount was received on 31st March 2002 for expenditure in the financial year 2002/03

As is shown in Table 4.1, total revenue is estimated to grow at a nominal rate of 12.2 per cent per annum over the 2003/04 – 2005/06 MTEF period; in real terms, the estimated growth rate is some 6.5 per cent.

On the expenditure side, the nominal annual growth rate of provincial expenditure for the period 2002/03 to 2005/06 is estimated at 11.2 per cent, whilst the real growth rate of expenditure is expected to be 5.4 per cent. It is estimated that while capital outlays will grow in real terms by 7.7 per cent over the period, current outlays will grow only by 5.2 per cent. The higher growth in capital outlays is particularly encouraging as it signals the provincial government's commitment to infrastructure development after a period of relative neglect.

As can be seen in the table, the province posted a small deficit of R63 million in 2001/02 after a huge surplus of R826 million in 2000/01. The surplus recorded in 2000/01 was due to under-expenditure in certain non social service departments, as well as the need to provide for debt repayment. The small deficit in 2001/02 provided an early indication of mounting expenditure pressures in the three social sector departments. These expenditure pressures were confirmed in the 2002/03 financial year, when all three social sector departments were confronted by serious expenditure pressures on a variety of fronts. In the Department of Health, these related to the roll-out of the PMTCT and the inflationary effect of the depreciating rand on the cost of imported medicines and equipment. In the Department of Education and Culture, the expenditure pressures were all personnel related, caused specifically by higher

Improvements in Conditions of Service (ICS) than was anticipated, the once-off payment of R850 which was not budgeted for, and the cost of hiring locum and temporary teachers. In the Social Welfare Department, budget over-runs resulted from normal backpay (unrelated to Regulation 11 cases), the cost of administrative support, and higher than anticipated growth in the Child and Family Care, Care of the Aged, and Care of the Disabled social grant categories.

Fortunately however, the province was able to finance the potential deficit caused by these expenditure pressures through an Adjustments Appropriation in November 2002 totalling some R1,874m - the details of which are provided below.

4.2 Financing

As is indicated in Table 42, the province was able to comfortably finance the shortfall of R821 million which remained after the allocation of an additional R1,053 billion from the national government during the national 2002 Adjustments Estimate. As part of the provincial Adjustment Appropriation in November 2002, the shortfall was financed as follows: R280 million was financed by the roll-over of unspent funds from the previous financial year; the balance of R540 million, from a carry-over of R360 million of funding received on 31 March 2002 for the funding of Regulation 11 cases; and R192 million, from the province's accumulated cash surplus.

Table 4.2 Financing of 2002/03 Budget Deficit*

R000	2002-2003
	Adj. Budget
National transfers	26,462,477
Equitable share (Original budget)	24,343,129
Conditional grants (Original budget)	2,119,348
Own revenue (Original budget)	647,000
Total revenue	27,109,477
Current outlays	18,629,314
Capital outlays	3,214,077
Transfers	7,140,556
Unallocated contingency reserve	
Total expenditure	28,983,947
Lending	
Under/(over) expenditure	(1,874,470)
Additional Funding	1,053,639
of which	
National Transfers	1,053,334
Equitable share	813,813
Conditional grants	239,521
Provincial own revenue	305
Surplus/(deficit)	(820,831)
Financing	820,831
of which	
Provincial roll-overs	280,606
Provincial Cash resources	192,297
Funding for Regulation 11**	360,928
Suspension to ensuing year	(13,000)
Balance	-

* The figures reflect the amounts appropriated in the 2002/03 Adjustments Estimate

** This amount was received on 31st March 2002 for expenditure in the financial year 2002/03

Despite the November 2002 Adjustments Appropriation, however, it appears as if the province will end the 2002/03 financial year with a deficit of approximately R320m. This gives cause for concern, as deficits of even this modest size are clearly unsustainable in the medium to long term. Seen in a wider context, it is possible to argue that the deficits have underlying structural causes, since the 2002/03 deficit would be the fourth in the seven-year period from 1996/97-2002/03 (see section 7 on fiscal performance below).

Budget Statement 1

Notwithstanding the deficit projected for 2002/03 financial year, the province is projecting a balanced budget over the 2003 MTEF period (see Table 4.1). This can only be realized, however, if the extremely strong expenditure pressures in the social sectors are contained within the context of a stable macroeconomic framework.

5. REVENUE

5.1 Overall position

Table 5.1 indicates the main components of actual provincial revenue for the period 2000/01 to 2001/02 and budgeted provincial revenue for the period 2002/03 to 2005/06. The provincial government derives its revenue from two primary sources: national government (in terms of equitable share and conditional grants) and *own source* revenue from tax and non-tax sources.

Table 5.1 Summary of total revenue

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
NATIONAL PAYMENTS	21,720,945	24,012,263	27,515,811	32,196,289	35,593,099	38,917,125
Equitable share	19,692,520	21,729,330	25,303,942	29,279,286	31,937,519	34,455,157
Conditional grants	2,028,425	2,282,933	2,211,869	2,917,003	3,655,580	4,461,968
Other (specify)	-	-	-	-	-	-
PROVINCIAL OWN REVENUE	904,668	985,669	647,305	712,000	840,784	891,231
Current revenue	890,777	967,740	637,941	703,948	832,036	882,261
Tax revenue	520,062	447,157	435,279	481,522	494,507	511,974
Casino taxes	127,911	40,033	52,250	75,522	77,007	78,974
Motor vehicle licences	352,965	361,899	350,029	389,000	400,000	415,000
Horseracing	39,186	45,225	33,000	17,000	17,500	18,000
Other taxes	-	-	-	-	-	-
Non-tax revenue	370,715	520,583	202,662	222,426	337,529	370,287
Interest	155,291	241,560	22,460	32,472	137,959	162,438
Health patient fees	93,377	99,983	95,918	100,713	105,749	112,094
Reimbursements	3,332	4,486	3,334	3,498	3,671	3,855
Other sales	323	164	559	614	678	-
Other revenue	118,392	174,390	80,391	85,129	89,472	91,900
Capital revenue	13,891	17,929	9,364	8,052	8,748	8,970
Sale of land and buildings	395	181	2,511	500	500	-
Sale of stock, livestock, etc	13,496	17,748	6,853	7,552	8,248	8,970
Other capital revenue	-	-	-	-	-	-
Total: Revenue	22,625,613	24,997,932	28,163,116	32,908,289	36,433,883	39,808,356

Table 5.1 indicates that revenue increased from R22.6 billion in 2000/01 to R25 billion in 2001/02 - a nominal growth rate of 10.5 per cent, and is projected to increase during the MTEF period from a base of R28.2 billion in 2002/03 to R39.8 billion in 2005/06. This translates to an annual rate of increase of 12.2 per cent in revenue over the MTEF period. In real terms, the growth rate is expected to be 6.5 per cent. The increase in provincial revenue is predominantly due to the substantial increases in equitable share and conditional grants over the MTEF period.

Table 5.1 also shows that transfers from national government increased from R21.7 billion in 2000/01 to R27.5 billion in 2002/03, and this figure is projected to increase to R38.9 billion in 2005/06. This gives an increase of transfers of R17.2 billion, or 79.2 per cent, between 2000/01 and 2005/06. As a proportion of total provincial revenue, national transfers have ranged between 96 per cent and 97.8 per cent during the review period. Equitable share transfers make up much of the national transfers, accounting for approximately 88.7 per cent of total transfers. The remaining transfers are conditional grants from the national sphere.

5.2 Equitable share

South Africa's intergovernmental fiscal system is based on a revenue sharing model. The mechanics of the model itself, driven by functions, social and developmental needs, and demographics, has resulted in provinces being heavily dependent on transfers from the national government. Municipalities are only marginally dependent, but only as a sphere. The underlying principles of the system are grounded in the Constitution and related legislation. Because the functions assigned to provinces by the Constitution are largely non-revenue raising, they require high levels of funding from the national revenue pool. On the other hand, approximately two thirds of the responsibilities assigned to municipalities are revenue generating municipal services. Moreover, municipalities raise a significant proportion of their revenue requirements from the imposition of property taxes and levies on turnover/payrolls. The result is that provincial own source revenue constitutes only about 4 per cent of total revenue, compared to 90 per cent for municipal own source revenue.

The equitable share allocated to sub-national governments is an unconditional transfer to fund the provision of basic services and other functions assigned to them by the Constitution. The amount which each province receives is determined by means of the equitable share formula, first introduced for the 1998/99 budget. The provincial equitable share formula takes account of the demographic and economic profiles of the provinces, and is redistributive in its impact, transferring relatively more resources to provinces that are historically disadvantaged and taking specific account of education, health and welfare needs. The seven components of the formula are listed as follows:

- A basic share derived from each province's share of the total national population (7 per cent);
- An institutional component, independent of data, divided equally amongst provinces to cater for the costs of running a provincial government (5 per cent);
- An education share based on the average school-age population (ages 6 - 17) and the number of learners in schools (41 per cent);
- A health share based on the share of the population without access to medical aid funding (19 per cent);
- A social security component based on the estimated number of people entitled to social security grants - weighted by using a poverty index derived from the 1995 Income and Expenditure Survey (18 per cent);
- A backlog component based on the distribution of capital needs as captured in the schools register of needs, the audit of hospital facilities, and the share of the rural population (3 per cent);
- An economic output share based on the distribution of total remuneration in the country (7 per cent).

The share (weighting) of each component used for the 2003/04 MTEF equitable share transfers are given in parenthesis.

Although the formula incorporates components that take account of national norms for health, education and welfare services, as well as infrastructure backlogs across provinces, no conditions are imposed on the use of the equitable share funding thus received, except as required by national legislation.

The provincial equitable share allocation is projected to increase to R34.5 billion in 2005/06, from R25.3 billion in 2002/03. This represents an annual growth rate of 10.8 per cent for this period. This increase is attributable to two factors. First, the province's equitable share was scheduled to grow by 0.2 percentage points in each year of the period from 1999/00 to 2003/04 in terms of the initial agreement to phase in the equitable share formula over a five-year period. The province's equitable share in 1999/00 was 19.8 per cent and will peak at 20.6 per cent in 2003/04, remaining constant at 20.6 per cent in the ensuing years. The second reason for the increase in equitable share is the upward revisions of the macro-economic framework undertaken in each of the last three years by National Treasury, which has had the effect of (accumulatively) increasing the province's equitable share.

It must be emphasised that although in theory the province has discretion over the allocation of equitable share funding (being unconditional transfers), in practice the freedom of the provincial government to allocate equitable share funding according to its own priorities is severely circumscribed by a number of factors. These include national policies and norms and standards in the provision of free primary health care and entitlements such as social security grants. More than half of the provincial budget, furthermore, is spent on personnel, yet conditions of service and levels of remuneration are negotiated nationally with public sector unions.

5.3 Conditional grants

Provinces' equitable share allocations are therefore essentially unconditional transfers made to provinces to enable them to provide the basic services for which they are constitutionally responsible. Conditional grants, on the other hand, are special purpose grants made to the provincial and municipal spheres of government with specific conditions attached and are therefore legally-speaking grants from the national share.

Conditional grants were introduced ostensibly to meet pressing needs and to expand the oversight role of national departments in policy areas shared concurrently with provinces. They have inter alia the following objectives:

- To ensure fulfillment of national policy objectives involving the provision of standard levels of, and access to, government services;
- To compensate for inter-jurisdictional spillovers resulting from services provided by sub-national governments (grants to central hospitals being an example);
- To effect transition by supporting capacity building and structural adjustments within recipient administrations; and
- To address backlogs and regional disparities in economic and social infrastructure.

Conditional grants are classified into two broad categories: block grants and specific purpose grants. Block grants involve large allocations to complement the equitable share allocations to provinces. These grants are not necessarily earmarked for particular projects or spending programs; they fund functions assigned to provinces, or functions that benefit more than one province, or provide for general budget support to provinces. The provinces that provide assigned functions cannot be compensated adequately for the spill-over benefits and resulting costs through the equitable share. Because block grants provide for general budget support, in-year monitoring of expenditure on the grant is not required.

Specific purpose conditional grants support specific priorities and interventions by the national government. These are more discretionary, have more stringent conditions and require in-year monitoring and spending. They can be withheld on failure to comply with conditions.

The administration of conditional grants involves both the transferring authority (national) and the receiving (provincial or local) government. The receiving governments are responsible for expenditure and financial accountability. The national departments are responsible for monitoring compliance with the conditions of the grants, and for assessing whether they are achieving the desired outputs and outcomes. Conditional grants are voted as transfers in the national budgets and recorded as revenue in the budget of the receiving sphere. They are also voted in the departmental budgets of the receiving sphere.

In practice there have been a number of problems associated with the conditional grant framework as it has evolved since their introduction in 1998/99. Especially in the early years, transfers of conditional grant funding occurred late in the financial year as a result of poor planning and delays in finalising business plans. This in turn resulted in persistent under-expenditure of grant funding by provincial departments. These problems were compounded by confusion over accountability and poor monitoring

and reporting procedures. In addition, from the outset many of the conditional grants lacked a clear purpose or measurable output, raising the suspicion that the real intention of the initiating national departments was to “micro-manage” their provincial counterparts.

The Division of Revenue (DOR) Acts, which were introduced in the 1999/00 financial year, have succeeded in eliminating some of abovementioned problems and weaknesses pertaining to conditional grants. The DOR Acts included provisions aimed at smoothing and expediting the flow of funds; providing for effective monitoring and reporting; promoting advance planning; and proper budgeting processes for conditional grants.

Nonetheless, there remain significant problems in the design and management of conditional grants as the system currently operates. There remain simply far too many small conditional grants, entailing time-consuming and complex reporting procedures and administrative burdens to provincial departments out of all proportion to the value of the grants. By way of illustration, in the 2002/3 financial year (2002/03), seven provincial departments were separately reporting on a total of 19 conditional grants, of which no less than 12, or 63 per cent, involve amounts less than R50 million.⁷

Especially problematic are the plethora of poverty-relief conditional grants being administered by various provincial departments. The effectiveness of the grants is being compromised by endemic under-expenditure; lack of project management capacity in many of the administering departments, lack of co-ordination and duplication.

There is little doubt that the intergovernmental fiscal transfers involved in many of the conditional grants, especially the block or assigned function grants with soft conditions, could be more easily and efficiently accomplished through the mechanism of the equitable share transfers. There is therefore a need to review existing conditional grants to assess whether the funding mechanisms of the grants are appropriate, given the policy objectives. This would pave the way for rationalizing the existing grants and assessing the need for new grants.

In principle, most intergovernmental grants should be unconditional, affording provinces full discretion over the allocation of resources and strengthening accountability. This implies that, in future, the number of grants would reduce. Some current conditional grants would be absorbed into the equitable share, while others would be consolidated into block grants with less restrictive conditions. However, this requires a better alignment of national and provincial objectives for spending on, for example, financial management improvements, health services, and infrastructure.

Table 5.2 shows a summary of conditional grants for KwaZulu-Natal over the period 2000/01 – 2005/06. Note that the term “actual” in the table refers to actual transfers from National Government. This is not to be confused with actual expenditure, which might be different from actual transfers. Conditional grants in 2000/01 amounted to R2.0 billion, increasing to R4.5 billion in 2005/06, representing a nominal annual average increase of 17.1 per cent for the period. Conditional grants make up 8.9 per cent of the total revenue in 2003/04, rising to 11.2 per cent in 2005/06. Further details of conditional grants can be seen in Tables 1.A and 1.B in the *Annexure: Budget Statement 1*.

⁷ KwaZulu-Natal Budget Statements 2002/03 - although there are only 16 main conditional grant types, individual grants are often allocated to more than one department. The 12 grants in question total just R282m out of R2,119bn.

