

BUDGET STATEMENT 1

Budget Overview

1. BUDGET STRATEGY: AN OVERVIEW

Budget Statement 1 aims to provide an overview of the provincial budget for the Medium Term Expenditure Framework period commencing in 2004/05. It therefore presents the main budget aggregates, including estimates of major revenue categories. And to help the reader appreciate the new budget's highlights and trends, the document reviews the expenditure and revenue pattern of the four financial years preceding the current financial year. On offer, thus, is an actual and estimated expenditure and revenue profile for the province that spans the period 2000/01-2006/07.

But since a government's budget is little more than a financial reflection of its policy choices, Budget Statement 1 also outlines the policy choices that the provincial government had to make in order to formulate the budget. The needs of the people of the province, as well as the rather limited levels of expected revenue and mounting expenditure pressures in the social sectors, conditioned the choices. Needless to say, the choices proved to be hard ones. The government had to address daunting development and fiscal challenges and still curtail spending. Accordingly, the document summarises these challenges, sketching in the process a socio-economic profile of the province, and reviewing its fiscal performance as well as reforms in financial management and accounting control, over the last seven years or so.

The socio-economic profile paints a rather sordid picture: poverty and inequality, despite budgetary assaults directed against them since the 1990s, remain high, and so too is unemployment. Fiscal and budget performance improved dramatically in the few years following 1998, but has weakened recently. The improvement was due to solid achievements made in financial management and accounting control reforms embarked upon since the late 1990s. The reversal of gains in respect of budget performance stems primarily from hard-to-curtail expenditure pressures in the social sectors.

In preparing for the 2004/05 MTEF budget, the provincial government had to develop a strategic framework for evaluating the 2004/05 MTEF budget proposals from departments. The starting point, of course, was to decide on the province's strategic goals, and strategies for achieving them. In addition to developing a strategic framework to guide the formulation of the 2004/05 MTEF budget, it was necessary to take account of the mounting pressures in the social sectors and the very real possibility of only receiving modest increases in allocation from the national government. Such consideration forced on government the realisation that it would have to prioritise its strategic policy choices.

In consequence, rather than the six strategic goals of the 2002/03 financial year, the government decided on only two strategic goals. Subsequently, at a Provincial Growth and Development Strategy (PGDS) Forum workshop held in July 2003, the goals and strategies were motivated and defined more precisely so as to facilitate their alignment with the programmes of provincial departments. A more precise definition was also required to enable departments to quantify their budgets in terms of the strategic goals and strategies.

Thereafter, it was necessary to review high leverage activities, both at cluster and departmental levels, which contributed toward achieving the province's policy priority objectives of previous years. And then criteria were developed to the effect that:

- All projects directly linked to the achievement of the two provincial strategic goals should receive preference; and
- Projects supporting the completion, revision and implementation of the PGDS should also be allocated funds.

The strategic goals and strategies that emanated from the PGDS workshop are as follows:

Provincial strategic goals

- Eradication of poverty and inequality
- Addressing the HIV/AIDS pandemic

Provincial strategies

- Providing social safety nets for the poor
- Investing in infrastructure
- Developing human capability
- Strengthening governance
- Promoting rural development and urban renewal
- Investing in job creating economic growth

To take account of the mounting spending pressures in departments, the Provincial Treasury had to estimate the end of 2003/04 financial year budget position. Indeed, at the end of July 2003, the Provincial Treasury's estimates indicated that the province would end the financial year with an over-expenditure of R1,176 billion. This projected over spending included over-expenditures incurred by the Department of Health in 2001/02 and 2002/03, and by the Departments of Education and Social Welfare in 2002/03. These over-expenditures were included in the projected overall expenditure for the province, as they were to be refunded to the province in the 2003/04 financial year. In addition, the Department of Health indicated that, in order for it to meet the targets of the Strategic Positioning Statement (SPS), it would exceed its 2003/04 budget by R328 million.

The substantial projected over-expenditure for the 2003/04 financial year was a cause of major concern to the province. Accordingly, the government required Executing Authorities and the management of the affected departments to devise measures to cut back on expenditure, to prevent budget over-runs without compromising service delivery. This was no easy task, presenting a major challenge to the departments concerned, and indeed the provincial government as a whole.

To get a handle on the problem, the Provincial Treasury, on behalf of the government, analysed the expenditure patterns of departments. The analysis revealed that all departments were affected by certain strong generic cost drivers. As most of the strong generic cost drivers have structural origins, it is expected that they will continue to influence expenditure within all departments in the new MTEF period. The identified generic cost drivers were the following:

- Salary adjustments and filling of vacant posts – The filling of critical vacant posts and annual improvements in conditions of service received by public sector employees have the effect of increasing total expenditure within departments.
- Backlogs in infrastructure – government's emphasis on reducing infrastructural backlogs across all sectors naturally comes at a cost.
- Petrol / Oil price – increases in the price of crude oil (which in turn increases domestic petrol prices) causes an overall increase in the general price level. This means that those departments which use a large quantity of petrol are directly affected by the increase in the price of petrol, and indirectly affected by the general price increase in all commodities.
- Exchange rate – Volatility in the exchange rate leads to difficulties in forward planning and budgeting. In past years, the depreciating rand has had an adverse effect on those departments which import commodities and equipment into South Africa. The price of foreign based products will increase for South Africans when the Rand depreciates. Of course, in the past year the rand has appreciated – it may, however, be too early to quantify the effect that this appreciation will have on the price of imported commodities and equipment, and hence the budget projections of affected departments.
- Population growth – An increase in the province's population translates directly to increased demand for services such as health, welfare and housing, as well as higher school enrolment figures, etc.

Treasury's analysis also revealed that, apart from the generic cost-drivers mentioned above, there were expenditure pressures specific to the three major social cluster departments. Indeed, it established that these expenditure pressures, in the Departments of Health, Education, and Social Welfare, have been – and if not contained would in the future be – responsible for tilting the provincial budget into the red.

The main expenditure pressures experienced by the three social sector departments were:

- Health:
 - Downward stickiness of medical inflation;
 - Shortage of professional personnel and consequent need to fill vacant posts;
 - Prevention and treatment costs of HIV/AIDS; and
 - Inadequate level of funding from national government for conditional grants (in 2002/03 the department spent R590 million from its equitable share to fund services rendered under the national conditional grants, especially the national tertiary services grant).
- Education:
 - Shortage of personnel – both educators and non-educators.
- Social Welfare:
 - Higher than expected take-up of social security grants, especially the disability grant, foster care grant, care dependency grant and child support grant.

These expenditure pressures are essentially structural in nature; it was therefore assumed that they would continue many years into the future – something well internalised by the budget strategy for the 2004/05 MTEF.

In their 2004/05 MTEF budget submissions, all departments, with the exception of the Provincial Treasury, requested additional funding. The total additional funding requested was astronomical, to say the least – R7,1 billion in 2004/05, R8,7 billion in 2005/06 and R9,4 billion in 2006/07. Not surprisingly, approximately 80 per cent of the additional funding requested over the MTEF period was from the social cluster departments.

Although the amounts requested in most instances reflected genuine expenditure pressures, an initial evaluation of the budget proposals indicated that some departments merely submitted “wish-lists” for additional funding. In any event, only a fraction of the total additional funding requested had been made available to the province by way of an additional allocation for the 2004/05 MTEF.

Prioritisation, which necessarily required making hard policy choices, was the only way out. The challenge, obviously, was how to allocate scarce resources in a balanced manner against a backdrop of competing demands and escalating expenditure pressures. To assist the government to make informed ‘hard choices’, the Provincial Treasury devised a tool (discussed in Section 3) which it used at a technical level to evaluate departmental requests for additional funding. The results of the exercise then formed the basis for the recommendations that were made to the provincial Cabinet on budget allocations.

2. SOCIO-ECONOMIC OUTLOOK

This section sketches the socio-economic profile of the province. Its purpose is to provide a feel of the socio-economic context that conditions the economic and budgetary policies of the provincial government. It is also to present the evolution of key socio-economic indicators, in order to gain a sense of the socio-economic progress made since the mid-1990s.

2.1 Demographics

With a population of 9.4 million¹, the province of KwaZulu-Natal accounts for 21 per cent of the country's population. This makes it South Africa's most populous province, as is evident from Table 2.1. Between the Census years of 1996 and 2001, the province's population grew by an annual average of 2.3 per cent, which is slightly higher than the national average of 2.0 per cent.

Table 2.1: Population distribution by province²

Province	1996		2001		Average Annual increase 1996-2001
	Number	% of total	Number	% of total	
Eastern Cape	6,302,525	15.5	6,436,763	14.4	0.4
Free State	2,633,504	6.5	2,706,775	6.0	0.6
Gauteng	7,348,423	18.1	8,837,178	19.7	3.8
KwaZulu-Natal	8,417,021	20.7	9,426,017	21.0	2.3
Limpopo	4,929,368	12.1	5,273,642	11.8	1.4
Mpumalanga	2,800,711	6.9	3,122,990	7.0	2.2
Northern Cape	840,321	2.1	822,727	1.8	-0.4
North West	3,354,825	8.3	3,669,349	8.2	1.8
Western Cape	3,956,875	9.7	4,524,335	10.1	2.7
Total	40,583,573	100.0	44,819,778	100.0	2.0

Source: Statistics South Africa (2003).

This significant population growth rate is mainly due to a high birth rate during the period. Although 21 per cent of South Africa's people live in KwaZulu-Natal, 26.2 per cent, or 395,450³ of all registered live births in South Africa in 2002 occurred in the province.

Although accurate data on migration from KwaZulu-Natal is not available, there is reason to believe that considerable migration occurs, especially of younger residents seeking better prospects in the urban areas of Gauteng. A lack of employment opportunities in the province seems to be the main cause of the migration. Also, as people get older they tend to return to the province, hence exerting further pressure on the Social Welfare's budget by claiming for old age pension.

In addition, of all individuals resident in the province, 98.97 per cent were born in South Africa; the corresponding national figure is slightly lower, at 97.71 per cent, according to Census 2001 figures. The province also has one of the highest population densities of all of South Africa's provinces, with a relatively small land mass of 92,100 sq km (7.6 per cent of the country's land mass). The population is rather unequally distributed between rural and urban areas. Indeed, about 54 per cent of the province's residents live in rural areas⁴, which is higher than the national average.

¹ Statistics South Africa's mid-year estimate (Statistical Release P0302) of the province's population in 2003 is 9,751,598, of which 46.94 per cent are male and 53.06 per cent female, while the result of the new General Household Survey (GHS) (Statistical Release P0318) of July 2002 indicates that the population in 2002 is 9,531,000, of which 47.02 per cent are male and 52.98 per cent are female.

² The General Household Survey (GHS) (Statistical Release P0318) yields estimates of the population numbers and proportions in July 2002 as: Blacks 8,130,000 (85.30 per cent), Indian/Asians 808,000 (8.48 per cent), Whites 518,000 (5.43 per cent) and Coloureds 68,000 (0.71 per cent).

³ Statistics South Africa's publication, Recorded Live Births, 2002 (Statistical Release P0305) contains more details.

⁴ The urban-rural split of the population is defined in four ways. The figures given here apply to the Enumerator Area (EA) level.

The population is also unequally split between the genders. As Table 2.2 shows, females account for more than half of the province's population, and the factor by which the female population, by age group, exceeds the male increases with age. And as can be expected, the population of youths (1-34 years of age) is higher than that of older persons (35 years of age or older). Between 1996 and 2001, the rate of growth in both the province's male and female populations in the age group 50-54 years is the highest at 5.7 and 6.2 per cent, respectively. The population of females of all ages, shown in Table 2.2, grew on average at 2.4 per cent during this period, which is slightly higher than that for males.

Table 2.2: Gender and age distribution of KwaZulu-Natal's population

Age	1996		2001		Average annual growth rate (%)	
	Males	Females	Males	Females	Male	Female
0-4	480,693	483,852	505,646	507,003	1.0	0.9
5-9	503,465	502,480	558,183	558,828	2.1	2.1
10-14	504,855	513,362	569,275	572,047	2.4	2.2
15-19	444,181	470,123	551,455	575,040	4.4	4.1
20-24	400,114	451,838	432,503	472,719	1.6	0.9
25-29	315,129	369,545	370,486	420,337	3.3	2.6
30-34	261,953	328,631	286,947	346,182	1.8	1.0
35-39	229,213	275,543	257,569	328,203	2.4	3.6
40-44	187,699	221,226	216,918	274,391	2.9	4.4
45-49	156,487	181,444	175,873	220,148	2.4	3.9
50-54	112,978	135,899	149,219	183,669	5.7	6.2
55-59	91,734	121,018	104,872	136,044	2.7	2.4
60-64	65,608	112,863	84,045	131,494	5.1	3.1
65+	137,505	239,068	146,099	290,820	1.2	4.0
Unspecified	58,913	59,599	N/A	N/A	N/A	N/A
Total	3,950,527	4,466,491	4,409,090	5,016,925	2.2	2.4

Source: Statistics South Africa (2003).

Table 2.3: Disability profile of KwaZulu-Natal's population

Disability	1996		2001	
	Number	Proportion	Number	Proportion
Visual	183,758	36.60	110,937	23.57
Aural	76,034	15.14	67,004	14.24
Communication			17,971	3.82
Physical	129,894	25.87	123,853	26.32
Intellectual			45,451	9.66
Emotional			55,883	11.88
Multiple	24,895	4.96	49,489	10.52
Mental	42,646	8.49		
Un-specified	44,863	8.94		
Total	502,090	100.00	470,588	100.00
Disabled as a proportion of KwaZulu-Natal's total population	5.93		4.99	

Source: Statistics South Africa (2003).

The population of KwaZulu-Natal has a rather high disability rate. However, as Table 2.3 shows, the disability rate dropped significantly between the 1996 and 2001 Censuses, from 5.93 to 4.99 per cent, reflecting a drop from a total of 502,090 to 470,588 persons with disabilities. This phenomenon should have led to a decrease in demand for disability grants, had applicants for such grants been screened on purely medical grounds. However, given that related factors are used in order to assess applications, disability grant applications have been increasing rather than decreasing, placing a considerable burden on spending.

To compound the problem, the province also has a high HIV/AIDS prevalence rate. At 11.7 per cent in 2002⁵, it exceeds the national average. The demographic consequences could be dire. The high prevalence rate means that the mortality rate of the province's population will increase gradually during the next few years. In time, the mortality rate could exceed the birth rate, more so as women afflicted by HIV/AIDS are less fecund than non-afflicted women⁶. This makes a population contraction a real possibility in the coming years. Already, as Table 2.4 shows, AIDS had a negative effect on population growth in 2002. And the number of orphans in the province is expected to increase significantly due to the HIV/AIDS epidemic.

Table 2.4: The effect of HIV/AIDS on KwaZulu-Natal's estimated population in the year 2002⁷

Category	Population estimate taking into account additional deaths due to HIV/AIDS	Population estimate without taking into account additional deaths due to HIV/AIDS	Implied additional deaths due to HIV/AIDS
Male	4,328,707	4,370,197	41,490
Female	4,883,415	4,938,368	54,953
Total	9,212,123	9,308,565	96,442

Source: Statistics South Africa (2003).

In summary, the Province of KwaZulu-Natal is characterised by high population growth, birth, and HIV/AIDS prevalence rates – higher in each case than the national average. The province also loses prime age persons and young adults through migration, and has a rather high disability rate. And more than half of its population is rural, with the population of the age band 50-54 years growing very rapidly. These no doubt have serious budgetary implications, and will continue to do so for the years ahead.

Already the population growth, birth, and HIV/AIDS prevalence rates, as well as the high disability rate, have led to huge increases in expenditure on social assistance grants, as Section 6 on Expense makes clear. The high birth rate impacts directly on the demand for the child support and foster care grants. The high HIV/AIDS prevalence rate significantly increases the demand for foster care grants, as well as public sector health expenditure. No doubt, a majority of the people without medical aid – nine-tenths of KwaZulu-Natal's population (Statistics South Africa, 2003) – rely on public sector health care, which for the most part is provided free of charge, especially for AIDS patients. The rapid increase in the number of persons aged between 50 and 54 years is already exerting an upward pressure on expenditure on the old age pension grant. And migration means that the province is losing skilled prime age persons, but has to carry the burden of paying for the old age pensions and medical care of senior citizens who return to the province on retirement.

In addition to having implications for the public sector budget, AIDS is exerting tremendous economic and social costs. Infected persons are suffering directly – from ill-health, loss of income, and higher medical costs. Family members of infected persons also bear significant economic and social costs, as a result of: loss of income following the death of infected breadwinners; increased family expenditure to care for a sick member; and withdrawal from employment or school to care for a sick family member. The effect of all of this on productivity and economic advancement in the province can only be detrimental.

2.2 Socio-economic indicators

More than half of the population of KwaZulu-Natal is officially classified as poor. Much of the poverty, though, is concentrated in rural and peri-urban areas. In 1995, almost 52 per cent of people resident in the province were living below the poverty line. Relative poverty or inequality is also a significant problem – a fact which an inspection of Table 2.5 bears out.

⁵ Refer to the Nelson Mandela/HSRC Study of HIV/AIDS (2002) by the Human Sciences Research Council.

⁶ Refer to the book entitled "Fertility – Current South African Issues of Poverty, HIV/AIDS and Youth", (2003), by the Human Sciences Research Council & Department of Social Development, South Africa (ISBN 0-7969-2035-4).

⁷ In retrospect, this population estimate differs from the one found in the General Household Survey 2002, however, mortality figures should be similar, irrespective of the estimate used.

Table 2.5: Income among KwaZulu-Natal's employed aged 15 - 65 years

Income quartile (Census 2001)	Male				Female				Total	
	Black	Coloured	Indian/ Asian	White	Black	Coloured	Indian/ Asian	White	Number	Proportion
1	40.54	11.21	7.98	4.66	59.00	14.74	13.35	7.16	573,198	35.77
2	55.89	71.17	75.10	42.58	38.41	77.14	77.28	67.35	867,440	54.14
3	3.44	17.15	16.34	49.42	2.49	7.84	8.99	23.96	153,648	9.59
4	0.12	0.47	0.58	3.34	0.10	0.27	0.37	1.53	7,979	0.50
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	1,602,265	100.00

Source: Statistics South Africa (2003).

Table 2.5 summarises income data from Census 2001, and reports it by income quartiles. Quartile 1 in the table represents the lowest income intervals (No income – R800) while, at the other extreme, quartile 4 represents the highest income intervals (R51,201 – R204,801 or more). A study of the table reveals that:

- The earnings of approximately half of White males are in the second-highest quartile, quartile 3 (R6,401 – R51,200);
- Black Africans, especially black African females, earn the least;
- Females generally earn less than males; and
- Most people's earnings belong to quartile 2 (R801 – R6,400).

Thus, while few people earn substantial amounts, a vast majority live at best on modicums. This indicates the existence of considerable inequality in the distribution of income among those employed in the province. Even so, the picture thus painted belies the seriousness of the problem, since the data does not cover the unemployed.

However, the point is that inequality is a serious problem for KwaZulu-Natal; and, addressing it is, understandably, a major policy thrust – a fact well reflected in the expenditure pattern and the 2004/05 MTEF budgets of the social sectors.

Table 2.6: Selected socio-economic indicators, Census 2001.

Provinces	% of households with access to piped water	% of the population aged 20 and above in each province with no education	% of households with refuse removal at least once a week	% of households with access to electricity for lighting
Eastern Cape	62.4	22.8	36.3	49.5
Free State	95.7	16.0	58.6	74.3
Gauteng	97.5	8.4	84.2	80.8
KwaZulu-Natal	73.2	21.9	49.2	61.4
Limpopo	78.0	33.4	14.2	63.8
Mpumalanga	86.7	27.5	38.7	68.3
Northern Cape	96.6	18.2	68.7	75.8
North West	86.2	19.9	37.0	70.5
Western Cape	98.3	5.7	87.8	88.0
Total	86.1	17.9	55.4	69.7

Source: Statistics South Africa (2003).

Table 2.6 gives selected socio-economic indicators for the province. The table shows that for KwaZulu-Natal, of all individuals aged 20 years or above, almost 22 per cent have had no formal schooling at all, a figure which exceeds the national average by about 4 per cent. It also shows that access to potable water remains a problem for many KwaZulu-Natal households. The proportion of households in this province that have access to potable water within their dwellings or a reasonable distance from them is lower than the national average. In the recent past, parts of KwaZulu-Natal have suffered from water-borne diseases such as cholera. Ensuring easy access to potable water should therefore be a policy priority for the province's municipalities. Moreover, less than half of the province's households benefit from refuse removal services at least once a week, and about one-tenth cannot access such services at all. These rates compare unfavourably with the national norms – a situation that should provide cause for concern.

2.3 Economic indicators

This section presents and discusses the structure of the provincial economy, as well as the magnitude and trends of the province's economic indicators, which appear in Tables 2.7 and 2.8.

Table 2.7: Selected economic indicators

Province	Unemployment rate (Official definition - %)	Nominal GDPR (Rm)	Real GDPR (1995 prices - Rm)	Average annual growth – GDPR (%)	Contribution to GDP (%)	Real GDPR per capita (R)
	2003	2002	2002	1996-2002	2002	2002
Eastern Cape	30.2	88,032	52,309	2.1	7.9	8,068
Free State	31.8	64,310	35,786	2.0	5.7	13,161
Gauteng	31.5	379,374	229,306	3.1	33.8	25,262
KwaZulu-Natal	35.5	183,094	110,202	2.6	16.3	11,562
Limpopo	38.4	72,562	40,844	4.0	6.5	7,687
Mpumalanga	30.5	77,835	45,673	3.1	6.9	12,284
Northern Cape	28.9	22,546	13,768	1.4	2.0	16,810
North West	32.9	73,520	37,804	1.7	6.6	10,159
Western Cape	20.3	159,623	98,383	3.0	14.2	21,331
Total	31.2	1,120,896	664,075	2.8	100.0	14,036

Source: Statistics South Africa (2003) and Provincial Treasury (2003).

The discussion of the structure of the provincial economy employs the concept of the gross domestic product per region (GDPR). The GDPR is equal to the total gross value added at basic prices by all industries in a provincial economy, plus taxes on products minus subsidies. Gross value added is the value of output, less the value of intermediate consumption.

KwaZulu-Natal's GDPR was about R110 billion in 2002. Between 1996 and 2002, it grew in real terms⁸ at an average annual rate of only 2.6 per cent, which is slightly less than the national average of 2.8 per cent. During 2002, KwaZulu-Natal's contribution to national gross domestic product (GDP) remained in the neighbourhood of 16 per cent. This level of contribution is surpassed only by Gauteng, indicating the important role that KwaZulu-Natal plays in the South African economy. However, in real GDPR per capita terms, KwaZulu-Natal ranked among the poorer of the country's provinces in 2002, as is obvious from Table 2.7.

The provincial economy's lacklustre growth performance since the mid-1990s has meant that employment demand has at best been sluggish, and that too many retrenchments have occurred in the province's firms. Consequently, the unemployment rate has remained stubbornly high, higher indeed than the national average, as shown in Table 2.7. The number of the unemployed, too, increased steadily between 1996 and 2003. The most recent estimate of unemployment is startling: more than one million people are without work in KwaZulu-Natal.

Such a degree of unemployment, if not reduced, can only worsen poverty and inequality, increase the crime rate, put pressure on government's social sector budget, and could ultimately weaken social cohesion. Eradicating poverty through job-creating public sector investment is fittingly one of the provincial government's schemes for addressing the problem.

This province boasts some of Southern Africa's most important agrarian regions, both in terms of land mass and variety. And the province's primary industries have significant forward linkages with its secondary and tertiary industries. However, although very richly endowed for agricultural production, primary industries contribute the least to the province's GDPR, as is evident from Table 2.8. In fact, in less than a decade, the share of the primary sector has declined sharply. There are two important reasons for the decline.

⁸ The base year for national accounts estimates is 1995=100.

Table 2.8: Composition of KwaZulu-Natal's GDPR (Per cent)

Industry	1995	1996	1997	1998	1999	2000	2001	2002	Average 1995-2002
Primary Industries	7.12	7.76	7.63	7.32	6.28	6.25	6.44	6.67	6.93
Agriculture, forestry & fishing	5.74	5.99	5.95	5.74	5.16	5.12	5.33	5.60	5.58
Mining & quarrying	1.37	1.77	1.68	1.58	1.12	1.13	1.11	1.07	1.35
Secondary Industries	31.02	29.58	29.31	28.26	27.83	27.66	27.79	28.01	28.68
Manufacturing	24.64	23.51	23.21	22.17	22.17	22.28	22.03	23.37	22.92
Electricity & water	3.29	3.13	3.03	3.15	2.94	2.8	2.64	2.46	2.93
Construction	3.09	2.94	3.07	2.95	2.72	2.58	3.12	2.18	2.83
Tertiary Industries	53.47	54.45	54.75	55.85	57.09	57.21	56.93	56.59	55.79
Wholesale & retail trade; hotels & restaurants	12.66	12.2	11.99	11.68	11.64	11.79	12.35	12.39	12.09
Transport & communication	11.38	11.61	11.61	11.72	11.94	12.22	12.08	12.15	11.84
Finance, real estate & business services	12.19	12.49	13.21	13.92	15.26	15.27	14.96	15.03	14.04
Community, social & other personal services	4.98	4.96	5.09	5.33	5.56	5.59	5.61	5.49	5.33
General government services	12.26	13.19	12.84	13.19	12.69	12.33	11.93	11.53	12.50
(a) All industries at basic prices	91.61	91.79	91.69	91.42	91.19	91.12	91.16	91.27	91.41
(b) Taxes less subsidies on products	8.39	8.21	8.31	8.58	8.81	8.88	8.84	8.73	8.59
Total GDPR at market prices(a)+(b)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
KwaZulu-Natal's GDPR/South Africa's GDPR	16.78	16.84	16.72	16.65	16.40	16.35	16.53	16.33	16.58

Source: Statistics South Africa (2003).

First, with the aging of coalmines, stocks have dwindled and exploitation costs have escalated, with a negative impact on output. Indeed, Mining & Quarrying is the only sub-sector in which real gross value added decreased in each year between 1997 and 2002.

The contribution of the Agriculture, Forestry & Fishing sub-sector also fell during the period, although marginally. The unsatisfactory state of many a commercial farm reflects the unhealthy conditions of the sub-sector. Stock theft and other crimes, apprehension regarding land⁹ rights claims, and drought are some of the possible causes.

The secondary sector, for its part, makes the second largest contribution to GDPR. Between 1995 and 2002, the secondary sector, composed mainly of the Manufacturing sector, accounted for nearly 30 per cent of the provincial GDPR. And plans are underway to strengthen the sector by exploiting the huge comparative advantage of the Transport sector through a number of spatial development initiatives (SDI's) and the establishment of industrial development zones (IDZ's).

