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Revenue and expenditure trends

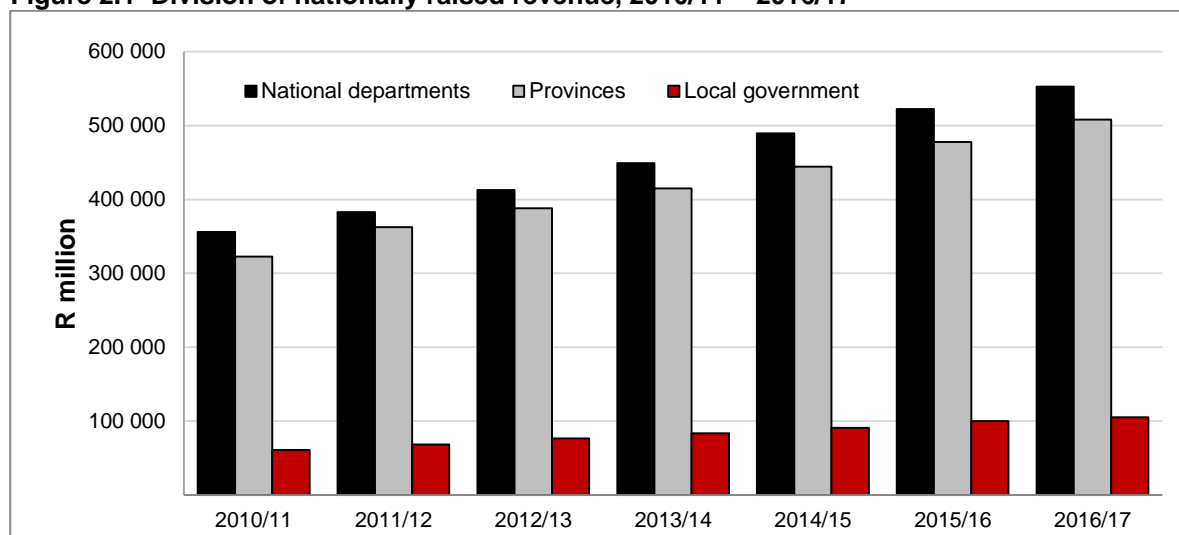
■ Introduction

This chapter discusses overall trends in provincial revenue and expenditure for the seven-year period covered in the *Review*.

Provinces play a central role in the intergovernmental system, and their performance is directly linked to the country's ability to raise living standards. The MTEF period (2014/15 – 2016/17) reflects government's commitment to creating jobs, growing the economy, promoting equity and accelerating access to quality services. The growth in spending is on education and skills development, improved health outcomes, integrated and sustainable human settlements, and rural development. These priorities are among the government's 14 Outcomes.

Figure 2.1 shows the division of nationally raised revenue over the seven-year period. Over the MTEF period, an estimated 44 per cent of this revenue will be transferred to provinces.

Government's focus is on education, health, human settlements, rural development and sustainable job creation

Figure 2.1 Division of nationally raised revenue, 2010/11 – 2016/17


Source: 2014 Budget Review

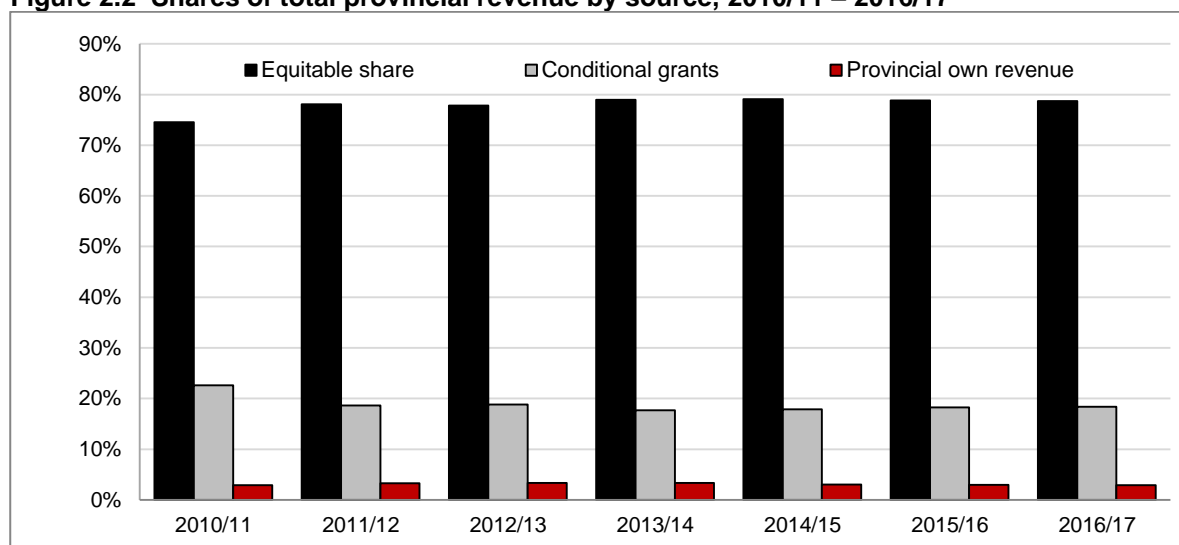
Significant departmental spending has not always translated into improved service delivery

Despite rapid growth in national transfers to provinces, this has not always translated into improved service delivery. The public sector therefore needs to develop a culture of efficiency, effectiveness and transparency in the use of public resources. Maintenance of infrastructure assets has to be prioritised, and training enhanced. Effective management will improve the quality of service delivery. Growth in public-sector employment and improvements in conditions of service have to be accommodated within an affordable wage bill.

Revenue trends

National transfers form the largest share of provincial revenue

Provinces' total revenue consists of national transfers and provincial own revenue. National transfers form the largest share and are made up of each province's equitable share and conditional grants. In 2014/15, own revenue constituted only 3 per cent of provincial revenue.