Table 5.2 Summary of conditional grants by grant type

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Land Care Grant	-	5,285	4,000	6,500	-	-
National Tertiary Services Grant	406,645	427,525	488,575	551,831	619,462	686,637
Health Professionals Training & Development Grant	146,750	154,388	164,755	167,553	180,629	192,373
Hospital Revitalisation Grant	70,526	87,000	111,000	129,860	178,054	190,292
Integrated Nutrition Programme	132,471	132,471	136,337	176,646	207,612	227,518
HIV/AIDS Grant (Health)	1,000	13,924	52,496	85,591	122,270	123,313
Hospital Management & Quality Improvement Grant	3,000	-	19,000	16,375	20,065	23,778
Inkosi Albert Luthuli Central Hospital	331,400	103,800	-	-	-	-
Financial Management & Quality Enhancement	45,765	47,073	50,459	51,805	54,913	58,209
Early Childhood Development Grant	-	4,641	11,713	19,448	-	-
HIV/AIDS Grant (Education)	4,617	14,033	31,824	26,624	28,416	30,120
Financial Management (Treasury)	3,000	-	-	-	-	-
Vulindlela/Logis roll-out	1,667	-	-	-	-	-
Local Government Capacity Building Grant	-	24,400	26,450	38,880	37,181	-
Prov. Consolidated Municipal Infrastructure Prog.	-	-	28,489	7,874	8,353	8,900
R293 Personnel	94,158	-	-	-	-	-
Municipal Financial Assistance Grant	5,805	-	-	-	-	-
Project Viability: Management Support	9,300	-	-	-	-	-
Housing Subsidy Grant	616,300	697,647	720,318	796,390	748,463	793,936
Human Resettlement Grant	3,000	25,000	25,486	26,000	27,560	20,490
Capacity Building (Housing)	1,800	-	-	-	-	-
HIV/AIDS Grant (Social Development)	-	1,500	8,644	11,996	12,773	13,540
Financial Management & Social Security System	5,577	642	1,200	-	-	-
Child Support Grant	3,400	-	-	-	-	-
Food Relief Grant	-	-	-	68,185	68,185	68,185
Social Grant Arrears Grant (Regulation 11)	-	360,928	-	-	-	-
Women Flagship	244	229	-	-	-	-
Flood Disaster Reconstruction Grant	142,000	12,000	-	-	-	-
Provincial Infrastructure Grants	-	170,447	331,123	500,302	617,944	656,892
Child Support Extension Grant	-	-	-	235,143	723,700	1,367,785
Total	2,028,425	2,282,933	2,211,869	2,917,003	3,655,580	4,461,968

Table 5.2 presents a summary of conditional grants by grant type for the province. As can be seen from the table, for the financial period 2001/02, the Housing Subsidy grant made up the largest proportion (approximately 30.5 per cent) of the total conditional grants. This was followed by the National Tertiary Services grant which made up approximately 18.7 per cent of the total. It is anticipated that this trend will continue in the future, with these two grants making up the largest portion of total conditional grants. However, a noteworthy feature is the projected growth in Provincial Infrastructure grants. During the financial year 2001/02, Provincial Infrastructure grants amounted to R170 million. This figure is projected to increase to R656 million by 2005/06, equating to an increase of 285 per cent for the five year period.

Furthermore, several conditional grants were due to be phased out by 2002/03, most notably, the *Inkosi Albert Luthuli* Central Hospital, Woman Flagship, and the Flood Disaster Reconstruction grants. Other conditional grants (Fiscal Management (Treasury), Vulindlela/Logis roll-out, R293 Personnel, Municipal Financial Assistance, Project Viability: Management Support, Capacity Building (Housing), and Child Support grants) have already been phased out during the financial year 2001/02.

5.4 Provincial own revenue

As explained above, the Constitution assigns the major productive tax bases to the national government, while property taxes and other revenue-raising utility services are assigned to local government. As a result of this, provincial governments have to date had very limited revenue-raising capacity, although this situation is due to change with the imminent promulgation of the Provincial Tax Regulation Bill (2001).

Provincial own source revenue accounts for just 2.2 – 4.0 per cent of total provincial revenue. In the current MTEF period own source revenue is projected to yield 2.2, 2.3 and 2.3 per cent of total provincial revenue in 2003/04, 2004/05 and 2005/06 respectively. From Table 5.3, it has been calculated that provincial own revenue averaged about 4.0 per cent of total revenue in the 2000/01 and 2001/02 financial years. In 2002/03, own source revenue is projected to decline from 4 per cent to 2.3 per cent. The main reason for this projected decline is that two of the main sources for the improved own revenue performance in the 2000/01 and 2001/02 financial years, namely revenue from the issuing of casino licenses and interest earned on positive provincial bank balances and investments, will no longer play such an important role in provincial own revenue collection during the forthcoming MTEF period. This is because no more major casino licences are due to be issued, and the increasing expenditure pressures have impacted negatively on the province's cash balances and interest bearing earnings. Although in the forthcoming MTEF period these sources of revenue are projected to increase marginally in absolute terms, this is from a relatively low base compared to the situation two years ago.

Table 5.3 Summary of provincial own revenue by Vote

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
1. Premier	167,492	85,561	85,555	92,522	94,507	96,974
2. Provincial Parliament	743	1,939	641	1,091	1,091	1,091
3. Agriculture and Environmental Affairs	8,196	14,570	12,462	11,356	12,453	10,590
4. Economic Development and Tourism	786	824	843	700	600	600
5. Education and Culture	14,348	12,269	3,610	10,300	10,000	9,700
6. Provincial Treasury	193,072	270,028	48,768	53,789	160,232	185,681
7. Health	110,010	118,225	116,617	124,563	132,166	140,066
8. Housing	819	1,034	1,020	1,071	1,125	1,193
9. Safety and Security						
10. The Royal Household						
11. Traditional and Local Government Affairs	4,351	3,909	198	209	220	233
12. Transport	386,848	405,539	371,881	411,245	422,647	439,006
13. Social Welfare and Population Development	12,067	68,257	3,334	3,766	4,273	4,533
14. Works	5,936	3,514	2,376	1,388	1,470	1,564
15. Reconstruction and Development Programme (RDP)						
Total: Provincial departments	904,668	985,669	647,305	712,000	840,784	891,231

Given the increasing poverty gap and social and economic infrastructural backlogs in the province, and given the statutory obligations and commitments which constrain the discretionary allocation of equitable share funding, there is a pressing need to increase provincial own revenue. Only by taking advantage of the elasticities inherent in provincial own revenue collection will it be possible to make measurable inroads into infrastructural backlogs and to improve service delivery significantly above present levels.

It is an accepted fact that provinces have not adopted a systematic approach towards increasing own revenue collections in the recent past. Provinces have focused more attention on expenditure than on revenue issues, especially since the introduction of the PFMA - and notwithstanding the strictures of the PFMA in this regard. Among the reasons for this under-performance: lack of capacity, disjointed information and administrative systems, weak or non-existent incentive structures, and poor debt recovery procedures.

Fortunately, there is a real prospect of a change for the better in this hitherto unsatisfactory scenario. The Provincial Treasury has adopted an integrated approach to revenue collection and in January 2003 a dedicated revenue unit was established in the Treasury. The main focus of the component will be on investigating methodologies and systems to assist departments in raising the levels of their revenue collection within the existing legislative and statutory framework. A starting point will be a comprehensive study of the existing sources of revenue with a view to determining their proper bases, ensuring regular adjustments to tariffs, enhancing management and collection systems, and determining the feasibility of appropriate revenue retention and incentive schemes. Another important objective will be to establish a more scientific model for the forecasting of revenue in the province.

The revenue component will also be responsible for investigating the feasibility and advising the provincial government on the desirability of introducing new taxes, levies and surcharges from the “allowed” list of provincial taxes in terms of the Tax Regulation Bill. The approach of the province in this regard will necessarily be conservative and cautious. Detailed analysis is required to determine the criteria against which new taxes should be judged. These criteria will need to be based on issues such as efficiency (i.e costs measured against returns or benefit), equity, administration and compliance.

In any event, it has been the long-standing view of the Provincial Treasury and the Executing Authority that, while the rationale behind the enabling provincial taxation legislation is strongly supported, the existing provincial own-revenue base has to be improved both in terms of estimation and collection before the province ventures into more complex and administratively burdensome methods of improving provincial revenues.

5.5 Donor funding

The Budget Statements, for the first time, contain a schedule of donor funding received by provincial government departments. However, the donor funding listed in Table 5.4 below is not part of the provincial budget. Donor funding amounted to R30.7 million for the financial year 2002/03. Table 5.4 also presents a list of donors and the amount of donations received by provincial departments. Six departments received donor funding, viz, Premier, Agriculture and Environmental Affairs, Education and Culture, Health, Housing, and Traditional and Local Government Affairs. The Department of Traditional and Local Government Affairs received substantial amounts of donor funding in 2002/03 and over the 2003/04 MTEF period. Note that, in most instances, the absence of donor funding estimates for the 2003/04 MTEF period is partly due to ongoing negotiation. In the case of the Department for International Development (DFID) funding, funds are only granted on completion of projects.

From the coming financial year (2003/04) onwards, departments will be required to report specifically on the projects that are funded out of these funds. Linked to this there will be a requirement for clear strategy to manage re-current cost and future responsibilities arising from such expenditure.

Table 5.4 Donor funding

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Est. Actual	Budget	MTEF	MTEF
Premier	234	3,285	4,235	-	-	-
Department For International Development, U.K.	234	3,285	4,235			
Agriculture and Environmental Affairs	116	4,546	-	1,810	-	-
Netherlands Funding	116	346				
South African Sugar Association		4,200				
Flemish Government				1,810		
Education and Culture	1,466	2,556	3,400	1,708	-	-
Zenex, South Africa	966	1,857	1,000			
BHP Billiton, South Africa	500	199				
Transnet, South Africa		500	2,400			
Flemish Government				1,708		
Health	5,365	3,324	2,116	-	-	-
Belgium Funding	-	97	5			
Christoffel Blindenmission - Germany	654	-	-			
Crossroad Crosscape Express - South Africa	-	-	5			
Department of International Development, U.K.	66	32	21			
Department of National Health, South Africa	119	561	666			
Emmanuel Church, U.K.	-	-	97			
European Union Funding	4,526	2,634	1,322			
Italian Funding	-	-	-			
Japanese Funding	-	-	-			
Housing				3,753		
Flemish Government (395,000 Euro)				3,753		
Traditional & Local Government Affairs	-	-	20,980	33,590	17,850	4,750
Development Bank of Southern Africa	-	-	20,980	33,590	17,850	4,750
Total	7,181	13,711	30,731	40,861	17,850	4,750

6. EXPENDITURE

6.1 Overall position

Total provincial expenditure has risen consistently both in nominal and real terms since the 2000/01 financial year. Expenditure increased sharply from R21.8 billion in 2000/01 to R25.1 billion in 2001/02. Expenditure continued to grow in 2002/03, and was projected to reach R29 billion by year end. In the MTEF period commencing in 2003/04, total expenditure outlays for the province are expected to grow as follows:

2003/04	R32,908,289,000
2004/05	R36,433,883,000
2005/06	R39,808,356,000

This translates to a real (inflation adjusted) average annual growth rate of 5.4 per cent over the period 2002/03 – 2005/06.

6.2 Expenditure by vote

Table 6.1 presents a summary of provincial expenditure by vote. Actual expenditure for 2000/01 and 2001/02 and budgeted estimates for the financial years 2002/03 to 2005/06 are depicted.

Table 6.1 Summary of Expenditure and Estimates per Vote

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
1. Premier	95,966	102,315	134,925	137,550	143,557	152,212
2. Provincial Parliament	36,450	44,211	59,449	81,994	61,185	66,593
3. Agriculture and Environmental Affairs	561,531	653,671	719,155	788,677	828,370	877,365
4. Economic Development and Tourism	115,518	131,266	173,408	190,855	206,275	218,084
5. Education and Culture	8,172,277	9,260,458	10,140,241	11,867,545	12,676,958	13,450,869
6. Provincial Treasury	105,723	91,851	423,578	398,164	733,800	952,718
7. Health	5,771,425	7,029,775	7,419,180	8,055,088	8,676,268	9,207,003
8. Housing	785,163	836,513	1,075,981	979,607	942,606	991,035
9. Safety and Security	5,251	6,894	15,799	16,355	17,123	18,150
10. The Royal Household	14,265	19,752	21,622	20,076	21,319	22,598
11. Traditional and Local Government Affairs	421,333	372,759	438,401	459,484	481,620	471,297
12. Transport	905,359	1,114,825	1,196,106	1,554,237	1,752,135	1,904,740
13. Social Welfare and Population Development	4,333,376	5,048,170	6,781,790	7,943,508	9,454,466	11,013,299
14. Works	427,758	294,223	314,385	379,584	402,636	426,828
15. Reconstruction and Development Programme (RDP)	17,619	21,418	35,935			
Subtotal	21,769,014	25,028,101	28,949,955	32,872,724	36,398,318	39,772,791
Statutory Payments	30,364	33,093	33,992	35,565	35,565	35,565
Total: Provincial departments	21,799,378	25,061,194	28,983,947	32,908,289	36,433,883	39,808,356

Expenditure on education accounts for the largest share of the province's total expenditure. Spending on the sector increases from R8.2 billion in 2000/01 to a projected figure of R10.1 billion in 2002/03, or R2.0 billion in absolute terms. Expenditure on education is projected to increase during the MTEF period from a base of R11.9 billion in 2003/04 to R13.5 billion in 2005/06.

Expenditure on health increases from R5.8 billion in 2000/01 to a projected figure of R9.2 billion in 2005/06, reflecting an increase of 59.5 per cent over the period. During the MTEF period, expenditure increases from R8.1 billion in 2003/04 to R9.2 billion in 2005/06.

In the case of Social Welfare and Population Development, expenditure increases from R4.3 billion in 2000/01 to R6.8 billion in the 2002/03 financial year, peaking at R11.0 billion in the outer year of the MTEF.

Table 6.2 presents the analysis of expenditure of the three major social services. The information presented in the table confirms a trend typical of many developing countries, with relatively high spending on social services relative to other government services. The three large social sector departments, namely, Education and Culture, Health, and Social Welfare and Population Development, collectively accounted for 83.9 per cent and 85.2 per cent of total provincial government expenditure for the years 2000/01 and 2001/02 respectively. A similar trend is projected to continue to 2005/06, with the three departments accounting for approximately 84.6 per cent of total provincial expenditure. The relatively high percentage of spending on social services is understandable in the context of the poverty and inequality indicators in the province and the need to address backlogs in education, health, and social welfare.

Comparing the projected expenditure growth rates of the three social sector departments over the MTEF period 2003/04 to 2005/06, the Department of Social Welfare and Population Development experiences the highest average annual growth rates, both in nominal and real terms while the Department of Health's budget is expected to grow the least over the period. Note that the considerable negative average annual real growth rate (-4.8 per cent) in the Department of Health's 2002/03 adjusted budget can be explained by the relatively high actual expenditure in the 2001/02 (base year), when the department overspent its budget, as well as the higher than expected inflation rate (10.9 per cent) for 2002/03. Not to be overlooked as well, the Department of Health's actual expenditure between 1995/96 to 2000/01 grew the most.

Table 6.2 Analysis of expenditure summary

	2000/01 Actual	2001/02 Actual	2002/03 Adj. Budget	2003/04 Budget	2004/05 MTEF	2005/06 MTEF	Average annual growth 2002/03 - 2005/06
In Rand (000)							
Education	8,172,742	9,260,936	10,140,719	11,868,056	12,677,469	13,451,380	
Health	5,771,912	7,030,301	7,419,706	8,055,650	8,676,830	9,207,565	
Social Welfare	4,333,808	5,047,217	6,773,672	7,944,070	9,455,028	11,013,861	
Other Functions	3,520,916	3,721,240	4,641,206	5,040,513	5,624,556	6,135,550	
Total expenditure	21,799,378	25,059,694	28,975,303	32,908,289	36,433,883	39,808,356	
% of total expenditure							
Education	37.5	37.0	35.0	36.1	34.8	33.8	
Health	26.5	28.1	25.6	24.5	23.8	23.1	
Social Welfare	19.9	20.1	23.4	24.1	26.0	27.7	
Other Functions	16.2	14.8	16.0	15.3	15.4	15.4	
Nominal growth (%)							
Education		13.3	9.5	17.0	6.8	6.1	9.9
Health		21.8	5.5	8.6	7.7	6.1	7.5
Social Welfare		16.5	34.2	17.3	19.0	16.5	17.6
Other Functions		5.7	24.7	8.6	11.6	9.1	9.8
Total expenditure		15.0	15.6	13.6	10.7	9.3	11.2
Real growth (%)							
Education		6.3	-1.3	10.3	1.7	0.9	4.2
Health		14.3	-4.8	2.4	2.5	0.9	1.9
Social Welfare		9.2	21.0	10.6	13.3	10.8	11.5
Other Functions		-0.9	12.5	2.4	6.2	3.7	4.1
Total expenditure		7.8	4.3	7.1	5.4	3.9	5.5

In relation to total provincial expenditure, spending on Education and Culture accounted for 37.5 per cent and 37.0 per cent of the total in the years 2000/01 and 2001/02 respectively. In 2002/03, the percentage is projected to drop quite significantly to 35.0 per cent. During the MTEF period commencing in 2003/04,

expenditure on the Department of Education and Culture is projected to be 36.1 per cent, 34.8 per cent and 33.8 per cent of total provincial expenditure in the three years respectively. The relative decline in expenditure on education over the MTEF period is attributable to a proportionate increase in expenditure in both the Welfare and “other” departments.

