

## Trends in provincial budgets

### Introduction

South Africa's intergovernmental system places provinces at the centre of government's programme for delivering a 'better life for all'. Provinces are responsible for the delivery of concurrent functions discussed in the previous six chapters, namely school education, health, social welfare services, housing, agriculture and transport.

A core government priority is to strengthen these concurrent functions. This involves developing or clarifying the policy and legislative frameworks; strengthening planning, budgeting and implementation processes; improving department's management capabilities; strengthening financial and performance management and putting in place or strengthening management information systems and reporting processes.

Where there is a concurrent responsibility between national government and provinces, the delivery of services requires close co-operation and co-ordination between the two spheres.

Social services (education, health and social welfare services) make up 74,3 per cent of total provincial expenditure in 2006/07. The social assistance grants function has been shifted from the provincial to the national sphere of government. The South African Social Security Agency (SASSA) has been established and as of 1 April 2006 is responsible for the administration of the social assistance function. This function shift results in the social services' share of total provincial budgets decreasing from 81,8 per cent in 2005/06 to 74,3 per cent in 2006/07. However, the expenditure information for the period under review has been adjusted to exclude social assistance grants. The figures are therefore comparable across the seven years.

In the social development sector, the shift of the social assistance function to national government means that provinces are now only left with social welfare services. The function shift results in a decrease in social development's share of the total provincial budgets from 27,4 per cent in 2005/06 to only 2,9 per cent in 2006/07.

*A core government priority is to strengthen provincial social services functions*

*Together, social services make up 74,3 per cent of total provincial expenditure*

*The social assistance function has been shifted from the provincial to the national sphere of government*

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

The remaining 25,7 per cent of provincial budgets is allocated to other provincial functions including agricultural support to farmers, construction and maintenance of provincial roads, running provincial administrations and governance.

During the period under review, intergovernmental relations have continued to evolve. The budget has become a key instrument of co-operative governance. There has been progress in building a better understanding of the roles of the different spheres in relation to concurrent functions. But more work is required to consolidate and further strengthen these gains.

This chapter provides an overview of

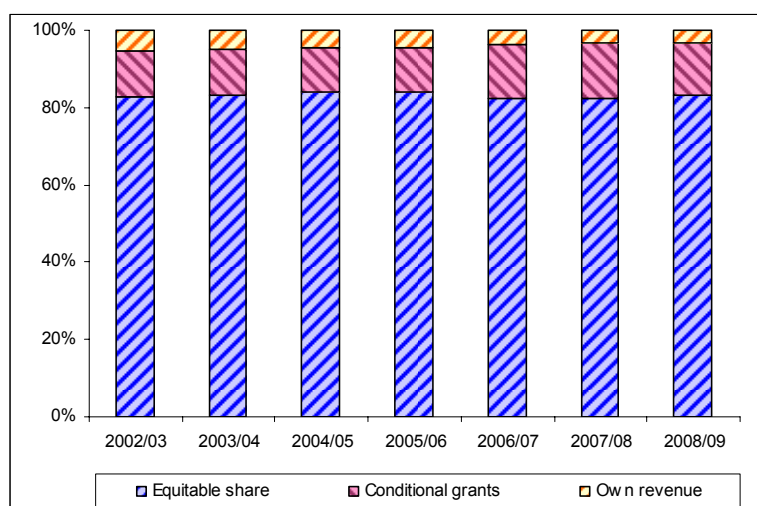
- aggregate provincial finances, using actual provincial expenditure for 2002/03, 2003/04 and 2004/05
- the preliminary (pre-audited) outcomes for 2005/06
- voted budgets for 2006/07 (excluding roll-overs and adjustments)
- forward estimates for 2007/08 and 2008/09 (i.e. the 2006 MTEF).

## Provincial revenue trends: 2002/03 – 2008/09

*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 only 3,6 per cent in 2006/07. This is despite changes to the legal framework, which sought to create opportunities for provinces to explore new options for provincial taxes.

**Figure 8.1 Shares of total provincial revenue, 2002/03 – 2008/09**



## National transfers to provinces

National transfers to provinces have consistently contributed to more than 95 per cent of total provincial revenue. Between 2002/03 and

2005/06 transfers rose from R107,3 billion to R153,8 billion and they are set to grow further to R217,5 billion by 2008/09. This represents an average annual growth rate of 12,2 per cent over the MTEF.

