

## 2

## Revenue and expenditure trends

### ■ Introduction

This chapter discusses the overall trends in provincial revenue and expenditure for the eight-year period covered in the *Provincial Budgets and Expenditure Review*.

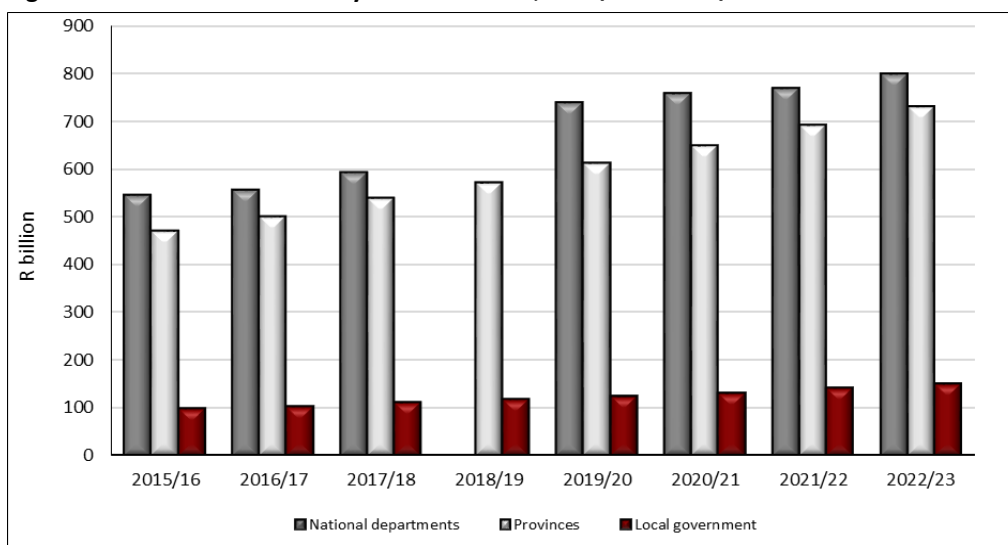
Provinces play a central role in the intergovernmental system, with the country's ability to raise living standards directly linked to their performance. Planning for the 2020 MTEF period reflects government's continued commitment to create jobs, grow the economy, promote equity and accelerate access to good quality services. The growth in spending is directed towards education and skills development, improved health outcomes, integrated and sustainable human settlements and rural development. These priorities are among government's 14 priority outcomes.

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

Figure 2.1 shows the division of nationally raised revenue for the eight year period. Over the 2020 MTEF, an estimated 43 per cent of this revenue will be transferred to provinces. They will also receive conditional grants to help them to fulfil their mandates. Provinces do not have significant taxation powers; thus, through transfers, the division of revenue compensates them

for the cost of the services they provide. These transfers account for over 90 per cent of provincial revenue.

**Figure 2.1: Division of nationally raised revenue, 2015/16 – 2022/23**



Source: 2020 Budget Review

*Significant departmental spending has not always translated into improved service delivery.*

The rapid growth in national transfers to provinces 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. Effective management will improve the quality of service delivery. Maintenance of infrastructure assets has to be prioritised and training enhanced. Growth in public sector employment and improvements in conditions of service have to be accommodated within an affordable wage bill.

#### *Provincial 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 2019/20, provincial own revenue constituted only 3.4 per cent of total provincial revenue.

The 2019 MTBPS indicated that provincial transfers have been reduced by R20.3 billion over the MTEF period and transfers to local government by R20.5 billion. Following the 2019 MTBPS, further changes were made. In total, the provincial equitable share has been reduced by R7.3 billion through a 2 per cent reduction in all non-compensation spending per year and a R5.2 billion reduction in compensation of employees (CoE). As the reduction of R16.2 billion is partly offset by reprioritisations of R2.9 billion, direct conditional grants to provinces have been reduced by a net R13.3 billion.

### *Provincial equitable share*

The equitable share is the largest source of funding through which provinces meet their spending responsibilities. They use it to finance essential services including education, health and social development. Each province's equitable share, which is redistributive to poorer provinces, is largely determined by its demographics.

*The equitable share is broadly redistributive to poorer provinces.*

Government is committed to protecting provincial allocations and to ensuring that spending is protected from the effects of inflation over the medium term.

For the 2020 MTEF, revisions to the provincial fiscal framework reflect a combination of reductions and reprioritisations. These respond to the fiscal pressures faced by government while ensuring that provinces are able to deliver on their mandates. Taking into account the revisions to the provincial fiscal framework, national transfers to provinces increase from R612.2 billion in 2019/20 to R649.3 billion in 2020/21. Over the MTEF period, the transfers will grow at an average annual rate of 6 per cent to R730.7 billion in 2022/23.

#### **The provincial equitable share formula**

The provincial equitable share formula has six components. These take account of the relative demand for services and of each province's demographics. The structure of the two largest components, education and health, is based on the demand and need for education and health services. The other four components enable provinces to perform their other functions, taking into consideration each province's population size and proportion of poor residents, its level of economic activity and the costs associated with running a provincial administration.