Figure 2.2 Shares of total provincial revenue by source, 2010/11 – 2016/17


Source: National Treasury provincial database

Provincial equitable share

The equitable share is the largest source of provincial funding. Provinces use it to meet basic needs including school education, health, social development and other services. The equitable share is largely determined by demographics and is redistributive towards poorer provinces. Government is committed to protecting these provincial allocations and to ensuring that spending on them is protected from inflation over the medium term.

The equitable share is broadly redistributive towards poorer provinces

The provincial equitable share formula

The formula consists of six components that reflect the relative demand for services between provinces and take into account specific provincial circumstances. The formula's components are neither indicative budgets nor guidelines as to how much should be spent on functions in each province or by provinces collectively. Rather, the education and health components are weighted broadly in line with historical expenditure patterns to indicate relative need. Provincial executive councils have discretion regarding the determination of departmental allocations for each function, taking into account the priorities that underpin the division of revenue. For the 2014 Budget, the formula components are set out as follows:

- The **education component** (48 per cent) uses the school-age population (5 to 17 years), based on the 2011 Census, and enrolment data drawn from the 2013 School Realities Survey conducted by the Department of Basic Education. Each of these elements is assigned a weight of 50 per cent.
- The **health component** (27 per cent) uses a risk-adjusted capitation index based on the Risk Equalisation Fund and output data from public hospitals to estimate each province's share of the health component. These sub-components work together to balance needs (risk-adjusted capitation) and demands (output component).
- The **basic component** (16 per cent) is derived from the proportion of each province's share of the national population. For the 2014 MTEF, population data is drawn from the 2013 Mid-Year Population Estimates produced by Statistics South Africa.
- The **institutional component** (5 per cent) recognises that some costs associated with running a provincial government and providing services are not directly related to the size of a province's population or the other factors included in other components.
- The **poverty component** (3 per cent) introduces a redistributive element to the formula. The part of the population defined as poor are those people who fall into the lowest 40 per cent of household incomes in the 2010/11 Income and Expenditure Survey. The estimated size of the poor population in each province is calculated by multiplying the proportion in that province that fall into the poorest 40 per cent of South African households by the population figure for the province given in the 2013 mid-year population estimates.
- The **economic activity component** (1 per cent) is a proxy for provincial tax capacity and expenditure assignments. Given that these assignments are a relatively small proportion of provincial budgets, the component is assigned a weight of 1 per cent. For the 2014 MTEF, 2011 GDP-R data is used.

Source: Annexure W1 of the 2014 Budget Review

Table 2.1 Provincial revenue and expenditure, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Transfers from national	325 491	362 653	387 859	416 126	444 423	477 639	508 254
<i>of which:</i>							
Equitable share	265 665	291 900	312 517	339 301	362 468	387 967	412 039
Conditional grants	59 826	70 753	75 343	76 825	81 955	89 672	96 215
Provincial own revenue	10 283	12 242	13 359	14 449	13 757	14 549	15 251
Total revenue	335 774	374 895	401 218	430 575	458 180	492 189	523 504
<i>of which:</i>							
Unallocated conditional grants	—	—	—	68	197	2 864	16 692
Total expenditure	331 192	368 762	394 977	424 705	454 510	484 445	499 765
Surplus(+)/deficit(-)	4 582	6 132	6 241	5 802	3 473	4 881	7 048
Share of total provincial revenue							
Transfers from national	96.9%	96.7%	96.7%	96.6%	97.0%	97.0%	97.1%
<i>of which:</i>							
Equitable share	79.1%	77.9%	77.9%	78.8%	79.1%	78.8%	78.7%
Conditional grants	17.8%	18.9%	18.8%	17.8%	17.9%	18.2%	18.4%
Provincial own revenue	3.1%	3.3%	3.3%	3.4%	3.0%	3.0%	2.9%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury provincial database

Between 2013/14 and 2016/17, the provincial equitable share is projected to have grown at an average annual rate of 6.9 per cent. This is above the forecast inflation rates of 6.2 per cent in 2014/15, 5.7 per cent in 2015/16 and 5.5 per cent in 2016/17, and should enable provinces to provide the core social services of school education, health and social development.

Conditional grants

Conditional grants were introduced to meet the minimum needs of specific programmes

Conditional grants were introduced to meet the minimum needs of specific programmes. Each conditional grant has a descriptive framework which provides information to Parliament and the public, and details the objectives and performance of each grant over its lifespan.

There are four main types of provincial conditional grants:

- Schedule 4A grants are general grants that supplement various programmes partly funded by provinces, such as infrastructure and central hospitals. Transfer and spending accountability arrangements differ, as more than one national or provincial department may be responsible for different outputs.
- Schedule 5A grants fund specific responsibilities and programmes implemented by provinces.
- Schedule 6A grants provide allocations-in-kind through which a national department implements projects in provinces.
- Schedule 7A grants provide for swift allocation and transfer of funds to a province to help with disaster-management.

Given the challenging economic environment and fiscal constraints, government decided to reduce some underspending grants to fund key

priorities. As a result, the baselines of certain conditional grants have been revised downward. However, because most of the reduced grants have a history of underspending, the impact of these reductions on service delivery is negligible. Table 2.2 provides a summary of conditional grants by sector for the 2014 MTEF.