As a share of total expenditure for the province, expenditure on Health accounted for 26.5 per cent in 2000/01 and 28.1 per cent in 2001/02. In 2002/03, the Department of Health is expected to consume 25.6 per cent of total expenditure. During the MTEF period, it is projected that expenditure on Health will fall to 24.5 per cent, 23.8 per cent and 23.1 per cent over the three years respectively. Again, the figures reveal a significant story. The relative decline of health expenditure as a percentage of total expenditure over the MTEF period is, as in the case of education, attributable to a proportionate increase in expenditure on social welfare and “other” functions.

In stark contrast to the relatively declining shares of the education and health sectors, Table 6.2 indicates that the Department of Social Welfare and Population Development consumes an increasing share of total provincial expenditure over the entire period under review. Starting from a base of 19.9 per cent of total expenditure in 2000/01, the share of the sector rises to 20.1 per cent in 2001/02, 23.4 per cent (projected) in 2002/03 and 24.1, 26.0 and 27.7 per cent in the three 2003/04 MTEF years respectively. Once again, the significance of this trend for the budget as a whole cannot be overstated. The figures reflect the relentless expenditure pressures in the sector, arising from higher than anticipated take-up rates and grant value increases in virtually all the social security grant categories and types, and back-pay arising from amendments to Regulation 11 as well as normal administrative back-pay. The net effect of these pressures is to distort the balance of the entire provincial budget, with the education and health sectors in particular suffering at the expense of the social welfare sector.

6.3 Expenditure by economic classification

Table 6.4 presents a summary of expenditure and projected estimates by GFS economic classification. Actual figures for the financial years 2000/01 and 2001/02 and budgeted estimates for the financial years 2002/03 to 2005/06 are given. Presenting expenditure by economic classification is extremely useful for purposes of expenditure analysis, as it allows comparisons and analysis of current and capital expenditure to be made. This is important because in any budgeting process, difficult choices have to be made between operations and maintenance (current expenditure) on the one hand, and capital investments on the other hand. In periods of fiscal distress (i.e serious expenditure pressures leading to budget overruns) the tendency is for governments to cut capital expenditure in favour of current operational expenditure, including fixed overheads, personnel expenditure and transfer payments (mainly in the form of social security grants).

As indicated in Table 6.4 below personnel remuneration costs (compensation of employees in the GFS economic classification) and transfer payments (mainly social grants) are the main contributors to current expenditure. Spending on salaries, wages and other forms of remuneration increased from R12.4 billion in 2000/01 to R14.4 billion in the 2002/03 financial year, reaching a projected total of R18.4 billion in 2005/06. The bulk of expenditure related to compensation of employees is accounted for by payments of wages, salaries, and related costs in the departments of Education, Health, and Social Welfare and Population Development. Spending on personnel in these sectors is indeed the most visible and substantial component of the total personnel expenditure.

A welcome trend in Table 6.4 is that the levels of capital expenditure are set to rise substantially during the MTEF period. In absolute terms, capital expenditure increases from R3.9 billion in 2003/04, to R4.3 billion in 2004/05 and to R4.6 billion in 2005/06 – evidence surely of the government’s determination to boost capital expenditure to serve as an engine for job creation and economic growth.

Table 6.4 Summary of Expenditure and Estimates - GFS Classification

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Current	20,460,139	22,746,431	25,787,259	28,918,176	32,099,758	35,148,372
Compensation of employees	12,353,473	13,546,567	14,437,190	16,237,687	17,242,328	18,289,375
Salaries and wages	12,295,826	13,475,122	14,352,141	16,143,040	17,144,112	18,185,287
Other remuneration	57,647	71,445	85,049	94,647	98,216	104,088
Use of goods and services	3,390,861	3,679,369	4,222,267	4,377,476	5,109,363	5,687,655
Interest paid	0	0	0	0	0	0
Transfer payments	4,715,805	5,520,495	7,127,802	8,303,013	9,748,067	11,171,342
Subsidies to business enterprises	258,285	293,593	293,064	306,540	311,891	333,927
Local government	171,273	165,479	162,299	170,169	183,138	159,125
Extra-budgetary institutions	154,288	198,773	239,103	303,985	325,137	345,369
Households	3,791,683	4,448,183	5,995,950	7,007,267	8,350,080	9,728,966
Non-profit organisations	340,276	414,467	437,386	515,052	577,821	603,955
Capital	1,308,875	2,281,670	3,162,696	3,954,548	4,298,560	4,624,419
Non-financial assets	1,262,992	2,242,692	2,291,807	3,154,960	3,546,980	3,826,645
Buildings and structures	906,053	1,720,259	1,550,286	2,095,035	2,429,327	2,673,075
Machinery and equipment	356,393	522,433	735,054	1,059,925	1,117,353	1,153,170
Non-produced assets	546	0	6,467	0	300	400
Other assets	3,436	13,269	3,477	798	517	1,038
Capital transfers	42,447	25,709	867,412	798,790	751,063	796,736
Households	0	0	862,412	796,390	748,463	793,936
Local government	0	0	0	0	0	0
Other capital transfers	42,447	25,709	5,000	2,400	2,600	2,800
Sub-total	21,769,014	25,028,101	28,949,955	32,872,724	36,398,318	39,772,791
Lending						
Statutory Payments	30,364	33,093	33,992	35,565	35,565	35,565
Total	21,799,378	25,061,194	28,983,947	32,908,289	36,433,883	39,808,356

Table 6.5 analyses the actual and budgeted expenditure in terms of current and capital, and personnel and non-personnel classifications. Within the six year period under review, some important trends in the ratio of current to capital expenditure are discernible. In the 2000/01 financial year, current expenditure was approximately 15.7 times that of capital expenditure. By the 2005/06 financial year, however, it is projected that the ratio of current expenditure to capital will have decreased to approximately 7.7. Conversely, the current to capital ratio, in percentage terms, was 6.0 per cent in 2000/01, and this is projected to grow to 11.6 per cent in 2005/06. The significance of these trends is that it illustrates that the province is recovering from the period of financial crisis in the second half of the nineties, when capital expenditure had to be drastically pruned to meet current expenditure pressures in the social sectors.

Overall current expenditure is expected to grow at a real rate of 5.2 per cent for the period 2002/03 to 2005/06, whilst capital expenditure is projected to grow at a higher rate of 7.7 per cent during the same period.

Table 6.5 Analysis of expenditure summary by classification

	2000/01 Actual	2001/02 Actual	2002/03 Adj. Budget	2003/04 Budget	2004/05 MTEF	2005/06 MTEF	Average annual growth 2002/03 - 2005/06
In Rand (000)							
Current	20,490,503	22,778,024	25,812,607	28,953,741	32,135,323	35,183,937	
Capital	1,308,875	2,281,670	3,162,696	3,954,548	4,298,560	4,624,419	
Personnel	12,353,473	13,546,567	14,437,190	16,237,687	17,242,328	18,289,375	
Non-personnel	9,445,905	11,513,127	14,538,113	16,670,602	19,191,555	21,518,981	
Non-personnel, non-cap	8,137,030	9,231,457	11,375,417	12,716,054	14,892,995	16,894,562	
Total expenditure	21,799,378	25,059,694	28,975,303	32,908,289	36,433,883	39,808,356	
% of total expenditure							
Current	94.0	90.9	89.1	88.0	88.2	88.4	
Capital	6.0	9.1	10.9	12.0	11.8	11.6	
Personnel	56.7	54.1	49.8	49.3	47.3	45.9	
Non-personnel	43.3	45.9	50.2	50.7	52.7	54.1	
Non-personnel, non-cap	37.3	36.8	39.3	38.6	40.9	42.4	
Nominal growth (%)							
Current		11.2	13.3	12.2	11.0	9.5	10.9
Capital		74.3	38.6	25.0	8.7	7.6	13.5
Personnel		9.7	6.6	12.5	6.2	6.1	8.2
Non-personnel		21.9	26.3	14.7	15.1	12.1	14.0
Non-personnel, non-cap		13.4	23.2	11.8	17.1	13.4	14.1
Total expenditure		15.0	15.6	13.6	10.7	9.3	11.2
Real growth (%)							
Current		4.3	2.2	5.8	5.6	4.1	5.2
Capital		63.5	25.0	17.9	3.5	2.3	7.7
Personnel		2.9	-3.9	6.0	1.1	0.9	2.6
Non-personnel		14.3	13.9	8.1	9.6	6.6	8.1
Non-personnel, non-cap		6.4	11.1	5.4	11.5	7.9	8.2
Total expenditure		7.8	4.3	7.1	5.4	3.9	5.5

Further analysis of Table 6.5 shows that as a share of total expenditure, personnel expenditure is on a downward trend, while the reverse is true for non-personnel expenditure. Personnel expenditure as a percentage of total expenditure shows a declining trend, from 56.7 per cent in 2000/01 to 45.9 per cent in 2005/06.

Note that the share of non-personnel, non-capital expenditure to total expenditure is expected to increase from 38.6 per cent in 2003/04 to 42.4 per cent in 2005/06. This increase is mainly due to the additional funding allocated for payment of social security grants. In terms of real annual growth rates, personnel expenditure is projected to grow marginally at 2.6 per cent for the period 2002/03 to 2005/06, whilst non-personnel expenditure is expected to grow at 8.1 per cent during the same period.

Table 6.6 presents a summary of expenditure and estimates using the old *Standard Item Classification* format. Actual expenditure for 2000/01 and 2001/02 and budgeted estimates for 2002/03 to 2005/06 are given.

Table 6.6 Summary of Expenditure and Estimates - Standard Item Classification

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Personnel	12,464,890	13,732,425	14,622,558	16,450,273	17,424,114	18,483,816
Administrative expenditure	443,674	577,825	715,160	800,910	875,089	946,038
Stores and livestock	1,272,589	1,387,435	1,607,878	2,048,106	2,209,115	2,300,926
Equipment	257,928	396,645	658,658	640,727	688,014	708,168
Land and buildings	382,251	507,112	646,491	993,175	1,095,962	1,208,595
Professional and special services	1,446,661	2,181,389	2,664,310	2,799,052	3,565,409	4,113,514
Transfer payments	4,758,252	5,546,204	7,995,214	9,101,803	10,499,130	11,968,078
Miscellaneous	742,769	699,066	39,687	38,678	41,485	43,656
Sub-total	21,769,014	25,028,101	28,949,955	32,872,724	36,398,318	39,772,791
Statutory Payments	30,364	33,093	33,992	35,565	35,565	35,565
Total	21,799,378	25,061,194	28,983,947	32,908,289	36,433,883	39,808,356

6.4 Expenditure by policy area

Table 6.7 presents the actual expenditure and budgeted estimates for the financial years 2000/01 – 2005/06 by policy area of function. Table 1.C in the Annexure provides details of the departments and their programmes that make up the each policy area, by function and category. The Annexure also contains Table 1.D which assigns departmental expenditures and estimates for the financial years 2000/01 – 2005/06 in terms of policy area.

Table 6.7 Summary of expenditure by policy area

Category	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
R000	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
General Public Services	1,179,978	1,025,017	1,524,049	1,607,462	1,985,474	2,241,128
Public Order & Safety Affairs	171,616	174,446	210,550	225,243	237,894	251,567
Education Affairs & Services	8,227,402	9,301,269	10,195,291	11,895,854	12,709,940	13,482,800
Health Affairs & Services	5,659,032	6,893,023	7,262,284	7,892,180	8,500,166	9,018,987
Community & Social Services	4,330,205	5,045,392	6,778,703	7,939,969	9,450,685	11,009,369
Housing & Community (Amenity) Affairs & Services	972,714	1,054,355	1,299,211	1,216,456	1,184,673	1,248,125
Recreational, Cultural & Religious Affairs & Services	78,919	113,152	123,260	152,591	160,962	173,848
Agricultural Affairs & Services	361,531	418,620	474,279	531,864	564,316	597,466
Transportation & Communication Affairs & Services	704,222	893,040	917,166	1,263,343	1,441,345	1,575,074
Other Economic Affairs & Services	84,759	142,880	199,154	183,327	198,428	209,992
Other Functional & Unallocable Items	29,000	0	0	0	0	0
Total	21,799,378	25,061,194	28,983,947	32,908,289	36,433,883	39,808,356

6.5 Infrastructure expenditure

In the Budget Statements of recent years, in line with the national practice, no attempt was made to separate out the infrastructure portion of total capital expenditure, which of course includes items such as equipment, vehicles and capital transfers to other spheres of government and public entities. It is a major feature of this year's Budget Overview that infrastructure expenditure over the forthcoming MTEF can now be presented separately, with a view to providing a more accurate picture of provincial infrastructure investment. This reflects the fact that infrastructure investment has now been made a key policy priority of both national government and the provincial government. There is a keen awareness in the provincial government of the important role that infrastructure investment can play in helping to achieve the related objectives of reducing poverty and stimulating job creation – this is especially pertinent at this time as the provincial growth and development strategy is being reviewed. The importance of the provision, maintenance and repair of infrastructure facilities, to be sure, cannot be overemphasized. As president Kennedy once remarked, "It is not the wealth of a nation that builds its roads, but the roads that build the nation's wealth". Increasing expenditure on public infrastructure, therefore, is a key element in the government's social and economic policy framework and is a major priority of the 2003/04 MTEF budget.

Table 6.8 below summarises projected provincial infrastructure investment by Vote over the MTEF commencing in 2003/04. In Table 1.E in the Annexure, more details are provided regarding this infrastructure investment, involving some 7,907 projects with a total value of R11.6 billion. The information is categorized according to new construction projects, upgrading/rehabilitation, and “other” capital projects such as the provision of water, electricity, sanitation etc.

Table 6.8 Summary of infrastructure expenditure

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Agriculture and Environmental Affairs				65,356	58,135	59,560
Education and Culture				452,895	577,255	653,746
Health				478,388	551,023	582,329
Housing				796,390	748,463	793,936
The Royal Household						
Traditional and Local Government Affairs				45,133	49,325	52,513
Transport				985,560	1,154,260	1,277,004
Social Welfare and Population Development				14,887	17,907	23,989
Works				25,516	27,370	30,716
Total				2,864,125	3,183,738	3,473,793

Despite the concerted efforts being made to improve both the quantum and quality of infrastructure investment and delivery in the province, many problems remain, as indicated in last year’s Budget Statements. These problems include: lack of planning and project management skills in departments; lack of coordination and duplication; poor monitoring and reporting procedures; failure to establish credible multi-year capital expenditure plans linked to MTEF budgets; and the absence of an overarching provincial infrastructure plan which would assist to prioritise projects. More fundamentally, however, the failure of the provincial government to make serious inroads into the social and economic infrastructure backlogs in the province in recent years can be attributed to a shortage of capital investment funds, as evidenced by the capital expenditure cutbacks described above.

Many of these problems suggest their own solutions. The provincial government needs to devote serious and urgent attention to improving planning and project management skills throughout the provincial government, but especially in the departments responsible for major capital expenditure. The lack of coordination can be addressed by the development of a provincial infrastructure plan, which in turn should form an integral part of the provincial growth and development strategy and should link to municipal Integrated Development Plans (IDP’s). Finally, the shortage of funding, which will be only partially addressed through increased capital budgets over the MTEF, can be addressed through the innovative exploration of alternative financing and delivery mechanisms – most obviously in the various forms of public-private partnerships which are becoming the preferred vehicle for public infrastructure delivery in most countries in the world. Ultimately, too, the issue of provincial borrowing for capital infrastructure through various financial instruments and bond markets, which is at present prohibited both by legislation and protocol, will need to be revisited.

Indeed – and fortunately – the Provincial Treasury will in the coming months emphasize, as part of the strategic planning process, the development of a macro infrastructure plan. From such a plan would flow departmental plans specifying clear implementation schedules and indicating the availability and mode of funding, as well as the availability of capacity in areas such as project management and financial management.

6.6 Transfers to public entities

A summary of the transfers to public entities is provided in Table 6.9. Actual transfers to public entities for the years 2000/01 and 2001/02 are given, as well as budgeted transfers to public entities for the years 2002/03 to 2005/06.

Table 6.9 Summary of transfers to public entities

R000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Premier	6,386	6,366	8,546	6,750	6,750	7,155
Agriculture and Environmental Affairs	190,154	213,025	209,138	214,240	211,285	223,962
Economic Development and Tourism	83,961	83,520	87,553	96,028	102,824	108,028
Education and Culture	6,000	11,600	6,900	7,200	7,400	7,844
Safety and Security	3,315	3,947	270	0	0	0
Traditional and Local Government Affairs	19,450	19,351	23,914	23,158	22,562	22,697
Transport	4,280	4,435	5,011	5,300	5,600	5,800
Total	313,546	342,244	341,332	352,676	356,421	375,486

Agriculture and Environmental Affairs accounts for approximately 61.3 per cent of the total transfers to public entities in 2002/03. This is followed by Traditional and Local Government Affairs which accounts for approximately 7 per cent of total transfers to public entities. Transfers from Safety and Security to public entities were due to be phased out by 2002/03.

