

## Trends in provincial budgets

### Introduction

The Constitution assigns provinces key delivery functions for social services, which include school education, health, social grants and welfare services and housing; provincial roads; and agriculture support. While comprising 89 per cent of provincial spending, these public services generate little or no revenue and have to be funded through national transfers. For this reason, provinces receive the largest share of nationally raised revenue, comprising over 56,8 per cent of total non-interest allocations to the three spheres of Government.

The 2003 Budget allocations put provinces in a strong position to deliver pro-poor basic social services and give effect to the progressive realisation of social and economic rights envisaged in the Constitution. Together with strong real growth in national allocations of 2,6 per cent a year in the three years to 2002/03, and projected real growth of 6,1 per cent over the next three years, the healthy state of provincial finances lays a solid foundation for further acceleration of service delivery.

*Strong real growth in national allocations sets base for growth in provincial spending*

As the 2003 provincial budgets show, provinces intend to spend more on non-personnel non capital inputs in education, especially learner support material. Spending on professional health personnel, medicines and drugs is growing rapidly, putting the health sector in a position to deliver better health care and face the challenge of HIV/Aids. Social security transfers are rising rapidly over the MTEF period. This ensures that social grants can buy as much as, if not more than, what they could buy last year and provides for the funding of the phased extension of the Child Support Grant. At the same time, infrastructure development in the form of housing delivery, road construction and upgrading is set to accelerate over the next three years.

*Social services reinforced*

The 2003 Budget Review and Division of Revenue Bill, published on Budget Day, set out trends in provincial revenue and present a preliminary overview of anticipated expenditure trends for the MTEF period. With 2003 provincial budgets having been tabled, this *Intergovernmental Fiscal Review* publishes final budget allocations to

*2003 Intergovernmental Fiscal Review presents details on provincial budgets by sector*

key provincial functions as set out in provincial budgets. Because this *Review* is published after the tabling of provincial budgets, chapters on education, social development, housing, agriculture and roads present more detailed information and analyses of trends in each function to provide a national perspective and permit inter-provincial comparisons. Chapter 10 deals with personnel trends, which includes provincial personnel. Detailed tables on provincial budgets are contained in Annexures at the end of the *Review*.

This *Review* does not duplicate the detailed information on provincial finances covered in the explanatory memorandum published with the 2003 Division of Revenue Bill and the *2003 Budget Review*.

## Government priorities and provincial finances

*Provincial budgets reflect alignment with national priorities*

Provinces are now in a much better position to address Government's aim of reducing poverty, vulnerability and inequality. Building on the trend set over the past years, the 2003 provincial MTEF budgets reflect strong alignment to nationally agreed government priorities.

*Current and future reforms will enhance accountability*

The current phase of financial management and budget reforms should further enhance accountability. This phase involves submitting to Parliament and provincial legislatures strategic plans which set out what departments plan to accomplish with the resources appropriated for the current financial year and what is to be appropriated in subsequent years. In addition, clearly defined measurable objectives for each programme or subprogramme are provided. Also, by setting out details on outputs delivered and outcomes accomplished, future annual reports will enable Parliament and legislatures to better assess whether Government gets value for its expenditure.

## 2003 Budgets reinforce focus on pro-poor programmes

*Provincial budgets give effect to government priorities*

The 2003 provincial budgets reflect strong alignment with the national priorities set out in the *2002 Medium Term Budget Policy Statement* and the *2003 Budget Review*. The budgets reaffirm provinces' commitment to deliver more and better quality services, that ensure the progressive realisation of improved quality of life for all South Africans.

*Strong real growth in provincial spending*

Building on the strong and stable financial and fiscal environment created through prudent budget and expenditure management over the past years, the 2003 provincial budgets reflect strong real growth in spending of 7,5 per cent in 2003/04, and a real average annual growth rate of 5,3 per cent over the MTEF. This growth is mainly to consolidate and expand current programmes, and to improve the outreach of social programmes, particularly those that target the poor, facilitate community development and contribute to job creation and economic growth.