Table 2.2 Conditional grants to provinces, 2013/14 – 2016/17

R million	2013/14	2014/15	2015/16	2016/17
Agriculture, Forestry and Fisheries	2 149	2 389	2 238	2 336
Comprehensive agricultural support programme	1 604	1 861	1 688	1 757
Ilima/Letsema projects	438	461	482	507
Land care programme: Poverty relief and infrastructure development	106	68	68	72
Arts and Culture	595	1 016	1 341	1 412
Community library services	595	1 016	1 341	1 412
Basic Education	12 326	13 170	15 827	16 662
Dinaledi schools	109	111	116	122
Education infrastructure	6 643	6 929	9 469	10 038
HIV and Aids (life skills education)	204	221	226	238
National school nutrition programme	5 173	5 462	5 704	6 006
Technical secondary schools recapitalisation	197	233	244	257
OSD for Therapists	–	213	67	–
Cooperative Governance and Traditional Affairs	120	197	204	215
Provincial disaster	120	197	204	215
Health	27 686	30 111	32 484	35 184
Comprehensive HIV and Aids	10 534	12 311	13 957	15 697
Health facility revitalisation	5 291	5 240	5 389	5 652
Health professions training and development	2 190	2 322	2 429	2 557
National tertiary services	9 620	10 168	10 636	11 200
National health insurance	51	70	74	78
Higher education and training	2 454	2 631	2 819	2 974
Further education and training colleges	2 454	2 631	2 819	2 974
Human Settlements	17 028	17 084	18 533	20 410
Human settlements development	17 028	17 084	18 533	20 410
Public Works	610	607	624	786
Expanded public works programme integrated for provinces	354	349	357	412
Social sector expanded public works programme incentive	256	258	268	375
Social Development	–	29	48	48
Substance abuse treatment	–	29	48	48
Sport and Recreation South Africa	498	526	550	579
Mass participation and sport development	498	526	550	579
Transport	13 290	14 194	15 005	15 610
Provincial roads maintenance	8 738	9 361	9 952	10 292
Public transport operations	4 553	4 833	5 053	5 318
Total	76 757	81 955	89 672	96 215

Source: National Treasury provincial database

After accounting for the reductions in and shifts from provincial direct conditional grants, net revisions to direct conditional grant baseline allocations consist of an addition of R152.3 million in 2014/15, a reduction of R1 billion in 2015/16 and an addition of R716 million in 2016/17, or a net decrease of R152 million over the MTEF period. This brings the new direct conditional grant baselines to R82 billion in 2014/15, R89.7 billion in 2015/16 and R96.2 billion in 2016/17.

The *Occupation-specific Dispensation for Education Sector Therapists* grant is a new grant and provides funds for provinces to implement the occupation-specific dispensation (OSD) agreement for therapists, counsellors and psychologists in the education sector. The grant is allocated for two years (2014/15 and 2015/16) while back-pay is being funded and new remuneration levels are normalised. From 2016/17, the funds will be allocated as part of the provincial equitable share. The grant has been allocated R280 million over the MTEF period.

The *Health Facility Revitalisation* grant funds the construction and maintenance of health infrastructure. This grant was created in 2013/14 through the merger of three previous grants: the *Health Infrastructure* grant, the *Hospital Revitalisation* grant and the *Nursing Colleges and Schools* grant. In 2013/14, the grant had separate ring-fenced components corresponding to the previous grants that it replaced. From 2014/15, these components fall away, giving greater flexibility to provinces to move funds between projects during the year so that delays in one project do not result in underspending on the grant as a whole. The grant funds a wide range of health infrastructure projects, including large projects to modernise hospital infrastructure and equipment, general maintenance and infrastructure projects at smaller hospitals and refurbishing and upgrading nursing colleges and schools.

The *Substance Abuse Treatment* grant is a new grant administered by the Department of Social Development. It will run for three years before being incorporated into the provincial equitable share. The purpose of the grant is to strengthen the harm-reduction programme by building public substance abuse treatment facilities in the four provinces that do not already have such facilities: Eastern Cape, Free State, Northern Cape and North West. The grant has been allocated R124 million over the 2014 MTEF period.

Provincial own revenue

Provincial functions do not lend themselves to significant revenue-raising opportunities

Although provincial departments are responsible for functions that account for a large share of government spending, these functions do not lend themselves to significant revenue-raising opportunities.

Provinces are allowed to raise certain taxes, levies and duties but their ability to do so is limited. In 2014/15, own revenue made up only 3 per cent of provinces' total revenue and is projected to decline to 2.9 per cent in 2016/17. This can be attributed to strong growth in national transfers to provinces.

Table 2.3 Provincial own revenue by category, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Tax receipts	6 665	7 702	8 506	9 322	9 498	10 109	10 684
<i>Casino taxes</i>	1 444	1 563	1 746	1 899	1 841	1 988	2 127
<i>Horse racing taxes</i>	132	162	175	188	251	269	288
<i>Liquor licences</i>	31	23	55	57	57	60	63
<i>Motor vehicle licences</i>	5 058	5 953	6 530	7 177	7 349	7 792	8 207
Sale of goods and services other than capital assets	2 121	2 423	2 692	2 814	2 800	2 941	3 084
Transfers received	120	196	252	183	197	170	77
Fines, penalties and forfeits	39	29	41	179	92	97	102
Interest, dividends and rent on land	634	898	1 161	1 146	817	866	919
Sales of capital assets	188	77	104	112	59	60	64
Financial transactions in assets and liabilities	516	917	602	693	294	307	321
Total	10 283	12 242	13 359	14 449	13 757	14 549	15 251
Percentage of total provincial own revenue							
Tax receipts	64.8%	62.9%	63.7%	64.5%	69.0%	69.5%	70.1%
<i>Casino taxes</i>	14.0%	12.8%	13.1%	13.1%	13.4%	13.7%	13.9%
<i>Horse racing taxes</i>	1.3%	1.3%	1.3%	1.3%	1.8%	1.8%	1.9%
<i>Liquor licences</i>	0.3%	0.2%	0.4%	0.4%	0.4%	0.4%	0.4%
<i>Motor vehicle licences</i>	49.2%	48.6%	48.9%	49.7%	53.4%	53.6%	53.8%
Sale of goods and services other than capital assets	20.6%	19.8%	20.1%	19.5%	20.4%	20.2%	20.2%
Transfers received	1.2%	1.6%	1.9%	1.3%	1.4%	1.2%	0.5%
Fines, penalties and forfeits	0.4%	0.2%	0.3%	1.2%	0.7%	0.7%	0.7%
Interest, dividends and rent on land	6.2%	7.3%	8.7%	7.9%	5.9%	6.0%	6.0%
Sales of capital assets	1.8%	0.6%	0.8%	0.8%	0.4%	0.4%	0.4%
Financial transactions in assets and liabilities	5.0%	7.5%	4.5%	4.8%	2.1%	2.1%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury provincial database

Table 2.3 shows that own revenue is made up of tax receipts (casino taxes, horse-racing taxes, liquor licences and motor vehicle licences), non-tax receipts, transfers received, sales of capital assets and other own revenue categories. Between 2010/11 and 2013/14, the share of tax receipts in provincial own revenue decreased slightly from 64.8 per cent to 64.5 per cent; it is, however, projected to increase to 70.1 per cent by 2016/17. This trend is mainly due to motor vehicle licence fees, the most significant tax, which increased from 49.2 per cent of total provincial own revenue in 2010/11 to 49.7 per cent in 2013/14 and is expected to rise to 53.8 per cent by 2016/17.