### *The provincial equitable share*

The provincial equitable share has consistently comprised the largest share of national transfers to provinces. Between 2002/03 and 2005/06, it grew rapidly, at an average annual rate of 12,9 per cent to R135,3 billion. Due to the phasing in of three conditional grants into the provincial equitable share, its share of national transfers increased from 83 per cent in 2002/03 to 83,9 per cent in 2005/06 before levelling off at around 82 per cent over the MTEF.

The provincial equitable share is projected to continue growing strongly over the next three years, rising at an average annual rate of 6,5 per cent in real terms. This is in line with the government's prioritisation of social services – school education, health and welfare services – which continue to be funded through the equitable share.

***The provincial equitable share, at 82,3 per cent in 2006/07, continues to be the largest share of national transfers***

***The provincial equitable share grows 6,5 per cent per year in real terms over the next three years***

**Table 8.1 Provincial revenue and expenditure, 2002/03 – 2008/09**

	2002/03	2003/04 Outcome	2004/05	2005/06 Preliminary outcome	2006/07	2007/08	2008/09 Medium-term estimates
<b>R million</b>							
Transfers from national	107 317	122 673	137 836	153 782	176 679	196 351	217 481
<i>of which:</i>							
Equitable share	93 895	107 538	120 885	135 292	150 753	167 701	187 100
Conditional grants	13 422	15 134	16 951	18 490	25 926	28 649	30 382
Provincial own receipts	5 844	6 312	6 241	7 380	6 552	6 983	7 365
<b>Total receipts</b>	<b>113 161</b>	<b>128 984</b>	<b>144 076</b>	<b>161 161</b>	<b>183 231</b>	<b>203 333</b>	<b>224 846</b>
<b>Total expenditure</b>	<b>116 275</b>	<b>131 858</b>	<b>141 954</b>	<b>161 145</b>	<b>183 020</b>	<b>201 903</b>	<b>221 873</b>
<b>Surplus(+)/deficit(-)</b>	<b>-3 114</b>	<b>-2 874</b>	<b>2 123</b>	<b>16</b>	<b>211</b>	<b>1 430</b>	<b>2 973</b>
<b>Share of total provincial revenue</b>							
Transfers from national	94,8%	95,1%	95,7%	95,4%	96,4%	96,6%	96,7%
<i>of which:</i>							
Equitable share	83,0%	83,4%	83,9%	83,9%	82,3%	82,5%	83,2%
Conditional grants	11,9%	11,7%	11,8%	11,5%	14,1%	14,1%	13,5%
Provincial own receipts	5,2%	4,9%	4,3%	4,6%	3,6%	3,4%	3,3%
<b>Total receipts</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: National Treasury provincial database

### *Conditional grants*

In addition to the equitable share, provinces also receive a proportion of their transfers from national government in the form of conditional grants. The type and number of conditional grants used to effect transfers often reflect the introduction and maturing of policy initiatives within the intergovernmental system. Initially, there were three types of conditional grants: recurrent grants, capital grants, and transitional and capacity building grants. As the intergovernmental system has matured, transitional and capacity building grants have become fewer and smaller. The intention is to phase them out altogether over the next three years.

***The type and number of conditional grants reflect the evolution of the intergovernmental fiscal system***

***Changes to conditional grant framework***

As noted above, a major change in the provincial fiscal framework for the 2006 MTEF is the shift of the social assistance grant function from the provincial to the national sphere of government. SASSA is now in a position to fully administer the social assistance function. Consequently, the conditional grants that were introduced to facilitate the transition were discontinued as of 1 April 2006. The funding is now channelled through the national Department of Social Development's budget to SASSA.

To streamline the delivery of programmes, government agreed to further rationalise the conditional grant system as follows:

- The programmes funded through the Integrated Social Development and HIV and Aids grants administered by the national Department of Social Development, and the Integrated Nutrition Programme grant administered by the national Department of Health are funded through the provincial equitable share as from 1 April 2006.
- The Human Settlement and Redevelopment grant administered by the national Department of Housing was incorporated into the Integrated Housing and Human Settlement Development grant to enable government to deliver on its comprehensive housing strategy in a systematic way.
- The Hospital Management and Quality Improvement grant, which facilitates the development of management and financial management capacity, was integrated into the Hospital Revitalisation grant.

Taking the above into account, there continues to be very strong growth in conditional grants over the MTEF, with total grant allocations increasing from R18,5 billion in 2005/06 to R30,4 billion in 2008/09. The growth can mostly be attributed to the introduction of a conditional grant to fund the national government's share of the Gautrain Rapid Rail Link, which has been allocated over R7 billion for the 2006 MTEF.