**Table 2.1 Total spending per province**

	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
<b>R million</b>							
Eastern Cape	16 307	18 162	19 591	24 019	27 933	29 959	33 065
Free State	6 692	7 431	8 227	10 054	11 056	12 248	13 363
Gauteng	16 831	18 109	20 203	24 159	27 030	29 696	33 003
KwaZulu-Natal	19 389	21 799	25 061	29 043	32 908	36 434	39 808
Limpopo	12 807	14 485	15 656	18 455	21 373	23 477	25 721
Mpumalanga	6 548	7 024	8 455	9 779	11 362	12 524	13 675
Northern Cape	2 524	2 667	2 947	3 424	3 932	4 326	4 699
North West	8 241	9 216	9 906	11 349	13 203	14 682	16 069
Western Cape	10 748	11 514	12 517	14 605	16 414	17 623	18 974
<b>Total</b>	<b>100 088</b>	<b>110 407</b>	<b>122 563</b>	<b>144 887</b>	<b>165 209</b>	<b>180 969</b>	<b>198 376</b>
<b>Percentage growth</b>							
Eastern Cape		11,4%	7,9%	22,6%	16,3%	7,3%	10,4%
Free State		11,0%	10,7%	22,2%	10,0%	10,8%	9,1%
Gauteng		7,6%	11,6%	19,6%	11,9%	9,9%	11,1%
KwaZulu-Natal		12,4%	15,0%	15,9%	13,3%	10,7%	9,3%
Limpopo		13,1%	8,1%	17,9%	15,8%	9,8%	9,6%
Mpumalanga		7,3%	20,4%	15,7%	16,2%	10,2%	9,2%
Northern Cape		5,7%	10,5%	16,2%	14,9%	10,0%	8,6%
North West		11,8%	7,5%	14,6%	16,3%	11,2%	9,4%
Western Cape		7,1%	8,7%	16,7%	12,4%	7,4%	7,7%
<b>Total</b>		<b>10,3%</b>	<b>11,0%</b>	<b>18,2%</b>	<b>14,0%</b>	<b>9,5%</b>	<b>9,6%</b>

Source: National Treasury database.

Strong real growth in provincial spending is mainly due to significant real growth in national transfers of 9,5 per cent in 2003/04 and 6,1 per cent a year over the MTEF. National transfers grow from R136,9 billion in 2002/03 to R159,0 billion in 2003/04, rising to R191,6 billion by 2005/06.

*Significant growth in national transfers*

Growth in spending can also be explained by the fact that after eliminating their debts, some provinces are now planning to use their remaining cash balances to fund once-off expenditures and projects with limited recurrent costs, by tabling deficit budgets of R1,1 billion in 2003/04 and 2005/06. Eastern Cape tables a budget deficit of R968 million in 2003/04; Western Cape tables budget deficits of R435 million, R249 million and R258 million in each of the MTEF years; and after tabling surplus budgets of R224 million in 2003/04 and R101 million in 2004/05, Gauteng plans to table a deficit budget of R871 million in 2005/06.

*Deficit budgets of R1,1 billion are tabled*

### Social services spending

Consistent with Government's continued commitment to social services, provincial budgets provide for real growth of 7,1 per cent in social services expenditure in 2003/04, and a real average annual growth rate of 5,5 per cent over the MTEF. Table 2.2 shows that this will ensure that the share of social services expenditure remains stable at around 81 per cent of total provincial spending. This is in the context of fast-growing total provincial spending over the MTEF

*Provincial budgets show clear commitment to social services*

period. Although increasing in real terms, the shares of education and health in total provincial spending decline steadily, while the share of social development is expected to increase by 4,2 percentage points from 21,6 per cent in 2002/03 to 25,8 per cent by 2005/06.