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. Reasons for this include the reduction in provincial cash balances, the fall in interest rates and conservative revenue-collection projections by provinces.

Table 2.4 Provincial own revenue by province, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Eastern Cape	741	839	1 093	1 281	906	950	1 024
Free State	772	839	837	899	889	937	987
Gauteng	2 831	3 609	3 981	4 349	4 257	4 560	4 808
KwaZulu-Natal	1 991	2 682	2 592	2 569	2 759	2 968	3 160
Limpopo	551	562	667	845	820	871	919
Mpumalanga	528	561	668	777	763	800	838
Northern Cape	213	222	268	283	278	293	313
North West	591	702	932	978	946	1 003	1 054
Western Cape	2 065	2 225	2 322	2 467	2 139	2 169	2 148
Total	10 283	12 242	13 359	14 449	13 757	14 549	15 251
Percentage growth (average annual)	2010/11 – 2013/14			2013/14 – 2016/17			
Eastern Cape	20.0%			-7.2%			
Free State	5.2%			3.2%			
Gauteng	15.4%			3.4%			
KwaZulu-Natal	8.9%			7.1%			
Limpopo	15.3%			2.9%			
Mpumalanga	13.8%			2.5%			
Northern Cape	9.8%			3.4%			
North West	18.3%			2.5%			
Western Cape	6.1%			-4.5%			
Total	12.0%			1.8%			

Source: National Treasury provincial database

Table 2.4 shows that the amount of own revenue collected between 2010/11 and 2013/14 grew at an average annual rate of 12.0 per cent, and between 2013/14 and 2016/17 is projected to grow at an annual average rate of 1.8 per cent. This significant difference can be attributed to the effect of the economic slowdown on revenue collection in 2014/15 and 2015/16.

Provincial own revenue forecasting is generally conservative

In 2013/14, R14.4 billion in own revenue was collected; in 2016/17, this figure is expected to be R15.3 billion, an average annual real decline of 3.8 per cent over the MTEF period. Provinces prefer not to commit their projected own revenues in their budgets and like to use over-collections as in-year discretionary funding. Own revenues therefore tend to be understated; this generally results in over-collections.

■ Expenditure trends

Government expenditure can be divided into current and capital expenditure. Transfers and subsidies to private institutions or other organs of state are also classified as either current or capital.

Table 2.5 Provincial expenditure by economic classification, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Current payments	257 245	286 873	308 721	333 772	360 660	385 205	405 482
of which:							
Compensation of employees	193 470	217 451	233 977	254 417	275 263	294 219	310 847
Goods and services	63 699	69 348	74 721	79 330	85 383	90 970	94 621
Transfers and subsidies	52 264	54 373	57 231	60 515	62 455	65 706	70 278
Payments for capital assets ¹	21 082	27 282	28 716	30 183	31 362	33 499	23 978
Payments for financial assets	601	234	309	235	33	35	26
Total	331 192	368 762	394 977	424 705	454 510	484 445	499 765
Percentage of total provincial expenditure							
Current payments	77.7%	77.8%	78.2%	78.6%	79.4%	79.5%	81.1%
of which:							
Compensation of employees	58.4%	59.0%	59.2%	59.9%	60.6%	60.7%	62.2%
Goods and services	19.2%	18.8%	18.9%	18.7%	18.8%	18.8%	18.9%
Transfers and subsidies	15.8%	14.7%	14.5%	14.2%	13.7%	13.6%	14.1%
Payments for capital assets ¹	6.4%	7.4%	7.3%	7.1%	6.9%	6.9%	4.8%
Payments for financial assets	0.2%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percentage growth (average annual)							
	2010/11–2013/14			2013/14–2014/15	2013/14 – 2016/17		
Current payments	9.1%			8.1%	6.7%		
of which:							
Compensation of employees	9.6%			8.2%	6.9%		
Goods and services	7.6%			7.6%	6.1%		
Transfers and subsidies	5.0%			3.2%	5.1%		
Payments for capital assets ¹	12.7%			3.9%	-7.4%		
Payments for financial assets	-26.9%			-86.0%	-52.1%		
Total	8.6%			7.0%	5.6%		

1. Excludes unallocated infrastructure conditional grants over the 2014 MTEF.

Source: National Treasury provincial database

The difference between current and capital spending is crucial. Current expenditure refers to recurring spending on items used in providing a good or service. Major cost drivers of current expenditure are wages and salaries, and consumables such as stationery and medicines.

Capital expenditure includes spending on physical assets such as the construction and rehabilitation of buildings, roads and other immovable assets, but excludes capital transfers. Capital expenditure, which has a lasting impact on the economy, is expected to be one of the fastest-growing spending categories over the medium term.

The rate of growth in provincial capital expenditure picks up over the medium term

Current expenditure

Compensation of employees

The public sector employs a large number and variety of personnel including educators, health workers, administrators and general support

Employee compensation is the largest item in provincial budgets

staff. Government is committed to investing in human resource development to attain a well-educated and healthy workforce that can achieve high levels of productivity.

Compensation of employees (personnel spending) is the main cost driver of provincial expenditure and makes up the largest share of provincial budgets. Between 2010/11 and 2013/14, it increased from 58.4 per cent to 59.9 per cent of the total and is expected to amount to 62.2 per cent by 2016/17 before the outcome of the 2014/15 salary negotiations are taken into account. However, percentage share forecasts in some of the provinces for 2015/16 are somewhat questionable.