For the 2020 MTEF, the formula has been updated with data from Statistics South Africa's 2019 mid-year population estimates of population and age cohorts and the 2019 preliminary data on school enrolment published by the Department of Basic Education drawing on the Learner Unit Record Information and Tracking System (LURITS) database. Data from the health sector, the 2018 General Household Survey of medical aid coverage and the Risk Equalisation Fund for the risk-adjusted capitation index is also used to update the formula. Allocation changes tend to mirror shifts in population across provinces which result in changes in the relative demand for public services across these areas. The impact of these data updates on the provincial equitable shares will be phased in over the three years 2020/21 to 2022/23.

*Source: Annexure W1 2020 Budget Review*

**Table 2.1: Provincial revenue and expenditure, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20 Preliminary Outcome	2020/21	2021/22	2022/23
R million	Outcome					Medium-term estimates		
Transfers from nation	472 409	500 384	538 510	571 965	611 431	649 256	691 951	730 690
of which:								
Equitable share	386 802	410 699	441 331	470 287	505 554	538 472	573 990	607 554
Conditional grants	85 607	89 685	97 179	101 678	105 877	110 785	117 962	123 137
Provincial own revenue	17 617	18 338	19 166	20 808	21 759	20 505	21 382	22 285
<b>Total revenue</b>	<b>490 026</b>	<b>518 722</b>	<b>557 676</b>	<b>592 773</b>	<b>633 190</b>	<b>669 761</b>	<b>713 334</b>	<b>752 975</b>
of which:								
Unallocated	–	–	–	–	–	433	4 695	4 903
<b>Total expenditure</b>	<b>486 449</b>	<b>520 240</b>	<b>555 997</b>	<b>630 163</b>	<b>630 163</b>	<b>669 881</b>	<b>703 995</b>	<b>739 155</b>
<b>Surplus(+)/deficit(-)</b>	<b>3 577</b>	<b>-1 518</b>	<b>1 679</b>	<b>-37 390</b>	<b>3 027</b>	<b>-553</b>	<b>4 643</b>	<b>8 917</b>
<b>Share of total provincial revenue</b>								
Transfers from nation	96,4%	96,5%	96,6%	96,5%	96,6%	96,9%	97,0%	97,0%
of which:								
Equitable share	78,9%	79,2%	79,1%	79,3%	79,8%	80,4%	80,5%	80,7%
Conditional grants	17,5%	17,3%	17,4%	17,2%	16,7%	16,5%	16,5%	16,4%
Provincial own revenue	3,6%	3,5%	3,4%	3,5%	3,4%	3,1%	3,0%	3,0%
<b>Total revenue</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>100,0%</b>

Source: National Treasury provincial database

### Conditional grants

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

In addition to the provincial equitable share, provinces receive a proportion of their transfers from national government in the form of conditional grants. These 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 which details the objectives and intended performance of each grant over its lifespan.

There are four main types of provincial conditional grants:

- Schedule 4, Part A 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 5, Part A grants fund specific responsibilities of, and programmes implemented by, provinces.
- Schedule 6, Part A grants provide allocations-in-kind through which a national department implements projects in provinces.
- Schedule 7, Part A grants provide for swift allocation and transfer of funds to provinces to help with disaster-management.

As indicated in the 2019 MTBPS, most conditional grants have been reduced as part of efforts to limit growth in government expenditure and ensure that public debt is sustainable. To manage the effect on services, these reductions take into account:

- Past spending and performance
- Whether the grant funds salaries, medicines and/or food
- Whether there has been significant real growth in allocations in recent years.

Overall growth in direct conditional grants to provinces averages 4.7 per cent per year over the medium term. Conditional grant allocations amount to R110.8 billion in 2020/21, R118.0 billion in 2021/22 and R123.1 billion in 2022/23. Indirect conditional grants amount to R4.1 billion, R4.8 billion and R5.1 billion respectively for each year of the same period. Table 2.2 gives a summary of the conditional grants by sector for the 2020 MTEF.