**Table 2.2 Consolidated provincial expenditure**

<b>R million</b>	<b>1999/00 Actual</b>	<b>2000/01 Actual</b>	<b>2001/02 Actual</b>	<b>2002/03 Estimated actual</b>	<b>2003/04 2004/05 2005/06 Medium-term estimates</b>
Education	39 828	43 223	46 889	53 102	58 897 63 447 67 465
Health	24 110	26 403	29 757	33 238	36 852 40 014 42 942
Social Development	19 374	20 897	23 837	31 247	37 808 44 135 51 248
Total social services spending	83 312	90 523	100 483	117 586	133 558 147 596 161 654
Contingency reserves	—	—	—	—	178 225 273
All other expenditure	16 776	19 884	22 081	27 300	31 474 33 148 36 449
<b>Total</b>	<b>100 088</b>	<b>110 407</b>	<b>122 563</b>	<b>144 887</b>	<b>165 209 180 969 198 376</b>
<b>Shares in total provincial spending</b>					
Social services	83,2%	82,0%	82,0%	81,2%	80,8% 81,6% 81,5%
Education	39,8%	39,1%	38,3%	36,7%	35,6% 35,1% 34,0%
Health	24,1%	23,9%	24,3%	22,9%	22,3% 22,1% 21,6%
Social Development	19,4%	18,9%	19,4%	21,6%	22,9% 24,4% 25,8%
Non-social services	16,8%	18,0%	18,0%	18,8%	19,2% 18,4% 18,5%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0% 100,0% 100,0%</b>
<b>Percentage growth</b>					
Social services		8,7%	11,0%	17,0%	13,6% 10,5% 9,5%
Education		8,5%	8,5%	13,2%	10,9% 7,7% 6,3%
Health		9,5%	12,7%	11,7%	10,9% 8,6% 7,3%
Social Development		7,9%	14,1%	31,1%	21,0% 16,7% 16,1%
Non-social services		18,5%	11,0%	23,6%	15,9% 5,4% 10,0%
<b>Total</b>		<b>10,3%</b>	<b>11,0%</b>	<b>18,2%</b>	<b>14,0% 9,5% 9,6%</b>
<b>Social services spending as percentage of provincial expenditure</b>					
Eastern Cape	85,7%	82,9%	83,8%	80,8%	80,5% 83,2% 84,2%
Free State	82,7%	81,1%	80,4%	78,8%	80,9% 81,8% 82,5%
Gauteng	85,2%	85,0%	84,8%	82,2%	79,7% 79,6% 77,8%
KwaZulu-Natal	84,9%	83,8%	85,2%	84,9%	84,7% 84,6% 84,6%
Limpopo	81,2%	79,6%	78,6%	78,9%	79,3% 80,1% 80,0%
Mpumalanga	78,1%	77,4%	74,7%	78,9%	80,0% 80,6% 81,4%
Northern Cape	80,6%	78,3%	75,6%	77,5%	75,5% 75,1% 76,1%
North West	76,2%	76,4%	77,9%	77,6%	78,4% 79,2% 80,3%
Western Cape	85,4%	84,1%	83,3%	81,9%	81,2% 81,9% 80,4%
<b>National Average</b>	<b>83,2%</b>	<b>82,0%</b>	<b>82,0%</b>	<b>81,2%</b>	<b>80,8% 81,6% 81,5%</b>

Source: National Treasury database.

*Strong growth in non-personnel non-capital expenditure will ensure better quality services*

Within social services functions, non-personnel spending (excluding social development transfers) grows by R5 billion in 2003/04 to R27,6 billion and to R33,7 billion in 2005/06. This translates to real growth of 8,3 per cent a year over the next three years. It signals a growing appreciation of the significance of non-personnel non-capital inputs in the delivery of provincial services in general and social services in particular.

The growth in social development budgets reaffirms Government's commitment to intensifying the fight against poverty and vulnerability by providing direct income support to poor households and individuals, especially children. It provides for the increases in social grants announced on Budget Day and the accelerated expansion in the social security net, mainly through the phased extension of the Child Support Grant to children until they turn 14. Based on current population estimates and poverty levels, it is expected that the Grant will reach over 6,5 million children by 2006.

*Growth in spending on social security transfers reflects intensification of fight against poverty*

Budgeted total spending on social security grants rises from R27,3 billion in 2003/04 to R44,6 billion in 2005/06. These amounts include R1,1 billion in 2003/04; R3,4 billion in 2004/05 and R6,4 billion in 2005/06 set aside for the Child Support Extension Grant. MTEF allocations also include a conditional grant allocation of R388 million in each year to provide food relief to vulnerable households and individuals.

*Increase in both grant values and beneficiary numbers*

Total education spending grows by 4,6 per cent in real terms from R53,1 billion to R58,9 billion in 2003/04. Within education, the highest growth is in non-personnel non-capital expenditure, which shows real growth of 16,1 per cent in 2003/04 and is projected to grow at an average annual rate of 9,4 per cent over the MTEF. This level of growth is expected to help the sector allocate increasing amounts to learner support materials and reinforce improvements in the quality of school education.

*Non-personnel non-capital expenditure in education receives a boost*

Provincial health budgets grow by R3,6 billion or 4,5 per cent in real terms to R36,9 billion in 2003/04, and are expected to grow in real terms at an average annual rate of 3,3 per cent over the MTEF to R42,9 billion in 2005/06. Personnel spending is set to grow by R1,9 billion in 2003/04 to provide for the costs of hiring and deploying personnel with scarce skills in the sector, such as doctors and pharmacists. Supported by additional funding of R0,5 billion, R0,8 billion and R1,0 billion, this trend is expected to continue over the next three years to ensure that the public health sector has adequate professional personnel with the requisite skills equitably distributed across the country.

*Hiring and retaining professional personnel with scarce skills is a priority in health*

Non-personnel spending in health also shows strong real growth of 5,9 per cent in 2003/04 and 4,7 per cent a year over the MTEF, in line with Government's commitment to ensure that hospitals and clinics have sufficient medicines and drugs. Provinces are also committing R6,9 billion of their own funds to be spent on health capital projects over the next three years. This will go towards upgrading, replacing and constructing health facilities and is additional to the R2,7 billion conditional grant allocation for refurbishing 18 additional hospitals.