**Provincial own revenue**

***Provincial own revenue is budgeted to reach R6,6 billion or 3,6 per cent of total provincial revenue in 2006/07***

Own revenue constitutes 3,6 per cent of total revenue for provinces in 2006/07 and remains fairly stable over the MTEF, declining marginally to 3,3 per cent in 2008/09. Own revenue in 2005/06 was R7,4 billion and in 2008/09 it is expected to be R7,3 billion, implying that provinces are budgeting for an average annual decrease of 0,1 per cent over the medium term. Provinces tend to understate their own revenues over the MTEF, which generally results in 'over-collections'. It would appear that the reason why provinces underestimate their own revenues is that they do not want to commit these funds in their budgets, but would rather use the 'over-collections' as in-year discretionary funding. To illustrate the point, provincial estimates of own revenue indicate a decline from the 2005/06 preliminary outcomes of R7,4 billion to R6,6 billion for the 2006/07 budget despite the growth in the vehicle population, which provides a major revenue source for provinces.

Figure 8.2 Shares of provincial tax receipts, 2006/07

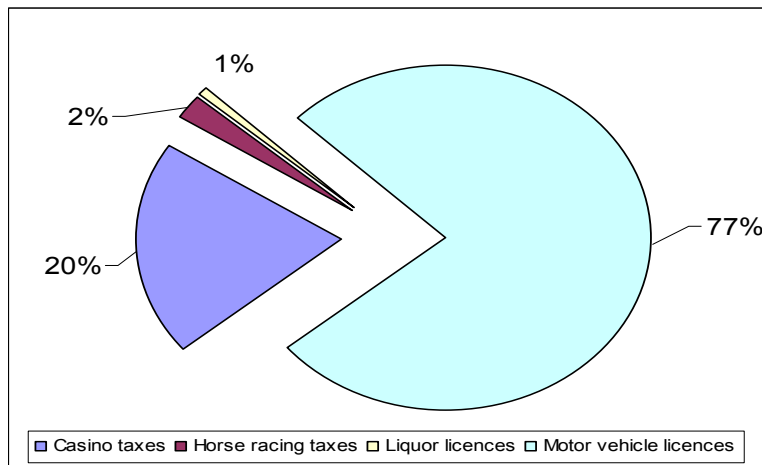


Table 8.2 Provincial own revenue by category, 2002/03 – 2008/09

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Preliminary outcome	Medium-term estimates		
<b>R million</b>							
Tax receipts	2 773	3 297	3 511	4 448	4 250	4 548	4 866
<i>Casino taxes</i>	534	653	724	920	858	923	985
<i>Horse racing taxes</i>	104	102	91	120	99	104	114
<i>Liquor licences</i>	15	14	19	21	33	38	40
<i>Motor vehicle licences</i>	2 121	2 528	2 677	3 387	3 259	3 484	3 728
Sale of goods and services other than capital assets	1 157	1 268	1 312	1 192	1 403	1 479	1 547
Transfers received	10	7	130	68	96	108	114
Fines, penalties and forfeits	123	112	107	108	90	98	94
Interest, dividends and rent on land	1 484	968	779	996	607	641	630
Sales of capital assets	53	250	70	116	44	50	52
Financial transactions in assets and liabilities	243	411	332	452	61	58	61
<b>Total</b>	<b>5 844</b>	<b>6 312</b>	<b>6 241</b>	<b>7 380</b>	<b>6 552</b>	<b>6 983</b>	<b>7 365</b>
<b>Percentage of total provincial own revenue</b>							
Tax receipts	47,5%	52,2%	56,3%	60,3%	64,9%	65,1%	66,1%
<i>Casino taxes</i>	9,1%	10,3%	11,6%	12,5%	13,1%	13,2%	13,4%
<i>Horse racing taxes</i>	1,8%	1,6%	1,5%	1,6%	1,5%	1,5%	1,5%
<i>Liquor licences</i>	0,3%	0,2%	0,3%	0,3%	0,5%	0,5%	0,5%
<i>Motor vehicle licences</i>	36,3%	40,0%	42,9%	45,9%	49,7%	49,9%	50,6%
Sale of goods and services other than capital assets	19,8%	20,1%	21,0%	16,1%	21,4%	21,2%	21,0%
Transfers received	0,2%	0,1%	2,1%	0,9%	1,5%	1,6%	1,6%
Fines, penalties and forfeits	2,1%	1,8%	1,7%	1,5%	1,4%	1,4%	1,3%
Interest, dividends and rent on land	25,4%	15,3%	12,5%	13,5%	9,3%	9,2%	8,6%
Sales of capital assets	0,9%	4,0%	1,1%	1,6%	0,7%	0,7%	0,7%
Financial transactions in assets and liabilities	4,2%	6,5%	5,3%	6,1%	0,9%	0,8%	0,8%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: National Treasury provincial database