**Table 2.2: Conditional grants to provinces, 2019/20 – 2022/23**

R million	2019/20	2020/21	2021/22	2022/23
<b>Agriculture, Forestry and Fisheries</b>	<b>2 085</b>	<b>2 153</b>	<b>2 320</b>	<b>2 392</b>
Comprehensive agricultural support programme	1 491	1 522	1 620	1 672
Ilima/Letsema projects	503	549	614	632
Land care programme: Poverty relief and	91	82	86	88
<b>Arts and Culture</b>	<b>1 362</b>	<b>1 479</b>	<b>1 584</b>	<b>1 667</b>
Community library services	1 362	1 479	1 584	1 667
<b>Basic Education</b>	<b>18 502</b>	<b>19 564</b>	<b>20 773</b>	<b>21 738</b>
Education infrastructure	10 573	11 008	11 710	12 255
HIV and Aids (life skills education)	261	247	259	262
National school nutrition programme	215	243	256	266
Maths, science and technology	319	401	423	438
Learners with profound intellectual disabilities	7 133	7 666	8 125	8 516
<b>Cooperative Governance and Traditional Affairs</b>	<b>0</b>	<b>138</b>	<b>146</b>	<b>153</b>
Provincial disaster	0	138	146	153
<b>Health</b>	<b>45 816</b>	<b>49 267</b>	<b>53 917</b>	<b>56 537</b>
HIV, TB, Malaria and Community Outreach Grant	22 074	24 387	27 931	29 405
Health Facility Revitalisation Grant	6 278	6 368	6 658	7 034
National Health Insurance Grant	224	289	300	311
National Tertiary Services Grant	13 279	14 069	14 694	15 294
Statutory Human Resources, Training and Development Grant	3 961	4 155	4 333	4 494
<b>Human Settlements</b>	<b>19 130</b>	<b>17 493</b>	<b>17 614</b>	<b>18 317</b>
Human settlements development	18 548	16 621	13 414	13 871
Informal Settlements Upgrading Partnership	–	–	3 890	4 121
Provincial emergency housing	206	295	311	326
Title deeds restoration	376	578	–	–
<b>Public Works</b>	<b>839</b>	<b>834</b>	<b>871</b>	<b>903</b>
Expanded public works programme integrated for provinces	416	421	440	456
Social sector expanded public works programme incentive for provinces	422	414	432	447
<b>Social Development</b>	<b>503</b>	<b>915</b>	<b>1 057</b>	<b>1 192</b>
Early childhood development	503	915	1 057	1 192
<b>Sport and Recreation South Africa</b>	<b>537</b>	<b>597</b>	<b>621</b>	<b>640</b>
Mass participation and sport development	537	597	621	640
<b>Transport</b>	<b>17 103</b>	<b>18 343</b>	<b>19 058</b>	<b>19 597</b>
Provincial roads maintenance	11 232	11 593	11 938	12 507
Public transport operations	5 871	6 750	7 121	7 090
<b>Total</b>	<b>105 877</b>	<b>110 785</b>	<b>117 962</b>	<b>123 137</b>

Source: National Treasury provincial database

To align them better with government's evolving policy objectives, changes are made to the structure of conditional grants. The *human resources capacitation grant* (HRCG) and the *health professions training and development grant* (HPTDG) have been merged to create *Statutory human*

*resources, training and development grant* (SHRTDG) from 2020/21. Allocated R4.2 billion in 2020/21, R4.3 billion in 2021/22 and R4.5 billion in 2022/23, this conditional grant has two components; The health professions training and development component funds the training of health sciences professionals including specialists, registrars and their supervisors (previously funded from the HPTDG). The statutory human resources component will fund intern and community service posts (previously funded from the HRCG) as well as some posts previously funded from the equitable share. When the HRCG was introduced, it was primarily meant to fund the shortfall in funding for interns and community service posts. However, its scope expanded to include other vacant posts in the health sector. These non-statutory posts will now be funded through the provincial equitable share. The grant will therefore be able to fund some additional internship and community service posts previously funded from the equitable share.

Over the 2020 MTEF period, similarly to the *national tertiary services grant*, R65 million has been ring-fenced in the health professions training and development component of this grant for the development and expansion of tertiary services in the Eastern Cape, Limpopo, Mpumalanga, the Northern Cape and North West. The funds have been allocated to these provinces for 2020/21 and are left unallocated for the outer two years of the MTEF period.

The *national health insurance grant* continues to fund all preparatory work for universal health coverage. Over the 2020 MTEF period, this will be done through three components: health facility revitalisation and two integrated components (personal services and nonpersonal services). The personal services component funds priority services for national health insurance. These include:

- Expanding access to school health services, focusing on optometry and audiology.
- Contracting general practitioners based on a set annual amount per patient instead of fees per service provided.
- Providing community mental health services, maternal care for high-risk pregnancies, screening and treatment for breast and cervical cancer, hip and knee arthroplasty, cataract surgeries and wheelchairs.

In 2019/20, the structure of the *human settlements development grant* was changed to intensify efforts to upgrade informal settlements in partnership with communities. To promote this objective, a new component was introduced with specific conditions relating to such upgrades. The new component amounts to 15 per cent of the formula-based grant allocation to each province. The funds ring-fenced for each province are a minimum expenditure requirement, allowing them to invest more if necessary. The component requires the use of a partnership approach that promotes community ownership and participation in the upgrades. Provinces are

required to work with municipalities to identify and prioritise informal settlements for upgrading and to submit a plan for each settlement to be upgraded, prepared in terms of the National Upgrading Support Programme's methodology.

### *Provincial own revenue*

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

Provinces are allowed to raise their own revenue through certain taxes, levies and duties but their ability to do so is limited. Between 2015/16 and 2019/20, the percentage share of provincial own revenue declined from 3.6 per cent to 3.4 per cent, with the percentage decline mainly due to the increase in other sources of revenue (equitable share and conditional grants). Own revenue contributions are expected to decline further, to 3 per cent, in 2022/23.