*More funds for infrastructure and medicines in provincial health budgets*

### **Non-social services and capital expenditure**

In addition to social services, provinces are also responsible for housing, provincial roads, agriculture, economic affairs, the environment and tourism, and other administrative functions. Spending on certain of these functions declined due to tight budget

constraints, resulting in infrastructure backlogs in roads, tourism and agricultural support services. This in turn had a negative impact on the level of economic activity in the provinces and constrained the economic growth potential of the country as a whole.

*Spending on non-social service functions grows strongly over the MTEF*

Stable provincial finances and the substantially expanded resource envelope allow for strong recovery in spending on these functions. Spending on non-social services functions, including housing, rises from R27,3 billion in 2002/03 to R31,6 billion 2003/04 or 19,2 per cent of total provincial expenditure. It is set to rise to R36,7 billion by 2005/06.

*Capital expenditure promotes service delivery and expands economic opportunities*

Strong growth in spending on these functions, which is largely a result of growth in capital expenditure, will have positive economic spin-offs for individual provinces and for the country. Excluding housing and social services capital, provinces are budgeting to spend R40,5 billion on infrastructure. This will improve the quality of provincial infrastructure and pave the way for efficient delivery of other services. It will also reduce the cost of business, thus serving as a catalyst for higher economic growth and job creation.

## Trends in provincial revenue and expenditure

This section covers trends in provincial budgets for the seven-year period 1999/00 to 2005/06. It covers aggregate or general trends and thus could mask circumstances prevailing in individual provinces and within each function. Such details are presented in the chapters that deal with each specific sector.

*Past surpluses reflect underspending on capital*

Table 2.3 shows trends in provincial budgets between 1999/00 and 2005/06. The last three years saw provinces posting surpluses. The surpluses in 1999/00 and 2000/01 were mainly due to slow implementation of capital projects, and represent funds that were rolled over for spending in subsequent periods. Limited amounts of the surpluses were used to repay remaining debts from the past.

*Large surplus in 2001/02 due to social security grant arrears*

The 2001/02 surplus includes the conditional grant of R2 billion intended to fund arrears in social security grant payments. This amount was transferred at the end of 2001/02 for spending in the 2002/03 financial year as the processes of assessing eligible beneficiaries took longer than was initially anticipated. When these funds are netted out, the provincial surplus for 2001/02 becomes significantly lower, at R1,8 billion.

*Preliminary deficit for 2002/03 projected at R2,3 billion*

For 2002/03, the preliminary indication is that, in total, provinces are likely to realise a deficit of R2,3 billion. This deficit is fully funded by the R2 billion social grants arrears allocation rolled over from 2001/02 and other provincial rollovers.

*Projected deficits to be financed through past surpluses*

Over the MTEF period, provinces are projecting small deficits, which will be financed through cash balances from past surpluses. Presenting budgets this way is in accordance with the Government Finance Statistics (GFS) classification system, which prevents double counting of revenue. No provincial borrowing is expected over the MTEF period since all these deficits are fully funded.

**Table 2.3 Total provincial revenue and expenditure**

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
Transfers from national budget	99 576	109 223	121 398	136 936	158 995	175 468	191 590
<i>Of which: equitable share</i>	89 095	98 398	107 460	123 457	142 386	155 313	167 556
<i>Conditional grants</i>	10 482	10 825	13 938	13 479	16 609	20 155	24 033
Own revenue	4 039	4 531	4 942	5 624	5 087	5 402	5 707
<b>Total revenue</b>	<b>103 615</b>	<b>113 754</b>	<b>126 340</b>	<b>142 560</b>	<b>164 082</b>	<b>180 869</b>	<b>197 296</b>
<b>Share of total provincial revenue</b>							
Transfers from national budget	96,1%	96,0%	96,1%	96,1%	96,9%	97,0%	97,1%
<i>Of which: equitable share</i>	86,0%	86,5%	85,1%	86,6%	86,8%	85,9%	84,9%
<i>Conditional grants</i>	10,1%	9,5%	11,0%	9,5%	10,1%	11,1%	12,2%
Own revenue	3,9%	4,0%	3,9%	3,9%	3,1%	3,0%	2,9%
<b>Total expenditure</b>	<b>100 088</b>	<b>110 407</b>	<b>122 563</b>	<b>144 887</b>	<b>165 209</b>	<b>180 969</b>	<b>198 376</b>
<b>Surplus(+)/deficit(-)</b>	<b>3 527</b>	<b>3 347</b>	<b>3 777</b>	<b>-2 327</b>	<b>-1 127</b>	<b>-99</b>	<b>-1 080</b>

Source: National Treasury database.