**Motor vehicle licence fees are the biggest source of own 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 2002/03 and 2005/06 from 47,5 per cent to 60,3 per cent and is projected to reach 66,1 per cent by 2008/09. This is due to strong growth in motor vehicle licence fees, which rose from 36,3 per cent of total provincial own revenue in 2002/03 to 45,9 per cent in 2005/06, and is set to rise further to 50,6 per cent by 2008/09. Casino tax revenue grew from 9,1 per cent of total provincial own revenue in 2002/03 to 12,5 per cent in 2005/06 and is expected to grow to 13,4 per cent by 2008/09.

**Provincial own revenue forecasting remains conservative**

Table 8.3 shows that the amount of revenue collected is closely linked to the size of the provincial population and economy. The table also highlights the fact that most provinces' MTEF forecasts of own revenue are inconsistent when compared to past performance. When one compares 2006/07 own revenue budgets against the preliminary outcome for 2005/06 seven of the nine provinces are expecting negative growth in own revenues, with the Eastern Cape, Free State, Limpopo and Western Cape indicating they expect own revenue to decline by more than 10 per cent. This is despite the strong revenue growth experienced in 2005/06, and the fact that economic circumstances have not changed significantly. The exceptions to this trend are KwaZulu-Natal and the Northern Cape with 0,5 per cent and 18,4 per cent growth respectively.

**Table 8.3 Provincial own revenue, 2002/03 – 2008/09**

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
		Outcome		Preliminary outcome	Medium-term estimates		
<b>R million</b>							
Eastern Cape	639	654	353	675	472	521	560
Free State	290	339	416	448	395	415	430
Gauteng	1 474	1 564	1 701	1 931	1 758	1 907	2 048
KwaZulu-Natal	1 069	1 002	1 051	1 168	1 174	1 240	1 327
Limpopo	433	486	416	460	396	412	416
Mpumalanga	419	498	341	358	323	344	356
Northern Cape	97	102	114	111	132	139	146
North West	306	337	377	493	466	505	547
Western Cape	1 116	1 330	1 471	1 736	1 436	1 502	1 535
<b>Total</b>	<b>5 844</b>	<b>6 312</b>	<b>6 241</b>	<b>7 380</b>	<b>6 552</b>	<b>6 983</b>	<b>7 365</b>
<b>Percentage growth</b>							
Eastern Cape		2,4%	-46,0%	91,0%	-30,0%	10,3%	7,6%
Free State		16,6%	22,7%	7,9%	-11,9%	5,0%	3,7%
Gauteng		6,1%	8,8%	13,5%	-8,9%	8,4%	7,4%
KwaZulu-Natal		-6,3%	5,0%	11,1%	0,5%	5,6%	7,0%
Limpopo		12,2%	-14,3%	10,5%	-13,9%	3,9%	1,1%
Mpumalanga		18,8%	-31,7%	5,1%	-9,8%	6,5%	3,5%
Northern Cape		4,9%	12,2%	-2,6%	18,4%	5,4%	5,0%
North West		10,3%	11,8%	30,5%	-5,4%	8,3%	8,3%
Western Cape		19,2%	10,6%	18,1%	-17,3%	4,6%	2,2%
<b>Total</b>		<b>8,0%</b>	<b>-1,1%</b>	<b>18,3%</b>	<b>-11,2%</b>	<b>6,6%</b>	<b>5,5%</b>

Source: National Treasury provincial database

## Provincial expenditure trends: 2002/03 – 2008/09

Between 2002/03 and 2005/06 total provincial expenditure has grown substantially, from R116,3 billion to R161,1 billion: a real growth rate of 6,6 per cent a year. This level of growth placed provinces in a better position to stabilise services, particularly social services.

*Provincial spending grew by 6,6 per cent annually in real terms*

Going forward, the 2006 provincial MTEF budgets set out in table 8.4 show that provinces have budgeted to spend R183 billion in 2006/07. This nominal growth of 13,6 per cent from the 2005/06 preliminary (pre-audited) outcome translates into a real growth of 9 per cent. Over the MTEF, provincial expenditure will increase to R221,9 billion in 2008/09 at an average annual rate of 11,2 per cent. These funds are targeted at improving the quality of social services and further increasing their coverage.