6.7 Transfers to local government

Local governments receive funds for a variety of purposes from the provincial departments on an annual basis. This information is captured in Table 6.10 where a distinction between three categories is made. According to the *Constitution of the Republic of South Africa, No 108 of 1996*, municipalities are defined as follows:

- Category A: a municipality that has exclusive municipal executive and legislative authority in its area. Municipalities of this type are normally referred to as 'metropolitan areas', and *eThekweni* is the only metropolitan municipality in KwaZulu-Natal at the present time.
- Category B: a municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls. Municipalities of this type are normally referred to as 'local municipalities'.
- Category C: a municipality that has municipal executive and legislative authority in an area that includes more than one municipality. Municipalities of this type are normally referred to as 'district municipalities'.

Table 6.10 Summary of transfers to local government

Category	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
R000	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Category A	22,447	23,376	24,522	27,392	28,811	30,399
Category B	28,652	78,893	83,329	94,680	102,711	84,014
Category C	4	39,859	29,946	21,066	24,172	16,105
Total	51,103	142,128	137,797	143,138	155,694	130,518

Table 1.F in the *annexure* provides details of transfers to the different municipalities and the amounts each municipality received for the financial years 2000/01 and 2001/02. To the extent possible, the table also provides budgeted estimates of the transfers that municipalities will receive in the MTEF period commencing in 2003/04.

7. FISCAL PERFORMANCE AND CHALLENGES

It is important not to view the province's revenue and expenditure profile in recent years in isolation. Indeed, it is mainly a government's revenue capacity relative to its expenditure requirements and outlays that helps determine its fiscal performance. Fiscal performance, ultimately, is determined by the accuracy of the revenue estimates, on the one hand, and the comprehensiveness and credibility of the expenditure estimates on the other.⁸

The province's fiscal performance during the period 1996/97 to 2002/03 has been erratic to say the least, with periods of budget overruns alternating with surpluses. Table 7.1 illustrates that in the seven year period from 1996/97 to 2002/03, the province recorded deficits, taken simply as a measure of expenditure against revenue, in four of the seven years. The budget was in deficit in 1996/97, 1997/98, 2001/02 and 2002/03 (projected), with surpluses of widely varying size recorded in the other three years.

Table 7.1 KZN Provincial Revenue vs Expenditure, 1996/97 – 2001/02

R000	1996/97	1997/98	1998/97	1999/00	2000/01	2001/02	2002/03
	Actual	Actual	Actual	Actual	Actual	Actual	Projected
Revenue	17,748	18,338	18,840	19,670	22,335	25,082	28,984
Expenditure	17,920	19,141	18,447	18,917	21,799	25,181	29,304*
Balance	-172	-803	393	753	536	-99	-320

*Expenditure for 2002/03 is based on the early warning system (EWS) as of end of December 2002.

In the first two financial years of the period under review, the deficits were caused by a variety of factors.

In the first few years after the inauguration of the new provincial administration, the focus, from a financial perspective, was on getting the required programme structures and votes in place. In the circumstances it was understandable that budgeting and expenditure control measures took something of a back seat. Indeed, prior to 1997/98 provinces did not in reality determine their own budget allocations. Until that year, the Department of State Expenditure (DSE) allocated the budgets for the major functions for which provincial governments were responsible.

Nor did provinces have much control over the very significant cost pressures experienced in the first few years of the new dispensation. These major cost pressures resulted in the main from new national policies aimed at addressing past injustices. This was particularly true of the health and education sectors, where not only significant numbers of additional nurses and teachers were appointed, but salaries were also raised and equalised to eliminate the racial discrimination in this respect which had applied in the apartheid era. A similar equalisation policy introduced in the welfare sector added to the already significant cost pressures. It bears mentioning that policy on personnel appointments and numbers, sectoral norms and standards, and social security grant increases was also determined during these years at national level through function committees.

It was during these years that the term “unfunded mandates” was popularised in the provinces, meaning that provinces were (unfairly in their view) given mandates in terms of national policies to provide services at levels which were simply unaffordable in the context of their existing budgets.

It must be said that cost pressures and “unfunded mandates” apart, major contributing factors to the financial crisis at this time were the poor financial controls and antiquated budgeting systems. The newly established Provincial Treasury, like treasuries in other provinces, was initially not in a position to monitor or control the expenditure of departments against their budgets. The Treasury depended on the one-year input-driven budgeting system used at the time, and it lacked an in-year monitoring and management tool or framework - such as was provided later in the form of the Public Finance

⁸ See Chapter 7 of the Treasury Publication “Towards a New Provincial Growth and Development Strategy”.

Management Act (PFMA). A major problem during this time was that provincial heads of department simply ignored their allocated budgets in the drive to implement the service norms and standards set at the national level.

The situation came to a head in April 1998, when the province, having been refused an extension of its overdraft by its banker, was forced to seek the intervention of the national government. The intervention was in terms of Section 100 (1) (a) of the Constitution, which provides for the national executive, in the event of a province failing to fulfill an executive obligation, to issue “a directive to the provincial executive, describing the extent of the failure to fulfill its obligations and stating any steps required to meet its obligations.” In terms of the ensuing agreement signed by both parties under the auspices of Section 100 (1) (a) of the Constitution, the Province was provided with a contribution of R900 m by the national government towards reducing its accumulated overdraft. For its part the province was required to set aside at least R500 million in the 1998/99 budget to finance a portion of the 1997/98 deficit.

The financial crisis which the province found itself in at the end of 1997/98 forced it to adopt a number of budgetary reform and expenditure control measures to remedy the situation. In 1998 the provincial Department of Finance initiated the drawing up of a comprehensive Performance Enhancement Plan (PEP) designed to reduce costs, enhance revenue, utilize resources effectively, and generally improve the budgetary process. The following year (1998/99), the Provincial Treasury undertook a careful and systematic analysis of departments’ expenditure, including the identification of cost drivers and costing activities from base zero. This exercise was undertaken with a view to establishing correct and realistic baselines for departmental expenditure projections, as well as to provide the newly established budget committee with basic financial information to assist in the process of formulating recommendations on the annual budget allocations to departments.

In the same year, departments were required to make expenditure projections (cash-flow) for each month of the financial year. These were used to monitor expenditure throughout the year. The four main pillars of the new approach were (a) cash-flow projections; (b) weekly expenditure reports; (c) monthly expenditure and variance analysis reports; and (d) quarterly bi-lateral meetings and reports. These monitoring and control procedures took place within the framework of an “Early Warning System” (EWS), aimed at providing both the provincial Cabinet and National Treasury with regular reports and updates on the province’s financial health.

These initial reforms undertaken at provincial level were supplemented by several national budgetary reforms. Principal among these was the introduction of a fully delegated medium term budgeting process to provinces - the Medium Term Expenditure Framework (MTEF).

Introduced for the 1998/99 budget, the MTEF provided the basic framework for all subsequent budget reforms. It aimed to reinforce the link between government’s policy choices and priorities, the budget and delivery of services. The medium term expenditure framework approach brought with it many real advances in the budgeting process. These included:

- Greater certainty as policy priorities are set out in advance allowing departments to plan and budget for delivery of services in line with policy priorities;
- Affordable spending in the medium term as departments plan and spend on programmes according to an agreed 3-year envelope;
- Strengthened political decision-making and accountability as policy choices may be linked more effectively to spending plans and to delivery of services;
- Greater transparency as Government’s spending plans and priorities for the next three years are open to public scrutiny;
- Improved management of public finances as Government’s medium-term fiscal targets, tax policy and debt management may be linked to agreed upon spending commitments.

The introduction of the medium term expenditure framework was underpinned by a number of other administrative and legislative reforms in the field of intergovernmental fiscal relations - all with

significant implications for the budgeting process. The legislative reforms included the passage of the Intergovernmental Fiscal Relations Act (1997), the Financial and Fiscal Commission Act (1997) and the Public Finance Management Act (1999). Administrative reforms initiated at the national level saw the amalgamation of the former departments of State Expenditure and Finance into the National Treasury, and the establishment of a number of intergovernmental budgetary coordinating forums such as the Budget Council, MinMec's, sectoral 4x4 technical committees etc - these were established to give effect to the consultative and coordinating provisions contained in the Intergovernmental Fiscal Relations Act.

Judged purely from the perspective of the budgetary numbers, the reform measures instituted following the 1997/98 financial crisis were successful in restoring the provincial finances to health - so much so, that just three years later, at the conclusion of the 2000/01 financial year, the provincial MEC for Finance was able to declare that the province was debt free. There is no doubt that the strict expenditure controls and weekly, monthly and quarterly reporting requirements instituted by the provincial government and Treasury succeeded in restoring financial discipline in the province. The consecutive years of over-expenditure in 1996/97 (R172m) and 1997/98 (R803m) were replaced by three years of surpluses (R393m, R753m and R536m for the years 1998/99, 1999/2000 and 2000/01 respectively).

These remedial measures did not however come without considerable pain for the provincial government. The implication of funding the deficit was reduced funding for service delivery. The province was forced to "top-slice" a debt redemption reserve before allocating funds to departments. Secondly, adequate provision had to be made for all the statutory obligations in the budget such as personnel, social security grants, and PAYE. Thirdly, one of the inevitable consequences was a severe curtailment of the province's capital budget to accommodate these above-mentioned statutory commitments. During the period 1997/98 to 2000/01, there was an annual average decline of 10.9 per cent in the level of infrastructure real expenditure in the Province of KwaZulu-Natal.

The series of post 1997/98 budget described above were followed in the 2000/01 financial year by the implementation of the Public Finance Management Act (PFMA). The PFMA is rightly regarded as the centrepiece of recent financial management reforms in the public sector. Based on the principle of giving managers greater flexibility and independence, the PFMA encourages a move away from preoccupation with inputs, administrative controls and processes to outputs, performance management and measurement, and service delivery. It advocates a change in emphasis from reporting how much financial and other inputs are used by government organisations to reporting on what is actually being provided for the money spent. It addresses the value for money concept, and speaks about the efficiency and effectiveness of government spending. In short, from a budgeting perspective, the PFMA was designed to address exactly the deficiencies which had come to the fore in this province in the aftermath of the 1997/98 financial crisis - namely a pre-occupation with input controls and budget "numbers" to the virtual exclusion of service delivery and value for money issues.

It is something of an irony that in the very first year following the introduction of the PFMA, the province slipped back into a deficit situation, ending the 2001/02 financial year with a, albeit relatively minor, deficit of R99 million. In the financial year ending 2002/03, furthermore, the province is expected to record a deficit of expenditure over revenue of some R320 million (based on EWS December 2002).

Unlike the earlier deficits recorded in 1996/87 and 1997/98, which as we have seen could be largely attributed to a lack of a financial management framework and inadequate budgetary controls, the most recent deficits point to more serious underlying structural deficiencies in the province's fiscal affairs.

At the core of the problem lies a tendency by the three large social sector departments to consistently over spend their budgets, as illustrated in the previous section on expenditure.

The over-expenditure in the education budget has been caused mainly by the employment of temporary teachers, usually in January of each year, when the budget for the current financial year has only two months to go, and that for the next financial year has almost been finalized. This implies that the budget for the temporary teachers would not have been provided for in the financial year in which the employment takes place, and would also not be provided for in the following financial year. This

development causes actual expenditure to deviate substantially from the budget of the department in every financial year.

Another factor is the tendency to convert temporary teachers into permanent positions with no regard to pupils' numbers, teacher-pupil ratios, and availability of funds. The fact of the matter is that employment of temporary teachers takes place at the district level by the schools themselves while the funding resides at the head office, creating a serious misalignment between the decision to employ and availability of funding. Currently, the department estimates that there are approximately 11,000 temporary teachers in the system. At an average monthly cost of about R9,500, this translates into a total of R1.25 billion additional costs in a year to the department. To make matters worse, the department estimates that there are an additional 75,000 pupils that joined the educational system in 2002 due to the change in entry age. Assuming a pupil-teacher ratio of 36:1, this would result in an additional 2,083 teachers being employed at an annual cost of about R237 million. Although the National Department of Education instructed that principals should only admit pupils if they have the capacity, this has been extremely difficult to enforce. And the situation may get worse in the 2003 when a further 45,000 pupils who did not gain admission to school in 2002 are due to be admitted.

In the social welfare sector, expenditure on social security has exceeded the budget in each year of the 1997/98 to 2002/03 period, except in 1998/99 where actual expenditure fell short of the (original) budget by R14.1 million. The over-expenditure against the original budget is projected to reach R943 .6 million in the current financial year. This has caused the province to allocate all the R407 million provided by the national government to the province in the former's adjustment budget to deal with unexpected and unforeseen expenditures to social welfare. The over-expenditure is attributed to a number of factors, including the following:

- The effect of the increases in social grants value which normally are agreed upon and come into effect in the middle of the financial year;
- The amendment of the Social Security Act, 1992, which allowed foster care grant to be paid to care providers in addition to parents and foster parents (before the amendment the grant was paid only to parents and foster parents);
- The more than expected increase of up-take of beneficiaries due to the re-registration campaign;
- Payments of pack-pay - normal back-pay for new applications (covering the time that applications are lodged and the time that they are approved and lodged on the system for payment), and back-pay arising from successful court appeals against rejected applications; and
- Cases relating to Regulation 11 of the Social Security Act, which allows applicants to be paid from the day applications are lodged as opposed to the date applications are approved (back-pay for these cases amounted to R306 million in 2002/03).

Actual expenditure on health services has exceeded the original budget in each year since 1997/98, with the over-expenditure reaching the highest level of 26.6 per cent of the total budget of the department in 1997/98. The over-expenditure is estimated to be 6.2 per cent in the current financial year. The persistent over-expenditure in health is attributed to several factors: under-budgeting (especially for personnel costs); introduction of new activities during the financial year and the associated staff requirement; and filling of vacant posts and adjustment of salaries and notch increases with no budget provision. Other factors are: higher than anticipated increases in improvements in conditions of service; and unanticipated increases in the costs of medicines and equipment (the medical inflation is about 3 per cent higher than the general inflation). In recent years, the outbreak of cholera (the total cost of this epidemic to the province was R147 million in the 2001/02 financial year), impact of the spread of HIV-AIDS and related diseases, the roll-out of mother to child transmission (PMTCT) programme, and exchange rate depreciation effect on imported medicines and equipment have put enormous pressure on the health's budget.

The persistent pattern of over-expenditure in the three social sector departments clearly poses a daunting challenge to the province in its efforts to improve its fiscal performance. It is one thing to identify the root causes of the problem, however, and quite another to suggest solutions which are practicable within the confines of the current legislative and intergovernmental fiscal framework.

Perhaps the biggest single challenge confronting the province in its efforts to install fiscal discipline and balanced budgets is the issue of the affordability and sustainability of the current Social Security System. While it is acknowledged that social security grants play a vital role in providing safety nets for the poor and the vulnerable in society, and hence in helping to realise the province's single most important policy objectives, the future viability and sustainability of the current grant system is much more debatable. For one thing, the current levels of the social grants are too low to raise income or expenditure of poor households beyond the poverty line. The need for more comprehensive social protection mechanisms to achieve the longer term objective of reducing poverty is a major challenge confronting not only the province, but the country as a whole.

The need to protect the poor and most vulnerable groups through payment of social security grants, however, has to be balanced against the reality of the provincial budget which does not permit real growth in welfare expenditures without impacting negatively on other equally critical priorities, most of which also benefit the poor and the vulnerable. This raises the question of affordability of the social security system as is currently being implemented.

As can be seen from the previous section on expenditure, the disproportionate share of the provincial budget allocated to social welfare in recent years has serious implications for the budgets of the other departments. Despite the recent upward adjustment of the social welfare component from 17 per cent to 18 per cent, the gap between the social welfare weighting in the formula and its share in the provincial budget continues to grow wider. This widening gap has implications for the equitable share formula itself, which is in need of further revision so that the weights of the respective components more accurately reflect the shares in the provinces' expenditure.

Affordability of the social security budget is therefore an issue that requires the most serious and urgent consideration. From a budgetary point of view, the use of social grants to deal with the long term objective of reducing poverty and inequality is clearly unsustainable at this stage. The combination of widespread poverty and limited public resources suggest that the focus of social security should be shifted more to establishing safety nets that guarantee access to minimum requirements. Food relief, in the form of food subsidies, may be an effective form of assistance to the poor and vulnerable groups.