The tertiary sector, with a contribution of about 55 per cent to the province's GDPR for the period 1995-2002, is the largest sector of the provincial economy. No doubt, the sector's major source of strength is the province's immense comparative advantage in tourism and logistics, given that the country's two most important harbours are situated along the coast of the province.

In conclusion, the sectoral breakdown of the province's GDPR reveals a structure that is akin to that of a modern or industrialised economy.

2.4 Economy of KwaZulu-Natal: Supply-and-use/input-output framework

The 1993 System of National Accounts (1993 SNA) requires countries and regions to compile supply and use tables (SUT), as they form an integral part of the 1993 SNA. The KwaZulu-Natal Provincial Treasury has developed for the first time a regional SUT for the province, and an input-output model based on the supply and use framework for the 2001 reference year. The regional SUT summarises and presents all of the transactions in goods and services in the KwaZulu-Natal economy, in rand terms, in a matrix format.

⁹ Estimate of households in KwaZulu-Natal without access to land is 81.15 per cent of the total in 2002 (Statistics South Africa, 2003). An element of agrarian conditions in KwaZulu-Natal, absent in most other provinces, is the many labour tenants. Labour tenants have submitted 6,798 land claims in the province. Determinations are expected during the next three or four years (South African Human Rights Commission, Inquiry into Human Rights Violations in Farming Communities, 2003, p.141).

The SUT can then serve as the basis for developing an input-output model for the provincial economy. The model can be used as a policy planning tool to assess and evaluate the economic impact of various investment and development projects in the province, among other things. The province's policymakers can thus employ the tool to a great effect in evaluating, *ex-ante*, the impact of alternative policy measures and development programmes.

The objective of the remainder of this section is two-fold. First, it is to explain the use of a regional supply and use framework for policy modelling and policy-making; and, second, it is to present the main results of the SUT-based input-output modelling of the KwaZulu-Natal economy.

2.4.1 The function and the use of a regional supply and use framework

The supply and use tables have both statistical and analytical functions. As a statistical tool, the SUT provides a coordinating framework for checking the consistency of economic statistics on flows of goods and services obtained from different statistical sources. As an analytical tool, the SUT, a cornerstone of the 1993 SNA, serves as a basis for calculating the Gross Domestic Product estimates for a national economy, or for estimating regional GDP (GDPR), if appropriately adapted, and detecting weaknesses in the economic data. The SUT can also be conveniently integrated into macro-economic models to conduct *impact analysis* and to analyse the link between final demand and industrial output levels.

The impact analysis consists of using the model's multipliers to measure the impact of, say, changes in final demand on sectoral output, income, and employment, or of any changes in the provincial economy caused by an exogenous factor. It is also possible to measure the impact of the entry of new firms, or the exit of existing ones, on sales and purchase patterns. This, of course, will result in changes in the input-output coefficients, and could lead to a change in the dimension of the table.

An input-output model based on the supply and use framework such as has been constructed for the KwaZulu-Natal economy, or, for that matter, a traditional input-output model, can be used for various purposes. It can be used:

- as a market information system or for generating an economic *intelligence* database;
- to determine the extent to which the sectoral final demand sales absorb all sectoral outputs, considered individually;
- to measure the proportion of local final demand satisfied by imports;
- to calculate the import content (direct and indirect) of provincial exports (this information would be useful for planning industrial location);
- to determine the local and indirect labour content;
- to help identify 'bottlenecks' and 'missing links' in the provincial economy, and thus facilitate strategic planning at the provincial level; and
- to calculate the environmental effects of capital projects, after appropriately extending the model.

2.4.2 Preliminary results of the SUT-based input-output model of the KwaZulu-Natal economy

The results of the KwaZulu-Natal SUT-based input-output model are provided in the Table 2.9 below. As the table shows, a R1 increase in final demand (i.e., final consumption and/or investment) in the Agriculture *sector* or *industry* will lead to an increase of R1.76 in the total output of the provincial economy. This is known as an output multiplier. Similarly, a R1 increase in the purchase of an agricultural *product* will lead to an increase of R1.9 in the total output of the provincial economy. And a R1 million increase in final demand in the sector will increase *potential* demand for employment by 17 persons. This is an example of an employment multiplier. However, it is important to note that 17 new jobs may not be created, if firms decide to meet the increased demand by making existing employees work harder or longer.

From the table, the output multipliers range from a low of 0.305 for the Electronics sub-sector to a high of 6.66 for the Trade sector. The employment multipliers, for their part, range from 2 for the Machinery sub-sector to 24 for the Forestry sub-sector. What this means is that a R1 increase in final demand will cause the greatest increase in the total output of the province, if the R1 increase in final demand is addressed to the Trade sector. The same R1 increase addressed to the Electronic sub-sector will cause the least increase in the province's total output. A probable cause of this is that many of the electronics goods that are likely to be demanded are imported. Imports are leakages to the economy, and thus reduce the size of multipliers.

Similarly, a R1 million increase in final demand in the Forestry sub-sector will cause the greatest increase in sectoral employment (i.e, employment in the Forestry sub-sector), while the same R1 increase in final demand in, say, the Machinery sub-sector will result in the least increase in sectoral employment. The reason for such an outcome is that production in forestry is labour-intensive, whereas production in machinery is very capital-intensive.

Table 2.9: Multipliers of the KwaZulu-Natal SUT-based input-output model

Industries	Affected employment (R000)	R1 change in final demand will have x impact on total output
Agriculture	17	1.760
Forestry	24	1.015
Fishing	16	0.928
Mining	7	0.784
Food	11	1.565
Textiles	19	0.787
Wood	8	1.674
Chemicals	14	2.671
Other mining products	4	1.013
Metals	10	2.090
Machinery	2	0.821
Electronics	2	0.305
Transport equipment	7	1.413
Furniture & other manufacturing	5	0.556
Electricity and water	6	1.575
Construction	10	1.494
Trade	18	6.658*
Transport and communication	16	3.113*
Business services	18	3.880*
Community	21	1.550
Products	Affected employment (R000)	R1 change in final demand will have x impact on total output
Agriculture	11	1.909
Forestry	1	1.114
Fishing	1	1.018
Mining	4	2.023
Food	14	2.071
Textiles	3	1.477
Wood	5	1.943
Chemicals	20	3.672
Other mining products	2	1.318
Metals	11	2.847
Machinery	2	1.380
Electronics	1	1.224
Transport equipment	9	2.081
Furniture & other manufacturing	1	1.130
Electricity and water	3	1.615
Construction	3	1.572
Trade	3	1.619
Transport and communication	13	2.992
Business services	17	4.375*
Community	6	1.822

* Preliminary figures

However, the objective of economic policy should determine what sector the government needs to concentrate on, for the purpose of removing sectoral obstacles and impediments to investment and growth. For example, although Trade has the highest output multiplier, government could still focus its development efforts on Forestry, if its main objective is to stimulate employment.

The model, as developed, is apt for:

- Forecasting sectoral output;
- Forecasting primary factor resource requirement, such as labor;
- Forecasting capacity expansion and sectoral investment requirements;
- Identifying key sectors and appraising sectoral linkages;
- Analysing supply shocks;
- Identifying sectors with comparative advantage; and
- Assessing the impact of certain policies on income distribution patterns, if extended to a social accounting matrix.

The results of the KwaZulu-Natal input-output model are still preliminary, and will be revised as soon as better data become available.

2.5 Summary

The economy of KwaZulu-Natal has a huge potential, given its diversified and advanced industrial base, impressive logistics infrastructure, vibrant services sector, and abundant natural and human resources. However, unemployment is high and income inequality severe – a consequence of past Apartheid policy and the resulting sluggish growth during much of the last decade.

Understandably, high unemployment and the related income inequality are major problems facing the Province of KwaZulu-Natal. Thus, the challenge for the provincial administration is to try and remove such obstacles to economic growth and development, or reduce them as far as possible.

The HIV/AIDS epidemic also poses a major challenge for the provincial administration. If not contained, the epidemic will worsen the province's already weak socio-economic conditions, and wipe out any gains made since the mid-1990s.

3. BUDGET PROCESS AND THE MEDIUM TERM EXPENDITURE FRAMEWORK

3.1 Background

To provide a basis for allocating funds to departments in the previous financial year, departmental budget 2003/04 proposals were evaluated mainly on the basis of their relative potential contributions toward achieving the then six provincial policy priorities. The process for the 2004/05 MTEF budget deviated somewhat from this approach, in that other criteria were employed for determining the allocations.

In a sense, the process began with the approval in February 2003 by the provincial Cabinet of two strategic goals for the province and six strategies for achieving them. In approving only two strategic goals, the Cabinet sought to address the concern that the six provincial policy priorities for the 2003/04 financial year were too numerous. And in spelling out the strategies for pursuing the goals, the Cabinet provided direction as well as a policy framework to guide the budget process.

The two provincial strategic goals are:

- To eradicate poverty and inequality
- To address the HIV/AIDS pandemic

And these goals are to be achieved through the following six strategies:

- Providing a social safety net for the poor
- Investing in infrastructure
- Developing human capital
- Strengthening governance
- Promoting rural development and urban renewal
- Investing in job creating economic growth

For the second year running, the Cabinet made these goals and strategies known at the very beginning of the budget process. Departments were thus able to develop their strategic plans within the framework that the goals and strategies provided. And the departmental strategic plans later served as the basis for developing the MTEF budget proposals.

Indeed, in June 2003, before departments set about developing their MTEF budget proposals, the Treasury Guideline circular was issued, explicitly listing the provincial strategic goals and strategies. Furthermore, and very importantly, the circular explicitly required departments to align their budgets and strategic plans to the provincial goals and strategies. This had the benefit of ensuring a better integration of the strategic planning and budgeting processes.

As was the case in previous financial years, departments were given the opportunity to submit budget options or proposals involving changes in the baseline budget. As the budget proposals were essentially competing for limited funding, evaluating them was central to the allocation process. To evaluate the different budget proposals, the Provincial Treasury developed a number of evaluation criteria. Each budget proposal was then evaluated in terms of the seven criteria, namely:

- Contribution of proposal to the provincial policy priorities;
- Submission of detailed service delivery information with each proposal;
- Alignment of proposal to the core functions;
- Evidence that the department underwent a thorough reprioritisation with a view to funding part of the proposal from within budget;
- Realistic costing of the proposal;
- Adequate political involvement in the budget formulation process of the department; and

- Absence of consistent under-spending in relevant programmes or departmental budget (by a margin of more than 3 per cent) over the last 2 - 3 years.

Of the seven criteria, the first three were considered as mandatory and had to be complied with if a proposal was to be considered. In addition to this, a proposal had to satisfy at least three of the last four criteria. In terms of the rating exercise, each of the first three criteria translated to “2” points if complied with, and a “0” if not. The remaining criteria were awarded one point if complied with, and a “0” if not. A higher score was accorded to the first three criteria simply because they were seen as being essential. A proposal therefore could score a maximum of 10 points or 100 per cent. A proposal was only considered if it scored 90 per cent and above.

Although it might seem excessively high, the cut off point of 90 per cent should be viewed in context. First, the requests for additional funding far exceeded the amount of additional funding received by the province for the 2004/05 MTEF. Second, the evaluation criteria were limited to the seven most critical/important elements, and it was felt that a proposal should not be considered for funding if it failed to satisfy more than one of the seven criteria.

However, over and above the criteria listed above, other factors were considered in evaluating departments’ requests for additional funding. Factors considered included:

- Compliance with budget proposal evaluation criteria;
- Expenditure pressures;
- Carry-through effect of 2003/04 Adjustments Estimate;
- Statutory funding requirements;
- Provincial and national priority of job creation;
- Labour-intensive community projects; and
- Alignment with aims and objectives of the national budget.

The evaluation of each budget proposal resulted in a score being assigned to it and, depending on a proposal’s score, the proposal was recommended to the Medium Term Expenditure Committee (MTEC).

It cannot be stressed too strongly that, throughout the budget process, there was the implicit recognition that the provincial budget allocation process for the MTEF period needed to be based on objective, rational criteria that demonstrated clear linkages to the stated provincial priorities on the one hand, and that were cognisant of the financial realities and constraints confronting the province, on the other.

3.2 MTEC recommendations for the 2004/05 MTEC budget

Departments submitted their MTEF budget proposals to the Provincial Treasury in July 2003 for preliminary evaluation. In early November, the MTEC convened to consider the departmental budgets and proposals in the light of, among other things, recommendations from technical staff of the Provincial Treasury, which were based on the findings of the evaluation process described above.

On receipt of the preliminary allocation from the National Treasury, the MTEC reconvened late in November to more formally deliberate and make recommendations on departmental budget proposals, mindful of course of the limited amount of additional funding received by the province. The recommendations of the MTEC were subsequently presented to the Ministers’ Committee on the Budget (MinComBud), which, for its part, put forward its own recommendations regarding the budget proposals to the provincial Cabinet. Early in December 2003, the provincial Cabinet approved the MinComBud’s final MTEF budget recommendations.

Table 3.1 shows the amounts of additional funding received by the province from the national government for the 2004/05 MTEF in terms of the provincial equitable share and conditional grants. Total additional funding increases from R1,312,651 million in 2004/05, to R3,302,869 million in 2006/07.

Table 3.1: Additional funding received from National Government: 2004/05 MTEF

R000	2004/05	2005/06	2006/07
Provincial equitable share	1,121,420	1,650,332	2,378,363
Conditional grants	191,231	353,363	924,506
Total additional allocation	1,312,651	2,003,695	3,302,869

Table 3.2 shows the net funding available for distribution among provincial votes.

Table 3.2: Net funding available for distribution: 2004/05 MTEF (excl. cond. grants)

R000	2004/05	2005/06	2006/07
Increase in provincial equitable share	1,121,420	1,650,332	2,378,363
Increase in provincial own revenue collection*	60,391	61,687	63,198
Total additional (new) funding available	1,181,811	1,712,019	2,441,561
MTEF Balance (existing funding)	574,379	783,699	830,721
Total funding available	1,756,190	2,495,718	3,272,282
Less commitment: Dube Trade Port		(200,000)	(50,000)
Net funding available for distribution	1,756,190	2,295,718	3,222,282

* Difference between departments' 2004/05 estimates and 2003/04 Budget Statements baseline estimates

Table 3.3 shows the allocation of additional funding, excluding conditional grants. Social Welfare, followed by Health and Education, gets the largest share of total allocated funds.

Table 3.3 Allocation of additional funding (excl. conditional grants)

Department	Funding proposal (R000)			Percentage of total		
	2004/05	2005/06	2006/07	2004/05	2005/06	2006/07
Office of The Premier	7,449	4,715	4,998	0.4	0.2	0.2
Funding for new functions and Performance Measurement Systems	4,449	4,715	4,998	0.3	0.2	0.2
Maintenance of Ulundi Airport to comply with Civil Aviation Authority Certification	3,000					
Provincial Parliament	4,444	4,985	5,520	0.3	0.2	0.2
Increase in salaries of political office bearers (carry-thru cost of 03/04 Adj. Est.)	2,644	2,803	2,957	0.2	0.1	0.1
Appointment of Commissioner on Members interests	1,200	1,272	1,342	0.1	0.1	0.0
Increase in constituency & secretarial allowance (carry-thru cost of 03/04 Adj. Est.)	200	210	221	0.0	0.0	0.0
Status of women, children and people with disability	400	700	1,000	0.0	0.0	0.0
Agriculture & Environmental Affairs	64,000	71,000	76,000	3.6	3.1	2.4
Liming - boosting agricultural potential of communal farm land	10,000	12,000	15,000	0.6	0.5	0.5
Supporting small scale farmer development	5,000	10,000	10,000	0.3	0.4	0.3
Alien plant and weed control (EPWP)	4,000	2,000	2,000	0.2	0.1	0.1
Ezemvelo KZN Wildlife - Investment in basic conservation (alien weed control)	5,000	5,000	5,000	0.3	0.2	0.2
Ezemvelo KZN Wildlife - Investment in conservation infrastructure	5,000	7,000	9,000	0.3	0.3	0.3
Ezemvelo KZN Wildlife - Investment in ecotourism	5,000	5,000	5,000	0.3	0.2	0.2
Ezemvelo KZN Wildlife - ICOS (carry-thru cost of 03/04 Adj. Est.)	30,000	30,000	30,000	1.7	1.3	0.9
Education	336,797	342,040	509,538	19.2	14.9	15.8
Strengthening administrative support	44,397	50,240	56,854	2.5	2.2	1.8
Improving CS educators - carry-through cost of 03/04 Adj. Est.	60,000	60,000	60,000	3.4	2.6	1.9
Improving CS educators - (incl. 1% pay progression) new funding	102,400	101,800	101,400	5.8	4.4	3.1
LSM (increasing the per capita LSM spending from R195 to over R300 in 06/07)	130,000	130,000	291,284	7.4	5.7	9.0
Provincial Treasury	(3,000)			(0.2)		
Reduction in baseline allocation (operational budget)	(3,000)			(0.2)		
Health	437,616	592,059	855,482	24.9	25.8	26.5
Carry-through cost of Adjustments Estimate 2003/04 (incl. ICOS)	269,190	269,190	269,190	15.3	11.7	8.4
Additional funding (incl. scarce skills and rural allowances)	168,426	322,869	586,292	9.6	14.1	18.2
Transport	65,577	149,545	136,596	3.7	6.5	4.2
Boosting road safety (installation of intelligent road studs: Eshowe to Ulundi)	20,000	25,000	-	1.1	1.1	-
Road Maintenance Programme	16,024	30,259	35,076	0.9	1.3	1.1
Projects P577 & P700	29,553	94,286	101,520			
Social Welfare	843,307	1,131,374	1,634,148	48.0	49.3	50.7
Additional funding for Welfare services	15,000	17,000	16,000	0.9	0.7	0.5
Pressure in social security grants (carry-thru cost of 03/04 Adj. Est.)	520,977	646,211	961,694	29.7	28.1	29.8
Pressure in disability grants and related admin. Costs	292,458	443,398	621,139			
Personnel costs for disability grant assessment panel doctors	3,000	3,180	3,370	0.2	0.1	0.1
Funding for implementation of Child Justice Act	11,872	21,585	31,945	0.7	0.9	1.0
TOTAL	1,756,190	2,295,718	3,222,282	100.0	100.0	100.0

Table 3.4 presents a breakdown of the budgets for the period 2003/04-2006/07, by department. Education gets the largest budget, followed by Social Welfare and Health, in that order.

Table 3.4: Departmental budget: 2003/04 - 2006/07

Departments R000	2003/04		2004/05	2005/06	2006/07
	Main budget	Adj. budget	MTEF	MTEF	MTEF
Office of The Premier	138,242	141,965	145,244	150,777	159,824
Provincial Parliament	111,374	117,247	95,009	100,958	107,251
Agriculture and Environmental Affairs	789,239	803,566	934,085	1,003,342	1,070,781
Economic Development & Tourism	191,392	192,840	206,812	218,621	231,738
Education & Culture	11,868,056	11,935,781	13,184,471	13,996,813	15,027,866
Provincial Treasury	147,667	190,449	156,983	169,581	179,755
<i>MTEF Balance (on PT budget)</i>	<i>251,059</i>	<i>-</i>	<i>-</i>	<i>200,000</i>	<i>50,000</i>
Health	8,055,650	8,257,134	9,036,081	9,792,811	10,672,169
Housing	980,118	1,119,833	943,117	980,806	1,039,655
Safety and Security	16,355	17,565	17,123	18,150	19,239
The Royal Household	20,076	25,788	21,319	22,598	23,954
Traditional & Local Government Affairs	460,046	512,936	455,148	432,493	458,443
Transport	1,554,799	1,560,807	1,854,200	2,107,772	2,226,483
Social Welfare & Population Development	7,944,070	8,544,319	10,354,882	12,252,438	13,843,595
Works	380,146	381,266	402,451	426,578	452,171
RDP		40,784			
Total	32,908,289	33,842,280	37,806,925	41,873,738	45,562,924

3.3 New economic reporting format

In compliance with the Public Finance Management Act, from 1999 to date, the National Treasury embarked on an ongoing budget reform programme. Another phase of this programme is the introduction of the new economic reporting format and the new standard chart of accounts, with effect from the 2004/05 financial year.

The main aim of these new formats is to further improve accountability and modernise the accounts of government, by bringing budget and expenditure reporting in line with international best practice and economic reporting standards. They will also allow for more meaningful consolidation at various levels. In addition, the various financial systems used by different national and provincial departments will have the same basis for data classification, ensuring consistency in financial reporting.

The new economic reporting format is not entirely 'new'. In the Budget Statements of the past few years, the FMS standard items were reclassified in line with the requirements of the Government Finance Statistics (GFS) classification, which was developed by the International Monetary Fund (IMF). This GFS format was included in budget documentation from 2000/01 to 2003/04, appearing alongside the existing standard item classification. The GFS classification that was used in prior years has now been updated in line with international best practice, and is replaced with a more appropriate classification in the 2004/05 budget documentation, namely the new economic reporting format. The old FMS standard item classification has fallen away completely, in keeping with the introduction of the Basic Accounting System (BAS) in place of FMS.

The introduction of the new economic reporting format is accompanied by the introduction of extensive new terminology. For instance, in the 2004/05 Budget Statements, the term *revenue* becomes *receipts*, while *expenditure* is referred to as *expense*, or *payments*, particularly in the tables included in the document. To a large degree, the budget narrative still uses both terminologies interchangeably.

4. SUMMARY OF BUDGET AGGREGATES AND FINANCING

4.1 Budget aggregates

Table 4.1 presents an overall summary of the provincial budget. For the years 2000/01 to 2002/03, audited receipts and expenditure figures are provided; for the 2003/04 financial year, the adjusted budget and estimated actual are given, where the latter is based on departmental projections as at the end of November 2003. For the period 2004/05 to 2006/07, reported figures relate only to *budgeted* receipts and expenditure.

Table 4.1: Provincial budget summary

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03			2004/05	2005/06	2006/07
Provincial receipts								
Transfer receipts from national	21,720,945	24,012,263	27,515,811	32,680,739	32,680,739	36,905,750	40,920,820	44,555,021
<i>Equitable share</i>	19,692,520	21,729,330	25,303,942	29,762,736	29,762,736	33,058,939	36,105,489	38,900,829
<i>Conditional grants</i>	2,028,425	2,282,933	2,211,869	2,918,003	2,918,003	3,846,811	4,815,331	5,654,192
Provincial own receipts	904,668	985,674	1,069,075	712,000	881,113	901,175	952,918	1,007,903
Total provincial receipts	22,625,613	24,997,937	28,584,886	33,392,739	33,561,852	37,806,925	41,873,738	45,562,924
Provincial payment*								
Current payments	15,310,818	16,838,566	18,890,009	21,292,775	21,298,021	23,203,714	25,114,924	27,008,179
Transfers and subsidies	5,415,807	6,278,409	8,024,290	10,075,395	10,558,396	11,520,806	13,351,363	14,943,383
Payments for capital assets	1,073,025	1,944,219	1,858,704	2,474,110	2,439,754	3,082,405	3,407,451	3,611,362
Unallocated contingency reserve								
Total provincial payments	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171	37,806,925	41,873,738	45,562,924
Lending								
Surplus/(deficit) before financing	825,963	(63,257)	(188,117)	(449,541)	(734,319)	-	-	-
Financing	430,863	841,238	820,831	449,541	449,541	-	-	-
Provincial roll-overs	430,863	464,164	280,606	327,932	327,932			
Provincial cash resources**		377,074	192,297	220,609	220,609			
Funding for Regulation 11			360,928					
Suspension to ensuing year			(13,000)	(99,000)	(99,000)			
Surplus/(deficit) after financing	1,256,826	777,981	632,714	-	(284,778)	-	-	-

* Estimated actual expenditure for 2003/04 is as at 30 November 2003

** The provincial cash resources for Estimated Actual for 2003/04 excludes over-collection in provincial own revenue for 2003/04.

Total provincial receipts grew from R22,6 billion in 2000/01, to an estimated R33,6 billion in 2003/04. This represents an average annual growth rate of 14 per cent during the period¹⁰. During the 2004/05 MTEF period, receipts are only expected to grow by an annual average of 10.7 per cent, to R45,6 billion in 2006/07. This means that provincial receipts are expected to double between 2000/01 and 2006/07 – a period of only 7 years.

Total provincial expenditure has more than kept pace with receipts, growing by an annual average rate of 16.3 per cent between 2000/01 and 2003/04. However, expenditure is expected to slow down during the 2004/05 MTEF period, forecast to grow by an annual average rate of 9.2 per cent over the period.

The outstripping of receipts by expenditure during 2000/01 to 2003/04 meant that the province recorded budget deficits in three out of the four years of the period, with the deficit increasing in each subsequent deficit year. For example, the deficit was only R63.3 million in 2001/02, but in 2003/04 it climbed to R734,3 million. Nonetheless, the provincial administration is planning a balanced budget for the 2004/05-2006/07 MTEF period.

¹⁰ All reported growth rates in this section (Section 4) are nominal average annual growth rates.

4.2 Financing

Also indicated in Table 4.1 is the financing position of the province. Provincial roll-overs in 2002/03 and 2003/04 amounted to R280,6 and R327,9 million, respectively, while provincial cash resources¹¹ increased from R192,3 million in 2002/03 to R220,6 million in 2003/04. A total of R360,9 million was received from the National Treasury in 2002/03 for the funding of Regulation 11 cases. When the regulations of the Social Assistance Act, 1992 were amended in 1998, Regulation 11 stipulated that all applications for the social assistance grant would be paid as from the date of approval, and not from the date of application. This was subsequently challenged, and in September 2001 an out of court settlement was agreed upon. Part of the settlement was to pay additional amounts to applicants who were prejudiced as a result of the application of the regulation.

Suspensions to ensuing years occur when departments intentionally apply to the Provincial Treasury to have a portion of their budget suspended during the year, and rolled over to the subsequent year, because of unforeseen delays in spending the funds, or slower than anticipated progress.

In 2003/04, suspensions to ensuing years increased from R13 million suspended in 2002/03, to R99 million in 2003/04. This was as a result of the Department of Agriculture and Environmental Affairs suspending R29 million for the construction of laboratories and special projects, and the Department of Health suspending R70 million, for the Hospital Revitalisation conditional grant. These amounts will be reallocated back to departments in the 2004/05 Adjustments Estimate, and are therefore not included in the 2004/05 medium term estimates.

¹¹ The provincial cash resources for estimated actual for 2003/04 exclude over collection in provincial own receipts for 2003/04.