*Provincial spending is expected to continue its strong real growth*

**Table 8.4 Provincial expenditure, 2002/03 – 2008/09**

	2002/03	2003/04 Outcome	2004/05	2005/06 Preliminary outcome	2006/07	2007/08	2008/09
					Medium-term estimates		
<b>R million</b>							
Eastern Cape	18 681	21 723	21 598	23 642	26 827	30 480	33 874
Free State	7 792	8 921	9 706	10 684	11 626	12 947	14 178
Gauteng	21 130	23 704	24 787	27 107	34 500	36 082	38 588
KwaZulu-Natal	22 445	25 494	28 033	33 321	37 192	41 933	47 010
Limpopo	14 673	16 515	18 729	20 914	22 899	25 501	28 319
Mpumalanga	7 901	9 025	10 032	11 610	12 805	14 227	15 460
Northern Cape	2 668	3 137	3 321	3 955	4 395	4 855	5 153
North West	9 139	10 186	11 111	13 144	14 400	16 024	17 670
Western Cape	11 846	13 154	14 636	16 767	18 376	19 855	21 622
<b>Total</b>	<b>116 275</b>	<b>131 858</b>	<b>141 954</b>	<b>161 145</b>	<b>183 020</b>	<b>201 903</b>	<b>221 873</b>
<b>Percentage growth</b>							
Eastern Cape		16,3%	-0,6%	9,5%	13,5%	13,6%	11,1%
Free State		14,5%	8,8%	10,1%	8,8%	11,4%	9,5%
Gauteng		12,2%	4,6%	9,4%	27,3%	4,6%	6,9%
KwaZulu-Natal		13,6%	10,0%	18,9%	11,6%	12,7%	12,1%
Limpopo		12,6%	13,4%	11,7%	9,5%	11,4%	11,0%
Mpumalanga		14,2%	11,2%	15,7%	10,3%	11,1%	8,7%
Northern Cape		17,6%	5,9%	19,1%	11,1%	10,5%	6,1%
North West		11,5%	9,1%	18,3%	9,6%	11,3%	10,3%
Western Cape		11,0%	11,3%	14,6%	9,6%	8,0%	8,9%
<b>Total</b>		<b>13,4%</b>	<b>7,7%</b>	<b>13,5%</b>	<b>13,6%</b>	<b>10,3%</b>	<b>9,9%</b>

Source: National Treasury provincial database

Capital expenditure continues to be the fastest growing item in provincial expenditure. The areas of spending that grew fastest between 2002/03 and 2005/06 are capital expenditure (referred to as payments for capital assets), which grew by 16,1 per cent per year. Between 2005/06 and 2006/07, capital spending grows by 14,6 per cent and is budgeted to grow at a rate of 15,6 per cent per year over the MTEF.

*Capital spending sustains its upward growth path*

## Social services spending

**Social services spending makes up the bulk of provincial expenditure**

Spending on social services (education, health and social welfare services) still makes up the bulk of total provincial expenditure at 74,3 per cent in 2006/07. Expenditure on these three functions grew by 6,7 per cent in real terms over the period 2002/03 to 2005/06. Over the MTEF, expenditure on social services is expected to grow by a further 4,9 per cent per year in real terms. Spending therefore nearly doubles over the seven-year period from R88,8 billion in 2002/03 to R162,9 billion in 2008/09. Given that most of the expenditure on social services goes to programmes that service the needs of poor persons and households, real growth of the magnitude set out here goes a long way to improving the quality of life of most South Africans.