## Provincial revenue

Provinces rely on national transfers, which make up over 96,1 per cent of total provincial revenue in 2002/03. These transfers comprise the equitable share, which constitutes 86,6 per cent of total provincial revenue, and conditional grants, which constitute 9,5 per cent. Provincial own revenue constitutes only 3,9 per cent. The share of national transfers in total provincial revenue grows to 97,1 per cent in 2005/06. While this is attributable to strong growth in national transfers, it is also partly due to slow growth in provincial own revenue.

*National allocations continue to make up over 96,1 per cent of total provincial revenue*

Table 2.4 shows that provincial revenue is adjusted for local government funds that were previously reflected as revenue and expenditure for both spheres. This ensures comparability of the revenue and expenditure data. These are now deducted from the provincial sphere and incorporated in the local government share. The R293 town grant (paid to towns in former homeland and self-governing territories) that used to form part of funds transferred through provincial accounts, has been split between the provincial and local government equitable share as part of the rationalisation process.

**Table 2.4 Adjusted provincial revenue and expenditure**

R million	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
Total provincial revenue	103 615	113 754	126 340	142 560	164 082	180 869	197 296
Total provincial expenditure	100 088	110 407	122 563	144 887	165 209	180 969	198 376
Less: local govt grants <sup>1</sup>	463	463	—	—	—	—	—
<b>Total adjusted revenue</b>	<b>103 152</b>	<b>113 291</b>	<b>126 340</b>	<b>142 560</b>	<b>164 082</b>	<b>180 869</b>	<b>197 296</b>
<b>Total adjusted expenditure</b>	<b>99 625</b>	<b>109 944</b>	<b>122 563</b>	<b>144 887</b>	<b>165 209</b>	<b>180 969</b>	<b>198 376</b>

1. Before 2000/01 local government grants were transferred through provinces. For comparison these are deducted from both revenue and expenditure.

Source: National Treasury database.

*Adjusted provincial revenue grows in real terms*

Total adjusted provincial revenue grows by R21,5 billion to R164,0 billion in 2003/04 and is further projected to grow 5,7 per cent a year in real terms to R197,3 billion in 2005/06. Adjusted provincial expenditure, on the other hand, grows by R20,3 billion in 2003/04 and is also expected to grow by a comparable proportion in 2005/06.

*Strong growth in national transfers signals commitment to pro-poor programmes*

National transfers continue to grow strongly and increase from R136,9 billion in 2002/03 to R158,9 billion in 2003/04, an increase of 9,5 per cent in real terms. Over the MTEF, national transfers are expected to further rise to R191,6 billion in 2005/06, translating to a real average annual growth of 6,1 per cent.

**Table 2.5 Change in adjusted provincial revenue**

	Average annual growth in real terms	
	1999/00-2002/03	2002/03-2005/06
Transfers from national budget	2,6%	6,1%
Of which:		
Equitable share	2,8%	5,0%
Conditional grants	0,3%	15,0%
Own revenue	3,0%	-4,7%
<b>Total provincial revenue</b>	<b>2,6%</b>	<b>5,7%</b>

Source: National Treasury database.

*Provinces exercise discretion in allocating their equitable shares*

The growth in national transfers is mainly driven by sharp increases in the equitable share to R142,4 billion in 2003/04 and it is projected to increase to R167,6 billion in 2005/06. Provinces exercise discretion over the allocation of the equitable share to the functions they perform. However, in allocating the equitable share, they take account of nationally agreed priorities, which normally inform the division of resources among the spheres. Rising equitable share gives provinces more scope and discretion to draw budgets that give expression to national priorities.

*Conditional grants still an important part of intergovernmental fiscal system*

A substantial portion of national transfers (10 per cent in 2003/04) is in the form of conditional grants. Conditional grants are R13,5 billion in 2002/03, including the once-off R2,0 billion social security arrear payments grant. They increase to R16,6 billion in 2003/04, and will rise to R24,0 billion in 2005/06. The sharp growth in conditional grants is due to the introduction of the Child Support Extension Grant, which rises from R1,1 billion in 2003/04 to R6,4 billion in 2005/06.

*Rationalisation of conditional grants will continue*

The growth in conditional grants over the 2003 MTEF must be viewed as transitory, mainly due to the new Child Support Extension Grant. Government still remains committed to rationalising conditional grants into fewer, better designed and more efficient grants.