5. RECEIPTS

5.1 Overall position

Table 5.1 below shows actual total receipts for the period 2000/01 to 2003/04, and projected total receipts for the 2004/05 to 2006/07 MTEF period. The total provincial receipts for the 2004/05 financial year are estimated at R37,8 billion. Of this amount, R36,9 billion, or 97.6 per cent of total provincial receipts, will come from national transfers to the province. National transfers to the province are made up of *equitable share* and *conditional grant* components. In 2004/05, receipts accruing to the province as equitable share will amount to R33,1 billion. Thus, for 2004/05, the equitable share will account for 87.6 per cent, and conditional grants 10 per cent, of total provincial receipts, leaving own source receipts to account for a meager 2.4 per cent.

Table 5.1: Summary of total receipts

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited					
	2000/01	2001/02	2002/03	2003/04		2004/05	2005/06	2006/07
Transfer receipts from national	21,720,945	24,012,263	27,515,811	32,680,739	32,680,739	36,905,750	40,920,820	44,555,021
Equitable share	19,692,520	21,729,330	25,303,942	29,762,736	29,762,736	33,058,939	36,105,489	38,900,829
Conditional grants	2,028,425	2,282,933	2,211,869	2,918,003	2,918,003	3,846,811	4,815,331	5,654,192
Provincial own receipts	904,668	985,674	1,069,075	712,000	881,113	901,175	952,918	1,007,903
Tax receipts	520,062	447,157	534,186	481,522	515,550	551,788	585,945	621,138
Non-tax receipts	355,332	503,693	500,227	218,994	329,875	338,598	355,550	375,184
Sale of goods and services other than capital assets	188,548	245,147	169,394	172,521	172,123	165,983	175,566	185,328
Fines, penalties and forfeits	11,481	16,953	21,558	14,001	12,691	21,000	22,000	23,000
Interest, dividends and rent on land	155,303	241,593	309,275	32,472	145,061	151,615	157,984	166,856
Transfers received	-	-	-	-	-	-	-	-
Sales of capital assets	10,730	17,519	21,634	3,779	22,236	3,796	4,260	4,481
Financial transactions	18,544	17,305	13,028	7,705	13,452	6,993	7,163	7,100
Total	22,625,613	24,997,937	28,584,886	33,392,739	33,561,852	37,806,925	41,873,738	45,562,924

Total provincial receipts are projected to be R41,9 billion in 2005/06, and to rise to R45,6 billion in 2006/07, reflecting an annual nominal growth rate of 10.8 per cent in 2005/06, and of 8.8 per cent in 2006/07. In terms of the individual components, the equitable share at R36,1 billion in 2005/06 and R38,9 billion in 2006/07 still forms the bulk of national transfers to the provincial government. Conditional grants, for their part, are projected to provide a further R4,8 billion and R5,7 billion, and thus account for 11.5 per cent and 12.4 per cent of total provincial receipts in 2005/06 and 2006/07, respectively.

The equitable share funding from national government continues to be the most important source of total provincial receipts. Accounting for R33,1 billion or 87.4 per cent of total receipts in 2004/05, equitable share will grow to R38,9 billion of total provincial receipts in 2006/07. In 2006/07, equitable share will represent 85.4 per cent of total provincial receipts. In terms of nominal growth rates, equitable share grew by an annual average of 14.8 per cent during 2000/01 to 2003/04. Equitable share is expected to continue growing in the ensuing MTEF period, and the annual average nominal growth rate expected is 9.3 per cent. Noticeably, the nominal growth rate during the forthcoming MTEF period is lower than that of the previous period, namely 2000/01 to 2003/04, and reinforces the belief that provincial governments will have to rely more heavily on their own revenue enhancement activities, rather than on national government.

5.2 Equitable share

The evolving intergovernmental fiscal system in South Africa, while assigning significant expenditure responsibilities to provinces, does assign *virtually* all revenue-raising power as well as high-yield tax bases to the national sphere of government. Consequently, provinces depend largely on transfers from the national sphere of government to finance their expenditure mandates. Municipalities are far less dependent on national transfers, except for those with little or no fiscal capacity, as most of the expenditure functions assigned to municipalities are executed through revenue-generating services. As matter of fact, provincial

own receipts constitute only about 4 per cent of total provincial receipts, whereas municipalities as a sphere of government raise 90 per cent of their total revenue from own sources.

This arrangement has given rise to what some refer to as the problem of vertical fiscal imbalance. However, the problem can be attenuated, to the extent that the equitable shares of the three spheres of government are equitable.

The letter and spirit of Section 214 of the Constitution provides the basis for achieving inter-sphere equity in the division of nationally collected revenue and, thus, for enhancing vertical fiscal balance. Current criteria for determining vertical and horizontal divisions include assigned functions, social and developmental needs, and age as well as spatial distribution of provincial and national populations.

Although determined by quantifiable criteria, the vertical division of nationally collected receipts between the spheres is not formula-based. A new and rather flexible arrangement, the system for the vertical division of revenue continues to evolve, modified by new policy challenges and by ongoing mediation of concurrent responsibilities. Despite evolving in this manner to more adequately meet challenges, the system sometimes results in provinces coming under severe budget pressures to execute assigned responsibilities. A case in point is the current projected over-expenditure in most provincial Social Welfare departments – over-expenditure necessitated by the need to pay social assistance grants to all qualifying citizens.

Although the Provincial Equitable Share (PES) formula used by the National Treasury to determine each province's equitable allocation has been adjusted several times, its basic structure established in the fiscal year 1997/98 remains unchanged. Updates of data are carried out on an annual basis, depending on availability of official data. Government agreed to retain the structure of the provincial equitable share and to update for latest data for the 2004/05 Budget. For the 2005/06 Budget, Government agreed to a more wide-ranging review, covering aspects pertaining to the structure of the formula, weights of components and other economic development and poverty related policy considerations. This comprehensive review is also timed to coincide with the imminent change in the financing and administrative arrangements relating to the delivery of social security grants.

For the 2004/05 Budget, a number of data updates to the formula were made. The education component is updated by replacing average enrolment data with 2000-2002 enrolment figures, and by changing to the 5 – 17 school age cohort (by using 2001 Census data) to take account of Early Childhood Development. The *basic component*, which uses population shares, is updated with 2001 Census data. The remuneration data currently used in the *economic activity* component is replaced with preliminary Gross Domestic Product by Region (GDPR) data.

The equitable share formula comprises seven components or indices of relative demand for services between provinces and taking into account particular provincial circumstances. It considers, for example, infrastructure backlogs and poverty levels. The provincial equitable share formula comprises of the following components:

- An education share (41 per cent) based on the size of the school-age population (ages 5-17) and the average number of learners enrolled in ordinary public schools for the past three years;
- A health share (19 per cent) based on the proportion of the population with and without access to medical aid;
- A social security component (18 per cent) based on the estimated number of people entitled to social security grants – the elderly, disabled and children – weighted by using a poverty index derived from the Income and Expenditure Survey;
- A basic share (7 per cent) derived from each province's share of the total population of the country;
- A backlog component (3 per cent) based on the distribution of capital needs as captured in the schools register of needs, the audit of hospital facilities and the distribution of the rural population;
- An economic output component (7 per cent) based on the final Gross Domestic Product by Region (GDPR) data; and
- An institutional component (5 per cent) divided equally among the provinces.

The share (weighting) of each component used for the 2004/05 MTEF equitable share transfers is given in parenthesis.

Table 5.2 shows the current structure and distribution of shares by component. The elements of the formula are neither indicative budgets nor guidelines as to how much should be spent on those functions. Rather, the components are weighted broadly in line with expenditure patterns to provide an indication of relative need for the purpose of allocating funds. Provincial Executive Committees have discretion regarding the provincial allocations for each function.

Table 5.2: Distributing the equitable share, percentages by province

	Education	Health	Social welfare	Basic share	Economic activity	Institutional	Backlog	Target shares
<i>Weighting</i>	<i>41.0</i>	<i>19.0</i>	<i>18.0</i>	<i>7.0</i>	<i>7.0</i>	<i>5.0</i>	<i>3.0</i>	<i>100.0</i>
Eastern Cape	17.3	17.0	19.6	14.4	8.1	11.1	20.7	16.6
Free State	6.0	6.5	7.1	6.0	5.4	11.1	5.6	6.5
Gauteng	13.6	14.7	13.9	19.7	33.4	11.1	5.0	15.3
KwaZulu-Natal	22.8	21.7	19.6	21.0	16.5	11.1	23.0	20.9
Limpopo	15.0	13.3	13.7	11.8	6.6	11.1	22.9	13.7
Mpumalanga	7.6	7.2	6.5	7.0	6.9	11.1	8.5	7.4
Northern Cape	1.7	2.0	2.2	1.8	2.0	11.1	1.3	2.3
North West	7.8	8.6	8.7	8.2	6.7	11.1	9.5	8.3
Western Cape	8.2	8.9	8.8	10.1	14.2	11.1	3.6	9.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

The formula has been updated with latest available data (2001 Census, school enrolment and preliminary GGP). To ensure stability in provincial budgets, Government agreed to phase in the impact of these updates over three years, from 2004/05 to 2006/07. This is mainly to ensure that none of the provinces receive an allocation lower than was previously indicated in the baseline allocations. Table 5.3 shows the phasing.

Table 5.3: Phasing in the equitable share

Percentage	2003/04 Base shares	2004/05	2005/06 3-year phasing	2006/07
<i>Phasing</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>
Eastern Cape	17.0	16.9	16.7	16.6
Free State	6.6	6.6	6.5	6.5
Gauteng	15.4	15.3	15.3	15.3
KwaZulu-Natal	20.6	20.7	20.8	20.9
Mpumalanga	13.6	13.6	13.6	13.7
Northern Cape	7.2	7.3	7.3	7.4
Northern Province	2.4	2.4	2.4	2.3
North West	8.3	8.3	8.3	8.3
Western Cape	8.9	9.0	9.0	9.0
Total	100.0	100.0	100.0	100.0

The equitable share to municipalities is distributed according to a formula that has two components: an S (basic services) component that is based on the estimated cost of delivering a package of basic services and the number of low-income households in each municipality, and an institutional (I) component based on population size and average income. However, the local equitable share is being reformulated to take account of the demarcation of municipalities in 2000, and the introduction of free basic supply of water and electricity.

5.3 Conditional grants

Conditional grants were introduced in 1998 to provide for national priorities and compensate for cross-boundary use of services, particularly in hospital services. Conditional grants are used for more specific purposes than the PES. Typically, they serve to finance infrastructure provision, institutional capacity building, and the implementation of special initiatives of the national sphere of government (e.g. HIV/AIDS, child welfare and school nutrition programmes). Although somewhat *ad hoc* in design and variable in application, conditional grants pursue the objective of expanding an oversight role, not infrequently putative, of national departments in policy areas shared concurrently with provinces.

However, there are a number of reasons supporting the use of conditional grants, including the following:

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

Specific purpose conditional grants have more stringent conditions and require in-year monitoring and evaluation. Moreover, they can be withheld on failure by a department to comply with conditions.

These funds are appropriated to particular provincial departments or municipal councils and therefore call for systematic accounting and reporting procedures. The transferring national authority and the receiving entity (a provincial or local government administration) administer the grants. The receiving spheres of government are responsible and accountable for the expenditure of the funds, while the transferring national authority monitors compliance with the conditions of the grants and assesses the effectiveness of their use. Conditional grants are voted as transfers in the national budgets and recorded as receipts in the budget of the receiving sphere. They are also voted in the departmental budgets of the receiving sphere.

The current conditional grant system has been shaped by reforms introduced through successive Division of Receipts Acts since 2000. The reforms have helped clarify issues of accountability between spheres. They have also helped sharpen the description of policy objectives and grant outputs. A major result of this has been the improved use of grants in speeding up delivery and the strengthening of parliamentary oversight.

Table 5.4 depicts a summary of national conditional grants to the province by grant type and per department. The conditional grant allocation to the province was 9.1 per cent of total receipts in 2001/02, but declined to 7.7 per cent in the 2002/03 financial year. However, in 2003/04, it improved slightly to 8.7 per cent. In the 2004/05 MTEF period, the conditional grant allocation to the province is projected to exhibit a strong growth rate to support the national government's priority objective of combating poverty and HIV/AIDS, and redressing the infrastructure backlog. This allocation is expected to grow by 31.8 per cent and 25.2 per cent during the 2004/05 and 2005/06 financial years, respectively, and by 17.4 per cent in 2006/07. Thus, the conditional grant allocation is expected to equal R3,8 billion in 2004/05 and to increase to R5,7 billion in 2006/07.

In terms of allocation per department, the Department of Health has been the major recipient of conditional grants, with an average of 45.7 per cent of the total grant allocation from 2000/01 to 2003/04. During the 2004/05 MTEF period, Health's average grant allocation will account for 32.1 per cent of the total grant allocation. Housing is the second largest recipient of grant allocation, having received, on average, 31.3 per cent of the total grant allocation to the province during the period 2000/01 to 2002/03. In the 2004/05 MTEF period, Housing's conditional grants will average 17.3 per cent of the total grant allocation. The department that has been experiencing the strongest growth in its conditional grant allocation is Social Welfare and Population Development. During 2004/05, Social Welfare's grant allocation is projected to grow by 173.1 per cent, and by 80.8 per cent in 2005/06. However, during 2006/07, the growth will only be 33.1 per cent. As stated earlier, changes in grant allocation are caused by a number of factors, including macro-economic and socio-economic factors.

The Integrated Nutrition Programme conditional grant deserves special mention. At national level, funding for this programme will increase to over R1 billion in 2005/06 and thereafter. The purpose is to strengthen the programme and employ it as a major instrument of government's anti-poverty strategy. More directly, the increases will serve to cushion the impact of food inflation on the more vulnerable households, and enable provincial administrations to increase the number of beneficiary children and schools.

The Health Professionals Training and Development conditional grant was increased nationally from R1,3 billion to R1,5 billion in 2003/04. A large portion of the funding of this grant is distributed to provinces according to a formula, based on the number of current medical students. In the 2002/03 budget, an additional component was introduced to provide for an increase in the number of medical specialists and registrars in the under-served provinces to address inter-provincial inequities in post-graduate training capacity. The province is expected to receive R180,6 million in 2004/05, and R192,4 million in each of the two outer years of the current MTEF period.

Table 5.4: Summary of national conditional grants by vote

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03			2004/05	2005/06	2006/07
Vote 3 - Agriculture & Env Affairs	900	12,485	4,000	6,500	6,500	41,016	54,270	64,024
Land Care Grant	-	5,285	4,000	6,500	6,500	4,000	8,000	8,500
Comprehensive Agriculture Support Programme						37,016	46,270	55,524
Flood Disaster	900	7,200						
Vote 5 - Education & Culture	55,682	133,926	226,445	297,998	297,998	494,202	547,578	624,701
Provincial Infrastructure Conditional Grant	-	68,179	132,449	200,121	200,121	282,594	315,121	348,194
HIV/AIDS	4,617	14,033	31,824	26,624	26,624	29,188	30,938	32,795
Flood Disaster	5,300							
Financial Management & Quality Enhancement	45,765	47,073	50,459	51,805	51,805	-	-	-
Early Childhood Development	-	4,641	11,713	19,448	19,448			
Mass Sport & Recreation Participation Programme						1,000	2,670	4,340
National School Nutrition Programme						181,420	198,849	239,372
Vote 6 - Provincial Treasury	4,667							
Vulindlela/Logis	1,667							
Financial Management	3,000							
Vote 7 - Health	1,100,830	942,970	1,018,521	1,198,899	1,198,899	1,336,239	1,529,063	1,684,697
Health Professionals Training & Dev	146,750	154,388	164,755	167,553	167,553	180,629	192,373	192,373
Integrated Nutrition Programme	132,471	132,471	136,337	176,646	176,646	24,513	26,954	-
HIV/AIDS	1,000	13,924	52,496	85,591	85,591	186,348	251,468	344,304
National Tertiary Services	406,645	427,525	488,575	551,831	551,831	619,462	686,637	727,835
Hospital Revitalisation	70,526	87,000	111,000	129,860	129,860	178,054	190,292	220,883
Provincial Infrastructure Grant	-	23,862	46,358	70,043	70,043	127,168	157,561	174,098
Medico-legal grant				1,000	1,000	-	-	-
Inkosi Albert Luthuli Central Hospital	331,400	103,800	-	-	-	-	-	-
Flood Disaster	9,038							
Hospital Management Improvement	3,000	-	19,000	16,375	16,375	20,065	23,778	25,204
Vote 8 : Housing	645,397	722,647	745,804	822,390	822,390	776,023	803,686	851,907
Human Resettlement Grant	3,000	25,000	25,486	26,000	26,000	27,560	20,220	21,433
Housing Subsidy Grant	616,300	697,647	720,318	796,390	796,390	748,463	783,466	830,474
Capacity Building	1,800							
Flood Disaster Reconstruction Grant	24,297							
Vote 11 : Trad & Local Govt Affairs	151,097	39,427	74,806	76,771	76,771	55,532	8,900	9,434
Provincial Infrastructure Grant	-	10,227	19,867	30,017	30,017	14,129	-	-
Consolidated Municipal Infrastructure Prog			28,489	7,874	7,874	8,353	8,900	9,434
R293	94,158							
Municipal Finance Assistance Grant	5,805							
Project Viability Management Support	9,300							
Flood Disaster	41,834	4,800						
Local Government Capacity Building	-	24,400	26,450	38,880	38,880	33,050	-	-
Vote 12 : Transport	60,631	68,179	132,449	200,121	200,121	282,594	315,121	348,194
Prov Infrastructure Conditional Grant	-	68,179	132,449	200,121	200,121	282,594	315,121	348,194
Flood Disaster	60,631							
Vote 13 : Welfare	9,221	363,299	9,844	315,324	315,324	861,205	1,556,713	2,071,235
Child Support Extension Grant				235,143	235,143	780,247	1,474,988	1,984,607
Child Support Grant	3,400							
Financial Man. & Social Security System	5,577	642	1,200					
Woman Flagship	244	229						
Social Grant Arrears Grant (Reg. 11)		360,928						
Food Relief Grant				68,185	68,185	68,185	68,185	72,276
HIV/AIDS		1,500	8,644	11,996	11,996	12,773	13,540	14,352
Total	2,028,425	2,282,933	2,211,869	2,918,003	2,918,003	3,846,811	4,815,331	5,654,192

A new grant for the Comprehensive Agriculture Support Programme has been introduced for the 2004/05 MTEF period. This programme is aimed at providing effective agriculture support and streamlining the provision of services to targeted farmers. More specifically, the programme will establish mechanisms to allow for uniform rollout of the farmer support programmes nationally, and provide norms and standards, as well as financial support. The purpose of the grant is to ensure adequate funding and that farmers across provinces have access to a similar package of services.

A new grant has also been introduced by the national Department of Sport and Recreation. The purpose is to fund the promotion of mass participation within disadvantaged communities in a selected number of development sport activities, and the empowerment of the said communities to manage these activities in conjunction with local municipalities.

The rationalisation and consolidation of the conditional grants system is a welcome development. For one thing, it will alleviate some of the problems created by a system of too many small grants, not least the overly heavy administrative burden the system imposes; for another, it will help to streamline the monitoring, reporting, and evaluation mechanisms for the grants.

5.4 Total provincial own receipts (own revenue)

Current provincial own revenue sources are limited, consisting mainly of motor vehicle licensing fees, hospital fees, interest revenue, and gambling and betting taxes and levies. As discussed above, the intergovernmental fiscal arrangement assigns major productive tax bases to the national sphere of government, and significant sources, including property rates and user charges for utilities, to the local sphere. Although generating insignificant levels of revenue as a proportion of total provincial receipts, provincial own revenue sources can, and should be, fully exploited, if only to make them play a meaningful role at the margin, both of service delivery and accountability to the citizens of the province.

Unfortunately, up until now, provinces have paid little attention to own revenue mobilisation, focusing almost exclusively on expenditure control. Lack of motivation on the part of management, absence of incentive structures, inaccurate or inapt information and administrative systems, non-existence of proper asset registers, and poor debt recovery procedures are some of the factors that have worked against provincial own revenue mobilisation.

Yet the situation needs to change. The strong and intensifying spending pressures in the social sectors, the widening poverty gap, the need to clear economic and social infrastructure backlogs, and, more generally, the need to address the expanded development agenda as put forward in the Provincial Growth and Development Strategy – all of these constrain the discretionary allocation of equitable share funding. And given that these challenges are to be met against a backdrop of essentially inelastic equitable share funding, provinces have no choice but to raise additional funding from own sources. Moreover, strengthening the link between revenue and expenditure decisions by substantially increasing own receipts can only have salutary effects on efficiency and accountability regarding spending, if only at the margin.

The Provincial Treasury is keenly aware of the need to fully exploit own revenue sources, and therefore has established a dedicated Revenue Unit within its Budget Office. The purpose of this unit is to ensure that departments make every possible effort to significantly raise the level of own revenue collection in the province. To set the stage and provide an informed basis for the unit's operations, the Provincial Treasury in July 2003 appointed a firm of consultants to undertake a study on the causes of the decline in the province's own source revenue. The firm was also required, following its findings, to recommend appropriate measures to improve revenue collection, and propose a scientific revenue-forecasting model whose use could improve revenue budgeting in the provincial administration.

This study has been completed, and the report, which details the causes of own source revenue decline, as well as recommendations on how to arrest and reverse the decline, reached the Provincial Treasury towards the end of 2003/04. Thus equipped, the Provincial Treasury is now well poised to place an increased focus on mobilising own source revenue, in collaboration with the major revenue-collecting departments.

The bulk of provincial own source revenue falls into two categories: *Tax receipts* and *Non-tax receipts*. Casino or betting taxes, motor vehicle licenses, and horseracing constitute *Tax receipts* for the province, while hospital fees belong to the *Non-tax receipts* category. Other sources of provincial own revenue are *Financial transactions* which lead to the generation of receipts, and the *Sale of capital assets* by the provincial government.

A summary illustrating the situation of the province's own revenue for the period 2000/01 to 2006/07 is given in Table 5.5 below, while Table 5.6 reflects the same information, but per department. Table 1.A in the *Annexure to Budget Statement 1* provides a more detailed presentation of provincial receipts.

Table 5.5: Summary of provincial receipts

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03	2003/04				
Tax receipts	520,062	447,157	534,186	481,522	515,550	551,788	585,945	621,138
Non-tax receipts	355,332	503,693	500,227	218,994	329,875	338,598	355,550	375,184
Sale of goods and services other than capital assets	188,548	245,147	169,394	172,521	172,123	165,983	175,566	185,328
Fines, penalties and forfeits	11,481	16,953	21,558	14,001	12,691	21,000	22,000	23,000
Interest, dividends and rent on land	155,303	241,593	309,275	32,472	145,061	151,615	157,984	166,856
Transfers received	-	-	-	-	-	-	-	-
Sales of capital assets	10,730	17,519	21,634	3,779	22,236	3,796	4,260	4,481
Financial transactions	18,544	17,305	13,028	7,705	13,452	6,993	7,163	7,100
Total	904,668	985,674	1,069,075	712,000	881,113	901,175	952,918	1,007,903

As has already been mentioned, provincial own receipts make up a very small proportion of total provincial revenue and, as a proportion of total provincial revenue, has been declining gradually since 2000/01. Indeed, from the level of 4 per cent of total revenue in 2000/01, provincial own receipts declined to 3.9 per cent in 2001/02 and to 3.7 per cent in 2002/03. In the 2004/05 MTEF period, provincial own source revenue is projected to yield 2.4, 2.3, and 2.2 per cent of total provincial revenue in 2004/05, 2005/06, and 2006/07, respectively. However, given that departments' revenue projections tend to be overly conservative, actual collections are likely to exceed these projections.

Tax receipts declined by a nominal annual average rate of 0.3 per cent over the period 2000/01 to 2003/04, due largely to the 14.4 per cent decline in receipts from the horseracing sector. *Non-tax receipts* also declined during the period, and so did *Financial transactions* – non-tax receipts at a nominal annual average rate of 2.4 per cent, and financial transactions at 10.1 per cent. Only *Sale of capital assets* recorded any increase during the period, posting a nominal annual average growth rate of 27.2 per cent. In summary, provincial own revenue declined by a nominal annual average rate of 0.9 per cent during the period 2000/01 to 2003/04.

The expectation for the 2004/MTEF period is relatively optimistic. Provincial own revenue is expected to grow nominally during the period at an annualised average rate of 4.6 per cent. Tax receipts are projected to increase by 6.1 per cent, and non-tax receipts by 5.3 per cent. The increases are expected to come mainly from two sources: *Motor vehicle licences*, which are expected to grow at a nominal annual average rate of 8.7 per cent, and *Fines, penalties, and forfeits*, forecast to grow by 21.9 per cent, over the MTEF.

The *Sale of capital assets* is expected to decline annually by an average rate of 42.5 per cent during the same period. However, this decline is largely due to the fact that departments do not budget for the sale of capital assets, because of the *ad hoc* nature of this category of receipts.

Table 5.5 shows that total provincial own revenue is expected to reach R901,2 million in 2004/05. Thereafter, provincial own revenue is estimated to grow to R953 million in 2005/06, and then to just over R1 billion in 2006/07 – increases of 5.7 per cent in 2005/06 and 5.8 per cent in 2006/07. The Department of Transport will continue to be the main contributor to provincial own revenue, followed by Provincial Treasury, the Department of Health, and the Office of the Premier, in that order. In terms of percentages, the Department of Transport will account for an average of 52.5 per cent of provincial own revenue during the MTEF period, Provincial Treasury 17.7 per cent, the Department of Health 14.3 per cent, and the Office of the Premier 12.2 per cent.

Table 5.6: Summary of provincial own receipts by vote

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03					
				2003/04				
1. Premier	167,492	85,561	96,005	92,522	126,962	111,926	116,094	121,284
2. Provincial Parliament	743	1,939	1,433	1,091	1,091	1,091	1,091	1,150
3. Agriculture and Environmental Affairs	8,196	14,570	6,967	11,356	12,849	7,927	8,945	9,790
4. Economic Development and Tourism	786	824	5,134	700	568	600	600	600
5. Education and Culture	14,348	12,269	12,158	10,300	12,196	10,000	10,230	10,598
6. Provincial Treasury	193,072	270,028	330,066	53,789	163,896	160,711	167,565	176,720
7. Health	110,010	118,225	117,809	124,563	121,073	128,573	136,134	143,449
8. Housing	819	1,034	1,202	1,071	1,071	1,125	1,193	1,264
9. Safety and Security	-	-	2	-	10	11	12	12
10. The Royal Household	-	5	17	-	28	35	38	40
11. Traditional and Local Government Affairs	4,351	3,909	3,511	209	3,254	3,496	3,702	3,908
12. Transport	386,848	405,539	485,856	411,245	432,993	469,647	501,006	532,444
13. Social Welfare and Population Development	12,067	68,257	6,229	3,766	3,325	4,273	4,533	4,805
14. Works	5,936	3,514	2,686	1,388	1,797	1,760	1,775	1,839
15. Reconstruction and Development Programme (RDP)	-	-	-	-	-	-	-	-
Sub-total	904,668	985,674	1,069,075	712,000	881,113	901,175	952,918	1,007,903
Provincial Parliament receipts not to be surrendered to the Provincial Revenue Fund						1,091	1,091	1,150
Total adjusted provincial own receipts	904,668	985,674	1,069,075	712,000	881,113	900,084	951,827	1,006,753

5.5 Donor funding

For the second consecutive year, Budget Statement 1 contains a schedule and information on donor funding. Also included in the schedule this year for the first time, are details of agency receipts per department. Since these are not voted funds, they have hitherto not been reported on, to any degree. The purpose of the schedule is to give an indication of extra-budgetary resources that are available to provincial departments, either from local or international sources.

