

Trends in provincial budgets

Introduction

As the seven preceding sectoral chapters show, South Africa's intergovernmental system places provinces at the epicentre of government's programme for delivering a 'better life for all'. Provinces are responsible for the delivery of concurrent functions such as school education, health, social development and housing. Programmes that are central to government's strategy for fighting poverty are delivered through these provincial social services functions. Where there is concurrent responsibility between national government and provinces, delivery of services requires close co-operation and co-ordination between the two spheres.

Social services make up approximately 82,0 per cent of total provincial expenditure. The remainder is allocated to other provincial functions including agricultural support to farmers, construction and maintenance of provincial roads, running provincial administrations and governance.

The first decade of freedom has witnessed major successes in improving access and equity in the delivery of services. Before 1994, there were 17 departments of education that were segregated along racial lines. Similar inequity existed in the provision of social security grants. Access to health services was also disparate. Against this background, transforming the delivery of social services has been and continues to be a pillar of government's transformation agenda.

This progress could not have been possible without a strong economy. Good macroeconomic performance has been made possible by sound macroeconomic policies that have been pursued consistently over the last 10 years. Prudent fiscal policies have ensured that the South African economy is able to achieve positive growth even in the context of a sluggish world economy at the turn of the century.

During the period under review, intergovernmental relations between spheres have continued to evolve. The budget has become a key instrument of co-operative governance. There has been progress in

Together, social services make up approximately 82,0 per cent of total provincial expenditure

Transforming the delivery of social services has been and continues to be a pillar of government's transformation agenda

Improved and expanded social service delivery is largely due to the performance of the country's resilient economy

The budget has become a key instrument of co-operative governance

building a good understanding of the roles between the different spheres in relation to concurrent functions. But more work is required to further strengthen intergovernmental co-ordination.

This chapter provides:

- A summary of aggregated provincial finances, using actual provincial expenditure for 2001/02, 2002/03 and 2003/04
- the preliminary outcomes for 2004/05
- budgeted expenditure for 2005/06
- forward estimates for 2006/07 and 2007/08.

Provincial revenue trends: 2001/02 – 2007/08

National transfers are the largest source of funding for services provided by provinces

The largest share of funding for the services delivered by provinces is in the form of national transfers, which consist of the equitable share and conditional grants. Provincial own revenue remains a small portion of total provincial revenue, comprising less than 4 per cent. This is despite changes to the legal framework, which sought to create a basis for provinces to explore new options for provincial taxes.

The change in the financing mechanism for social security grants impacts on the analysis in this review

Although the current nine provinces came into being with the advent of democracy in 1994, they only started having distinct fiscal existence in 1997/98 when a formula for allocating the provincial equitable share was introduced. The formula has undergone many changes over the years. The change in the financing mechanism for social security grants introduced in the 2005 Budget is the biggest change to the formula since its inception, and has implications for the analyses in this *Review*. Although the full funding of social security through a conditional grant started in 2005/06, historical figures for the equitable share have had to be adjusted to exclude social security grant expenditure. Accordingly, conditional grant figures for the period under review include social security grant expenditure and budgets. This ensures that the data for the entire seven-year period are comparable.

National transfers to provinces

The provincial share of nationally raised revenue has been consistently above 96 per cent. Overall, national transfers to provinces grew from R88,9 billion in 1997/98 to R121,4 billion in 2001/02. Between 2001/02 and 2004/05, transfers rose to R185,1 billion and are set to grow further to R247,7 billion in 2007/08 at an average annual rate of 10,2 per cent.

Table 9.1 Provincial revenue and expenditure, 2001/02 to 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Transfers from national	121 398	136 925	161 532	185 136	209 273	228 782	247 736
<i>of which:</i>							
Equitable share	87 628	94 006	108 694	121 157	134 706	146 757	157 678
Conditional grants	33 770	42 919	52 838	63 979	74 567	82 025	90 058
Own revenue	4 942	5 984	6 613	6 255	5 905	6 139	6 426
Total revenue	126 340	142 909	168 146	191 391	215 177	234 922	254 162
Total expenditure	122 685	145 808	170 669	188 870	213 769	234 057	253 569
Surplus(+)/deficit(-)	3 655	-2 899	-2 524	2 521	1 409	864	593
Share of total provincial revenue							
Transfers from national	96,1%	95,8%	96,1%	96,7%	97,3%	97,4%	97,5%
<i>of which:</i>							
Equitable share	72,2%	68,7%	67,3%	65,4%	64,4%	64,1%	63,6%
Conditional grants	27,8%	31,3%	32,7%	34,6%	35,6%	35,9%	36,4%
Own revenue	3,9%	4,2%	3,9%	3,3%	2,7%	2,6%	2,5%
Total revenue	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: National Treasury provincial database