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

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.

To improve revenue collection, provinces are implementing revenue enhancement plans and strategies. Between 2015/16 and 2019/20, tax receipts as a share of provincial own revenue increased from 62.5 per cent to 64.1 per cent and are projected to increase to 71.5 per cent by 2022/23. This trend is mainly due to increases in motor vehicle licence fees, the most significant tax, which increased from 47.6 per cent in 2015/16 to 52 per cent in 2019/20 and is expected to rise to 58.1 per cent by 2022/23.

**Table 2.3: Provincial own revenue by category, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Outcome				Preliminary Outcome	Medium-term estimates		
<b>R million</b>								
Tax receipts	11 008	11 233	12 335	13 186	13 945	14 488	15 127	15 739
<i>Casino taxes</i>	2 295	1 873	1 958	2 093	1 992	2 187	2 316	2 428
<i>Horse racing taxes</i>	215	204	213	224	570	231	244	256
<i>Liquor licences</i>	109	70	71	68	63	91	97	101
<i>Motor vehicle licences</i>	8 390	9 085	10 092	10 801	11 320	11 979	12 470	12 954
Sale of goods and	2 879	3 105	3 190	3 491	3 338	3 593	3 745	3 908
Transfers received	171	148	91	125	119	46	46	46
Fines, penalties and forfeits	278	296	233	251	290	271	284	299
Interest, dividends and	2 236	2 568	2 581	2 813	3 248	1 642	1 734	1 824
Sales of capital assets	122	133	177	122	111	102	63	67
Financial transactions in	923	856	560	820	708	364	383	401
<b>Total</b>	<b>17 617</b>	<b>18 338</b>	<b>19 166</b>	<b>20 808</b>	<b>21 759</b>	<b>20 505</b>	<b>21 382</b>	<b>22 285</b>
<b>Percentage of total provincial own revenue</b>								
Tax receipts	62,5%	61,3%	64,4%	63,4%	64,1%	70,7%	70,7%	70,6%
<i>Casino taxes</i>	13,0%	10,2%	10,2%	10,1%	9,2%	10,7%	10,8%	10,9%
<i>Horse racing taxes</i>	1,2%	1,1%	1,1%	1,1%	2,6%	1,1%	1,1%	1,1%
<i>Liquor licences</i>	0,6%	0,4%	0,4%	0,3%	0,3%	0,4%	0,5%	0,5%
<i>Motor vehicle licences</i>	47,6%	49,5%	52,7%	51,9%	52,0%	58,4%	58,3%	58,1%
Sale of goods and	16,3%	16,9%	16,6%	16,8%	15,3%	17,5%	17,5%	17,5%
Transfers received	1,0%	0,8%	0,5%	0,6%	0,5%	0,2%	0,2%	0,2%
Fines, penalties and forfeits	1,6%	1,6%	1,2%	1,2%	1,3%	1,3%	1,3%	1,3%
Interest, dividends and	12,7%	14,0%	13,5%	13,5%	14,9%	8,0%	8,1%	8,2%
Sales of capital assets	0,7%	0,7%	0,9%	0,6%	0,5%	0,5%	0,3%	0,3%
Financial transactions in	5,2%	4,7%	2,9%	3,9%	3,3%	1,8%	1,8%	1,8%
<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>	<b>100,0%</b>

Source: National Treasury provincial database

Provinces have also identified a number of new initiatives that can boost revenue such as moving revenue-collection functions from municipalities that are not paying back revenue collected to the South African Post Office. 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. This is mainly due to provinces’ conservative revenue-collection projections.

*Provincial own revenue forecasting is generally conservative.*

Table 2.3. shows that own revenue collected between 2015/16 and 2019/20 grew at an average annual rate of 5.4 per cent and is projected to grow at an annual average rate of 0.8 per cent over the 2020 MTEF.

Between 2019/20 and 2020/21, own revenue is projected to decline by 5.8 per cent. The decline is mainly due to once-off revenue collection in 2019/20 and the revenue collected under interest on rent and land as a result of the cash invested in commercial banks and the South African Reserve Bank.