The flow of non-budgetary resources to provincial departments may be subdivided into two main categories: donor funding and agency receipts. As Table 5.7 shows, donor funding accounts for only a small portion of the non-budgetary resources, ranging from 0.4 per cent to 24 per cent. For its part, agency receipts make up the bulk of non-budgetary resources, accounting for over 75 per cent of total non-budgetary resources.

The table provides a list of provincial departments that have received donor funding in the past three years. The departments are: the Office of the Premier, Agriculture and Environmental Affairs, Education and Culture, Health, Housing, and Traditional and Local Government Affairs. The main recipient was the Department of Health.

In the 2000/01 financial year, total donor funding was R7,18 million. It almost doubled to R13,2 million in 2001/02, but declined sharply the following year to R1,89 million. During the 2003/04 financial year, the estimated actual donations to be received by departments are R97,71 million. For the 2004/05 MTEF period, total donations are estimated at R99,87 million, R44,4 million and R12,27 million in each of the three years.

The Department of Transport is the major beneficiary of agency receipts, receiving substantial funding from the National Department of Transport with respect to bus subsidies and the *Arrive Alive* campaign. The intention of bus subsidies is to provide affordable transport to low-income households that live far from the industrial and urban centers where they are employed. The *Arrive Alive* campaign focuses mainly on traffic control, enforcement and communication, and is implemented by the province in terms of an agreed framework that is reviewed annually.

For the period 2000/01 to 2002/03, agency receipts received by the provincial Department of Transport ranged from R329,1 million to R419,5 million. Transport will receive, on average, R501 million in each year of the MTEF period. These allocations to Transport are likely to increase over the MTEF period, because the figures for Overloading Control and the *Arrive Alive* campaign are not yet available from national, and are therefore not included in the table.

In 2003/04, the Department of Agriculture and Environmental Affairs received funding of R65 million from the National Department of Agriculture, to bring relief to farmers affected by the so-called Cold Spell Disaster. In 2004/05, Agriculture is to receive a further R1 million from the National Department of Agriculture, in respect of dip tank rehabilitation.

Table 5.7 Donor funding and agency receipt

Name of Donor Organisation	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03					
R000				2003/04		2004/05	2005/06	2006/07
Donor funding	7,181	13,211	1,890	132,597	97,717	99,874	44,418	12,267
Premier	234	3,285	-	-	-	-	-	-
Department for International Development (UK)	234	3,285						
Agriculture	116	4,546	-	-	1,810	1,925	3,556	2,567
Netherlands Funding	116	346						
South African Sugar Association		4,200						
Flemish Government					1,810	1,925	3,556	2,567
Education & Culture	1,466	2,056	-	-	7,760	12,100	12,200	9,700
Zenex, South Africa	966	1,857				500	500	500
BHP Billiton, South Africa	500	199				500	500	500
Transnet, South Africa					4,250	4,000	3,000	3,000
Flemish Government					1,760	5,150	8,000	5,500
South African Sugar Association					200	200	200	200
Belgian Government					1,750	1,750		
Health	5,365	3,324	1,451	108,199	63,749	80,849	23,162	-
Global Fund for HIV/AIDS Patients				96,551	58,058	80,849	23,162	
Belgium Funding		97	6					
Christoffel Blindenmission-Germany	654		5					
Crossroad Crossscape Express-South Africa			15					
Department of International Development UK Abortion	66	32	15	4	4			
Department of National Health (Poverty Relief)	119	561	1,035	2,798	2,798			
Emmanuel Church, UK			96	1	1			
European Union Funding Systems Development	4,526	2,634	221	346	346			
Phillips Medical Systems				60	30			
Indigenous Systems				1	1			
Tongaat Hulett				1	1			
Keizer Chiefs				10	10			
European Union : PHC				8,427	2,500			
Dept of National Health (VEP Crises Centre)			73					
Housing	-	-	-	3,425	3,425	5,000	5,500	-
Flanders Funding*				3,425	3,425	5,000	5,500	
Traditional & Local Government Affairs	-	-	439	20,973	20,973	-	-	-
Development Bank of Southern Africa			289	20,673	20,673			
Flemish Government			150					
Norwegian Government				300	300			
Agency receipt	329,115	369,095	419,853	481,244	481,209	474,000	500,000	530,000
Agriculture	-	-	-	65,000	65,000	1,000	-	-
Cold Spell Disaster - National Dept of Agriculture				65,000	65,000			
Dip Tank Rehabilitation - National Dept of Agriculture						1,000		
Traditional & Local Government	-	-	334	-	-	-	-	-
Dept of Provincial & Local Government			334					
Transport	329,115	369,095	419,519	416,244	416,209	473,000	500,000	530,000
Bus Subsidies- National Transport	325,000	360,000	412,500	410,000	410,000	473,000	500,000	530,000
Overload Control - SANRA**	4,115	4,637	5,362	3,750	3,709			
Arrive Alive - National Transport**	-	4,458	1,657	2,494	2,500			
Total	336,296	382,306	421,743	613,841	578,926	573,874	544,418	542,267

*The figures for 2003/04 were calculated at an exchange rate of 8.6598 Rand to the Euro which was the buying rate at 14 February as per Business Day

**The figures for the MTEF period are not yet available from National Treasury

6. Expense

6.1 Overall position

Total provincial expenditure is expected to increase during the 2004/05 MTEF period from R37,806 billion in 2004/05 to R41,873 billion in 2005/06, and to R45,562 billion in 2006/07, reflecting an average nominal growth rate of 8.4 per cent during the period. Although it is substantial, the average growth rate of 3.7 per cent in real terms of provincial expenditure (inflation-adjusted, base year = 2003/04) during the MTEF period is anticipated to be significantly lower than that for the 2000/01 to 2003/04 period.

6.2 Expense by vote

Table 6.1 contains information on provincial payments and estimates by vote. With the exception of Traditional and Local Government Affairs, nominal expenditure by most provincial departments is envisaged to increase consistently during the 2004/05 MTEF period. All major departments' budgets grow in real terms over the 2000/01-2003/04 and 2003/04-2006/07 periods. The lower real growth rates over the latter period reflect the lower additional funding in national transfers, relative to the 2003/04 MTEF period.

Table 6.1: Summary of provincial payments and estimates by vote

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03	2003/04				
1. Premier	96,514	102,962	116,476	141,965	141,796	145,244	150,777	159,824
2. Provincial Parliament	61,566	71,331	87,630	117,247	117,247	95,009	100,958	107,251
3. Agriculture and Environmental Affairs	561,922	654,197	702,560	803,566	802,277	934,085	1,003,342	1,070,781
4. Economic Development and Tourism	115,989	131,785	164,118	192,840	180,803	206,812	218,621	231,738
5. Education and Culture	8,172,742	9,260,936	10,387,909	11,935,781	11,942,428	13,184,471	13,996,813	15,027,866
6. Provincial Treasury	106,210	92,377	105,790	190,449	175,357	156,983	169,581	179,755
MTEF Balance							200,000	50,000
7. Health	5,771,912	7,030,301	7,495,572	8,257,134	8,266,517	9,036,081	9,792,811	10,672,169
8. Housing	785,569	837,141	913,179	1,119,833	1,119,833	943,117	980,806	1,039,655
9. Safety and Security	5,251	6,894	13,864	17,565	17,565	17,123	18,150	19,239
10. The Royal Household	14,265	19,752	19,796	25,788	25,688	21,319	22,598	23,954
11. Traditional and Local Government Affairs	421,846	373,284	381,331	512,936	476,421	455,148	432,493	458,443
12. Transport	905,846	1,115,351	1,190,679	1,560,807	1,560,844	1,854,200	2,107,772	2,226,483
13. Social Welfare and Population Development	4,333,808	5,048,717	6,872,462	8,544,319	9,058,106	10,354,882	12,252,438	13,843,595
14. Works	428,591	294,748	308,678	381,266	370,505	402,451	426,578	452,171
15. Reconstruction and Development Programme (RDP)	17,619	21,418	12,959	40,784	40,784			
Total	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171	37,806,925	41,873,738	45,562,924

Table 6.1 excludes medium-term estimates for the Reconstruction and Development (RDP) vote, as allocations to the vote ceased during the 2003/04 financial year.

Payments by the Departments of Education and Culture, Health and Social Welfare and Population Development, as a sector, account for the highest proportion of total expenditure since the 2000/01 financial year, as can be interpreted from Table 6.1. In the 2004/05 financial year, Education and Culture is projected to spend R13,18 billion, followed closely by Social Welfare and Population Development at R10,35 billion and Health at R9,04 billion.

The social sector's share of the budget increases from 83.9 per cent in 2000/01 to 86.8 per cent in 2006/07. This pattern of expenditure is consistent with other developing countries, where a relatively high proportion of government expenditure is on social services, in comparison to other government services.

Within this sector, the proportion of total expenditure by the Department of Social Welfare and Population Development increases sharply, from 19.9 per cent in 2000/01 to 30.4 per cent in 2006/07, to the detriment of the Department of Education and Culture. The latter confronts a decrease in its share of total expenditure

during the MTEF period, although it consumes the largest share of the provincial budget at 34.9 per cent in 2004/05. The proportion of total expenditure allocated to other departments tends to fluctuate during the MTEF period.

A significant increase in the number of recipients of grants, especially of the Child Support Grant (CSG), and the relaxation of the criteria for determining eligibility for receiving disability grants, explain the strong increase in expenditure by the Department of Social Welfare and Population Development. Indeed, the real growth in expenditure by this department during the MTEF period is expected to be 9.5 per cent – far higher than the 2.6 and 3.5 per cent for Education and Culture and Health, respectively. For all other departments, the figure is a paltry 0.9 per cent.

It will be very difficult to sustain such high levels of expenditure by the Department of Social Welfare and Population Development. Unless budget allocations to the province increase significantly in the years to come, accommodating expenditure needs of the department will have the effect of crowding out spending on critical needs in the education and health sectors.

Table 6.2: Analysis of payments and estimates by major vote

	Outcome			Estimated Actual 2003/04	Medium-term estimates			Average annual growth	
	Audited	Audited	Audited						
	2000/01	2001/02	2002/03		2004/05	2005/06	2006/07	00/01 - 03/04	03/04 - 06/07
In Rand (000)									
Education	8,172,742	9,260,936	10,387,909	11,942,428	13,184,471	13,996,813	15,027,866		
Health	5,771,912	7,030,301	7,495,572	8,266,517	9,036,081	9,792,811	10,672,169		
Social Welfare	4,333,369	5,048,225	6,871,901	9,057,092	10,354,882	12,252,438	13,843,595		
Other Functions	3,521,627	3,721,732	4,017,621	5,030,134	5,231,491	5,831,676	6,019,294		
Total expenditure	21,799,650	25,061,194	28,773,003	34,296,171	37,806,925	41,873,738	45,562,924		
% of total expenditure									
Education	37.5	37.0	36.1	34.8	34.9	33.4	33.0		
Health	26.5	28.1	26.1	24.1	23.9	23.4	23.4		
Social Welfare	19.9	20.1	23.9	26.4	27.4	29.3	30.4		
Other Functions	16.2	14.9	14.0	14.7	13.8	13.9	13.2		
Nominal growth (%)									
Education		13.3	12.2	15.0	10.4	6.2	7.4	13.5	8.0
Health		21.8	6.6	10.3	9.3	8.4	9.0	12.7	8.9
Social Welfare		16.5	36.1	31.8	14.3	18.3	13.0	27.9	15.2
Other Functions		5.7	8.0	25.2	4.0	11.5	3.2	12.6	6.2
Total expenditure		15.0	14.8	19.2	10.2	10.8	8.8	16.3	9.9
Real growth (%)									
Education		6.3	2.1	8.9	4.9	0.7	2.2	5.7	2.6
Health		14.3	-2.9	4.4	3.8	2.9	3.7	5.0	3.5
Social Welfare		9.3	23.9	24.8	8.6	12.3	7.5	19.1	9.5
Other Functions		-0.9	-1.7	18.6	-1.2	5.8	-1.8	4.9	0.9
Total expenditure		7.8	4.5	12.9	4.7	5.1	3.6	8.4	4.5

6.3 Expense by economic classification

Table 6.3 presents a summary of payments and estimates by economic classification in accordance with the new economic reporting format, giving figures for the three categories of expenditure – *Current payments*, *Transfers and subsidies*, and *Payments for capital assets* – for the period 2000/01 to 2006/07.

As shown in Tables 6.3 and 6.4 below, all three expenditure categories are expected to increase consistently during the 2004/05 MTEF period, in nominal terms. However, in real terms, average growth over the MTEF is expected to be less than that for the period between 2000/01 and 2003/04.

Current payments are expected to increase from R23,20 billion in 2004/05 to R27,01 billion in 2006/07. During the same period, *Transfers and subsidies* increase from R11,52 billion to R14,94 billion, while *Payments for capital assets* increase from R3,08 billion to R3,61 billion.

Table 6.3: Summary of payments and estimates by economic classification

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03			2003/04	2004/05	2005/06
Current payments	15,286,189	16,811,972	18,862,354	21,260,802	21,266,048	23,172,297	25,083,348	26,976,449
Compensation of employees	12,441,340	13,622,992	14,872,647	16,339,761	16,413,984	17,756,180	18,901,669	19,985,508
Goods and services	2,842,095	3,184,953	3,984,531	4,914,629	4,845,652	5,406,129	6,170,963	6,979,562
Other	2,754	4,027	5,176	6,412	6,412	9,988	10,716	11,379
Transfers and subsidies to:	5,415,807	6,278,409	8,024,290	10,075,395	10,558,396	11,520,806	13,351,363	14,943,383
Local government	194,875	192,229	191,305	229,710	229,410	234,354	229,356	239,270
Non-profit institutions	403,103	493,233	545,262	831,359	803,327	876,684	933,219	1,019,800
Households	4,455,804	5,140,589	6,870,097	8,455,828	8,979,984	9,802,995	11,554,230	13,019,146
Other	362,025	452,358	417,626	558,498	545,675	606,773	634,558	665,167
Payments for capital assets	1,073,025	1,944,219	1,858,704	2,474,110	2,439,754	3,082,405	3,407,451	3,611,362
Buildings and other fixed structures	755,897	1,542,107	1,363,104	1,840,718	1,833,614	2,371,224	2,659,554	2,820,733
Machinery and equipment	314,046	398,640	492,957	630,980	603,858	708,942	744,730	786,877
Other	3,082	3,472	2,643	2,412	2,282	2,239	3,167	3,752
Total economic classification	21,775,021	25,034,600	28,745,348	33,810,307	34,264,198	37,775,508	41,842,162	45,531,194
Statutory payments	24,629	26,594	27,655	31,973	31,973	31,417	31,576	31,730
Total economic classification (incl. stat. pay.)	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171	37,806,925	41,873,738	45,562,924

Note: Payments for capital assets exclude Housing Subsidy Grant which is classified as Transfers to Household

Expenditure on *Compensation of employees* (excluding capitalised compensation) falls from 57.2 per cent in 2000/01 to 43.9 per cent in 2006/07. Relative to other categories, the category *Payments for capital assets* (which includes capitalised compensation) increases the most during the MTEF period; the expected increase of 8.3 per cent is particularly encouraging, as greater capital spending is necessary for economic growth. However, this figure is expected to be much lower than it was during the 2000/01 to 2003/04 period, when it grew in real terms by an impressive 22.5 per cent.

Capital payments as a proportion of total payments increase from 4.9 per cent in 2000/01 to 7.9 per cent of total expenditure in 2006/07. In line with the new economic reporting format, *Capital payments* exclude the funding pertaining to the Housing Subsidy conditional grant. Although the Housing Subsidy grant is capital in nature, it is included under the category *Transfers to household*, rather than *Capital payments*, as the grant does not contribute to capital formation by the department itself.

The category *Transfers and subsidies* also shows a substantial and consistent increase over the MTEF period, reflecting the unsustainable growth rate in social assistance payments.

Growth in *Capital payments* varies considerably – a trend that is also expected to continue during the medium term, although variation is slightly less than was the case between 2000/01 to 2003/04. This trend reflects the fact that capital spending is often postponed when it becomes necessary to accommodate very large increases in current payments, as has been the case in the past.

During the current MTEF period, *Non-compensation* payments are envisaged to exceed those of *Compensation payments*, reversing the trend observed between 2000/01 and 2003/04. *Non-compensation payments* (excl. *transfers*), for its part, are expected to grow at 7.7 per cent in real terms during the MTEF period, while *Non-compensation non-capital (NCNC)* and *NCNC* (excl. *transfers*) payments are anticipated to grow by the same amount of 6.9 per cent in real terms. This repeats the pattern of the 2000/01 to 2003/04 period, when real growth rates in these items were the same, at 14.7 per cent.

On average, for the 2004/05 MTEF period, *Current payments* are expected to account for approximately 60 per cent of total provincial expenditure, *Transfers and subsidies* about 30 per cent, and *Payments for capital assets* the rest. The proportion of actual total expenditure ascribed to *Current payments* has dropped continually since 2000/01, reflecting corresponding increases in the *Transfers and subsidies* category. Until the present financial year, the *Transfers and subsidies* category was divided into either current or capital payments, depending on the nature of the transfer payment. The new economic reporting format provides for a category that includes both current and capital transfers, yet is separated from the current and capital categories.

Table 6.4: Analysis of payments and estimates by economic classification

	Outcome			Estimated Actual 2003/04	Medium-term estimates			Average annual growth	
	Audited	Audited	Audited		2004/05	2005/06	2006/07	00/01 - 03/04	03/04 - 06/07
	2000/01	2001/02	2002/03						
In Rand (000)									
Current	15,310,818	16,838,566	18,890,009	21,298,021	23,203,714	25,114,924	27,008,179		
Transfers	5,415,807	6,278,409	8,024,290	10,558,396	11,520,806	13,351,363	14,943,383		
Capital	1,073,025	1,944,219	1,858,704	2,439,754	3,082,405	3,407,451	3,611,362		
Compensation	12,465,969	13,649,586	14,900,302	16,445,957	17,787,597	18,933,245	20,017,238		
Non-compensation	9,333,681	11,411,608	13,872,701	17,850,214	20,019,328	22,940,493	25,545,686		
Non-compensation (excl. transfers)	3,917,874	5,133,199	5,848,411	7,291,818	8,498,522	9,589,130	10,602,303		
Non-compensation non-capital (NCNC)	8,260,656	9,467,389	12,013,997	15,410,460	16,936,923	19,533,042	21,934,324		
NCNC (excl. transfers)	2,844,849	3,188,980	3,989,707	4,852,064	5,416,117	6,181,679	6,990,941		
Total expenditure	21,799,650	25,061,194	28,773,003	34,296,171	37,806,925	41,873,738	45,562,924		
% of total expenditure									
Current	70.2	67.2	65.7	62.1	61.4	60.0	59.3		
Transfers	24.8	25.1	27.9	30.8	30.5	31.9	32.8		
Capital	4.9	7.8	6.5	7.1	8.2	8.1	7.9		
Compensation	57.2	54.5	51.8	48.0	47.0	45.2	43.9		
Non-compensation	42.8	45.5	48.2	52.0	53.0	54.8	56.1		
Non-compensation (excl. transfers)	18.0	20.5	20.3	21.3	22.5	22.9	23.3		
Non-compensation non-capital (NCNC)	37.9	37.8	41.8	44.9	44.8	46.6	48.1		
NCNC (excl. transfers)	13.0	12.7	13.9	14.1	14.3	14.8	15.3		
Nominal growth (%)									
Current		10.0	12.2	12.7	8.9	8.2	7.5	11.6	8.2
Transfers		15.9	27.8	31.6	9.1	15.9	11.9	24.9	12.3
Capital		81.2	-4.4	31.3	26.3	10.5	6.0	31.5	14.0
Compensation		9.5	9.2	10.4	8.2	6.4	5.7	9.7	6.8
Non-compensation		22.3	21.6	28.7	12.2	14.6	11.4	24.1	12.7
Non-compensation (excl. transfers)		31.0	13.9	24.7	16.5	12.8	10.6	23.0	13.3
Non-compensation non-capital (NCNC)		14.6	26.9	28.3	9.9	15.3	12.3	23.1	12.5
NCNC (excl. transfers)		12.1	25.1	21.6	11.6	14.1	13.1	19.5	12.9
Real growth (%)									
Current		3.2	2.1	6.8	3.5	2.7	2.3	4.0	2.9
Transfers		8.7	16.4	24.6	3.7	10.0	6.5	16.4	6.7
Capital		70.0	-13.0	24.3	20.0	4.9	0.9	22.5	8.3
Compensation		2.7	-0.6	4.5	2.8	1.0	0.6	2.2	1.5
Non-compensation		14.7	10.7	21.9	6.5	8.8	6.0	15.7	7.1
Non-compensation (excl. transfers)		22.9	3.7	18.1	10.7	7.1	5.2	14.6	7.7
Non-compensation non-capital (NCNC)		7.5	15.5	21.5	4.4	9.4	6.9	14.7	6.9
NCNC (excl. transfers)		5.1	13.9	15.2	6.0	8.3	7.6	14.7	6.9

Given that the Departments of Education and Culture, Social Welfare and Population Development, and Health spend the largest amounts – a trend which is anticipated to continue during the MTEF period – it is useful to consider trends in the various components of expenditure, with a view to determining whether these departments are building tangible capacity to enable them to render services efficiently.

A summary of the Department of Education and Culture's payments and estimates by economic classification appears in Table 6.5 below.

It is encouraging to note that, while spending on *Compensation of employees*, which includes the salaries and wages of educators, comprised 93.1 per cent of total expenditure by the department in 2000/01, it is expected to decrease to 80.7 per cent in 2006/07. The share of *NCNC* (excluding transfers) also increases during the same period, from 4.3 per cent to 9.0 per cent.

Moreover, actual *Payments for capital assets* have increased since 2000/01, from a mere 1.0 per cent of total departmental expenditure to a projected 6.1 per cent of total expenditure in 2006/07. This reflects the growing trend to allocate more resources to school infrastructure. A priority of the department is the building of additional classrooms in existing schools and the rehabilitation/upgrading of existing classrooms, rather than building new schools.

Table 6.5: Analysis of expenditure summary by economic classification - Education

	Outcome			Estimated Actual 2003/04	Medium-term estimates			Average annual growth	
	Audited	Audited	Audited						
	2000/01	2001/02	2002/03		2004/05	2005/06	2006/07	00/01 - 03/04	03/04 - 06/07
In Rand (000)									
Current	7,963,031	8,764,600	9,806,598	11,036,352	11,859,202	12,575,091	13,471,382		
Transfers	131,570	157,635	188,333	359,399	555,632	584,056	646,910		
Capital	78,141	338,701	392,978	546,677	769,637	837,666	909,574		
Compensation	7,612,369	8,250,212	9,192,973	10,112,608	10,844,334	11,462,270	12,120,372		
Non-compensation	560,373	1,010,724	1,194,936	1,829,820	2,340,137	2,534,543	2,907,494		
Non-compensation (excl. transfers)	428,803	853,089	1,006,603	1,470,421	1,784,505	1,950,487	2,260,584		
Non-compensation non-capital (NCNC)	482,232	672,023	801,958	1,283,143	1,570,500	1,696,877	1,997,920		
NCNC (excl. transfers)	350,662	514,388	613,625	923,744	1,014,868	1,112,821	1,351,010		
Total expenditure	8,172,742	9,260,936	10,387,909	11,942,428	13,184,471	13,996,813	15,027,866		
% of total expenditure									
Current	97.4	94.6	94.4	92.4	89.9	89.8	89.6		
Transfers	1.6	1.7	1.8	3.0	4.2	4.2	4.3		
Capital	1.0	3.7	3.8	4.6	5.8	6.0	6.1		
Compensation	93.1	89.1	88.5	84.7	82.3	81.9	80.7		
Non-compensation	6.9	10.9	11.5	15.3	17.7	18.1	19.3		
Non-compensation (excl. transfers)	5.2	9.2	9.7	12.3	13.5	13.9	15.0		
Non-compensation non-capital (NCNC)	5.9	7.3	7.7	10.7	11.9	12.1	13.3		
NCNC (excl. transfers)	4.3	5.6	5.9	7.7	7.7	8.0	9.0		
Real growth (%)									
Current		3.2	1.9	6.6	2.1	0.6	2.0	3.9	1.6
Transfers		12.4	8.8	80.7	46.9	-0.2	5.4	30.2	15.6
Capital		306.6	5.6	31.7	33.7	3.3	3.3	78.2	12.6
Compensation		1.7	1.5	4.2	1.9	0.3	0.6	2.4	0.9
Non-compensation		69.2	7.6	45.0	21.5	2.8	9.2	38.2	10.9
Non-compensation (excl. transfers)		86.6	7.4	38.3	15.3	3.7	10.3	40.5	9.7
Non-compensation non-capital (NCNC)		30.7	8.7	51.5	16.3	2.5	12.1	29.1	10.1
NCNC (excl. transfers)		37.6	8.6	42.6	4.4	4.1	15.5	29.1	10.1

Table 6.6 below shows Social Welfare's expenditure by economic classification. As a proportion of total departmental expenditure, *Payments for capital assets*, which make up the smallest share of all of the categories, increases from a mere 0.2 per cent of the total expenditure in 2000/01 to a projected 0.4 per cent in 2006/07. As a share of the total budget, *Compensation of employees* declines from 3.8 per cent in 2000/01 to an expected 2.8 per cent in 2006/07. The relatively low annual real growth rate in *Transfers and subsidies* of 9.1 per cent between 2003/04 and 2006/07 is misleading, given the inability of the fiscus to fully fund the shortfall in the social security grant expenditure over the 2004/05 MTEF period.