The provincial equitable share

Throughout the period under review, the provincial equitable share has consistently comprised the largest share of national transfers to provinces. Between 2001/02 and 2004/05, it grew rapidly, at an average annual rate of 4,6 per cent to R121,2 billion. However, due to a very rapid rise in social security expenditure, which is now funded through a conditional grant, its share in national transfers dropped from 72,2 per cent in 2001/02 to 65,4 per cent in 2004/05 before levelling off at around 64 per cent over the MTEF.

Despite the declining share in total national transfers, the provincial equitable share is still projected to grow strongly over the next three years, rising at an average annual rate of 4,0 per cent in real terms. This shows that government continues to prioritise social services – school education, health and welfare services – which continue to be funded through the equitable share.

The provincial equitable share, at 64 per cent, continues to be the largest share of national transfers

The provincial equitable share grows 4,0 per cent per year in real terms over the next three years

Conditional grants

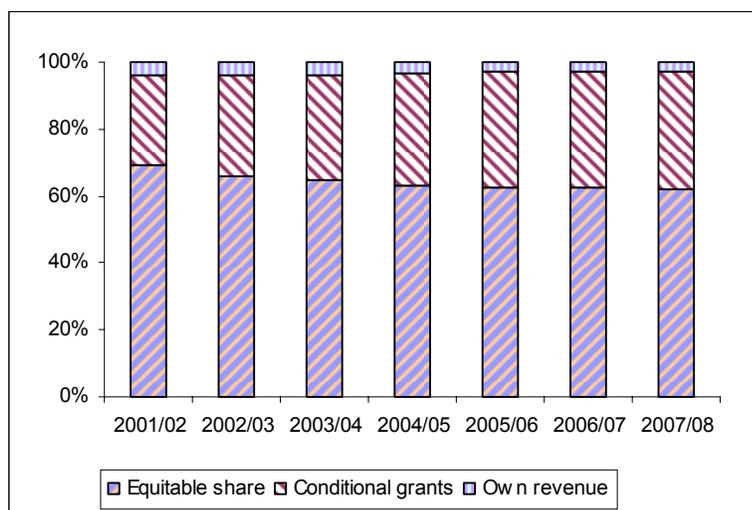
In addition to the equitable share, provinces also receive a significant proportion of their transfers from national government in the form of conditional grants. The type and number of conditional grants that have characterised intergovernmental transfers often reflect the stages in the evolution of the system. Initially, there were three types of conditional grants: recurrent grants, capital grants, and transitional and capacity building grants. As the intergovernmental system matures, transitional and capacity building grants become fewer and smaller, and will be phased out over the next three years.

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

The increase in conditional grant transfers is mainly due to social security grants, and not an increase in the number of conditional grants

After adjustments for the social security grants, conditional grants to provinces increase from R33,8 billion in 2001/02 to R64,0 billion in 2004/05. Very strong growth in conditional grants continues over the MTEF, rising to R90,1 billion by 2007/08. Over the seven years under review, their share of national transfers rises from 27,8 per cent to 36,4 per cent. Rather than reflecting an intention to increase the conditional portion of national transfers to provinces, the rise in conditional grants is related mainly to the two social security grants: the social assistance administration and social assistance transfers grants. These are two transitional conditional grants that are expected to be phased out once the South African Social Security Agency becomes fully operational.

Figure 9.1 Shares of total provincial revenue



Provincial own revenue is budgeted to reach R6,4 billion or 2,5 per cent of total provincial revenue

Provincial own revenue

Own revenue constitutes 2,7 per cent of total revenue for provinces in the 2005/06 budget and remains fairly stable over the MTEF, declining marginally to 2,5 per cent in 2007/08. The collection of own revenue is budgeted at R5,9 billion in 2005/06, R6,1 billion in 2006/07 and R6,4 billion in 2007/08. This represents an average annual growth rate of 0,9 per cent between 2004/05 and 2007/08. Provinces tend to understate their own revenue forecasts, resulting in potential over-collection. Own revenue declines from the 2004/05 preliminary outcomes of R6,3 billion to R5,9 billion (5,7 per cent). The trend is reversed over the MTEF, with own revenue growth increasing by 4 per cent in 2006/07 and 4,7 per cent in 2007/08.