**Table 2.4: Own revenue by province, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Outcome				Preliminary Outcome	Medium-term estimates		
<b>R million</b>								
Eastern Cape	1 641	1 925	1 944	1 979	2 335	1 552	1 620	1 703
Free State	975	1 046	1 115	1 155	1 097	1 250	1 234	1 275
Gauteng	5 422	5 732	6 092	6 830	7 154	6 699	7 073	7 415
KwaZulu-Natal	3 261	3 202	3 335	3 549	3 805	3 553	3 727	3 890
Limpopo	1 260	1 469	1 325	1 334	1 405	1 391	1 461	1 538
Mpumalanga	836	931	1 321	1 396	1 506	1 700	1 785	1 875
Northern Cape	331	347	350	385	412	428	468	501
North West	1 015	1 228	1 189	1 310	1 220	1 312	1 383	1 449
Western Cape	2 876	2 460	2 495	2 871	2 825	2 620	2 632	2 638
<b>Total</b>	<b>17 617</b>	<b>18 338</b>	<b>19 166</b>	<b>20 808</b>	<b>21 759</b>	<b>20 505</b>	<b>21 382</b>	<b>22 285</b>
<b>Percentage growth (average annual)</b>	<b>2015/16 – 2019/20</b>				<b>2019/20 – 2020/21</b>	<b>2019/20 – 2022/23</b>		
Eastern Cape	9,2%				-33,6%	-10,0%		
Free State	3,0%				13,9%	5,1%		
Gauteng	7,2%				-6,3%	1,2%		
KwaZulu-Natal	3,9%				-6,6%	0,7%		
Limpopo	2,8%				-1,0%	3,1%		
Mpumalanga	15,9%				12,8%	7,6%		
Northern Cape	5,7%				3,8%	6,7%		
North West	4,7%				7,6%	5,9%		
Western Cape	-0,5%				-7,2%	-2,3%		
<b>Total</b>	<b>5,4%</b>				<b>-5,8%</b>	<b>0,8%</b>		

Source: National Treasury provincial database

## Provincial expenditure trends

### 2019/20 preliminary spending outcomes

By the end of March 2020, provinces reported preliminary spending of R628.6 billion or 98.4 per cent of their adjusted budgets of R638.7 billion; underspending of the adjusted budgets thus amounted to R10.1 billion or 1.6 per cent of the total. This underspending was an improvement on the 6.4 per cent of 2018/19.

**Table 2.5: Preliminary revenue and spending outcomes as at 31 March 2020**

	Adjusted budget	Pre-audited outcome as at 31 March 2020	Pre-audited outcome as % of adjusted	(Over) /Underspending against the Adjusted	% (Over)/ under of adjusted budget	% share of total provincial expenditure	2018/19 outcome	Year-on-year growth
<b>R thousand</b>								
Eastern Cape	83 689 766	83 598 004	99,9%	91 762	0,1%	13,3%	79 046 652	5,8%
Free State	37 603 992	37 269 350	99,1%	334 642	0,9%	5,9%	34 962 736	6,6%
Gauteng	132 452 121	128 217 133	96,8%	4 234 988	3,2%	20,4%	119 486 098	7,3%
KwaZulu-Natal	131 943 410	130 154 645	98,6%	1 788 765	1,4%	20,7%	122 094 593	6,6%
Limpopo	70 435 522	69 083 959	98,1%	1 351 563	1,9%	11,0%	65 917 448	4,8%
Mpumalanga	51 671 018	51 487 027	99,6%	183 991	0,4%	8,2%	48 007 505	7,2%
Northern Cape	18 415 973	18 289 671	99,3%	126 303	0,7%	2,9%	17 510 626	4,4%
North West	44 470 636	42 944 263	96,6%	1 526 374	3,4%	6,8%	40 869 132	5,1%
Western Cape	68 008 564	67 576 521	99,4%	432 043	0,6%	10,7%	62 979 967	7,3%
<b>Total</b>	<b>638 691 003</b>	<b>628 620 572</b>	<b>98,4%</b>	<b>10 070 432</b>	<b>1,6%</b>	<b>100,0%</b>	<b>590 874 757</b>	<b>6,4%</b>

Source: National Treasury provincial database

### *Provincial budgets and expenditure trends, 2015/16 – 2022/23*

Provincial expenditure trends and budgets over the eight-year period show growth in funding of and spending in key sectors. Over the 2020 MTEF, provincial spending is expected to grow by an average annual rate of 5.5 per cent, reaching R739.2 billion in 2022/23.

### *Provincial expenditure trends by economic classification, 2015/16 – 2022/23*

Government expenditure is 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.

The difference between current and capital spending is crucial. Current expenditure refers to recurrent spending on items used in providing goods or services. Major cost drivers of current expenditure are salaries and wages, and consumables such as stationery and medicines. Capital expenditure refers to spending on physical assets such as the construction and maintenance 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.*