Table 6.6: Analysis of expenditure summary by economic classification - Social Welfare

	Outcome			Estimated Actual 2003/04	Medium-term estimates			Average annual growth	
	Audited 2000/01	Audited 2001/02	Audited 2002/03		2004/05	2005/06	2006/07	00/01 - 03/04	03/04 - 06/07
In Rand (000)									
Current	430,478	430,663	598,076	731,084	955,521	1,109,121	1,261,513		
Transfers	3,893,594	4,576,518	6,220,493	8,274,219	9,343,760	11,083,297	12,520,555		
Capital	9,297	41,044	53,332	51,789	55,601	60,020	61,527		
Compensation	166,103	182,598	207,260	260,576	336,722	362,981	390,097		
Non-compensation	4,167,266	4,865,627	6,664,641	8,796,516	10,018,160	11,889,457	13,453,498		
Non-compensation (excl. transfers)	273,672	289,109	444,148	522,297	674,400	806,160	932,943		
Non-compensation non-capital (NCNC)	4,157,969	4,824,583	6,611,309	8,744,727	9,962,559	11,829,437	13,391,971		
NCNC (excl. transfers)	264,375	248,065	390,816	470,508	618,799	746,140	871,416		
Total expenditure	4,333,369	5,048,225	6,871,901	9,057,092	10,354,882	12,252,438	13,843,595		
% of total expenditure									
Current	9.9	8.5	8.7	8.1	9.2	9.1	9.1		
Transfers	89.9	90.7	90.5	91.4	90.2	90.5	90.4		
Capital	0.2	0.8	0.8	0.6	0.5	0.5	0.4		
Compensation	3.8	3.6	3.0	2.9	3.3	3.0	2.8		
Non-compensation	96.2	96.4	97.0	97.1	96.7	97.0	97.2		
Non-compensation (excl. transfers)	6.3	5.7	6.5	5.8	6.5	6.6	6.7		
Non-compensation non-capital (NCNC)	96.0	95.6	96.2	96.6	96.2	96.5	96.7		
NCNC (excl. transfers)	6.1	4.9	5.7	5.2	6.0	6.1	6.3		
Real growth (%)									
Current		-6.2	26.4	15.8	24.2	10.2	8.2	11.2	14.0
Transfers		10.3	23.8	26.0	7.3	12.6	7.5	19.8	9.1
Capital		314.1	18.3	-8.0	2.0	2.4	-2.4	65.2	0.6
Compensation		3.1	3.3	19.1	22.8	2.3	2.3	8.3	8.7
Non-compensation		9.5	24.7	25.0	8.2	12.6	7.7	19.5	9.5
Non-compensation (excl. transfers)		-0.9	39.9	11.4	22.7	13.4	10.1	15.6	15.3
Non-compensation non-capital (NCNC)		8.8	24.8	25.3	8.2	12.7	7.7	19.4	9.5
NCNC (excl. transfers)		-12.0	43.4	14.0	24.9	14.4	11.1	19.4	9.5

Table 6.7 below shows the Department of Health's expenditure by economic classification. As is the case with the Department of Education and Culture, most of the Health's expenditure consists of *Current payments*. As a proportion of total expenditure, *Current payments* drop from 89.4 per cent in 2000/01 to a projected 88.5 per cent in 2006/07. During the same period, *Compensation of employees* drops consistently, from 63.4 per cent to 56.1 per cent of total departmental expenditure, releasing increasing proportions of spending for *direct service delivery*. For its part, the share of *Payments for capital assets* increases from 4.8 per cent of total expenditure in 2000/01, to 7.9 per cent in 2006/07. This trend is encouraging, as capital investment in the health sector is required urgently to deal with, among other things, the growing demand that the HIV/AIDS epidemic makes on it.

Table 6.7: Analysis of expenditure summary by economic classification - Health

	Outcome			Estimated Actual 2003/04	Medium-term estimates			Average annual growth	
	Audited 2000/01	Audited 2001/02	Audited 2002/03		2004/05	2005/06	2006/07	00/01 - 03/04	03/04 - 06/07
In Rand (000)									
Current	5,158,744	5,953,650	6,609,116	7,200,143	7,943,996	8,628,614	9,447,078		
Transfers	336,659	402,548	427,454	513,569	335,341	359,601	380,856		
Capital	276,509	674,103	459,002	552,805	756,744	804,596	844,235		
Compensation	3,658,669	4,240,830	4,450,531	4,856,100	5,250,144	5,667,783	5,985,654		
Non-compensation	2,113,243	2,789,471	3,045,041	3,410,417	3,785,937	4,125,028	4,686,515		
Non-compensation (excl. transfers)	1,776,584	2,386,923	2,617,587	2,896,848	3,450,596	3,765,427	4,305,659		
Non-compensation non-capital (NCNC)	1,836,734	2,115,368	2,586,039	2,857,612	3,029,193	3,320,432	3,842,280		
NCNC (excl. transfers)	1,500,075	1,712,820	2,158,585	2,344,043	2,693,852	2,960,831	3,461,424		
Total expenditure	5,771,912	7,030,301	7,495,572	8,266,517	9,036,081	9,792,811	10,672,169		
% of total expenditure									
Current	89.4	84.7	88.2	87.1	87.9	88.1	88.5		
Transfers	5.8	5.7	5.7	6.2	3.7	3.7	3.6		
Capital	4.8	9.6	6.1	6.7	8.4	8.2	7.9		
Compensation	63.4	60.3	59.4	58.7	58.1	57.9	56.1		
Non-compensation	36.6	39.7	40.6	41.3	41.9	42.1	43.9		
Non-compensation (excl. transfers)	30.8	34.0	34.9	35.0	38.2	38.5	40.3		
Non-compensation non-capital (NCNC)	31.8	30.1	34.5	34.6	33.5	33.9	36.0		
NCNC (excl. transfers)	26.0	24.4	28.8	28.4	29.8	30.2	32.4		
Real growth (%)									
Current		8.3	1.1	3.2	4.8	3.1	4.2	4.1	4.0
Transfers		12.2	-3.3	13.8	-38.0	1.8	0.8	7.3	-14.0
Capital		128.7	-38.0	14.1	30.1	0.9	-0.1	17.4	9.4
Compensation		8.7	-4.5	3.3	2.7	2.5	0.5	2.4	1.9
Non-compensation		23.8	-0.6	6.1	5.5	3.4	8.1	9.3	5.6
Non-compensation (excl. transfers)		26.0	-0.2	4.8	13.2	3.6	8.8	9.7	8.4
Non-compensation non-capital (NCNC)		8.0	11.3	4.7	0.7	4.0	10.1	8.0	4.9
NCNC (excl. transfers)		7.1	14.7	2.8	9.2	4.3	11.3	8.0	4.9

Table 1.B of the *Annexure to Budget Statement I* includes specific details of provincial payments and estimates by economic classification.

6.4 Expense by policy area

Table 6.8 shows expenditure figures by policy area. Details of this aspect are given in Table 1.E of the *Annexure to Budget Statement I*.

Spending on *Education Affairs & Services*, which stands at more than R13,3 billion in 2003/04, accounts for the bulk of total expenditure. This is not surprising, as one of the provincial government's strategies to achieve its long term goals is to develop human capability. *Community & Social Services* is expected to, for the second consecutive year, spend the second-largest individual amount of R10,04 billion in 2004/05, while *Health Affairs & Services* is anticipated to spend R8,73 billion. Spending on *Community & Social Services* surpasses *Health Affairs & Services*, due to substantial increases in the social grant take-up rate since the 2003/04 financial year. This trend is also consistent with the fact that another important strategy of the provincial government is to provide social safety nets for the poor.

Nominal expenditure on all policy areas is expected to increase during each year of the current MTEF period. The only exceptions are *General Public Services* and *Public Order & Safety Affairs* which are expected to fluctuate during the same period, although expenditure in 2006/07 is expected to be higher than it is in 2004/05.

Table 6.8: Summary of expenditure by policy area

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates			
	Audited	Audited	Audited						
	2000/01	2001/02	2002/03	2003/04			2004/05	2005/06	2006/07
	General Public Services	1,192,345	1,036,453	1,123,671	1,476,743	1,412,835	1,398,183	1,630,569	1,565,328
Public Order & Safety Affairs	162,767	167,117	205,232	234,869	234,869	290,036	308,438	297,275	
Education Affairs & Services	8,228,621	9,301,971	10,449,471	12,022,197	12,041,568	13,287,096	14,095,288	15,128,039	
Health Affairs & Services	5,659,032	6,893,023	7,331,798	8,043,304	8,050,941	8,792,075	9,535,671	10,402,264	
Community & Social Services	4,330,205	5,045,392	6,869,876	8,540,173	9,054,567	10,351,101	12,248,508	13,839,429	
Housing & Community (Amenity) Affairs & Services	969,468	1,050,249	1,128,724	1,360,157	1,357,271	1,219,864	1,273,392	1,348,977	
Recreational, Cultural & Religious Affairs & Services	78,919	113,152	121,976	142,897	132,073	157,892	170,136	181,815	
Agricultural Affairs & Services	360,312	417,918	458,548	532,710	534,108	617,106	674,301	722,817	
Transportation & Communication Affairs & Services	704,222	893,039	915,808	1,263,713	1,263,713	1,495,144	1,727,443	1,854,303	
Other Economic Affairs & Services	84,759	142,880	167,899	225,517	214,226	198,428	209,992	222,677	
Other Functional & Unallocable Items	29,000	-	-	-	-	-	-	-	
Total	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171	37,806,925	41,873,738	45,562,924	

6.5 Infrastructure expense

Table 6.9 below presents a summary of provincial infrastructure expenditure for the period 2000/01 to 2002/03, and budgeted estimates for the 2004/05 to 2006/07 MTEF period. In the *Annexure to Budget Statement 1*, Table 1.C gives a further breakdown in this regard, listing the number of projects, the total cost, and the type of infrastructure.

Table 6.9: Summary of provincial infrastructure expenditure and estimates

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited					
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	
New constructions (Buildings and infrastructure)	906,074	1,315,003	1,055,147	1,202,738	1,211,047	1,537,394	1,735,251	1,813,797
Rehabilitation/upgrading	639,699	814,310	828,032	1,216,722	1,209,387	1,519,559	1,645,365	1,779,858
Other capital projects	73,843	162,968	279,527	348,802	357,746	183,048	188,139	193,581
Total	1,619,616	2,292,281	2,162,706	2,768,262	2,778,180	3,240,001	3,568,755	3,787,236

During the period under review, infrastructure expenditure and estimates are divided into three main categories, namely new construction, rehabilitation/upgrading, and other capital projects. Firstly, the category new construction relates to the construction of new infrastructure. Secondly, the category of rehabilitation/upgrading refers to the rehabilitating or upgrading of existing infrastructure. Finally, other capital projects cater for the provision of water, electricity, sanitation, and fencing, etc.

A budget of R3,2 billion has been set aside for infrastructure projects for the first year of the current MTEF. Budgets of R3,6 billion and R3,8 billion have been allocated in the second and outer years of the MTEF, respectively, towards the provision of infrastructure in the province. This means that nominal growth in the budgeted infrastructure expenditure will be 10.1 per cent in 2005/06, and 6.1 per cent in 2006/07. In total, expenditure on infrastructure projects is projected to more than double during the seven-year period, from R1,6 billion in 2000/01 to R3,8 billion in 2006/07.

Within the 2004/05 infrastructure allocation, R1,5 billion or 47.5 per cent will be used towards the construction of new infrastructure. This will allow for a total of 10,317 new projects to either commence or continue, as some of these projects already started prior to 2004/05. This means that funds will be allocated towards a total of 160 school projects, 4,100 additional classroom projects, and 236 hospital projects. In addition, 469 road projects and 71 other road structure projects (bridges, culverts, etc) will be initiated.

Accepting that most projects of a capital nature roll over into several fiscal years, given the extent of planning involved, funding of R1,7 billion and R1,8 billion has been allocated for these new projects in the two outer years of the current MTEF period, respectively.

With regards to the rehabilitation/upgrading of infrastructure, amounts of R1,5 billion, R1,6 billion and R1,8 billion will be allocated in the three years of the current MTEF period, respectively. Again, this implies that either rehabilitation/upgrading projects are to commence in any one specific year of the current MTEF period, or will continue from the previous year(s). In any event, the rehabilitation or upgrading of a total of 1,061 hospital projects, 681 other health facilities, 47 administration blocks, and 521 road projects will be undertaken during the MTEF period.

In addition, other capital projects, totalling R564,7 million, are also funded by portion of the infrastructure budget during the 2004/05 MTEF period. This amount will be allocated as follows: R183 million in 2004/05, R188,1 million in 2005/06, and R193,6 million in 2006/07. Among others, this funding will allow for 5 electricity projects and 4,640 sanitation projects to be undertaken during the MTEF period.

Table 6.10 shows a summary of infrastructure expenditure and estimates according to votes, for the period 2000/01 to 2006/07.

Table 6.10: Summary of infrastructure expenditure and estimates by vote

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03	2003/04				
1. Premier	-	-	-	1,820	1,820	1	-	-
2. Provincial Parliament	-	1,000	1,000	21,000	21,000	-	-	-
3. Agriculture and Environmental Affairs	60,970	48,782	54,387	39,848	41,689	58,135	59,560	31,514
4. Economic Development and Tourism	-	-	-	-	-	-	-	-
5. Education and Culture	114,374	222,348	262,607	452,895	447,395	637,745	694,286	762,243
6. Provincial Treasury	2,462	-	-	-	-	-	-	-
7. Health	157,796	539,001	232,338	269,216	269,216	482,441	508,129	529,945
8. Housing	640,163	665,165	755,287	903,490	903,490	748,463	783,466	830,474
9. Safety and Security	-	-	-	-	-	-	-	-
10. The Royal Household	809	-	1,385	1,715	1,715	1,200	1,300	1,378
11. Traditional and Local Government Affairs	13,447	25,704	18,161	46,624	46,624	11,253	50	50
12. Transport	573,687	739,261	789,525	985,560	985,560	1,235,303	1,453,913	1,559,658
13. Social Welfare and Population Development	5,298	31,124	32,437	17,807	32,807	34,225	34,880	34,878
14. Works	50,610	19,896	15,579	28,287	26,864	31,235	33,171	37,096
15. Reconstruction and Development Programme (RDP)								
Total	1,619,616	2,292,281	2,162,706	2,768,262	2,778,180	3,240,001	3,568,755	3,787,236

The Department of Transport gets by far the largest slice of the infrastructure budget from 2004/05 onwards, receiving, on average, 40 per cent of the total infrastructure allocation. The Department of Housing receives the second largest allocation of the infrastructure budget over the MTEF period, an average of 22.3 per cent. Similarly, the Departments of Education and Culture and Health receive, on average, 19.8 and 14.4 per cent respectively of the infrastructure budget over the MTEF period. Together, these four departments receive 96.5 per cent of the MTEF allocation for infrastructure.

The Department of Transport's infrastructure allocation increases nominally by an annual average of 12.4 per cent over the MTEF period, while the Department of Works receives an increase of 9 per cent in its infrastructure budget. The Department of Housing's infrastructure allocation increases by a nominal annual average rate of 5.3 per cent during the same period. The infrastructure budgets of several other departments also reflect an annual increase in allocation over the MTEF.

Noticeable, however, is the allocation of the Department of Traditional and Local Government Affairs, which diminishes sharply by 93.3 per cent (annual average), largely as a result of the discontinuation of the Provincial Infrastructure conditional grant.

The infrastructure allocation of the Department of Agriculture and Environmental Affairs also shows a marked decrease in the outer year, because it is envisaged that the planned construction of laboratories will be completed by then.

6.5.1 Developments in infrastructure management

In line with the focus on infrastructure investment as a key policy priority of both national and provincial government, a number of reforms and new initiatives have recently been introduced with regard to infrastructure management in the province.

The Provincial Treasury established a dedicated Infrastructure Unit in 2003/04, with a mandate to co-ordinate infrastructure development and management in the province, in line with the national framework on infrastructure.

The 2003/04 financial year also saw the introduction of a new reporting format that separates infrastructure expenditure of departments from total capital expenditure. The new format allows for monitoring of underspending of funds allocated, as well as monitoring of expenditure against capital formation. A new quarterly reporting format was introduced in order to periodically monitor implementation of projects on the departmental infrastructure plans and, where necessary, take timeous corrective action to address problems, as and when they arise.

A big challenge that still remains is the need to improve the planning process in respect of infrastructure management within provincial departments, and manage the co-ordination of departmental infrastructure plans. The aim is to produce an overarching provincial infrastructure plan that is credible. As a first step towards meeting the challenge, in 2003/04 the Infrastructure Unit commenced formulating the Provincial Statement of Infrastructure Needs (PSIN), which will form the basis for developing a credible provincial infrastructure plan. On completion, the plan will be used to raise capital investment funding for infrastructure projects, and for integrated implementation of infrastructure projects.

The Unit has begun the process of developing the PSIN, liaising closely with those four departments responsible for the bulk of infrastructure spending in the province, namely Education and Culture, Health, Housing and Transport. The Departments of Education and Culture and Housing are still in the early stages of formulating their statement of needs. Table 6.11 below therefore presents figures of those departments that have compiled their statement of needs thus far, namely Health and Transport.

Table 6.11: Statement of infrastructure needs: Departments of Health and Transport

	Health		Transport		
	Number of beds	Consulting rooms	Main and district roads		Local roads kms
			Blacktop kms	Gravel kms	
Best practice	24,096	2,281	7,528	21,023	13,474
Current	23,310	1,730	6,811	17,105	3,465
Need before adjusting for excess	743	551	717	3,918	10,009
Excess*	2,956	19	-	-	-
Need	3,699	570	717	3,918	10,009

* Excess arises as a result of there being more items of infrastructure in use than required.

There are admittedly still problems that have a negative impact on or hamper the effective implementation of infrastructure projects, such as poor project management, procurement delays, and late or non-delivery by contractors. However, there have been definite improvements in the reconciliation of the departmental infrastructure plans to MTEF budgets, and in departments' meeting the quarterly reporting requirements of National Treasury.

Delays in procurement processes often result in timeline targets for completion and delivery of a project being missed. As part of the implementation of the overarching provincial infrastructure plan, reforms to improve procurement process need to be considered. In addition, linkages with the private sector through Public Private Partnerships (PPP) will be forged, in cases where it is appropriate and beneficial.

In 2004/05, the province is considering entering into two major PPP projects, involving the Departments of Health and Transport. The Dube TradePort project is still under consideration, with the feasibility study

expected to be completed in the first quarter of 2004/05. Table 6.12 below gives further details of the PPP's that are under currently under consideration in the province.

Table 6.12: Proposed Public Private Partnership projects

Department	Type of service	Purpose	Beneficiaries	Value and term	Expected date of completion
Health	Soft Facilities Management	To remove day-to day responsibility of non-core hospital functions from hospital administrators, allowing them time and resources to focus on core hospital functions	Patients	R200 million per annum for a period of 15 to 20 years	November 2004
Transport	Plant Hire	To find an alternative method of providing plant for in-house use, as well as for emerging contractors who are contracted by KZN Dept. of Transport for roadworks.	Small contractors	R200 million per annum for a period of 15 to 20 years	The last quarter of 2004/05
Economic Affairs and Tourism	Multi modal platform including airport, trade zone, harbour and cyberport	To provide and improve gateway for local products and services to national and international platforms	- Business - Tourism - Employment opportunities	Initial injection of R1,6 billion. The PPP is envisaged for a period of 20 to 25 years	2010

In implementing infrastructure projects, the Provincial Treasury incorporates the Expanded Public Works Programme (EPWP) as far as possible. In this regard, in 2004/05, the Provincial Treasury has granted specific funds to the Departments of Education and Culture and Health to be utilised in terms of the EPWP. Amounts of R24,718 million and R20,3 million have been given to Health and Education and Culture, respectively, for this programme, with these amounts increasing substantially over the MTEF. It is the intention that the Department of Works spends these EPWP allocations, through their *Asisebenze* and *Vukuzithathe* projects, thereby addressing previously disadvantaged individuals and SMME's. A similar programme in Transport, *Vukuzakhe*, has measured significant success since inception a few years ago.

6.6 Transfers to public entities

Table 6.13 gives a summary of provincial transfers to public entities. In 2004/05, transfers to public entities are expected to reach R412,47 million.

During the MTEF period, most public entities receive a nominal increase in transfers. The amount transferred to the public entity *Umsekeli*, however, remains at R17,6 million in each year of the MTEF. Similarly, the allocation made to the KwaZulu-Natal Philharmonic Orchestra remains at R4 million in both 2004/05 and 2005/06, with a slight increase in 2006/07 (R4,2 million). The transfer made to the KwaZulu-Natal Gambling Board shows a decrease in 2004/05.

On the other hand, the transfer to *Ezemvelo* KZN Wildlife shows a consistent increase from 2003/04 to 2004/05, and over the MTEF. This is because additional funding was allocated to EKZNW in 2003/04 for improvements in condition of service. Furthermore, EKZNW was allocated additional amounts of R45 million, R47 million and R49 million for 2004/05, 2005/06 and 2006/07, respectively, to address specific areas of need, such as alien plant control, conservation infrastructure, ecotourism and carry-through costs of improvements in condition of service.

The public entity Mjindi Farming (Pty) Ltd received steady funding from 2000/01 to 2002/03, and a decrease in 2003/04. Further transfers to Mjindi Farming have been discontinued from 2004/05 onwards, in line with the decision taken to phase out the public entity by the end of 2003/04.

Table 6.13: Summary of provincial transfers to public entities

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03					
				2003/04				
Kwa-Zulu Natal Gambling Board	6,386	6,366	8,546	6,750	6,750	5,000	5,190	5,501
SA Association for Marine Biological Research	230	1,000	1,000	1,352	1,352	1,452	1,539	1,631
KZN Section of Mountain Club SA	10	13	14	14	14	14	15	16
Ezemvelo KZN Wildlife	182,484	206,972	203,832	222,401	222,401	254,819	269,408	284,753
Mjindi Farming (PTY) LTD	5,040	5,040	5,040	4,240	4,240	-	-	-
Mpendle/Ntambanana	2,390	-	-	-	-	-	-	-
Ilhala	29,000	24,843	18,000	16,000	16,000	27,447	28,555	29,483
Trade & Investment KwaZulu-Natal	-	8,500	14,671	14,146	14,146	15,425	16,405	17,226
KZN Tourism Authority	19,766	27,650	34,000	45,000	45,000	49,070	52,186	54,796
KZN Philharmonic Orchestra	5,000	4,000	4,000	4,000	4,000	4,000	4,000	4,200
Natal Sharks Board	14,762	15,794	16,882	16,882	16,882	16,882	16,882	17,727
Regional Economic Council	1,700	-	-	-	-	-	-	-
KZN Transport	12,200	2,700	-	-	-	-	-	-
KZN Marketing Initiative	1,500	-	-	-	-	-	-	-
SA Lifesaving	33	33	-	-	-	-	-	-
Amafa AkwaZulu-Natal	6,000	11,600	7,623	10,000	10,000	10,200	10,644	11,283
KZN Peace Office	3,315	3,947	238	-	-	-	-	-
Umsekeli	17,600	17,600	17,600	20,600	20,600	17,600	17,600	17,600
Development Planning Commission	1,850	1,751	2,314	2,558	2,558	4,962	5,097	5,403
KwaZulu-Natal Taxi Council	2,129	2,230	2,030	5,300	5,300	5,600	5,800	6,148
KwaZulu-Natal Public Transport Licensing Board	2,151	2,050	-	-	-	-	-	-
Total	313,546	342,089	335,790	369,243	369,243	412,471	433,321	455,767

Table 6.14 presents a summary of provincial transfers to public entities by transferring department. Six provincial departments make transfer payments to public entities over the MTEF period. The largest allocations are granted by the Department of Economic Development and Tourism, which is responsible for a number of public entities, and the Department of Agriculture and Environmental Affairs, which gives substantial funding to *Ezemvelo* KZN Wildlife.

Even in nominal terms, most transfers are expected to increase only moderately over the period, apart from the increase in the transfer made to *Ezemvelo* KZN Wildlife from 2004/05 onwards, as mentioned above.

Table 6.14: Summary of provincial transfers to public entities by transferring department

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03					
				2003/04				
1. Premier	6,386	6,366	8,546	6,750	6,750	5,000	5,190	5,501
2. Provincial Parliament	-	-	-	-	-	-	-	-
3. Agriculture and Environmental Affairs	190,154	213,025	209,886	228,007	228,007	256,285	270,962	286,400
4. Economic Development and Tourism	83,961	83,520	87,553	96,028	96,028	112,824	118,028	123,432
5. Education and Culture	6,000	11,600	7,623	10,000	10,000	10,200	10,644	11,283
6. Provincial Treasury	-	-	-	-	-	-	-	-
7. Health	-	-	-	-	-	-	-	-
8. Housing	-	-	-	-	-	-	-	-
9. Safety and Security	3,315	3,947	238	-	-	-	-	-
10. The Royal Household	-	-	-	-	-	-	-	-
11. Traditional and Local Government Affairs	19,450	19,351	19,914	23,158	23,158	22,562	22,697	23,003
12. Transport	4,280	4,280	2,030	5,300	5,300	5,600	5,800	6,148
13. Social Welfare and Population Development	-	-	-	-	-	-	-	-
14. Works	-	-	-	-	-	-	-	-
15. Reconstruction and Development Programme (RDP)	-	-	-	-	-	-	-	-
Total	313,546	342,089	335,790	369,243	369,243	412,471	433,321	455,767

6.7 Transfers to local government

Each year, local governments receive funds for various purposes from provincial departments. Table 6.15 gives a summary of provincial transfers to local government by municipal category.

Table 6.15: Summary of provincial transfers to local government by category

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03					
				2003/04				
Category A	24,167	23,484	25,361	44,579	44,529	41,523	44,626	47,108
Category B	27,059	78,682	74,530	95,139	94,759	104,238	103,891	116,734
Category C	4	39,008	36,755	6,946	6,739	35,610	27,094	21,477
Total	51,230	141,174	136,646	146,664	146,027	181,371	175,611	185,319

The Constitution of the Republic of South Africa, Act No. 108 of 1996, defines municipal categories as follows:

Category A: a municipality having exclusive municipal executive and legislative authority within its area. These are often known as ‘metropolitan areas’. KwaZulu-Natal’s only metropolitan municipality is *eThekweni*.

Category B: a municipality that shares municipal executive and legislative authority within its area, with a Category C municipality (defined hereunder) within whose area it falls. Such municipalities are often referred to as ‘local municipalities’.

Category C: a municipality having municipal executive and legislative authority in an area that includes more than one municipality. Such municipalities are often referred to as ‘district municipalities’.