Poverty is also reduced by providing employment to those in need in labour-intensive public projects such as water and soil conservation, flood control, road works, and afforestation. To be a cost-effective means of poverty relief, such programs should pay only subsistence wage, and so effectively target the poor through self-selection. Such public employment programmes offer the additional advantage that they create infrastructure and other capital resources that can have a positive second-round effect on the incomes of the poor.

The second biggest challenge confronting the province in its efforts to restore a long term balance between its revenue capacity and expenditure liabilities lies in the field of managing and containing personnel expenditure. Personnel costs represent the most visible and substantial component of provincial government expenditure. This fact notwithstanding, the province's efforts at managing its personnel expenditure downwards have been problematic to say the least. The anomaly of a system whereby the provincial government is saddled with responsibility for personnel expenditure, yet conditions of service (including retrenchment provisions) are negotiated at a national level, has already been alluded to in previous sections. In effect this means that the provincial government is severely restricted in its ability to reduce to personnel expenditure and contain numbers. In previous years, this has been achieved by retrenching temporary teachers, imposition of freeze on new recruitment, bans on hiring certain categories of staff, review or elimination of vacant posts, and putting a freeze on new appointments.

Such measures have in fact enjoyed a degree of success, as evidenced by the gradual reduction of personnel expenditure as a percentage of total provincial expenditure in recent years, and projected forward over the MTEF (see Table 6.5 under Section 6.3). Pushed too far, however, the efforts to reduce personnel expenditure can easily become counter-productive, and begin to negatively affect service delivery in critical areas such as health and education. Measures such as the imposition of a freeze on new recruitment, ban of overtime allowances, freeze on wage and salary adjustments, retrenchment of temporary workers and the like, may not always be appropriate. It is also often unproductive to maintain, for the sake of equity, un-competitively low public sector wages, particularly for skilled managerial and professional staff, and inadequate wage differentials in the public sector. The result could be absenteeism, dissatisfaction, low morale, corruption, or inability to attract qualified personnel, thus contributing to inefficient service delivery.

In reality, any effort at reducing employment levels in the public sector without a concomitant review of provincial government structures and programmes would be fruitless in the long term. The factors that contribute to personnel growth are the growth of programmes and their tendency to be labour-intensive. If departmental programme structures are not reviewed and thoroughly evaluated, measures to reduce employment numbers will have only a short-term effect. A careful study of the programmes of the Departments will reveal several areas of overlapping or duplication. A detailed study of the programmes of departments needs to be undertaken with a view to terminating, pruning, or consolidating some of them as the priorities of the government change. The strategy should be to formulate spending priorities for “core” programmes to be implemented with the available resources, and to identify those that can be given up if resources are scarce. One way to accomplish this is to divide expenditures into “protected” and “unprotected” categories, with cuts effected in the unprotected expenditures. Protected expenditures may include, for instance, spending on basic education, primary health care, pensions, and basic salaries, while unprotected expenditures may include transfers to public entities, subsidies to established farmers, spending on departmental vehicles, etc.

Ultimately, of course, the province’s problems of fiscal imbalance and persistent budgetary over-runs relate to a mismatch in revenue-raising capacity and expenditure liabilities. Given the fact that the province’s share of national revenue is relatively “inelastic” and determined by means of a fixed formula, and given the current restrictions on provincial borrowing, the only way in which revenue can be raised beyond the existing limits and projections is by substantially increasing provincial own revenue. Revenues collected from provincial own sources help to measure the capacity of the province to mobilise resources to finance its responsibilities. Such revenues also assist the province to narrow the gap between local demands and resources made available from the national exchequer. Moreover, access to own revenue sources gives the provincial government the ability to act with some degree of autonomy in establishing its expenditure and revenue mix.

It is not the intention to go into detail into the myriad problems associated with provincial own revenue collection in recent years – some of these have already been alluded to in the section on provincial own revenue collection. There have been overt failures in planning and administration. A comparison of actual revenue collected for many of the revenue items with their potential base, or with their estimates, reveals a total lack of commitment to revenue planning and mobilization. In particular, prompt billing and collection in accordance with standard policies and procedures do not take place in many departments. In many instances, revenues are not collected for defined activities, goods and services, and when they are collected, the departments do not keep proper records of the amounts collected or take appropriate actions when problems, errors or irregularities are identified. Other problems include the non-existence of dedicated revenue units and responsibility managers in departments; non-monitoring and follow-ups on unpaid revenue; non-recovery of housing rents and loans to officials; non-collection of hospital fees; delays in the collection of road traffic fines; and delayed and inaccurate reporting mechanisms.

Given these disparate problems and challenges confronting the provincial government in its efforts to improve fiscal performance and long term sustainability of its fiscal base, what can be done to remedy the situation?

On the expenditure side, there appears to be little room for manoeuvre in reducing expenditure, given that most items on the expenditure side of the budget suffer from statutory rigidity. Wages and salaries and most transfer payments, for example, are prescribed in legislation and agreements while other expenditures are supply driven. In either event, there is little short term flexibility in expenditure contraction.

Some contraction in the level of actual spending, however, could be achieved through reduction in both personnel numbers and programmes. An important strategy to achieve this would involve the clustering, or even merging, of some departments, restructuring offices, and creating small, task-oriented, financially self-sufficient agencies which will be assigned specific implementation tasks. The restructuring process may also include re-engineering, involving a rethinking and redesigning of work processes and reducing hierarchies and replacing them with flatter and more flexible structures. The need for lean and streamlined machinery, however, has to be tempered by the recognition of the need for innovative people with high professional competence to undertake the manifold tasks of service delivery. The re-engineering process must seek to retain the skilled and professional staff, reinforce their commitment and forge their cooperation to become the dominant feature of government business.

On the revenue side, a number of options present themselves. It is evident that there is an urgent need to implement a comprehensive revenue planning exercise, aimed at (1) setting realistic revenue targets for each collecting agency; (2) reviewing actual collections against targets and taking appropriate corrective action where problems and irregularities are identified; and (3) establishing effective monitoring systems and accountability.

As part of this exercise, efforts must be made to identify new revenue sources and to broaden the base of the existing ones. The most obvious candidates for base broadening are user charges (including toll gate fees), gaming and betting. Revision of existing levels of fines, licences and tariff rates can also contribute significantly to the broadening of the revenue base. Another area requiring attention is the revision of fee levels and tariff rates. For many of the revenues which are either prescribed by law or not, the fee levels and tariff rates that apply have for many years not been revised. The province must intensify the process of reviewing all fees and tariff rates to be in line with inflation rates.

Two other avenues open to the provincial government to increase its revenue base are of course through the devolution of taxation powers to provinces, which is now a reality in the form of the Provincial Tax Regulation Bill, and through provincial borrowing, which although allowed in theory by the Constitution and Borrowing Powers of Provinces Act of 1996, is in practice heavily circumscribed.

8. BUDGETING FOR SERVICE DELIVERY

In a continuation of the practice introduced last year, this year's Budget Overview includes service delivery information for the main client-focused programmes of the provincial government. This information includes measurable outputs, performance measures and performance targets for the main areas and programmes of provincial service delivery.

By introducing service delivery information, performance measures and targets in the Budget Statements, it is hoped to improve both the transparency and accountability of the provincial government in the delivery of goods and services to the public. This in turn should be seen in the context of moving from a system of government which emphasises procedure to one that focuses on performance.

The KwaZulu-Natal provincial government will be spending in excess of R30 billion in each of the three years of the MTEF commencing in 2003/04. It is important to begin quantifying exactly what the provincial government buys for this huge budget. For it follows that if the government does not know what it gets for the money it spends, it cannot hope to improve the levels and quality of service delivery in a province where the quality of life is relatively poorer, and the backlogs greater, than most other provinces.

Unlike the private sector, which has an array of measures (profits, earning per share, income/net investment ratio, etc) to account for performance, the public sector is assigned with the daunting task of meaningfully comparing inputs and outputs in an attempt to produce a measure of efficiency for outputs, which are not automatically valued by the market. Nevertheless, taking into account the general performance dimensions of quantity, quality, cost and timeliness for output/service delivery one can attempt to develop measures such as unit cost statistics, volume statistics, and so forth to provide some information about performance.

Despite the change over from line item budgeting to programme budgeting in national and provincial departments in the early nineties, there remained some critical shortcomings in the budgeting and planning processes. In particular:

- departmental programmes were not set up to achieve specific measurable objectives;
- programmes were too broadly defined;
- programmes reflected the existing organisational structure rather than the services provided;
- there was a lack of information on outputs and service delivery;
- there was lack of integration between budgeting and planning.

It was against the background of increasing pressure on government to accelerate service delivery against limited resources, and to establish a measure of efficiency and effectiveness in government expenditure, that the concept of performance budgeting and measurement was introduced into financial management practice at both national and provincial level in the months following the implementation of the PFMA. Section 27(4) of the PFMA had in fact anticipated the advent of a formal performance budgeting system by requiring Accounting Officers of departments to submit to the provincial legislature "measurable objectives for each main division within the department's vote."

Reduced to its essentials, performance budgeting is about monitoring and measuring service delivery and setting performance targets. It operates on the simple premise that "what gets measured gets done." The potential benefits of monitoring and measuring service delivery and performance are:

- *Improved quality of service and outputs* – evaluating service delivery and performance assists managers in identifying problems and improving on programme delivery;

- *Greater accountability and control* – monitoring service delivery progress provides an unbiased way to assess the performance of government departments and officials. Service delivery and performance measures signal what is important and what departments should focus on to achieve their objectives. Involving officials in evaluating service delivery may also help them to understand their role and contribution in achieving the department's objectives and service delivery targets;
- *Improved management practice* – service delivery and performance information provides invaluable feedback to managers, allowing them to prioritise objectives and approaches and correct plans and activities to improve individual and overall departmental performance;
- *Enhanced planning and budgeting* – service delivery and performance measurement enhances integrated planning and budgeting as it assists managers to account for the use of resources and to reprioritise resources to priority areas. It also provides quantitative information on policy implementation that may support the need for possible revision of policies and expenditure programmes;
- *Improved equity in distribution and accessibility of service* – management, the public and the provincial legislature are more informed about service delivery performance and impact on communities. This helps to raise awareness of and advocacy for improved programme design and access to services, improving equity in distribution in the future;
- *Better communication* – monitoring and measuring service delivery and performance serves as a key communication tool to the public, providing critical information on how public resources are being used to improve the social and economic well-being of communities. This is essential where a government is faced with significant social and economic challenges and constrained by limited resources.”⁹

Measuring performance and service delivery therefore clearly brings a number of benefits. These benefits are however dependent on the measurement not being done in an ad-hoc manner, but in the context of a formalised performance budgeting system.

In preparing their inputs for the 2003/04 budget, departments were requested to specify outputs and develop performance measures and targets for their main sub-programmes concerned directly with service delivery to the general public. Setting “measurable objectives”, linked to departmental performance targets and annual reporting to Parliament and provincial legislatures, is therefore now a formal budgeting requirement for national and provincial departments.

Presented in Tables 8.1 to 8.5 is the service delivery information for the main provincial programmes in the social and economic sectors of government.

⁹ See the (national) Treasury Guideline on “Budgeting, Planning and Measuring Service Delivery.” October 2001

Table 8.1 Education output measures

Output type	Performance measures	Performance targets	
		2002/03 Est. Actual	2003/04 Estimate
Public Ordinary School			
1. To provide spaces in the public primary phase in accordance with policy.	<ul style="list-style-type: none">No. of spaces provided.	1,580,000	1,600,000
2. To provide educators at the public primary phase in accordance with policy.	<ul style="list-style-type: none">No. of educators.L:E ratio in the public primary phase.	43,800 36:1	45,394 35.3:1
3. To put the basic infrastructure for primary schooling in place in accordance to policy.	<ul style="list-style-type: none">No. of new classrooms built.L:C ratio in the public primary phase.No. of new toilets built.% of schools with water supply.% of capex budget spent on maintenance	750 44:1 520 66% 68%	1016 43.3:1 950 68% 58%
4. To promote the participation of historically marginalized groups of learners.	<ul style="list-style-type: none">Gender parity index.% of learners who are disabled.No. of ordinary full-service learners per 100,000 learners at the primary phase.	F:M 0.94:1 1.0% 0.5	0.95:1 1.5% 1
5. To foster a culture of effective learning and teaching.	<ul style="list-style-type: none">% of learner days lost due to learner absenteeism.% of worker days lost due to educator absenteeism	3% 10%	3% 8%
6. To develop the educator corps.	<ul style="list-style-type: none">Average hours of development activities per educator.	80hrs	80hrs
7. To ensure the flow of learners through the primary phase is optimal .	<ul style="list-style-type: none">Repetition rateDropout rate	6.6% 5.2%	6.3% 4.5%
8. To attain the highest possible educational outcomes amongst learners.	<ul style="list-style-type: none">% of learners in Grade 3 attaining acceptable outcomes in numeracy, literacy, and life skills.% of learners in Grade 6 attaining acceptable outcomes in numeracy, literacy, and life skills.	92 92	93 93
9. To provide spaces in the public secondary phase in accordance to policy.	<ul style="list-style-type: none">No. of spaces provided.	967,000	947,000
10. To provide educators at the public secondary phase in accordance with policy.	<ul style="list-style-type: none">No. of educators.L:E ratio in the public secondary phase.	27,000 35.8:1	27,000 35.1:1
11. To put the basic infrastructure for secondary schooling in place in accordance to policy.	<ul style="list-style-type: none">No. of new classrooms built.L:C ratio in the public secondary phase.No. of new toilets built.% of schools with water supply.% of capex budget on maintenance% of schools with functioning laboratories	154 40:1 190 66% 68 45%	254 40:1 260 68% 58 57.7%
12. To promote the participation of historically marginalized groups of learners.	<ul style="list-style-type: none">Gender parity index.	F:M 1:0.95	F:M 1:0.95
13. To foster a culture of effective learning and teaching.	<ul style="list-style-type: none">% of learner days lost due to learner absenteeism.% of worker days lost due to educator absenteeism	15% 10%	12% 8%
14. To develop the educator corps.	<ul style="list-style-type: none">Average hours of development activities per educator.	80hrs	80hrs
15. To ensure the flow of learners through the secondary phase is optimal .	<ul style="list-style-type: none">Repetition rateDropout rate% of over-aged learners in the secondary phase	19 9.4 9.2%	18 8.9 9.2%
16. To attain the highest possible educational outcomes amongst learners.	<ul style="list-style-type: none">% of learners in Grade 9 attaining acceptable educational outcomes.Pass ratio in Grade 12 examinations.% of schools with a Grade 12 pass rate of less than 40%.	75 70.8% 14.5%	78 75% 12.5%
Independent School Subsidies			
To support independent schools, especially if catering for the poorer communities, as a complement to public schooling.	<ul style="list-style-type: none">Average real per learner subsidy.	1,160	1,440
Public Special School Education			
To provide spaces in special/full time schools in accordance with policy and the principles of inclusive education.	<ul style="list-style-type: none">No. of learners (in accordance with White Paper 6, this is a value that might drop / rise depending on the specific situation of the province).	10,500	13,000

Table 8.1 Education output measures

Output type	Performance measures	Performance targets	
		2002/03 Est. Actual	2003/04 Estimate
Further Education & Training			
1. To provide an increased number of spaces in FET institutions in accordance to policy.	<ul style="list-style-type: none">% of learners enrolledNo. of full time equivalent enrolments	90 55,000	90 55,000
2. To promote the participation of historically marginalized groups in public FET institutions.	<ul style="list-style-type: none">% of students who are girls or women% of educators who are African	35% 55%	40% 58%
Adult Basic Education & Training			
To provide spaces in public ABET centres in accordance to policy.	<ul style="list-style-type: none">No. of full time equivalent enrolments	29,000	40,000
Early Childhood Development			
1. To maximise the number of learner years of pre-Grade 1 education.	<ul style="list-style-type: none">% of learners in Grade 1 who have received some formal pre-Grade 1 education.	20.2%	30%
2. To provide Grade R spaces in public ordinary schools in accordance to policy, but specifically White Paper 5.	<ul style="list-style-type: none">% of 5 year olds in publicly funded school Grade R	10.1%	11.9%
3. To provide Grade R spaces in education-funded community based sites in accordance to policy, but specifically White Paper 5.	<ul style="list-style-type: none">No. of learners in education-funded community based ECD sites.	16,800	32,000
Auxiliary & Associated Services			
1. To facilitate the building and equipping of libraries, provide resources, cascade information on the Library Information Support Services.	<ul style="list-style-type: none">No. of fully equipped libraries	35	30
2. To provide effective management and control of existing government records, chronicle past histories and promote and archive services in the Province.	<ul style="list-style-type: none">% of records properly archived	50%	67%
3. To facilitate the construction of new museums, generate greater interest to collections, improve displays and support existing museums and human resources.	<ul style="list-style-type: none">No. of new museums opened	40	25
Sport and Recreation			
To provide sport facilities and to organise sporting events at various levels through provincial, national and international events.	<ul style="list-style-type: none">No. of sport events	70	85
Arts and Culture			
To assist individuals and organisations to satisfy their arts and culture needs and aspirations in order to develop their skills and resources so that they can be economically enhanced.	<ul style="list-style-type: none">No. of initiatives taken p.a.	30	35