**Table 2.6: Provincial expenditure by economic classification, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Outcome				Preliminary Outcome	Medium-term estimates		
<b>R million</b>								
Current payments	380 541	411 780	445 218	478 328	514 435	552 162	583 734	614 621
<i>of which:</i>								
<i>Compensation of</i>	288 493	311 404	334 094	358 193	384 815	417 258	443 021	466 774
<i>Goods and services</i>	91 873	100 336	111 036	120 046	129 572	134 897	140 706	147 839
Transfers and subsidies	69 216	73 648	75 465	79 206	83 196	81 705	83 650	86 677
Payments for capital asse <sup>1</sup>	36 314	34 254	34 996	32 984	32 474	36 007	36 603	37 850
Payments for financial ass	378	559	319	239	58	7	7	8
<b>Total</b>	<b>486 449</b>	<b>520 240</b>	<b>555 997</b>	<b>590 757</b>	<b>630 163</b>	<b>669 881</b>	<b>703 995</b>	<b>739 155</b>
<b>Percentage of total provincial expenditure</b>								
Current payments	78,2%	79,2%	80,1%	81,0%	81,6%	82,4%	82,9%	83,2%
<i>of which:</i>								
<i>Compensation of</i>	59,3%	59,9%	60,1%	60,6%	61,1%	62,3%	62,9%	63,1%
<i>Goods and services</i>	18,9%	19,3%	20,0%	20,3%	20,6%	20,1%	20,0%	20,0%
Transfers and subsidies	14,2%	14,2%	13,6%	13,4%	13,2%	12,2%	11,9%	11,7%
Payments for capital	7,5%	6,6%	6,3%	5,6%	5,2%	5,4%	5,2%	5,1%
Payments for financial ass	0,1%	0,1%	0,1%	0,0%	0,0%	0,0%	0,0%	0,0%
<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>100,0%</b>
<b>Percentage growth (average annual)</b>		<b>2015/16–2019/20</b>			<b>2019/20–2020/21</b>		<b>2019/20–2022/23</b>	
Current payments		7,8%			7,3%		6,1%	
<i>of which:</i>								
<i>Compensation of</i>		7,5%			8,4%		6,6%	
<i>Goods and services</i>		9,0%			4,1%		4,5%	
Transfers and subsidies		4,7%			-1,8%		1,4%	
Payments for capital assets <sup>1</sup>		-2,8%			10,9%		5,2%	
Payments for financial assets		-37,4%			-88,3%		-49,4%	
<b>Total</b>		<b>6,7%</b>			<b>6,3%</b>		<b>5,5%</b>	

1. Excludes unallocated infrastructure conditional grants over the 2019 MTEF

Source: National Treasury provincial database

## ■ Current expenditure

### *Compensation of employees*

*Employee compensation is the largest item in provincial budgets.*

*Over the 2020 MTEF, spending on compensation of employees is projected to grow at an average annual rate of 6.6 per cent.*

Provinces employ a large number of personnel including educators, health professionals, administrators and general support staff. Spending on CoE makes up the largest share of provincial spending.

Between 2015/16 and 2019/20, in nominal terms CoE grew at an average annual rate of 7.5 per cent from R288.5 billion to R384.5 billion. Over the 2020 MTEF, this is projected to grow at an average annual rate of 6.6 per cent, from R417.3 billion in 2020/21 to R466.8 billion in 2022/23.

Limpopo, the Eastern Cape, the Free State and KwaZulu-Natal account for the largest share of CoE, collectively accounting for an average of about 64.5 per cent of total provincial CoE expenditure. Although CoE makes up a growing share of provincial budgets, provinces generally manage to remain within their planned spending on COE. However, without changes to the provincial wage bill slower growth in transfers implies that spending on CoE is likely to rise from 60 per cent of provincial budgets in 2019/20 to 63 per cent by the end of the 2020 MTEF period.

**Table 2.7: Provincial expenditure on compensation of employees by province, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R million	Outcome				Preliminary Outcome	Medium-term estimates		
Eastern Cape	41 557	44 010	47 490	50 943	54 349	57 449	60 645	63 382
Free State	17 799	18 964	20 168	21 660	23 508	25 160	26 790	28 256
Gauteng	51 980	57 845	62 913	67 589	73 008	82 577	90 416	96 124
KwaZulu-Natal	62 390	67 386	71 446	75 766	81 307	88 598	92 289	96 813
Limpopo	37 753	40 108	42 582	45 742	48 756	50 818	53 788	56 737
Mpumalanga	22 837	24 675	26 584	28 422	30 403	33 038	34 887	36 730
Northern Cape	7 805	8 507	9 226	9 988	10 654	11 599	12 287	12 858
North West	19 082	20 468	22 140	24 218	26 307	28 428	29 929	31 652
Western Cape	27 289	29 441	31 545	33 864	36 525	39 591	41 990	44 221
Total	288 493	311 404	334 094	358 193	384 815	417 258	443 021	466 774
Percentage of total expenditure								
Eastern Cape	63,8%	63,3%	63,6%	64,4%	64,8%	66,9%	68,2%	68,8%
Free State	60,5%	61,4%	61,3%	62,1%	63,2%	64,0%	64,6%	64,9%
Gauteng	54,7%	55,4%	56,8%	56,6%	56,9%	58,0%	59,0%	59,3%
KwaZulu-Natal	59,8%	61,5%	61,5%	62,1%	62,5%	64,1%	64,2%	64,3%
Limpopo	71,3%	69,2%	68,7%	69,4%	69,2%	69,8%	70,5%	70,6%
Mpumalanga	58,1%	59,6%	59,4%	59,2%	59,0%	61,2%	61,8%	62,0%
Northern Cape	53,8%	56,1%	55,5%	56,9%	58,3%	60,6%	61,7%	61,7%
North West	56,0%	57,0%	57,2%	59,3%	61,1%	61,1%	60,9%	60,9%
Western Cape	52,9%	53,0%	53,2%	53,8%	54,1%	55,2%	56,0%	56,4%
Total	59,3%	59,9%	60,1%	60,6%	61,1%	62,3%	62,9%	63,1%
Percentage growth (average annual)	2015/16– 2019/20				2019/20– 2020/21	2019/20– 2022/23		
Eastern Cape	6,9%				5,7%	5,3%		
Free State	7,2%				7,0%	6,3%		
Gauteng	8,9%				13,1%	9,6%		
KwaZulu-Natal	6,8%				9,0%	6,0%		
Limpopo	6,6%				4,2%	5,2%		
Mpumalanga	7,4%				8,7%	6,5%		
Northern Cape	8,1%				8,9%	6,5%		
North West	8,4%				8,1%	6,4%		
Western Cape	7,6%				8,4%	6,6%		
Total	7,5%				8,4%	6,6%		