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

Own revenue is made up of tax receipts (casino taxes, horse racing taxes, liquor licences and motor vehicle licences), non-tax receipts, transfers received, sale of capital assets and other own revenue collected. The share of tax receipts in provincial own revenue has risen between 2001/02 and 2004/05 from 49,5 per cent to 55 per cent and is projected to reach 64 per cent by 2007/08. This is due to motor vehicle licence fees, the most significant tax, which rose from 37,9 per cent of total provincial own revenue to 41,6 per cent 2004/05, and is set to rise further to 48,3 per cent by 2007/08. Casino tax

revenue grew from 8,3 per cent of total provincial own revenue in 2001/02 to 11,6 per cent in 2004/05 and is expected to grow to 13,2 per cent by 2007/08.

The drop in non-tax revenue is due to a sharp decline in the 'other' category of non-taxes, which includes interest on bank balances and investments. Three probable reasons for the decline are the reduction in provincial cash balances, the fall in interest rates and conservative projections by provinces because they are uncertain about the state of their bank balances over the financial year.

The drop in non-tax revenue is mainly due to the sharp decline in interest revenue

Table 9.2 Provincial own revenue by category, 2001/02 to 2007/08

R million	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Outcome			Preliminary outcome	Medium-term estimates		
Tax receipts	2 447	2 750	3 306	3 441	3 704	3 922	4 115
<i>Casino taxes</i>	410	516	649	729	753	809	848
<i>Horse racing taxes</i>	154	113	112	89	119	121	132
<i>Liquor licences</i>	12	14	16	20	21	27	31
<i>Motor vehicle licences</i>	1 871	2 107	2 530	2 604	2 812	2 965	3 104
Non-tax receipts	1 104	1 258	1 751	1 514	1 354	1 419	1 493
Transfers received	15	15	22	42	67	31	22
Sales of capital assets	77	58	222	60	72	69	55
Other	1 300	1 903	1 312	1 198	709	699	741
Total	4 942	5 984	6 613	6 255	5 905	6 139	6 426
Percentage of total provincial own revenue							
Tax receipts	49,5%	46,0%	50,0%	55,0%	62,7%	63,9%	64,0%
<i>Casino taxes</i>	8,3%	8,6%	9,8%	11,6%	12,7%	13,2%	13,2%
<i>Horse racing taxes</i>	3,1%	1,9%	1,7%	1,4%	2,0%	2,0%	2,1%
<i>Liquor licences</i>	0,3%	0,2%	0,2%	0,3%	0,3%	0,4%	0,5%
<i>Motor vehicle licences</i>	37,9%	35,2%	38,3%	41,6%	47,6%	48,3%	48,3%
Non-tax receipts	22,3%	21,0%	26,5%	24,2%	22,9%	23,1%	23,2%
Transfers received	0,3%	0,3%	0,3%	0,7%	1,1%	0,5%	0,3%
Sales of capital assets	1,6%	1,0%	3,4%	1,0%	1,2%	1,1%	0,9%
Other	26,3%	31,8%	19,8%	19,2%	12,0%	11,4%	11,5%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: National Treasury provincial database

Provincial expenditure trends: 2001/02 – 2007/08

Between 2001/02 and 2004/05, total provincial expenditure has grown substantially, from R122,7 billion to R188,9 billion: a real growth rate of 8,4 per cent a year. Growth in expenditure over this period is marginally higher than growth in provincial revenue (which grew by about 7,8 per cent a year) because provinces have been drawing down some of the cash balances from surpluses in the preceding period.