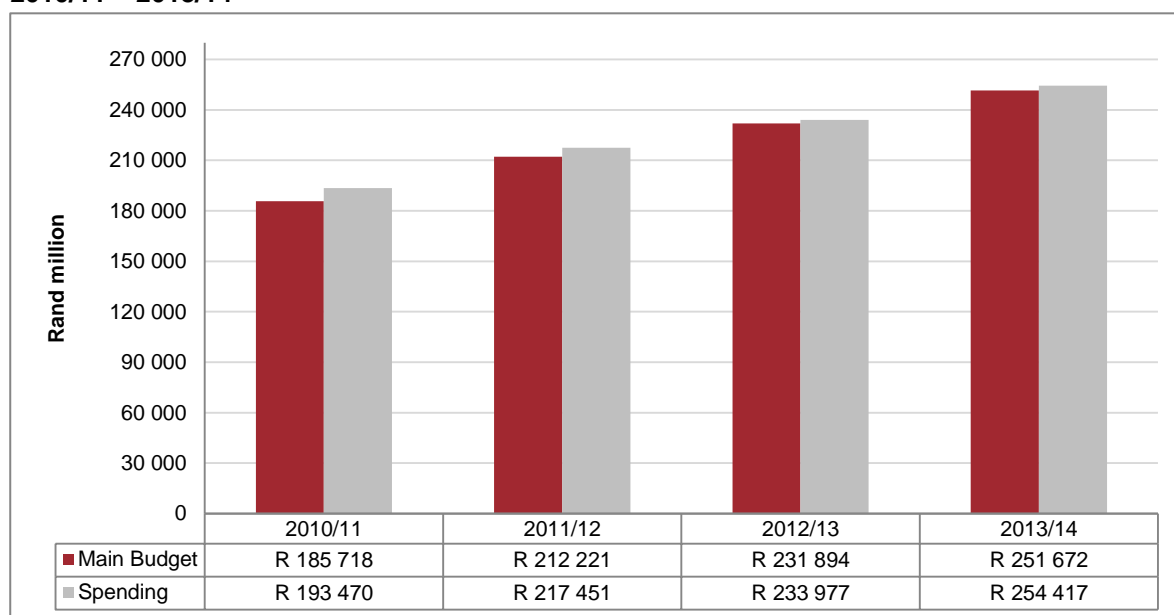
Between 2010/11 and 2013/14, compensation of employees grew at an average annual rate of 9.6 per cent, from R193.5 billion to R254.4 billion. Between 2013/14 and 2016/17, it is projected to have grown at an average annual rate of 6.9 per cent, from R254.4 billion to R310.8 billion. As a result of the growth in compensation of employees, spending on goods and services, and transfers to households, now account for a smaller share of total provincial expenditure.

Public-sector bargaining and occupation-specific dispensations have contributed to strong growth in compensation

Outcomes of annual wage negotiations have contributed to this strong growth trend over the past several years, with Public Service Coordinating Bargaining Council resolutions often establishing higher-than-budgeted wage increases. Provincial departments have to find resources in other areas of their budgets to cover these costs. Although provinces do receive some additional funding to cover additional personnel costs, the effects of the wage agreements continue into the following years and departments have to take these into account when formulating personnel budgets.

The figure below shows that, between 2010/11 and 2013/14, compensation of employees increased faster than did provinces' budgets.

Figure 2.3 Provincial expenditure on compensation of employees against main budget, 2010/11 – 2013/14



Source: National Treasury provincial database

Another factor increasing the amount spent on compensation is the OSD for eight occupational categories of professionals. This began in 2007 and aims to address “under-remuneration” and to attract and retain certain categories of professionals in the public sector. It takes into account how a particular sector functions and how many qualified professionals are in, or are expected to join, the sector. It also provides for career paths that allow professionals and specialists to progress to levels where they earn salaries equal to or higher than those of managers without moving into management or supervisory posts.

Table 2.6 Provincial expenditure on compensation of employees by province, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Eastern Cape	31 409	34 442	35 919	38 226	40 171	42 380	44 646
Free State	12 440	14 037	15 427	16 456	18 141	19 227	20 248
Gauteng	32 736	37 034	39 986	44 287	48 869	53 607	56 644
KwaZulu-Natal	39 373	46 099	49 785	54 546	58 430	62 488	66 059
Limpopo	26 514	29 345	31 548	33 760	36 115	38 017	40 008
Mpumalanga	15 353	17 003	18 345	19 858	21 897	23 290	24 673
Northern Cape	5 044	5 552	6 030	6 700	7 333	7 752	8 150
North West	12 609	14 071	15 293	17 085	18 292	19 410	20 696
Western Cape	17 991	19 867	21 644	23 499	26 016	28 048	29 724
Total	193 470	217 451	233 977	254 417	275 263	294 219	310 847
Percentage of total expenditure							
Eastern Cape	65.0%	64.1%	64.0%	62.9%	64.6%	65.7%	67.6%
Free State	59.3%	59.1%	60.2%	60.1%	65.0%	63.9%	67.0%
Gauteng	53.3%	54.7%	54.2%	57.3%	56.2%	56.6%	57.2%
KwaZulu-Natal	58.2%	58.6%	58.1%	59.3%	60.4%	61.0%	62.5%
Limpopo	64.2%	67.9%	69.0%	72.4%	70.2%	71.1%	71.9%
Mpumalanga	58.6%	57.8%	58.5%	58.9%	60.0%	59.4%	60.5%
Northern Cape	54.3%	51.2%	53.7%	51.0%	55.9%	55.8%	58.8%
North West	57.6%	57.7%	60.0%	56.7%	57.6%	56.6%	58.7%
Western Cape	52.8%	53.8%	54.1%	53.8%	54.3%	54.2%	55.8%
Total	58.4%	59.0%	59.2%	59.9%	60.6%	60.7%	62.2%
Percentage growth (average annual)							
	2010/11–2013/14		2013/14–2014/15		2013/14 – 2016/17		
Eastern Cape	6.8%		5.1%		5.3%		
Free State	9.8%		10.2%		7.2%		
Gauteng	10.6%		10.3%		8.5%		
KwaZulu-Natal	11.5%		7.1%		6.6%		
Limpopo	8.4%		7.0%		5.8%		
Mpumalanga	9.0%		10.3%		7.5%		
Northern Cape	9.9%		9.4%		6.8%		
North West	10.7%		7.1%		6.6%		
Western Cape	9.3%		10.7%		8.1%		
Total	9.6%		8.2%		6.9%		

Source: National Treasury provincial database

Given the large share of employee compensation in their budgets, provinces must monitor and evaluate their expenditure and must cost the system of salary progression as accurately as possible. Any shortcomings in managing this part of the budget can undermine overall service delivery.