## Provincial own revenue

Despite the promulgation of the Provincial Tax Regulation Process Act in 2001, which sets a framework for provinces to impose taxes and expand their own revenue sources, provincial own revenue remains a small portion (4 per cent) of total provincial revenue.



For 2003/04, provinces are projecting to collect about R0,5 billion less revenue than they are anticipating this current financial year. All provinces, except North West, Gauteng and Northern Cape, are projecting declines in own revenue in 2003/04. This trend is partly due to uncertainty about anticipated interest revenue. However, based on past patterns, it appears that provinces tend to be conservative about their own revenue collections, and are likely to collect more than they are projecting for 2003/04.

*Provinces tend to underestimate their own revenues*

Past trends in provincial own revenue, set out in Table 2.6, confirm that projections of own revenue collection are likely to understate the revenue potential of provinces. Between 1999/00 and 2002/03, provincial own revenue increased by 3,0 per cent. While growth in Western Cape, Eastern Cape, Northern Cape and Mpumalanga was positive, other provinces showed sharp declines. For 2002/03, provincial own revenue is expected to be 13,8 per cent higher than in 2001/02. Provincial own revenue is projected to drop by 9,6 per cent in 2003/04, and will only rise to around R5,7 billion in 2005/06.

**Table 2.6 Own revenue per province: 1999/00–2005/06**

	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
<b>R million</b>							
Eastern Cape	374	395	486	823	517	528	552
Free State	262	305	334	384	346	380	390
Gauteng	1 046	1 168	1 308	1 413	1 459	1 560	1 656
KwaZulu-Natal	613	908	986	821	712	841	891
Limpopo	247	321	265	413	330	345	366
Mpumalanga	363	155	238	365	281	303	320
Northern Cape	79	89	107	87	93	93	96
North West	321	425	264	278	333	322	349
Western Cape	733	765	955	1 040	1 016	1 030	1 086
<b>Total</b>	<b>4 039</b>	<b>4 531</b>	<b>4 942</b>	<b>5 624</b>	<b>5 087</b>	<b>5 402</b>	<b>5 707</b>

*Source: National Treasury database.*

Table 2.7 shows that fees collected under the National Road Traffic Act, 1996 (93 of 1996) remain the largest source of provincial own revenue and are estimated to contribute 38,3 per cent in 2002/03. Their share is expected to rise to 49,3 per cent in 2003/04 and grow to 50,3 per cent in 2005/06. The 'other' category of own revenue continues to be large and is indicative of the problems in the administration and classification of own revenue.

*Road traffic fees remain largest source of own revenue*

**Table 2.7 Composition of own revenue**

	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
<b>R million</b>							
Road traffic fees	1 514	1 748	1 965	2 152	2 506	2 672	2 871
Patient fees	321	356	455	432	492	522	559
Gambling	438	622	543	635	643	666	669
<i>Horse racing</i>	170	165	162	113	101	105	108
<i>Casino</i>	268	456	381	522	543	561	561
Interest	323	693	1 098	697	702	727	773
Other	1 442	1 112	882	1 709	744	815	834
<b>Total</b>	<b>4 039</b>	<b>4 531</b>	<b>4 942</b>	<b>5 624</b>	<b>5 087</b>	<b>5 402</b>	<b>5 707</b>
<b>Percentage of total own revenue</b>							
Road traffic act	37,5%	38,6%	39,8%	38,3%	49,3%	49,5%	50,3%
Patient fees	8,0%	7,8%	9,2%	7,7%	9,7%	9,7%	9,8%
Gambling	10,8%	13,7%	11,0%	11,3%	12,6%	12,3%	11,7%
<i>Horse racing</i>	4,2%	3,6%	3,3%	2,0%	2,0%	1,9%	1,9%
<i>Casino</i>	6,6%	10,1%	7,7%	9,3%	10,7%	10,4%	9,8%
Interest	8,0%	15,3%	22,2%	12,4%	13,8%	13,5%	13,5%
Other	35,7%	24,6%	17,8%	30,4%	14,6%	15,1%	14,6%

Source: National Treasury database.

## Provincial expenditure

Although budgeted expenditure provided for growth rates higher than inflation in 1999/00 and 2000/01, actual provincial expenditure was less than actual provincial revenues. This resulted in surpluses of R3,5 billion and R3,3 billion, respectively. While substantial proportions of the surpluses were planned for repayment of debts, part of the surpluses reflects the lack of capacity to spend. As a result of this mismatch in budgeted and actual expenditure, the planned provincial spending was not fully realised.