Transfers to the province’s single Category A municipality are expected to increase consistently from a base of R41,5 million in 2004/05 to R47,1 million in 2006/07. The opposite is the case for transfers to Category C municipalities, which decrease from a base of R35,6 million in 2004/05 to R21,5 million in 2006/07. Transfers to Category B municipalities have increased continually since 2000/01, and are anticipated to reach R104,2 million in 2004/05 and R116,7 million in 2006/07.

Table 6.16 presents a summary of provincial transfers to local government by vote. Departmental transfers to local government fluctuate over the MTEF period, totalling R181,37 million in 2004/05, dropping in 2005/06, but rising slightly in 2006/07 to R185,32 million. The Department of Traditional and Local Government Affairs transfers the largest sums to local government, followed by the Department of Health. These trends are anticipated to continue over the MTEF period.

Table 6.16: Summary of provincial transfers to local government per vote

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited	Audited	Audited			2004/05	2005/06	2006/07
	2000/01	2001/02	2002/03					
				2003/04				
1. Premier	-	-	-	-	-	-	-	-
2. Provincial Parliament	-	-	-	-	-	-	-	-
3. Agriculture and Environmental Affairs	-	-	787	1,600	1,075	3,500	1,905	2,019
4. Economic Development and Tourism	-	-	50	-	-	-	-	-
5. Education and Culture	9,016	9,714	12,451	14,135	14,135	21,800	23,108	24,494
6. Provincial Treasury	-	-	-	-	-	-	-	-
7. Health	41,178	43,470	48,104	52,292	52,292	57,070	63,417	68,617
8. Housing	-	-	-	-	-	-	-	-
9. Safety and Security	-	-	-	-	-	-	-	-
10. The Royal Household	-	-	-	-	-	-	-	-
11. Traditional and Local Government Affairs	-	87,164	74,395	73,982	73,982	84,571	72,612	75,342
12. Transport	597	334	300	3,800	3,800	13,505	13,574	13,722
13. Social Welfare and Population Development	439	492	559	855	743	925	995	1,125
14. Works	-	-	-	-	-	-	-	-
15. Reconstruction and Development Programme (RDP)	-	-	-	-	-	-	-	-
Total	51,230	141,174	136,646	146,664	146,027	181,371	175,611	185,319

As shown in Table 1.D of *Annexure to Budget Statement I*, of the 61 municipalities in the province, few are expected to consistently receive larger amounts annually in the form of transfers from the provincial government during the MTEF period. Substantial amounts, determined on the basis of needs, are to be allocated during each year of this period to needy municipalities.

6.8 Personnel numbers and costs

The number of personnel employed by the provincial administration, and costs associated with their tenure, appear in Table 6.17 below. By the end of the 2004/05 financial year, the total cost of employing personnel is anticipated to be R17,186 billion.

For the provincial government as a whole, personnel numbers have increased over the years, from 147,917 in 2001, to an expected 152,510 at the end of 2004/05. Unit costs of employing personnel increase from R85,000 to a projected amount of R113,000 at the end of 2004/05. The annual increases cater for the improvements in conditions of service salary adjustment (inflation linked).

The Departments of Education and Culture and Health employ substantially more staff than other departments, given the labour-intensive nature of the services that these departments render. At the end of 2004/05, Education and Culture is projecting to employ 82,299 staff, while Health is projecting 51,087 staff. The number of staff employed by these departments has been on an upward trend since March 2003. This trend is expected to put significant pressure on the budgets of the departments concerned in the future.

Table 6.17: Personnel numbers and costs¹

Personnel numbers	As at 31 March 2000	As at 31 March 2001	As at 31 March 2002	As at 31 March 2003	As at 31 March 2004	As at 31 March 2005
1. Premier	347	307	219	245	264	264
2. Provincial Parliament	130	121	120	115	141	141
3. Agriculture and Environmental Affairs	4,510	5,051	3,744	3,935	4,069	4,121
4. Economic Development and Tourism	103	107	113	107	120	120
5. Education and Culture	79,403	79,920	83,228	81,240	81,870	82,299
6. Provincial Treasury	247	246	253	293	308	328
7. Health	48,661	47,541	47,917	49,764	50,087	51,087
8. Housing	1,187	1,187	1,459	1,443	1,436	1,436
9. Safety and Security	6	9	16	41	45	52
10. The Royal Household	214	200	200	198	107	107
11. Traditional and Local Government Affairs	3,813	3,273	1,622	1,384	1,420	1,525
12. Transport	5,327	4,767	4,333	5,050	5,423	5,424
13. Social Welfare and Population Development	2,307	2,207	2,312	2,340	2,426	3,187
14. Works	4,056	2,981	2,814	2,827	2,644	2,740
Total	150,311	147,917	148,350	148,982	150,360	152,831
Total personnel cost (R000)	11,296,583	12,561,822	13,763,336	14,994,080	16,477,211	17,917,708
Unit cost (R000)	75	85	93	101	110	117

1. Full-time equivalent

6.9 Expense on training

Consistent with the provincial administration's policy priority of developing human capacity, total expenditure on training, shown in Table 6.18, has increased in nominal terms over the period 2000/01-2003/04, and it is expected to continue to increase during the MTEF period. It is envisaged that such training will bolster the provincial government's capacity to render services more efficiently.

It is encouraging that expenditure on training is expected to increase from approximately R210 million in 2000/01, to over R555 million in 2006/07. Departments are required by the Skills Development Act to budget at least 1 percent of their personnel expense on staff training from 2003/04 onwards, to cater for human resource development, and this policy is clearly being adhered to.

Table 6.18 Expenditure on training

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03			2004/05	2005/06	2006/07
				2003/04				
1. Premier	292	559	330	956	956	558	579	614
2. Provincial Parliament	-	219	339	705	720	756	794	834
3. Agriculture and Environmental Affairs	1,454	1,571	3,358	3,646	2,890	7,244	7,746	8,118
4. Economic Development and Tourism	88	162	112	1,837	354	1,554	1,660	1,776
5. Education and Culture	24,582	38,968	57,039	70,533	70,533	75,278	84,268	93,266
6. Provincial Treasury	316	409	1,269	1,114	737	1,457	1,407	1,427
7. Health	174,367	210,109	250,234	308,959	311,704	376,871	396,902	416,456
8. Housing	-	370	235	530	530	1,000	1,000	2,000
9. Safety and Security	31	49	29	246	246	255	269	283
10. The Royal Household	-	-	42	130	498	101	81	82
11. Traditional and Local Government Affairs	1,660	2,062	2,919	3,389	3,389	3,195	3,436	3,608
12. Transport	5,067	8,095	9,843	15,329	15,329	17,400	18,730	20,110
13. Social Welfare and Population Development	1,132	1,338	7,570	6,801	6,801	3,860	3,954	4,191
14. Works	1,415	1,605	1,567	1,930	1,678	2,055	2,180	2,311
Total	210,404	265,516	334,886	416,105	416,365	491,584	523,006	555,076

7. FINANCIAL MANAGEMENT REFORMS, FISCAL PERFORMANCE, AND CHALLENGES

7.1 Achievements in financial management and budget reforms

In the 1998/99 financial year, the provincial finances and financial management systems still left a great deal to be desired. The provincial government had accumulated R2,1 billion in debt by overspending its budget in consecutive years from 1996/97, forcing the national government to intervene in terms of Section 100 (1)(a) of the Constitution. The terms of the intervention required the provincial government to produce a plan for paying its accumulated debt. Naturally, curtailing spending was a key element in the provincial government's plan. Thus, the government tabled three constrictive budgets for the period 1997/98 to 1999/00. Seeking to protect the poor and vulnerable, the budgets more or less preserved current expenditure in the social sectors, leaving capital expenditure to bear the brunt of the adjustment. As a result, infrastructure backlogs grew to dangerous levels during the period, and service delivery levels declined in most sectors. Among the causes of this financial crisis were poor financial controls and reporting systems, the lack of a statutory financial management framework, fragmented procurement policies, limited internal audit capacity, and outdated and disjointed budgeting, planning, and accounting systems.

It is to the provincial government's lasting credit that it moved decisively to address each one of these deficiencies. Now, just six years after the financial crisis of 1997/98, the province's remedial actions have borne fruit, with solid achievements in the areas of budget and financial management, accounting control and systems, procurement, and internal audit.

7.1.1 Budget and financial management reforms

The province's budget and financial management systems have been reformed and modernised beyond recognition during the last five years. The long term goal of this reform process was to maximise allocative efficiency and produce balanced provincial budgets on a sustainable basis, with a view to improving the overall service delivery performance of the provincial government. The reforms introduced, in conjunction with reforms at national level to the intergovernmental fiscal and regulatory framework, were implemented incrementally in three phases. Key features of the reform phases were:

- **Phase One (1998-2000):**
 - The development of an in-year expenditure monitoring and reporting system, which evolved into a best practice model in the national context;
 - Improved cashflow management, resulting in significant returns of interest from both short and long term cash investment; and
 - Adoption of the multi-year budgeting and expenditure framework (MTEF).
- **Phase Two (2000 -01)**
 - Implementation of the Public Finance Management Act (PFMA);
 - The introduction of performance budgeting, involving the monitoring and measuring of service delivery and setting performance targets; and
 - The implementation of strategic planning as a statutory requirement in terms of the PFMA.
- **Phase Three (2002 to date)**
 - Better alignment of the budgeting and strategic planning processes within a strategic management framework aimed at integrating the planning, budgeting, monitoring and reporting processes in the annual financial accountability cycle;
 - Increased focus by the Provincial Treasury on own revenue collection – with the establishment of a dedicated Revenue Unit to investigate own revenue policy, systems, structures and processes with a view to raising the levels of revenue collection within the existing legislative framework;

- Establishment of an Infrastructure Unit within Provincial Treasury, the aim of which is to facilitate inter-departmental, inter-sectoral and inter-sphere coordination and cooperation in respect of the planning and delivery of infrastructure; and finally,
- The introduction of reforms to economic and financial reporting formats, to bring the public sector into line with the IMF's internationally accepted (revised) GFS formats and standards. The new economic reporting format is used for the first time in the 2004/05 Budget Statements.

Certainly, the reforms succeeded in their primary objective, namely in stabilising the province's financial situation, and ultimately in turning around the province's cash flow from a negative to a positive trend. The consecutive years of over-expenditure in 1996/97 and 1997/98 were succeeded by three years of surpluses in the amounts of R392 million, R751 million and R524 million for the years 1998/99, 1999/2000 and 2000/01, respectively.

In terms of budget management, planning and reporting, furthermore, the impact of the introduction of performance budgeting principles into the provincial government's budget and strategic planning processes has been profound. Among the advantages has been improved and more transparent reporting, improved accountability to the public, and greatly improved parliamentary oversight of departmental performance and service delivery.

7.1.2 Accounting control and systems

Achievements in the area of accounting control and financial reporting systems have been equally impressive.

The implementation of the PFMA in May 2000 brought about numerous additional financial reporting requirements for public sector organisations and departments, and necessitated the roll-out of a comprehensive programme to build capacity in provincial departments to implement the accounting control and reporting measures required by this legislation. The Financial Management Improvement Programme (FinMiP), an initiative of the Provincial Treasury, was part of such a programme. It aimed at assisting accounting officers in all provincial departments to meet their responsibilities in terms of the PFMA.

The FinMip programme, which involved the introduction of specialised financial management capacity in all departments, extended over two years from 2000 to 2002. With the benefit of hindsight, it is clear that, without the FinMip programme, the process of implementing the PFMA throughout the provincial government would not have been managed as successfully.

A more recent challenge in the area of financial and accounting systems, which commenced at the beginning of 2003, has been for the provincial government to switch from FMS to the Basic Accounting System (BAS). The movement to BAS is in line with National Treasury's drive to align provinces to a single integrated financial management and accounting platform, thereby ensuring comparability of financial information. Like the earlier task of implementing the provisions of the PFMA, the onus has fallen on the accounting control division of the Provincial Treasury to roll-out this programme in a phased-in approach. By 1 April 2004, the conversion to BAS will be completed. By the end of 2003/04, all provincial departments with the exception of Health and Education and Culture had migrated successfully from the FMS to BAS. The Departments of Health and Education and Culture will migrate to BAS on 1 April 2004, and a comprehensive plan has been developed to ensure that this migration proceeds smoothly.

7.1.3 Procurement

The provincial government's achievements in the area of procurement during the last five years have been as considerable. In June 2001, the KwaZulu-Natal Procurement Act, 2001, came into effect. The Act introduced a more decentralised provincial procurement system, giving greater procurement powers to accounting officers. The decentralisation became necessary due to a requirement of the PFMA, in terms of which accounting officers are accountable for the correct implementation of procurement processes and procedures within their departments.

In terms of the KZN Procurement Act of 2001, internal departmental structures, namely Tender Evaluation and Tender Award Committees, were established. Higher procurement delegations were issued to Departmental Tender Award Committees, to make departments more independent in the awarding of their contracts. These internal structures were empowered to consider and award tenders up to a limit of R1 million per contract.

The Act also brought about the replacement of the KwaZulu-Natal Tender Board with the Central Procurement Committee. The majority of the members are senior public officials (including some accounting officers and chief financial officers), the balance being made up of private sector members. This change of representation was required to promote the accountability of accounting officers, again as required by the PFMA.

A new procurement preference point system was introduced to bring the legislation in line with the Preferential Procurement Policy Framework Act, 2000. Specific provisions were made for the promotion of Historically Disadvantaged Individuals, SMMEs, and locally manufactured goods, in the regulations issued in terms of the Provincial Procurement Act of 2001.

The Tender Appeals Tribunal was reappointed in terms of the aforementioned legislation. This independent body successfully assisted in resolving disputes over contract awards without the expense of the alternative legal process of High Court proceedings having to be followed for a suitable remedy. The Tender Appeals Tribunal has dealt with 140 appeals since its inception. This has resulted in manifest improvements to the fairness and transparency of the provincial procurement system, especially at the level of awarding tenders/contracts.

An electronic suppliers' database was launched on 1 May 2001, providing an easily accessible central pool of provincial suppliers. The database enables departments to find suitable suppliers more easily and allows for quicker evaluations of suppliers when considering quotations/ tenders submitted. On 1 October 2003, an improved version of the suppliers' database was launched, which provided a stable and reliable environment for housing more than 20,000 suppliers currently provisionally registered. As suppliers' data are updated on the new system, this will allow for more accurate searching by departments for the selection of suitable suppliers for procurement processes. Detailed economic classification of suppliers on the database has also been made possible.

As part of the ongoing procurement reforms, the functions allocated to the Procurement Administration Office have been expanded, placing particular emphasis on the rendering of advice to various role-players in the procurement process. An important development has been the establishment of a Policy Development section, with the responsibility of developing new procurement legislation, as well as policies and procedures, in order to ensure consistency, uniformity, fairness, and equity in the adjudication and awarding of tenders/contracts.

Another development of great significance recently was the establishment of a Compliance Monitoring unit in the Procurement Administration Office, in order to monitor compliance by departments and suppliers with provincial procurement policies and procedures on an ongoing basis.

7.1.4 Internal audit

The Provincial Internal Audit Unit, located in the Provincial Treasury, has from the outset played a pioneering role as far as the internal audit function in the public sector is concerned. In fact, many national and provincial government departments have used this unit as a role-model in establishing their own internal audit units.

In just a few short years, since 1998, the Unit has achieved the following:

- The preparing of a ground-breaking piece of legislation to govern the establishment and functionality of internal audit – i.e. the KwaZulu-Natal Internal Audit Act of 1998;
- The appointment of a Provincial Audit Committee in 1998;

- The establishment of an Internal Audit Exchange Programme between KwaZulu-Natal and the provincial government of Ontario in Canada;
- The implementation of uniform and standardised audit methodology;
- The creation of a fully functional and specialised Risk Management and Forensic Investigative Unit to assist provincial departments in dealing with risk management strategies and fraud and corruption investigations;
- The completion of a control environment assessment exercise for all provincial departments. This exercise included assessing all the internal controls in each department and resulted in the following outputs:
 - A control environment assessment report, including the flowcharting of processes with identified strengths and weaknesses;
 - A departmental risk profile;
 - A fraud prevention plan based on the risk profile;
 - A three-year strategic plan for all departments; and
 - An annual audit plan to guide the activities and focus of Internal Audit in protecting government's assets.
- The acquisition of uniform and standardised audit software, called *Teammate*, to assist in conducting and management of all audits;
- The creation of a fraud and forensic database to assist in the management and reporting of all forensic and fraud investigations handled by the Internal Audit Unit; and
- The undertaking and completion of the following number of audit assignments between 1998 and 2003:
 - 207 business processes/internal control audits; and
 - 93 forensic investigations.

7.2 Fiscal performance

7.2.1 The budget

The receipts or fiscal capacity of a government, relative to its expenditure requirements, is a measure of its fiscal performance. The province's fiscal performance during the 1995/1996 to 2003/2004 period was less than satisfactory to begin with, but improved substantially in the last five years of the period under review.

Table 7.1: Provincial budget summary

R000	Audited 1995/96	Audited 1996/97	Audited 1997/98	Outcome					Adjusted budget 2003/04	Estimated actual 2003/04
				Audited 1998/99	Audited 1999/2000	Audited 2000/01	Audited 2001/02	Audited 2002/03		
Provincial receipts										
Transfer receipts from national	14,153,059	16,162,183	17,288,370	18,303,288	19,166,894	21,720,945	24,012,263	27,515,811	32,680,739	32,680,739
<i>Equitable share</i>	14,153,059	16,162,183	17,288,370	16,540,889	17,450,056	19,692,520	21,729,330	25,303,942	29,762,736	29,762,736
<i>Conditional grants</i>				1,762,399	1,716,838	2,028,425	2,282,933	2,211,869	2,918,003	2,918,003
Provincial own receipts	932,151	827,864	641,493	432,298	613,474	904,668	985,674	1,069,075	712,000	881,113
Total provincial receipts	15,085,210	16,990,047	17,929,863	18,735,586	19,780,368	22,625,613	24,997,937	28,584,886	33,392,739	33,561,852
Total provincial payment*	14,994,570	17,919,846	19,145,813	18,446,973	18,918,229	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171
Surplus/(deficit) before financing	90,640	(929,799)	(1,215,950)	288,613	862,139	825,963	(63,257)	(188,117)	(449,541)	(734,319)
Financing	395,270	822,885	377,222	-	(25,344)	430,863	841,238	820,831	449,541	449,541
Provincial roll-overs	461,181	822,885	62,422			430,863	464,164	280,606	327,932	327,932
Provincial cash resources**			314,800				377,074	192,297	220,609	220,609
Funding for Regulation 11								360,928		
Suspension to ensuing year	(65,911)				(25,344)			(13,000)	(99,000)	(99,000)
Surplus/(deficit) after financing	485,910	(106,914)	(838,728)	288,613	836,795	1,256,826	777,981	632,714	-	(284,778)

* Estimated actual expenditure for 2003/04 is as at 30 November 2003

** The provincial cash resources for Estimated Actual for 2003/04 excludes over-collection in provincial own revenue for 2003/04.

As Table 7.1 shows, the provincial budget recorded deficits in the 1996/97 and 1997/98 financial years. Thereafter, after taking all aspects of financing into account, the budget swung into a surplus in consecutive years from 1998/99 to 2002/03. The surpluses of these years are, however, almost certain to be overturned in 2003/04 when the provincial accounts are finalised. At the end of November 2003, the province was projecting a net deficit, after financing, of approximately R285 million for the 2003/04 financial year.

Secular growth in expenditure, attributed to an upsurge in personnel costs and social security payments, and other inefficiencies and weaknesses, caused the deficits of 1996/97 and 1997/98. Indeed, until the introduction of the medium term expenditure framework in 1998/99, and even a year after, hardly any thorough analysis and projections were done to establish the revenue capacity and the expenditure needs of the province. Moreover, there was no framework for effective fiscal policy formulation. Instead, revenue and expenditure projections were done on an *ad hoc* basis, and monitoring and control of spending was, at best, uncoordinated and haphazard. Besides, management processes were inefficient, and corruption was rife. The result, of course, was a deterioration in the provincial administration's finances.

In fairness, however, insufficient revenue also contributed to the problem. The phasing-in of the equitable share and lack of substantial revenue-raising powers meant that revenue was not commensurate with expenditure needs, however calculated.

To deal with the deficits of 1996/97 and 1997/98, the provincial administration applied for R900 million for budget support from the national government. The national government made the funds available, subject to two conditions: first, that the provision of section 100 (1)(a) of the Constitution be applied to the province and, second, that the province submit an action plan indicating how the remaining deficit would be financed. In addition to accepting these conditions, the provincial government utilised bank overdrafts of some R500 million to deal with its cashflow problems.

To pay for the overdrafts and also as part of the action plan required by the national government, the provincial administration took measures aimed at generating surplus funds. The measures included:

- The implementation of a performance enhancement plan in the Department of Education and Culture and the Department of Health which sought to reduce costs, enhance revenue, utilise resources effectively, and improve budgetary processes;
- Termination of the services of 5000 temporary teachers;
- Redeployment of staff to vacant posts across departments; and
- Retrenchment of supernumeraries.

Provision was also made in the 1998/99 budget and subsequent ones to partly fund the carried-over deficits.

Collectively, these measures, coupled with a strengthening of management processes, including financial monitoring and control, began to bear fruit by 1998/99, with a surplus recorded in that year. In the ensuing years, the province's financial health improved substantially and, by the end of 2000/01, all of the debt accumulated during the 1996/97 and 1997/98 financial years had been redeemed.

Against the background of this hard-won fiscal stability, it is unfortunate that the province appears to be heading once again into a period of fiscal uncertainty, with a projected deficit in the 2003/04 financial year. This projected deficit is almost certain to be followed by further deficits in the 2004/05 MTEF period, unless substantial additional amounts of funding over and above the existing baseline become available to the province.

The main cause of this increasingly negative trend in the province's financial situation is the exponential – and unsustainable – growth in the social welfare budget. As the section below illustrates, however, there are various other expenditure pressures building up across the spectrum of provincial government that give cause for increasing concern.

7.2.2 Receipts

Total provincial receipts have been on an increasing trend since the 1995/96 financial year. As Table 7.2 shows, total receipts more than doubled between 1995/96 and 2003/04, from R15 billion to R33,6 billion. Thereafter, receipts are expected to grow steadily to R45,6 billion in 2006/07.

Table 7.2: Composition of receipts

R000	Outcome								Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 1995/96	Audited 1996/97	Audited 1997/98	Audited 1998/99	Audited 1999/2000	Audited 2000/01	Audited 2001/02	Audited 2002/03	2003/04	2004/05	2005/06	2006/07	
Provincial receipts													
Transfer receipts from national	14,153,059	16,162,183	17,288,370	18,303,288	19,166,894	21,720,945	24,012,263	27,515,811	32,680,739	32,680,739	36,905,750	40,920,820	44,555,021
Equitable share	14,153,059	16,162,183	17,288,370	16,540,889	17,450,056	19,692,520	21,729,330	25,303,942	29,762,736	29,762,736	33,058,939	36,105,489	38,900,829
Conditional grants				1,762,399	1,716,838	2,028,425	2,282,933	2,211,869	2,918,003	2,918,003	3,846,811	4,815,331	5,654,192
Provincial own receipts	932,151	827,864	641,493	432,298	613,474	904,668	985,674	1,069,075	712,000	881,113	901,175	952,918	1,007,903
Total provincial receipts	15,085,210	16,990,047	17,929,863	18,735,586	19,780,368	22,625,613	24,997,937	28,584,886	33,392,739	33,561,852	37,806,925	41,873,738	45,562,924
Percentage distribution													
Transfer receipts from national	93.8	95.1	96.4	97.7	96.9	96.0	96.1	96.3	97.9	97.4	97.6	97.7	97.8
Equitable share	93.8	95.1	96.4	88.3	88.2	87.0	86.9	88.5	89.1	88.7	87.4	86.2	85.4
Conditional grants	-	-	-	9.4	8.7	9.0	9.1	7.7	8.7	8.7	10.2	11.5	12.4
Provincial own receipts	6.2	4.9	3.6	2.3	3.1	4.0	3.9	3.7	2.1	2.6	2.4	2.3	2.2
Total provincial receipts	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

National transfers, as already mentioned above in section 4.1, account for the bulk of provincial receipts, growing progressively from 93.8 per cent of total receipts in 1995/96 to an estimated 97.8 per cent in 2006/07. The very limited provincial revenue-raising powers account for this. The percentage of equitable share to total receipts ranges between 87 and 89 per cent over the 1998/99 to 2004/05 period. For 2005/06 and 2006/07, the share of equitable share is expected to fall, at the expense of the share of conditional grants which increases to 12.4 per cent in 2006/07. Receipts from provincial own sources reveal a seesaw trend. Provincial own receipts plummeted from R932 million in 1995/96 to R432 million in 1998/99. Between 1998/99 and 2002/03, provincial own receipts grew markedly from R432 million to R1,069 billion. Provincial own receipts are expected to fall to R881 million in 2003/04, before embarking once again on a rising trend over the 2004/05 MTEF period. However, as a share of total provincial receipts, own-source receipts declined from 4.1 per cent in 2000/01, to 2.6 per cent in 2003/04.

7.2.3 Expenditure

Table 7.3 below illustrates that total provincial payments also displayed a substantial increase over the period under review, rising from R15 billion in 1995/96 to an estimated R45,6 billion in 2006/07.

Table 7.3: Actual payments by function

Function		Outcome							Adjusted budget	Estimated actual	Medium-term estimates		
Rmillion	Audited 1995/96	Audited 1996/97	Audited 1997/98	Audited 1998/99	Audited 1999/2000	Audited 2000/01	Audited 2001/02	Audited 2002/03	2003/04		2004/05	2005/06	2006/07
Social Services	12,007	14,161	15,626	15,946	16,446	18,278	21,341	24,756	28,737	29,267	32,575	36,042	39,544
Education	5,799	6,720	7,207	7,105	7,293	8,173	9,261	10,388	11,936	11,942	13,184	13,997	15,028
Health	3,218	4,124	4,701	4,869	5,110	5,772	7,031	7,496	8,257	8,267	9,036	9,793	10,672
Social Welfare	2,990	3,317	3,718	3,972	4,043	4,333	5,049	6,872	8,544	9,058	10,355	12,252	13,844
Other services	2,938	3,759	3,515	2,501	2,472	3,495	3,833	4,017	5,105	5,029	5,231	5,832	6,019
Total payments	14,945	17,920	19,141	18,447	18,918	21,773	25,174	28,773	33,842	34,296	37,807	41,874	45,563
Percentage shares													
Social Services	80.3	79.0	81.6	86.4	86.9	83.9	84.8	86.0	84.9	85.3	86.2	86.1	86.8
Education	38.8	37.5	37.7	38.5	38.6	37.5	36.8	36.1	35.3	34.8	34.9	33.4	33.0
Health	21.5	23.0	24.6	26.4	27.0	26.5	27.9	26.1	24.4	24.1	23.9	23.4	23.4
Social Welfare	20.0	18.5	19.4	21.5	21.4	19.9	20.1	23.9	25.2	26.4	27.4	29.3	30.4
Other services	19.7	21.0	18.4	13.6	13.1	16.1	15.2	14.0	15.1	14.7	13.8	13.9	13.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Generally, for developing countries, expenditure on social services suffers cuts during periods of financial stress. But, as can be seen in Table 7.3, spending on social services suffered no cuts during the period of

financial distress in the province. In fact, the bulk of the expenditure in the province was directed to social services; and, in absolute amounts, spending on the social sector shows a strong increasing trend, growing from R12 billion in 1995/96 to R39,5 billion in 2006/07. Over the same period, the share of social sector payments to total payments also increases, from 80.3 per cent to 86.8 per cent. This large share of spending on social services reflects the attempt of the province to address the backlogs in education, health, and social welfare.