Goods and services

Goods and services is the second-largest current expenditure item after compensation of employees

Goods and services is the second-largest current expenditure item and between 2010/11 and 2016/17 is projected to account for about 19 per cent of total provincial expenditure. Goods and services include advertising, consultants, contract labour, maintenance of state-owned buildings, learner and teacher support material and medicines and medical supplies.

Table 2.7 Provincial expenditure on goods and services by province, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Eastern Cape	8 961	8 749	10 121	10 737	10 734	11 211	11 267
Free State	3 798	4 239	4 198	4 229	4 355	4 994	5 374
Gauteng	12 243	13 927	15 163	14 864	17 218	18 238	19 245
KwaZulu-Natal	13 159	15 875	17 044	17 911	19 224	20 059	20 906
Limpopo	6 962	6 278	6 445	6 784	7 636	8 134	8 327
Mpumalanga	5 633	6 008	6 535	7 023	7 108	7 740	8 112
Northern Cape	1 968	2 437	2 371	3 087	3 410	3 629	3 833
North West	4 055	4 419	4 765	5 585	5 781	6 275	6 836
Western Cape	6 920	7 416	8 080	9 110	9 918	10 690	10 721
Total	63 699	69 348	74 721	79 330	85 383	90 970	94 621
Percentage of total expenditure							
Eastern Cape	18.5%	16.3%	18.0%	17.7%	17.3%	17.4%	17.1%
Free State	18.1%	17.8%	16.4%	15.5%	15.6%	16.6%	17.8%
Gauteng	19.9%	20.6%	20.6%	19.2%	19.8%	19.3%	19.4%
KwaZulu-Natal	19.4%	20.2%	19.9%	19.5%	19.9%	19.6%	19.8%
Limpopo	16.8%	14.5%	14.1%	14.6%	14.8%	15.2%	15.0%
Mpumalanga	21.5%	20.4%	20.9%	20.8%	19.5%	19.7%	19.9%
Northern Cape	21.2%	22.5%	21.1%	23.5%	26.0%	26.1%	27.6%
North West	18.5%	18.1%	18.7%	18.5%	18.2%	18.3%	19.4%
Western Cape	20.3%	20.1%	20.2%	20.9%	20.7%	20.7%	20.1%
Total	19.2%	18.8%	18.9%	18.7%	18.8%	18.8%	18.9%
Percentage growth (average annual)							
	2010/11–2013/14		2013/14–2014/15		2013/14 – 2016/17		
Eastern Cape	6.2%		-0.0%		1.6%		
Free State	3.6%		3.0%		8.3%		
Gauteng	6.7%		15.8%		9.0%		
KwaZulu-Natal	10.8%		7.3%		5.3%		
Limpopo	-0.9%		12.5%		7.1%		
Mpumalanga	7.6%		1.2%		4.9%		
Northern Cape	16.2%		10.5%		7.5%		
North West	11.3%		3.5%		7.0%		
Western Cape	9.6%		8.9%		5.6%		
Total	7.6%		7.6%		6.1%		

Source: National Treasury provincial database

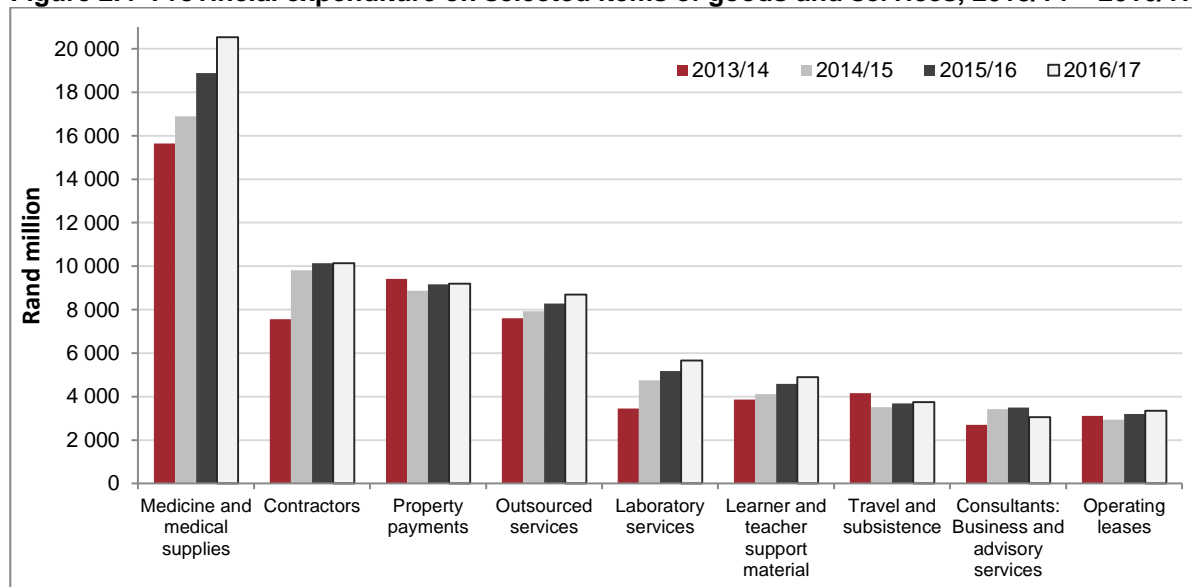
Between 2010/11 and 2013/14, provincial expenditure on goods and services grew from R63.7 billion to R79.3 billion, an average annual rate of 7.6 per cent. Between 2013/14 and 2016/17, due in part to funds being moved to compensation of employees, growth in expenditure on goods and services is expected to slow to an average annual rate of 6.1 per cent. As a result, growth in spending on goods and services, and transfers to households, now accounts for a smaller share of spending. In Eastern Cape, KwaZulu-Natal, Mpumalanga and Western Cape, this rate of growth

is expected to be below the overall average; in Free State, Gauteng, Limpopo, Northern Cape and North West, it is expected to be above this average.