Provincial spending grew by 8,4 per cent annually in real terms between 2001/02 and 2004/05

The areas of spending that grew fastest between 2001/02 and 2004/05 are social development (including social security grants), which grew at an average annual rate of 28,8 per cent, and capital expenditure (referred to as payments for capital assets), which grew by 18,6 per cent per year. While this largely reflects consistency between nationally agreed priorities and the provincial budget processes, there are some concerns about the growth in social development

The fastest growth is in social development spending

expenditure. There is some evidence that in certain areas grants such as the disability and the child support grants may have been abused. Government has set in motion processes to deal with this, including strengthening systems for processing and approving new applications.

Provincial spending is expected to continue its strong real growth

Going forward, the 2005 provincial MTEF budgets set out in table 9.3 show that provinces have budgeted to spend R213,8 billion in 2005/06. This nominal growth of 13,2 per cent translates into a real growth of 8,6 per cent from the 2004/05 preliminary outcome. Over the MTEF, provincial expenditure will increase to R253,6 billion in 2007/08 at an average annual growth of 10,3 per cent or 5,1 per cent faster than inflation over the same period.

Table 9.3 Provincial expenditure, 2001/02 to 2007/08

	2001/02	2002/03 Outcome	2003/04	2004/05 Preliminary outcome	2005/06	2006/07	2007/08
R million					Medium-term estimates		
Eastern Cape	19 596	24 715	29 672	30 975	33 989	37 499	41 098
Free State	8 227	9 680	11 437	12 876	14 542	15 712	16 920
Gauteng	20 299	24 475	28 339	30 276	33 445	36 865	39 757
KwaZulu-Natal	25 095	28 871	34 128	38 849	45 573	49 993	54 466
Limpopo	15 656	18 780	21 673	24 995	27 958	30 317	32 730
Mpumalanga	8 426	9 774	11 542	13 140	15 075	16 510	18 023
Northern Cape	2 968	3 469	4 151	4 457	5 048	5 598	6 028
North West	9 901	11 535	13 364	15 052	17 459	19 173	20 769
Western Cape	12 517	14 509	16 365	18 250	20 680	22 391	23 778
Total	122 685	145 808	170 669	188 870	213 769	234 057	253 569
Percentage growth							
Eastern Cape		26,1%	20,1%	4,4%	9,7%	10,3%	9,6%
Free State		17,7%	18,1%	12,6%	12,9%	8,0%	7,7%
Gauteng		20,6%	15,8%	6,8%	10,5%	10,2%	7,8%
KwaZulu-Natal		15,0%	18,2%	13,8%	17,3%	9,7%	8,9%
Limpopo		20,0%	15,4%	15,3%	11,9%	8,4%	8,0%
Mpumalanga		16,0%	18,1%	13,9%	14,7%	9,5%	9,2%
Northern Cape		16,8%	19,7%	7,4%	13,3%	10,9%	7,7%
North West		16,5%	15,9%	12,6%	16,0%	9,8%	8,3%
Western Cape		15,9%	12,8%	11,5%	13,3%	8,3%	6,2%
Total		18,8%	17,1%	10,7%	13,2%	9,5%	8,3%

Source: National Treasury provincial database

Capital spending sustains its upward growth path

Capital expenditure and social development expenditure continue to be the fastest growing items in provincial expenditure. Between 2004/05 and 2005/06, they grow by 12,8 per cent and 13 per cent respectively in real terms. While a similar pattern continues over the MTEF, the pace of growth decelerates somewhat, with capital expenditure growing at an average annual rate of 9,5 per cent and social development expenditure by 6,4 per cent.

There are varying trends in provincial spending

Consolidated trends like those discussed above, often mask variations among provinces. For example, in the period 2001/02 to 2004/05, Eastern Cape's expenditure grew at 16,5 per cent. This is faster than the 15,5 per cent average for all provinces, and faster than the province's total revenue of 14,7 per cent. Part of the growth was financed from past cash reserves, and part was financed through debt,

in the form of bank overdrafts. In 2005/06, Eastern Cape's expenditure grows below the national average, because the province now has to spend less to set aside funds to repay the debt from 2003/04, when its spending significantly exceeded its revenue.

The lesson from this is that each province must maintain a healthy balance between its revenue streams and expenditure. A mismatch between revenue and expenditure will need to be corrected at some point, and sometimes the adjustment, which may mean curtailing services, is painful. For Eastern Cape the adjustment may be made worse by the fact that the province's equitable share grows lower than average because its population growth rate falls below the national average.