Table 8.2 Housing output measures

Output type	Performance measures	Performance targets	
		2002/03 Est. Actual	2003/04 Estimate
Project Management			
1. Administer housing subsidies in respect of beneficiaries for approved projects and maintain and update the Performance Developer System	• No. of subsidies approved per development and per project	27, 000	18 ,306
	• Compliance with the subsidy policy	100%	100%
2.Housing delivery	• Projects approved in terms of the Provincial Housing Development Plan	54	47
	• Services completed in terms of the project development programme	27, 000	37, 096
	• Houses built in terms of project development programme	27, 000	18 ,275
	• Properties transferred in terms of project development programme	27, 000	18, 306
	• Compliance with norms and standards	100%	100%
3. Human Resettlement Programme	• Projects approved in terms of HumanResettlement Redevelopment Programme criteria	36	10
	• Projects completed	22	10
Integrated Municipal Support and Assets Management			
1. To provide maintenance of lease units	• No. of housing units maintained	13, 000	13, 200
2. Management of lease and sale of units	• No. of Discount benefits Subsidies granted	0	5 ,000
3. Transfer of Assets to local authorities	• No. of units transferred to Local Authorities	2, 000	1,000
4. Establishment of the Rental Tribunal	• Number of complaints attended to		1 ,200
	• Compliance with time frames in respect of complaints		3 months
5. Manage and upgrade of hostels	• Number of units upgraded	Approximately 762	15% of total no. of units
6. Project initiation and facilitation of new projects	• No. of projects per municipality	56	112
7. Identify Municipality capacity need	• Total number of workshops held with Municipalities on various Housing Programmes	56	56
8. Market the People's Housing Process concept.	• No. of visits conducted per municipality	96	468
	• Number of Provincial Housing Projects initiated	56	56

Table 8.3 Health output measures

Output type	Performance measures	Performance targets	
		2002/03 Est. Actual	2003/04 Estimate
District Health Services			
1. Community Health Clinics: To provide facilities for patients to be treated at primary health care level	• Number of headcounts at an average of 2.8 per member of the indigent population (7,323 million) p.a.	15,745,172	17,321,000
2. Community Health Centres: To provide facilities for patients to be treated at primary health care level	• Number of headcounts at an average of 2.8 per member of the indigent population (7,323 million) p.a.	1,736,480	1,910,000
3. District Hospitals To provide for patients who require admission to a hospital for treatment at a general practitioner level.	• Number of admissions to be maintained at present level or reduced	275,598	275,598
Emergency Medical Services			
Emergency Medical Services: To render emergency medical services	• Number of cases using emergency medical services	351,248	387,000
Provincial Hospital Services			
1. General Hospitals To provide hospital facilities for patients that require treatment at specialist level.	• Number of admissions to be maintained at present levels or reduced	274,064	275,000
2. Tuberculosis Hospitals To provide hospital facilities for patients that require treatment for tuberculosis.	• Number of admissions to be increased resulting from HIV/AIDS		5,400
3. Psychiatric Hospitals To provide hospital facilities for patients that require mental health care.	• Number of admissions to be increased in rural areas	4,362	4,800
4. Chronic Medical Hospitals To provide hospital facilities for patients requiring long-term care	• Number of admissions to be increased as a result of HIV/AIDS	1,198	1,200
5. Dental Training Hospitals To provide hospital facilities for dental health care and to provide training for dental personnel.	• Number of cases to be increased • Number of students trained to be maintained	47,880 66	52,700 66
Central Hospital Services			
Central Hospitals Services To provide facilities and expertise for sophisticated medical procedures	• No of admissions to be increased in line with National guidelines	64,556	71,000
Health Services and Training			
Nurse Training Colleges	• No. of nurses trained per annum	3,788	5,682
Bursaries	• No. of students funded per annum	605	670
Other	• No. of community health workers trained	2,000	2,200
	• No. of hospital managers trained	0	240
	• No. of employees trained in computer literacy	1,712	2,500
	• No. of interns	297	300
	• No. of persons in skills development programme	1,200	1,200
Health Facilities Management			
Health Facilities Management	• New facilities – no. of projects to be completed	36	108
	• Rehabilitation – no. of projects to be completed	39	49
	• Replacement – no. of projects to be completed	37	35
	• Upgrading – no. of projects to be completed	447	408

Table 8.4 Transport output measures

Outputs	Performance Measures	Performance targets	
		2002/03 Est. Actual	2003/04 Estimate
Roads			
Surfaced Roads			
1. Upgrade to surfaced roads (ARRUP)	• Kilometres of ARRUP roads constructed	36	63
2. Rehabilitation of surfaced roads	• No. of square meters: Light rehabilitation	163 320	173 050
	• No. of square meters: Heavy rehabilitation	321 136	265 600
3. Maintain surfaced roads	• No. of square meters: Tarred roads resealed	577 900	425 000
	• No. of square meters: Blacktop patching	68 000	61 600
Gravel Roads			
4. Construct local access roads	• Kilometres of local roads constructed	410	340
5. Maintain local roads - <i>Zibambele</i>	• Number of workers employed by <i>Zibambele</i> maintenance programme	14 800	17 390
	• Kilometres of road maintained – <i>Zibambele</i>	9 620	11 300
6. Maintain gravel roads	• Kilometres of road bladed	44 220	51 250
	• Kilometres of road regavelled	498	1 200
General			
7. Construction of causeway s and bridges	• Number of causeways constructed	68	58
	• Number of bridges constructed	3	3
8. Award contracts to emerging contractors	• No. of contracts awarded to <i>Vukzakhe</i> contractors		
	- Stage 1	480	418
	- Stage 2	144	217
	- Stage 3	78	123
	- stage 4	15	7
9. Create employment opportunities	• Number of opportunities: person days	110 000	115 000
Road Traffic			
1. Provide a safe road environment through community outreach and development	• Events management: Number of events	20	20
	• Development and training of Community Roadside Committees (CRSCs) : Total number of CRSCs	35	35
2. Engineering of hazardous location	• High incident location remediation:		
	- No. of minor remediations	9	8
	- No. of major remediations	1	2
3. Promote safe use of public roads	• Effective enforcement through:		
	- Road side checks	500 000	580 000
	- Govt. vehicle inspections	8 000	10 000
	- Breath tests RTB	300 000	200 000
	- Speed timing exercises	5 000 000	6 000 000
	- Vehicles weighed	180 000	200 000
4. Contribute to visible policing	• Kilometres of road patrolled in the province	2 600 000	2 750 000
5. Issue personalised and specific numbers	• Number of personalised numbers sold	1 000	1 400
6. Reduce the no. of motor vehicle accidents	• Number of accidents in the province	88 079	83 675

Table 8.5 Welfare output measures

Output type	Performance measures	Performance targets	
		2002/03 Est. Actual	2003/04 Estimate
Social Assistance Grants			
1. Payment of grants to all qualifying customers	No of beneficiaries eligible for payment:		
	• Old Age	416,663	424,139
	• War Veterans	690	581
	• Disability	173,368	192,458
	• Grant-in-aid	2,489	2,544
	• Foster Care	30,535	59,976
	• Care Dependency	15,214	17,800
	• Child Support Grant	649,429	782,762
	• Child Support Grant Extension (7 – 13 years)		198,000
Social Welfare Services			
1. Treatment and prevention of substance abuse	• Number of subsidies for the year	3	3
	• Number of State Institutions	2	2
2. Care of the Aged	• Number of subsidies for the year	7	7
	• Number of State Institutions	1	1
3. Crime prevention, rehabilitation and victim empowerment	• Number of subsidies for the year	2	2
	• Number of State Institutions	1	1
4. Service to the Disabled	• Number of subsidies for the year	37	37
	• Number of State Institutions	2	2
5. Child and Youth Care and Protection	• Number of subsidies for the year	2,034	2,034
	• Number of State Institutions	10	10
Developmental and Support Services			
1. Youth Development	• Number of youth programmes for the year	3	4
	• Number of youth engaged in initiatives	128	2,000
	• % of youth linked to other programmes	74%	50%
2. HIV / AIDS	• % of orphans assisted	0	100%
	• % of child headed households assisted	63%	100%
	• Implementation of home based care programmes	21	29
3. Poverty Alleviation	• Number of projects funded per category	114	164
4. NPO and Welfare Organisation Development	• % of Non-profit Organisations (NPOs) trained	5%	5%
	• % of community structures trained	15%	15%
Population Development and Demographic Trends			
1. Population research and demography	• Number of research projects to be undertaken	1 project	2 projects
2. Capacity building	• Number of people trained	25% dept officials 30 NGO's	30 % dept officials 10 NGO's

ANNEXURE to Budget Statement 1 (Budget Overview)

Table 1.A National conditional grants: Implementing departments and name of grants - 2000/01 - 2001/02

Table 1A National Conditional grants - Implementing departments and name of grants - 2000/01 - 2001/02	2000/01							2001/02						
	Original Budget	National roll-overs/ add. alloc.	Total National allocation	Actual transfers	Prov. roll-overs	Total available	Actual expend	Original Budget	National roll-overs/ add. alloc.	Total National allocation	Actual transfers	Prov. roll-overs	Total available	Actual expend
	1	2	3(1+2)	4	5	6(3+5)	7	8	9	10(8+9)	11	12	13(10+12)	14
Vote 3 - Agriculture & Environmental Affairs		5,510	5,510	900		5,510	900		12,485	12,485	12,485	4,610	17,095	11,710
Land Care Grant		4,610	4,610	0		4,610			1,152	1,152	1,152	4,610	5,762	4,610
<i>Prog 2 : Agricultral Development</i>														
Flood Disaster Reconstruction Grant		900	900	900		900	900		7,200	7,200	7,200		7,200	7,100
<i>Prog 2 : Agricultral Development</i>														
Poverty Relief and Infrastructure Development									4,133	4,133	4,133		4,133	
<i>Prog 2 : Agricultral Development</i>														
Vote 5 - Education & Culture	45,765	9,917	55,682	55,682	12,223	67,905	55,897	133,926		133,926	133,926	10,818	144,744	135,258
Provincial Infrastructure								68,179		68,179	68,179		68,179	68,179
<i>Prog 1 : Administration</i>														
<i>Prog 2: Public Ordinary School Education</i>														
HIV/AIDS		4,617	4,617	4,617		4,617	330	14,033		14,033	14,033	4,287	18,320	16,800
<i>Prog 1 : Administration</i>								5,631		5,631	5,631	4,287	9,918	9,918
<i>Prog 1 0: Auxiliary and Ass Services</i>								8,402		8,402	8,402		8,402	6,882
Financial Management & Quality Enhancement	45,765		45,765	45,765	12,223	57,988	51,457	47,073		47,073	47,073	6,531	53,604	46,968
<i>Prog 2 : Public Ordinary School Educ</i>														
Early Childhood Development								4,641		4,641	4,641		4,641	3,311
<i>Prog 1 : Administration</i>														
Flood Disaster Reconstruction Grant		5,300	5,300	5,300		5,300	4,110					1,190	1,190	1,190
<i>Prog 1 : Administration</i>														
Vote 6 - Provincial Treasury		4,667	4,667	4,667	3,400	8,067	4,981					3,086	3,086	1,094
Financial Management		3,000	3,000	3,000	3,400	6,400	4,981					1,419	1,419	816
<i>Prog 3 : Accounting Control</i>														
Vulindlela/LOGIS Roll-out		1,667	1,667	1,667		1,667						1,667	1,667	278
<i>Prog 3 : Accounting Control</i>														
Vote 7 - Health	1,028,866	72,264	1,101,130	1,100,830	10,000	1,111,130	847,925	933,546	9,424	942,970	942,970	114,313	1,194,226	1,278,753
Health Professionals Training & Dev	146,750		146,750	146,750		146,750	146,750	154,388		154,388	154,388		154,388	154,388
<i>Prog 2 : District Health Services</i>	734		734	734		734	734	771		771	771		771	771
<i>Prog 4 : Provincial Hospital Services</i>	130,167		130,167	130,167		130,167	130,167	136,943		136,943	136,943		136,943	136,943
<i>Prog 5 : Central Hospital Services</i>	11,006		11,006	11,006		11,006	11,006	11,579		11,579	11,579		11,579	11,579
<i>Prog 6 : Health Sciences & Training</i>	4,843		4,843	4,843		4,843	4,843	5,095		5,095	5,095		5,095	5,095
Intregated Nutrition Programme	132,471		132,471	132,471		132,471	128,457	132,471		132,471	132,471	4,014	136,485	136,485
<i>Prog 2 : District Health Services</i>														
HIV/AIDS		1,500	1,500	1,000		1,500	135	4,500	9,424	13,924	13,924	1,365	15,289	13,315
<i>Prog 2 : District Health Services</i>														
National Tertiary Services	406,645		406,645	406,645		406,645	406,645	427,525		427,525	427,525		427,525	427,525
<i>Prog 5 : Central Hospital Services</i>														
Hospital Revitalisation	70,000	526	70,526	70,526		70,526	70,526	87,000		87,000	87,000		87,000	87,000
<i>Prog 8 : Health Facilities Management</i>														
Inkosi Albert Luthuli Central Hospital	273,000	58,200	331,200	331,400		331,200	74,331	103,800		103,800	103,800	107,977	211,777	298,278
<i>Prog 8 : Health Facilities Management</i>														
Provincial Infrastructure Cond Grant								23,862		23,862	23,862		23,862	23,862
<i>Prog 8 : Health Facilities Management</i>														
Flood Disaster Reconstruction Grant		9,038	9,038	9,038		9,038	9,038							
<i>Prog 2 : District Health Services</i>														
Hospital Management Improvement		3,000	3,000	3,000		3,000	2,043					957	957	957
<i>Prog 1: Administration</i>		42	42	42		42	42							
<i>Prog 2 : District Health Services</i>		1,917	1,917	1,917		1,917	960					957	957	957
<i>Prog 4 : Provincial Hospital Services</i>		653	653	653		653	653							
<i>Prog 5 : Central Hospital Services</i>		388	388	388		388	388							
<i>Prog 6 : Health Sciences & Training</i>														
KZN Peace Initiative - Phase II					10,000	10,000	10,000							
<i>Prog 4 : Provincial Hospital Services</i>														

Table 1.A National conditional grants: Implementing departments and name of grants - 2000/01 - 2001/02 (cont.)