*Provincial budgets and expenditure are converging*

After adjusting provincial revenue for 2001/02 for the R2 billion allocation for social security grant arrears, provincial revenue of R124,4 billion against actual expenditure of R122,6 billion reflects a consolidated surplus of R1,8 billion for provinces. If this downward trend is sustained, going forward, actual provincial expenditure will begin to grow in real terms in line with Government's intentions.

For 2002/03, based on actual expenditure data for 10 months to 31 January 2003, provinces are projecting a combined deficit of R2,3 billion. The deficit must be viewed against the surplus of 2001/02, as it is linked to the payment of arrears in social security grants and will be financed from the surplus of last year. If a portion of the funds remains after paying all eligible beneficiaries, it is possible that the provincial budget balances will change.

**Table 2.8 Expenditure by economic classification**

	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
<b>R million</b>							
Current expenditure	93 662	102 153	111 236	131 122	146 426	161 095	175 983
<i>Personnel</i>	59 140	63 805	67 645	74 829	81 143	86 800	92 077
<i>Transfers</i>	21 624	23 712	26 589	34 647	40 921	46 999	53 751
<i>Other current</i>	12 898	14 636	17 002	21 646	24 362	27 296	30 154
Capital expenditure	6 426	8 254	11 327	13 765	18 606	19 649	22 121
Contingency reserve	–	–	–	–	178	225	273
<b>Total</b>	<b>100 088</b>	<b>110 407</b>	<b>122 563</b>	<b>144 887</b>	<b>165 209</b>	<b>180 969</b>	<b>198 376</b>
Non-personnel	40 948	46 602	54 919	70 057	84 066	94 169	106 299
Non-personnel non-capital	34 522	38 347	43 591	56 292	65 283	74 296	83 905
<b>Percentage share in total spending</b>							
Current expenditure	93,6%	92,5%	90,8%	90,5%	88,6%	89,0%	88,7%
<i>Personnel</i>	59,1%	57,8%	55,2%	51,6%	49,1%	48,0%	46,4%
<i>Transfers</i>	21,6%	21,5%	21,7%	23,9%	24,8%	26,0%	27,1%
<i>Other current</i>	12,9%	13,3%	13,9%	14,9%	14,7%	15,1%	15,2%
Capital expenditure	6,4%	7,5%	9,2%	9,5%	11,3%	10,9%	11,2%
Contingency reserve	–	–	–	–	0,1%	0,1%	0,1%
Non-personnel	40,9%	42,2%	44,8%	48,4%	50,9%	52,0%	53,6%
Non-personnel non-capital	34,5%	34,7%	35,6%	38,9%	39,5%	41,1%	42,3%

Source: National Treasury database.

### Personnel expenditure

In the three years to 2002/03, growth in provincial personnel expenditure slowed down, resulting in the downward trend in the share of personnel total provincial expenditure, from 59,1 per cent in 1999/00 to 51,6 per cent in 2002/03. Although personnel spending is set to grow slightly above inflation in 2003/04, the downward trend in the share of personnel expenditure is set to continue, albeit at a slower pace, with the share dropping to 46,4 per cent in 2005/06.

*Share of personnel drops to 46,4 per cent of provincial expenditure...*

Despite the falling share in total provincial expenditure, personnel spending in the personnel-intensive social services sectors grows sufficiently. This is to ensure the strengthening of these sectors to meet delivery challenges over the medium term. Personnel expenditure in education grows by 7,1 per cent in nominal terms in 2003/04 and will grow at an average annual rate of 6,6 per cent over the MTEF, while in health the growth rates are 9,9 per cent and 7,8 per cent, respectively. The growth rates in health also reflect the strategy of enhancing the capacity of the sector by retaining and hiring more personnel with scarce skills.

*... but more personnel will be hired in key sectors*

### Non-personnel expenditure

As spending on personnel is curtailed, the recovery in non-personnel expenditure continues at an accelerated pace. After being squeezed out by personnel spending, largely fuelled by strong growth in capital expenditure and social security grants, total non-personnel expenditure by provinces rises from 40,9 per cent of provincial

*Non-personnel expenditure recovers strongly*

expenditure in 1999/00 to 48,4 per cent in 2002/03. It is expected to rise even faster to 53,6 per cent by 2005/06.

*Increasing non-personnel spending a plus for quality service delivery*

The rising share in non-personnel expenditure is a positive development as it reflects provinces' concerted effort to improve the composition of their expenditure. It will also boost the quality of services while simultaneously enhancing efficiency of spending.