Source: National Treasury provincial database

## Goods and services

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

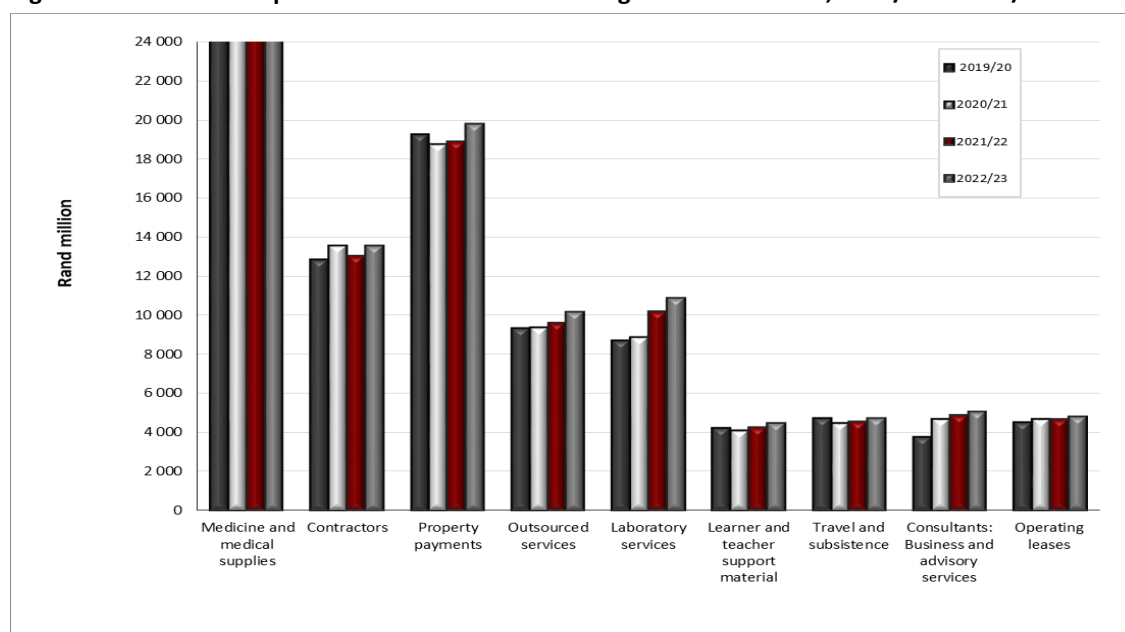
Goods and services is the second-largest current expenditure item and, between 2018/19 and 2020/21, is projected to account for an average of about 20.1 per cent of total provincial expenditure. Goods and services includes spending on advertising, consultants, contract labour, maintenance of state-owned buildings, learner and teacher support material and medicines and medical supplies.

Between 2015/16 and 2019/20, provincial expenditure on goods and services grew from R91.9 billion to R129.6 billion, an average annual rate of 12.1 per cent. Over the 2020 MTEF, this rate of growth is expected to slow to an average annual rate of 4.5 per cent.

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

Figure 2.2 shows the nominal growth in nine selected categories of goods and services expenditure between 2019/20 and 2022/23. The 2020 Budget maintained tight control of goods and services budgets; these should therefore decline in real terms over the 2020 MTEF period. From 2019/20 to 2022/23, 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.

**Figure 2.2: Provincial expenditure on selected items of goods and services, 2019/20 – 2022/23**



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.

Infrastructure investment has increased sharply since the mid-2000s. Many of the provincial investments have been made with the assistance of the Infrastructure Development Improvement Programme (IDIP), designed to address problems with planning and managing public sector infrastructure delivery.

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

Provincial capital expenditure is expected to grow at an average annual rate of 5.2 per cent over the 2020 MTEF. The rate of growth is partially due to reallocations made to provincial infrastructure grants, buildings and maintenance as announced in the 2019 Budget.