Figure 2.4 shows the nominal growth in nine selected categories of goods and services expenditure between 2013/14 and 2016/17. The 2014 budget maintained tight control of goods and services budgets, and these decline in real terms over the MTEF period. From 2013/14 to 2016/17, the largest spending areas are medicine and medical supplies, contractors, property payments, outsourced services, laboratory services, and learner and teacher support material. Most of these items are designated as non-negotiable, and departments are required to protect or prioritise them when budgeting. Expenditure on travel and subsistence, consultants (business and advisory services) and operating leases is projected to decline as a percentage of the total.

Items designated as non-negotiable are required to be protected when budgeting

Figure 2.4 Provincial expenditure on selected items of goods and services, 2013/14 – 2016/17



Source: National Treasury provincial database

Capital expenditure

To stimulate economic growth, government has prioritised investment in economic and social infrastructure. Economic infrastructure includes transport, communications, power generation, water supply and sanitation facilities. Social infrastructure includes education, health and recreation facilities.

Government has stepped up infrastructure spending since the mid-2000s

Infrastructure investment has sharply increased since the mid-2000s. Within the provinces, many of these investments have been made under the auspices of the infrastructure development improvement programme (IDIP), designed to address problems with planning and managing public sector infrastructure delivery.

Provincial capital expenditure grew at an average annual rate of 12.7 per cent between 2010/11 and 2013/14. Between 2013/14 and 2016/17, it is projected to decrease at an average annual rate of 7.4 per cent. This is due to reforms made to the provincial infrastructure

grant system and is intended to institutionalise proper infrastructure planning, particularly in health and education. Reforms to the health and education infrastructure transfers to provinces began to be implemented in 2013/14. These reforms aim to address planning and procurement failures in infrastructure delivery by introducing incentives which will promote good infrastructure delivery management system practices and complement existing capacity support programmes.

Eastern Cape, Free State, Limpopo, Northern Cape and North West reflect this trend, with capital expenditure over the period decreasing by more than the overall average annual rate.

Table 2.8 Provincial capital¹ expenditure by province, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Eastern Cape	2 242	3 484	3 045	3 521	3 775	3 603	2 296
Free State	1 357	1 941	2 498	2 430	1 809	2 104	836
Gauteng	2 035	2 674	3 733	3 426	4 843	5 292	4 040
KwaZulu-Natal	5 439	7 110	8 523	8 180	8 142	8 954	7 280
Limpopo	2 671	2 683	2 136	1 727	2 228	1 469	833
Mpumalanga	1 871	2 711	2 547	2 768	3 052	3 529	2 998
Northern Cape	940	1 506	1 418	1 620	1 033	1 060	308
North West	1 602	1 884	1 471	2 987	2 829	3 038	1 670
Western Cape	2 925	3 289	3 346	3 524	3 653	4 450	3 716
Total	21 082	27 282	28 716	30 183	31 362	33 499	23 978
Percentage growth (average annual)	2010/11 – 2013/14		2013/14 – 2014/15		2013/14 – 2016/17		
Eastern Cape	16.2%		7.2%		-13.3%		
Free State	21.4%		-25.6%		-29.9%		
Gauteng	19.0%		41.4%		5.6%		
KwaZulu-Natal	14.6%		-0.5%		-3.8%		
Limpopo	-13.5%		29.0%		-21.6%		
Mpumalanga	13.9%		10.3%		2.7%		
Northern Cape	19.9%		-36.2%		-42.5%		
North West	23.1%		-5.3%		-17.6%		
Western Cape	6.4%		3.6%		1.8%		
Total	12.7%		3.9%		-7.4%		

1. Excludes capital transfers and subsidies, and unallocated infrastructure conditional grants over the 2014 MTEF.

Source: National Treasury provincial database

Education is the second-largest contributor to provincial capital spending

In 2013/14, public works, roads and transport were the largest contributors to total provincial capital spending, with expenditure at R10.8 billion (34.5 per cent of the total). This was followed by education at R9 billion (30 per cent) and health at R7.5 billion (24.8 per cent). Expenditure on road infrastructure involves investing in roads and carrying out preventative, routine and emergency maintenance on provincial networks. Expenditure on health infrastructure entails providing and maintaining provinces' health facilities; and expenditure on education infrastructure funds the construction, maintenance, upgrading and rehabilitation of new and existing school infrastructure. Developing and maintaining this infrastructure contributes to job creation.

Social and non-social services

To maintain healthy economic growth while bridging South Africa's economic divide, public expenditure focuses on developing people through the social services of education, health and social development.

The focus of public expenditure is on developing people through education, health and social investment

Between 2010/11 and 2013/14, provincial expenditure on social services grew from R246.2 billion to R321.1 billion, an average annual rate of 9.3 per cent. Provinces have budgeted to spend R342.3 billion on social services in 2014/15, an increase of R21.2 billion from 2013/14. Between 2013/14 and 2016/17, expenditure is set to increase to R374.3 billion at an average annual rate of 5.3 per cent.

Table 2.9 Provincial expenditure by sector, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million	Outcome			Outcome	Medium-term estimates		
Education	138 313	156 581	166 166	176 427	186 147	200 105	202 651
Health	97 957	111 324	122 551	130 690	140 684	149 452	154 117
Social development	9 891	11 587	12 087	13 836	15 505	16 635	17 544
Total social services	246 160	279 492	300 803	320 954	342 336	366 191	374 313
Non-social services	85 032	89 270	94 173	103 752	112 174	118 254	125 452
Total	331 192	368 762	394 977	424 705	454 510	484 445	499 765
Percentage growth (average annual)	2010/11 – 2013/14			2013/14– 2014/15	2013/14 – 2016/17		
Social services	9.2%			6.7%	5.3%		
<i>Education</i>	8.5%			5.5%	4.7%		
<i>Health</i>	10.1%			7.6%	5.6%		
<i>Social development</i>	11.8%			12.1%	8.2%		
Non-social services	6.9%			8.1%	6.5%		
Total	8.6%			7.0%	5.6%		

Source: National Treasury provincial database

Provinces' responsibilities also include a range of non-social services, including provincial roads and transport, public works, human settlements and local government, agriculture, economic development and sport. These functions account for about 25 per cent of total provincial expenditure and play an important role in economic growth and job creation. Provincial expenditure on non-social services is expected to increase between 2013/14 and 2016/17, growing by an annual average rate of 6.5 per cent, from R103.8 billion to R125.5 billion.