As is typical in most developing countries, expenditure on education accounts for the largest share of the province's expenditure. Indeed, according to Table 7.3, during the period 1995/96 to 2000/01, spending on education averaged about 38 per cent of total expenditure. Although the share of spending on education remains the highest, when compared to other areas, it is on a declining trend. On the other hand, the share of social welfare is rising rapidly, increasing from 20.0 per cent in 2000/01 to an estimated 30.4 per cent in 2006/07. This is driven mainly by the introduction of the child support grant, as well as increased take-up rate in most grants and increases in the grant values.

7.3 Challenges

7.3.1 Financing of future deficit

As shown in Table 7.1 above, this province successfully managed to maintain fiscal stability from 1998/99 to 2002/03, although in some years the province substantially over-spent its budget. The resulting over-expenditure/deficits were financed by a combination of over-collection in provincial own revenue and/or reserves (the MTEF balance). The over-collection in provincial own revenue resulted mainly from the Provincial Treasury's ability to earn interest on short-term investment, arising from adroit management of its cash-flow, as well as a climate of relatively high rates of interest.

However, at the close of the 2003/04 financial year, as well as over the 2004/05 MTEF period, the capacity of the Provincial Treasury to fund any over-expenditure will be extremely limited. This is because of two main reasons. Firstly, at the time of writing, the domestic interest rate dropped by 500 percentage points in less than a year. With the inflation rate projected to be within the 3 – 6 per cent target over the 2004/05 MTEF, it is likely that the rate of interest may drop further, or at least remain at the current level for the foreseeable future. This means that interest revenue earned by the province will be negatively affected. Also, if expenditure by departments improves and is evenly spent over the financial year, then the level of surplus funds available for short-term investment will reduce substantially. Secondly, unlike in previous financial years, over the 2004/05 MTEF period the province has allocated every single rand of its cash resources. No reserve whatsoever has been set aside for the rainy days! Departments will accordingly need to strictly monitor and manage their budgets, if the 1997/98 financial crisis is not to be repeated.

7.3.2 Affordability of the social security system

The need to use a social security grants system to provide a safety net for the poor cannot be emphasised too strongly. The current levels of social grants, however, are too little to raise income or expenditure of households beyond the poverty line. Indeed, the need for a more comprehensive social protection mechanism to achieve the longer term objective of reducing poverty is a major challenge, both for the province and the entire country.

Nonetheless, the need to use social security grants to protect the poor and vulnerable groups has to take into account the severely binding constraints of the provincial budget. The provincial budget cannot accommodate above-average real growth in social welfare expenditure, without crowding out spending on other, equally high, priority areas.

As Table 7.3 shows, expenditure on social security increased from R3 billion in 1996/97, to a projected R9 billion in 2003/04 – an increase of 300 per cent, in just eight years! And expenditure is expected to increase

to R13,8 billion in 2006/07, claiming a disproportionately large share of total expenditure of 30.4 per cent in that year.

The disproportionately large share of the provincial budget allocated each year to social welfare has serious negative implications for the budgets of other departments. Despite the recent upward adjustment of the social welfare component, from 17 to 18 per cent, in the equitable share formula, the gap between the social welfare weighting in the formula and its share in the provincial budget continues to widen. What this calls for is a further revision of the equitable share formula to assign weights to the respective components that more accurately reflect the shares in the provinces' expenditure.

From a budgetary point of view, the use of the social security grant system to deal with the long-term objective of reducing poverty seems unsustainable. And centralising the system would only bring cosmetic gain, without addressing the real issue of affordability. Certainly, the issue deserves serious consideration.

7.3.3 Expenditure management

Since the introduction of medium term expenditure planning in 1997/98, much has been achieved in the area of budgeting, not without some difficulty. Budget framework preparation and execution have improved tremendously. The budget process has been reengineered to yield higher economies in expenditure, recognise revenue constraints, and enforce fiscal discipline. And, since 2001/02, there has been a steady, if gradual, move toward performance budgeting. To increase and sustain the momentum, departments need to embark on organisational restructuring and a strengthening of management skills, particularly strategic and operational planning.

7.3.4 National transfers

Apart from the fairness to the province, or lack of it, regarding the phasing-in of the equitable share formula, it needs pointing out that the working of the national conditional grant system has been less than satisfactory.

Some recipient departments are unable to spend the conditional grants; and some do not produce business plans for the projects that are funded by the conditional grants. Others replace their normal budgets with the conditional grants. These problems notwithstanding, the Provincial Treasury believes that the conditional grant system could be beneficial, if employed wisely. For example, the use of conditional grants could be a way of forcing departments to spend on projects that have an immediate impact on economic growth, unemployment, and poverty alleviation. However, it would be helpful if the grants ceased to be so conditional, once the project or programme that they fund becomes part of normal departmental activity.

7.3.5 Own-source receipts

The extent to which the province relies on own source receipts reflects its ability to act with a degree of autonomy in determining its expenditure and revenue mix. Moreover, reliance on own source revenue, since it is collected locally, makes the collecting government more accountable to the local electorate. Unfortunately, a number of problems saddle own source revenue. Two of them are discussed below.

First, inefficient planning and administration bedevils the collection of own source revenue. A comparison of actual receipts 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 mobilisation. In particular, prompt billing and collection in accordance with standard policies and procedures do not take place in many departments. In many instances, receipts are not collected for defined activities, goods, and services. And when they are collected, departments do not keep proper records of the amounts collected or take appropriate actions when problems such as errors and irregularities occur. Other problems include the non-existence of dedicated revenue units and responsibility managers in departments; non-monitoring and follow-ups on unpaid receipts; non-recovery of housing rents and loans to officials; non-collection of hospital fees; and

delays in the collection of road traffic fines. Some departments are not forthcoming with prompt and accurate reporting, as well as the proper level of remittance, thereby lowering the revenue yield.

While some departments have established their own revenue collection and administration procedures, a large number of them are reluctant to establish revenue units because of the small amount of revenue that they collect. As a result, the administrative capacity for own revenue management varies considerably across departments, complicating the coordinating role of the Provincial Treasury. There is also the general feeling that, if revenue collected by a department cannot be retained, then it is pointless to put much effort and resources into collection. The deterioration in the areas of revenue planning and administration has caused the recovery rate to drop substantially.

Second, the collection of receipts from bases that are too narrow and unresponsive to economic growth (i.e., have low buoyancy) and discretionary policy measures also constitute a problem in the province. Many of the revenue sources are also very inefficient, in the sense that they raise little revenue but introduce serious economic distortions. In other cases, the administration and enforcement have been rendered ineffective by design problems and lack of interest. Many of the more buoyant revenue items have diminished since the beginning of the 1997/98 financial year. Receipts from interest and dividends, which used to contribute over 30 per cent of the total own-source revenue, totally collapsed during the 1997/98 to 1999/00 period, as the province ran huge budget deficits and therefore was unable to maintain positive balances in its bank account to generate interest income.

The passing of the Gambling Amendment Act in January 2000 was an important step towards the enhancement of own revenue mobilisation in the province. With the award of the licenses completed, the outlook for revenue from gambling tax and exclusivity fees looks very positive. From the perspective of revenue generation, however, a major concern is that the system for verifying the incomes from gambling establishments is generally weak in the province. The national lottery, which came on stream in March 2000, has also seriously undermined the provinces' revenue sources from gambling and, in particular, from horse-racing.

7.3.6 Devolution of taxing powers

Revenue sharing in a fiscal federation is underpinned by the constitutional assignment of revenue-raising powers and expenditure responsibility. While expenditure responsibilities have largely been decentralised in the country, the powers to raise tax receipts are centralised, giving only limited revenue sources to provinces. Although the Constitution provides for certain provincial and municipal tax powers in terms of sections 228 and 229, the national government continues to regulate these powers in order to ensure that provincial and municipal tax measures do not undermine macro-economic policy objectives of the country.

A medium to long-term path for the devolution of taxing powers to provinces has been proposed by the national government, and discussed in some of the recent national Budget Council meetings. The consensus is that the devolution must be consistent with national tax policy and national tax reform strategies. A proliferation of small provincial taxes is likely to fragment the overall tax system and undermine national tax policy. As a first step, therefore, provinces will be able to choose whether or not to implement taxes from an allowed list. Within the list, however, the national government will determine the base of the devolved taxes in order to promote uniformity, while provinces will be allowed to vary rates within an agreed band. The introduction of the allowed list will be accompanied by a review of user charges, to ensure that the charges are in fact user fees and not taxes. The necessary legislation is already under preparation by the national government, and very soon the devolution of certain taxes and surcharges to provinces will become a reality.

The benefits of the proposed devolution of taxing powers will, however, only become real if provinces have the capacity to fully assume such powers. From the perspective of this province, it will be fruitless to take on additional taxing powers in the face of general incapacity to maximize the benefits of the existing ones. Adequate policymaking, delivery, and management capacities are critical for implementing and managing the increased taxing and borrowing powers that the devolution process will bring about.

8. BUDGETING FOR SERVICE DELIVERY

To make the budget more digestible to the general populace, a section on budgeting for service delivery has been included in the Budget Statements. The section contains service delivery information, and details performance measures and targets. The inclusion of such information should, it is hoped, help improve the transparency of the budget, and provide a more solid basis for holding the provincial government accountable for its use of public resources. Moreover, it should assist the public determine whether indeed its ‘rand is going the extra mile’, as government promised it would.

Budget transparency is required by the new approach to budgeting, which performance budgeting represents. The concept of performance budgeting and measurement was itself introduced into financial management practice at both national and provincial levels in the months following the implementation of the PFMA. Indeed, section 27(4) of the PMFA requires that accounting officers of departments submit to the provincial legislature “measurable objectives for each main division within the department’s vote.” Including a section on budgeting for service delivery thus responds to this requirement of the PFMA.

But more than merely responding to a statutory requirement, establishing and monitoring performance measures and targets, within the context of performance budgeting, should accelerate and strengthen service delivery. It should in fact lead to:

- *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 understand their role and contribution in achieving departments’ 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 individuals and overall departmental performance;
- *Enhanced planning and budgeting* – service delivery and performance measures enhance integrated planning and budgeting, as they assists managers to account for the use of resources and to reprioritise resources to priority areas. It also provides quantitative information on policy implementation and may support the need for possible revision of policies and expenditure programmes;
- *Improved equity in distribution and accessibility of service* – management, the public, and provincial legislature are more informed about the service delivery performance and impact on communities. This helps 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 been 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.”¹²

The KwaZulu-Natal provincial government will be spending, on average, R41,1 billion in each year of the 2004/05 MTEF period. It is important to begin quantifying exactly what the province 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, as highlighted in the socio-economic section, the quality of life is poorer, and the backlogs greater, than in many other provinces.

In preparing their inputs for the 2004/05 budget, departments were requested to specify outputs and develop performance measures and targets for their main sub-programmes that are concerned directly with service delivery to the general public. 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.

¹² See National Treasury Guideline on “Budgeting, Planning and Measuring Service Delivery.” October 2001

Table 8.1: Education output measures

Output type	Performance measures	Performance targets	
		2003/04 Est. Actual	2004/05 Estimate
Public Ordinary School Education			
Public Primary Schools			
1. To provide educators in accordance with the PPN	<ul style="list-style-type: none">Number of educatorsLearner: educator ratio	46 800 32.1:1	45 268 35.3:1
2. To provide spaces for learners according to policy	<ul style="list-style-type: none">Number of spaces provided	1.5 million	1.6 million
3. To provide basic infrastructure as per the budget allocated	<ul style="list-style-type: none">Number of classrooms built	300	1 050
	<ul style="list-style-type: none">Number of new toilets built	600	1 000
	<ul style="list-style-type: none">Learner : Classroom ratio	41.9:1	40.4:1
	<ul style="list-style-type: none">% of school with water supply	67%	72%
	<ul style="list-style-type: none">% of capex budget spent on maintenance	58%	35%
4. To ensure that the flow of learners is optimal	<ul style="list-style-type: none">Repetition rateDropout rate	6.3% 4.5%	5.9% 4%
	<ul style="list-style-type: none">% learner days lost due to learner absenteeism	3%	2.5%
5. To foster the culture of effective learning and teaching	<ul style="list-style-type: none">%worker days lost due to educator absenteeism	8%	6%
	<ul style="list-style-type: none">% of learners in Grade 3 attaining acceptable outcomes in numeracy, literacy, and life skills	93%	94%
6. To attain the highest possible educational outcomes among learners	<ul style="list-style-type: none">% of learners in grade 6 attaining acceptable outcomes	93%	94%
Public Secondary Schools			
1. To provide educators in accordance with the PPN	<ul style="list-style-type: none">Number of educatorsLearner: educator ratio	31 115 30.4:1	28 284 32.4:1
2. To provide spaces for learners according to policy	<ul style="list-style-type: none">Number of spaces provided	947 000	915 000
3. To provide basic infrastructure as per budget allocated	<ul style="list-style-type: none">Number of classrooms built	180	272
	<ul style="list-style-type: none">Number of new toilets built	350	375
	<ul style="list-style-type: none">Learner: classroom ratio	36.9:1	35:1
	<ul style="list-style-type: none">% of school with water supply	68%	72%
	<ul style="list-style-type: none">% of capex budget spent on maintenance	58%	35%
4. To ensure that the flow of learners is optimal	<ul style="list-style-type: none">Repetition rateDropout rate	18% 8.9%	17% 7.9%
	<ul style="list-style-type: none">% learner days lost due to learner absenteeism	12%	9%
5. To foster the culture of effective learning and teaching	<ul style="list-style-type: none">%worker days lost due to educator absenteeism	8%	6%
	<ul style="list-style-type: none">% of learners in Grade 9 attaining acceptable educational outcomes	78	82
6. To attain the highest possible educational outcomes among learners	<ul style="list-style-type: none">Pass rate in Grade 12 examinations	75%	77%
	<ul style="list-style-type: none">% of schools with grade 12 pass rate less than 40%	12.5%	9.5%
	7. To provide laboratories for schools	<ul style="list-style-type: none">% of schools with functioning laboratories	57.7%
Public Special School Education			
1. To provide spaces for learners in special/full service schools according to principles of inclusive education	<ul style="list-style-type: none">Number of learners in special/full service schools	13 000	14 000
2. To mobilise out-of-school disabled youth to return to school	<ul style="list-style-type: none">% increase in the no. of disabled youth in public special schools	10.2%	30.5%
Further Education & Training			
1. To provide an increased number of spaces in FET institutions	<ul style="list-style-type: none">% of learners enrolled in FET institutionNumber of full time equivalent enrolments in FET institutions	90% 74 550	90% 75 000
	<ul style="list-style-type: none">% of population aged 15-17 attending schools and other institutions	44%	50%
3. To provide relevant and responsive quality FET learning opportunities	<ul style="list-style-type: none">% success rate per level	60.5%	65.5%
4. To retrain educators in schools in preparation for FET implementation in 2006	<ul style="list-style-type: none">% of educators who are able to handle new FET curriculum in 2006	20%	40%
5. To provide needed resources and equipment at all schools in preparation for FET in 2006	<ul style="list-style-type: none">% of schools fully equipped to implement new FET curriculum	0	50%
6. To provide infrastructure needs at schools for successful implementation of FET in 2006	<ul style="list-style-type: none">% of schools with at least 1 media centre, 1 lab, 1 specialist room & 1 workshop	12%	40%
Arts and Culture			
1. To assists individuals and organisations to satisfy their arts and culture needs	<ul style="list-style-type: none">Number of initiatives taken	30	38
2. To facilitate the building and equipping of libraries	<ul style="list-style-type: none">Improved access measured by % increase of library membership	10%	12%
3. To provide resources and promote usage	<ul style="list-style-type: none">% increase in circulation stats of library material	10%	12%
4. To provide access to library management and information (PALS)	<ul style="list-style-type: none">Number of PALS transactions in public libraries	2.4 million	2.6 million
5. To facilitate building of new museums, generate interest in collection and improve displays	<ul style="list-style-type: none">Number of museums funded and successful exhibitions held	25	50
6. To improve management and control of govt. records	<ul style="list-style-type: none">% of records properly archived	67%	80%

Table 8.2: Health output measures

Output type	Performance measures	Performance targets	
		2003/04 Est Actual	2004/05 Estimate
District Health Services			
1. Community Health Clinics:			
To provide facilities for patients to be treated at primary health care level	• Number of headcounts	17,431,259	18,302,821
2. Community Health Centres:			
To provide facilities for patients to be treated at primary health care level.	• Number of headcounts	1,850,043	1,942,545
3. HIV/AIDS			
To render primary health care services mainly related to the prevention and treatment of HIV/AIDS	• Number of sites available	450	600
(a) Voluntary Testing and Counselling	• Number of condoms distributed	30 million	60 million
(b) Distribution of condoms	• % of all pregnant women using state services	67	90
(c) Prevention of Mother to Child Transmission	• % of state facilities which offer PMTCT services	90	100
4. District Hospitals:			
To provide for patients who require admission to a hospital for treatment at a general practitioner level.	• No. of admissions to be maintained at present level/ reduced	319,380	303,411
Provincial Hospital Services			
1. General Hospitals			
To provide hospital facilities for patients requiring treatment at specialist level.	• Number of admissions to be maintained at present levels or reduced	276,120	267,836
2. Tuberculosis Hospitals			
To provide hospital facilities for patients that require treatment for tuberculosis.	• No. of admissions to be increased resulting from HIV/AIDS	9,161	9,435
3. Psychiatric Hospitals			
To provide hospital facilities for patients requiring mental health care.	• Number of admissions to be increased in rural areas	9,687	9,880
4. Chronic Medical Hospitals			
To provide hospital facilities for patients requiring long-term care	• No. of admissions to be increased as a result of HIV/AIDS	3,601	3,673
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	40,874	41,691
	• Number of students trained to be maintained	86	86
Central Hospital Services			
To provide facilities and expertise for sophisticated medical procedures	No of admissions to be increased in line with National guidelines	71,130	78,243
Health facilities management			
Health facilities management	New facilities - number of projects to be completed	102	71
	Rehabilitation - number of projects to be completed	49	39
	Replacement - number of projects to be completed	30	10
	Upgrading - number of projects to be completed	408	307

Table 8.3 Housing output measures

Output type		Performance measures	Performance targets	
			2003/04 Est. Actual	2004/05 Estimate
Housing Planning and Research				
1. Identify municipality capacity needs	• No. of workshops held with municipalities on housing programmes	56	56	
2. Participation in Integrated Development Plan (IDP) process	• No. of meetings attended re: IDP Review	13	40	
3. Participation in municipal housing forum	• No. of Housing forum meetings attended	16	30	
4. Participation in District Service Providers Forum	• No. of meetings attended	3	10	
5. Participation of national and provincial planning initiatives	• No. of meetings attended	14	12	
6. Participation in Provincial IDP Forum	• No. of provincial IDP forum meetings attended	4	8	
	• No. of IDPs to be commented on	29	61	
Housing Performance/Subsidy Programmes				
1. Housing delivery	• No. of projects approved in terms of Provincial Housing Development Plan	41	47	
	• No. of subsidies approved	24 188	39 000	
	• No. of houses built in terms of Project Development Programme	5 974	20 000	
	• No. of services completed	10 588	20 000	
	• % of compliance with the norms and standards	100%	100%	
2. Manage and upgrade of hostels	• No. of units upgraded	539 units	2 300 units	
3. Project initiation and facilitation of new projects	• No. of subsidies	46 610	20 000	
4. Market the Peoples Housing Concept	• No. of visits conducted	468	300	

Table 8.4 Transport output measures

Output type	Activities	Performance measures	Performance targets		
			2003/04	2004/05	
			Est. Actual	Estimate	
Road Infrastructure					
Surfaced roads					
1	Upgrade to surfaced roads	<ul style="list-style-type: none">Construct roads<ul style="list-style-type: none">ARRUP projectsOther projectsUpgrade gravel to blacktop roads	Kilometres constructed Kilometres constructed Kilometres constructed	48 5 17	71 10 15
2.	Perform rehabilitation of surfaced roads	<ul style="list-style-type: none">Light rehabilitationHeavy rehabilitation	Square meters Square meters	173 050 265 600	340 000 320 000
3.	Maintain surfaced roads	<ul style="list-style-type: none">Reseal tarred roadsPerform blacktop patching	Square meters Square meters	425 000 61 600	650 000 90 000
Gravel roads					
4.	Construct gravel roads	Construction of gravel roads	Kilometres constructed	340	420
5.	Maintain gravel roads	<ul style="list-style-type: none">Blade roadsRegravel roads	Kilometres bladed Kilometres regravelled	51 250 1 200	65 000 950
General					
6.	Construction of causeways and bridges	<ul style="list-style-type: none">Construct causewaysConstruct bridges (span > 2m)Construct pedestrian bridges	Number Number Number	58 3 3	68 5 3
7.	Award contracts to emerging contractors	Award contracts to <i>Vukuzakhe</i> Contractors	No of contracts <ul style="list-style-type: none">Stage 1Stage 2Stage 3Stage 4	418 217 123 7	550 200 130 16
8.	Create employment opportunities	Number of opportunities	Person days	115 000	131 000
9.	Maintain roads	<i>Zibambele</i> maintenance programme	<ul style="list-style-type: none">Number of contractsKilometres maintained	17 390 11 300	20 390 13 250
Traffic Management					
1.	Provide a safe roads environment through community outreach and development	<ul style="list-style-type: none">Events management.Development & training of Community Roadside Committees (CRSCs)	Number of structured events Total number of CRSCs	20 35	22 35
2.	Engineering of hazardous locations	Audit high accident location	Number of interventions	10	10
3.	Promote safe use of public roads	Effective enforcement	<ul style="list-style-type: none">Road side checksGovt. vehicle inspectionBreath tests RBTSpeed timing measurementsVehicle weighedSeat belt checks	580 000 10 000 200 000 6 000 000 200 000 300 000	620 000 10 000 200 000 6 000 000 220 000 320 000
4.	Dedicated road patrols	Patrol all roads in the province	Kilometres patrolled	2 750 000	2 700 000
5.	Reduce high pedestrian accident location	Audit and recommend remedial measures	Number of identifications	30	35

Table 8.5 Social Welfare output measures

Output type	Performance measures	Performance targets	
		2003/04 Est. Actual	2004/05 Estimate
Social assistance grants			
Payments of grants to all qualifying customers	No of beneficiaries eligible for payment		
	• Old Age	426,700	438,130
	• War Veterans	618	556
	• Disability	245,287	312,764
	• Grant –in- aid	3,453	4,744
	• Foster Care	43,179	59,424
	• Care Dependency	20,639	26,008
	• Child Support Grant	799,082	949,145
	• Child Support Grant Extension (7 – 13 years)	198,000	391,621
Social Welfare Services			
1. Treatment and prevention of substance abuse	• Number of subsidies for the year	7	8
	• Number of State Institutions	2	2
2. Care of the older persons	• Number of subsidies for the year	129	151
	• Number of State Institutions	1	1
3. Crime prevention and support	• Number of subsidies for the year	4	8
	• Number of State Institutions	1	2
4. Service to persons with disabilities	• Number of subsidies for the year	57	61
	• Number of State Institutions	2	2
5. Child and family care and protection	• Number of subsidies for the year	607	657
	• Number of State Institutions	9	

ANNEXURE TO BUDGET STATEMENT 1

Table 1.A: Details of provincial own receipts

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03			2004/05	2005/06	2006/07
				2003/04				
Tax receipts	520,062	447,157	534,186	481,522	515,550	551,788	585,945	621,138
Casino taxes	127,911	40,033	71,782	75,522	101,615	88,128	92,124	96,283
Motor vehicle licenses	352,965	361,899	438,850	389,000	389,348	440,000	470,000	500,000
Horseracing	39,186	45,225	23,554	17,000	24,587	23,660	23,821	24,855
Other taxes	-	-	-	-	-	-	-	-
Non-tax receipts	355,332	503,693	500,227	218,994	329,875	338,598	355,550	375,184
Sale of goods and services other than capital assets	188,548	245,147	169,394	172,521	172,123	165,983	175,566	185,328
Sales of goods and services produced by department	187,935	245,153	169,390	172,521	172,079	165,983	175,566	185,328
Sales by market establishments	2	5	4	-	5	1	1	1
Administrative fees	3,136	2,213	2,508	2,260	2,099	2,354	2,433	2,634
Other sales	184,797	242,935	166,878	170,261	169,975	163,628	173,132	182,693
Sales of scrap, waste, arms and other used current goods (excluding capital assets)	613	(6)	4	-	44	-	-	-
Fines, penalties and forfeits	11,481	16,953	21,558	14,001	12,691	21,000	22,000	23,000
Interest, dividends and rent on land	155,303	241,593	309,275	32,472	145,061	151,615	157,984	166,856
Interest	155,291	241,588	309,251	32,472	145,027	151,573	157,939	166,809
Dividends	12	-	7	-	-	-	-	-
Rent on land	-	5	17	-	34	42	45	47
Transfers received from:	-	-	-	-	-	-	-	-
Other governmental units	-	-	-	-	-	-	-	-
Universities and technikons	-	-	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Public corporations and private enterprises	-	-	-	-	-	-	-	-
Households and non-profit institutions	-	-	-	-	-	-	-	-
Sales of capital assets	10,730	17,519	21,634	3,779	22,236	3,796	4,260	4,481
Land and subsoil assets	395	181	270	500	-	250	500	500
Other capital assets	10,335	17,338	21,364	3,279	22,236	3,546	3,760	3,981
Financial transactions	18,544	17,305	13,028	7,705	13,452	6,993	7,163	7,100
Total provincial own receipts	904,668	985,674	1,069,075	712,000	881,113	901,175	952,918	1,007,903

Table 1.B: Details of provincial payments and estimates by economic classification