	2000/01							2001/02						
	Original Budget	National roll-overs/ add. alloc.	Total National allocation	Actual transfers	Prov. roll-overs	Total available	Actual expend	Original Budget	National roll-overs/ add. alloc.	Total National allocation	Actual transfers	Prov. roll-overs	Total available	Actual expend
	1	2	3(1+2)	4	5	6(3+5)	7	8	9	10(8+9)	11	12	13(10+12)	14
Vote 8 : Housing	590,650	54,747	645,397	645,397	25,000	670,397	582,355	642,647	80,000	722,647	722,647	88,042	810,689	695,787
Human Resettlement Grant	3,000		3,000	3,000		3,000	1,275	25,000		25,000	25,000	1,725	26,725	3,203
<i>Prog 1 : Management Services</i>														
Housing Subsidy Grant	587,650	28,650	616,300	616,300		616,300	560,163	617,647	80,000	697,647	697,647	56,137	753,784	665,165
<i>Prog 4 : Project Management</i>														
Capacity Building		1,800	1,800	1,800		1,800	650					1,150	1,150	1,152
<i>Prog 1 : Management Services</i>														
Flood Disaster Reconstruction Grant		24,297	24,297	24,297		24,297	9,129					15,168	15,168	11,409
<i>Prog 1 : Management Services</i>														
KZN Peace Initiative - Phase II					25,000	25,000	11,138					13,862	13,862	14,858
<i>Prog 1 : Management Services</i>														
Vote 11: Traditional & Local Government Affairs	94,158	56,939	151,097	151,097	14,903	166,000	160,564	10,227	29,200	39,427	39,427	9,200	48,627	48,627
Provincial Infrastructure Grant								10,227		10,227	10,227		10,227	10,227
<i>Prog 2 : Traditional Institutional Management</i>														
R293 Towns	94,158		94,158	94,158	14,903	109,061	112,825							
<i>Prog 3 : Local Govt and Dev Planning</i>														
Municipal Financial Assistance Grant		5,805	5,805	5,805		5,805	5,805							
<i>Prog 3 : Local Govt and Dev Planning</i>														
Project Viability : Management Supp. Prog		9,300	9,300	9,300		9,300	100					9,200	9,200	9,200
<i>Prog 3 : Local Govt and Dev Planning</i>														
Local Government Capacity Building									24,400	24,400	24,400		24,400	24,400
<i>Prog 3 : Local Govt and Dev Planning</i>														
Flood Disaster Reconstruction Grant		41,834	41,834	41,834		41,834	41,834		4,800	4,800	4,800		4,800	4,800
<i>Prog 2 : Traditional Institutional Management</i>														
Vote 12 : Transport		60,631	60,631	60,631		60,631	32,325	68,179		68,179	68,179	28,306	96,485	96,485
Flood Disaster Reconstruction Grant		60,631	60,631	60,631		60,631	32,325					28,306	28,306	28,306
<i>Prog 2 : Roads</i>														
Provincial Infrastructure Grant								68,179		68,179	68,179		68,179	68,179
<i>Prog 2 : Roads</i>														
Vote 13 : Social Welfare & Population Development	3,400	6,243	9,643	9,221	2,547	12,190	7,294	2,142	361,157	363,299	363,299	5,056	368,355	4,390
Child Support Grant	3,400		3,400	3,400	350	3,750	2,654					1,096	1,096	1,096
<i>Prog 2 : Social Security</i>														
Financial Man.& Soc. Security System		5,972	5,972	5,577		5,972	3,802	642		642	642	2,170	2,812	714
<i>Prog 2 : Social Security</i>														
Social Grant Arrears									360,928	360,928	360,928		360,928	
<i>Prog 2 : Social Security</i>														
HIV/AIDS								1,500		1,500	1,500		1,500	1,499
<i>Prog 4 : Social Welfare Services</i>														
Victim Empowerment					297	297	297							
<i>Prog 4 : Social Welfare Services</i>														
Criminal Justice					1,900	1,900	110					1,790	1,790	852
<i>Prog 4 : Social Welfare Services</i>														
Women Flagship		271	271	244		271	431		229	229	229		229	229
<i>Prog 4 : Social Welfare Services</i>														
Vote 15 : Reconstruction & Development Programme					72,241	72,241	17,619					54,622	54,622	21,187
KZN Peace Initiative - Phase II					72,241	72,241	17,619					54,622	54,622	21,187
<i>Prog 1 : Reconstruction & Dev</i>														
Total National Conditional Grants	1,762,839	270,918	2,033,757	2,028,425	140,314	2,174,071	1,709,860	1,790,667	492,266	2,282,933	2,282,933	318,053	2,737,929	2,293,291

Table 1.B National conditional grants: Implementing department and name of grants - 2002/03 -2005/06

	2002/03							2003/04	2004/05	2005/06
	Original	Additional	Total National	Est Actual	Provincial	Total	Est. actual	Budget	MTEF	MTEF
	Budget	Allocation	Allocation	transfers	Roll-overs	available	expenditure			
	1	2	3(1+2)	4	5	6(3+5)	7	8	9	10
Vote 3 - Agriculture & Env Affairs	4,000		4,000	4,000	5,385	9,385	9,385	6,500		
Poverty Relief and Infrastructure Development	4,000		4,000	4,000	4,133	8,133	8,133	6,500		
<i>Prog 2 : Agricultral Development</i>										
Land Care Grant					1,152	1,152	1,152			
<i>Prog 2 : Agricultral Development</i>										
Flood Disaster Reconstruction Grant					100	100	100			
<i>Prog 2 : Agricultral Development</i>										
Vote 5 - Education & Culture	224,898	1,547	226,445	226,445	9,486	235,931	235,931	297,998	330,507	351,086
Provincial Infrastructure Conditional Grant	132,449		132,449	132,449		132,449	132,449	200,121	247,178	262,757
<i>Prog 2 : Public Ordinary School Education</i>										
HIV/AIDS	31,382	442	31,824	31,824	1,520	33,344	33,344	26,624	28,416	30,120
<i>Prog 1 : Administration</i>	5,313		5,313	5,313		5,313	5,313	5,005	5,409	5,545
<i>Prog 8: Auxiliary & Ass Services</i>	26,069	442	26,511	26,511	1,520	28,031	28,031	21,619	23,007	24,574
Financial Man. & Quality Enhancement	49,575	884	50,459	50,459	6,636	57,095	57,095	51,805	54,913	58,209
<i>Prog 2 : Public Ordinary School Educ</i>										
Early Childhood Development	11,492	221	11,713	11,713	1,330	13,043	13,043	19,448		
<i>Prog 7 : Non-formal Education</i>										
Vote 6 : Provincial Treasury					1,992	1,992	1,992			
Financial Management					603	603	603			
<i>Prog 3 : Accounting Control</i>										
Vulindlela/ILOGIS Roll-out					1,389	1,389	1,389			
<i>Prog 3 : Accounting Control</i>										
Vote 7 - Health	968,263	50,258	1,018,521	1,018,521	1,974	1,020,495	1,020,495	1,197,899	1,414,604	1,535,876
Health Professionals Training & Dev	160,495	4,260	164,755	164,755		164,755	164,755	167,553	180,629	192,373
<i>Prog 2 : District Health Services</i>	802	21	823	823		823	823	16,838	16,903	16,962
<i>Prog 4 : Provincial Hospital Services</i>	144,586	3,779	148,365	148,365		148,365	148,365	132,619	144,218	154,635
<i>Prog 5 : Central Hospital Services</i>	9,858	319	10,177	10,177		10,177	10,177	12,566	13,547	14,428
<i>Prog 6 : Health Sciences & Training</i>	5,249	141	5,390	5,390		5,390	5,390	5,530	5,961	6,348
Intregated Nutrition Programme	132,471	3,866	136,337	136,337		136,337	136,337	176,646	207,612	227,518
<i>Prog 2 : District Health Services</i>										
HIV/AIDS	39,260	13,236	52,496	52,496	1,974	54,470	54,470	85,591	122,270	123,313
<i>Prog 2 : District Health Services</i>										
National Tertiary Services	480,679	7,896	488,575	488,575		488,575	488,575	551,831	619,462	686,637
<i>Prog 5 : Central Hospital Services</i>										
Hospital Revitalisation	90,000	21,000	111,000	111,000		111,000	111,000	129,860	178,054	190,292
<i>Prog 8 : Health Facilities Management</i>										
Provincial Infrastructure Grant	46,358		46,358	46,358		46,358	46,358	70,043	86,512	91,965
<i>Prog 8 : Health Facilities Management</i>										
Hospital Management Improvement	19,000		19,000	19,000		19,000	19,000	16,375	20,065	23,778
<i>Prog 1: Administration</i>	320		320	320		320	320	280	340	400
<i>Prog 2 : District Health Services</i>	9,020		9,020	9,020		9,020	9,020	7,770	9,525	11,290
<i>Prog 4 : Provincial Hospital Services</i>	6,620		6,620	6,620		6,620	6,620	5,705	6,990	8,280
<i>Prog 5 : Central Hospital Services</i>	2,540		2,540	2,540		2,540	2,540	2,190	2,680	3,180
<i>Prog 6 : Health Sciences & Training</i>	500		500	500		500	500	430	530	628

Table 1.B National conditional grants: Implementing department and name of grants - 2002/03 -2005/06 (cont.)

	2002/03							2003/04	2004/05	2005/06
	Original Budget 1	Additional Allocation 2	Total National Allocation 3(1+2)	Est Actual transfers 4	Provincial Roll-overs 5	Total available 6(3+5)	Est. actual expenditure 7	Budget 8	MTEF 9	MTEF 10
Vote 8 : Housing	733,759	12,045	745,804	745,804	169,375	915,179	915,179	822,390	776,023	814,426
Human Resettlement Grant	25,000	486	25,486	25,486	23,522	49,008	49,008			
<i>Prog 1 : Management Services</i>								26,000	27,560	20,490
<i>Prog 4 : Project Management</i>										
Housing Subsidy Grant	708,759	11,559	720,318	720,318	142,094	862,412	862,412	796,390	748,463	793,936
<i>Prog 4 : Project Management</i>										
Flood Disaster Reconstruction Grant					3,759	3,759	3,759			
<i>Prog 1 : Management Services</i>										
Vote 11 : Trad & Local Govt Affairs	46,317	28,489	74,806	74,806		74,806	74,806	76,771	82,610	48,313
Provincial Infrastructure Grant	19,867		19,867	19,867		19,867	19,867	30,017	37,076	39,413
<i>Prog 2 : Traditional Institutional Management</i>										
Consolidated Municipal Infrastructure Programme		28,489	28,489	28,489		28,489	28,489	7,874	8,353	8,900
<i>Prog 3 : Local Govt and Dev Planning</i>										
Local Government Capacity Building	26,450		26,450	26,450		26,450	26,450	38,880	37,181	
<i>Prog 3 : Local Govt and Dev Planning</i>										
Vote 12 : Transport	132,449		132,449	132,449		132,449	132,449	200,121	247,178	262,757
Prov Infrastructure Conditional Grant	132,449		132,449	132,449		132,449	132,449	200,121	247,178	262,757
<i>Prog 2 : Roads</i>										
Vote 13 : Welfare	9,662	182	9,844	9,844	363,964	373,808	373,808	315,324	804,658	1,449,510
Child Support Extension Grant								235,143	723,700	1,367,785
<i>Prog 2 : Social Security</i>										
Financial Man.& Soc. Security System	1,200		1,200	1,200	2,098	3,298	3,298			
<i>Prog 2 : Social Security</i>										
Food Relief Grant								68,185	68,185	68,185
<i>Prog 4 : Social Welfare Services</i>										
HIV/AIDS	8,462	182	8,644	8,644		8,644	8,644	11,996	12,773	13,540
<i>Prog 4 : Social Welfare Services</i>										
Criminal Justice					938	938	938			
<i>Prog 4 : Social Welfare Services</i>										
Social Grant Arrears					360,928	360,928	360,928			
<i>Prog 2 : Social Security</i>										
Vote 15 : Reconstruction & Dev Prog					33,435	33,435	33,435			
KZN Peace Initiative - Phase II					33,435	33,435	33,435			
<i>Prog 1 : Reconstruction & Dev</i>										
Total National Conditional Grants	2,119,348	92,521	2,211,869	2,211,869	585,611	2,797,480	2,797,480	2,917,003	3,655,580	4,461,968

Table 1.C Details of Function

Function	Category	Department	Programme
General Public Services	Executive & Legislative	Office of the Premier Provincial Parliament	Premier & Director-General Administration Auxiliary & associated services
		The Royal Household	Support services His Majesty the King Maintenance of the Royal Household His Majesty the King's farms
	General Services	Office of the Premier	Premier & Director-General Development & Human Rights Corporate & Support Services Financial Management & Procurement
		Transport Works	Administration Administration Real estate
		General Policy & Administration	Administration Traditional Institutional Management Local Government Auxiliary & associated services
	Financial & Fiscal Affairs	Provincial Service Commission	Administration
		Agriculture & Environmental Affairs	Auxiliary & associated services
		Provincial Treasury	Transverse support Budget & Procurement Management Accounting control Financial Management Support Internal audit
Public Order & Safety Affairs	Public order & safety affairs n.e.c	Safety & Security	Administration Civilian secretariat Auxiliary & associated services
	Traffic control	Transport	Road traffic Auxiliary & associated services
Education Affairs & Services	Education affairs & services n.e.c	Education & culture	Administration Auxiliary & associated services
	Subsidiary services to education	Education & culture	Auxiliary & associated services
	Tertiary education services not leading to a University degree	Agriculture & Environmental Affairs Education & Culture Health	Agricultural training Teacher training Health sciences & training
	Pre-primary, primary & secondary education	Education & Culture	Public ordinary school education Independent school subsidies
	Education services not defined by level	Education & Culture	Public special school education Further Education & Training ABET/ Early childhood development
Health Affairs & Services	Administration & control of health affairs & services n.e.c.	Health	Administration Health sciences Health care support services Health facilities management
	Hospital & clinic affairs & services	Health	Provincial hospital services Central health services
	Primary health services	Health	District health services
	Ambulance services	Health	Emergency Medical Services
Community & Social Services	Social security & welfare affairs n.e.c.	Welfare & Population Development	Administration Social Assistance Grants Social Welfare Services Development & support services Social Assistance Grants
	Family & child allowances	Welfare & Population Development	
	Old age, disability or war veteran's benefits other than for government employees	Welfare & Population Development	Social Assistance Grants
	Other social assistance to persons	Welfare & Population Development	Social Assistance Grants
	Welfare services - children's residential institutions	Welfare & Population Development	Social Welfare Services
	Welfare services - old persons residential institutions	Welfare & Population Development	Social Welfare Services
	Welfare services - h&icapped persons	Welfare & Population Development	Social welfare services
	Welfare services not delivered through residential institutions	Welfare & Population Development	Social Welfare Services
	Research & development	Welfare & Population Development	Development & Support Services
		Welfare & Population Development	Population development & demographic trends Population development

Table 1.C Details of Function (cont.)

Function	Category	Department	Programme
Housing & Community (Amenity) Affairs & Services	Community development affairs & services Housing affairs & services	Traditional & Local Government Affairs	Rural Development Facilitation
		Housing	Management services Corporate Services Planning, legal services & info. mangmnt Project management Integrated municipal support & assets management Auxiliary & associated services
	Nature conservation	Agriculture & Environmental Affairs	Auxiliary & associated services
	Pollution abatement & control affairs	Agriculture & Environmental Affairs	Veterinary & Environmental Services
Recreational, Cultural & Religious Affairs & Services	Sporting & recreational affairs & services	Education & Culture	Sport & recreation
	Recreational, cultural & religious affairs & services n.e.c.	Economic Development & Tourism	Tourism, Trade & Investment
	Cultural affairs & services	Education & Culture	Arts & culture
			Auxiliary & associated services
		Office of the Premier	Finance & Auxiliary Services Corporate & Support Services
Agriculture Affairs & Services	Agriculture affairs & services, except subsidies on agricultural products	Agriculture & Environmental Affairs	Administration Agricultural development services Veterinary & Environmental Services Agricultural training
Transportation & Communication Affairs	Air transport affairs & services	Office of the Premier	Aviation services
	Transportation affairs & services n.e.c.	Economic Development & Tourism	Tourism, Trade & Investment
		Transport	Public transport
	Road affairs & services	Transport	Roads Auxiliary & associated services
Other Economic Affairs & Services	Other economic affairs & services n.e.c.	Economic Development & Tourism	Administration Tourism, Trade & Investment Development planning Land & survey
	Multipurpose development project affairs & services	Economic Development & Tourism	Spacial Economic Co-ordination Tourism, Trade & Investment
		Reconstruction & development	Reconstruction & development
	General economic & commercial affairs other than general labour affairs	Economic Development & Tourism	Business & Sector Development
	Regional development	Economic Development & Tourism	Tourism, Trade & Investment Policy Development Special projects
Other functional & unallocable items	Tourism affairs & services	Economic Development & Tourism	Tourism, Trade & Investment
	Capital unallocable	Economic Development & Tourism	Tourism, Trade & Investment