**Table 8.5 Consolidated provincial expenditure, 2002/03 – 2008/09**

	2002/03	2003/04 Outcome	2004/05	2005/06 Preliminary outcome	2006/07 Medium-term estimates	2007/08	2008/09
<b>R million</b>							
Education	53 151	60 255	64 670	71 957	79 051	87 008	94 865
Health	32 860	36 987	40 599	47 116	51 686	55 993	60 647
Social development	2 743	3 209	3 650	4 220	5 289	6 145	7 430
<b>Total social services</b>	<b>88 754</b>	<b>100 452</b>	<b>108 919</b>	<b>123 293</b>	<b>136 026</b>	<b>149 145</b>	<b>162 942</b>
Contingency reserves	—	—	—	381	631	918	1 328
Non-social services	27 521	31 406	33 035	37 472	46 363	51 840	57 603
<b>Total</b>	<b>116 275</b>	<b>131 858</b>	<b>141 954</b>	<b>161 145</b>	<b>183 020</b>	<b>201 903</b>	<b>221 873</b>
<b>Shares of total provincial expenditure</b>							
Social services	76,3%	76,2%	76,7%	76,5%	74,3%	73,9%	73,4%
Education	45,7%	45,7%	45,6%	44,7%	43,2%	43,1%	42,8%
Health	28,3%	28,1%	28,6%	29,2%	28,2%	27,7%	27,3%
Social development	2,4%	2,4%	2,6%	2,6%	2,9%	3,0%	3,3%
Non-social services	23,7%	23,8%	23,3%	23,5%	25,7%	26,1%	26,6%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>
<b>Percentage growth</b>							
Social services		13,2%	8,4%	13,2%	10,3%	9,6%	9,3%
Education		13,4%	7,3%	11,3%	9,9%	10,1%	9,0%
Health		12,6%	9,8%	16,1%	9,7%	8,3%	8,3%
Social development		17,0%	13,8%	15,6%	25,3%	16,2%	20,9%
Non-social services		14,1%	5,2%	14,6%	24,1%	12,3%	11,7%
<b>Total</b>		<b>13,4%</b>	<b>7,7%</b>	<b>13,5%</b>	<b>13,6%</b>	<b>10,3%</b>	<b>9,9%</b>
<b>Social services expenditure as percentage of provincial expenditure</b>							
Eastern Cape	75,1%	73,2%	75,3%	76,9%	77,2%	76,7%	76,7%
Free State	76,1%	77,1%	77,2%	78,9%	76,9%	73,8%	72,6%
Gauteng	77,4%	77,4%	77,5%	78,3%	68,6%	70,7%	72,0%
KwaZulu-Natal	81,4%	80,8%	80,4%	79,0%	77,5%	75,6%	72,8%
Limpopo	72,9%	72,9%	75,5%	74,2%	74,0%	73,1%	73,6%
Mpumalanga	72,7%	73,8%	73,3%	74,9%	74,7%	74,3%	75,5%
Northern Cape	70,8%	71,8%	71,5%	71,8%	71,7%	71,4%	70,7%
North West	72,3%	72,5%	72,3%	70,4%	70,6%	69,1%	67,3%
Western Cape	77,9%	79,1%	78,6%	76,6%	76,4%	76,7%	76,7%
<b>National average</b>	<b>76,3%</b>	<b>76,2%</b>	<b>76,7%</b>	<b>76,5%</b>	<b>74,3%</b>	<b>73,9%</b>	<b>73,4%</b>

Source: National Treasury provincial database

Table 8.5 shows that aggregate expenditure on social services has remained consistently in the region of 75 per cent of total provincial expenditure over the seven-year period. However, between provinces, it is clear that the poorer, more rural provinces tend to have higher shares than the richer more urban provinces.

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

The strong growth in social development expenditure, while keeping the overall 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 real growth in education and health expenditure. The share of education dropped from 45,7 per cent in 2002/03 to 44,7 per cent in 2005/06 and is set to decline further to 42,8 per cent by 2008/09.

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

### **Non-social services spending**

Provinces are also responsible for a range of non-social services, which include public works, provincial roads and transport, housing and local government, agriculture, sport and environmental affairs. Although these functions account for only about 25 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 spending stabilises over the MTEF. Between 2002/03 and 2005/06, expenditure on non-social services grew at an average annual rate of 10,8 per cent. Despite slowing down slightly, the strong recovery continues through to 2008/09.

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

Priorities in these functional areas over the 2006 MTEF period include:

- The newly approved comprehensive housing strategy that aims to speed up housing delivery and develop sustainable human settlements. To implement this strategy, R3 billion was added to the new Integrated Housing and Human Settlement Redevelopment grant over the MTEF. Overall the grant is now allocated R6,3 billion in 2006/07, R7,9 billion in 2007/08 and R8,7 billion in 2008/09;
- The comprehensive agricultural support programme, which provides technical support to emerging farmers, including those who receive land through the land reform and land restitution programmes;
- The expanded public works programme, most of which is on the budget of public works and transport departments. Through this programme, government aims to provide people with income earning opportunities that include opportunities to acquire skills that will improve their chances of getting employment in the future;
- The promotion of mass participation in selected sporting activities by historically disadvantaged communities. Additional funding amounting to R354,5 million over the MTEF is allocated through

the Mass Sport and Recreation Participation Programme grant for this purpose; and

- The Gautrain Rapid Rail Link project – national government's contribution to this project is allocated to Gauteng by means of a conditional grant of R3,2 billion in 2006/07, R2,2 billion in 2007/08 and R1,7 billion in 2008/09.