R000	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
	Audited 2000/01	Audited 2001/02	Audited 2002/03			2004/05	2005/06	2006/07
	2003/04							
Current payments	15,286,189	16,811,972	18,862,354	21,260,802	21,266,048	23,172,297	25,083,348	26,976,449
Compensation of employees	12,441,340	13,622,992	14,872,647	16,339,761	16,413,984	17,756,180	18,901,669	19,985,508
Salaries and wages	10,491,450	11,499,978	12,492,667	13,995,094	14,056,779	15,212,295	16,198,620	17,128,999
Social contributions	1,949,890	2,123,014	2,379,980	2,344,667	2,357,205	2,543,885	2,703,049	2,856,509
Goods and services	2,842,095	3,184,953	3,984,531	4,914,629	4,845,652	5,406,129	6,170,963	6,979,562
Interest and rent on land	3	-	-	-	-	2,975	3,172	3,325
Interest	3	-	-	-	-	-	-	-
Rent on land	-	-	-	-	-	2,975	3,172	3,325
Financial transactions in assets and liabilities	2,517	4,027	5,176	6,412	6,412	7,013	7,544	8,054
Unauthorised expenditure	234	-	-	-	-	-	-	-
Transfers and subsidies to:	5,415,807	6,278,409	8,024,290	10,075,395	10,558,396	11,520,806	13,351,363	14,943,383
Local government	194,875	192,229	191,305	229,710	229,410	234,354	229,356	239,270
Municipalities	194,798	192,144	191,201	229,578	229,278	234,238	229,234	239,124
Municipal agencies and funds	77	85	104	132	132	116	122	146
Departmental agencies and accounts	123,248	166,329	143,676	156,186	156,051	170,686	177,872	185,769
Social security funds	400	296	437	458	526	531	561	593
Entities receiving funds	122,848	166,033	143,239	155,728	155,525	170,155	177,311	185,176
Public corporations and private enterprises	238,777	286,029	273,950	402,312	389,624	436,087	456,686	479,398
Public corporations	183,023	216,341	207,431	229,565	225,234	265,802	276,463	289,210
Subsidies on production	182,724	207,985	204,846	223,767	223,767	256,285	270,962	286,400
Other transfers	299	8,356	2,585	5,798	1,467	9,517	5,501	2,810
Private enterprises	55,754	69,688	66,519	172,747	164,390	170,285	180,223	190,188
Subsidies on production	55,754	60,055	63,150	69,232	69,232	74,078	78,893	83,627
Other transfers	-	9,633	3,369	103,515	95,158	96,207	101,330	106,561
Foreign governments and international organisations	-	-	-	-	-	-	-	-
Non-profit institutions	403,103	493,233	545,262	831,359	803,327	876,684	933,219	1,019,800
Households	4,455,804	5,140,589	6,870,097	8,455,828	8,979,984	9,802,995	11,554,230	13,019,146
Social benefits	3,785,957	4,441,210	6,082,322	7,508,656	8,032,812	9,025,219	10,738,591	12,154,570
Other transfers to households	669,847	699,379	787,775	947,172	947,172	777,776	815,639	864,576
Payments for capital assets ¹	1,073,025	1,944,219	1,858,704	2,474,110	2,439,754	3,082,405	3,407,451	3,611,362
Buildings and other fixed structures	755,897	1,542,107	1,363,104	1,840,718	1,833,614	2,371,224	2,659,554	2,820,733
Buildings	214,474	805,871	566,924	793,141	778,399	1,058,096	1,122,455	1,206,764
Other fixed structures	541,423	736,236	796,180	1,047,577	1,055,215	1,313,128	1,537,099	1,613,969
Machinery and equipment	314,046	398,640	492,957	630,980	603,858	708,942	744,730	786,877
Transport equipment	69,131	81,448	87,198	115,680	109,736	116,881	124,028	123,734
Other machinery and equipment	244,915	317,192	405,759	515,300	494,122	592,061	620,702	663,143
Cultivated assets	-	-	-	-	-	-	-	-
Software and other intangible assets	-	794	1,674	2,412	2,282	2,139	3,167	3,359
Land and subsoil assets	3,082	2,678	969	-	-	100	-	393
Total	21,775,021	25,034,600	28,745,348	33,810,307	34,264,198	37,775,508	41,842,162	45,531,194
Statutory payments	24,629	26,594	27,655	31,973	31,973	31,417	31,576	31,730
Total (including statutory payments)	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171	37,806,925	41,873,738	45,562,924
1. Included under Payment of Capital Assets are capitalised payments for:								
Compensation of employees	121,360	140,288	121,627	150,292	150,292	161,600	171,677	179,282
Total compensation of employees	12,562,700	13,763,280	14,994,274	16,490,053	16,564,276	17,917,780	19,073,346	20,164,790

Table 1.C Detailed expenditure for infrastructure (capital)

Category / Department / Type of structure	No. of Projects	Total Cost	Medium-term estimates		
			2004/05	2005/06	2006/07
R000					
New constructions (Buildings and infrastructure)	10,318	5,894,153	1,537,394	1,735,251	1,813,797
Agriculture & Environmental Affairs	100	78,525	38,979	28,963	10,583
Community gardens	85	20,666	10,883	9,783	-
Other facilities (dams, laboratories, irrigation, boreholes, etc)	9	43,515	26,914	15,380	1,221
Administrative blocks (office accommodation)	6	14,344	1,182	3,800	9,362
Office of The Premier	1	16,820	1	-	-
Administrative blocks (office accommodation)	1	16,820	1	-	-
Provincial Parliament	1	26,000	-	-	-
Administrative blocks (office accommodation)	1	26,000	-	-	-
Education	9,260	1,433,755	437,119	479,164	517,472
Schools	160	305,519	96,412	103,693	105,414
Additional classrooms	4,100	645,038	196,021	212,650	236,367
Other School facilities (Laboratories, Sport facilities, etc.)	5,000	483,198	144,686	162,821	175,691
Health	356	3,003,336	162,524	217,588	199,093
Hospitals	236	2,469,328	100,363	184,703	193,178
Other health facilities (Clinics, Community health centres, etc.)	120	534,008	62,161	32,885	5,915
Housing			538,616	563,601	598,124
Low-cost housing			538,616	563,601	598,124
Traditional & Local Government Affairs	4	6,558	6,458	50	50
Chamber for the House of Traditional Leaders	1	150	50	50	50
Administrative Blocks (Traditional Administrative Centres)	3	6,408	6,408	-	-
Transport	542	1,119,159	304,481	389,391	425,287
Roads	469	1,043,507	276,981	366,739	399,787
Other road structures (Bridges, culverts etc.)	71	54,000	17,500	18,000	18,500
Administration blocks (includes office accommodation)	2	21,652	10,000	4,652	7,000
Social Welfare & Population Development	30	97,480	29,725	30,180	31,878
Administration blocks (includes office accommodation)	30	97,480	29,725	30,180	31,878
Works	24	112,520	19,491	26,314	31,310
Administration blocks (includes office accommodation)	24	112,520	19,491	26,314	31,310
Rehabilitation/upgrading	2,346	5,096,434	1,519,559	1,645,365	1,779,858
Agriculture & Environmental Affairs	9	57,295	12,298	24,997	20,000
Other facilities (irrigation schemes & roads to fields)	5	43,035	11,785	11,250	20,000
Administrative blocks (office accommodation)	4	14,260	513	13,747	-
Education	-	-	191,686	205,822	235,171
Classrooms			160,686	172,822	200,191
Office accommodation			31,000	33,000	34,980
Health	1,742	1,863,372	155,212	117,302	147,802
Hospitals	1,061	1,709,720	136,827	97,600	142,676
Other health facilities (Clinics, Community health centres, etc.)	681	153,652	18,385	19,702	5,126
Housing			209,847	219,865	232,350
Hostels			60,000	66,000	72,000
Housing			149,847	153,865	160,350
Royal Households	1	3,878	1,200	1,300	1,378
Royal Palace	1	3,878	1,200	1,300	1,378
Traditional & Local Government Affairs	3	2,250	2,250	-	-
Administrative Blocks (Traditional Administrative Centres)	3	2,250	2,250	-	-
Transport	521	3,129,715	930,822	1,064,522	1,134,371
Roads	521	3,129,715	930,822	1,064,522	1,134,371
Social Welfare & Population Development	23	12,200	4,500	4,700	3,000
Administration blocks (includes office accommodation)	23	12,200	4,500	4,700	3,000
Works	47	27,724	11,744	6,857	5,786
Administration blocks (includes office accommodation)	47	27,724	11,744	6,857	5,786
Other capital projects	4,687	695,398	183,048	188,139	193,581
Agriculture & Environmental Affairs	12	13,389	6,858	5,600	931
Land care projects (soil conservation)	1	11,200	5,600	5,600	-
Other facilities (tunnels, etc)	11	2,189	1,258	-	931
Education	4,640	27,840	8,940	9,300	9,600
Sanitation/Toilets	4,640	27,840	8,940	9,300	9,600
Health	2	651,624	164,705	173,239	183,050
Machinery and equipment / Mobile Clinics	2	651,624	164,705	173,239	183,050
Traditional & Local Government Affairs	33	2,545	2,545	-	-
Provision of electricity	5	920	920	-	-
IT infrastructure	28	1,625	1,625	-	-
Total	17,351	11,685,985	3,240,001	3,568,755	3,787,236

Table 1.D Transfer to Municipalities

Category	Name of Municipality	Outcome			Adjusted budget	Estimated actual	Medium-term estimates		
		Audited	Audited	Audited					
		R000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Category A		24,167	23,484	25,361	44,579	44,529	41,523	44,626	47,108
	eThekwini	24,167	23,484	25,361	44,579	44,529	41,523	44,626	47,108
Category B		27,059	78,682	74,530	95,139	94,759	104,238	103,891	116,734
	Abaqulusi	380	1,066	3,038	2,016	2,016	23,340	24,047	24,762
	Dannhauser	264	1,478	1,720	1,063	995	2,407	1,252	1,431
	eDumbe	681	2,528	947	1,164	1,164	1,168	1,494	3,107
	Emnambithi-Ladysmith	1,377	3,013	5,506	4,186	4,186	3,147	3,082	2,842
	Endumeni	1,016	2,195	1,879	2,786	2,786	1,627	2,017	2,411
	Greater Kokstad	1,284	1,965	4,071	3,194	3,194	3,055	1,736	1,555
	Hibiscus Coast	1,907	2,350	2,777	2,993	2,993	2,681	3,893	4,211
	Hlabisa	0	775	564	351	351	438	550	2,055
	Imbabazane	0	492	564	541	541	1,268	1,260	1,495
	Impendle	0	791	564	1,425	1,425	1,068	455	1,327
	Indaka	0	662	844	356	356	1,268	1,260	1,920
	Ingwe	0	1,823	251	731	731	498	585	600
	Inyala / Mtubatuba	978	754	1,100	2,540	2,540	1,318	904	665
	Izingolweni	0	806	335	847	847	1,488	1,560	1,320
	Jozini	0	760	495	721	721	438	1,934	2,365
	Khiphinkunzi	0	217	278	648	648	288	610	2,370
	KwaDukuza	1,267	2,032	1,401	4,172	4,172	3,387	2,654	2,704
	Kwa Sani	7	1,733	855	1,385	1,385	220	412	352
	KZ5a5	20	1,164	605	1,911	1,911	1,819	846	573
	Mandeni	1,204	1,324	1,853	2,190	2,190	2,034	1,526	1,415
	Maphumulo	0	920	748	378	378	598	640	2,020
	Matatiele	582	3,020	1,515	1,481	1,481	1,157	1,665	1,501
	Mbonambi	0	657	295	621	621	1,468	1,230	1,785
	Mkhambathini	0	1,133	421	424	424	268	1,255	1,800
	Mooi Mpofana	295	1,612	1,984	2,077	2,077	1,386	1,147	1,349
	Msunduzi	6,539	7,480	8,924	13,945	13,945	10,446	10,779	11,397
	Mthorjaneni	369	632	586	969	969	768	1,094	984
	Ndwedwe	0	921	718	378	378	258	976	2,497
	Newcastle	2,361	791	1,327	1,271	1,271	1,541	888	789
	Nkandla	0	1,765	980	771	771	1,438	1,230	2,485
	Nongoma	0	104	3,410	1,535	1,535	475	836	635
	Nquthu	0	849	944	1,013	1,013	518	1,897	2,240
	Ntambanana	0	649	295	621	621	488	550	2,005
	Okhahlamba	469	3,168	1,416	2,460	2,460	1,418	1,433	1,338
	Richmond	29	1,157	873	1,085	1,085	553	492	765
	Ulundi	707	2,493	1,563	3,643	3,531	2,925	1,744	1,889
	Umdoni	930	6,865	3,717	3,763	3,763	1,412	1,832	1,829
	Umhlabuyalingana	85	775	964	556	556	1,338	1,272	1,135
	uMhlathuze	1,116	1,566	1,722	1,655	1,655	2,323	2,061	2,280
	Umlalazi	792	1,380	1,228	3,655	3,655	1,917	2,049	2,340
	uMngeni	1,018	3,374	2,593	3,340	3,140	1,642	1,897	1,769
	uMshwathi	0	876	822	2,155	2,155	1,478	907	1,189
	Umsinga	0	834	464	541	541	1,191	1,260	1,320
	Umtshezi	393	1,625	1,189	1,312	1,312	2,591	3,401	1,574
	uMuziwabantu	315	1,458	2,190	2,082	2,082	2,120	991	1,097
	Umvoti	522	1,556	1,229	1,544	1,544	1,229	1,494	1,594
	Umtzine	0	728	295	1,353	1,353	1,638	1,580	1,415
	uPhongolo	20	1,207	1,565	3,889	3,889	942	649	691
	Utrecht	132	354	576	726	726	572	509	531
	Vulamehlo	0	805	330	676	676	1,683	2,151	992
	To be allocated	0	0	0	0	0	3,500	1,905	2,019
Category C		4	39,008	36,755	6,946	6,739	35,610	27,094	21,477
	Amajuba	0	3,565	4,595	876	876	2,329	3,680	1,579
	King Shaka	0	2,641	2,359	737	530	3,494	1,800	1,759
	Sisonke	0	6,228	5,175	780	780	2,909	2,550	1,959
	Ugu	0	2,521	1,415	380	380	3,728	3,203	1,559
	uMgungundlovu	0	1,375	2,042	0	0	2,329	2,780	1,979
	Umkhanyakude	0	10,365	5,211	1,560	1,560	5,693	2,954	2,309
	Umqinyathi	0	4,270	3,963	500	500	2,700	2,207	3,079
	Uthukela	0	1,384	7,386	313	313	4,429	4,030	3,226
	uThungulu	4	1,894	2,492	850	850	5,114	1,790	2,344
	Zululand	0	4,765	2,117	950	950	2,885	2,100	1,684
Total		51,230	141,174	136,646	146,664	146,027	181,371	175,611	185,319

Table 1.E Expenditure by policy area

R000	Audited 2000/01	Audited 2001/02	Audited 2002/03	Adj. Budget 2003/04	Est. Actual	Medium-term estimates		
						2004/05	2005/06	2006/07
GENERAL PUBLIC SERVICES	1,192,345	1,036,453	1,123,671	1,476,743	1,412,835	1,398,183	1,630,569	1,565,328
Executive & Legislative	111,162	137,702	160,674	213,501	210,962	183,553	193,878	205,565
Office of the Premier	5,591	6,861	5,764	8,104	8,104	8,253	8,567	9,081
Provincial Parliament (including all statutory payments and ministries)	91,306	111,089	135,114	179,609	177,170	153,981	162,713	172,530
The Royal Household	14,265	19,752	19,796	25,788	25,688	21,319	22,598	23,954
General Services	557,371	437,288	480,256	572,832	562,365	606,782	639,097	676,267
Office of the Premier	57,706	63,167	76,082	97,642	97,473	105,658	109,686	116,268
Transport	72,721	81,626	97,987	99,878	99,915	104,817	109,347	114,673
Works	426,944	292,495	306,187	375,312	364,977	396,307	420,064	445,326
General Policy & Administration	419,737	371,354	379,181	510,648	474,133	453,298	430,551	456,424
Traditional and Local Government Affairs	419,497	370,341	378,167	509,282	472,767	451,832	428,997	454,777
Agriculture & Environmental Affairs	240	1,013	1,014	1,366	1,366	1,466	1,554	1,647
Financial & Fiscal Affairs	104,075	90,109	103,560	179,762	165,375	154,550	367,043	227,072
Provincial Treasury	104,075	90,109	103,560	179,762	165,375	154,550	367,043	227,072
PUBLIC ORDER & SAFETY AFFAIRS	162,767	167,117	205,232	234,869	234,869	290,036	308,438	297,275
Public Order & Safety Affairs n.e.c.	5,211	6,808	12,780	16,207	16,207	15,627	16,565	17,558
Safety and Security	5,211	6,808	12,780	16,207	16,207	15,627	16,565	17,558
Traffic Control	157,556	160,309	192,452	218,662	218,662	274,409	291,873	279,717
Transport	157,556	160,309	192,452	218,662	218,662	274,409	291,873	279,717
EDUCATION AFFAIRS & SERVICES	8,228,621	9,301,971	10,449,471	12,022,197	12,041,568	13,287,096	14,095,288	15,128,039
Education Affairs & Services n.e.c.	280,890	411,964	577,898	685,314	694,076	772,631	841,163	915,557
Education and Culture	280,890	411,964	577,898	685,314	694,076	772,631	841,163	915,557
Subsidiary Services to Education	146,619	176,679	225,757	273,492	209,433	320,576	359,406	378,002
Education and Culture	146,619	176,679	225,757	273,492	209,433	320,576	359,406	378,002
Tertiary Education Services not leading to a University Degree	281,829	240,698	186,069	221,552	223,926	257,093	264,760	277,845
Agriculture & Environmental Affairs	9,320	10,726	12,096	13,008	13,008	18,852	13,835	14,665
Education and Culture	162,752	96,194	14,387	0	564	0	0	0
Health	109,757	133,778	159,586	208,544	210,354	238,241	250,925	263,180
Pre-primary, Primary and Secondary Education	7,200,905	8,076,224	9,006,349	10,275,178	10,351,573	11,319,563	11,973,163	12,859,958
Education and Culture	7,200,905	8,076,224	9,006,349	10,275,178	10,351,573	11,319,563	11,973,163	12,859,958
Education Services not defined by level	318,378	396,406	453,398	566,661	562,560	617,233	656,796	696,677
Education and Culture	318,378	396,406	453,398	566,661	562,560	617,233	656,796	696,677
HEALTH AFFAIRS & SERVICES	5,659,032	6,893,023	7,331,798	8,043,304	8,050,941	8,792,075	9,535,671	10,402,264
Administration & control of Health Affairs & Services n.e.c.	400,528	830,904	559,335	673,961	674,893	1,008,961	1,061,201	1,112,125
Health	400,528	830,904	559,335	673,961	674,893	1,008,961	1,061,201	1,112,125
Hospital & Clinic Affairs & Services	2,370,031	2,577,083	3,212,159	3,338,496	3,340,346	3,439,677	3,810,214	4,061,408
Health	2,370,031	2,577,083	3,212,159	3,338,496	3,340,346	3,439,677	3,810,214	4,061,408
Primary Health Services	2,734,315	3,326,700	3,363,876	3,766,804	3,771,589	3,975,882	4,267,661	4,807,151
Health	2,734,315	3,326,700	3,363,876	3,766,804	3,771,589	3,975,882	4,267,661	4,807,151
Ambulance Services	154,158	158,336	196,428	264,043	264,113	367,555	396,595	421,580
Health	154,158	158,336	196,428	264,043	264,113	367,555	396,595	421,580
COMMUNITY & SOCIAL SERVICES	4,330,205	5,045,392	6,869,876	8,540,173	9,054,567	10,351,101	12,248,508	13,839,429
Social Security & Welfare Affairs n.e.c.	376,954	401,123	574,507	658,079	682,167	912,389	1,061,595	1,206,093
Social Welfare and Population Development	376,954	401,123	574,507	658,079	682,167	912,389	1,061,595	1,206,093
Family & Child Allowances	393,545	714,523	1,340,076	2,028,252	2,320,497	2,878,197	3,858,106	4,672,694
Social Welfare and Population Development	393,545	714,523	1,340,076	2,028,252	2,320,497	2,878,197	3,858,106	4,672,694
Old Age, Disability or War Veteran's benefits other than for Government Employees	3,392,227	3,726,637	4,742,111	5,475,306	5,705,839	6,132,712	6,864,631	7,465,473
Social Welfare and Population Development	3,392,227	3,726,637	4,742,111	5,475,306	5,705,839	6,132,712	6,864,631	7,465,473
Other Social Assistance to persons	3,586	3,092	2,392	11,482	12,860	14,130	15,654	16,203
Social Welfare and Population Development	3,586	3,092	2,392	11,482	12,860	14,130	15,654	16,203
Welfare Services - Children's Residential Institutions	86,441	94,344	109,449	155,026	144,528	178,243	195,942	216,763
Social Welfare and Population Development	86,441	94,344	109,449	155,026	144,528	178,243	195,942	216,763
Welfare Services - Old Persons Residential Institutions	36,585	47,209	47,849	57,475	49,443	61,686	66,171	68,901
Social Welfare and Population Development	36,585	47,209	47,849	57,475	49,443	61,686	66,171	68,901
Welfare Services - Handicapped Persons	25,395	28,904	32,289	34,463	34,463	39,617	42,860	43,311
Social Welfare and Population Development	25,395	28,904	32,289	34,463	34,463	39,617	42,860	43,311
Welfare Services not delivered through residential institutions	15,159	17,468	16,228	23,406	23,406	29,760	32,685	33,484
Social Welfare and Population Development	15,159	17,468	16,228	23,406	23,406	29,760	32,685	33,484
Research & Development	313	12,092	4,975	96,684	81,364	104,367	110,864	116,507
Social Welfare and Population Development	313	12,092	4,975	96,684	81,364	104,367	110,864	116,507

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

R000	Audited	Audited	Audited	Adj. Budget	Est. Actual	Medium-term estimates		
	2000/01	2001/02	2002/03			2004/05	2005/06	2006/07
HOUSING & COMMUNITY (AMENITY) AFFAIRS & SERVICES	969,468	1,050,249	1,128,724	1,360,157	1,357,271	1,219,864	1,273,392	1,348,977
Housing Affairs & Services	779,657	829,365	901,825	1,107,214	1,107,214	928,031	964,750	1,022,636
Housing	779,657	829,365	901,825	1,107,214	1,107,214	928,031	964,750	1,022,636
Nature Conservation	182,484	206,972	203,832	222,401	222,401	254,819	269,408	284,753
Agriculture & Environmental Affairs	182,484	206,972	203,832	222,401	222,401	254,819	269,408	284,753
Pollution Abatement & Control Affairs	7,327	13,912	23,067	30,542	27,656	37,014	39,234	41,588
Agriculture & Environmental Affairs	7,327	13,912	23,067	30,542	27,656	37,014	39,234	41,588
RECREATIONAL, CULTURAL & RELIGIOUS AFFAIRS & SERVICES	78,919	113,152	121,976	142,897	132,073	157,892	170,136	181,815
Sporting & Recreational Affairs & Services	6,568	11,747	15,160	18,875	16,067	23,534	27,261	30,407
Education and Culture	6,568	11,747	15,160	18,875	16,067	23,534	27,261	30,407
Recreational, Cultural & Religious Affairs & Services n.e.c.	5,000	4,000	4,000	4,000	4,000	4,000	4,000	4,200
Economic Development and Tourism	5,000	4,000	4,000	4,000	4,000	4,000	4,000	4,200
Cultural Affairs & Services	67,351	97,405	102,816	120,022	112,006	130,358	138,875	147,208
Education and Culture	53,702	84,011	86,490	108,682	100,666	122,758	130,986	138,846
Office of the Premier	13,649	13,394	16,326	11,340	11,340	7,600	7,889	8,362
AGRICULTURE AFFAIRS & SERVICES	360,312	417,918	458,548	532,710	534,108	617,106	674,301	722,817
Agriculture Affairs & Services, except subsidies on agricultural products	360,312	417,918	458,548	532,710	534,108	617,106	674,301	722,817
Agriculture & Environmental Affairs	360,312	417,918	458,548	532,710	534,108	617,106	674,301	722,817
TRANSPORTATION & COMMUNICATION AFFAIRS & SERVICES	704,222	893,039	915,808	1,263,713	1,263,713	1,495,144	1,727,443	1,854,303
Transportation Affairs & Services n.e.c.	49,683	41,945	38,044	54,090	54,090	54,702	57,468	60,922
Office of the Premier	19,568	19,540	18,304	24,879	24,879	23,733	24,635	26,113
Economic Development and Tourism	12,200	2,700	0	0	0	0	0	0
Transport	17,915	19,705	19,740	29,211	29,211	30,969	32,833	34,809
Road Affairs & Services	654,539	851,094	877,764	1,209,623	1,209,623	1,440,442	1,669,975	1,793,381
Transport	654,539	851,094	877,764	1,209,623	1,209,623	1,440,442	1,669,975	1,793,381
OTHER ECONOMIC AFFAIRS & SERVICES	84,759	142,880	167,899	225,517	214,226	198,428	209,992	222,677
Other Economic Affairs & Services n.e.c.	12,169	19,856	22,013	25,405	24,353	27,752	29,548	31,027
Economic Development and Tourism	12,169	19,856	22,013	25,405	24,353	27,752	29,548	31,027
Multipurpose Development Project Affairs & Services	23,946	51,554	51,021	73,509	72,404	35,684	37,951	42,026
Economic Development and Tourism	6,327	30,136	38,062	32,725	31,620	35,684	37,951	42,026
Reconstruction and development	17,619	21,418	12,959	40,784	40,784	0	0	0
General Economic & Commercial Affairs other than General Labour Affairs	7,865	15,088	17,486	33,055	27,625	34,511	36,703	38,541
Economic Development and Tourism	7,865	15,088	17,486	33,055	27,625	34,511	36,703	38,541
Regional Development	6,218	12,905	26,497	31,666	27,962	34,529	36,722	38,560
Economic Development and Tourism	6,218	12,905	26,497	31,666	27,962	34,529	36,722	38,560
Tourism Affairs & Services	34,561	43,477	50,882	61,882	61,882	65,952	69,068	72,523
Economic Development and Tourism	34,561	43,477	50,882	61,882	61,882	65,952	69,068	72,523
OTHER FUNCTIONAL & UNALLOCABLE ITEMS	29,000	0	0	0	0	0	0	0
Capital Unallocable	29,000	0	0	0	0	0	0	0
Economic Development and Tourism	29,000	0	0	0	0	0	0	0
GRAND TOTAL FOR ALL FUNCTIONS	21,799,650	25,061,194	28,773,003	33,842,280	34,296,171	37,806,925	41,873,738	45,562,924