### Expenditure on non-social services and capital

*The upward trend in non-social services spending is sustained*

Table 2.2 shows that non-social services spending continues to recover strongly from a projected outcome of R27,3 billion in 2002/03 to R31,7 billion in 2003/04, and is set to rise to R36,7 billion by 2005/06. This includes spending on roads, tourism, housing delivery, agricultural development, and other economic and rural infrastructure. This will see the share of non-social services rising from 16,8 per cent in 1999/00 to 19,2 per cent in 2003/04 before levelling off over the MTEF.

**Table 2.9 Capital spending per province: 1999/00–2005/06**

	1999/00 Actual	2000/01 Actual	2001/02 Actual	2002/03 Estimated actual	2003/04 Medium-term estimates	2004/05 Medium-term estimates	2005/06 Medium-term estimates
<b>R million</b>							
Eastern Cape	576	943	1 162	2 248	3 132	2 665	2 862
Free State	235	422	702	873	871	1 089	1 154
Gauteng	1 781	1 558	2 266	2 770	5 022	5 549	6 803
KwaZulu-Natal	1 351	1 869	2 947	2 951	3 935	4 306	4 634
Limpopo	604	1 096	1 279	1 463	1 773	1 796	2 021
Mpumalanga	510	567	865	843	1 050	1 150	1 318
Northern Cape	176	191	271	298	373	399	426
North West	482	672	690	921	1 022	1 194	1 294
Western Cape	710	938	1 146	1 397	1 427	1 500	1 609
<b>Total</b>	<b>6 426</b>	<b>8 254</b>	<b>11 327</b>	<b>13 765</b>	<b>18 606</b>	<b>19 649</b>	<b>22 121</b>
<b>Percentage of total spending</b>							
Eastern Cape	3,5%	5,2%	5,9%	9,4%	11,2%	8,9%	8,7%
Free State	3,5%	5,7%	8,5%	8,7%	7,9%	8,9%	8,6%
Gauteng	10,6%	8,6%	11,2%	11,5%	18,6%	18,7%	20,6%
KwaZulu-Natal	7,0%	8,6%	11,8%	10,2%	12,0%	11,8%	11,6%
Limpopo	4,7%	7,6%	8,2%	7,9%	8,3%	7,6%	7,9%
Mpumalanga	7,8%	8,1%	10,2%	8,6%	9,2%	9,2%	9,6%
Northern Cape	7,0%	7,2%	9,2%	8,7%	9,5%	9,2%	9,1%
North West	5,9%	7,3%	7,0%	8,1%	7,7%	8,1%	8,1%
Western Cape	6,6%	8,1%	9,2%	9,6%	8,7%	8,5%	8,5%
<b>Total</b>	<b>6,4%</b>	<b>7,5%</b>	<b>9,2%</b>	<b>9,5%</b>	<b>11,3%</b>	<b>10,9%</b>	<b>11,2%</b>

Source: National Treasury database.

*Fast growth in capital expenditure leads to strong recovery in non-social services expenditure*

Table 2.9 shows that the upturn in capital expenditure, which started in 1999/00, is contributing to the strong recovery in non-social services expenditure. Provincial capital expenditure grew from R6,4 billion in 1999/00 or 6,4 per cent of total provincial expenditure, to a projected R13,8 billion or 9,5 per cent of total provincial expenditure in 2002/03. In the 2003 budgets, capital expenditure grows by 27,4 per cent in real terms in 2003/04 to R18,6 billion. It is set to grow at an average annual rate of 11,1 per cent over the MTEF

to R22 billion by 2005/06, exceeding 10 per cent of total provincial expenditure.

### **New budget reforms seek to improve accountability**

Against the background of stable finances and expansionary budgets, the challenge that remains is ensuring that public funds are spent efficiently and that services are delivered. Recent reforms include the tabling of departmental strategic plans to Parliament and the relevant provincial legislatures. These plans contain the service delivery objectives and specific output targets for each programme, alongside the resources that have been appropriated. These reforms aim to improve delivery and enhance accountability.

*Current reforms will enhance accountability*

By setting out details on outputs delivered and outcomes accomplished, the annual reports published after the end of each financial year will enable Parliament and legislatures to better assess whether Government gets value for its expenditure.

### **Conclusion**

Provinces have implemented far-reaching budget reforms and have produced tangible results in expenditure management. Through sound financial management, provinces have placed their finances on a firm footing. Improved expenditure management, however, is a necessary but not sufficient condition for enhanced service delivery. The challenge now is to translate financial management gains into improved service delivery that addresses poverty and vulnerability, and that reduces inequality.

Current spending and budget trends demonstrate that provinces are focusing on pro-poor programmes by consolidating social services delivery, increasing capital spending, and enhancing the quality of spending. Provincial institutional capacity is continually bolstered to deal with the pressures generated by the greater demand for public services.