KwaZulu-Natal's total expenditure grows consistently faster than the average for all provinces over the next three years. Two factors seem to be behind KwaZulu-Natal's strong growth in expenditure. First, KwaZulu-Natal's equitable share grows at an average annual rate of 11,9 per cent between 2004/05 and 2007/08, while the provincial average is 9,2 per cent over the same period. Second, for the preceding period, KwaZulu-Natal has tended to strike a good balance between growth in revenue and expenditure. North West and Mpumalanga show similar trends.

Table 9.4 reflects provincial spending as a percentage of each province's own gross domestic product (GDP-R). The table highlights government's increased contribution to economic activity. The size of government spending by urban provinces within their respective GDP-R is relatively lower than the rural and poorer provinces. Therefore the overall performance of rural provinces is key, in addition to social service delivery, in creating economic opportunities through their programmes.

Table 9.4 Provincial expenditure as percentage of GDP-R

	2001/02	2002/03	2003/04
R million		Outcome	
Eastern Cape	24,5%	28,1%	29,3%
Free State	15,4%	15,1%	16,6%
Gauteng	6,2%	6,5%	6,9%
KwaZulu-Natal	15,4%	15,8%	16,5%
Limpopo	24,0%	25,9%	26,7%
Mpumalanga	12,3%	12,6%	13,2%
Northern Cape	15,1%	15,4%	14,0%
North West	15,1%	15,7%	16,4%
Western Cape	8,9%	9,1%	9,0%
Total	12,5%	13,0%	13,6%

1. GDP-R is gross domestic product for each province.

Source: National Treasury provincial database

The strong growth in social development expenditure, while keeping the share of social services stable, has been accommodated in two ways. First, resources allocated to social services have increased. Second, and to a lesser extent, there has been slightly slower but still real growth in education and health expenditure. The share of education within social services dropped from 47,1 per cent in

Each province must continue to maintain a healthy balance between revenue streams and expenditure

KwaZulu-Natal strikes a good balance between growth in revenue and expenditure

While its share in total provincial spending is declining, education spending continues to grow in real terms

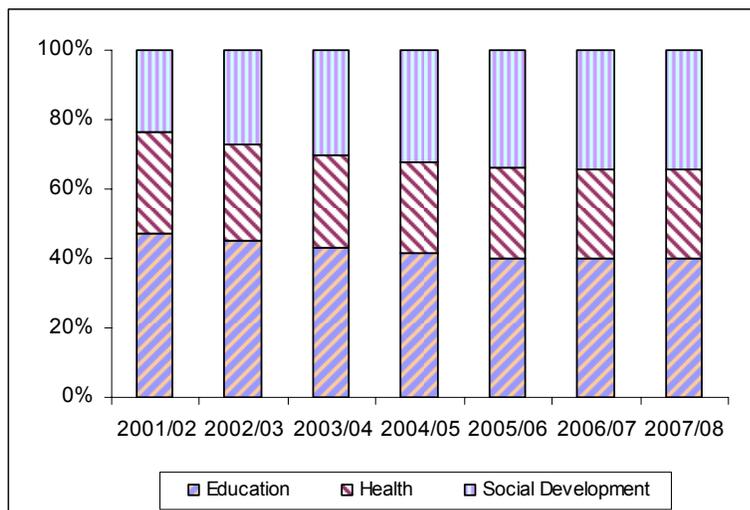
2001/02 to 41,4 per cent in 2004/05 and is set to decline further to 39,9 per cent by 2007/08.

Social services spending

Social services spending makes up the bulk of provincial expenditure

Social services spending still makes up the bulk of total provincial expenditure. This includes spending on education, health and social development and is approximately 82,0 per cent of total provincial expenditure. Expenditure on the three functions grew by 8,8 per cent in real terms over the period 2001/02 to 2004/05. Over the MTEF, social services expenditure is expected to grow by a further 4,6 per cent in real terms. Spending therefore doubles over the seven-year period from R100,4 billion in 2001/02 to R206 billion by 2007/08. Given that the bulk of social services expenditure goes to programmes targeted at poor persons and households, real growth of the magnitude set out here goes a long way in improving the quality of life for most South Africans.