Table 1.D Expenditure by policy area

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
R000	Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
GENERAL PUBLIC SERVICES	1,179,978	1,025,017	1,524,049	1,607,462	1,985,474	2,241,128
Executive & Legislative	108,275	134,053	162,629	183,286	167,707	177,710
Office of the Premier	5,590	6,170	6,532	6,316	6,657	7,123
Provincial Parliament (including all statutory payments and ministries)	88,420	108,131	134,475	156,894	139,731	147,989
The Royal Household	14,265	19,752	21,622	20,076	21,319	22,598
General Services	547,891	429,501	504,066	570,566	606,532	643,754
Office of the Premier	57,159	63,211	91,847	95,199	99,632	105,584
Transport	64,074	73,796	99,681	97,766	106,292	113,498
Works	426,658	292,494	312,538	377,601	400,608	424,672
General Policy & Administration	419,737	371,354	435,549	457,196	479,274	468,871
Traditional and Local Government Affairs	419,497	370,341	435,283	455,830	477,808	467,317
Agriculture & Environmental Affairs	240	1,013	266	1,366	1,466	1,554
Financial & Fiscal Affairs	104,075	90,109	421,805	396,414	731,961	950,793
Provincial Treasury	104,075	90,109	421,805	396,414	731,961	950,793
PUBLIC ORDER & SAFETY AFFAIRS	171,616	174,446	210,550	225,243	237,894	251,567
Public Order & Safety Affairs n.e.c.	5,211	6,808	14,582	14,947	15,664	16,604
Safety and Security	5,211	6,808	14,582	14,947	15,664	16,604
Traffic Control	166,405	167,638	195,968	210,296	222,230	234,963
Transport	166,405	167,638	195,968	210,296	222,230	234,963
EDUCATION AFFAIRS & SERVICES	8,227,402	9,301,269	10,195,291	11,895,854	12,709,940	13,482,800
Education Affairs & Services n.e.c.	280,890	630,121	584,497	690,217	734,552	784,182
Education and Culture	280,890	630,121	584,497	690,217	734,552	784,182
Subsidiary Services to Education	146,619	176,679	251,427	293,141	309,443	330,183
Education and Culture	146,619	176,679	251,427	293,141	309,443	330,183
Tertiary Education Services not leading to a University Degree	280,610	239,996	189,946	169,582	183,133	195,423
Agriculture & Environmental Affairs	8,101	10,024	11,189	11,353	12,034	12,756
Education and Culture	162,752	96,194	26,075	0	0	0
Health	109,757	133,778	152,682	158,229	171,099	182,667
Pre-primary, Primary and Secondary Education	7,200,905	7,858,067	8,699,957	10,193,734	10,889,677	11,539,361
Education and Culture	7,200,905	7,858,067	8,699,957	10,193,734	10,889,677	11,539,361
Education Services not defined by level	318,378	396,406	469,464	549,180	593,135	633,651
Education and Culture	318,378	396,406	469,464	549,180	593,135	633,651
HEALTH AFFAIRS & SERVICES	5,659,032	6,893,023	7,262,284	7,892,180	8,500,166	9,018,987
Administration & control of Health Affairs & Services n.e.c.	400,528	830,904	623,840	759,961	849,902	901,790
Health	400,528	830,904	623,840	759,961	849,902	901,790
Hospital & Clinic Affairs & Services	2,370,031	2,577,083	2,824,984	3,220,779	3,434,140	3,662,124
Health	2,370,031	2,577,083	2,824,984	3,220,779	3,434,140	3,662,124
Primary Health Services	2,734,315	3,326,700	3,630,479	3,665,126	3,944,728	4,173,478
Health	2,734,315	3,326,700	3,630,479	3,665,126	3,944,728	4,173,478
Ambulance Services	154,158	158,336	182,981	246,314	271,396	281,595
Health	154,158	158,336	182,981	246,314	271,396	281,595
COMMUNITY & SOCIAL SERVICES	4,330,205	5,045,392	6,778,703	7,939,969	9,450,685	11,009,369
Social Security & Welfare Affairs n.e.c.	376,954	402,623	544,250	737,714	900,878	1,087,102
Social Welfare and Population Development	376,954	402,623	544,250	737,714	900,878	1,087,102
Family & Child Allowances	393,545	714,523	1,305,350	1,814,204	2,569,493	3,301,409
Social Welfare and Population Development	393,545	714,523	1,305,350	1,814,204	2,569,493	3,301,409
Old Age, Disability or War Veteran's benefits other than for Government Employees	3,392,227	3,726,637	4,671,161	4,992,060	5,548,738	6,153,656
Social Welfare and Population Development	3,392,227	3,726,637	4,671,161	4,992,060	5,548,738	6,153,656
Other Social Assistance to persons	3,586	3,092	10,109	11,482	13,386	15,984
Social Welfare and Population Development	3,586	3,092	10,109	11,482	13,386	15,984
Welfare Services - Children's Residential Institutions	86,441	94,344	130,584	168,403	173,814	179,909
Social Welfare and Population Development	86,441	94,344	130,584	168,403	173,814	179,909
Welfare Services - Old Persons Residential Institutions	36,585	47,209	46,574	54,880	58,583	69,583
Social Welfare and Population Development	36,585	47,209	46,574	54,880	58,583	69,583
Welfare Services - Handicapped Persons	25,395	28,904	30,252	36,655	41,554	48,554
Social Welfare and Population Development	25,395	28,904	30,252	36,655	41,554	48,554
Welfare Services not delivered through residential institutions	15,159	17,468	18,169	29,432	36,681	45,081
Social Welfare and Population Development	15,159	17,468	18,169	29,432	36,681	45,081
Research & Development	313	10,592	22,254	95,139	107,558	108,091
Social Welfare and Population Development	313	10,592	22,254	95,139	107,558	108,091

Table 1.D Expenditure by policy area (cont.)

R000	2000-2001 Actual	2001-2002 Actual	2002-2003 Adj. Budget	2003-2004 Budget	2004-2005 MTEF	2005-2006 MTEF
HOUSING & COMMUNITY (AMENITY) AFFAIRS & SERVICES	972,714	1,054,355	1,299,211	1,216,456	1,184,673	1,248,125
Housing Affairs & Services	782,903	833,471	1,069,266	975,896	937,840	986,484
Housing	782,903	833,471	1,069,266	975,896	937,840	986,484
Nature Conservation	182,484	206,972	203,832	208,634	209,819	222,408
Agriculture & Environmental Affairs	182,484	206,972	203,832	208,634	209,819	222,408
Pollution Abatement & Control Affairs	7,327	13,912	26,113	31,926	37,014	39,233
Agriculture & Environmental Affairs	7,327	13,912	26,113	31,926	37,014	39,233
RECREATIONAL, CULTURAL & RELIGIOUS AFFAIRS & SERVICES	78,919	113,152	123,260	152,591	160,962	173,848
Sporting & Recreational Affairs & Services	6,568	11,747	16,030	20,485	21,427	22,872
Education and Culture	6,568	11,747	16,030	20,485	21,427	22,872
Recreational, Cultural & Religious Affairs & Services n.e.c.	5,000	4,000	4,000	4,000	4,000	4,000
Economic Development and Tourism	5,000	4,000	4,000	4,000	4,000	4,000
Cultural Affairs & Services	67,351	97,405	103,230	128,106	135,535	146,976
Education and Culture	53,702	84,011	86,128	112,110	119,000	129,448
Office of the Premier	13,649	13,394	17,102	15,996	16,535	17,528
AGRICULTURE AFFAIRS & SERVICES	361,531	418,620	474,279	531,864	564,316	597,466
Agriculture Affairs & Services, except subsidies on agricultural products	361,531	418,620	474,279	531,864	564,316	597,466
Agriculture & Environmental Affairs	361,531	418,620	474,279	531,864	564,316	597,466
TRANSPORTATION & COMMUNICATION AFFAIRS & SERVICES	704,222	893,040	917,166	1,263,343	1,441,345	1,575,074
Transportation Affairs & Services n.e.c.	49,683	41,944	39,222	49,500	51,962	55,080
Office of the Premier	19,568	19,540	19,444	20,039	20,733	21,977
Economic Development and Tourism	12,200	2,700	0	0	0	0
Transport	17,915	19,704	19,778	29,461	31,229	33,103
Road Affairs & Services	654,539	851,096	877,944	1,213,843	1,389,383	1,519,994
Transport	654,539	851,096	877,944	1,213,843	1,389,383	1,519,994
OTHER ECONOMIC AFFAIRS & SERVICES	84,759	142,880	199,154	183,327	198,428	209,992
Other Economic Affairs & Services n.e.c.	12,169	19,856	22,831	25,405	27,752	29,548
Economic Development and Tourism	12,169	19,856	22,831	25,405	27,752	29,548
Multipurpose Development Project Affairs & Services	23,946	51,554	77,421	32,725	35,684	37,951
Economic Development and Tourism	6,327	30,136	41,486	32,725	35,684	37,951
Reconstruction and development	17,619	21,418	35,935	0	0	0
General Economic & Commercial Affairs other than General Labour Affairs	7,865	15,088	20,904	31,650	34,511	36,703
Economic Development and Tourism	7,865	15,088	20,904	31,650	34,511	36,703
Regional Development	6,218	12,905	27,116	31,665	34,529	36,722
Economic Development and Tourism	6,218	12,905	27,116	31,665	34,529	36,722
Tourism Affairs & Services	34,561	43,477	50,882	61,882	65,952	69,068
Economic Development and Tourism	34,561	43,477	50,882	61,882	65,952	69,068
OTHER FUNCTIONAL & UNALLOCABLE ITEMS	29,000	0	0	0	0	0
Capital Unallocable	29,000	0	0	0	0	0
Economic Development and Tourism	29,000	0	0	0	0	0
GRAND TOTAL FOR ALL FUNCTIONS	21,799,378	25,061,194	28,983,947	32,908,289	36,433,883	39,808,356

Table 1.E Details expenditure for infrastructure (capital)

Category / Type of structure	Department	No. of	Total	2003/04	2004/05	2005/06
R000		Projects	Cost	Budget	MTEF	MTEF
NEW CONSTRUCTIONS/REPLACEMENT		2,576	5,553,074	1,598,989	1,697,197	1,854,516
Buildings (Offices, laboratories, etc)	Agriculture	14	45,972	25,851	8,321	11,800
Dams	Agriculture	4	18,558	5,858	6,350	6,350
Boreholes	Agriculture	1	80	25	25	30
Roads to fields	Agriculture	1	0	0	0	0
Irrigation schemes	Agriculture	13	36,200	9,400	13,400	13,400
Community Projects (gardens, poultry, bees, etc)	Agriculture	99	25,680	5,014	10,883	9,783
Schools	Education	31	210,000	50,000	60,000	100,000
Additional classrooms	Education	840	430,000	130,000	140,000	160,000
Other School facilities (Laboratories, Sport facilities, etc.)	Education	240	100,000	20,000	40,000	40,000
Administration blocks (includes office accommodation)	Education	40	30,000	10,000	10,000	10,000
Community Health Services	Health	108	156,875	27,361	32,750	35,350
District Hospitals	Health	269	1,771,494	67,884	154,115	160,381
Emergency Medical Services	Health	5	17,350	1,150	1,300	2,100
Provincial Hospital Services	Health	76	600,335	49,120	53,605	57,000
Central Hospital Services	Health	3	50,250	5,957	6,551	7,007
Other Services	Health	7	20,110	2,735	3,257	4,020
Houses	Housing	47	796,390	796,390	748,463	793,936
Local Roads	Transport	693	1,005,488	319,079	333,878	352,531
Surfaced Roads	Transport	14	135,202	42,415	45,080	47,707
Administration blocks (includes office accommodation)	Welfare	21	41,961	9,265	13,407	19,289
Administration blocks (includes office accommodation)	Works	50	61,129	21,485	15,812	23,832
UPGRADING/REHABILITATION		4,888	5,942,842	1,213,729	1,402,382	1,534,509
Buildings (Offices, laboratories, etc)	Agriculture		6,488	4,628	513	1,347
Roads to fields	Agriculture		5,100	3,200	1,900	0
Irrigation schemes	Agriculture		25,816	4,681	9,885	11,250
Schools	Education	1,700	362,000	212,895	267,255	283,746
Additional classrooms	Education	0	0	0	0	0
Other School facilities (Laboratories, Sport facilities, etc.)	Education	0	0	0	0	0
Administration blocks (includes office accommodation)	Education	120	30,000	10,000	10,000	10,000
Community Health Services	Health	625	309,480	61,671	44,216	42,008
District Hospitals	Health	863	867,782	74,675	70,212	67,230
Emergency Medical Services	Health	42	4,491	1,142	957	955
Provincial Hospital Services	Health	624	1,136,969	95,401	95,743	114,684
Central Hospital Services	Health	88	677,772	60,065	52,512	65,520
Other Services	Health	192	193,340	31,227	35,805	26,074
Houses	Housing					
Administrative centres	TLGA	54	10,175	20,425	22,024	23,345
Upgrade surfaced roads (ARRUP)	Transport	14	965,403	232,603	334,369	398,431
Upgrade other surfaced roads	Transport	21	562,704	177,181	186,049	199,474
Rehabilitation of surfaced roads	Transport	99	275,000	85,000	93,000	97,000
Periodic maintenance of roads	Transport	387	473,027	129,282	161,884	181,861
Administration blocks (includes office accommodation)	Welfare		14,822	5,622	4,500	4,700
Administration blocks (includes office accommodation)	Works	59	22,473	4,031	11,558	6,884
OTHER CAPITAL PROJECTS		443	42,036	51,407	84,159	84,768
Provision of water						
Provision of electricity		86	6,638	4,148	4,472	4,741
Sanitation/Toilets		36	1,486	20,929	51,001	51,061
Fencing		27	1,216	760	820	869
Land care projects		1	15,300	4,100	5,600	5,600
Other		293	17,396	21,470	22,266	22,497
Total		7,907	11,537,952	2,864,125	3,183,738	3,473,793

Table 1.F Transfer to Municipalities

Category	Name of Municipality	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
R000		Actual	Actual	Adj. Budget	Budget	MTEF	MTEF
Category A		22,447	23,376	24,522	27,392	28,811	30,399
	eThekweni	22,447	23,376	24,522	27,392	28,811	30,399
Category B		28,652	78,893	83,329	94,680	102,711	84,014
	Abaqulusi	305	1,062	808	647	491	519
	Dannhauser	264	1,478	1,258	473	392	415
	eDumbe	381	1,370	900	740	589	624
	Emnambithi-Ladysmith	1,299	2,966	3,447	3,093	2,152	2,284
	Endumeni	957	2,154	1,621	1,459	1,430	1,514
	Greater Kokstad	554	1,680	1,881	1,165	797	844
	Hibiscus Coast	1,592	2,190	2,113	2,691	2,409	2,556
	Hlabisa	-	775	564	180	-	-
	Imbabazane	-	492	564	100	-	-
	Impendle	-	791	564	-	-	-
	Indaka	-	662	474	100	-	-
	Ingwe	-	1,822	251	407	-	-
	Inyala / Mtubatuba	-	645	1,100	330	-	-
	Izingolweni	-	806	334	406	-	-
	Jozini	-	760	744	180	-	-
	Khiphinkunzi	-	217	322	207	-	-
	KwaDukuza	-	1,719	605	262	60	65
	Kwa Sani	1,021	1,721	1,336	2,169	1,988	2,107
	KZ5a5	20	1,152	440	226	20	21
	Mandeni	454	1,251	1,659	1,133	764	810
	Maphumulo	-	920	598	207	-	-
	Matatiele	563	1,240	1,108	1,026	863	916
	Mbonambi	-	649	294	180	-	-
	Mkhambathini	-	1,133	421	-	-	-
	Mooi Mpofana	269	1,571	1,890	617	652	692
	Msunduzi	5,999	6,939	7,619	9,489	9,092	9,579
	Mthonjaneni	250	632	573	635	321	340
	Ndwedwe	-	921	598	207	-	-
	Newcastle	514	698	1,081	1,482	720	765
	Nkandla	-	718	294	330	-	-
	Nongoma	-	104	1,850	180	-	-
	Nquthu	-	849	744	360	-	-
	Ntambanana	-	649	294	180	-	-
	Okhahlamba	441	3,127	1,092	746	682	724
	Richmond	29	650	702	282	34	36
	Ulundi	26	1,266	985	381	43	46
	Umdoni	702	4,854	2,676	1,089	928	984
	Umhlabuyalingana	-	775	964	280	-	-
	uMhlathuze	994	1,031	1,213	1,630	1,528	1,621
	Umlalazi	765	1,339	1,191	1,355	1,238	1,312
	uMngeni	672	3,333	2,149	1,461	908	964
	uMshwathi	-	876	619	528	556	589
	Umsinga	-	834	294	100	-	-
	Umtshezi	344	1,562	973	1,053	749	796
	uMuziwabantu	315	1,458	1,058	617	433	459
	Umvoti	496	1,488	1,243	1,110	801	849
	Umninene	-	728	294	330	-	-
	uPhongolo	20	1,207	1,297	402	23	24
	Utrecht	78	350	576	412	63	64
	Vulamehlo	-	804	329	207	-	-
	OTHER (to be allocated)	9,328	10,475	27,325	51,836	71,985	51,495
Category C		4	39,859	29,946	21,066	24,172	16,105
	Amajuba	-	4,040	3,670	300	-	-
	King Shaka	-	2,241	1,064	530	-	-
	Sisonke	-	6,162	3,650	780	-	-
	Ugu	-	2,622	1,455	380	-	-
	uMgungundlovu	-	1,375	1,842	500	-	-
	Umkhanyakude	-	10,615	3,611	1,060	-	-
	Umzinyathi	-	4,270	3,963	500	-	-
	Uthukela	-	1,384	1,478	-	-	-
	uThungulu	4	2,135	1,699	600	-	-
	Zululand	-	5,015	1,887	650	-	-
	OTHER (to be allocated)	-	-	5,627	15,766	24,172	16,105
Total		51,103	142,128	137,797	143,138	155,694	130,518