**Provinces budget to spend R57,6 billion annually on non-social services by 2008/09**

Although non-social services' share of total provincial expenditure remains stable, actual spending more than doubles between 2002/03 and 2008/09 from R27,5 billion to R57,6 billion. This will allow provinces to make a meaningful contribution towards stimulating economic growth, creating employment opportunities and reducing poverty.

### Compensation of employees

A remarkable success of recent expenditure management initiatives has seen personnel costs (compensation of employees) being contained at acceptable and sustainable levels. This has created fiscal space for spending on non-personnel inputs and capital items.

**Table 8.6 Provincial expenditure on compensation of employees, 2002/03 – 2008/09**

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Preliminary outcome	Medium-term estimates		
<b>R million</b>							
Eastern Cape	12 177	13 358	14 324	15 143	16 285	17 315	18 396
Free State	5 148	5 687	6 189	6 719	7 380	7 818	8 252
Gauteng	11 408	12 633	13 382	14 297	16 349	17 465	18 551
KwaZulu-Natal	14 877	16 125	17 923	19 580	22 089	23 750	25 549
Limpopo	10 427	11 466	12 416	13 676	14 270	15 739	16 646
Mpumalanga	4 871	5 423	5 876	6 724	7 427	7 960	8 513
Northern Cape	1 534	1 722	1 956	2 137	2 410	2 556	2 694
North West	6 200	6 834	7 269	7 995	8 526	9 223	9 769
Western Cape	6 975	7 471	8 178	8 853	10 211	10 967	11 725
<b>Total</b>	<b>73 617</b>	<b>80 719</b>	<b>87 513</b>	<b>95 124</b>	<b>104 945</b>	<b>112 793</b>	<b>120 095</b>
<b>Percentage of total expenditure</b>							
Eastern Cape	65,2%	61,5%	66,3%	64,1%	60,7%	56,8%	54,3%
Free State	66,1%	63,8%	63,8%	62,9%	63,5%	60,4%	58,2%
Gauteng	54,0%	53,3%	54,0%	52,7%	47,4%	48,4%	48,1%
KwaZulu-Natal	66,3%	63,3%	63,9%	58,8%	59,4%	56,6%	54,3%
Limpopo	71,1%	69,4%	66,3%	65,4%	62,3%	61,7%	58,8%
Mpumalanga	61,7%	60,1%	58,6%	57,9%	58,0%	55,9%	55,1%
Northern Cape	57,5%	54,9%	58,9%	54,0%	54,8%	52,7%	52,3%
North West	67,8%	67,1%	65,4%	60,8%	59,2%	57,6%	55,3%
Western Cape	58,9%	56,8%	55,9%	52,8%	55,6%	55,2%	54,2%
<b>Total</b>	<b>63,3%</b>	<b>61,2%</b>	<b>61,6%</b>	<b>59,0%</b>	<b>57,3%</b>	<b>55,9%</b>	<b>54,1%</b>

Source: National Treasury provincial database

**Compensation of employees spending seems to be contained**

Total expenditure on the compensation of employees by provinces rose to 63,3 per cent of total provincial expenditure in 2002/03. This left few resources for non-personnel inputs and capital expenditure. However, more recent efforts to restrain growth in salaries, limit the intake of new personnel and the expansion of the fiscal envelope have

contributed to the share of provincial expenditure going towards compensation of employees declining to more acceptable levels. From the high in 2002/03, it declined to 59 per cent in 2005/06, and is projected to decline further to 54,1 per cent by 2008/09.

The largest contributor to provinces' expenditure on compensation of employees in 2006/07 is education, with R62,2 billion or 59,3 per cent of total provincial compensation of employees, followed by health, at R28,6 billion or 27,3 per cent.

These two social service functions are very personnel intensive. Together they employ over 674 000 employees, making up R83,6 billion or 87,9 per cent of total provincial compensation of employees expenditure in 2005/06. Clearly for these sectors, management of personnel numbers and expenditure is crucial to their success. Conversely, any shortcomings in these areas could destabilise the finances of these departments and would have knock-on effects on the provinces as a whole.

Education spending on compensation of employees grows from the previous year by 7,0 per cent in 2006/07, 7,1 per cent in 2007/08 and 6,4 per cent in 2008/09. Health spending on compensation of employees grows by 12,6 per cent in 2006/07, 7,5 per cent in 2007/08 and 6,6 per cent in 2008/09.