Figure 9.2 Shares of total social services



The more rural, poorer provinces' share in social services spending is higher than urban provinces

Table 9.5 shows that provincial allocations for social services have remained consistently in the region of 80 per cent over the seven-year period. However, between provinces, it is clear that the poorer, more rural provinces like Eastern Cape and Limpopo, tend to have higher shares than the richer more urban regions. In KwaZulu-Natal, the share of social services expenditure is higher because of the large numbers of social beneficiaries in the province.

Significant changes in the composition of social services are evident

Although the share of social services in total provincial expenditure is stable over the entire seven-year period, there are significant changes in the shares of the three functions within social services. The more than doubling of social development expenditure from R23,8 billion in 2001/02 to R50,8 billion in 2004/05 saw its share of social services expenditure rise considerably, from 23,7 per cent in 2001/02 to 32,6 per cent in 2004/05. It is projected to rise further to 34,3 per cent by 2007/08.

Table 9.5 Consolidated provincial expenditure, 2001/02 to 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Education	47 274	53 151	60 255	64 656	70 223	76 538	82 202
Health	29 347	32 794	36 916	40 575	45 905	49 969	53 211
Social development	23 768	32 369	42 106	50 796	59 686	65 488	70 614
Total social services	100 389	118 314	139 277	156 027	175 814	191 994	206 028
Contingency reserves	–	–	–	53	953	1 205	1 610
Non-social services	22 297	27 493	31 392	32 790	37 002	40 857	45 931
Total	122 685	145 808	170 669	188 870	213 769	234 057	253 569
Shares of total provincial expenditure							
Social services	81,8%	81,1%	81,6%	82,6%	82,2%	82,0%	81,3%
<i>Education</i>	38,5%	36,5%	35,3%	34,2%	32,8%	32,7%	32,4%
<i>Health</i>	23,9%	22,5%	21,6%	21,5%	21,5%	21,3%	21,0%
<i>Social development</i>	19,4%	22,2%	24,7%	26,9%	27,9%	28,0%	27,8%
Non-social services	18,2%	18,9%	18,4%	17,4%	17,8%	18,0%	18,7%
Total	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Percentage growth							
Social services		17,9%	17,7%	12,0%	12,7%	9,2%	7,3%
<i>Education</i>		12,4%	13,4%	7,3%	8,6%	9,0%	7,4%
<i>Health</i>		11,7%	12,6%	9,9%	13,1%	8,9%	6,5%
<i>Social development</i>		36,2%	30,1%	20,6%	17,5%	9,7%	7,8%
Non-social services		23,3%	14,2%	4,6%	15,6%	10,8%	13,0%
Total		18,8%	17,1%	10,7%	13,2%	9,5%	8,3%
Social services expenditure as percentage of provincial expenditure							
Eastern Cape	83,8%	81,2%	80,4%	82,9%	83,8%	84,4%	83,8%
Free State	80,3%	80,7%	82,2%	82,8%	84,6%	84,7%	84,0%
Gauteng	84,4%	80,6%	81,1%	81,9%	81,2%	80,2%	78,4%
KwaZulu-Natal	84,7%	85,5%	85,6%	86,0%	84,5%	84,4%	83,7%
Limpopo	78,6%	78,8%	79,4%	81,6%	80,8%	80,1%	79,2%
Mpumalanga	74,9%	77,9%	79,5%	79,7%	81,1%	81,9%	80,6%
Northern Cape	75,4%	77,6%	78,7%	78,7%	78,9%	78,9%	78,4%
North West	77,2%	78,1%	79,0%	79,6%	78,3%	78,0%	77,4%
Western Cape	83,7%	82,0%	83,2%	82,9%	81,8%	80,9%	81,5%
National average	81,8%	81,1%	81,6%	82,6%	82,2%	82,0%	81,3%

Source: National Treasury provincial database

Non-social services spending

Provinces are also responsible for non-social services, which include public works, roads and transport, housing and local government, agriculture, sport and environmental affairs. Although these functions account for only about 18 per cent of total provincial expenditure, they are very important for economic growth and employment creation. Following an upsurge in spending on these functions starting around 1999/00, this spending stabilises over the MTEF period. Between 2001/02 and 2004/05, expenditure on non-social services grew at an average annual rate of 13,8 per cent. Despite slowing down slightly, the strong recovery continues through 2007/08.