**Table 2.8: Capital expenditure by province, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R million <sup>1</sup>	Outcome				Preliminary Outcome	Medium-term estimates		
Eastern Cape	3 869	4 783	4 738	4 432	4 293	4 638	4 506	4 298
Free State	2 456	2 225	2 337	2 066	2 006	2 071	2 042	2 040
Gauteng	6 127	5 882	5 074	4 689	4 944	5 747	6 325	6 299
KwaZulu-Natal	8 640	7 869	8 002	7 238	6 961	8 138	8 882	9 635
Limpopo	2 098	1 884	2 278	1 842	1 833	2 553	2 544	2 746
Mpumalanga	3 535	3 082	3 729	4 047	3 974	4 188	3 594	3 717
Northern Cape	1 385	1 330	1 511	1 260	1 142	1 140	1 152	1 171
North West	3 184	2 282	2 520	2 134	1 917	2 596	2 720	2 941
Western Cape	5 021	4 916	4 807	5 277	5 404	4 937	4 841	5 005
<b>Total</b>	<b>36 314</b>	<b>34 254</b>	<b>34 996</b>	<b>32 984</b>	<b>32 474</b>	<b>36 007</b>	<b>36 603</b>	<b>37 850</b>
<b>Percentage growth (average annual)</b>	<b>2015/16 – 2019/20</b>				<b>2019/20 – 2020/21</b>	<b>2019/20 – 2022/23</b>		
Eastern Cape	2,6%				8,0%	0,0%		
Free State	-4,9%				3,3%	0,6%		
Gauteng	-5,2%				16,3%	8,4%		
KwaZulu-Natal	-5,3%				16,9%	11,4%		
Limpopo	-3,3%				39,3%	14,4%		
Mpumalanga	3,0%				5,4%	-2,2%		
Northern Cape	-4,7%				-0,2%	0,8%		
North West	-11,9%				35,4%	15,3%		
Western Cape	1,9%				-8,7%	-2,5%		
<b>Total</b>	<b>-2,8%</b>				<b>10,9%</b>	<b>5,2%</b>		

1. Excludes capital transfers and subsidies and unallocated infrastructure conditional grants over the 2019 MTEF

Source: National Treasury provincial database

In 2019/20, with expenditure at R10.1 billion or 32.6 per cent of the total, the public works, roads and transport sector was the largest element of provincial capital spending. This was followed by education at R9.6 billion and health at R9.2 billion. 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. 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

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

To maintain healthy economic growth while bridging the country's economic divide, public expenditure focuses on developing people through the social services of education, health and social development. Between 2015/16 and 2018/20, provincial expenditure on social services grew from R367.6 billion to R489.4 billion, an average annual rate of 6.7 per cent. In 2020/21, provinces have budgeted to spend R521.5 billion on social services or 6.3 per cent more than in 2019/20. Over the 2020 MTEF, provinces' budgets for providing social services total R1.6 trillion.

**Table 2.9: Provincial expenditure by sectors, 2015/16 – 2022/23**

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R million	Outcome				Preliminary Outcome	Medium-term estimates		
Education	196 983	211 313	225 235	239 403	256 916	272 587	288 016	303 892
Health	154 074	166 062	180 836	195 477	210 750	224 881	239 695	252 141
Social development	16 560	17 539	18 763	19 794	21 755	24 076	25 346	26 621
<b>Total social services</b>	<b>367 617</b>	<b>394 913</b>	<b>424 835</b>	<b>454 674</b>	<b>489 420</b>	<b>521 543</b>	<b>553 057</b>	<b>582 654</b>
Non-social services	118 832	125 327	131 163	136 084	140 742	148 338	150 938	156 501
<b>Total</b>	<b>486 449</b>	<b>520 240</b>	<b>555 997</b>	<b>590 757</b>	<b>630 163</b>	<b>669 881</b>	<b>703 995</b>	<b>739 155</b>
<b>Percentage growth (average annual)</b>	<b>2015/16 – 2019/20</b>				<b>2019/20 – 2020/21</b>	<b>2019/20 – 2022/23</b>		
Social services	7,4%				6,6%	6,0%		
Education	6,9%				6,1%	5,8%		
Health	8,1%				6,7%	6,2%		
Social development	7,1%				10,7%	7,0%		
Non-social services	4,3%				5,4%	3,6%		
<b>Total</b>	<b>6,7%</b>				<b>6,3%</b>	<b>5,5%</b>		

Source: National Treasury provincial database



The range of non-social services for which provinces are responsible include provincial roads and transport, public works, human settlements and local government, agriculture, economic development and sports. These functions account for an average of 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 over the 2020 MTEF at an average annual rate of 5.5 per cent.

*Non-social service spending shows healthy growth.*

## Conclusion

To enable the state to sustain growth in expenditure on social services and investment in the period ahead, provincial governments will have to manage the tight fiscal envelope carefully. Government as a whole will continue to focus on programmes that alleviate poverty and strengthen the social safety net and on other core priorities to lay the foundations for faster economic growth and a better life for all South Africans.

Managing public sector expenditure involves balancing a range of competing priorities. A better mix between personnel, capital and goods and services spending is needed as is a conscious effort to cost expenditure categories properly and to improve the link between planning and budgeting.