In 2006/07, KwaZulu-Natal (R22,1 billion), Gauteng (R16,3 billion), Eastern Cape (R16,3 billion) and Limpopo (R14,3 billion) have the largest compensation of employees budgets. Collectively, these four provinces account for more than 65 per cent of total provincial spending on compensation of employees.

***Growth in compensation of employees spending stays above inflation***

***Together, provincial education and health departments employ over 674 000 employees***

***Over 65 per cent of total compensation spending is concentrated in 4 provinces***

### **Payments for capital assets**

Capital expenditure includes spending on physical assets such as construction and rehabilitation of buildings, roads and other immovable assets, but excludes capital transfers. Table 8.7 shows that capital expenditure grew robustly between 2002/03 and 2005/06, at an average annual rate of 16,1 per cent. In this period, Limpopo's capital expenditure grew by 24 per cent a year, followed closely by KwaZulu-Natal at 23,9 per cent. This trend slows marginally over the MTEF, with capital expenditure rising at an average annual rate of 15,6 per cent from R14,7 billion in 2006/07 to R17,2 billion in 2007/08 and R19,8 billion in 2008/09.

Public works, roads and transport are the largest contributors to total provincial capital spending in 2006/07, with expenditure expected at R5,2 billion (35,1 per cent), followed by health at R4,3 billion (29,4 per cent), and then education at R3,6 billion (24,3 per cent).

Despite the robust growth in expenditure, budgeting for capital projects and the implementation of such projects seems to present challenges for some provincial sectors. In 2005/06 provinces tabled budgets of R11,8 billion for capital. Capital budgets subsequently increased to R13,8 billion during the tabling of the adjustments budgets towards the end of the financial year. However, the

***Spending on capital continues its upward trajectory***

***35,1 per cent of capital spending is on roads and transport***

***Preliminary capital spending outcomes show R970,5 million underspending in provinces***

preliminary expenditure outcomes show total provincial underspending of R970,5 million or 7 per cent of the total adjusted capital budgets.

**Table 8.7 Provincial payments for capital assets<sup>1</sup>, 2002/03 – 2008/09**

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Preliminary outcome	Medium-term estimates		
<b>R million</b>							
Eastern Cape	1 378	1 987	1 465	1 519	2 028	2 716	3 338
Free State	421	516	525	629	582	990	1 301
Gauteng	1 600	1 557	1 885	2 130	2 548	2 658	3 322
KwaZulu-Natal	1 796	2 316	2 370	3 415	3 532	4 114	4 584
Limpopo	649	897	1 313	1 239	1 737	1 771	1 974
Mpumalanga	701	629	762	1 071	1 105	1 420	1 442
Northern Cape	250	198	219	369	468	579	501
North West	582	605	602	978	1 080	1 331	1 670
Western Cape	823	942	1 056	1 473	1 617	1 592	1 688
<b>Total</b>	<b>8 201</b>	<b>9 647</b>	<b>10 196</b>	<b>12 821</b>	<b>14 697</b>	<b>17 172</b>	<b>19 820</b>
<b>Percentage of total expenditure</b>							
Eastern Cape	7,4%	9,1%	6,8%	6,4%	7,6%	8,9%	9,9%
Free State	5,4%	5,8%	5,4%	5,9%	5,0%	7,6%	9,2%
Gauteng	7,6%	6,6%	7,6%	7,9%	7,4%	7,4%	8,6%
KwaZulu-Natal	8,0%	9,1%	8,5%	10,2%	9,5%	9,8%	9,8%
Limpopo	4,4%	5,4%	7,0%	5,9%	7,6%	6,9%	7,0%
Mpumalanga	8,9%	7,0%	7,6%	9,2%	8,6%	10,0%	9,3%
Northern Cape	9,4%	6,3%	6,6%	9,3%	10,7%	11,9%	9,7%
North West	6,4%	5,9%	5,4%	7,4%	7,5%	8,3%	9,5%
Western Cape	6,9%	7,2%	7,2%	8,8%	8,8%	8,0%	7,8%
<b>Total</b>	<b>7,1%</b>	<b>7,3%</b>	<b>7,2%</b>	<b>8,0%</b>	<b>8,0%</b>	<b>8,5%</b>	<b>8,9%</b>

1. Excludes capital transfers.

Source: National Treasury provincial database

## Conclusion

### *Provincial spending continues to grow in real terms*

Provincial budgets and expenditure trends show that on the back of strong growth in national transfers to provinces and growth in own revenues, provincial spending in all areas has grown strongly in real terms.

### *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 billion in 2005/06 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.