The strong growth going forward will strengthen the implementation of the following programmes:

The economic functions delivered by provinces are very important for economic growth and job creation

- The new housing strategy, which will lead to the creation of sustainable human settlements. The housing subsidy programme is allocated R17,4 billion over the next three years.
- The comprehensive agricultural support programme (CASP), which provides technical support to emerging farmers, including those who receive land through the land reform and land restitution programmes. Additional funding amounting to R965 million in the form of the comprehensive agricultural support conditional grant is earmarked for this purpose.
- The expanded public works programme, most of which is on the budgets of departments of public works and transport. Through this programme, government will provide people with opportunities to acquire skills that will improve their chances of getting employment and at the same time they will get some income.

Provinces budget to spend R45,9 billion annually on non-social services by 2007/08

In spite of the stable share in total provincial expenditure, non-social services spending doubles between 2001/02 and 2007/08 from R22,3 billion to R45,9 billion. This will allow provinces to make a meaningful contribution towards stimulating economic growth, creating employment opportunities and reducing poverty.

Personnel expenditure

Together, provincial education and health departments employ over 658 000 personnel

A remarkable success of expenditure management has been the containment of personnel costs (compensation of employees) to acceptable and sustainable levels. This has created fiscal space for spending on non-personnel inputs and capital. Delivery of the two social services functions, education and health, is very personnel intensive. Together, these two sectors employ over 658 000 personnel, making up R76,8 billion or 87,4 per cent of total provincial personnel expenditure in 2004/05. Clearly for these sectors, management of personnel numbers and expenditure is crucial to their success. Conversely, failing to manage personnel properly could destabilise the finances of these departments and possibly those of the provinces.

Table 9.6 Provincial expenditure on compensation of employees, 2001/02 to 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
		Outcome		Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	11 198	12 210	13 352	14 363	15 123	15 999	16 766
Free State	4 763	5 172	5 714	6 212	7 106	7 589	8 003
Gauteng	10 594	11 452	12 640	13 501	14 672	15 549	16 396
KwaZulu-Natal	13 621	14 864	16 098	17 909	20 170	22 210	24 207
Limpopo	9 482	10 450	11 488	12 516	13 430	14 266	15 225
Mpumalanga	4 450	4 919	5 395	5 897	6 799	7 216	7 533
Northern Cape	1 410	1 542	1 737	1 946	2 205	2 325	2 456
North West	5 701	6 208	6 851	7 210	7 976	8 630	9 222
Western Cape	6 502	6 987	7 511	8 309	9 322	10 078	10 737
Total	67 722	73 804	80 786	87 861	96 802	103 862	110 545

Source: National Treasury provincial database

Combined total personnel expenditure among provinces rose to over 55 per cent of total expenditure in 2001/02. This left few resources for non-personnel and capital expenditure. However, over the years, through curtailing growth in salaries and expanding the expenditure envelope, the share of provincial expenditure going towards personnel has been brought down to acceptable levels. From a high of 55,2 per cent in 2001/02, it dropped to 46,5 per cent in 2004/05, and is projected to drop further to 43,6 per cent by 2007/08.

Personnel spending seems to be contained

The largest contributor to government's personnel cost is education, with R57,5 billion or 59,4 per cent of total provincial personnel spending, followed by health, at R25,8 billion or 26,7 per cent in 2005/06. Education personnel spending grows from the previous year by 7,5 per cent in 2005/06, 7,1 per cent in 2006/07 and 6,8 per cent in 2007/08. Health experiences slight declines in personnel spending, growing by 10,8 per cent in 2005/06, 7,7 per cent in 2006/07 and 5,9 per cent in 2007/08. Although the overall growth rate declines over the MTEF period, personnel spending growth is still well above inflation.

Growth in personnel spending stays above inflation

In 2005/06, KwaZulu-Natal (R20,2 billion), Eastern Cape (R15,1 billion), Gauteng (R14,7 billion) and Limpopo (R13,4 billion) have the largest personnel budgets. Collectively, these four provinces account for more than 65 per cent of total provincial personnel spending.