Non-social service spending shows healthy growth

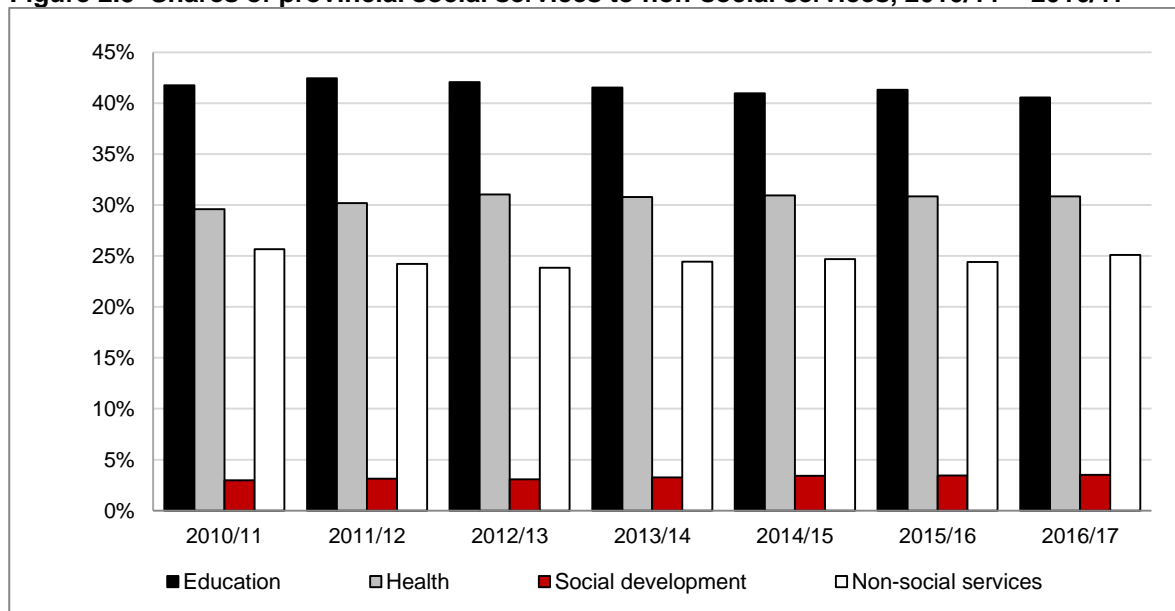
The table below shows the actual and expected balance of provinces' expenditure on social and non-social services between 2010/11 and 2016/17.

Table 2.10 Provincial expenditure shares by sector and province, 2010/11 – 2016/17

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Percentage	Outcome			Outcome	Medium-term estimates		
Shares of total provincial expenditure							
Social services	74.3%	75.8%	76.2%	75.6%	75.3%	75.6%	74.9%
<i>Education</i>	41.8%	42.5%	42.1%	41.5%	41.0%	41.3%	40.5%
<i>Health</i>	29.6%	30.2%	31.0%	30.8%	31.0%	30.9%	30.8%
<i>Social development</i>	3.0%	3.1%	3.1%	3.3%	3.4%	3.4%	3.5%
Non-social services	25.7%	24.2%	23.8%	24.4%	24.7%	24.4%	25.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Eastern Cape	14.6%	14.6%	14.2%	14.3%	13.7%	13.3%	13.2%
Free State	6.3%	6.4%	6.5%	6.4%	6.1%	6.2%	6.0%
Gauteng	18.6%	18.4%	18.7%	18.2%	19.1%	19.6%	19.8%
Kw aZulu-Natal	20.4%	21.3%	21.7%	21.7%	21.3%	21.2%	21.2%
Limpopo	12.5%	11.7%	11.6%	11.0%	11.3%	11.0%	11.1%
Mpumalanga	7.9%	8.0%	7.9%	7.9%	8.0%	8.1%	8.2%
Northern Cape	2.8%	2.9%	2.8%	3.1%	2.9%	2.9%	2.8%
North West	6.6%	6.6%	6.5%	7.1%	7.0%	7.1%	7.1%
Western Cape	10.3%	10.0%	10.1%	10.3%	10.5%	10.7%	10.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury provincial database

The percentage share of provincial spending on non-social services decreases from 25.7 per cent in 2010/11 to 25.1 per cent in 2016/17. Subsequent chapters of this review give more detail about the sectors concerned.

Figure 2.5 Shares of provincial social services to non-social services, 2010/11 – 2016/17

Source: National Treasury provincial database

Provincial spending on non-social services includes administrative costs such as those associated with the offices of premiers, legislatures, treasuries and economic development departments. Detailed information on these functions by province is included in the data tables at the end of this review.

Conclusion

Between 2014/15 and 2016/17, expenditure will continue to grow in real terms but at a slower rate than in the recent past. Reduced spending ceilings over the MTEF will affect provincial government. While this will involve difficult choices, pro-poor expenditure in areas such as education, health and social development will be protected. Improvements in service delivery will come through efficiency gains and by reducing waste.

National transfers to provinces account for 97 per cent of provincial revenue in 2014/15. These transfers have grown strongly over the past several years, and continue to grow in real terms over the MTEF period. However, the level of expenditure has not been matched by commensurate improvements in health, education, social services and public infrastructure. Making tangible progress over the period ahead requires a greater focus within provinces to ensure good-quality outcomes in service delivery.

Managing public sector expenditure involves balancing a range of competing priorities. A better mix between personnel, capital and goods and services spending is needed. It also requires a conscientious effort to ensure that all expenditure categories are properly costed, and to improve the link between planning and budgeting.