Over 65 per cent of total provincial personnel spending is concentrated in four provinces

Payments for capital assets

Capital expenditure is spending on physical assets such as construction and rehabilitation of buildings, roads and other immovable assets. More significantly, unlike in previous years, it now excludes expenditure on housing, which is classified as capital transfers. The figures in table 9.7 show that capital expenditure grew robustly between 2001/02 and 2004/05, at an average annual rate of 18,6 per cent. In this period, Eastern Cape's capital expenditure grew by 59,0 per cent a year, followed by Limpopo at 49,0 per cent. The same trend is maintained over the MTEF, with capital expenditure rising at an average annual rate of 15 per cent from R11,9 billion in 2005/06 to R13,9 billion in 2006/07 and R15,3 billion in 2007/08.

Spending on capital continues its upward trajectory

Public works, roads and transport is the largest contributor to the total provincial capital spending in 2005/06, with expenditure expected at R4,3 billion (36 per cent), followed by health at R3,5 billion (29,4 per cent), and then education at R2,9 billion (24,1 per cent).

36 per cent of capital spending is on roads and transport

Despite the robust growth in expenditure, budgeting for capital and implementation of infrastructure projects seems to present challenges for some sectors in the provinces. In 2004/05, provinces tabled budgets of R11,1 billion for capital. Capital budgets subsequently increased to R11,9 billion during the tabling of the adjustments budgets towards the end of the financial year. However, the preliminary expenditure outcome shows total provincial underspending of R1,8 billion or 14,9 per cent of the total adjusted capital budgets.

Preliminary capital spending outcomes show R1,8 billion underspending in provinces

Table 9.7 Provincial payments for capital assets¹, 2001/02 to 2007/08

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Outcome			Preliminary outcome	Medium-term estimates		
R million							
Eastern Cape	359	840	1 699	1 444	1 621	2 303	2 790
Free State	382	422	522	480	544	583	663
Gauteng	1 183	1 640	1 754	1 831	1 455	1 897	1 907
KwaZulu-Natal	1 937	1 846	2 319	2 318	3 020	3 215	3 515
Limpopo	389	650	875	1 286	1 493	1 361	1 436
Mpumalanga	518	639	695	756	1 075	1 189	1 494
Northern Cape	175	250	200	213	281	455	546
North West	388	587	610	683	968	1 139	1 266
Western Cape	731	823	942	1 093	1 444	1 804	1 729
Total	6 063	7 697	9 617	10 103	11 900	13 947	15 347
Percentage of total expenditure							
Eastern Cape	1,8%	3,4%	5,7%	4,7%	4,8%	6,1%	6,8%
Free State	4,6%	4,4%	4,6%	3,7%	3,7%	3,7%	3,9%
Gauteng	5,8%	6,7%	6,2%	6,0%	4,4%	5,1%	4,8%
KwaZulu-Natal	7,7%	6,4%	6,8%	6,0%	6,6%	6,4%	6,5%
Limpopo	2,5%	3,5%	4,0%	5,1%	5,3%	4,5%	4,4%
Mpumalanga	6,2%	6,5%	6,0%	5,8%	7,1%	7,2%	8,3%
Northern Cape	5,9%	7,2%	4,8%	4,8%	5,6%	8,1%	9,1%
North West	3,9%	5,1%	4,6%	4,5%	5,5%	5,9%	6,1%
Western Cape	5,8%	5,7%	5,8%	6,0%	7,0%	8,1%	7,3%
Total	4,9%	5,3%	5,6%	5,3%	5,6%	6,0%	6,1%

1. Excludes capital transfers.

Source: National Treasury provincial database

Conclusion

Provincial spending continues to grow in real terms

Provincial budget and expenditure trends show that on the back of robust revenue collections and strong growth in national transfers to provinces, provincial spending in all areas has grown strongly in real terms. The trends described in this chapter show that social development expenditure has been the fastest growing item of expenditure over the last three years, and will continue to rise rapidly over the MTEF period. This trend does not have an impact on other components of spending, as seen by the robust growth in education, health and infrastructure budgets.

Growth in capital spending should impact positively on economic growth and job creation

A very positive feature emerging from the trends described in this chapter relates to strong growth in capital expenditure, which nearly triples over the seven-year period. This should make a positive contribution to economic growth and employment creation. However, the underspending of about R1,8 billion in 2004/05 suggests that there are capacity constraints that inhibit certain sectors from delivering infrastructure in line with the resources available. This is currently receiving attention under the umbrella of the infrastructure delivery improvement programme (IDIP), which aims to make infrastructure delivery within provincial departments more efficient and effective.